NEW ISSUE
BOOK-ENTRY-ONLY

Rating: S&P: "A"

PRELIMINARY OFFICIAL STATEMENT

$7,825,000*

CITIZEN'S GAS UTILITY DISTRICT OF SCOTT & MORGAN COUNTIES, TENNESSEE

Gas System Revenue Refunding Bonds, Series 2016

OFFERED FOR SALE NOT SOONER THAN

Wednesday, November 30, 2016 at 10:15 A.M. E.S.T
Through the Facilities of ***PARITY***®
and at the offices of
Cumberland Securities Company, Inc.
Knoxville, Tennessee

Cumberland Securities Company, Inc.
Financial Advisor

November 21, 2016

* Preliminary, subject to change.

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 21, 2016

NEW ISSUE Rating: S&P: "A"
Book-Entry-Only (See "MISCELLANEOUS-Rating")

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

$7,825,000*

CITIZEN'S GAS UTILITY DISTRICT OF SCOTT & MORGAN COUNTIES, TENNESSEE

Gas System Revenue Refunding Bonds, Series 2016

Dated: Date of Issuance (assume December 15, 2016). Due: May 1 (as shown below)

The $7,825,000* Gas System Revenue Refunding Bonds, Series 2016 (the "Bonds") of Citizen's Gas Utility District of Scott & Morgan Counties, Tennessee (the "District") will be issued as fully registered Bonds in denominations of $5,000 and authorized integral multiples thereof. The Bonds will be issued in book-entry-only form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as the nominee for DTC, principal and interest with respect to the Bonds shall be payable to Cede & Co., as nominee for DTC, which will, in turn, remit such principal and interest to the DTC participants for subsequent disbursements to the beneficial owners of the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of $5,000 or integral multiples thereof and will bear interest at the annual rates as shown below. Interest on the Bonds is payable semi-annually from the date thereof commencing on May 1, 2017 and thereafter on each May 1 and November 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 senior pledge of revenues to be derived from the operation of the District's Gas System (the "System") as defined herein, subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System, on parity with the District's remaining outstanding Gas System Revenue Refunding Bonds, Series 2009 and its Gas System Revenue Bonds, Series 2011.

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

Due (May 1)	Amount*	Interest Rate	Yield	CUSIPs**	Due (May 1)	Amount*	Interest Rate	Yield	CUSIPs**
2017	$ 120,000				2027	$ 455,000			
2018	100,000				2028	465,000			
2019	100,000				2029	475,000			
2020	395,000				2030	490,000			
2021	400,000				2031	505,000			
2022	410,000				2032	520,000			
2023	415,000				2033	535,000			
2024	425,000				2034	555,000			
2025	435,000				2035	580,000			
2026	445,000								

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

The Bonds are offered when, as and if issued by the District, subject to the approval of the legality thereof by 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 James L. Cotton, Jr. Esq., Oneida, Tennessee, as counsel to the District. It is expected that the Bonds will be available for delivery through the facilities of DTC, New York, New York, on or about December __, 2016.

Cumberland Securities Company, Inc.

Financial Advisor

November ___, 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 Issuer disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

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

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

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

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

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

CITIZEN'S GAS UTILITY DISTRICT
OF SCOTT & MORGAN COUNTIES, TENNESSEE

OFFICIALS

Joe Sexton	*President*
Roger Russell	*Vice President*
Dean West	*Secretary-Treasurer*
Jimmy Beaty	*Board Member*
Larry Whaley	*Board Member*
Greg Bell	*General Manager*

COUNSEL TO THE DISTRICT

James L. Cotton, Jr.
Oneida, 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 Issuer .... Citizen's Gas Utility District of Scott & Morgan Counties, Tennessee (the "District" or "Issuer"). See APPENDIX B contained herein.

Securities Offered.............................. $7,825,000* Gas System Revenue Refunding Bonds, Series 2016 (the "Bonds") of the District will be dated the date of issuance (assume December 15, 2016) and maturing May 1, 2017 through May 1, 2035, inclusive. See the section entitled "SECURITIES OFFERED" for additional information.

Security... The Bonds shall be payable solely from and secured by a senior pledge of revenues to be derived from the operation of the District's Gas System (the "System") as defined herein, subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System, on parity with the District's remaining outstanding Gas System Revenue Refunding Bonds, Series 2009 and its Gas System Revenue Bonds, Series 2011.

Purpose .... The Bonds are being issued for the purpose of (i) refinancing, in whole or in part, the Refunded Bonds (as described herein); and (ii) 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 at any time on or after May 1, 2022. See the section entitled "SECURITIES OFFERED-Optional Redemption."

Tax Matters....................................... In the opinion of bond counsel, interest on the Bonds will be excluded from gross income for federal income tax purposes and will not be an item of tax preference for purposes of the alternative minimum tax on individuals and corporations and will be exempt from certain taxation in Tennessee, all as more fully described in the section entitled "LEGAL MATTERS - Tax Matters" and APPENDIX A (form of legal opinion) included herein.

Bank Qualification .... The Bonds have been designated as "qualified tax-exempt obligations" within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended. See the section entitled "LEGAL MATTERS - Tax Matters" for additional information.

Rating.. S&P: "A". See the section entitled "MISCELLANEOUS-Ratings" 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....................................... ______________________________.

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* Preliminary, subject to change.

Book-Entry-Only System................. The Bonds will be issued under the Book-Entry System. For additional information, see the section entitled “BASIC DOCUMENTATION – Book-Entry-Only System.”

General... The Bonds are being issued in full compliance with applicable provisions of Title 7, Chapter 82 and Title 9, Chapter 21, *Tennessee Code Annotated*, as supplemented and revised. See “SECURITIES OFFERED” herein. The Bonds will be issued with CUSIP numbers and delivered through the facilities of The Depository Trust Company, New York, New York.

Disclosure .... In accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as amended, the District 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 audited financial statements and other publicly available financial information. For additional information, see the section entitled “MISCELLANEOUS - Continuing Disclosure”.

Other Information............................. The information in the *Preliminary Official Statement* is deemed “final” within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as of the date which appears on the cover hereof except for the omission of certain pricing and other information allowed to be omitted pursuant to Rule 15c2-12. For more information concerning the District or the *Preliminary Official Statement*, contact Greg Bell, G.M., P.O. Box 320 Helenwood, Tennessee 37755, Telephone: 423-569-4457 or the District's Financial Advisor, Cumberland Securities Company, Inc., Telephone: 865-988-2663. Additional information regarding BiDCOMP™/PARITY® may be obtained from PARITY®, 1359 Broadway - 2nd Floor, New York, NY 10018, Telephone: (800) 850.7422.

RETAINED EARNINGS

Summary of Changes In Retained Earnings

For the Fiscal Year Ended November 30

	2011	**2012**	**2013**	**2014**	**2015**
Operating Revenue	$14,709,517	$11,337,465	$13,063,995	$13,902,442	$11,400,733
Operating Expenses	12,203,327	8,846,812	9,988,282	10,573,457	8,068,024
Net Income Before Depreciation And Amortization	2,506,190	2,490,653	3,075,713	3,328,985	3,332,709
Other Income Before Interest Expense	181,230	111,116	80,933	56,601	33,633
Income Available for Debt Service	2,687,420	2,601,769	3,156,646	3,385,586	3,366,342
Maximum Debt Service Requirements (2027)	1,226,269	1,226,269	1,226,269	1,226,269	1,226,269
Bond Coverage	2.19 X	2.12 X	2.57 X	2.76 X	2.75 X

Source: Financial Statements with Report of Certified Public Accountants.

SUMMARY NOTICE OF SALE

$7,825,000*

CITIZEN'S GAS UTILITY DISTRICT OF SCOTT & MORGAN COUNTIES, TENNESSEE

Gas System Revenue Refunding Bonds, Series 2016

NOTICE IS HEREBY GIVEN that the President of the Citizen's Gas Utility District of Scott & Morgan Counties, Tennessee (the "District") will receive electronic or written sealed bids until **10:15 a.m. E.S.T.** on **Wednesday, November 30, 2016** for the purchase of all, but not less than all, of the District's $7,825,000* Gas System Revenue Refunding Bonds, Series 2016 (the "Bonds"). Electronic bids must be submitted through ***PARITY®*** as described in the "Detailed Notice of Sale". In case of written bids, bids will be received by the District's Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the District reserves the right to adjust the principal amount and maturity amounts of the Bonds being offered as set forth in the Detailed Notice of Sale, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the ***PARITY®*** System not later than 9:00 a.m., Eastern Standard 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 December 15, 2016). The Bonds will mature on May 1 in the years 2017 through 2035, inclusive, with term bonds optional, with interest payable on May 1 and November 1 of each year, commencing May 1, 2017, and will be subject to redemption prior to maturity on or after May 1, 2022. Bidders must bid not less than ninety-eight and one-half percent (98.50%) of par or more than one hundred and twenty-five percent (125%) of par for the Bonds. The approving opinion for the Bonds will be furnished at the expense of the District by 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 President of the District on the sale date to the bidder whose bid results in the lowest true interest rate on the Bonds.

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

CITIZEN'S GAS UTILITY DISTRICT OF
SCOTT & MORGAN COUNTIES, TENNESSEE
By: Joe Sexton, President

* Preliminary, subject to change.

DETAILED NOTICE OF SALE

$7,825,000*

CITIZEN'S GAS UTILITY DISTRICT
OF SCOTT & MORGAN COUNTIES, TENNESSEE
Gas System Revenue Refunding Bonds, Series 2016

NOTICE IS HEREBY GIVEN that the President of the Citizen's Gas Utility District of Scott & Morgan Counties, Tennessee (the "District") will receive electronic or written sealed bids until **10:15 a.m. E.S.T.** on **Wednesday, November 30, 2016** for the purchase of all, but not less than all, of the District's $7,825,000* Gas System Revenue Refunding Bonds, Series 2016 (the "Bonds"). Electronic bids must be submitted through ***PARITY®*** as described in the "Detailed Notice of Sale." In case of written bids, bids will be received by the District's Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the District reserves the right to adjust the principal amount and maturity amounts of the Bonds being offered as set forth herein, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the ***PARITY®*** System not later than 9:00 a.m., Eastern Standard 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 May 1 and November 1, commencing May 1, 2017, be issued, or reissued upon transfer, in $5,000 denominations or multiples thereof, as shall be requested by the purchaser or registered owner thereof, as applicable, and will mature (subject to the right of redemption as hereinafter set forth) and be payable as follows:

YEAR (MAY 1)	Amount*	YEAR (MAY 1)	Amount*
2017	$ 120,000	2027	$ 455,000
2018	100,000	2028	465,000
2019	100,000	2029	475,000
2020	395,000	2030	490,000
2021	400,000	2031	505,000
2022	410,000	2032	520,000
2023	415,000	2033	535,000
2024	425,000	2034	555,000
2025	435,000	2035	580,000
2026	445,000		

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

* Preliminary, subject to change.

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

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

Security Pledged. The Bonds are payable solely from and secured by a senior pledge of revenues to be derived from the operation of the District's Gas System (the "System") as defined herein, subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System, on parity with the District's remaining outstanding Gas System Revenue Refunding Bonds, Series 2009 and its Gas System Revenue Bonds, Series 2011.

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

Optional Redemption. The Bonds maturing on May 1, 2023, and thereafter, will be subject to redemption prior to maturity at the option of the District on and after May 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 District at a redemption price equal to one hundred percent (100%) of the principal amount thereof, together with accrued interest to the date fixed for redemption at the rate stated in the Term Bonds to be redeemed. Each such mandatory sinking fund redemption shall be made on the date on which a consecutive maturity included as part of a Term Bond is payable in accordance with the proposal of the successful bidder for the Bonds and in the amount of the maturing principal installment for the Bonds listed herein for such principal payment date. Term Bonds to be redeemed within a single maturity shall be selected in the manner provided above for optional redemption of Bonds within a single maturity.

Bidding Instructions. The District will receive electronic or sealed written bids for the purchase of all, but not less than all, of the Bonds. Bidders for the Bonds are requested to name the interest rate or rates the Bonds are to bear in multiples of one-eighth of one percent and/or one-hundredth of one percent (.01%) or one (1) basis point, but no rate specified shall be in excess of five percent (5.00%) per annum. There will be no limitation on the number of rates of interest that may be specified in a single bid for the Bonds but a single rate shall apply to each single maturity of the Bonds. Bidders must bid not less than ninety-eight and one-half percent (98.50%) of par or more than one hundred and twenty-five percent (125%) of par.

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

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

In the event of a system malfunction in the electronic bidding process only, bidders may submit bid prior to the established date and time by FACSIMILE transmission sent to the District's Financial Advisor, Cumberland Securities Company, Inc. at 865-988-1863. Any facsimile submission is made at the sole risk of the prospective bidder. The District and the Financial Advisor shall not be responsible for confirming receipt of any facsimile bid or for any malfunction relating to the transmission and receipt of such bids.

Separate written bids should be submitted by facsimile to the District's Financial Advisor, at 865-988-1863. Written bids must be submitted on the Bid Forms included with the PRELIMINARY OFFICIAL STATEMENT.

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

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

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

Adjustment and/or Revision. While it is the District's intention to sell and issue the approximate par amounts of the Bonds as offered herein, there is no guarantee that adjustment and/or revision may not be necessary in order to properly size the Bonds. Accordingly, the President reserves the right, in his sole discretion, to adjust down the original par amount of the Bonds by up to $1,950,000. The principal factor to be considered in making any adjustments is the amount of premium bid for particular maturities. Among other factors the President may (but shall be under no obligation to) consider in sizing the par amounts and individual maturities of the Bonds is the size of individual maturities or sinking fund installments and/or other preferences of the District. The maximum adjustment will only occur if a bidder bids the maximum price of 125% of par. Additionally, the President reserves the right to change the dated date of the Bonds.

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

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

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

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

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

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

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

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

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

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

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

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

Legal Opinion. The approving opinion of 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 District. As set forth in the *Preliminary Official Statement*, Bond Counsel's opinion with respect to the Bonds will state that interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal law alternative minimum tax imposed on individuals and corporations. As set forth in the *Preliminary Official Statement*, the owners of the Bonds, however, may be subject to certain additional taxes or tax consequences arising with respect to ownership of the Bonds, reference is hereby made to the *Preliminary Official Statement* and the form of the opinion contained in Appendix A.

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

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

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

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

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

CITIZEN'S GAS UTILITY DISTRICT
OF SCOTT & MORGAN COUNTIES, TENNESSEE
By: Joe Sexton
President

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BID FORM

Joe Alvin Sexton III, President
P.O. Box 320
Helenwood, Tennessee 37755

November 30, 2016

Dear Mr. Sexton:

For your legally issued, properly executed $7,825,000* Gas System Revenue Refunding Bonds, Series 2016 (the "Bonds") of Citizen's Gas Utility District of Scott & Morgan Counties, Tennessee, in all respects as more fully outlined in your Notice of Sale, which by reference are made a part hereof, we will pay you a sum of ___________________________________ _____________________ ($________________________).

The Bonds shall be dated the date of issuance (assume December 15, 2016) and shall be callable in accordance with the DETAILED NOTICE OF SALE. The Bonds shall mature on May 1 and bear interest at the following rates:

Maturity (May 1)	Amount*	Rate	Maturity (May 1)	Amount*	Rate
2017	$ 120,000	___	2027	$ 455,000	___
2018	100,000	___	2028	465,000	___
2019	100,000	___	2029	475,000	___
2020	395,000	___	2030	490,000	___
2021	400,000	___	2031	505,000	___
2022	410,000	___	2032	520,000	___
2023	415,000	___	2033	535,000	___
2024	425,000	___	2034	555,000	___
2025	435,000	___	2035	580,000	___
2026	445,000	___			___

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

Term Bond 1: Maturities from May 1, 20_______ through May 1, 20_______ @ _______%.
Term Bond 2: Maturities from May 1, 20_______ through May 1, 20_______ @ _______%.
Term Bond 3: Maturities from May 1, 20_______ through May 1, 20_______ @ _______%.
Term Bond 4: Maturities from May 1, 20_______ through May 1, 20_______ @ _______%.
Term Bond 5: Maturities from May 1, 20_______ through May 1, 20_______ @ _______%.
Term Bond 6: Maturities from May 1, 20_______ through May 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 District without cost to us.

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

Accepted for and on behalf of the
Citizen's Gas Utility District of Scott & Morgan Counties, Tennessee
this 30th day of November, 2016.

____
Joe Alvin Sexton, II, President

Respectfully submitted,
____
____

Total interest cost from
December 15, 2016 to final maturity $________________
Less: Premium /plus discount, if any $________________
Net Interest Cost .... $__________________
True Interest Rate .... _____________%

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

* Preliminary, subject to change.

$7,825,000*

CITIZEN'S GAS UTILITY DISTRICT OF SCOTT & MORGAN COUNTIES, TENNESSEE

Gas System Revenue Refunding Bonds, Series 2016

SECURITIES OFFERED

AUTHORITY AND PURPOSE

This *Preliminary Official Statement* which includes the "Summary Statement" and appendices is furnished in connection with the offering by Citizen's Gas Utility District of Scott & Morgan Counties, Tennessee (the "District" or "Issuer") of its $7,825,000 Gas System Revenue Refunding Bonds, Series 2016 (the "Bonds").

The Bonds are authorized to be issued pursuant to the provisions of Title 7, Chapter 82, and Title 9, Chapter 21, *Tennessee Code Annotated*, as amended, and other applicable provisions of law and pursuant to a resolution authorizing Gas System Revenue Refunding Bonds duly adopted by the Board of Commissioners (the "Governing Body") of the District on November 21, 2016 (the "Resolution").

The Bonds are being issued for the purpose of (i) refinancing, in whole or in part, the Refunded Bonds (as described herein); and (ii) paying costs incurred in connection with the issuance and sale of the Bonds.

REFUNDING PLAN

The District is proposing to refinance a portion of its outstanding Gas System Revenue Refunding Bonds, Series 2009, dated November 10, 2009 (the "Refunded Bonds"). An amount which together with investment earnings they will be sufficient to pay debt service on and to redeem a portion of the Refunded Bonds maturing May 1, 2020 through May 1, 2035 will be escrowed to the redemption date of May 1, 2019.

As required by Title 9, Chapter 21, Part 10 of *Tennessee Code Annotated* as supplemented and revised, a plan of refunding (the "Plan") for the Refunded Bonds was submitted to the Director of the Office of State and Local Finance for review and the report of such office was received and published as required by law.

SOURCES AND USES

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

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* Preliminary, subject to change.

Sources of Funds:	
Par Amount of Bonds	$7,825,000.00
Original Issue Premium (Discount)	
Total Sources of Funds	
Uses of Funds:	
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 December 15, 2016). Interest on the Bonds will be payable semi-annually on May 1 and November 1, commencing May 1, 2017. The Bonds are issuable in registered form only and in $5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

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

SECURITY

This Bond is payable solely from and secured by a senior pledge of revenues to be derived from the operation of the District's gas storage, collection, transmission and distribution system (the "System), subject to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System, on parity and equality of lien with the District's remaining outstanding Gas System Revenue Refunding Bonds, Series 2009 and its Gas System Revenue Bond, Series 2011 (the "Outstanding Bonds"). As provided in the Resolution, the punctual payment of principal of and interest on the series of the Bonds of which this Bond is one, the Outstanding Bonds and any other bonds hereafter issued on a parity therewith, shall be secured equally and ratably by said revenues without priority by reason of series, number or time of sale or delivery. Said revenues are required by law and by the proceedings pursuant to which this Bond is issued to be fully sufficient to pay the cost of operating, maintaining, repairing and insuring the System, including reserves therefor, and to pay principal of and interest on this Bond and the issue of which it is a part promptly as each becomes due and payable. The District has covenanted and does hereby covenant that it will fix and impose such rates and charges for the services rendered by the System and will collect and account for sufficient revenues to pay promptly the principal of and interest on this Bond and the issue of which it is a part as each becomes due. For a more complete statement of the revenues from which and conditions under which this Bond is payable, a statement of the conditions on which obligations may hereafter be issued on a parity with this Bond, the general covenants and provisions pursuant to which this Bond is issued and the terms upon which the Resolution may be modified, reference is hereby made to the Resolution.

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

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

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

OPTIONAL REDEMPTION OF THE BONDS

The Bonds maturing May 1, 2017 through May 1, 2022 are not subject to redemption prior to maturity. The Bonds maturing May 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 May 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 District not less than twenty (20) nor more than sixty (60) days prior to the date fixed for redemption by sending an appropriate notice to the registered owners of the Bonds to be redeemed by first-class mail, postage prepaid, at the addresses shown on the Bond registration records of the Registration Agent as of the date of the notice; but neither failure to mail such notice nor any defect in any such notice so mailed shall affect the sufficiency of the proceedings for redemption of any of the Bonds for which proper notice was given. The notice may state that it is conditioned upon the deposit of moneys in an amount equal to the amount necessary to effect the redemption with the Registration Agent no later than the redemption date ("Conditional Redemption"). As long as DTC, or a successor Depository, is the registered owner of the Bonds, all redemption notices shall be mailed by the Registration Agent to DTC, or such successor Depository, as the registered owner of the Bonds, as and when above provided, and neither the District 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 District pursuant to written instructions from an authorized representative of the District (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 District 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 District 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 District 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 Issuer will make all interest payments with respect to the Bonds on each interest payment date directly to Cede & Co., as nominee of DTC, the registered owner as shown on the Bond registration records maintained by the Registration Agent as of the close of business on the fifteenth day of the month next preceding the interest payment date (the "Regular Record Date") by check or draft mailed to such owner at its address shown on said Bond registration records, without, except for final payment, the presentation or surrender of such registered Bonds, and all such payments shall discharge the obligations of the Issuer in respect of such Bonds to the extent of the payments so made, except as described above. Payment of principal of the Bonds shall be made upon presentation and surrender of such Bonds to the Registration Agent as the same shall become due and payable.

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

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

DTC and its Participants. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry-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.

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 Issuer or the Registration Agent subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, tender price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Registration Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of Direct and Indirect Participants.

Notices. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the

Security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds f or their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as practicable after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

DISCONTINUANCE OF BOOK-ENTRY-ONLY SYSTEM

In the event that (i) DTC determines not to continue to act as securities depository for the Bonds or (ii) to the extent permitted by the rules of DTC, the District 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 District 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 District believes to be reliable, but the District, 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 District, 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) pre-issuance accrued interest and the rounding amount, if any, shall be deposited to the Bond Fund to be used to pay interest on the Bonds on the first interest payment date following delivery of the Bonds;

(b) an amount, which together with investment earnings thereon and legally available funds an amount, which together with legally available funds of the District, if any, and investment earnings thereon, will be sufficient to pay principal of, premium, if any, and interest on the Refunded Debt until and through the redemption date therefor shall be transferred to the Escrow Agent under the Refunding Escrow Agreement to be deposited to the Escrow Fund established thereunder to be held and applied as provided therein or with respect to the Refunded Debt to be held to the earliest optional redemption date; and

(c) the remainder of the proceeds of the sale of the Bonds shall be used to pay the costs of issuance the Bonds, and all necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, bond insurance premium, if any, administrative and clerical costs, rating agency fees, registration agent fees, and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds.

DISCHARGE AND SATISFACTION OF BONDS

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

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

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

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

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

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

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LEGAL MATTERS

LITIGATION

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

TAX MATTERS

Federal

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

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

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

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

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

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

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

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

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

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

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

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

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

State Taxes

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

CHANGES IN FEDERAL AND STATE TAX LAW

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

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

CLOSING CERTIFICATES

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

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters relating to the authorization and the validity of the Bonds are subject to the approval of 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 "A".

There is no assurance that such ratings 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 ratings may have an adverse effect on the secondary market price of the Bonds.

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

COMPETITIVE PUBLIC SALE

The Bonds were offered for sale at competitive public bidding on November 30, 2016. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated November 21, 2016.

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

FINANCIAL ADVISOR; RELATED PARTIES; OTHER

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

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

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

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

Bond Counsel. From time to time, Bass, Berry & Sims PLC has represented the Bank on legal matters unrelated to the District and may do so again in the future.

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

DEBT RECORD

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

ADDITIONAL DEBT

The District has not authorized any additional debt. However, the District has ongoing projects that may or may not require additional debt in the future.

CONTINUING DISCLOSURE

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

Five-Year History of Filing. For the past five years (fiscal years ending November 30, 2011 through November 30, 2015), the District has complied in all material respects with its existing continuing disclosure agreements in accordance with Rule 15c2-12.

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

1. Summary of bonded indebtedness as of the end of such fiscal year as shown on page B-14;

2. Summary of Bonded Debt Service Requirements as of the end of such fiscal year as shown on page B-15;

3. Summary of Revenues, Expenditures and Changes in Fund Balances for the fiscal year as shown on page B-16; and

4. Historical Debt Service Coverage on Bonds - as of the end of such fiscal year as shown on page B-17.

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

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

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

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

3. The following are the Listed Events:

    a. Principal and interest payment delinquencies;

    b. Non-payment related defaults, if material;

    c. Unscheduled draws on debt service reserves reflecting financial difficulties;

    d. Unscheduled draws on credit enhancements reflecting financial difficulties;

    e. Substitution of credit or liquidity providers, or their failure to perform;

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

    g. Modifications to rights of Bondholders, if material;

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

    i. Defeasances;

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

k. Rating changes;

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

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

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

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

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

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

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

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

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

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

ADDITIONAL INFORMATION

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

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

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

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

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

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CERTIFICATION

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

CITIZEN'S GAS UTILITY DISTRICT
OF SCOTT & MORGAN COUNITES,
TENNESSEE

/s/______________________________
President
Board of Commissioners

ATTEST:

/s/______________________________
Secretary
Board of Commissioners

APPENDIX A

LEGAL OPINION

[Closing Date]

Citizens Gas Utility District of
Scott and Morgan Counties, Tennessee
Helenwood, Tennessee

[Underwriter]

Re: Citizens Gas Utility District of Scott and Morgan Counties, Tennessee
$_______ Gas System Revenue Refunding Bonds, Series 2016

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Citizens Gas Utility District of Scott and Morgan Counties, Tennessee (the "Issuer") of $______ Gas System Revenue Refunding Bonds, Series 2016, dated ____________, 2016 (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 Issuer.

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

3. The 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 complete gas storage, collection, manufacturing, transmission and distribution system (the "System"), subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System, on parity and equality of lien with the Issuer's Gas System Revenue Refunding Bonds, Series 2009 and its Gas System Revenue Bond, Series 2011. 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 Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), 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 Issuer 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(b)(3) 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

THE DISTRICT

INTRODUCTION

In November of 1958, the Citizens Gas Utility District (The "District") acquired the Russell Producing Company, which since the early 1920's, had been constructing a distribution system to serve the area from local gas production. The main purpose of forming the District was to continue service to the existing customers and to provide additional service in order to entice industry to locate in the area.

By 1978, the District consisted of approximately 1,100 customers; however, the steel gas pipeline that was originally purchased from Russell Producing Company had deteriorated to the point that the District was experiencing a 50% to 70% annual natural gas loss. In 1979, the Farmers Home Administration began making various loans to the District for the purpose of replacing the old Russell Producing Company pipelines as well as additional expansion of the District in Scott and Morgan Counties. As the District developed into the mid 90's, and at the request of the Farmers Home Administration, the District sold tax exempt bonds to pay off the FHA loans and finance future expansion.

In 1993 the district purchased the Intrastate Gathering System for the purpose of providing a natural gas supply to the District's customers in Scott and Morgan Counties. Then in 2005 the District purchased the Indian Creek Natural Gas Storage Field in Morgan County. Indian Creek is currently the only natural gas storage field operating in the State of Tennessee. Both acquisitions were funded with the sale of tax exempt Bonds.

Currently, the District constructs, operates and maintains its 770 miles of mains and other gas properties with District personnel and contract construction companies.

ORGANIZATION

The District was incorporated as a municipal corporation pursuant to Decree of the County Judge of Scott County, Tennessee, dated March 15, 1958, as amended by Decree of the County Judge of Scott County, Tennessee, dated April 12, 1958, and further amended by Orders of the County Executive of Morgan County, Tennessee, dated November 10, 1978, and January 8, 1982. All pursuant to provisions of Title 7, Chapter 82 of the Tennessee Code Annotated (the "District Act"), which provides that such an incorporated municipal corporation shall exist in perpetuity and possess the powers set forth in the District Act. The incorporation of the District was confirmed by and the composition and manner of election of the Board of Trustees of the District was established by Chapter 225 of the Public Acts of 1959, as amended by Chapter 237 of the Public Acts of 1977, as amended by Chapter 176 of the Public Acts of 1993. The District is authorized to issue the Bonds in furtherance of the purposes for which it is organized.

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

DESCRIPTION OF DISTRICT SERVICE AREA

The area presently served by the District is located in the northeastern portion of Tennessee in Scott and Morgan Counties. With an approximate land area of 349 square miles, Scott County had a population of 22,228 persons, according to the 2010 Census. Morgan County had a total population of 21,987 per the 2010 Census and a land area of 539 square miles.

The District provides natural gas service and propane service to twenty-two (22) towns and communities and rural areas surrounding these communities in Scott and Morgan Counties. The communities are listed below. These areas are served from the District Office in Helenwood, Tennessee. District administrative and management functions are performed at its administrative center in Helenwood, Tennessee.

SCOTT COUNTY		MORGAN COUNTY	
Oneida	Helenwood	Sunbright	Wartburg
Huntsville	Winfield	Burrville	Mossey Grove
Capitol Hill	Paint Rock	Deer Lodge	Petros
Annadale	Robbins	Lancing	Oak Dale
Black Creek	Glenmary	Coalfield	
Elgin	Rugby		
Fairview	Straight Fork		

EXISTING CONDITIONS

The District has expanded to all areas in Scott and Morgan Counties where the project feasibility is justifiable using the sale of Bonds as a means of financing the expansion. However, there are many residences of Scott and Morgan Counties that strongly desire natural gas service, but they are located in the more rural areas of the Counties. The current house count along these rural roads is 854 homes. Past experience has demonstrated that the District can expect to obtain 50% of the existing homes along an expansion project as customers within the first three years.

The District has also noticed that many of these areas seem to be attracting new residential homes from other states such as Florida and several of the states in the northern part of the United States. Even though these areas currently do not have enough residence to support issuance of the Bonds by the District, it is our belief that the next 10 to 20 years of growth along these routes will be impressive. As new homes are constructed, natural gas mains must be present in the area before the builders are willing to install natural gas appliances.

POWERS

The District Act provides that the District is empowered, among other things, to conduct, operate and maintain a system or systems for the furnishing of natural gas and natural gas storage and related facilities. To carry out such purposes, the District has the power and authority to acquire, construct, reconstruct, improve, better, extend, consolidate, maintain and operate such system or systems within or without the District, and to purchase from, furnish, deliver and sell to any municipality, the State, any public institution and the public, generally, any of its services. The District has the power of eminent domain and has the power to issue its negotiable bonds for the purpose of construction, 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 District has no power to levy or collect taxes.

GOVERNING BODY

All corporate powers of the District are vested in and exercised by the Board of Commissioners. The Board consists of five members, serving staggered terms with at least three members residing in Scott County and two members in Morgan County. The District's subscribers elect the members of the Board. Each member of the Board of Commissioners, upon expiration of his term, shall continue to hold office until the successor shall have been elected. A Board member may succeed himself or herself in office. Vacancies created in any manner shall be filled only by election to such vacancy of a resident of the same county as the predecessor trustee and who otherwise meets the requirements of office.

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

The individual commissioners receive compensation for their services on a per diem basis in the maximum amount allowable by the District 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 Six Thousand Dollars ($6,000) 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, 7-82-308.

BOARD OF TRUSTEES

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

Joe Sexton, President, has served on the Board of Commissioners since August 2011. Mr. Sexton is a building contractor in Morgan County.

Roger Russell, Vice-President, has served on the Board of Commissioners since August 2010. Mr. Russell does agricultural farming.

Dean West, Secretary-Treasurer, has served on the Board of Commissioners since August 2014. Mr. West owns and operates his own business.

Jim Beaty, Member, has served on the Board of Commissioners since August 2011. Mr. Beaty is a retired funeral home director.

Larry Whaley, Member, has served on the Board of Commissioners since August 2010. Mr. Whaley owns and operates his own business.

MANAGEMENT

Mr. Greg Bell began his career with the District in June of 1992 and was promoted to General Manager in September of 2011. He has served as the Safety Director of the District since 2000. Prior to being named General Manager, Mr. Bell worked for the District as the Office Manager and Safety Director.

The District has 47 full-time employees. The turnover in the District's work force has averaged less than 5 employees per year over the last five years. The tenure of Districts employee's ranges from one to thirty-four years and presently averages approximately 14 years.

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

REGULATION

State and Local Regulation. The District is required by law to have its books and records audited annually by a certified public accountant, a 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 Audit, makes a determination as to whether the annual audit of the District has been prepared in accordance with generally accepted governmental auditing standards and whether the audits meet the minimum standards prescribed by the Comptroller. The Comptroller has promulgated rules and regulations to assure that the books and records of utility districts are kept in accordance with generally accepted accounting procedures and that audit standards prescribed by the Comptroller are met. The District must file a copy of the audit with the Comptroller and with the County Executives of each of the Counties that the District serves.

Federal Regulation. The District is not directly regulated by any federal agency. However, the Federal Energy Regulatory Commission ("FERC") regulates interstate natural gas pipelines, including East Tennessee Natural Gas Company ("ETNG"), a division of El Paso, which, until November 1, 1993, supplied natural gas to the District. FERC issued Order No. 636 which mandated that interstate natural gas pipelines stop providing bundled service, that is, the pipeline, prior to implementation of Order No. 636, had provided transportation, storage and gas supply services. Order No. 636 became effective for ETNG on November 1, 1993. On that date, ETNG became restricted to providing only interstate gas transportation services and storage capacity to distributors. Accordingly, the gas supply contract between the District and ETNG was canceled on that date and replaced by a transportation contract. The District is now free to buy gas from any source at market prices, rather than buying from ETNG at a regulated price. As a result of Order No. 636, the District is now subject to no direct or indirect federal regulation relating to rates or gas supply.

The United States Department of Transportation, Office of Pipeline Safety regulates the safety of the District's natural gas delivery system. This regulation falls under the Natural Gas Pipeline Safety Act of 1968, as amended and is codified as Code of Federal Regulations Title 49, Parts 191, 192 and 199. These parts cover reporting requirements, minimum Federal Safety Standards for Design, Operation and Maintenance of natural gas pipeline systems and drug testing. The Tennessee Public Service Commission has an Agreement with the U.S. Department of Transportation to administer the Federal pipeline safety program in Tennessee.

Rate Regulation. The District is required by the District Act to charge such rates as shall be sufficient to pay operation and maintenance expenses and to pay principal of and interest on all bond or notes secured by revenues of the System. The Board determines the rates paid by the District's customers. The District is required to publish within ninety days after the close of its fiscal year a statement showing the financial condition of the District, the earnings of the District, the gas rates then being charged by the District and the method used in arriving at such rates for such fiscal year. Within thirty days of the date such statement is published, any gas user customer of the District 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 review of the Board's action and the Review Board, as discussed below, with the right of judicial review by common law writ of certiorari to the Circuit Court of the respective County that the customer lives.

Review Board. In 1987, the State legislature established a utility management review board (the "Review Board") for the purpose of advising utility district boards of commissioners throughout the State in the area of utility management. The Review Board consists of nine (9) members consisting of the State Commissioner of Environment, the State Comptroller of the Treasury, and seven (7) members appointed by the Governor, three (3) of whom shall be experienced utility district managers, three (3) of whom shall be experienced utility district commissioners and one (1) of whom shall be a consumer residing in the state who is not engaged in utility district management or operation. The Review Board is given the power, among other things, to review any decision of any utility district relating to rate changes upon petition of any customer of the district, to compel the adoption of and adherence to rules and regulations for the adjustment of customer complaints, hear customer protests of rates or appeal from a hearing before the Board of Commissioners of the District, to oversee operations of "financially distressed utility districts", including the power to compel rate increases sufficient to be in compliance with State law and all covenants with bondholders and compel consolidation with another utility. A "financially distressed utility district" is a district (i) which has failed to charge rates sufficient to pay the costs of operation and maintenance of the system, including depreciation and reserves therefore, as well as to pay all bonds and interest thereon secured by the revenues of the system, including reserves therefore, for a period of two (2) consecutive years, or (ii) which is in default on any outstanding indebtedness, or (iii) which has a retained earnings deficit. The Review Board may not take any action which would adversely impair the obligations of contract or the payment of outstanding bonds of the District. Any party to a proceeding before the Review Board may appeal to a local court seeking review of any action taken.

The District Act contains several exemptions pertaining to the jurisdiction of the Review Board over gas utilities districts. Generally, gas utility districts are exempt from the jurisdiction of the Review Board, except the Review Board does have jurisdiction to hear appeals of customer protests of rates after a hearing before the Board of Commissioners of the District. The Review Board also may review and conduct a hearing of any decision of the District regarding the reasonableness of the District's requirement that a customer or developer build utility systems to be dedicated to the District or the reasonableness of fees or charges against a customer or developer related to such utility systems.

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

CONTROL OF DISTRICT

So long as the Bonds shall remain outstanding, the System and it operations and revenues will continue to be controlled under the authority of a board of trustees consisting of five (5) members, that replacement of any member of the Board, whose membership shall cease because of the termination of a term of office or other cause, shall be made only as provided by the District's charter, and there shall be no reduction in the authority of the Board over the District's rates and charges.

SOURCE OF NATURAL GAS SUPPLY

The District obtains most of its gas, approximately 80%, from local gas wells and through the gas gathering system purchased in 1993 from Intrastate Energy Corporation of Tennessee ("Intrastate"), as discussed below, and from natural gas storage at the Indian Creek storage field owned and operated by the District. Of this amount, approximately 10% of the natural gas needed by the District is purchased from local producers. The remainder of the District's supply of gas, approximately 70%, is obtained from Atmos Energy, pursuant to a Gas Supply Agreement, dated January 1, 2004.

On July 26, 1993, the District issued its Gas System Revenue Bonds, Series 1993, dated July 1, 1993 (the "Series 1993 Bonds") to acquire a substantial portion of the assets of Intrastate. Intrastate has been operating as a gatherer of natural gas in Scott and Morgan Counties since 1979 and had also expanded into Campbell County. Over the years, Intrastate had become the major supplier of natural gas to the District. As its supply of gas increased, Intrastate also began selling to ETNG. Intrastate was selling gas to both the District and ETNG at the same price, resulting in savings to the District of approximately $1.00 per Mcf over the price the District would have paid had it purchased these supplies from ETNG. The District paid $5,000,000 for the Intrastate assets and financed the purchase with the Series 1993 Bonds. The assets acquired were (i) a system of approximately 150 miles of steel and polyethylene pipeline; (ii) fourteen (14) various compressors and their stations; (iii) several vehicles, meter, storage tanks, office buildings and related equipment; and (iv) contracts for the purchase of natural gas including, but not limited to, the contracts with Champ, Inc., and contracts with gas well producers. The management of the District believes the Intrastate acquisition was in the best interest of the District. First, owning the assets will insure a long-term, local, low-cost supply of gas. Secondly, the District is now tied to Delta Natural Gas which is a 30,000 customer, 16 county distribution company in Kentucky. Delta's pipeline is tied into Columbia Transmission Pipeline which is a major pipeline similar to ETNG. The purchase of the Intrastate gathering system gives the District the option of purchasing gas for its customers either through ETNG from local wells in Scott, Morgan, or Campbell Counties, from Delta Natural Gas, from Somerset Gas in Somerset, Kentucky, or through Columbia Natural Gas pipeline through a transportation agreement with Delta. The District's management believes these gas purchase options will be very important and beneficial to the customers of the District in the future. In addition, the District may continue to sell excess gas using its connection through the ETNG pipeline. Since ETNG is no longer a gas supplier under FERC Order 636, the District cannot sell to ETNG, but it can transport through the ETNG pipeline to potential purchasers.

In addition to obtaining gas through the Intrastate system, the District also has contracts for the purchase of gas of varying terms and provisions with local producers. The producers can generally obtain better prices for their gas by selling to the District than incurring the transportation costs to sell gas to other remote purchasers. If local supplies should become inadequate, the District can acquire additional gas through the ETNG system or through the Indian Creek Storage Field. Indian Creek is located in Morgan County, near Rugby, TN. Indian Creek Natural Gas Storage field was completed in 2000.

During May 2006 the District acquired the lease rights, wells, equipment, piping, valves, and other components of the Indian Creek Natural Gas Storage field. The acquisition and subsequent improvements was financed through the issuance of debt.

The District receives gas through the ETNG pipeline at three locations, one at Deer Lodge, one at the Morgan County / Roane County line and the other at Wartburg, TN. All ETNG taps are in Morgan County. The District has a contract for the purchase of gas with Atmos Energy Marketing, LLC, a marketing company on the East Tennessee system.

GAS RATES

The following gas rates were in effect on November 30, 2015:

Residential rate	$0.99 per Therm*
Commercial rate	$1.07 per Therm
Small industrial rate	$1.02 per Therm
Governmental rate	$1.06 per Therm
Large industrial and interruptible rate	Negotiable
Availability charge – all customers	$5.50 Flat

Residential meter deposit	$ 50.00
Residential – rental meter deposit	150.00
Service charge	25.00
Tap connection fee	250.00
Commercial, industrial and governmental deposit	Negotiable

* Therm equals 100 cubic feet x avg BTU of the system.

FUTURE EXPANSION AND FINANCING PLANS

The District has been installing new pipeline in Scott and Morgan Counties by using Rural Development Funds, starting in 2012 and ending March of 2015. The original loan amount was $4,406,448.00. The projects have gone well and the customer hook ups have been very positive. There has been more rock and permitting issues that originally calculated. The actual draw downs on the amounts are as follows:

2012 Phase 1	$1,001,460.19	- Actual
2013 Phase 2	708,697.91	- Actual
2014 Phase 3	755,701.90	- Actual
2015 Phase 4	654,140.00	- Actual
Total Loan	$3,120,000.00	

There will be an estimated 540 homes and small businesses on these routes and should generate 270 plus new customers. The revenue from these customers should generate $79,650 annually. (270 Customers x 59 mmbtu annual usage x $5.00 margin). Additional revenues are also being generated in the form of a recent conversion to a Therm billing system vs MCF. For example, the current annual usage is 700,000 Mcf x 1.080 avg. BTU = 756,000 mmbtu. The increase of 56,000 mmbtu x $5.00 margin will generate an additional estimated $280,000 of revenue annually.

The revenues from the sale or storage of natural gas for other utilities would provide some additional income from this proposed four-year expansion project to be used to make payments on the Rural Development Loans.

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TEN LARGEST CUSTOMERS

The following is a chart listing the Top Ten Largest Customers of the Fiscal Year Ending November 30, 2015:

FISCAL YEAR ENDING NOVEMBER 30, 2015

	CUSTOMER	BUSINESS	REVENUES	ANNUAL GAS USAGE (Therms)
1.	Heraeus Metals	Metal Processing	$ 578,244.64	1,076,110
2.	Cobb/Vantress	Industrial	557,737.50	521,250
3.	ATMOS Energy	Natural Gas	467,112.00	576,650
4.	Great Dane	Industrial	255,278.78	263,290
5.	Allied Metals	Industrial	213,406.44	199,492
6.	HBD/Thermoid	Industrial	196,637.64	192,782
7.	Armstrong (Hartco)	Industrial	147,337.98	144,449
8.	Tennier	Military Canvas Items	73,336.73	68,539
9.	Miller Paving	Industrial	43,685.96	40,828
10.	Ellison	Industrial	35,235.10	32,930
	TOTAL		**$2,568,012.77**	**3,116,320**

Source: The District.

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OPERATING AND FINANCIAL HISTORY OF THE SYSTEM

OPERATING HISTORY

The following table presents information relating to the number of customers served at the end of each fiscal year for the Distribution System:

CUSTOMERS SERVED

Fiscal Year Ended November 30	Residential	Government & Commercial	School and Industrial	TOTAL
2006	8,746	680	94	9,528
2007	8,862	687	94	9,643
2008	8,758	686	97	9,541
2009	8,907	673	102	9,692
2010	8,880	668	96	9,654
2011	8,983	656	105	9,744
2012	9,087	661	102	9,850
2013	9,097	672	104	9,873
2014	9,244	702	108	10,054
2015	9,337	711	98	10,146

Source: The District.

SALES IN MCF

Fiscal Year Ended November 30	Residential	Government & Commercial	School and Industrial	TOTAL
2006	447,355	106,024	93,954	647,333
2007	454,747	112,541	89,850	657,138
2008	445,339	117,990	99,775	663,104
2009	494,648	100,698	164,359	759,705
2010	567,869	118,690	191,192	877,751
2011	405,123	92,761	138,160	636,044
2012	375,823	94,528	161,500	631,851
2013	597,471	151,625	268,824	1,017,920
2014	574,452	142,865	271,583	988,900
2015	522,312	120,754	256,738	899,804

Source: The District.

OPERATING REVENUE FROM SALE OF GAS

Fiscal Year Ended November 30	**Residential**	**Government & Commercial**	**School and Industrial**	**TOTAL**
2006	$4,389,710	$1,175,205	$1,048,691	$6,613,606
2007	4,220,906	1,146,298	897,846	6,315,050
2008	4,409,012	1,249,742	1,029,688	6,688,442
2009	4,861,988	1,185,655	1,434,817	7,482,460
2010	5,620,074	1,271,843	1,664,949	8,556,866
2011	4,006,528	1,004,747	1,286,171	6,297,446
2012	3,747,918	1,004,271	1,261,371	6,013,560
2013	5,346,906	1,430,005	2,136,847	8,913,758
2014	5,681,228	1,453,749	2,482,602	9,617,580
2015	5,667,250	1,387,869	2,362,391	9,417,510

Source: The District.

THE AVERAGE NUMBER OF EMPLOYEES

Calendar Year	**Employees**
2011	48
2012	48
2013	48
2014	48
2015	47

Source: The District.

HISTORICAL GAS SYSTEM USE

Fiscal Year Ended November 30	**Number of Customers**	**Total MCF Sales**
2006	9,528	647,333
2007	9,643	657,138
2008	9,541	663,104
2009	9,692	759,705
2010	9,664	877,751
2011	9,744	636,044
2012	9,850	631,851
2013	9,873	1,017,920
2014	10,054	988,900
2015	10,146	905,456

Source: Audited Financial Statements and the District.

BILLINGS AND COLLECTIONS

The District handles its own billings with the use of its own computer system. During the three fiscal years ended November 30, 2013, 2014 and 2015, uncollectible accounts charged against allowance for doubtful accounts amounted $24,500, $16,720 and $43,170 respectively. The allowance for uncollectible accounts receivables as of November 30, 2015 totals $714,100.

COMPETITION AND FRANCHISE RIGHTS

The District Act provides that as long as the District continues to furnish any of the services which it is authorized to furnish, it shall continue to be the sole public corporation having the power to furnish such services within the boundaries of the District, and no other person, firm or corporation shall furnish or attempt to furnish any of such services 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. Since no municipality provides natural gas distribution services within the District's boundaries, it is not feasible or likely that any such exceptions could be availed of to deprive the District of any portion of its service area. 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 District.

In addition to exclusive service rights granted by the District Act as discussed above, upon the formation of the district, the District obtained franchises from all the municipalities and counties within its service area and as the service area has expanded has obtained additional franchise rights as needed. The District does not expect any problem in obtaining future extensions.

Since the District Act grants exclusive service rights, the franchises are not for the purpose of granting service rights but are the purpose of granting a franchise to use the streets and rights-of-way for locating and maintaining service lines. The expiration of a franchise will not terminate the District's right to serve the franchise area. Upon such expiration, however, the lines of the District in streets and rights-of-way could be condemned for a consistent public use by the host municipality. However, such municipality would be required to prove that it could provide service comparable to that being provided by the district and would be required to preserve and protect the rights of owners of all bonds and other obligations of the District. Currently, no municipality or county in the service area has the facilities to provide such service.

METHOD OF ACCOUNTING

This District 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. The District does not inventory the unsold "in line" gas at year end. This unrecorded asset is not considered material in relation to the balance sheet and the change in such inventory is not considered material in relation to the income statement. Sales revenue is recorded monthly based on meter readings subsequent to the delivery and consumption of the product by the customer. Revenues are accrued in the annual reports of the District from the last meter reading date on November 30. Amounts received for services are recorded as contributions in-aid-of construction. Bond discounts and issuance expenses are amortized during the period bonds are outstanding using the straight-line method of amortization. The District capitalizes bond interest expenses during the construction phase of expansion of the distribution system.

SUMMARY OF OPERATIONS

The financial statements of the District for the year ended November 30, 2015 have been examined by Brown, Jake and McDaniel, P.C., independent accountants, whose report is attached herein.

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THE CITIZENS GAS DISTRICT OF SCOTT AND MORGAN COUNTIES, TENNESSEE

SUMMARY OF BONDED INDEBTEDNESS

As of November 30, 2016

AMOUNT ISSUED		PURPOSE	DUE DATE	INTEREST RATE(S)	(1) and (2) OUTSTANDING
$ 16,290,000		Gas System Revenue Refunding Bonds, Series 1999B	June 2035	Fixed	$ 13,435,000
3,120,000	(2)	Gas System Revenue Bonds, Series 2011 - USDA Loan	2052	Fixed	3,066,417
$ 19,410,000		**TOTAL BONDED DEBT**			$ 16,501,417
$ 7,825,000		Gas System Revenue Refunding Bonds, Series 2016	June 2035	Fixed	$ 7,825,000
(6,920,000)		Less: General Obligation Bonds being refunded			(6,920,000)
$ 20,315,000		**NET BONDED DEBT**			$ 17,406,417

(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.

THE CITIZENS GAS DISTRICT OF SCOTT AND MORGAN COUNTIES, TENNESSEE
BONDED DEBT SERVICE REQUIREMENTS

F.Y. Ended 11/30	Outstanding Bonded Debt			Gas System Revenue Bonds, Series 2011 (USDA Rural Development)			Gas System Revenue Refunding Bonds, Series 2016			% 2016 Principal Repaid	Less Bonds and Loans Being Refunded			Total Bonded Debt Service Requirements (1) and (2)			% All Principal Repaid
	Principal	Interest	TOTAL	Principal	Interest	TOTAL	Principal	Interest (2)	TOTAL		Principal	Interest	TOTAL	Principal	Interest	TOTAL	
2017	$ 460,000	$ 621,250	$ 1,081,250	$ 47,507	$ 95,149	$ 142,656	$ 120,000	$ 187,087	$ 307,087	1.53%	$ -	$ (330,838)	$ (330,838)	$ 627,507	$ 572,649	$ 1,200,156	3.61%
2018	480,000	603,025	1,083,025	49,013	93,643	142,656	100,000	211,690	311,690		-	(330,838)	(330,838)	629,013	577,521	1,206,534	
2019	500,000	583,425	1,083,425	50,567	92,089	142,656	100,000	210,140	310,140		-	(330,838)	(330,838)	650,567	554,817	1,205,384	
2020	520,000	562,700	1,082,700	52,170	90,486	142,656	395,000	205,884	600,884		(300,000)	(324,650)	(624,650)	667,170	534,420	1,201,590	
2021	540,000	540,500	1,080,500	53,824	88,832	142,656	400,000	198,628	598,628	14.25%	(310,000)	(311,875)	(621,875)	683,824	516,085	1,199,909	18.72%
2022	565,000	517,019	1,082,019	55,530	87,126	142,656	410,000	190,728	600,728		(325,000)	(298,381)	(623,381)	705,530	496,491	1,202,021	
2023	590,000	492,106	1,082,106	57,291	85,365	142,656	415,000	182,270	597,270		(340,000)	(284,038)	(624,038)	722,291	475,704	1,197,995	
2024	615,000	465,363	1,080,363	59,107	83,549	142,656	425,000	173,238	598,238		(355,000)	(268,613)	(623,613)	744,107	453,537	1,197,644	
2025	645,000	436,609	1,081,609	60,980	81,676	142,656	435,000	163,343	598,343		(370,000)	(252,069)	(622,069)	770,980	429,559	1,200,539	
2026	675,000	406,084	1,081,084	62,914	79,742	142,656	445,000	152,560	597,560	41.47%	(390,000)	(234,494)	(624,494)	792,914	403,893	1,196,807	40.18%
2027	710,000	373,613	1,083,613	64,908	77,748	142,656	455,000	141,083	596,083		(410,000)	(215,738)	(625,738)	819,908	376,706	1,196,614	
2028	745,000	338,125	1,083,125	66,966	75,690	142,656	465,000	128,774	593,774		(430,000)	(195,250)	(625,250)	846,966	347,339	1,194,305	
2029	780,000	300,000	1,080,000	69,089	73,567	142,656	475,000	115,255	590,255		(450,000)	(173,250)	(623,250)	874,089	315,572	1,189,661	
2030	820,000	260,000	1,080,000	71,279	71,377	142,656	490,000	100,535	590,535		(475,000)	(150,125)	(625,125)	906,279	281,787	1,188,066	
2031	865,000	217,875	1,082,875	73,539	69,117	142,656	505,000	84,860	589,860	72.01%	(500,000)	(125,750)	(625,750)	943,539	246,102	1,189,641	65.41%
2032	910,000	173,500	1,083,500	75,870	66,786	142,656	520,000	68,200	588,200		(525,000)	(100,125)	(625,125)	980,870	208,361	1,189,231	
2033	955,000	126,875	1,081,875	78,275	64,381	142,656	535,000	50,391	585,391		(550,000)	(73,250)	(623,250)	1,018,275	168,397	1,186,672	
2034	1,005,000	77,875	1,082,875	80,756	61,900	142,656	555,000	31,311	586,311		(580,000)	(45,000)	(625,000)	1,060,756	126,086	1,186,842	
2035	1,055,000	26,375	1,081,375	83,317	59,339	142,656	580,000	10,730	590,730		(610,000)	(15,250)	(625,250)	1,108,317	81,194	1,189,511	
2036	-	-	-	85,958	56,698	142,656	-	-	-	100.00%	-	-	-	85,958	56,698	142,656	89.85%
2037	-	-	-	88,683	53,973	142,656	-	-	-		-	-	-	88,683	53,973	142,656	
2038	-	-	-	91,494	51,162	142,656	-	-	-		-	-	-	91,494	51,162	142,656	
2039	-	-	-	94,395	48,261	142,656	-	-	-		-	-	-	94,395	48,261	142,656	
2040	-	-	-	97,387	45,269	142,656	-	-	-		-	-	-	97,387	45,269	142,656	
2041	-	-	-	100,474	42,182	142,656	-	-	-	100.00%	-	-	-	100,474	42,182	142,656	92.56%
2042	-	-	-	103,660	38,996	142,656	-	-	-		-	-	-	103,660	38,996	142,656	
2043	-	-	-	106,946	35,710	142,656	-	-	-		-	-	-	106,946	35,710	142,656	
2044	-	-	-	110,336	32,320	142,656	-	-	-		-	-	-	110,336	32,320	142,656	
2045	-	-	-	113,834	28,822	142,656	-	-	-		-	-	-	113,834	28,822	142,656	
2046	-	-	-	117,443	25,213	142,656	-	-	-	100.00%	-	-	-	117,443	25,213	142,656	95.73%
2047	-	-	-	121,166	21,490	142,656	-	-	-		-	-	-	121,166	21,490	142,656	
2048	-	-	-	125,007	17,649	142,656	-	-	-		-	-	-	125,007	17,649	142,656	
2049	-	-	-	128,970	13,686	142,656	-	-	-		-	-	-	128,970	13,686	142,656	
2050	-	-	-	133,058	9,598	142,656	-	-	-		-	-	-	133,058	9,598	142,656	
2051	-	-	-	137,277	5,379	142,656	-	-	-	100.00%	-	-	-	137,277	5,379	142,656	99.44%
2052	-	-	-	97,427	1,186	98,613	-	-	-	100.00%	-	-	-	97,427	1,186	98,613	100.00%
	$ 13,435,000	**$ 7,122,319**	**$ 20,557,319**	**$ 3,066,417**	**$ 2,025,156**	**$ 5,091,573**	**$ 7,825,000**	**$ 2,606,705**	**$ 10,431,705**		**$ (6,920,000)**	**$ (4,060,369)**	**$ (10,980,369)**	**$ 17,406,417**	**$ 7,693,811**	**$ 25,100,228**	

NOTES:

(1) The above figures do not include any short-term debt, if any. The District has made all debt payments for the fiscal year ending November 30, 2016. For more information, see the notes to the Financial Statements in the FINANCIAL STATEMENTS included herein.

(2) Estimated Interest Rates. Estimated Average Coupon 3.03%.

THE CITIZENS GAS DISTRICT OF SCOTT AND MORGAN COUNTIES, TENNESSEE
FIVE YEAR SUMMARY OF REVENUES, EXPENDITURES AND
CHANGES IN RETAINED EARNINGS
For the Fiscal Year Ended November 30

	2011	2012	2013	2014	2015
Revenues:					
Metered gas sales	$ 12,822,932	$ 9,899,744	$ 11,709,257	$ 12,515,177	$ 10,065,761
Availability charges	676,332	677,387	680,677	686,984	695,264
Forfeited discounts	79,812	70,638	88,241	93,497	89,475
Equipment charges & escrow income	174,609	126,843	132,055	124,952	158,297
Connection charges	36,084	33,042	30,351	30,491	33,690
Transmission income	73,265	70,603	78,180	84,632	75,734
Customer Cont. - Tap Fees	28,470	28,934	34,500	59,367	39,143
Miscellaneous revenue	818,013	430,274	310,734	307,342	243,369
Total Operating Revenues	$ 14,709,517	$ 11,337,465	$ 13,063,995	$ 13,902,442	$ 11,400,733
Operating Expenses	12,203,327	8,846,812	9,988,282	10,573,457	8,068,024
Operating income before depreciation	$ 2,506,190	$ 2,490,653	$ 3,075,713	$ 3,328,985	$ 3,332,709
Depreciation	1,147,442	1,161,836	1,249,758	1,232,773	1,278,170
Operating income	$ 1,358,748	$ 1,328,817	$ 1,825,955	$ 2,096,212	$ 2,054,539
Other Income (Expenses):					
Interest Income	$ 131,230	$ 115,340	$ 77,917	$ 54,278	$ 29,528
Gain (Loss) on Sale of Assets	50,000	(4,224)	3,016	2,323	4,105
Interest Expense	(699,680)	(688,962)	(677,176)	(664,614)	(671,510)
Amortization - debt	(73,431)	(40,114)	(38,946)	(37,776)	(38,913)
Amortization - lease rights	(32,648)	(32,648)	(32,648)	(32,648)	(32,648)
Grant	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Other Income (Expenses)	$ (624,529)	$ (650,608)	$ (667,837)	$ (678,437)	$ (709,438)
Net income before extraordinary item	$ 734,219	$ 678,209	$ 1,158,118	$ 1,417,775	$ 1,345,101
Extraordinary item	-	293,891	-	-	-
Net Income (loss)	$ 734,219	$ 972,100	$ 1,158,118	$ 1,417,775	$ 1,345,101
Retained Earnings					
Beginning of Year	$ 20,320,694	$ 21,054,913	$ 21,609,406	$ 22,767,524	$ 24,185,299
Increase In Bond Reserves	-	(417,607)	-	-	(452,917)
End of Year	**$ 21,054,913**	**$ 21,609,406**	**$ 22,767,524**	**$ 24,185,299**	**$ 25,077,483**

Source: Financial Statements for The Citizens Gas Utility District of Scott & Morgan Counties, Tennessee

THE CITIZENS GAS DISTRICT OF SCOTT AND MORGAN COUNTIES, TENNESSEE

HISTORICAL DEBT SERVICE COVERAGE

	2011	2012	2013	2014	2015
Operating Revenue	$ 14,709,517	$ 11,337,465	$13,063,995	$ 13,902,442	$ 11,400,733
Operating Expenses	$ 12,203,327	$ 8,846,812	$ 9,988,282	$ 10,573,457	$ 8,068,024
Net Income Before Depreciation And Amortization	$ 2,506,190	$ 2,490,653	$ 3,075,713	$ 3,328,985	$ 3,332,709
Other Income Before Interest Expense	$ 181,230	$ 111,116	$ 80,933	$ 56,601	$ 33,633
Income Available For Debt Service	$ 2,687,420	$ 2,601,769	$ 3,156,646	$ 3,385,586	$ 3,366,342
Maximum Estimated Debt Service Requirements (2018)*	$ 1,206,534	$ 1,206,534	$ 1,206,534	$ 1,206,534	$ 1,206,534
Bond Coverage	2.23 X	2.16 X	2.62 X	2.81 X	2.79 X

Source: Annual Financial Reports for the District

* Estimated Debt Service estimated after the issuance of the Series 2016 Bonds.

GENERAL INFORMATION

SCOTT COUNTY

LOCATION

Scott County (the "County") is located in northeastern Tennessee on the Cumberland Plateau in the western foothills of the Appalachian Mountains in a rugged and scenic region. It is bordered on the north by Kentucky, to the east by Campbell County, to the east-southeast by Anderson County, to the south by Morgan County, and to the west by Fentress and Pickett Counties. The 2010 Census population for the County is 22,228. The 2010 Census population for Huntsville, the County Seat, is 1,248. Other incorporated cities include Oneida and Winfield. Oneida is the largest city in the County with a 2010 Census population of 3,752.

The eastern portion of Scott County contains the Appalachian Mountains and the western part contains the Big South Fork Cumberland River Gorge. Scott County is approximately 65 miles northwest of Knoxville, approximately 175 miles northeast of Nashville, and approximately 120 miles south of Lexington, KY.

GENERAL

The Tennessee Valley Authority, one of the nation's largest electric power systems, provides electrical power to Plateau Electric Cooperative who locally provides electricity to Scott County. Citizens Gas Utility District provides natural gas to the area. Highland Telephone Cooperative offers telephone, internet service, and long distance.

TRANSPORTATION

Rail service is provided by Norfolk Southern Railway. The rail line runs in a north-south direction. Norfolk Southern provides direct and indirect service to many major industrial cities in the eastern United States. The closest interstate, Interstate 75, is approximately 20 miles east of Scott County. The primary highway serving Scott County is U.S. Highway 27 being a north-south highway from Lexington, Kentucky to Chattanooga, Tennessee. State Highways that run through the County include State Routes 297, 63 and 52. The Scott Municipal/Oneida airport has a 5,500-foot asphalt runway for general aviation. The nearest commercial airport is at the Knoxville McGhee Tyson Airport approximately 90 miles south of Scott County.

EDUCATION

The Scott County School System and the Oneida Independent School System provides primary and secondary education to Scott County students. The *Scott County School System* consists of seven schools: five elementary schools, one middle school and one high school. The fall 2014 enrollment was 3,066 students with 205 teachers. The *Oneida School System* consists of three schools: on elementary school, one middle school and one high school. The fall 2014 enrollment was 1,311 students with 82 teachers.

Source: Tennessee Department of Education.

The Tennessee Technology Center at Oneida/Huntsville. The Tennessee Technology Center at Oneida/Huntsville 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 Oneida/Huntsville main campus is located in Scott County. Fall 2013 enrollment was 524 students.

Source: Tennessee Technology Center at Oneida/Huntsville and TN Higher Education Commission.

Roane State Community College Scott County Campus. Roane State Community College, which began operation in 1971 in Harriman, Roane County, Tennessee, is a two-year higher education institution which serves a fifteen county area. Fall 2015 enrollment was about 5,861 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 and TN Higher Education Commission.

HEALTHCARE

The Pioneer Community Hospital, located in Oneida, reopened in 2014 as a full service, acute care hospital with 25 licensed beds. Formerly known as St. Mary's Medical Center of Scott County, Mercy Health Partners had terminated its lease in 2012 and the hospital closed.

MANUFACTURING AND COMMERCE

Scott County consists of about 550 square miles. The County is has an abundance of natural resources including timber, coal, oil, and natural gas. Timber has traditionally been a major economic activity in Scott County because of its abundant mixture of hardwood and softwood forests. Of Scott County's approximately 338,000 acres, 300,300 acres, or 88.9 percent, are in forests. Although coal production decreased dramatically during the 1980's, the area still has large coal reserves. Scott County is thought to have a large reserve of oil and natural gas. In recent years, Scott County has produced an annual average of over 500,000 barrels of oil and two million cubic feet of natural gas.

Huntsville has an industrial park with over a hundred acres. Scott County Government, the Town of Oneida, and the Town of Winfield also have industrial property available. The following is a list of the major employers in the County:

Major Employers in Scott County

Company	Product	Employees
Tennier Industries	Military Canvas Items	300
St. Mary's Medical Center	Hospital	269
HBD Industries (Goodrich)	Conveyor Belting, Industrial Hose	200
Great Dane	Flat Bed Trailers	144
Armstrong Hardwood Flooring	Hardwood Flooring	110
Cumberland Wood Products	Wooden reels	100
Scott Appalachia Industries	Workshop for handicapped	100
Highland Steel Erectors	Steel Erectors	75
East TN Trailers	Trailer Bodies	70
City of Oneida	Government	62
Big South Fork Park	Recreation	62
Container Technologies, LLC	Containers	60
Team Apparel	Uniforms	54

Source: Department of Economic and Community Development and the Knoxville News Sentinel.

EMPLOYMENT INFORMATION

Unemployment levels for Scott County have been historically higher than average for counties in the State of Tennessee. The unemployment rate for the County as of July 2016 was 8.0%, representing 7,360 persons employed in a total labor force of 8,000 persons (see following chart).

Scott County Unemployment

	Annual Average 2011	Annual Average 2012	Annual Average 2013	Annual Average 2014	Annual Average 2015
National	8.9%	8.1%	7.9%	6.2%	5.3%
Tennessee	9.2%	8.0%	8.4%	6.7%	5.8%
Scott County	**19.8%**	**17.4%**	**16.9%**	**11.7%**	**9.6%**
Index vs. National	222	215	214	189	181
Index vs. State	215	218	201	175	166

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

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ECONOMIC DATA

Per Capita Personal Income

	2010	2011	2012	2013	2014
National	$40,277	$42,453	$44,266	$44,438	$46,049
Tennessee	$35,601	$37,323	$39,137	$39,312	$40,457
Scott County	**$23,810**	**$24,379**	**$24,810**	**$25,657**	**$26,374**
Index vs. National	59	57	56	58	57
Index vs. State	67	65	63	65	65

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

RECREATION

Big South Fork Park. The Big South Fork National River and Recreational Area of over 120,000 acres was established by Congress in 1974 to protect a unique scenic and cultural area. It is located in Scott, Pickett, Fentress and Morgan Counties. The free-flowing Big South Fork of the Cumberland River and its tributaries pass through 90 miles of scenic gorges and valleys containing a wide range of natural and historic features. There are over 650,000 visitors each year. The area offers a broad range of recreational opportunities including camping, hunting, fishing, whitewater rafting, kayaking, canoeing, and over 300 miles of hiking, horseback riding, and mountain biking. A small portion of the Park extends north into the Daniel Boone National Forest in Kentucky.

Frozen Head State Park and Natural Area. Frozen Head Park is situated in the beautiful Cumberland Mountains of Eastern Tennessee near Wartburg in Morgan County. Frozen Head, elevation of 3,324, is one of the highest peaks in Tennessee west of the Great Smoky Mountains. From its observation tower on a clear day, one can plainly see the Cumberland Plateau, Tennessee Ridge and Valley, and the Great Smoky Mountains. In winter, the mountain peaks are often capped with snow or ice while the lower valleys remain unadorned, thus giving the park's namesake, Frozen Head. The park's lush vegetation, small streams, waterfalls and beautiful mountains make Frozen Head one of Tennessee's most scenic parks. There are over 100,000 visitors each year.

Historic Ruby. Near the Big South Fork Park in the northern tip of Morgan County, the town of Ruby today is a heritage treasure listed on the National Register of Historic Places since 1972. It is an example of Victorian England in the Tennessee Cumberland's. In 1880 a famous British author, statesman and social reformer Thomas Hughes dedicated America's Rugby. It was to be a cooperative, class-free society where Britain's younger sons of gentry, and artisans, tradesman and farming families, could build a new community through agriculture, temperance and high Christian principles. This would-be Utopia survives in a rugged river gorge setting, little changed by 20th century technology. More than twenty of its decorative, gabled buildings remain. Rugby's British and Appalachian heritage is visible everywhere. In 1880, Rugby's British founder called it a lovely corner of God's earth. In this century, writers call it a town of cultured ghosts and Utopia in the Cumberland's. The National Trust calls it one of the most authentically preserved historic villages in America.

Obed Wild and Scenic River. Located in Morgan and Cumberland Counties in East Tennessee, the national park is on the Cumberland Plateau. The park includes parts of the Obed River, Clear Creek, Daddys Creek and the Emory River. Over 45 miles of creeks and rivers are included in the wild and scenic river area. These waterways have cut rugged gorges with bluffs as high as 500 feet above the whitewater in the streams. Outdoor recreation such as whitewater boating, rock climbing, hiking and fishing are popular seasonal activities in the Obed.

Pickett State Park. Situated in a remote section of the upper Cumberland Mountains, the 11,752-acre Pickett State Park and Forest possesses a combination of scenic, botanical and geological wonders found nowhere else in Tennessee. Of particular interest are the uncommon rock formations, natural bridges, numerous caves and the remains of ancient Indian occupation. Some say Pickett is second only to the Great Smoky Mountains National Park in botanical diversity. The park is adjacent to the massive Big South Fork National River and Recreation Area, with more than 100,000 acres of prime country. The park is located in Pickett County, 12 miles northeast of Jamestown on State Route 154. There are over 300,000 visitors each year.

Sgt. Alvin C. York State Historic Park. The Park, located in Pall Mall, Tennessee, pays tribute to Sgt. Alvin C. York, the backwoods marksman from the mountains of Tennessee who became one of the most decorated soldiers of World War I. York's fame rose from his legendary exploits on October 8, 1918 in the Argonne Forest in France. Leading a small patrol, York was sent out to eliminate flanking machine gun fire that was halting the advance of his regiment. York found himself alone opposing a German machine gun unit. With rifle and pistol he engaged the enemy. The fight ended with more than twenty Germans dead. Then, the other one hundred and thirty-two soldiers, including four officers and thirty-five machine guns, became discouraged and surrendered to York and six of his comrades. For that he was decorated with a dozen metals, including the Congressional Medal of Honor and the French Croix de Guerre. He has been honored by a 10-foot statue on the grounds of the State Capitol in Nashville, and his medals and trophies may be seen at the Tennessee State Museum. The historic park includes the York family farm and the grist mill he operated for many years on the banks of the Wolf River. The farm and grist mill are located on Highway 127 in Fentress County, about seven miles north of Jamestown.

World's Longest Yardsale. Also known as the Hwy 127 Corridor Sale, the Sale is headquartered in Jamestown, Tennessee at the Fentress County Chamber of Commerce. Hundreds of thousands of folks join each year for this fun filled event, spanning 450 miles and four states. It's impossible to keep track of how many shoppers and vendors there are, but it’s grown to be the biggest and best event of its kind in the world. It’s almost impossible for shoppers to cover the entire route in four days.

Source: Scott County Chamber of Commerce, Tennessee Wildlife Resources Agency and Knoxville News Sentinel.

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GENERAL INFORMATION

MORGAN COUNTY

LOCATION

Morgan County (the "County") is located in the northeastern part of the State of Tennessee. To the north, the County is bordered by Scott County and to the east, by Anderson County. Roane and Cumberland Counties make up the County's southern border, and Fentress County provides Morgan County's western border. The City of Wartburg, the county seat, is located 45 miles west of Knoxville and was originally settled by German-Swiss colonists. It is named after a castle in Thuringia, Germany.

GENERAL

The governing board of the County is 18-member Board of County Commissioners which is elected to concurrent four-year terms of office by direct vote of the voters in each district represented. The County Mayor is the chief financial and administrative officer of the County and is elected by a direct vote of the people to a four-year term of office.

The County has a land area of approximately 539 square miles, with 28.7% of that area devoted to agriculture. Primary agriculture products include corn, beef cattle and chicken. The County also has an abundance of natural resources such as coal, oil, gas, pine and oak.

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. According to the 2010 Census, the County has a population of 21,987, while Wartburg has a population of 918. The Town of Oakdale is the only other incorporated town in Morgan County, with a population of 212.

TRANSPORTATION

Transportation is provided by a network of smaller railroads and highways. The Norfolk-Southern Railroad serves the County. U.S. Highway 27 and State Highways 62, 116, 298, 299 and 328 provide the County's highway transportation. The nearest port if Harriman, TN 16 miles away on the Tennessee River. The community's air service is provided by Rockwood Municipal Airport about 22 miles away with a 5,000-foot asphalt runway. Knoxville's McGhee Tyson Airport, about 55 miles' way, is the closest commercial airport.

EDUCATION

The *Morgan County School System* has eight schools: two elementary schools, one middle, one high school and three K-12 schools. The Career and Technical Center, located on the eastern edge of Wartburg, serves all of the high school students in Morgan County. The fall 2014 enrollment was 3,192 students with 212 teachers.

Source: Tennessee Department of Education.

Roane State Community College Morgan County 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 2015 enrollment was about 5,861 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 and TN Higher Education Commission.

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 and TN Higher Education Commission.

MANUFACTURING AND COMMERCE

Morgan County has two industrial parks within its boundaries. Advance Transformer Property has a land area of 33 acres. It lies adjacent to U.S. Highway 62 and only 17 miles from Interstate 40. The site is also equipped with full utilities. Sunbright Industrial Park has a land area of 19.23 acres that lies adjacent to U.S. Highway 27 and to the Norfolk/Southern Railroad.

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The following is a list of the major employers in the County:

Major Employers in Morgan County

Company	**Product/Service**	**Employees**
Morgan County Correctional Complex	Corrections	561
Morgan County Schools	Education	450
Tennier Industries	Canvas Bags/Sleeping Bags	130
Big South Fork Park	Recreation	60
Morgan County Government	Government	55
Citizens Gas Utility District	Utility	46
Morgan County Head Start	Education	40
R & R Lumber Company	Sawmill	40
Wartburg Tool & Die	Tool & Die	30
Ellison Coating	Rubber coating Products	30
M & G Precision Machining	Tool & Die	30
Heraeus Metal Processing	Metal Processing	29

Source: Department of Economic and Community Development and the Knoxville News Sentinel.

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EMPLOYMENT INFORMATION

Unemployment in the County as of July 2016 stood at 6.4%, representing 7,610 persons employed out of a labor force of 8,130. The chart below depicts unemployment trends in the County for the last five years.

The Knoxville MSA's unemployment for July 2016 was at 4.6% with 404,000 persons employed out of a labor force of 423,490. As of July 2016, the unemployment rate in the Knoxville-Sevierville-Harriman CSA stood at 4.6%, representing 519,060 persons employed out of a workforce of 544,250.

Unemployment

	Annual Average **2011**	Annual Average **2012**	Annual Average **2013**	Annual Average **2014**	Annual Average **2015**
National	8.9%	8.1%	7.4%	6.2%	5.3%
Tennessee	9.2%	8.0%	8.2%	6.7%	5.8%
Morgan County	**10.9%**	**10.4%**	**10.6%**	**8.8%**	**7.6%**
Index vs. National	123	128	143	142	143
Index vs. State	118	130	129	131	131
Knoxville MSA	**7.3%**	**6.6%**	**6.9%**	**6.2%**	**5.4%**
Index vs. National	82	81	93	100	102
Index vs. State	79	82	84	93	93
Knoxville-Sevierville-Harriman CSA	**8.3%**	**7.5%**	**7.7%**	**6.5%**	**6.5%**
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

	2010	2011	2012	2013	2014
National	$40,277	$42,453	$44,266	$44,438	$46,049
Tennessee	$35,601	$37,323	$39,137	$39,312	$40,457
Morgan County	**$24,425**	**$25,330**	**$26,364**	**$26,765**	**$27,205**
Index vs. National	61	60	60	60	59
Index vs. State	69	68	67	68	67
Knoxville MSA	**$34,799**	**$36,850**	**$38,557**	**$38,359**	**$39,530**
Index vs. National	86	87	87	86	86
Index vs. State	98	99	99	98	98
Knoxville-Sevierville-Harriman CSA	**$33,312**	**$35,215**	**$36,675**	**$36,614**	**$37,718**
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

	National	Tennessee	Morgan County
Median Value Owner Occupied Housing	$175,700	$139,900	$91,100
% High School Graduates or Higher Persons 25 Years Old and Older	86.3%	84.9%	80.2%
% Persons with Income Below Poverty Level	14.8%	18.3%	23.4%
Median Household Income	$53,482	$44,621	$38,003

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

TOURISM

Morgan County has access to over 260,000 acres designated for wildlife, park and recreational areas:

Big South Fork National River & Recreation Area. Big South Fork covers over 120,000 acres and was established by Congress in 1974 to protect a unique scenic and cultural area. It is located in Scott, Pickett, Fentress and Morgan Counties. In 2010 over 700,000 people visited the park. The free-flowing Big South Fork of the Cumberland River and its tributaries pass through 90 miles of scenic gorges and valleys containing a wide range of natural and historic features. The area offers a broad range of recreational opportunities including camping, hunting, fishing, whitewater rafting, kayaking, canoeing, and over 300 miles of hiking, horseback riding, and mountain biking. The U.S. Army Corps of Engineers, with its experience in managing river basins, was charged with land acquisition, planning and development of facilities. Now completed, these lands and facilities are operated and maintained by the National Park Service for the benefit and use of the public. A small portion of the Park extends north into the Daniel Boone National Forest in Kentucky.

Source: National Park Service.

Catoosa Wildlife Management Area. The Catoosa WMA is located in Cumberland and Morgan Counties and consists of about 79,740 acres. Catoosa is also bordered by Obed Wild & Scenic River to the north, a national scenic river recognized for its rugged beauty. For management purposes Catoosa is divided into two sections Genesis (west side) and Bicolor (east side). Daddy's Creek is the dividing line for the two sections. Catoosa was purchased in the 1940's and is managed by the Tennessee Wildlife Resources Agency. Catoosa Wildlife Management Area is one of a few WMA's in Tennessee that has implemented a quality deer management program of sorts with restrictions on antler size as well as food plots, and opportunities to harvest antlerless deer.

Source: Tennessee Wildlife Resources Agency.

Cumberland Trail State Park. The Cumberland Trail is the state's only linear park. It opened in 1998 and upon completion around 2016 will be 300 miles long, cutting through 11 Tennessee counties from the Cumberland Gap National Historic Park on the Tennessee-Virginia-Kentucky border, to the Signal Point near Chattanooga. Currently 150 miles are open and ready for exploration. It can be accessed in Morgan County through the Frozen Head State Park and Natural Area. The Cumberland Trail wanders among the remnants of the Cumberland Mountains that once rose as high as the Rockies. The trail represented a barrier to all who dared push through storied gaps westward onto and over the Cumberland Plateau. It now provides a linkage north to south, forming natural connections and opportunities for scenic vistas and curious geological formations.

Source: Tennessee State Parks.

Emory River Area. Tennessee State Parks acquired approximately 8,000 acres of the Emory River Valley in Morgan County in October 2007. This property was added to the existing Frozen Head State Park and Natural Area as part of the "Connecting the Cumberlands" land initiative, which protects a total of 127,000 acres in a unique public-private partnership between the state of Tennessee, The Nature Conservancy and two conservation-minded timber companies, Conservation Forestry and Lyme Timber. The priorities for this acquisition include resource protection, preventing further fragmentation of the forest communities and preserving the precious water resources. Lands east of the Emory River will be managed as state park. All lands to the west of the Emory River are protected by conservation easement which allows sustainable timber harvesting, as well as gas and oil exploration to continue. This helps protect both the land and the local economies that rely on taxes collected from these businesses.

Source: Tennessee Wildlife Resources Agency.

Frozen Head State Park and Natural Area. Frozen Head Park is situated in the beautiful Cumberland Mountains of eastern Tennessee in Morgan County. The park has 13,122 acres of relatively undisturbed forest. The mountainous terrain varies from an elevation of 1,340 feet to over 3,000 feet on 16 different mountain peaks. Frozen Head, elevation of 3,324, is one of the highest peaks in Tennessee west of the Great Smoky Mountains. The name "Frozen Head" derives from the peaks that are often capped in a shroud of snow or ice in winter. The majority of this land was acquired by the State in early 1900's to become a state forest for hardwood timber production, but very little timber was ever harvested. In 1988, all of the Frozen Head State Park acreage except approximately 330 acres was classified as Natural Area. The 330 acres lie in the Flat Fork and Judge Branch watersheds below the 1600-foot elevation contour line, and all present and future park developments will be limited to this recreation area. From its observation tower on a clear day, one can plainly see the Cumberland Plateau, Tennessee Ridge and Valley, and the Great Smoky Mountains. The park's lush vegetation, small streams, waterfalls and beautiful mountains make Frozen Head one of Tennessee's most scenic parks. Over 125,000 people visited the park in 2010.
Source: Tennessee State Parks.

Historic Ruby. Near the Big South Fork Park in the northern tip of Morgan County, the town of Ruby today is a heritage treasure listed on the National Register of Historic Places since 1972. It is an example of Victorian England in the Tennessee Cumberlands. In 1880 a famous British author, statesman and social reformer Thomas Hughes dedicated America's Rugby. It was to be a cooperative, class-free society where Britain's younger sons of gentry, and artisans, tradesman and farming families, could build a new community through agriculture, temperance and high Christian principles. This would-be Utopia survives in a rugged river gorge setting, little changed by 20th century technology. More than twenty of its decorative, gabled buildings remain. Rugby's British and Appalachian heritage is visible everywhere. In 1880, Rugby's British founder called it a lovely corner of God's earth. In this century, writers call it a town of cultured ghosts and Utopia in the Cumberlands. The National Trust calls it one of the most authentically preserved historic villages in America.
Source: Morgan County Chamber of Commerce

Lone Mountain State Forest. It is located on the Cumberland Plateau in Morgan County and is about 3,624 aces. Near streams on the cooler, lower slopes several areas of cove hardwoods with eastern white pine and eastern hemlock can be found. Recreational uses of the Forest include hunting, hiking, horseback riding, and mountain biking. Approximately 15 miles of trails exist on the Forest, including an interpretive nature trail.
Source: Tennessee Wildlife Resources Agency.

North Cumberland Wildlife Management Area. The North Cumberland WMA (formally Royal Blue WMA & Sundquist WMA) consists of 155,000 acres. Home of Tennessee's only wild elk population, it is a unique area due to its size, recreational opportunities, and habitat management opportunities/goals. It is the largest Agency owned WMA and is located in four counties: Anderson, Campbell, Morgan and Scott Counties. Recreational opportunities vary from ATV riding, camping, hunting and hiking.
Source: Tennessee Wildlife Resources Agency.

Obed Wild and Scenic River. Located in Cumberland and Morgan Counties in East Tennessee, the national park is on the Cumberland Plateau. The park includes parts of the Obed

River, Clear Creek, Daddys Creek and the Emory River. Over 45 miles of creeks and rivers are included in the wild and scenic river area. These waterways have cut rugged gorges with bluffs as high as 500 feet above the whitewater in the streams. Outdoor recreation such as whitewater boating, rock climbing, hiking and fishing are popular seasonal activities in the Obed. The river includes three different difficulty classifications (II-IV), making it one of the best whitewater rivers in the eastern United States. The Obed's sandstone rock faces provide a challenging opportunity for experienced climbers, with several hundred climbing routes spanning through much of the park.

Source: National Park Service.

APPENDIX C

SUMMARY OF BOND RESOLUTION

SUMMARY OF RESOLUTION

The following briefly summarizes certain terms and provisions of the resolution adopted by the Board of Commissioners of the District on November 21, 2016, which authorized the issuance and sale of the Series 2016 Bonds (the "Resolution"). This summary is not a complete explanation of the terms and conditions of the Resolution. Reference is made to the Resolution for a complete statement of the terms, provisions and conditions thereof.

Definitions. The following terms shall have the following meanings in the Resolution unless the text expressly or by necessary implication requires otherwise:

"Acquired System" shall mean any gas storage, collection, manufacturing, transmission or distribution system or any combination thereof hereafter acquired by the District pursuant to State law;

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

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

"Bonds" means the Series 2009 Bonds, the Series 2011 Bond, the Series 2016 Bonds and any Parity Bonds;

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

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

"Current Expenses" means expenses incurred by the District in the operation of the System, determined in accordance with generally accepted accounting principles, including the reasonable and necessary costs of operating, maintaining, repairing and insuring the System, the cost of acquiring gas, salaries and wages, cost of material and supplies, and insurance premiums, but shall exclude depreciation, amortization and interest on any bonds, notes or other obligations of the District; provided that any payments made by the District to purchase gas for delivery after the end of the then-current Fiscal Year shall be accounted for and charged to Current Expenses in accordance with generally accepted accounting principles, and any debt service incurred for the purpose of purchasing gas for delivery after the end of the then-current Fiscal Year shall be treated as a Current Expense if so directed by the authorizing resolution;

"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 District or any paying agent for the Bonds or other obligations of the District), for any period of 12 consecutive calendar months for which such a determination is made, provided the Debt Service Requirement with respect to Variable Rate Indebtedness shall be determined as if the variable rate in effect at all times during future periods equaled, at the option of the District, either (1) the average of the actual variable rate which was in effect (weighted according to the length of the period during which each such variable rate was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period), or (2) the current average annual fixed rate of interest on securities of similar quality having a similar maturity date, as certified by a Financial Adviser;

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

"District" means The Citizens Gas Utility District of Scott and Morgan Counties, Tennessee;

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

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

"Fiscal Year" means the year beginning on December 1 of each year and ending on November 30 of the following year;

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

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

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

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

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

"Parity Bonds" means bonds, notes, Loan Agreements, and other debt obligations, including Variable Rate Indebtedness, issued or entered into by the District on a parity with the Series 2009 Bonds, the Series 2011 Bond and the Series 2016 Bonds authorized by the Resolution in accordance with the restrictive provisions of the Resolution, including any bonds or other obligations secured by a pledge of and/or lien on an Acquired System and the revenues derived from the operation of such Acquired System (provided such pledge and lien are subject only to normal and customary expenses of operating, maintaining, repairing and insuring any such System), so long as the Acquired System is not being operated separately from the System as is permitted in the Resolution or the revenues from such Acquired System are not excluded from Gross Earnings;

"President" means the duly elected and acting President of the Governing Body, or any other member of the Governing Body acting in the capacity of President when the elected and acting President is unavailable or incapable of acting;

"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;

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

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

"Reserve Fund Credit Facility Issuer" means the issuer of a Reserve Fund Credit Facility rated in the second-highest rating category (without regard to gradations within such category by each Rating Agency that rates such Reserve Fund Credit Facility Issuer;

"Reserve Fund Requirement" means an amount determined from time to time by the District as a reasonable reserve, if any, for the payment of principal of and interest on a series of Bonds pursuant to the resolution authorizing such Bonds. With respect to the Series 2009 Bonds, the Series 2011 Bond and the Series 2016 Bonds, the Reserve Fund Requirement for such Bonds shall be the least of (a) 10% of the stated principal amount of such Bonds; (b) the Maximum Annual Debt Service Requirement on such Bonds during the term thereof; or (c) 125% of the average annual principal and interest requirement, when due, on a Fiscal Year basis, including principal payable by reason of the mandatory redemption provisions of any of such Bonds during the term thereof;

"Secretary" means the duly elected and acting Secretary of the Governing Body, or any other member of the Board acting in the capacity of Secretary when the elected and acting Secretary is unavailable or incapable of acting;

“Series 2009 Bonds” means the District’s Gas System Revenue Refunding Bonds, Series 2009;

“Series 2011 Bond” means the District’s Gas System Revenue Bond, Series 2011;

“Series 2016 Bonds” means the District’s Gas System Revenue Refunding Bonds, Series 2016;

"State" means the State of Tennessee;

“Subordinate Lien Bonds” means bonds, notes, Loan Agreement or other debt obligations issued pursuant to this Resolution but with a lien subordinate to the Bonds;

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

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

Application of Revenues.

(a) As long as any of the Bonds shall be outstanding and unpaid either as to principal or as to interest, or until the discharge and satisfaction of all the Bonds, the Gross Earnings of the System shall be deposited as collected by the District in the Revenue Fund established pursuant to the Resolution (the "Revenue Fund"), administered and controlled by the District. The funds so deposited in the Revenue Fund created under the Resolution shall be used only as follows:

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

(2) The money remaining in the Revenue Fund after payment of Current Expenses shall be applied and deposited to the various funds established under the Resolution.

(3) The next available money in the Revenue Fund shall be used to make deposits into the Operating and Maintenance Fund, which together with any money already on deposit in said Fund, will equal one-fourth ($1/4^{th}$) of the amount budgeted for Current Expenses for the current Fiscal Year by the Governing Body as provided in Section 9 of the Resolution; provided, however, that in no event shall the amount on deposit in the Operating and Maintenance Fund exceed one-fourth ($1/4^{th}$) of the amount budgeted for Current Expenses for the Fiscal Year, and any excess over such amount at the end of any Fiscal Year shall be returned to the Revenue Fund. Money on hand in the Operating and Maintenance Fund shall be used only for the payment of Current Expenses as the same become due and paying the cost of capital improvement items chargeable to the physical plant account.

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

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

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

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

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

In the event the Reserve Fund Requirement, or any part thereof, shall be satisfied with a Reserve Fund Credit Facility or Facilities, notwithstanding the terms hereof, the terms, covenants, liability and liens provided or created in the Resolution or in any resolution supplemental hereto shall remain in full force and effect and said terms, covenants, liability and liens shall not terminate until all amounts payable under any Financial Guaranty Agreement have been paid in full and all obligations thereunder performed in full. If the District shall fail to pay when due all amounts payable under any Financial Guaranty Agreement, the Reserve Fund Credit Facility Issuer shall be entitled to exercise any and all remedies available at law or under this Resolution other than remedies that would adversely affect owners of Bonds.

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

Notwithstanding anything in the Resolution to the contrary, the District may issue Parity Bonds or Subordinate Lien Bonds without a Reserve Fund Requirement, as shall be specified in the bond resolution authorizing such Parity Bonds or Subordinate Lien Bonds.

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

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

(e) The Revenue Fund, the Bond Fund, and the Reserve Fund (except to the extent funded with a Reserve Fund Credit Facility or Facilities) shall be held and maintained by the District and, when not invested, kept on deposit with a bank or financial institution regulated by and the deposits of which are insured by the Federal Deposit Insurance Corporation or similar federal agency. All moneys in such Funds so deposited shall at all times be secured to the extent and in the manner required by applicable State law.

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

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

Covenants Regarding the Operation of the System. The District hereby covenants and agrees with the owners of the Bonds so long as any of the Bonds shall remain outstanding:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(F) The District will not sell, lease, mortgage, or in any manner dispose of the System, or any part thereof, including any and all extensions and additions that may be made thereto, or any facility necessary for the operation thereof; provided, however, the use of any of the System facilities may at any time be permanently abandoned or any of the System facilities sold at fair market value, provided that:

(1) The District is in full compliance with all covenants and undertakings in connection with all bonds, notes and other obligations then outstanding and payable from the revenues of the System and any required reserve funds for such bonds, notes and other obligations have been fully established and contributions thereto are current;

(2) Any sale proceeds will be applied either (A) to redemption of Bonds in accordance with the provisions governing repayment of Bonds in advance of maturity, or (B) to the purchase of Bonds at the market price thereof so long as such price does not exceed the amount at which the Bonds could be redeemed on such date or the next optional redemption date as set forth in the Resolution or in the resolutions authorizing the Parity Bonds, or (C) to the construction or acquisition of facilities in replacement of the facilities so disposed of or other facilities constituting capital improvements to the System, or (D) the deposit to a replacement fund to be used to make capital improvements to the System;

(3) The abandonment, sale or disposition is for the purpose of disposing of facilities which are no longer necessary or no longer useful to the operation of the System and the operation of the System or revenue producing capacity of the System is not materially impaired by such abandonment, sale or disposition or any facilities acquired in replacement thereof are of equivalent or greater value; and

(4) The District shall have received an opinion of nationally recognized bond counsel to the effect that such sale, lease, mortgage or other disposition will not jeopardize the exclusion from federal

income taxation of interest on any Bonds then outstanding intended to be excludable from gross income for federal income tax purposes.

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

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

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

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

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

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

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

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

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

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

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

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

(1) There shall have been procured and filed with the District a report by a Financial Adviser or a certificate by the general manager of the District, or his designee, to the effect that the historical Net Revenues for either (i) a period of 12 consecutive months of the most recent 18 consecutive months prior to the issuance of the proposed Parity Bonds or (ii) the most recent audited Fiscal Year, were equal to at least 120% of Maximum Annual Debt Service Requirement on all Bonds which will be outstanding immediately after the issuance of the proposed Parity Bonds, in the then current and each succeeding Fiscal Year, provided, however, the report or certificate may contain pro forma adjustments to historical related Net Revenues equal to 100% of the increased annual amount attributable to any revision in the schedule of rates, fees, and charges for the services and facilities furnished by the System, imposed prior to the date of delivery of the proposed Parity Bonds and not fully reflected in the historical related Net Revenues actually received during such historical period used. If the District has a contract to purchase or otherwise acquire an Acquired System that will become part of the System, the historical Net Revenues may be adjusted to include the anticipated Net Revenues from the Acquired System; and if the District 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 District shall have received, at or before issuance of the Parity Bonds, a report from a Financial Adviser or a certificate of the general manager of the District, or his designee, to the effect that (a) the payments required to be made into the Bond Fund have been made and the balance in the Bond Fund is not less than the balance required hereby as of the date of issuance of the proposed Parity Bonds; and (b) the Reserve Fund is funded to the extent required under the resolutions authorizing Bonds with a Reserve Fund Requirement, if any, and any Reserve Fund Requirement applicable to the Parity Bonds will be funded to the extent required under the applicable resolution immediately following the issuance of the proposed Parity Bonds.

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

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

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

(d) Notwithstanding anything in the Resolution to the contrary, each series of Parity Bonds may be issued with or without a Reserve Fund Requirement, may require cash funding of the Reserve Fund, if any, and may provide for the funding of the Reserve Fund, if any, over such period of time as is acceptable to the purchaser of such Parity Bonds all as specified in the resolution authorizing such Parity Bonds. Any such Parity Bonds shall be secured only by the Reserve Fund specified in the resolution authorizing such series of Parity Bonds and shall have no right to receive any payment from the Reserve Fund established for the any other series of bonds, whether such additional bonds are issued as Parity Bonds or Subordinate Lien Bonds. Any series of Parity Bonds may be issued in Book-Entry Form and may be registered in the name of DTC or such other Depository as may be determined by the District, all to be specified in the resolution authorizing such Parity Bonds.

(e) In addition to Parity Bonds issued in accordance with the foregoing, the District may issue Subordinate Lien Bonds, subject to the terms to this Resolution or otherwise, provided that the security for such Subordinate Lien Bonds shall be subject in all respects to the lien in favor of the Bonds.

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

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

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

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

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

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

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

Notwithstanding the foregoing, the District may restrict its right to discharge and satisfy prior to maturity any series of Parity Bonds or Subordinate Lien Bonds as may be set forth in the resolution authorizing such series of Parity Bonds or Subordinate Lien Bonds.

Modification of Resolution.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Resolution a Contract</u>. The provisions of the Resolution shall constitute a contract between the District and the registered owners of the Bonds, and no change, variation or alteration of any kind in the provisions of the Resolution shall be made in any manner, except as provided in the applicable provisions of the Resolution.

APPENDIX D

GENERAL PURPOSE FINANCIAL STATEMENTS

OF

CITIZEN'S GAS UTILITY DISTRICT
OF SCOTT & MORGAN COUNTIES, TENNESSEE

FOR THE FISCAL YEAR ENDED

November 30, 2015

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

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

Year Ended November 30, 2015

and

INDEPENDENT AUDITOR'S REPORT

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

Year Ended November 30, 2015

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MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Board of Commissioners
Citizens Gas Utility District of
Scott and Morgan Counties

We have audited the accompanying statement of net position of Citizens Gas Utility District of Scott and Morgan Counties (the District) as of November 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year ended November 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 7 and the required supplementary information on pages 26 through 28 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 audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying other supplementary information included on pages 30 to 34 is presented for purposes of additional analysis and is not a required part of the basic financial statements of Citizens Gas Utility District of Scott and Morgan Counties. The accompanying schedule of expenditures of federal awards on page 29 is presented for additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the financial statements. The accompanying schedule of expenditures of federal awards and the other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The schedule of expenditures of federal awards and the other supplementary information have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information included on pages 29 to 34 is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2016 on our consideration of Citizens Gas Utility District of Scott and Morgan Counties' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and loan 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 the internal control over financial reporting or on compliance. In accordance with OMB Circular A-133, we have also issued our report dated September 9, 2016 on our consideration of the District's internal control over major programs and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Brown Jake & McDaniel, PC

Knoxville, Tennessee
September 9, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

One of the most important questions asked about the District's finances is, "Is the District, as a whole, better off or worse as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that will help them answer this question. These two statements report the net position of the District, and any changes in it. You can think of the District's net position – the net of assets, deferred outflows of resources, liabilities and deferred inflows of resources – as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as economic conditions, customer growth and legislative mandates.

The District's total net position increased from last year by $1,345,101. The analysis below focuses on the District's net position (Table 1) and changes in net position (Table 2) during the year.

Table 1

Statement of Net Position

	November 30, 2014*	November 30, 2015	Increase (Decrease)	%
Current assets	$ 8,616,798	$ 8,894,251	$ 277,453	3.22%
Other assets	5,863,682	5,796,510	(67,172)	-1.15%
Restricted assets	6,111,464	7,356,813	1,245,349	20.38%
Capital assets	22,037,759	22,256,292	218,533	0.99%
Total assets	$ 42,629,703	$ 44,303,866	$ 1,674,163	3.93%
Deferred outflows of resources	$ 577,342	$ 1,540,156	$ 962,814	166.77%
Current liabilities	$ 2,689,679	$ 2,944,568	$ 254,889	9.48%
Long-term liabilities	16,345,860	17,575,073	1,229,213	7.52%
Total liabilities	$ 19,035,539	$ 20,519,641	$ 1,484,102	7.80%
Deferred inflows of resources	$ 439,124	$ 246,898	$ (192,226)	-43.77%
Net investment in capital assets	$ 6,890,191	$ 6,918,839	$ 28,648	0.42%
Restricted for debt service	2,901,557	3,189,228	287,671	9.91%
Unrestricted	13,940,634	14,969,416	1,028,782	7.38%
Total net position	$ 23,732,382	$ 25,077,483	$ 1,345,101	5.67%

*Prior year balances reflect prior period adjustments; see Note 13 to the current year financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Total assets increased $1,674,163 from 2014 to 2015 and total liabilities increased $1,484,102 mostly due to the increase in earnings causing current and restricted assets to increase. Also, capital asset acquisitions increased as well as related long-term debt issued in the current year. Also, the District recognized an unfunded pension liability for their TCRS Plan participation.

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Position for the year.

Table 2

Statement of Revenues, Expenses, and Changes in Net Position

	FY 2014**	FY 2015	Increase (Decrease)	%
Operating revenues	$ 13,902,442	$ 11,400,733	$ (2,501,709)	-17.99%
Non-operating revenues	56,601	33,633	(22,968)	-40.58%
Total revenues	13,959,043	11,434,366	(2,524,677)	-18.09%
Purchased natural gas and related charges	6,772,046	4,212,383	(2,559,663)	-37.80%
Operating expenses	3,801,412	3,855,641	54,229	1.43%
Depreciation expense	1,232,773	1,278,170	45,397	3.68%
Interest expense	664,613	671,510	6,897	1.04%
Amortization	70,424	71,561	1,137	1.61%
Total expenses	12,541,268	10,089,265	(2,452,003)	-19.55%
Change in net position	1,417,775	1,345,101	(72,674)	-5.13%
Beginning net position, as previously stated	22,767,524	24,185,299	1,417,775	6.23%
Cumulative effect of change in accounting principle and correction of an accounting error	-	(452,917)	(452,917)	
Beginning net position, as restated	22,767,524	23,732,382	964,858	4.24%
Ending net position	$ 24,185,299	$ 25,077,483	$ 892,184	3.69%

** Prior year balances were not restated for the prior period adjustment due to lack of comparability caused by cumulative adjustments of multiple years.

The District showed $2.5 million or 18.00% decrease in sales as compared to the prior year. Distribution system gas sales decreased due to warmer weather, while excess gas sales were lower. Related natural gas and propane purchased decreased in a comparable amount. The current year change in net position reflected an increase of approximately $1.3 million dollars compared to an increase in 2014 of approximately $1.4 million. Operating expenses primarily increased because of increases in group insurance, wages, fuel costs and repairs and maintenance expenses. The District's distribution customer base is very heat load oriented. The District had a slight increase in the number of distribution system customers in 2015. The number of natural gas distribution customers increased from 10,054 in 2014 to 10,146 during 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of November 30, 2015, the District had $47,249,592 invested in a broad range of utility capital assets, including gas distribution plant, office buildings, warehouses, compressor stations and a gas storage facility. This amount represents an increase of $1,527,576 or 3.34% from the prior year.

Table 3

Capital Assets, Net of Accumulated Depreciation

	November 30, 2014	November 30, 2015	Increase (Decrease)
Total utility plant:	$ 45,722,016	$ 47,249,592	$ 1,527,576
Less accumulated depreciation	23,684,257	24,993,300	1,309,043
Net utility plant	$ 22,037,759	$ 22,256,292	$ 218,533

This year's gross utility plant additions include:

Land and easements	$ 8,386
Distribution and gas storage plant	1,412,149
Office equipment	92,237
Buildings	11,456
Vehicles	7,473
Equipment and tools	29,932
Total additions	$ 1,561,633

The District's FY 2016 capital budget includes plans for investing another $1,000,000 in capital projects including the following:

Natural gas distribution plant	$ 720,000
Regulator stations	80,000
Transportation equipment	100,000
Other equipment	100,000
	$ 1,000,000

The District plans on using existing cash and cash generated from the upcoming year's operations to fund the capital budget for the upcoming year, assuming that no disasters or emergencies occur.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Debt Administration

At November 30, 2015, the District had outstanding Gas System Revenue Refunding Bonds, Series 2009, in the amount of $13,880,000. These outstanding bonds are insured. The interest rate on these bonds ranges from 3% to 5%. These bonds mature through 2035.

The District also had outstanding Gas System Revenue Bonds, Series 2011, in the amount of $3,112,464 due to USDA – Rural Development. The interest rate on these bonds is 3.125%. These bonds mature through 2052.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District supports a localized customer base. The counties of Scott and Morgan are considered as distressed counties in the State of Tennessee which gives these counties the use of tax credits, access to grants and other resources to use in their industrial recruiting efforts which will hopefully help the economy improve. The District has completed the majority of its system maintenance work expense, which should aid the District in absorbing future increases in operating costs. Expansion of Scott and Morgan County System through the use of research and development funds should increase residential customers and availability for future customers. Also, the District has acquired the lease rights to a local natural gas storage field and believes it will assist the District in maintaining competitive natural gas rates to its distribution customers. Natural gas commodity prices are very volatile and could have a negative impact on the natural gas customer rates for next year, however, the District is currently using natural gas from locally produced wells which the District is able to purchase at below market prices and the District is hopeful that they can continue to purchase the locally produced natural gas in the coming year. The District continues to purchase natural gas during periods of low commodity pricing and to utilize the District's gas storage facility at Indian Creek to lower gas costs when sales occur in higher customer heating demand winter months from November through March annually.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This annual financial report is designed to provide the District's ratepayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report, or need additional financial information, please contact the District's General Manager at Citizens Gas Utility District of Scott and Morgan Counties, P.O. Box 320, Helenwood, Tennessee 37755.

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

STATEMENT OF NET POSITION

November 30, 2015

ASSETS	
Cash	$ 2,885,920
Receivables:	
Customers (net of allowance of $714,100)	1,147,430
Other	6,634
Materials inventories	335,474
Natural gas and propane inventories	4,334,369
Prepaid expenses	184,424
Total current assets	8,894,251
Restricted assets:	
Revenue fund	
- money market accounts	28,330
Bond and interest sinking fund	
- money market account	1,911,037
Debt service reserve	
- cash	68,191
- certificates of deposit	1,210,000
Reserve fund - well owners and storage escrow	
- money market accounts	638,158
Meter deposit fund	
- cash	128,027
- certificate of deposit	40,000
Construction fund	
- cash	1,655,011
Gas purchases fund	
- money market account	1,678,059
Total restricted assets	7,356,813
Utility plant	47,249,592
Less accumulated depreciation	24,993,300
Total capital assets	22,256,292
Other assets:	
Note receivable, less current maturity	4,454,956
Deposits	2,985
Unamortized gas storage lease rights	1,338,569
Total other assets	5,796,510
Total assets	44,303,866
DEFERRED OUTFLOWS OF RESOURCES	
Debt reacquisition - adjustment	453,713
Pension contributions made after the net pension liability measurement date	93,868
Differences between expected and actual experience - pension plan	992,575
Total deferred outflows of resources	1,540,156

(Continued)

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

STATEMENT OF NET POSITION
(Continued)

November 30, 2015

LIABILITIES	
Current liabilities (payable from current assets):	
Accounts payable	$ 964,482
Other liabilities	11,857
Accrued liabilities:	
Salaries, wages and compensated absences	519,427
Sales tax, severance tax and natural gas tax, other	7,440
	1,503,206
Current liabilities (payable from restricted assets):	
Current maturities of long-term debt	491,047
Accrued interest	57,785
Escrow payable - well owners	344,042
Customer deposits	548,488
	1,441,362
Total current liabilities	2,944,568
Noncurrent liabilities:	
Long-term debt, less current maturities	16,501,417
Net pension liability	1,073,656
Total non-current liabilities	17,575,073
Total liabilities	20,519,641
DEFERRED INFLOWS OF RESOURCES	
Differences between projected and actual earnings on pension plan investments	29,761
Differences between expected and actual experience - pension plan	217,137
Total deferred inflows of resources	246,898
NET POSITION	
Net investment in capital assets	6,918,839
Restricted for debt service	3,189,228
Unrestricted	14,969,416
Total net position	$ 25,077,483

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

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended November 30, 2015

Operating revenues:	
Net metered gas sales	$ 10,065,761
Availability charges	695,264
Forfeited discounts	89,475
Appliance income and installation fee	158,297
Connection charges	33,690
Transmission income	75,734
Customer contributions - tap fees	39,143
Miscellaneous service revenue	243,369
	11,400,733
Operating expenses	8,068,024
Operating income before depreciation	3,332,709
Depreciation expense	1,278,170
Operating income	2,054,539
Non-operating revenues (expenses):	
Interest income	29,528
Gain on sale of assets	4,105
Interest expense	(671,510)
Amortization - debt	(38,913)
Amortization - lease rights	(32,648)
	(709,438)
Change in net position	1,345,101
Net position, beginning, as previously stated	24,185,299
Cumulative effect of change in accounting principle and the correction of a prior period error (see Note 13)	(452,917)
Net position, beginning, as restated	23,732,382
Net position, ending	$ 25,077,483

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

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

STATEMENT OF CASH FLOWS

Year Ended November 30, 2015

Cash flows from operating activities:	
Cash received from customers	$ 11,163,694
Cash payments to suppliers for goods and services	(5,726,927)
Cash payments to employees for services	(1,923,448)
Net cash provided by operating activities	3,513,319
Cash flows from capital and related financing activities:	
Capital additions to utility plant	(1,561,305)
Proceeds from long-term borrowing	654,140
Repayment of long-term debt	(437,536)
Proceeds from sale of assets	4,105
Interest paid	(763,302)
Net cash used by capital and related financing activities	(2,103,898)
Cash flows from investing activities:	
Interest income	29,528
Purchases of investments	(660,000)
Proceeds from maturities and sales of investments	625,000
Net cash used by investing activities	(5,472)
Increase in cash and cash equivalents	1,403,949
Cash and cash equivalents, beginning of year	7,588,784
Cash and cash equivalents, end of year	$ 8,992,733
Reconciliation of operating income to net cash provided by operating activities:	
Cash flows from operating activities:	
Operating income	$ 2,054,539
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,342,771
Increase in receivables, inventory, prepaid expenses and deposits	(1,167,428)
Increase in payables, accrued expenses, customer deposits and other liabilities	1,283,437
Net cash provided by operating activities	$ 3,513,319

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

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

NOTES TO FINANCIAL STATEMENTS

November 30, 2015

1. Entity

The District operates a natural gas distribution system and sells natural gas to customers in Scott and Morgan Counties, Tennessee. The District also owns and operates a natural gas gathering and storage system which gathers and stores natural gas for use by the distribution system and resale to other gas suppliers. The District operates under the jurisdiction of an elected board of commissioners.

2. Summary of Significant Accounting Policies

General Statement

The accounting and reporting policies of the District included in the accompanying combined financial statements conform to accounting principles generally accepted in the United States of America that are applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*. The more significant accounting policies of the District are described below.

Basis of Presentation

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The accompanying financial statements are reported using the "economic resources measurement focus," and the "accrual basis of accounting." Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Summary of Significant Accounting Policies (Continued)

Net Position

Equity is classified as net position and displayed in three components:

- Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that is attributable to the acquisition, construction or improvement of those assets.

- Restricted for debt service – Consists of net position with constraints placed on their use by revenue bond resolution.

- Unrestricted – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Inventories

Materials inventories are valued at the lower of cost or market determined by the first-in, first-out method. Natural gas and propane inventories are valued at average cost determined by the first-in, first-out method.

Utility Plant

Utility plant is carried at cost. Depreciation is computed using the straight-line method. The estimated useful lives of utility plant ranges from 3 years to 40 years. When assets are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.

Revenue Recognition

The District utilizes a cycle billing method to bill customer natural gas usage. In order to properly match revenues with related costs, unbilled customer revenues are recorded at the end of each year.

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Summary of Significant Accounting Policies (Continued)

Pension Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Citizens Gas Utility District's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Citizens Gas Utility District'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.

Operating and Non-Operating Revenues

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Restricted and Unrestricted Resources

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

Tap Fees

Tap fees are recorded as revenue and the related installation costs are expensed. The amount recognized as revenue approximates related installation costs.

Interest Capitalization

Interest costs incurred during construction, if considered material, are capitalized. There was $65,991 of capitalized interest for the year ended November 30, 2015.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Summary of Significant Accounting Policies (Continued)

Recently Issued and Adopted Accounting Pronouncements

GASB has issued the following recent pronouncements:

Statement No. 68, "Accounting and Financial Reporting for Pensions; an amendment of GASB Statement 27" – This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable to pension plans that are not administered through trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The Utilities Board adopted this Statement in the current fiscal year. See Note 8 for further explanation.

Statement No. 69, "Government Combinations and Disposals of Government Operations" – The requirements of this Statement are effective for financial reporting periods beginning after December 15, 2013. This Statement has had no effect on the Utilities Board.

Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date; an amendment of GASB Statement No. 68" – The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68. The Utilities Board adopted this Statement in the current fiscal year. See Note 8 for further explanation.

Subsequent Events

Management has evaluated events and transactions occurring subsequent to the balance sheet of November 30, 2015 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through September 9, 2016, the date these financial statements were available to be issued.

3. Cash, Investments and Collateral

Restricted and unrestricted cash and cash equivalents are stated at cost. They currently consist of demand deposits at local banks. Investments consist of certificates of deposit at a local bank and brokerage accounts maturing in three months to two years. The District's deposits at year-end were covered by federal depository insurance or by collateral held by the District's agents in the District's name.

4. Customer Receivables

Customer receivables consist of the following at November 30, 2015:

Billed customer receivables	$ 923,769
Unbilled distribution customer revenues	668,400
Storage gas receivables	269,361
	1,861,530
Less allowance for doubtful accounts	714,100
	$ 1,147,430

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Utility Plant

Utility plant, together with annual depreciation, consists of the following at November 30, 2015:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land and easements	$ 868,168	$ 8,386	$ -	$ 876,554
Construction work in progress	329	-	329	-
Total capital assets, not being depreciated	868,497	8,386	329	876,554
Capital assets, being depreciated:				
Distribution and gathering system	39,649,102	1,412,149	-	41,061,251
Structures and Improvements	600,850	11,456	-	612,306
Furniture and equipment	4,603,567	129,642	33,728	4,699,481
Total capital assets, being depreciated	44,853,519	1,553,247	33,728	46,373,038
Less accumulated depreciation for:				
Distribution and gathering system	19,428,020	1,134,710	-	20,562,730
Structures and improvements	295,423	15,743	-	311,166
Furniture and equipment	3,960,814	192,318	33,728	4,119,404
Total accumulated depreciation	23,684,257	1,342,771	33,728	24,993,300
Total capital assets, being depreciated, net	21,169,262	210,476	-	21,379,738
Total capital assets, net	$ 22,037,759	$ 218,862	$ 329	$ 22,256,292

For the year ended November 30, 2015, depreciation of capital assets totaled $1,342,771 of which $64,601 was capitalized for equipment used in construction activities.

6. Long-Term Debt

On November 10, 2009, the District issued $16,290,000 Gas System Revenue Refunding Bonds, Series 2009, with interest rates ranging from 3% to 5% to advance refund $4,200,000 Local Government Public Improvement Revenue Bonds, Series II-B-2, $6,645,000 Gas System Revenue Refunding Bonds, Series 1999B and $5,000,000 Local Government Public Improvement Revenue Bonds, Series IV-D-2, with various interest rates from 4.33% to 4.875%. The net proceeds of $15,993,590 (after payment of $296,409 in underwriting fees, original issue discounts and costs of issuance) were used to advance refund the bonds discussed above. As a result, the bonds discussed above were called and repaid and the liability for those bonds was removed from the District's long-term debt in 2009.

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Long-Term Debt (Continued)

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $693,195. This difference was recorded in 2009 and will be shown in future financial statements as a deferred cash outflow. This deferred cash outflow amount will be charged to operations through the year 2035 using the annual amortization method.

The District issued an outstanding Gas System Revenue Bond, Series 2011, to USDA - Rural Development on September 15, 2015 in the amount of $3,120,000. The loan is to be repaid over 40 years with an annual interest rate of 3.125%. These bonds mature through 2052. The bond was used to repay interim advances from USDA - Rural Development.

Long-term debt consists of the following at November 30, 2015:

	December 1, 2014	Issues	Retirements	November 30, 2015	Due Within One Year
Series 2009	$ 14,310,000	$ -	$ 430,000	$ 13,880,000	$ 445,000
Series 2011	2,465,860	654,140	7,536	3,112,464	46,047
	$ 16,775,860	$ 654,140	$ 437,536	16,992,464	$ 491,047
Less: Current maturities				(491,047)	
				$ 16,501,417	

The outstanding refunding bonds are secured by statutory mortgage liens on the system and are payable solely from the revenues of the system. The following debt related reserves have been established by the District:

	Bond and Interest Sinking Fund	Debt Trust Funds	Debt Service Reserve
Money market/cash accounts	$ 1,911,037	$ -	$ 68,191
Certificates of deposit	-	-	1,210,000
Total cash available	1,911,037	-	1,278,191
Required reserve balance	-	-	1,226,269
Over (under) funded	$ 1,911,037	$ -	$ 51,922

A majority of the District's gas sales are from residential heat load customers whose usage is very sensitive to weather conditions. Therefore, management routinely over funds these reserves to insure adequate levels are maintained.

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Long-Term Debt (Continued)

During the fiscal year ended November 30, 2015, the District made transfers to the reserves in the order and amount required by the bond resolutions.

Annual principal and interest maturities of the long-term debt payable at November 30, 2015 are as follows:

2016	$ 1,225,319
2017	1,223,906
2018	1,225,681
2019	1,226,081
2020	1,222,356
2021-2025	6,119,877
2026-2030	6,121,102
2031-2035	6,125,780
2036-2040	713,280
2041-2045	713,280
2046-2050	713,280
2051-2052	241,269
Total principal and interest	26,871,211
Less interest	9,878,747
Total principal	$ 16,992,464

7. Vacation Leave

All full-time employees are entitled to vested vacation leave according to the following schedule:

(a) 5 days per year for employees with one complete calendar year of full-time service.

(b) 10 days per year for employees with two complete calendar years of full-time service.

(c) 15 days per year for employees with five or more complete calendar years of full-time service.

(d) 1 day additional per year is earned for each complete year of service after an employee has completed fifteen calendar years of full-time service.

Vacation leave is earned during the current calendar year and taken the following calendar year. Any unused vacation leave is carried forward or paid annually at the employee's discretion. The maximum vacation and personal leave carried forward for an employee cannot exceed 175 days at the end of each calendar year. Vested compensated absences accrued at November 30, 2015 totaled $485,532.

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

NOTES TO FINANCIAL STATEMENTS
(Continued)

8. Pension Plan

Plan Description. Employees of Citizens Gas Utility District are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees covered by benefit terms. At the measurement date of June 30, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	5
Active employees	38
	48

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. Citizens Gas Utility District makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the plan year ended June 30, 2015, the Actuarially Determined Contribution (ADC) for Citizens Gas Utility District was $215,339 based on a rate of 12.87 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Citizens Gas Utility District's state shared taxes if required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

NOTES TO FINANCIAL STATEMENTS
(Continued)

8. Pension Plan (Continued)

Net Pension Liability (Asset)

Citizens Gas Utility District's net pension liability (asset) was measured as of June 30, 2015, and the total pension liability (asset) used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability as of June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

NOTES TO FINANCIAL STATEMENTS
(Continued)

8. Pension Plan (Continued)

Net Pension Liability (Asset) (Continued)

Actuarial assumptions (continued)

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developing 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%
		100%

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

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

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at 6/30/14	$ 3,184,072	$ 3,218,597	$ (34,525)
Changes for the year:			
Service cost	148,298	-	148,298
Interest	243,359	-	243,359
Differences between expected and actual experience	1,116,647	-	1,116,647
Contributions - employer	-	215,339	(215,339)
Contributions - employees	-	86,161	(86,161)
Net investment income	-	100,592	(100,592)
Benefit payments, including refunds of employee contributions	(175,167)	(175,167)	-
Administrative expense	-	(1,969)	1,969
Other changes	-	-	-
Net changes	1,333,137	224,956	1,108,181
Balance at 6/30/15	$ 4,517,209	$ 3,443,553	$ 1,073,656

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

NOTES TO FINANCIAL STATEMENTS
(Continued)

8. Pension Plan (Continued)

Changes in the Net Pension Liability (Asset) (Continued)

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of Citizens Gas Utility District calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's net pension liability (asset)	$ 1,826,642	$ 1,073,656	$ 455,237

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

Pension expense. For the year ended November 30, 2015, Citizens Gas Utility District recognized pension expense of $138,719.

Deferred outflows of resources and deferred inflows of resources. For the year ended November 30, 2015, Citizens Gas Utility District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 992,575	$ 217,137
Net difference between projected and actual earnings on pension plan investments	-	29,761
Contributions subsequent to the measurement date of June 30, 2015	93,868	-
Total	$ 1,086,443	$ 246,898

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2015," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

NOTES TO FINANCIAL STATEMENTS
(Continued)

8. Pension Plan (Continued)

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

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

	Total
Year Ended June 30:	
2017	$ 77,312
2018	77,312
2019	77,312
2020	126,023
2021	96,930
Thereafter	290,788

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

Cumulative Effect of Change in Accounting Principle

Effective December 1, 2014, the District adopted GASB Statements No. 68, "Accounting and Financial Reporting for Pensions; an amendment of GASB Statement 27" and No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date; an amendment of GASB Statement No. 68." The standards change the accounting and reporting for pensions in governmental financial statements. The effect of the adoption of these standards has caused the District to restate its beginning net position by reporting a cumulative effect of change in accounting principle effective December 1, 2014. The new standards required the District to report in its financial statements net pension liability (asset) along with certain other potential financial statement elements (deferred outflows and deferred inflows of resources). Also, since the net pension liability (asset) measurement date is different than the reporting date, this gives rise to pension plan contributions from the District made after the measurement date to be reported as deferred outflows of resources. The following table describes the components of the resulting cumulative effect of change in accounting principle:

Deferred outflows of resources:	
Pension contributions made subsequent to the measurement date of the beginning net pension liability:	
TCRS Plan - Public Employee Retirement Plan	$ 84,716
Net pension liability:	
TCRS Plan - Public Employee Retirement Plan	(404,598)
Cumulative effect of change in accounting principle	$(319,882)

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

NOTES TO FINANCIAL STATEMENTS
(Continued)

8. Pension Plan (Continued)

Payable to the Pension Plan

At November 30, 2015, Citizens Gas Utility District reported a payable of $0 for the outstanding amount of contributions to the pension plan required at the year ended November 30, 2015.

9. Rent Expense

The District rents a garage, storage areas and equipment on a month-to-month basis. Rent expense related to these facilities and equipment totaled $2,999 for the year ended November 30, 2015. In addition, the District leases right-of-ways for pipeline crossings from a railroad company. Expenses related to these leases totaled $22,200 for 2015.

10. General Operating Risk

Associated with the operation of a gas distribution and gathering system, the District is exposed to general business and operational liability risk. The District has purchased commercial liability and umbrella liability coverages totaling $6,000,000 per occurrence and $6,000,000 in aggregate. In addition, the District also maintains commercial auto liability and workers compensation insurance in the amount of $1,000,000 each. Self-insured retentions related to these policies generally are $1,000 to $10,000 each, if applicable. Settled claims have not exceeded the District's commercial insurance coverage in any of the past three fiscal years.

11. Lease Rights – Gas Storage Facility

During May, 2006, the District used revenue bond proceeds to acquire the capital assets and lease rights for a natural gas storage facility in Morgan County, Tennessee. The lease rights by contract can be maintained in perpetuity if lease payments are properly administered to the surface landowners of the unitized field. During the year ended November 30, 2015, the District paid the landowners annual rent payments of approximately $7,968. The District determined the lease rights, valued at $1,599,753 based on historical development costs, will be amortized over a period of 50 years beginning December 1, 2006. The unamortized value of the lease rights totaled $1,338,569 as of November 30, 2015.

12. Note Receivable

During August 2010, the District's Board of Commissioners approved an agreement with Pentacles II, LLC, a storage field oil recovery company, to sell the District's Indian Creek Storage Facility cushion gas (656,381 MMBTU's) for $5,568,695 and a portion of the District's stored gas (366,510 MMBTU's) for $1,832,550 and any gas injected (approximately 55,000 MMBTU's) during August 2010 at market index plus transportation costs of the District. The agreement was subsequently amended in November 2010. The amended agreement requires Pentacles to pay the District for 10% ($556,870) of the cushion gas and another 10% one year later with the balance to be paid no later than five years from the date of the agreement. The agreement requires Pentacles to pay the District for the working gas within one year with interest at five percent. Also, Pentacles purchased and paid for August 2010 working gas injections during

12. Note Receivable (Continued)

October 2010. In addition, the agreement allows the District to invoice Pentacles for storage field operational costs monthly for payment the following month during the five years of the agreement or during any extensions of the agreement. As of November 30, 2015, the District has included $269,361 representing the unpaid stored gas, monthly operating costs, and interest receivable in current customer accounts receivables in the financial statements. The remaining cushion gas receivable totaling $4,454,955 is reflected in notes receivable in other assets of the Statement of Net Position. The agreement does not allow Pentacles to withdraw any volumes for which payment has not been made to the District or without approval of the District.

Subsequent to November 30, 2015, during March 2016, the District negotiated settlement of the operational receivable totaling $269,361 through the acquisition of storage field capital asset improvements owned by Pentacles. Also, the District's Board and management determined it was in the District's best interest to reacquire the remaining cushion gas in the storage field and Pentacles passed title back to the District and retired the remaining balance due to the District totaling $4,454,955.

13. Prior Period Adjustment

A prior period adjustment was made to record accumulated depreciation that was omitted in prior years for specific gas distribution and gathering system capital assets totaling $133,035.

In addition, a prior period adjustment is recorded for the District as of July 1, 2014 in the amount of $319,882 to reflect the actuarial calculated net pension liability required by the adoption of GASB 68, Employer Accounting for Pension Plans. This prior period adjustment is discussed in more detail in Note 8.

REQUIRED SUPPLEMENTARY INFORMATION

CITIZEN'S GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

November 30, 2015

	Plan Year Ended June 30, 2014	Plan Year Ended June 30, 2015
Total Pension Liability		
Service cost	$ 145,576	$ 148,298
Interest	242,280	243,359
Changes of benefit terms	-	-
Differences between expected and actual experience	(271,421)	1,116,647
Changes of assumptions	-	-
Benefit Payments / Refunds	(34,390)	(175,167)
Net Change in Total Pension Liability	82,045	1,333,137
Total Pension Liability - Beginning	3,102,027	3,184,072
Total Pension Liability - Ending (a)	$ 3,184,072	$ 4,517,209
Plan Fiduciary Net Position		
Contributions - employer	$ 134,386	$ 215,339
Contributions - employee	83,160	86,161
Net investment income	444,780	100,592
Benefit Payments / Refunds	(34,390)	(175,167)
Administrative expenses	(1,492)	(1,969)
Other	-	-
Net Change in Plan Fiduciary Net Position	626,444	224,956
Plan Fiduciary Net Position - Beginning	2,592,153	3,218,597
Plan Fiduciary Net Position - Ending (b)	$ 3,218,597	$ 3,443,553
Net Pension Liability - Ending (a) - (b)	$ (34,525)	$ 1,073,656
Plan Fiduciary Net Position as a % of the Total Pension Liability	101.08%	76.23%
Covered-employee payroll	$ 1,663,189	$ 1,673,183
Net Pension Liability as a % of covered-employee payroll	-2.08%	64.17%

Notes to Schedule - See Description of Plan for notes regarding benefit changes. See Summary of Actuarial Assumptions and Methods for notes regarding changes in assumptions.

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

See independent auditor's report.

CITIZEN'S GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

SCHEDULE OF DISTRICT CONTRIBUTIONS

Last 10 Plan Years (Only applicable after 2014)*

	2014	2015
Actuarially determined contribution	$ 134,386	$ 215,339
Contributions in relation to the actuarially determined contribution	134,386	215,339
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 1,663,189	$ 1,673,183
Contributions as a percentage of covered-employee payroll	8.08%	12.87%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of the beginning of the fiscal year (July 1).

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry Age Normal
Amortization method:	Level dollar, closed (not to exceed 20 years)
Remaining amortization period:	10 years
Asset valuation method:	10-year smoothed within a 20 percent corridor to market value
Inflation:	3.00%
Salary increases:	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation
Investment rate of return:	7.50 percent, net of investment expense, including inflation
Retirement age:	Pattern of retirement determined by experience study
Mortality:	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustment:	2.50 percent

* The required 10 year trend information will be completed when the information is compiled. The years for which information was available are presented.

See independent auditor's report.

CITIZEN'S GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

SCHEDULE OF INVESTMENT RETURNS

Last 10 Fiscal Years (Only applicable after 2014)*

Measurement period ended June 30,	2014	2015
Annual money-weighted rate of return Net of investment expense	16.76%	3.43%

* The required 10 year trend information will be completed when the information is compiled. The years for which information was available are presented.

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*

Year Ended November 30, 2015

Grantor Agency	Program Identification or Contract #	CFDA Number	Balance November 30, 2014 Loan Payable	Balance November 30, 2014 Unexpended (Receivable)	Receipts	Expenditures (Grantor Portion)	Loan Advances (Repayments)	Balance November 30, 2015 Loan Payable	Balance November 30, 2015 Unexpended (Receivable)
Federal Awards -									
United States Department of Agriculture - Rural Development Community Facilities Direct and Guaranteed Loans	Loan Program	10.766	$ 2,465,860	$ -	$ -	$ 654,140	$ (7,536)	$ 3,112,464 (1)	$ -
Total Federal Awards			$ 2,465,860	$ -	$ -	$ 654,140	$ (7,536)	$ 3,112,464	$ -

* Presented in conformity with generally accepted accounting principles using the accrual basis of accounting

(1) Loan due grantor

See independent auditor's report.

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

SCHEDULE OF OPERATING EXPENSES

Year Ended November 30, 2015

Purchases:	
Gas purchases	$ 4,116,118
Appliance expense	96,265
Total purchases	4,212,383
Distribution/gathering expense:	
Salaries and wages	987,208
Materials and supplies	157,213
Contracted labor	7,079
Cathodic protection	6,435
Maintenance of compressors	71,945
Total distribution/gathering expense	1,229,880
Accounting and collection expense:	
Salaries and wages	399,346
Meter reading	36,659
Billing and accounting	75,784
Total accounting and collection expense	511,789
General and administrative expense:	
Salaries - management	88,339
Commissioners' fees	30,000
Election expense	747
Insurance - general	321,813
Insurance - group	591,249
Insurance - benefits paid	969
Payroll taxes	129,671
Retirement expense	104,961
Vacation cost	113,689
Payroll expense	44,926
Professional fees	159,574
General office supplies	71,996
Maintenance of equipment	31,675
Maintenance of building	25,469
Vehicle expense	120,369
Postage	4,884
Utilities and telephone	150,539
Rent - equipment	2,999
Rent - other	22,200
Travel	1,687
Employee training	650
Advertising	23,992
Inspection fees and dues	46,699
Bond trustee and administration fees	706
Miscellaneous	10,737
Indian Creek lease payments	7,968
Chart reading expense	5,464
Total general and administrative expense	2,113,972
Total operating expense	$ 8,068,024

See independent auditor's report.

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

SCHEDULE OF UTILITY PLANT

November 30, 2015

	Utility Plant					Accumulated Depreciation				
	Balance November 30, 2014	Additions	Retirements	Balance November 30, 2015	Estimated Useful Life	Balance November 30, 2014	Additions	Retirements	Balance November 30, 2015	Net Book Value
Land and easements	$ 868,168	$ 8,386	$ -	$ 876,554		$ -	$ -	$ -	$ -	$ 876,554
Gas distribution and gathering system	38,717,208	1,412,149	-	40,129,357	20-40 years	18,559,208	1,118,876	-	19,678,084	20,451,273
Compressor station improvements	931,894	-	-	931,894	3-20 years	868,812	15,834	-	884,646	47,248
Buildings and improvements	600,850	11,456	-	612,306	10-25 years	295,423	15,743	-	311,166	301,140
Office furniture, fixtures and equipment	965,382	92,237	-	1,057,619	3-10 years	928,104	22,330	-	950,434	107,185
Vehicles	1,174,602	7,473	7,000	1,175,075	3-5 years	905,925	81,708	7,000	980,633	194,442
Equipment and tools	2,463,583	29,932	26,728	2,466,787	5-10 years	2,126,785	88,280	26,728	2,188,337	278,450
Total utility plant in service	45,721,687	1,581,633	33,728	47,249,592		23,684,257	1,342,771	33,728	24,993,300	22,256,292
Construction work in progress	329	-	329	-		-	-	-	-	-
Total utility plant	$ 45,722,016	$ 1,581,633	$ 34,057	$ 47,249,592		$ 23,684,257	1,342,771	$ 33,728	$ 24,993,300	$ 22,256,292
Less depreciation capitalized on current year construction							64,601			
							$ 1,278,170			

See independent auditor's report.

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

SCHEDULE OF LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS

November 30, 2015

Maturity Date	Gas System Refunding Bond, Series 2009 Principal	Gas System Refunding Bond, Series 2009 Interest	Gas System Refunding Bond, Series 2011 Principal	Gas System Refunding Bond, Series 2011 Interest	Totals Principal	Totals Interest
2016	$ 445,000	$ 637,663	$ 46,047	$ 96,609	$ 491,047	$ 734,272
2017	460,000	621,250	47,507	95,149	507,507	716,399
2018	480,000	603,025	49,013	93,643	529,013	696,668
2019	500,000	583,425	50,567	92,089	550,567	675,514
2020	520,000	559,700	52,170	90,486	572,170	650,186
2021	540,000	540,500	53,824	88,832	593,824	629,332
2022	565,000	517,019	55,530	87,126	620,530	604,145
2023	590,000	492,106	57,291	85,365	647,291	577,471
2024	615,000	465,363	59,107	83,549	674,107	548,912
2025	645,000	436,609	60,980	81,676	705,980	518,285
2026	675,000	406,084	62,914	79,742	737,914	485,826
2027	710,000	373,613	64,908	77,748	774,908	451,361
2028	745,000	338,125	66,966	75,690	811,966	413,815
2029	780,000	300,000	69,089	73,567	849,089	373,567
2030	820,000	260,000	71,279	71,377	891,279	331,377
2031	865,000	217,875	73,539	69,117	938,539	286,992
2032	910,000	173,500	75,870	66,786	985,870	240,286
2033	955,000	126,875	78,275	64,381	1,033,275	191,256
2034	1,005,000	77,875	80,756	61,900	1,085,756	139,775
2035	1,055,000	26,375	83,317	59,339	1,138,317	85,714
2036	-	-	85,958	56,698	85,958	56,698
2037	-	-	88,683	53,973	88,683	53,973
2038	-	-	91,494	51,162	91,494	51,162
2039	-	-	94,395	48,261	94,395	48,261
2040	-	-	97,387	45,269	97,387	45,269
2041	-	-	100,474	42,182	100,474	42,182
2042	-	-	103,660	38,996	103,660	38,996
2043	-	-	106,946	35,710	106,946	35,710
2044	-	-	110,336	32,320	110,336	32,320
2045	-	-	113,834	28,822	113,834	28,822
2046	-	-	117,443	25,213	117,443	25,213
2047	-	-	121,166	21,490	121,166	21,490
2048	-	-	125,007	17,649	125,007	17,649
2049	-	-	128,970	13,686	128,970	13,686
2050	-	-	133,058	9,598	133,058	9,598
2051	-	-	137,277	5,379	137,277	5,379
2052	-	-	97,427	1,186	97,427	1,186
	$ 13,880,000	$ 7,756,982	$ 3,112,464	$ 2,121,765	$ 16,992,464	$ 9,878,747

See independent auditor's report.

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

November 30, 2015

SCHEDULE OF BOARD OF COMMISSIONERS

Members of the Board of Commissioners are as follows:

Joe Alvin Sexton, II	President
Roger Russell	Vice President
Dean West	Secretary-Treasurer
Jimmy Beaty	Member
Larry Whaley	Member

SCHEDULE OF GAS RATES

The following gas rates were in effect at November 30, 2015:

Residential rate	$ 0.99 per BTU*
Commercial rate	1.07 per BTU
Small industrial rate	1.02 per BTU
Governmental rate	1.06 per BTU
Large industrial and interruptible rate	Negotiable
Availability charge – all customers	5.50 Flat
Residential meter deposit	50.00
Residential – rental meter deposit	150.00
Service charge	25.00
Tap connection fee	250.00
Commercial, industrial and governmental deposit	Negotiable

On November 30, 2015 the District had the following active meters in service:

Residential	9,337
Government	175
Schools	52
Commercial	524
Industrial	46
Farmstead	12
	10,146
Propane service	607

* Represents British Thermal Unit (BTU)

See independent auditor's report.

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

SCHEDULE OF INVESTMENTS

November 30, 2015

	Rate	Maturity Date	Amount	Purpose
Certificate of deposit	0.25%	03/27/2016	$ 40,000	Meter deposit
Certificate of deposit	1.05%	06/12/2017	160,000	Debt service reserve
Certificate of deposit	1.05%	05/30/2017	250,000	Debt service reserve
Certificate of deposit	1.10%	11/29/2016	250,000	Debt service reserve
Certificate of deposit	1.00%	06/15/2017	250,000	Debt service reserve
Certificate of deposit	0.55%	06/13/2016	250,000	Debt service reserve
Certificate of deposit	1.25%	04/01/2018	25,000	Debt service reserve
Certificate of deposit	0.32%	03/23/2016	25,000	Debt service reserve

See independent auditor's report.

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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 Commissioners
Citizens Gas Utility District of
Scott and Morgan Counties

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 Citizens Gas Utility District of Scott and Morgan Counties (the District) as of and for the year ended November 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 9, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items #2015-001 and #2015-002 to be material weaknesses.

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. There were no significant deficiencies identified by us that were not considered to be material weaknesses.

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Compliance and Other Matters

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

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Brown Jake & McDaniel, PC

CERTIFIED PUBLIC ACCOUNTANTS

Knoxville, Tennessee
September 9, 2016

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

Board of Commissioners
Citizens Gas Utility District of
Scott and Morgan Counties

Report on Compliance for Each Major Federal Program

We have audited Citizens Gas Utility District of Scott and Morgan Counties' (the District's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended November 30, 2015. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Brown Jake & McDaniel, PC

CERTIFIED PUBLIC ACCOUNTANTS

Knoxville, Tennessee
September 9, 2016

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

ACCOMPANYING SCHEDULE OF FINDINGS AND QUESTIONED COSTS

I. SUMMARY OF AUDITOR'S RESULTS

A. An unqualified opinion was issued on the financial statements of Citizens Gas Utility District of Scott and Morgan Counties (the District) for the year ended November 30, 2015.

B. Internal control over financial reporting:

Material weakness(es) identified? _X_ yes ___ no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? ___ yes _X_ none reported

C. Our audit disclosed no instances of noncompliance considered by us to be material to the financial statements.

D. Internal control over major programs:

Material weakness(es) identified? ___ yes _X_ no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? ___ yes _X_ none reported

E. An unqualified opinion was issued for compliance for the District's major programs.

F. The audit disclosed no audit findings requiring reporting under Section .510(a).

G. We identified the following major federal assistance programs:

CFDA# – 10.766
United States Department of Agriculture
Rural Development – Community Facilities
Direct and Guaranteed Loans

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

I. The auditee was not determined to be a low risk auditee.

II. SUMMARY OF FINDINGS REPORTED AT THE FINANCIAL STATEMENT LEVEL

OPERATING DEFICIENCIES

Financial Statement Presentation

Finding (#2015-001): The District does not employ personnel that have the technical expertise to prepare annual financial reports in accordance with generally accepted accounting principles. This finding was noted in the prior year.

Recommendation: The District should evaluate the cost and benefits of employing personnel with the technical expertise to prepare annual financial reports in accordance with generally accepted accounting principles.

Management's Response: We concur. We have evaluated the cost and benefits of employing such personnel. Our determination was that the benefits do not outweigh the cost. Instead, we will contract the preparation of the District's annual financial report out to our auditors and will retain the responsibility of reviewing and accepting the financial report.

Adjusting Journal Entries

Finding (#2015-002): During our audit, we had to make significant adjustments to various asset and liability accounts of the District, so the District's financial statements would conform to generally accepted accounting principles. This finding was noted in the prior year.

Recommendation: Management should evaluate the cost and benefits of instituting controls to detect and correct significant misstatements of assets and liability accounts so the financial statements conform to generally accepted accounting principles.

Management's Response: We concur. We have evaluated the cost and benefits of instituting such controls. Our determination was that the benefits do not outweigh the cost.

COMPLIANCE DEFICIENCIES

NONE

III. SUMMARY OF FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

CITIZENS GAS UTILITY DISTRICT
OF SCOTT AND MORGAN COUNTIES

SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended November 30, 2015

Financial Statement Findings

Finding Number	Finding Title	Status
#2014-001	Financial Statement Presentation	Repeated as #2015-001
#2014-002	Adjusting Journal Entries	Repeated as #2015-002