

# OFFICIAL STATEMENT

## **NEW ISSUE**

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

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

(See "MISCELLANEOUS-Rating")

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

**\$9,995,000**

## **WEST KNOX UTILITY DISTRICT OF KNOX COUNTY, TENNESSEE**

### **Water and Sewer Revenue Bonds, Series 2015**

Dated: December 22, 2015.

Due: June 1 (as shown below)

The \$9,995,000 Water and Sewer Revenue Bonds, Series 2015 (the "Bonds") of West Knox Utility District of Knox County, Tennessee (the "District") will be issued as fully registered Bonds in denominations of \$5,000 and authorized integral multiples thereof. The Bonds will be issued in book-entry-only form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as the nominee for DTC, principal and interest with respect to the Bonds shall be payable to Cede & Co., as nominee for DTC, which will, in turn, remit such principal and interest to the DTC participants for subsequent disbursements to the beneficial owners of the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of \$5,000 or integral multiples thereof and will bear interest at the annual rates as shown below. Interest on the Bonds is payable semi-annually from the date thereof commencing on June 1, 2016 and thereafter on each June 1 and December 1 by check or draft mailed to the owners thereof as shown on the books and records of Regions Bank, Nashville, Tennessee, the registration and paying agent (the "Registration Agent"). In the event of discontinuation of the book-entry system, principal of and interest on the Bonds are payable at the designated corporate trust office of the Registration Agent.

The Bonds shall be payable from the revenues derived from the operation of the System subject only to the reasonable and necessary costs of operating, maintaining, repairing and insuring the System and to pledges of such revenues in favor of obligations secured by the revenues of the System (the "Net Revenues"). The Bonds shall be issued on parity with the District's Obligations pursuant to a Loan Agreement between the District and the Public Building Authority of Sevier County, Tennessee dated July 1, 2000 which includes an interest rate swap agreement between the District and Raymond James Financial Products, Inc. dated September 22, 2009 and a Loan Agreement between the District and the Public Building Authority of Sevier County, Tennessee dated August 28, 2009, and the Taxable Water and Sewer Revenue Bonds, Series 2010 (Federally Taxable – Build America Bonds – Direct Subsidy), dated November 30, 2010. The District has reserved the right to issue other Parity Obligations in the future on parity with the Bonds.

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

<u>Due</u> <u>(Jun 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIPs**</u>	<u>Due</u> <u>(Jun 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIPs**</u>
2020	\$ 120,000	5.00%	1.35%	953564 FA4	2034	\$ 300,000	3.00%	3.00%	953564 FQ9
2021	125,000	5.00	1.50	953564 FB2	2037	550,000	3.25	3.20 c	953564 FT3
	\$250,000	2.00%		Term Bond Due	June 1, 2023	@ 1.75% c		953564 FD8	
	\$250,000	2.10%		Term Bond Due	June 1, 2025	@ 2.10%		953564 FF3	
	\$300,000	2.25%		Term Bond Due	June 1, 2027	@ 2.25%		953564 FH9	
	\$300,000	2.50%		Term Bond Due	June 1, 2029	@ 2.50%		953564 FK2	
	\$325,000	3.00%		Term Bond Due	June 1, 2031	@ 2.70% c		953564 FM8	
	\$600,000	2.90%		Term Bond Due	June 1, 2033	@ 2.90%		953564 FP1	
	\$875,000	3.25%		Term Bond Due	June 1, 2036	@ 3.10% c		953564 FS5	
	\$1,225,000	3.50%		Term Bond Due	June 1, 2039	@ 3.20% c		953564 FV8	
	\$2,125,000	3.50%		Term Bond Due	June 1, 2042	@ 3.618%		953564 FY2	
	\$2,650,000	3.625%		Term Bond Due	June 1, 2045	@ 3.65%		953564 GB1	

c = Yield to call on June 1, 2022.

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire *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 Robertson Overbey, Knoxville, 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 Robertson Overbey, Knoxville, 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 22, 2015.

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

December 9, 2015

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

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

This 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 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 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 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.

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

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

WEST KNOX UTILITY DISTRICT OF  
KNOX COUNTY, TENNESSEE

**OFFICIALS**

Daniel H. Hurst	<i>President</i>
Robert H. Sterchi	<i>Vice-President</i>
Ruth Ann Milsaps	<i>Secretary</i>

**MANAGEMENT**

Drexel A. Heidel	<i>General Manager</i>
Wayne Hastings	<i>Assistant Manager</i>
Kimberly H. Green	<i>Comptroller</i>

**UNDERWRITER**

FTN Financial Capital Markets  
Memphis, Tennessee

**REGISTRATION AND PAYING AGENT**

Regions Bank  
Nashville, Tennessee

**BOND AND ISSUER COUNSEL**

Robertson Overbey  
Knoxville, 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 *Official Statement*. This Summary Statement shall not be reproduced, distributed or otherwise used except in conjunction with the remainder of this *Official Statement*.

The Issuer .....	West Knox Utility District of Knox County, Tennessee (the "District" or "Issuer"). See APPENDIX B contained herein.
Securities Offered.....	\$9,995,000 Water and Sewer Revenue Bonds, Series 2015 (the "Bonds") of the District will be dated December 22, 2015 and maturing June 1, 2020, June 1, 2021, June 1, 2023, June 1, 2025, June 1, 2027, June 1, 2029, June 1, 2031, June 1, 2033, June 1, 2034, June 1, 2036, June 1, 2037, June 1, 2039, June 1, 2042 and June 1, 2045. See the section entitled "SECURITIES OFFERED" for additional information.
Security .....	The Bonds shall be payable from the revenues derived from the operation of the System subject only to the reasonable and necessary costs of operating, maintaining, repairing and insuring the System and to pledges of such revenues in favor of obligations secured by the revenues of the System (the "Net Revenues"). The Bonds shall be issued on parity with the District's Obligations pursuant to a Loan Agreement between the District and the Public Building Authority of Sevier County, Tennessee dated July 1, 2000 which includes an interest rate swap agreement between the District and Raymond James Financial Products, Inc. dated September 22, 2009, a Loan Agreement between the District and the Public Building Authority of Sevier County, Tennessee dated August 28, 2009, and the Taxable Water and Sewer Revenue Bonds, Series 2010 (Federally Taxable – Build America Bonds – Direct Subsidy), dated November 30, 2010. The District has reserved the right to issue other Parity Obligations in the future on parity with the Bonds.
Purpose .....	The Bonds are being issued for the purposes of providing funds to finance or reimburse (i) the acquisition of land for and the construction, improvement, renovation, equipping of improvements and additions to the System; (ii) the acquisition of all property, real and personal, appurtenant thereto or connected thereto; (iii) the payment of legal, fiscal, administrative, architectural and engineering costs incident thereto; and (iv) the payment of costs incident to the issuance of the Bonds.
Optional Redemption .....	The Bonds are subject to redemption, in whole or in part, at a price of par plus accrued interest on June 1, 2022, in whole or in part, and at anytime thereafter at the price of par plus accrued interest to the redemption date. See the section entitled "SECURITIES OFFERED-Optional Redemption."
Tax Matters.....	In the opinion of bond counsel, interest on the Bonds will be excluded from gross income for federal income tax purposes and will not be an item of tax preference for purposes of the alternative minimum tax on individuals and corporations and will be exempt from certain taxation in Tennessee, all as more fully described in the section entitled "LEGAL MATTERS - Tax Matters" and APPENDIX A (form of legal opinion) included herein.
Bank Qualification .....	The Bonds have been designated as "qualified tax-exempt obligations" within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended. See the section entitled "LEGAL MATTERS - Tax Matters" for additional information.
Rating.....	Standard & Poor's: "AA+". See the section entitled "MISCELLANEOUS-Ratings" for more information.

Registration and Paying Agent .....	Regions Bank, Nashville, Tennessee (the "Registration Agent").
Bond Counsel .....	Robertson Overbey, Knoxville, Tennessee.
Financial Advisor .....	Cumberland Securities Company, Inc., Knoxville, Tennessee. See the section entitled "MISCELLANEOUS - Financial Advisor; Related Parties; Others" herein.
Underwriter.....	FTN Financial Capital Markets, Memphis, Tennessee.
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, <i>Tennessee Code Annotated</i> , 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 financial statements and other pertinent credit information, including the Comprehensive Annual Financial Reports. For additional information, see the section entitled "MISCELLANEOUS - Continuing Disclosure" for additional information.
Other Information.....	The information in the <i>Official Statement</i> is deemed "final" within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as of the date which appears on the cover. For more information concerning the District or the <i>Official Statement</i> , contact Daniel Hurst, President, P.O. Box 51370, Knoxville, Tennessee 37950, Telephone: 865-690-2521 or the District's Financial Advisor, Cumberland Securities Company, Inc., Telephone: 865-988-2663.

**NET ASSETS**  
**Summary of Changes In Net Assets**  
(In Thousands)

For the Fiscal Year Ended June 30

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Beginning Net Assets	\$3,144,948	\$1,632,563	\$2,462,106	\$1,935,288	\$4,145,288
Revenues	14,208,784	16,216,595	17,250,055	18,920,331	20,999,769
Expenditures	12,480,021	13,771,840	14,553,830	14,423,458	15,796,494
Non-Operating Revenue (Expense)	(1,846,544)	(1,797,631)	1,478,261	(1,573,345)	(5,408,788)
Investment Income	3,591	279,997	234,383	136,580	55,893
Gain/Loss on Disposal of Assets	-	(29,891)	9,615	4,225	(3,396,726)
Interest Expense	(1,850,135)	(2,047,737)	(1,722,259)	(1,714,150)	(2,067,955)
Change in Net Assets	(117,781)	647,124	1,217,964	2,923,528	(205,513)
Contributions	1,750,344	1,814,982	717,324	1,221,760	1,117,776
<b>Ending Net Assets</b>	<b><u>\$1,632,563</u></b>	<b><u>\$2,462,106</u></b>	<b><u>\$1,935,288</u></b>	<b><u>\$4,145,288</u></b>	<b><u>\$912,263</u></b>

*Source:* Financial Statements with Report of Certified Public Accountants.



**\$9,995,000**  
**WEST KNOX UTILITY DISTRICT**  
**OF KNOX COUNTY, TENNESSEE**  
**Water and Sewer Revenue Bonds, Series 2015**

**SECURITIES OFFERED**

**AUTHORITY AND PURPOSE**

This *Official Statement* which includes the “Summary Statement” and appendices is furnished in connection with the offering by West Knox Utility District of Knox County, Tennessee (the “District” or “Issuer”) of its \$9,995,000 Water and Sewer Revenue Bonds, Series 2015 (the “Bonds”).

The Bonds are authorized to be issued pursuant to the provisions of Title 7, Chapter 82, *Tennessee Code Annotated*, as supplemented and amended, and other applicable provisions of law and pursuant a resolution adopted by the Board of Commissioners of the District (the “Governing Body”) on June 11, 1997, as amended and restated in its entirety by a resolution adopted by the Governing Body on August 27, 2009, as amended and supplemented from time to time, as supplemented by a resolution adopted by the Governing Body on October 28, 2010 and December 9, 2015 (collectively, the “Resolution”).

The Bonds are being issued for the purposes of providing funds to finance or reimburse (i) the acquisition of land for and the construction, improvement, renovation, equipping of improvements and additions to the System; (ii) the acquisition of all property, real and personal, appurtenant thereto or connected thereto; (iii) the payment of legal, fiscal, administrative, architectural and engineering costs incident thereto; and (iv) the payment of costs incident to the issuance of the Bonds.

All capitalized terms used herein but not defined herein shall have the meanings set forth in Appendix C hereto.

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

**DESCRIPTION OF THE BONDS**

The Bonds will be dated and bear interest from the date of issuance December 22, 2015. Interest on the Bonds will be payable semi-annually on June 1 and December 1, commencing June 1, 2016. The Bonds are issuable in registered form only and in \$5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

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

## **SECURITY**

The Bonds shall be payable from the revenues derived from the operation of the System subject only to the reasonable and necessary costs of operating, maintaining, repairing and insuring the System and to pledges of such revenues in favor of obligations secured by the revenues of the System (the "Net Revenues"). The Bonds shall be issued on parity with the District's Obligations pursuant to a Loan Agreement between the District and the Public Building Authority of Sevier County, Tennessee dated July 1, 2000 which includes an interest rate swap agreement between the District and Raymond James Financial Products, Inc. dated September 22, 2009, a Loan Agreement between the District and the Public Building Authority of Sevier County, Tennessee dated August 28, 2009, and the Taxable Water and Sewer Revenue Bonds, Series 2010 (Federally Taxable – Build America Bonds – Direct Subsidy), dated November 30, 2010. The District has reserved the right to issue other Parity Obligations in the future on parity with the Bonds.

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 and any Parity Obligations 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.

## **OPTIONAL REDEMPTION OF THE BONDS**

The Bonds maturing June 1, 2020 and June 1, 2021 are not subject to optional redemption prior to maturity. The Bonds maturing June 1, 2023 and thereafter shall be subject to optional redemption, in whole or in part, at a price of par plus accrued interest to the redemption date, on or after June 1, 2022. If less than all of the Bonds shall be called for redemption, the maturities to be redeemed shall be selected by the Governing Body in its discretion. 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.

## MANDATORY REDEMPTION

Subject to the credit hereinafter provided, the District shall redeem Bonds maturing June 1, 2023, June 1, 2025, June 1, 2027, June 1, 2029, June 1, 2031, June 1, 2033, June 1, 2036, June 1, 2039, June 1, 2042, and June 1, 2045 on the redemption dates set forth below opposite the maturity date, in aggregate principal amounts equal to the respective dollar amounts set forth below opposite the respective redemption dates at a price of par plus accrued interest thereon to the date of redemption. The Bonds within a maturity to be so redeemed shall be selected in the same manner as optional redemption as described above.

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

<u>Maturity</u>	<u>Redemption Date</u>	<u>Principal Amount of Bonds Redeemed</u>
June 1, 2023	June 1, 2022	\$125,000
	June 1, 2023*	\$125,000

June 1, 2025	June 1, 2024	\$125,000
	June 1, 2025*	\$125,000
June 1, 2027	June 1, 2026	\$150,000
	June 1, 2027*	\$150,000
June 1, 2029	June 1, 2028	\$150,000
	June 1, 2029*	\$150,000
June 1, 2031	June 1, 2030	\$150,000
	June 1, 2031*	\$175,000
June 1, 2033	June 1, 2032	\$300,000
	June 1, 2033*	\$300,000
June 1, 2036	June 1, 2035	\$325,000
	June 1, 2036*	\$550,000
June 1, 2039	June 1, 2038	\$600,000
	June 1, 2039*	\$625,000
June 1, 2042	June 1, 2040	\$650,000
	June 1, 2041	\$700,000
	June 1, 2042*	\$775,000
June 1, 2045	June 1, 2043	\$825,000
	June 1, 2044	\$900,000
	June 1, 2045*	\$925,000

\*Final Maturity

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

## **PAYMENT OF BONDS**

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

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## **BASIC DOCUMENTATION**

### **REGISTRATION AGENT**

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

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

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

### **BOOK-ENTRY-ONLY SYSTEM**

The Registration Agent, its successor or the Issuer will make all interest payments with respect to the Bonds on each interest payment date directly to Cede & Co., as nominee of DTC, the

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

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

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

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

*Purchase of Ownership Interests.* Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial

Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry 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 for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

## **DISCONTINUANCE OF BOOK-ENTRY-ONLY SYSTEM**

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

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

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

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

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

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## **DISPOSITION OF BOND PROCEEDS**

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

- (a) all accrued interest, if any, shall be deposited to the appropriate fund of the District to be used to pay interest on the Bonds on the first interest payment date following delivery of the Bonds;
- (b) the remainder of the proceeds of the sale of the Bonds shall be deposited with a financial institution regulated by the Federal Deposit Insurance Corporation or similar federal agency in a special fund known as the 2015 Construction Fund, or such other designation as shall be determined by the President, (the "Fund") to be kept separate and apart from all other funds of the District. The District shall disburse funds in the Fund to pay costs of issuance of the Bonds, including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, administrative and clerical costs, Registration Agent fees, and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds. The remaining funds in the Fund shall be disbursed solely to pay or to reimburse the District for the costs of the Project. Money in the Fund shall be secured in the manner prescribed by applicable statutes relative to the securing of public or trust funds, if any, or, in the absence of such a statute, by a pledge of readily marketable securities having at all times a market value of not less than the amount in said Fund. Money in the Fund shall be expended only for the purposes authorized by the resolution. Moneys in the Fund shall be invested at the direction of the General Manager and/or the Accounting Manager in such investments as shall be permitted by applicable law. Earnings from such investments shall be deposited in the Fund.

## **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.* Robertson Overbey, Knoxville, Tennessee, is Bond Counsel for the Bonds. Their opinion under existing law, relying on certain statements by the District and assuming compliance by the District with certain covenants, is that interest on the Bonds:

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

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

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

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

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

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

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

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

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

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

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

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

owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

### **State Taxes**

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

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

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

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

### **CLOSING CERTIFICATES**

Upon delivery of the Bonds, the District will execute in a form satisfactory to Bond Counsel, certain closing certificates including the following: (i) a certificate as to the *Official Statement*, in final form, signed by the District's President and Secretary acting in his official capacity to the effect that to the best of his knowledge and belief, and after reasonable investigation, (a) neither the *Official Statement*, in final form, nor any amendment or supplement thereto, contains any untrue statements of material fact or omits to state any material fact necessary to make statements therein, in light of the circumstances in which they are made, misleading, (b)

since the date of the *Official Statement*, in final form, no event has occurred which should have been set forth in such a memo or supplement, (c) there has been no material adverse change in the operation or the affairs of the District since the date of the *Official Statement*, in final form, and having attached thereto a copy of the *Official Statement*, in final form, and (d) there is no litigation of any nature pending or threatened seeking to restrain the issuance, sale, execution and delivery of the Bonds, or contesting the validity of the Bonds or any proceeding taken pursuant to which the Bonds were authorized; (ii) certificates as to the delivery and payment, signed by the District's President and Secretary acting in his official capacity, evidencing delivery of and payment for the Bonds; (iii) a signature identification and incumbency certificate, signed by the District's President and Secretary acting in their official capacities certifying as to the due execution of the Bonds; and, (iv) a Continuing Disclosure Certificate regarding certain covenants of the District concerning the preparation and distribution of certain annual financial information and notification of certain material events, if any.

## **APPROVAL OF LEGAL PROCEEDINGS**

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

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## MISCELLANEOUS

### **RATING**

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

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

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

### **COMPETITIVE PUBLIC SALE**

The Bonds were offered for sale at competitive public bidding on December 9, 2015. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated December 2, 2015.

The successful bidder for the Bonds was an account led by FTN Financial Capital Markets, Memphis, Tennessee (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 \$9,897,785.14 (consisting of the par amount of the Bonds, plus a net reoffering premium of \$27,049.35 and less an underwriter's discount of \$124,264.21) or 99.027% of par.

### **FINANCIAL ADVISOR; RELATED PARTIES; OTHER**

*Financial Advisor.* Cumberland Securities Company, Inc., Knoxville, Tennessee, has served as financial advisor (the "Financial Advisor") to the District for purposes of assisting with the development and implementation of a bond structure in connection with the issuance of the Bonds. The Financial Advisor has not been engaged by the District to compile, create, or interpret any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT relating to the District, including without limitation any of the District's financial and operating data, whether historical or projected. Any information contained in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT concerning the District, any of its affiliated or 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.* Robertson Overbey has not represented the Bank on legal matters in the past; however it may do so in the future.

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

## **DEBT RECORD**

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

## **ADDITIONAL DEBT**

The District has not authorized any additional debt at this time. The District is in the process of building a new wastewater treatment plant, and will need to issue approximately \$50 million in additional debt over the next twelve to eighteen months.

## **CONTINUING DISCLOSURE**

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

*Five-Year History of Filing.* While it is believed that all appropriate filings were made with respect to the ratings of the District's outstanding bond issues, some of which were insured by the various municipal bond insurance companies, no absolute assurance can be made that all such rating changes of the bonds or various insurance companies which insured some transaction were made or made in a timely manner as required by Rule 15c2-12. With the exception of the foregoing, for the past five years, the District has complied in all material respects with its existing continuing disclosure agreements in accordance with Rule 15c2-12.

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

1. The ten largest customers of the District as shown on page B-8;
2. Water and Sewer Rates of the District as shown on page B-9;

3. Summary of bonded indebtedness as of the end of such fiscal year as shown on page B-14;
4. Summary of Bonded Debt Service Requirements as of the end of such fiscal year as shown on page B-15;
5. Summary of Revenues, Expenditures and Changes in Fund Balances for the fiscal year as shown on page B-16; and
6. 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 District 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 OFFICIAL STATEMENT as “final” as of its date within the meaning of Rule 15c2-12.

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

## 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.

WEST KNOX UTILITY DISTRICT OF  
KNOX COUNTY, TENNESSEE

/s/ Daniel H. Hurst

President  
Board of Commissioners

ATTEST:

/s/ Ruth Ann Milsaps

Secretary  
Board of Commissioners



## **APPENDIX A**

### **LEGAL OPINION**



December 22, 2015

West Knox Utility District  
c/o Board of Commissioners  
2328 Lovell Road  
P.O. Box 51370  
Knoxville, Tennessee 37950-1370

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the West Knox Utility District of Knox County, Tennessee (the "Issuer") of \$9,995,000 Water and Sewer Revenue Bonds, Series 2015, dated December 22, 2015 (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

1. The Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and are valid and binding obligations of the Issuer.
2. The resolution of the Board of 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 Bonds are valid and binding limited obligations of the District enforceable in accordance with their terms, payable solely from the Net Revenues, all in the manner and to the extent provided in the Bond Resolution.
4. The Bond Resolution creates a valid lien upon the Net Revenues for the security of the Bonds on a parity with the District's Obligations pursuant to a Loan Agreement between the District and the Public Building Authority of Sevier County, Tennessee dated July 1, 2000 which includes an interest rate swap agreement between the District and Raymond James Financial Products, Inc. dated September 22, 2009, a Loan Agreement between the District and the Public Building Authority of Sevier County,

Tennessee dated August 28, 2009, and the Taxable Water and Sewer Revenue Bonds, Series 2010 (Federally Taxable – Build America Bonds – Direct Subsidy), dated November 30, 2010. The District has reserved the right to issue other Parity Obligations in the future on parity with the Bonds.

5. Interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from a bondholder's gross income for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax, and is included in the adjusted current earnings of a corporation under the federal corporate alternative minimum tax. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. Except as set forth in this Paragraph 5 and Paragraph 7 below, we express no other opinion regarding other federal tax consequences arising with respect to the Bonds.

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

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

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

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

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

Yours very truly,

Robertson Overbey

## **APPENDIX B**

### **SUPPLEMENTAL INFORMATION STATEMENT**



## **GENERAL INFORMATION**

### **LOCATION**

The area presently served by the West Knox Utility District (the “District”) is located in the northwest portion of Knox County in East Tennessee between the cities of Knoxville and Oak Ridge. The District’s service area of 72 square miles is bordered on the east by the City of Knoxville, on the south by Interstate Highways 40 and 75 and on the north and west by Anderson and Loudon Counties, respectively. The north and west boundaries of the District are formed by Melton Hill Lake, which was created by the impoundment of the Clinch River by the Melton Hill Dam.

### **ORGANIZATION**

The District was incorporated as a municipal corporation and the current boundaries established on October 18, 1954 by Order of the County Executive (formerly County Judge) of Knox County, Tennessee pursuant to provisions of 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; however, such Order has been and may be from time to time amended.

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.

### **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 water, sewer and sewage disposal services. 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”). The Board consists of three members, two who are residents of the District and one who does own property within the District. Each member is appointed by the County Mayor of Knox County and serves staggered four-year terms. Not later than thirty

days prior to the expiration of the term of office of any incumbent commissioner, the Board, or its remaining members, select three nominees to fill such office, in full accordance with any residential requirements that may apply to the office vacated, or to be vacated, and under the seal of the Board certifies such list of nominees in order of preference, to the County Mayor of Knox County. Within twenty-one days of such certification, the County Mayor may enter an order, either appointing one of the nominees or rejecting the entire list, or may refrain from taking any action, in which event the first name on the list of nominees is deemed appointed by operation of law. Upon rejection of the entire list of nominees by the County Mayor, the Board continues to submit new non-identical lists of three nominees to the County Mayor within thirty days of each such rejection until such procedure results in the vacancy being filled. Each commissioner must be either a resident of, or the owner of real property in the District.

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

The commissioners are insured by the District's group medical insurance coverage, which is authorized by the District Act. The District Act also authorizes each commissioner to receive per diem payments for not more than twelve meetings of the Board in any calendar year at rates not greater than three hundred fifty dollars per meeting.

## **THE BOARD OF COMMISSIONERS**

The following is a list of the current members of the Board of Commissioners:

<b><u>Name and Occupation</u></b>	<b><u>First Appointed Commissioner</u></b>	<b><u>Current Term Expires</u></b>
Daniel H. Hurst, President Director of Gov. Services, Strata Environmental Knoxville, Tennessee	January 2002	Dec. 31, 2017
Robert H. Sterchi, Jr., Vice President Retired Knoxville, Tennessee	December 1999	Dec. 31, 2015
Ruth A. Milsaps, Secretary-Treasurer Milsaps Bus Lines Knoxville, Tennessee	March 2005	Dec 31, 2016

### **Administrative Personnel**

The General Manager of the District serves under an employment contract, and is responsible for the appointment and selection of personnel of the District. Drexel A. Heidel, P.E., has been the General Manager of the District since January 1, 2012. Mr. Heidel began his

career with the District in October 1993 and served as the Assistant Manager since November, 2000. Mr. Heidel is a member of the American Water Works Association, Water Environment Federation and a board member of Tennessee Association of Utility Districts. He is an active member of the Utility Management Federation of Knox County. He holds a Grade III Wastewater Operator certification and is a registered engineer in the State of Tennessee.

The Assistant Manager of the District serves under the direction of the General Manager. He provides administrative, management and operational support in day-to-day business of the District. Wayne Hastings, P.E. has served in the capacity of Assistant Manager since January 2012. He began working in the District in November 2005 as the Chief Engineer. He is a registered engineer in the State of Tennessee. He is a member of the American Water Works Association, Water Environment Federation and the Tennessee Association of Utility Districts.

The supervisory personnel responsible for the operation of the District include the following:

<b><u>Name and Position</u></b>	<b><u>Year Employed</u></b>
Gary Chesney, Superintendent of Wastewater Plant State of Tennessee, Wastewater Operators License, Class IV	1999
Doug Alderman, Superintendent of Water State of Tennessee, Distribution License, Class II	1992
Steve Buchanan, Superintendent of Wastewater State of Tennessee, Collection License, Class II and Distribution License Class II	2003

## **EMPLOYEES**

The District has 68 full-time employees.

The turnover in the District's work force has averaged less than two employees per year over the last five years. The tenure of District employees presently averages approximately 25 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 establish and maintain a set of rules and regulations regarding an adjustment of all complaints which may be made to the District concerning the availability of utility services to persons in need thereof, the quality of

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

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

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

*Review Board.* In 1987, the State legislature established a utility management review board (the "Review Board") for the purpose of advising utility district boards of commissioners throughout the State in the area of utility management. The Review Board consists of nine (9) members consisting of the State Commissioner of Environment, the State Comptroller of the Treasury, and seven (7) members appointed by the Governor, three (3) of whom shall be experienced utility district managers, three (3) of whom shall be experienced utility district commissioners. The Review Board is given the power, among other things, to review any decision of any utility district relating to rate changes upon petition of any customer of the district, to compel the adoption of and adherence to rules and regulations for the adjustment of

customer complaints, hear customer protests of rates or appeal from a hearing before the Board of Commissioners of the District, to oversee operations of "financially distressed utility districts", including the power to compel rate increases sufficient to be in compliance with State law and all covenants with bondholders and compel consolidation with another utility. A "financially distressed utility district" is a district (i) which has failed to charge rates sufficient to pay the costs of operation and maintenance of the system, including depreciation and reserves therefore, as well as to pay all bonds and interest thereon secured by the revenues of the system, including reserves therefore, for a period of two (2) consecutive years, or (ii) which is in default on any outstanding indebtedness, or (iii) which has a retained earnings deficit. The Review Board may not take any action which would adversely impair the obligations of contract or the payment of outstanding bonds of the District. Any party to a proceeding before the Review Board may appeal to a local court seeking review of any action taken.

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

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## THE SYSTEM

### INTRODUCTION

The District provides services consisting of (i) the treatment and distribution of water to its customers through its Waterworks System and (ii) the collection, processing and disposal of sewage through its Sewer System. The District provides no other services to its customers.

### WATERWORKS SYSTEM

*Physical Plant.* The District's Waterworks System was placed in operation in 1957, initially serving approximately 735 customers. The District's Frank J. Dougherty Treatment Plant was originally constructed in 1964 and expanded in 1968 to a capacity of 2.48 million gallons per day. The Daugherty Plant has recently been expanded to produce 8 million gallons per day using membrane technology. Construction was completed in December 2013. In 1976, the District constructed its Melton Hill Lake Treatment Plant. The plant has a treatment capacity of ten million gallons per day. The District currently supplies an average of approximately 5.7 million gallons per day of potable water. At present, the total treatment capacity of the system is 18 million gallons per day. It must be noted that the peak day demand is considerably higher than the average daily demand.

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

**Average Waterworks System Billing Units  
(Fiscal Year Ended June 30)**

<u>Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Apartments</u>	<u>Motel/Hotel</u>	<u>Total</u>
2006	18,212	610	2,581	637	22,040
2007	18,694	610	2,583	637	22,524
2008	19,922	610	2,583	637	23,752
2009	21,667	787	2,584	637	25,675
2010	21,405	748	NA*	3782	25,935
2011	20,474	839	NA*	4055	25,368
2012	20,531	860	NA*	4079	25,474
2013	20,787	871	NA*	4079	25,737
2014	21,334	892	NA*	4121	26,347
2015	21847	893	NA*	3399	26,139

*Source:* Audited Financial Statements and the District.

\*In 2010 the District combined Apartments with the Hotel/Motel/Multi-Space Customers

*Source of Water; Water Treatment and Distribution Facilities.* The District obtains water from Melton Hill Lake below Bull Run Creek in Anderson County, Tennessee. The intake at the Frank J. Dougherty Treatment Plant is powered by Clinton Utilities Board.

The District's distribution system consists of approximately 390 miles of supply lines.

## **SEWER SYSTEM**

*Physical Plant.* The Sewer System serves portions of three major drainage areas in the District: the Beaver Creek area, the Ten Mile Creek area and the Hickory Creek Area.

The portion of the Beaver Creek area lying within the District is served by a four million gallon per day treatment plant. Since May 20, 1990, most of the sewage flow from the Ten Mile Creek area has been transported to the District's Karns Sewage Treatment Plant in the Beaver Creek area. The remaining portion of the sewage flow from the Ten Mile Creek area is discharged into the City of Knoxville's Walker Springs Pumping Station for which the District currently pays the City of Knoxville a treatment rate of \$4.45 per 1,000 gallons of water sold or a minimum bill of \$28,740 per year. The District and the First Utility District of Knox County, Tennessee ("First Utility District") are jointly and severally liable to the City of Knoxville for a minimum annual bill of \$56,100 of which First Utility District is paying \$27,360. The contract with the City of Knoxville is for a term expiring in mid-2013. This contract was extended to mid 2015 and has since expired. First Utility District's facilities are now available to the District, on an emergency basis, for the major portion of the Ten Mile Creek area sewage flow at the current cost of \$3.88 per 1,000 gallons of actual metered sewage flow.

The District serves a full-service truck stop located in the northeast quadrant of the Watt Road interchange of Interstate Highways 40 and 75 in the Hickory Creek Drainage Basin, which sewage flows to First Utility District for treatment and disposal and pursuant to an agreement between the two Districts. The District also provides water to this area.

In the opinion of Counsel to the District, under both the District Act and the Bond Resolution, the District is obligated to prescribe and collect rates, fees, tolls or charges sufficient to insure that its System shall be and always remain self-supporting and such as will always produce revenues at least sufficient to provide for all expenses of operating and maintenance of the System, including reserves therefore, and to pay when due all bonds and interest thereon for the payment of which such revenues are or shall have been pledged, charged or otherwise encumbered, including reserves therefore.

The District's collection system consists of about 286 miles of lines.

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

**Average Sewer System Billing Units  
(Fiscal Year Ended June 30)**

<u>Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Apartments</u>	<u>Motel/Hotel</u>	<u>Total</u>
2006	13,887	395	2,562	637	17,481
2007	13,902	407	2,562	637	17,508
2008	14,890	442	2,562	637	18,531
2009	14,890	497	2,563	637	18,587
2010	16,004	487	NA*	3775	20,266
2011	16,123	543	NA*	3843	20,509
2012	16,257	554	NA*	3843	20,734
2013	16,608	569	NA*	3845	21,022
2014	17,133	582	NA*	3847	21,562
2015	17,566	582	NA*	3399	21,547

*Source:* Audited Financial Statements and the District.

\*In 2010 the District combined Apartments with the Hotel/Motel/Multi-Space Customers

**MAJOR WATER AND SEWER CUSTOMERS**

The following is a list of the ten major water and sewer customers of the District for the fiscal year ended June 30, 2015.

<u>Customer</u>	<u>Type of Business</u>	<u>Sales (1)</u>	<u>% of Total Sales</u>
1. Parkwest Hospital	Medical Center	\$ 366,818	1.88%
2. Woodlands West Apartments	Rental Real Estate	242,979	1.25%
3. The Metropolitan Apartments	Rental Real Estate	255,719	1.31%
4. Country Club Apartments	Rental Real Estate	167,881	0.86%
5. Brendon Park Apartments	Rental Real Estate	153,549	0.79%
6. Holiday Inn	Hospitality	136,151	0.70%
7. Cedar Bluff Apartments	Rental Real Estate	132,118	0.68%
8. Warren House Apartments	Rental Real Estate	100,559	0.52%
9. Hampton Inn	Hospitality	81,529	0.42%
10. Tennessee Veterans Home	Medical	<u>51,512</u>	<u>0.26%</u>
<b>TOTAL</b>		<b><u>\$1,688,815</u></b>	<b><u>8.67%</u></b>

(1) Sales include only water & wastewater revenues.

## RATES

The District's current rate schedule (in effect as of July 1, 2015) is as follows:

<b><u>Water Rate Schedule</u></b>	
Residential	\$ 13.05
Commercial	16.00
	3.46 per 1,000 gallons
Hotel/Motel (per space)	\$6.11
	3.46 per 1,000 gallons

<b><u>Wastewater Rate Schedule</u></b>	
Residential	\$22.27
	5.84 per 1,000 gallons
All over 13,000 gallons	No Charge
Commercial	\$30.80
Hotel/Motel (per space)	16.92
	5.84 per 1,000 gallons

## AVERAGE NUMBER OF EMPLOYEES

Below is the average number of Employees in the District for the past five (5) years

<b><u>Calendar Year</u></b>	<b><u>Average Number of Employees</u></b>
2011	63
2012	63
2013	65
2014	67
2015	68

## HISTORICAL SYSTEM GROWTH

<b><u>Year</u></b>	<b><u>Number of Water Customers</u></b>	<b><u>Number of Sewer Customers</u></b>
2011	21,318	16,587
2012	21,427	16,843
2013	21,696	17,131
2014	22,264	17,671
2015	22,800	18,204

*Source:* Audited Financial Statements and the District.

## **OPERATING AND FINANCIAL HISTORY OF THE SYSTEM**

### **BILLINGS AND COLLECTIONS**

The District handles its own billings with the use of its own computer system.

### **COMPETITION**

The District has no competition in its service area.

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.

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The District was created under the authority of Title 7, Chapter 82 of the 1937 Utility District Law of the State of Tennessee.

The District's Board of Commissioners are appointed by the Knox County Mayor for a term of four years. Knox County does not have any fiscal or budgetary control over the District. The operations of the District are funded by water and wastewater rates established by the Board of Commissioners.

- A. The financial statements of the District are reported on the accrual basis. Under this method, revenues are recorded when earned and expenses are recorded when incurred.
- B. Certain assets which can only be used for debt service are shown as restricted assets in the accompanying balance sheets.
- C. Material and supply inventories are stated at the lower of cost (first in, first out method) or market. Incidental supplies and chemicals are not included in inventory.

- D. Bond issue costs are amortized during the period the bonds are outstanding using the effective interest method of amortization.
- E. Property, plant and equipment in service is carried at cost and is depreciated over the estimated useful life of the asset using the straight-line method of depreciation. Cost consists of all direct costs related to construction or acquisition of utility plant assets. In addition, the District capitalizes interest costs related to qualified expenditures for projects under development. Depreciation is not considered in collection lines, pump stations, treatment plants, etc., until the assets are actually put into use. Plant contributed by developers is included at the developers' cost or estimated cost.
- F. Revenues are billed monthly to customers on a cyclical meter reading basis. Revenues are not accrued for usage from the last meter reading date to June 30.
- G. Amounts received from customers to connect to the system are recorded as income, to the extent of the cost of the connection. Amounts received substantially in excess of the connection costs are recorded as contributions in-aid of construction.
- H. Investments are carried at cost unless a material decline in market value is determined to be permanent, in which case the investment is reduced to market.
- I. For purposes of the Statements of Cash Flows, cash equivalents include cash on hand, bank deposits, short-term investments in certificates of deposit and federal government or federal agencies discount notes having a maturity of three months or less at the balance sheet date.
- J. The District has elected under Government Accounting Standards Board (GASB) Statement Number 20 to apply only the accounting pronouncements issued by GASB after November 30, 1989.

## **SUMMARY OF OPERATIONS**

The financial statements of the District for the year ended June 30, 2015 have been examined by Pugh & Company P.C., Knoxville, Tennessee, independent accountants, whose report thereon appears herein.

*[balance of page left blank]*

## CAPITALIZATION

The following table sets forth the capitalization of the District as of June 30, 2015.

	<b><u>Outstanding</u></b> (as of June 30, 2015)
Total Long Term Indebtedness	\$ 68,414,954.00
Total Current Liabilities	3,207,151.00
Retained Earnings & Contributed Capital	870,678.00
Total Long Term Indebtedness and Total Customers' Equity	\$72,492,783.00

## UTILITY PLANT

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

Utility Plant in Service	\$190,491,429
Accumulated Depreciation	(64,290,555)
Construction in Progress	12,971,291
<b>TOTAL</b>	<b><u>\$139,172,165</u></b>

## POSSIBLE ANNEXATION BY CITY OF KNOXVILLE

Present State law (Tennessee Code Annotated, Section 6-51-111) provides in pertinent part as follows:

- (a) Upon adoption of an annexation ordinance..., an annexing municipality and any affected instrumentality of the State of Tennessee, such as, but not limited to, a utility district, ... shall attempt to reach agreement in writing for allocation and conveyance to the annexing municipality of any or all public functions, rights, duties, property, assets and liabilities of such State instrumentality that justice and reason may require in the circumstances....The annexing municipality if and to the extent that it may choose, shall have the exclusive right to perform or provide municipal and utility functions and services in any territory which it annexes, notwithstanding Section 7-82-301 or any other statute....
- (b) Subject to such exclusive right, any such matters upon which the respective parties are not in agreement in writing within sixty (60) days after the operative date of such annexation shall be settled by arbitration with the laws of arbitration of the State of Tennessee effective at the time of submission to the

arbitrators....The award so rendered shall be transmitted to the Chancery Court of the county in which the annexing municipality is situated, and thereupon shall be subject to review in accordance with Sections 29-5-113, 29-5-115 and 29-5-118.

- (c) (1) If the annexed territory is then being provided with a utility service by a State instrumentality which has outstanding bonds or other obligations payable from the revenues derived from the sale of such utility service, the agreement or arbitration award referred to above shall also provide:
  - (A) That the municipality will operate the utility property in such territory and account for the revenues there from in such manner as not to impair the obligations of contract with reference to such bonds or other obligations;  
or
  - (B) That the municipality will assume the operation of the entire utility system of such State instrumentality and the payment of such bonds or other obligations in accordance with their terms.
- (2) Such agreement or arbitration award shall fully preserve and protect the contract rights vested in the holders of such outstanding bonds or other obligations.

In 1988, the voters of Knox County approved a new charter form of government for Knox County that Charter vested in the County government, in addition to the traditional powers of County government, full powers of a municipality and public corporation. The new charter government went into effect on September 1, 1990. Knox County is only the second county in Tennessee to establish such a home rule government (the home rule charter government having taken effect for Shelby County, Tennessee, in 1986). Counsel for the District knows of no adjudications of the question of a city lying within a home rule charter county government legally annexing into the larger municipality where the latter is a county government. Programs of the City of Knoxville to annex substantial areas of the County have not been effective since 1962 where the property owners within the proposed annexed area have opposed such annexation. Three law suits during the past fifteen years have resulted in hung juries, which results have rendered the proposed annexations ineffective. While much of the property lying within the District receives all, or most, services that could be provided by the City of Knoxville upon annexation, it is not likely that annexation will occur where the property owners within a given proposed annexed area oppose such annexation. Nevertheless, the possibility of annexation within District remains.

*[balance of page left blank]*

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY, TENNESSEE**  
SUMMARY OF BONDED INDEBTEDNESS

AMOUNT ISSUED	PURPOSE	DUE DATE	INTEREST RATE(S)	(1) OUTSTANDING
			Variable / Synthetic	
\$ 35,425,000	(3) Loan Agreement (Revenue Program V), Series V-B-1	June 2035	Fixed	\$ 30,380,000
35,000,000	Water and Sewer Revenue Bonds, Series 2010	June 2045	Fixed	35,000,000
1,340,000	(4) Water and Sewer Revenue Bonds, Series 2004 (Rural Development)	2042	Fixed	1,094,158
2,140,000	(4) Note Payable to Knox County, Tennessee	June 2020	0.00%	1,350,000
3,658,096	(4) Loan Agreement, Series CWA 2009-245	2031	Fixed	1,790,714
\$ 77,563,096	<b>TOTAL BONDED DEBT</b>			\$ 69,614,872
\$ 9,995,000	Water and Sewer Revenue Bonds, Series 2015	June 2045	Fixed	9,995,000
\$ 87,558,096	<b>TOTAL BONDED DEBT</b>			\$ 79,609,872

**NOTES:**

- (1) For more information, see the notes to the Financial Statements in the FINANCIAL STATEMENTS included herein. The Revenue Series V-B-1 Loan Agreement and corresponding Revenue Series V-B-1 Bonds were issued August 28, 2009 and refinanced the District's outstanding Revenue Series I-A-1 Loan Agreement, dated August 1, 1997 and outstanding in the amount of \$10,000,000; the Revenue Series II-D-2 Loan Agreement, dated July 1, 2000 and outstanding in the amount of \$12,500,000; the Series IV-C-1 Loan Agreement, dated December 1, 2005 and outstanding in the amount of \$12,500,000 and the District defeased the Water and Sewer Revenue Refunding Bonds, Series 1997B due December 1, 2009.
- (2) The District budgets to account for interest rate and/or basis risk.
- (3) The Revenue Series II-D-2 Loan has been swapped to an synthetic fixed rate. The swap is still in place and has a current national amount of \$12,500,000. The Revenue Series II-D-2 Bonds have been refunded and replaced with the Revenue Series V-B-1 Loan Agreement and corresponding Revenue Series V-B-1 Bonds. For more information, see the notes to the Financial Statements in the FINANCIAL STATEMENTS included herein.
- (4) Subordinated Debt.

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY, TENNESSEE**  
**BONDED DEBT SERVICE REQUIREMENTS**

F.Y. Ended	As of June 30, 2015			Water and Sewer Revenue Bonds, Series 2015 (3)			Percent 2015 Principal Repaid	Total Senior Bonded Debt Service Requirements			Percent Senior Principal Repaid	Subordinated Water & Sewer Revenue Debt			Percent Subordinate Principal Repaid	Total Bonded Debt Service Requirements (1)			Percent Total Principal Repaid
	Principal	Interest (2)	TOTAL	Principal	Interest (3)	TOTAL		Principal	Interest	TOTAL		Principal	Interest	TOTAL		Principal	Interest (2)	TOTAL	
2016	\$ 995,000	\$ 3,053,601	\$ 4,048,601	\$ -	\$ 146,865	\$ 146,865	0.00%	\$ 995,000	\$ 3,200,466	\$ 4,195,466	1.32%	\$ 123,731	\$ 74,730	\$ 198,461	2.92%	\$ 1,118,731	\$ 3,275,197	\$ 4,393,928	1.41%
2017	1,045,000	3,003,851	4,048,851	-	332,525	332,525		1,045,000	3,336,376	4,381,376		126,566	72,215	198,781		1,171,266	3,408,591	4,579,857	
2018	1,095,000	2,951,601	4,046,601	-	332,525	332,525		1,095,000	3,284,126	4,379,126		128,883	69,633	198,516		1,223,883	3,353,759	4,577,642	
2019	1,150,000	2,896,851	4,046,851	-	332,525	332,525		1,150,000	3,229,376	4,379,376		148,172	206,981	1,688,553		2,631,572	3,336,357	6,067,929	
2020	-	2,839,351	2,839,351	120,000	332,525	452,525	1.20%	120,000	3,171,876	3,291,876	5.84%	134,334	64,256	198,590	47.10%	254,334	3,326,132	3,490,466	8.04%
2021	1,460,000	2,839,351	4,299,351	125,000	326,525	451,525		1,585,000	3,165,876	4,750,876		137,160	61,456	198,616		1,722,160	3,327,332	4,949,492	
2022	1,520,000	2,772,108	4,292,108	125,000	320,275	445,275		1,645,000	3,092,383	4,737,383		140,077	58,579	198,656		1,785,077	3,150,962	4,936,039	
2023	1,580,000	2,701,620	4,286,620	125,000	317,775	442,775		1,710,000	3,019,395	4,729,395		143,074	55,622	198,696		1,853,074	3,075,017	4,928,091	
2024	1,650,000	2,627,558	4,277,558	125,000	315,275	440,275		1,775,000	2,942,833	4,717,833		146,155	52,581	198,736		1,921,155	2,995,413	4,916,568	
2025	1,720,000	2,550,083	4,270,083	125,000	312,650	437,650	7.45%	1,845,000	2,862,733	4,707,733	17.20%	149,322	49,454	198,776	64.01%	1,994,322	2,912,187	4,906,509	19.69%
2026	1,795,000	2,468,864	4,263,864	150,000	310,025	460,025		1,945,000	2,778,889	4,723,889		152,578	46,238	198,816		2,097,578	2,825,127	4,922,705	
2027	1,870,000	2,383,651	4,253,651	150,000	306,650	456,650		2,020,000	2,690,301	4,710,301		155,937	42,930	198,867		2,175,937	2,733,231	4,909,168	
2028	1,950,000	2,293,389	4,243,389	150,000	303,275	453,275		2,100,000	2,596,664	4,696,664		159,379	39,525	198,904		2,259,379	2,636,189	4,895,568	
2029	2,035,000	2,199,126	4,234,126	150,000	299,525	449,525		2,185,000	2,498,651	4,683,651		162,931	36,022	198,953		2,347,931	2,534,673	4,882,604	
2030	2,125,000	2,100,614	4,225,614	150,000	295,775	445,775	14.96%	2,275,000	2,396,389	4,671,389	31.16%	166,584	32,415	198,999	82.84%	2,441,584	2,428,804	4,870,388	33.91%
2031	2,220,000	1,996,301	4,216,301	175,000	291,275	466,275		2,395,000	2,287,576	4,682,576		151,923	28,702	180,625		2,546,923	2,316,278	4,863,201	
2032	2,320,000	1,887,239	4,207,239	300,000	286,025	586,025		2,620,000	2,173,264	4,793,264		46,095	25,155	71,250		2,666,095	2,198,419	4,864,514	
2033	2,420,000	1,773,176	4,193,176	300,000	277,325	577,325		2,720,000	2,050,501	4,770,501		48,133	23,138	71,291		2,768,133	2,073,659	4,841,792	
2034	2,530,000	1,654,114	4,184,114	300,000	268,625	568,625		2,830,000	1,922,739	4,752,739		50,302	21,081	71,333		2,880,302	1,943,770	4,824,072	
2035	2,645,000	1,529,551	4,174,551	325,000	259,625	584,625	28.96%	2,970,000	1,789,176	4,759,176	49.12%	52,547	18,831	71,378	91.08%	3,022,547	1,808,007	4,830,554	51.35%
2036	2,765,000	1,399,239	4,164,239	550,000	249,063	799,063		3,100,000	1,648,301	4,748,301		54,893	16,532	71,425		3,154,893	1,664,833	4,819,726	
2037	2,875,000	1,291,501	4,166,501	550,000	231,188	781,188		3,225,000	1,522,689	4,747,689		57,343	14,330	71,473		3,282,343	1,536,819	4,819,162	
2038	2,990,000	1,178,483	4,168,483	600,000	213,313	813,313		3,375,000	1,391,795	4,766,795		59,903	11,621	71,524		3,434,903	1,403,416	4,838,319	
2039	3,025,000	923,959	3,948,959	625,000	192,313	817,313		3,525,000	1,246,336	4,771,336		62,577	9,001	71,578		3,587,577	1,255,337	4,842,914	
2040	3,150,000	804,024	3,954,024	650,000	170,438	820,438	58.73%	3,675,000	1,094,396	4,769,396	71.54%	65,370	6,263	71,633	98.16%	3,740,370	1,100,659	4,841,029	72.96%
2041	3,275,000	788,288	4,063,288	700,000	147,688	847,688		3,850,000	935,975	4,785,975		68,288	3,403	71,691		3,918,288	939,378	4,857,666	
2042	3,475,000	644,963	4,119,963	775,000	123,188	898,188		4,050,000	768,150	4,818,150		9,495	415	9,910	100.00%	4,059,495	768,565	4,828,060	
2043	3,625,000	495,950	4,120,950	825,000	96,063	921,063	#####	4,300,000	592,013	4,892,013		-	-	-		4,300,000	592,013	4,892,013	
2044	3,800,000	337,838	4,137,838	900,000	66,156	966,156		4,525,000	403,994	4,928,994		-	-	-		4,525,000	403,994	4,928,994	
2045	\$ 65,380,000	\$ 56,809,143	\$ 122,189,143	\$ 9,995,000	\$ 7,490,528	\$ 17,485,528		\$ 75,375,000	\$ 64,299,620	\$ 139,674,620	100.00%	\$ 4,234,827	\$ 1,140,859	\$ 5,375,686		\$ 79,609,827	\$ 65,440,530	\$ 145,050,407	100.00%

**NOTES:**

- (1) For more information, see the notes to the Financial Statements in the FINANCIAL STATEMENTS included hereto. The Revenue Series V-B-1 Bonds were issued August 28, 2009 and refinanced the District's outstanding Revenue Series I-A-1 Loan Agreement, dated August 1, 1997 and outstanding in the amount of \$10,000,000; the Revenue Series I-D-2 Loan Agreement, dated July 1, 2000 and outstanding in the amount of \$12,500,000; the Series IV-C-1 Loan Agreement, dated December 1, 2005 and outstanding in the amount of \$12,500,000 and the District's defaulted Water and Sewer Revenue Refunding Bonds, Series 1977B due December 1, 2009.
- (2) The District budgets to account for interest rate and/or basis risk. Debt Service on variable rate bonds is calculated at 5.00%, a budget rate.
- (3) Average Coupon 3.40%.

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY, TENNESSEE**

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Revenues:</b>					
Water Revenue	\$ 6,579,910	\$ 7,226,168	\$ 7,417,294	\$ 7,881,838	\$ 8,611,641
Wastewater Revenue	6,627,587	8,018,859	8,731,351	9,577,125	10,875,487
Connection Fees	561,677	486,860	550,392	836,668	893,658
Customer Forfeited Discounts	179,705	237,367	258,370	258,507	285,589
Service Fees	90,425	91,025	102,125	111,675	120,201
Wastewater Inspection Fees	8,075	5,250	7,775	11,730	13,600
Miscellaneous Revenue	161,405	151,066	182,748	242,788	199,593
<b>Total Operating Revenues</b>	<b>\$ 14,208,784</b>	<b>\$ 16,216,595</b>	<b>\$ 17,250,055</b>	<b>\$ 18,920,331</b>	<b>\$ 20,999,769</b>
<b>Operating Expenses:</b>					
Purification and Supply	\$ 954,279	\$ 1,132,055	\$ 1,154,874	\$ 1,114,272	\$ 1,103,041
Collection and Treatment	2,147,830	2,325,821	2,821,772	2,220,697	2,438,755
Treatment and Distribution	2,203,916	2,445,654	2,393,421	2,547,171	2,894,879
CMOM Program	1,008,816	1,302,429	1,415,128	1,465,689	1,545,363
Shop and General Maintenance	318,855	306,275	375,418	470,839	333,439
Customer Accounting and Collection	131,543	132,195	141,547	122,870	121,724
Administrative and General	1,861,405	2,211,369	2,072,488	1,880,537	2,089,427
Depreciation					
Water System and General Plant	1,703,880	1,717,089	1,722,069	2,015,471	2,543,567
Wastewater System	1,932,735	1,988,219	2,196,148	2,315,151	2,411,126
Other	216,762	210,734	260,965	270,761	315,173
<b>Total Operating Expenses</b>	<b>\$ 12,480,021</b>	<b>\$ 13,771,840</b>	<b>\$ 14,553,830</b>	<b>\$ 14,423,458</b>	<b>\$ 15,796,494</b>
Operating Earnings	\$ 1,728,763	\$ 2,444,755	\$ 2,696,225	\$ 4,496,873	\$ 5,203,275
<b>Other Income (Expenses):</b>					
Interest Income	\$ 3,591	\$ 279,997	\$ 234,383	\$ 136,580	\$ 55,893
Interest Expense	(1,850,135)	(2,047,737)	(1,722,259)	(1,714,150)	(2,067,955)
Gain (Loss) on Sale of Assets	-	(29,891)	9,615	4,225	-
Change in Fair Value of					
Derivative - Interest Rate Swap <sup>(1)</sup>	-	-	-	-	(3,396,726)
Non-Operating Revenues (Expenses)	\$ (1,846,544)	\$ (1,797,631)	\$ (1,478,261)	\$ (1,573,345)	\$ (5,408,788)
Increase in Net Assets before					
Capital Contributions	\$ (117,781)	\$ 647,124	\$ 1,217,964	\$ 2,923,528	\$ (205,513)
<b>Capital Contributions:</b>					
Developer Contributions - Cash	\$ 910,539	\$ 69,290	\$ 2,550	\$ 5,100	\$ 43,350
Developer Contributions	839,805	1,745,692	714,774	1,216,660	1,074,426
Water Tap Fees in Excess of Cost	-	-	-	-	-
Sewer Tap Fees in Excess of Cost	-	-	-	-	-
<b>Total Other Income (Expenses)</b>	<b>\$ 1,750,344</b>	<b>\$ 1,814,982</b>	<b>\$ 717,324</b>	<b>\$ 1,221,760</b>	<b>\$ 1,117,776</b>
<b>Net Earnings</b>	<b>\$ 1,632,563</b>	<b>\$ 2,462,106</b>	<b>\$ 1,935,288</b>	<b>\$ 4,145,288</b>	<b>\$ 912,263</b>

Source: Annual Financial Reports for the District.

**NOTES:**

<sup>(1)</sup> Related to Revenue Series II-D-2 Loan Agreement Interest Rate Swap. This was a non-cash account change. Please see in the District's June 30, 2015 audited Annual Financial Report for more information.

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY, TENNESSEE**  
**HISTORICAL DEBT SERVICE COVERAGE ON BONDS**

For the Fiscal Year Ended June 30

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Gross Revenue (1)	\$ 14,558,877	\$ 17,062,739	\$ 17,775,859	\$ 19,076,456	\$ 21,092,830
Operating Expenses (2)	8,626,644	9,855,798	10,374,648	9,882,078	10,526,628
Income Available For Debt Service	5,932,233	7,206,941	7,401,211	9,194,378	10,566,202
Actual Debt Service Requirements (3)	2,847,574	3,331,152	2,541,952	2,577,935	2,626,665
Bond Coverage	2.08 X	2.16 X	2.91 X	3.57 X	4.02 X
Maximum Estimated Debt Service Requirements on Outstanding and Proposed Senior Bonds (FY 2045) <sup>(4)</sup>	4,931,431	4,931,431	4,931,431	4,931,431	4,931,431
Maximum Senior Bond Coverage	1.20 X	1.46 X	1.50 X	1.86 X	2.14 X

*Source:* Annual Financial Reports for the District.

(1) Includes operating revenues, interest income received and cash capital contributions.

(2) Does not include depreciation expense.

(3) Interest includes interest paid, paying agent's fees and service charges net of capitalized construction period interest.

(4) Assumes a 4.25% Net Interest Rate on the Revenue Series V-B-1 Loan and is net of the Estimated U.S. Treasury Subsidy of 35% for Series 2010 Bonds.

## KNOX COUNTY AND CITY OF KNOXVILLE

### LOCATION

Knox County (the “County”) is located in the northeastern portion of the State of Tennessee. Founded in 1791 where the French Broad and Holston Rivers converge to form the Tennessee River, Knoxville (the “City”) is the largest city in East Tennessee and ranks third largest in the State. Knoxville is also the County Seat. The County is located in a broad valley between the Cumberland Mountains to the northwest and the Great Smoky Mountains to the southeast.

To the north, the County is bordered by Union and Grainger Counties. Jefferson and Sevier Counties make up the County's eastern border, while the County's southern border is provided by Blount and Loudon Counties. To the immediate west of the County lies Anderson County. There are about 98 square miles in the City of Knoxville and about 508 square miles in all of Knox County.

### GENERAL

In 2004 Knoxville was designated a 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 City is also part of the Knoxville-Sevierville-Harriman Combined Statistical Area (the “CSA”). According to the 2010 Census, the CSA had a population of 1,056,442. The CSA includes Roane, Anderson, Blount, Knox, Loudon, Union, Grainger, Hamblen, Jefferson, Campbell, Cocke and Sevier Counties. The City of Knoxville is the largest city in the CSA with a population of 178,874 according to the 2010 Census. The 2010 Census reported Knox County (including the City) with a 432,226 population.

The following table shows past and current population figures for the City and County:

#### Population Growth

	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2014*</u>
Knoxville	174,687	175,045	165,121	173,890	185,100	184,281
Knox County	276,293	319,694	335,749	382,032	432,226	448,234

The only other municipality within the County, Farragut, has an estimated 2014 population of approximately 21,687 persons.

\* 2014 Estimates from U.S. Census Bureau  
*Source:* U.S. Census Bureau.

## SOCIOECONOMIC DATA

The following socioeconomic factors indicate the standard of living in the County, as compared to that of the Nation and State:

### Social and Economic Characteristics

	<u>National</u>	<u>Tennessee</u>	<u>Knox County</u>	<u>Knoxville</u>	<u>Farragut</u>
Median Value Owner Occupied Housing	\$176,700	\$139,200	\$157,400	\$117,000	\$317,100
% High School Graduates or Higher Persons 25 Years Old and Older	86.00%	84.40%	90.2%	87.7%	97.2%
% Persons with Income Below Poverty Level	15.40%	17.60%	14.6%	23.1%	5.2%
Median Household Income	\$53,046	\$44,298	\$47,694	\$33,595	\$95,877

*Source:* U.S. Census Bureau State & County QuickFacts - 2013.

## TRANSPORTATION

The area has excellent transportation facilities by rail, air, river and highway. Both the Norfolk Southern and CSX Railroads have terminals and stops in the County, with lines radiating in nine directions. The Pellissippi Highway (I-140) provides a direct link to I-40 and I-75 in Knox County. Major highways serving the County include U.S. Highway 44, 129, 321, 411 and 441 as well as State Routes 33, 75 and 95.

*McGhee Tyson Airport.* The McGhee Tyson Airport is the principal commercial airport in East Tennessee, serving the commercial airline industry, air cargo, military aviation and general aviation. With parallel 9,000 feet runways, McGhee Tyson Airport can accommodate any size aircraft. The Airport is located within the city limits of Alcoa 12 miles south of downtown Knoxville. The airport occupies more than 2,000 acres of land with space for additional air cargo facilities or economic development. This facility is owned and managed by the Metropolitan Knoxville Airport Authority. About 2,700 people work at the airport.

According to a 2012 study by the University of Tennessee's Center for Transportation Research, the airport contributes over \$616 million to the local economy (including Anderson, Blount, Knox, Loudon and Sevier Counties) every year. The report examined the employment, business and tax impacts of the airport, including the Downtown Island Airport.

The Metropolitan Knoxville Airport Authority (MKAA) was established in 1978 as an independent nonprofit agency to own and operate McGhee Tyson Airport and Downtown Island Airport. The Authority's nine-member Board of Commissioners is appointed by the Mayor of Knoxville and confirmed by City Council. This board determines the policies for the current Airport Authority staff of 150 employees in six departments. The board appoints a President who

serves as the chief administrator and executive officer. All of the revenues are generated by user fees and rental income so no taxpayer dollars are used to support airport operations.

Five air cargo services provide daily service. In addition, six passenger airlines carry air cargo on most flights. More than 80,000,000 pounds of airfreight annually pass through its cargo facilities. Federal Express, United Parcel Service and DHL are the main couriers.

McGhee Tyson Airport has several major airlines serving 20 non-stop destinations including Atlanta, Chicago, Dallas/Ft. Worth, Denver, Houston, Myrtle Beach, New York, Orlando, Philadelphia and Washington D.C. With more than 120 arrivals and departures each day and more than 4,000 seats available, McGhee Tyson Airport is one of the most convenient and accessible regional airports in the nation.

The airport is served by several low fare carriers: Allegiant Air and Frontier Airlines. Allegiant Travel Company is focused on linking travelers in small cities to world-class leisure destinations such as Las Vegas, NV, Myrtle Beach, NC, Orlando, Fla., Ft. Lauderdale, Fla., Sarasota/Fort Meyers, Fla. and Tampa/St. Petersburg, Fla. Through its subsidiary, Allegiant Air, the Company operates a low-cost, high-efficiency, all-jet passenger airline offering air travel both on a stand-alone basis and bundled with hotel rooms, rental cars and other travel related services. Frontier Airlines started flight in the summer of 2011 from Knoxville to its hub in Denver, Colorado and to Chicago, Illinois, Provo, Utah and Sioux Falls, South Dakota.

McGhee Tyson is served by major and regional carriers including:

**Major Airlines:**

Allegiant Air  
Delta Airlines

Frontier Airlines

**Regional Carriers:**

American Eagle

United Express

*Source:* Metropolitan Knoxville Airport Authority.

These airlines connect passengers with service to several hub airports across the nation on more than 120 flights daily.

**McGhee Tyson Airport**

<b><u>Total Year</u></b>	<b><u>Commercial Passengers</u></b>	<b><u>Total Air Cargo in Pounds</u></b>
2005	1,846,794	84,346,541
2006	1,674,877	92,219,596
2007	1,821,581	100,286,989
2008	1,742,579	97,366,366
2009	1,680,716	82,304,377
2010	1,688,882	93,393,658
2011	1,773,671	92,390,849
2012	1,747,145	91,514,071
2013	1,676,374	84,029,942
2014	1,738,133	74,115,672

*Source:* Metropolitan Knoxville Airport Authority.

McGhee Tyson Airport has undergone many improvements in the past few years:

2008 West Aviation Area \$50.7 million  
2008 Airport Rescue and Fire Fighting Facility \$11.3 million  
2009 New Food Court in Terminal \$615,000  
2014 Runway and Taxiway System Upgrade \$108 million

*Source:* Metropolitan Knoxville Airport Authority.

TACAir is McGhee Tyson Airport's general aviation services provider. In addition to providing fuel and services to commercial carriers, they also accommodate the general aviation industry, which includes corporate aviation, charter flights, flight schools and people who fly as a hobby.

The Tennessee Air National Guard's 134th Air Refueling Group operates 10 aircraft at McGhee Tyson Airport. The Guard's KC-135E tankers provide refueling to the country's military aircraft. In addition, the Army Aviation Support Facility, the 110th and 119th Tactical Control Squadrons and the 228th Combat Communications Squadron operate on the base.

The direct and indirect economic impact of McGhee Tyson Airport, including payroll, local spending, transportation cost savings, capital spending and induced benefits is estimated at \$1 billion annually. The jobs formed by the aviation industry are perhaps the most important direct benefit that McGhee Tyson Airport offers East Tennessee. Approximately 2,700 people are now employed at McGhee Tyson Airport.

*Downtown Island Home Airport.* Knoxville's Downtown Island Home Airport, located five minutes from downtown, serves as another home base for smaller and privately owned airplanes. The Island Home Airport is a 150 acre general aviation facility with a 3,500 foot runway. It is home to more than 100 private and corporate aircraft, with 24 hour a day service available. Future projects include a taxiway for new T-Hangars, secondary containment for the fuel depot and mobile fueling equipment and a planning study for future development. These projects are to be funded with a combination of federal grant funds, state grant funds and Airport Authority revenues.

*Waterways.* Fifteen miles away is the head of the Tennessee River navigation channel in Knoxville. This river is part of the Interconnected Inland Water System that links Knoxville with 21 states, the Mississippi River and the Great Lakes. Linkages may be made to the entire inland waterway system, allowing shipments to be made by water to Houston, Tampa, Pittsburgh, Minneapolis and Little Rock.

Six active river terminals handle barge shipments throughout the area. The Tennessee-Tombigbee Waterway links East Tennessee with 13 other states and the Gulf of Mexico. This 234-mile canal connects 16,000 miles of waterways throughout Tennessee, Mississippi and Alabama leading to the Port of Mobile and the Gulf of Mexico. This Waterway shortens the shipping between Tennessee and the Gulf of Mexico by 882 miles and enables East Tennessee products to arrive at their Gulf destination from eight to nine days earlier. The development of the Tennessee-Tombigbee Waterway has been a catalyst for the development of industry and agriculture throughout the area. Barge shipping has always been a popular alternative to rail in

East Tennessee because of the existence of the Inland Water System.

Knoxville also has a Foreign Trade Zone, is an inland Port of Entry with a U.S. Customs Office. In 1988, Knoxville was given its Foreign Trade Zone designation by the U.S. Department of Commerce. This designation allows manufacturers to ship foreign raw materials and components to parts of Knoxville and store them duty free in Knoxville until used. In May 1991, the Foreign Trade Zone was activated.

## **EDUCATION**

*Knox County School System.* The County operates 90 schools: 50 elementary (including primary and intermediate), 14 middle, 16 high schools, and several non-traditional/adult education centers. Included are five magnet schools offering enhanced arts and science curriculum and a new Science, Technology, Engineering, and Mathematics (STEM) Academy. In fall 2014, total public school enrollment was 59,750, while the system employed 3,670 teachers. In addition to public education, there are 52 private and parochial schools offering elementary and secondary instruction in Knox County.

*Source:* Tennessee Department of Education and Knox Metropolitan Planning Commission.

Post-secondary education is available at 10 public and private four year institutions in Knox County and the surrounding area. The University of Tennessee's main campus is in Knoxville. Mississippi State Technical Community College and Roane State Community College offer two-year programs for technical and associate degrees along with four other vocational/technical institutions. There are four business colleges located in the area.

*The University of Tennessee, Knoxville (the "UTK")* is one of the oldest land-grant universities in the nation. There are 220 buildings on a 550 acre campus. Blount College, the UTK's forerunner, was established in Knoxville in 1794, two years before Tennessee became a state. With a fall 2014 enrollment of 27,410 students, UTK is the largest campus in the UT System. The University of Tennessee System is a statewide institution governed by a 26-member Board of Trustees appointed by the governor of Tennessee. Institutions of the UT system are UTK, UT Health Science Center in Memphis, UT Chattanooga, UT Martin, UT Space Institute in Tullahoma, and UT Institute for Public Service in Knoxville. In addition to the primary campus, the Agricultural Campus houses the UT Institute of Agriculture, a statewide administrative unit that includes the College of Veterinary Medicine, the College of Agricultural Sciences and Natural Resources, the Agricultural Extension Service and the Agricultural Experiment Stations.

UTK is a major research institution, attracting more than \$150 million in externally sponsored programs annually. The Division of Aeromedical Services is one of the country's most respected and comprehensive aeromedical programs. The university is a co-manager with Battelle of the nearby ORNL. UT-Battelle, LLC, was established in 2000 as a private not-for-profit company for the sole purpose of managing and operating the ORNL for the DOE. Formed as a 50-50 limited liability partnership between the University of Tennessee and Battelle Memorial Institute, UT-Battelle is the legal entity responsible delivering the DOE's research mission at ORNL. Faculty and students experience unparalleled research and learning opportunities at the DOE's largest science and energy lab.

The University conducts externally-funded research totaling more than \$300 million annually, including some \$17.3 million annually in research sponsored by ORNL. Areas of joint research with ORNL include the Bioenergy Science Center's work on cellulosic ethanol; the Center for Computational Sciences partnership with the National Science Foundation; and the Science Alliance, with divisions in biological, chemical, physical, and mathematical/computer science. UT/ORNL Joint Institutes and Centers include Biological Sciences, Computational Sciences, Neutron Sciences, Heavy Ion Research and the National Transportation Center.

To meet the growing demand for pharmacists, a second UT College of Pharmacy building opened on the Knoxville campus in fall 2007 and enrolled an additional 225 students. The three-story building is adjacent to the Health Science Center's Graduate School of Medicine. The UT College of Pharmacy will extend its reach across the state by adding Clinical Education Centers in Chattanooga, Jackson, Kingsport and Nashville.

The University and its statewide campuses bring in over \$2 billion in annual income to the State and support more than 50,000 jobs. The University also generates an estimated \$237.6 million in State and local tax revenue per year. Students and visitors attending athletic events at each campus spent approximately \$348 million, accounting for \$147.3 million in income and 4,879 jobs.

*Source:* University of Tennessee, UT-Battelle and the News Sentinel.

*Johnson University* is a private, coeducational institution of higher learning offering associate, bachelor's and master's degrees about 6 miles from Knoxville. Founded in 1893, Johnson University is the second oldest continuing University in America. The purpose of the College is to educate students for specialized Christian ministries with emphasis on the preaching ministry. In the fall of 2014 total enrollment reached 1,348 for the 175 acre campus (a record enrollment).

*Source:* Johnson University.

*Oak Ridge Associated Universities* is a consortium of 98 colleges and universities and a contractor for the U.S. Department of Energy (DOE) located in Oak Ridge, Tennessee. Founded in 1946, ORAU works with its member institutions that include the University of Tennessee and its satellite campuses. The purposes are to help their students and faculty gain access to federal research facilities throughout the country; to keep its members informed about opportunities for fellowship, scholarship, and research appointments; and to organize research alliances among its members. Through the Oak Ridge Institute for Science and Education (ORISE), the DOE facility that ORAU operates, undergraduates, graduates, postgraduates, as well as faculty enjoy access to a multitude of opportunities for study and research. A pioneer in technology transfer, with historic contributions in nuclear medicine and health physics, ORAU today conducts specialized training in nuclear related areas of energy, health and the environment.

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

*Pellissippi State Technical Community College.* Since its founding in 1974 as State Technical Institute at Knoxville, Pellissippi State has expanded the teaching of technology, the use of technology in instruction, and the transfer of technology to local business and industry in support of regional economic development. Enrollment for fall 2014 was listed as 10,099. The Community College continues to support and develop career/technical associate's degrees and institutional certificates, university parallel associate's degree programs, and continuing

education opportunities for the citizens of Knox, Blount, and surrounding counties. Pellissippi State Technical Community College (PSTCC) has been named one of the 200 fastest-growing community colleges in the nation, according to Community College Week. The College has released a 2014 report showing the school has pumped more than \$341 million annually into the Knoxville-area economy over the last 5 years.

Several campuses make up the Community College. The main campus is the Pellissippi Campus in west Knoxville. The Division Street Campus and the newer Magnolia Avenue Campus, which opened in 2000, are also in Knoxville. A new \$22 million campus was completed in late 2010 in Blount County.

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

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

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

*Source:* Roane State Community College.

*South College.* South College, formerly Knoxville Business College, is a private institution that has been a part of Knoxville since 1882. The main campus facility is located on Lonas Drive. In 2010, the College opened a second campus in the old Goody's headquarters in Parkside Centre. It has a total enrollment of about 650 students. Throughout its history South College has endeavored to meet the demands of the East Tennessee business community. South College offers a Master's of Health Science in Physician Assistant Studies and baccalaureate degree programs including Pharmaceutical Science (Pre-Pharmacy), Nursing, Health Science (Radiography/Nuclear Medicine), Elementary Education, Business Administration, and Legal Studies. Current associate degree programs include Radiography, Physical Therapist Assistant, Paralegal Studies, Business Administration, Accounting, and Medical Assisting. Nuclear Medicine and Post-Baccalaureate Program (Elementary Education K-6) are the certificate programs offered.

*Source:* South College.

*The Tennessee Technology Center at Knoxville.* The Tennessee Technology Center at Knoxville 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 Knoxville serves the central east region of the state including Knox and Blount Counties. The Technology Center at

Knoxville began operations in 1966, and the main campus is located in Knox County. Fall 2014 enrollment was 1,055 students.

*Source:* Tennessee Technology Center at Knoxville.

*Tusculum College Graduate and Professional Studies Program.* Tusculum maintains offices in Knoxville for its Graduate and Professional Studies Program, in addition to other class sites across East Tennessee. Located in Greeneville, Tusculum College is a private college affiliated with the Presbyterian Church. The College was founded in 1794, making it the oldest college in Tennessee and the twenty-eighth oldest college in the nation. Fall 2014 enrollment for Professional Studies was 494. The wooded 140-acre Tusculum College campus has eight buildings and the Tusculum Arch that are listed on the National Register of Historic Places. The College is one of three colleges in the country to operate on a focused calendar, in which courses are scheduled one at a time.

*Source:* Tusculum College.

## **HEALTHCARE**

Knoxville serves as a regional medical center for 27-counties in East Tennessee and Kentucky. The available technology, the specialized institutions, and a reputation for quality health care bring people into Knoxville from a 200-mile radius. There are over 2,680 beds in eight acute care hospitals in the County, including three healthcare systems (Covenant Health Care, Tennova Health System and University of Tennessee).

Construction and renovations to existing facilities in the area have made a substantial impact on the local economy. From in the early 2000's Knox County saw two new hospitals open along with several renovations and expansions of other existing hospitals.

*Source:* Knox Metropolitan Planning Commission and the News Sentinel.

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

Covenant Health includes 30 member organizations, nine of which are acute care hospitals in East Tennessee: Fort Sanders Regional Medical Center and Parkwest Medical Center in Knoxville, Methodist Medical Center of Oak Ridge, Fort Loudon Medical Center in Loudon, LeConte Medical Center in Sevierville, Roane Medical Center in Harriman, Morristown-Hamblen Healthcare System in Morristown, Cumberland Medical Center in Crossville and Claiborne Medical Center in Tazewell. It also includes Peninsula Hospital, a psychiatric hospital in East Tennessee's Blount County. Covenant Health also operates numerous other healthcare facilities for outpatient clinics, cancer centers, breast centers, behavioral health, rehabilitation, home health and weight management to name a few.

Over the last few years, the largest hospital operator in the area has built new or expanded facilities in Sevier, Loudon, Anderson, Cumberland and Knox counties. It recently finished construction for a \$75 million expansion project at Fort Sanders Regional Medical

Center in Knoxville as well as finished a new \$50 million hospital in Roane County.

*Fort Sanders Regional Medical Center.* Part of Covenant Health, Fort Sanders is a 541-bed full-service acute care hospital with about 350 doctors located in the Fort Sanders community of downtown Knoxville. The hospital was built in 1919 and has about 2,100 employees. In 2013 Fort Sanders received national recognition as a comprehensive stroke center, the second Tennessee Hospital to receive that award. The certification from the Joint Commission on Accreditation of Healthcare Organizations means that the medical center is recognized as having the infrastructure, staff and training to receive and treat complex cases. Fort Sanders is a regional referral center for neurosurgery, neurological disorders, orthopedics, oncology, cardiology, obstetrics and rehabilitation medicine. The hospital offers a variety of specialized services such as a 24-hour Chest Pain Center, one-day surgery, electrodiagnostics, a Sleep Disorders Center, a Diabetes Center, prenatal education, and sports medicine. A new \$150 million expansion was completed for the facility in 2010.

*Parkwest Medical Center.* Part of Covenant Health, Parkwest is region's only Top 100 Heart Hospital (which the hospital has been named seven times). Parkwest has 462 beds with 611 doctors on staff. The total employment is 2,202, and there were 23,933 admissions in 2011. The campus includes one of the area's first all-digital catheterization laboratories and a comprehensive breast center with a multidisciplinary approach to women's health. Peninsula Behavioral Health is a division of Parkwest Medical.

*Tennova Healthcare.* Tennova Healthcare is a profit based healthcare system and has seven acute care hospitals in Knoxville and the surrounding area. Florida based Health Management Associates Inc. bought Mercy Health Partners in 2011 and changed the name to Tennova Healthcare. Tennova and Health Management Associates were acquired by Community Health System, based in Nashville, TN. Tennova is now part of one of the largest for-profit hospital companies in the country.

The hospitals are as follows: Physicians Regional Medical Center (Knox County), Turkey Creek Medical Center (Knox County), North Knoxville Medical Center (Knox County), Jefferson Memorial Hospital (Jefferson County), Newport Medical Center (Cocke County), and LaFollette Medical Center (Campbell County), Lakeway Regional Hospital (Hamblen County), Dyersburg Regional Medical Center (Dyer County), Regional Hospital of Jackson (Madison County), Volunteer Community Hospital (Weakley County) and McNairy Regional Hospital (McNairy County) were all acquired by Tennova in September of 2015.

*Physicians Regional Medical Center.* Part of Tennova Healthcare, Physicians Regional Medical Center is a 370-bed facility with 810 physicians on staff near downtown Knoxville. There are a total of 1,189 employees, and the Center had 16,999 admissions in 2011. Built in 1930, Physicians Regional has five areas of special expertise: Women's Services, Cancer Care, Orthopedics, Cardiac Care and Neurosciences.

*North Knoxville Medical Center.* Part of Tennova Healthcare, North Knoxville Medical Center opened in the fall of 2007 in north Knox County. The full service facility has 108 beds with 811 physicians on staff. A total of 497 people are employed at the Center, and in 2011 there were 3,026 admissions.

*Turkey Creek Medical Center.* Part of Tennova Healthcare, Turkey Creek Medical Center has 101 beds with 799 physicians on staff in west Knoxville. There are 526 people employed at the hospital, and in 2011 there were 4,081 admissions. Turkey Creek has a 24-hour, full-service, all-digital campus, completely staffed emergency department that cares for men, women and children of all ages. Every patient room is a private room. An intensive care unit, state-of-the-art surgical suites, imaging services, rehabilitation services and specialized staff and physicians bring groundbreaking, comprehensive treatment. The hospital had merged with the neighboring Baptist Hospital for Women. The merged hospital offers labor, delivery, recovery and postpartum suites, backed up by the latest technology. Surgery, mammography, wellness and general care services are all focused on a woman's needs. In the summer of 2008 the open-heart program from Baptist Hospital of East Tennessee moved to Turkey Creek. The hospital is also home to the Stokely Heart Pavilion and the Baptist Regional Cancer Center. The hospital opened in the summer of 2003 and employs about 400.

*East Tennessee Children's Hospital.* Located in Knoxville, East Tennessee Children's Hospital is a private, independent, not-for-profit pediatric medical center. There are 152 beds with 428 doctors on staff, of which more than 90 are pediatric subspecialists. A total of 1,900 people are employed at the hospital, and there were 5,941 admissions in 2012. The hospital originally opened in 1937, and is the only Comprehensive Regional Pediatric Center in East Tennessee certified by the State. Pediatric services offered include ICUs, emergency services, outpatient clinics for oncology, hematology, diabetes, cystic fibrosis and a rehabilitation center.

*University Health System.* The University of Tennessee Medical Center is part of University Health System Inc. (the "UHS"), a regional health system that comprises the UT Medical Center, the new UT Heart Hospital, UT Health Network and various partnerships and joint ventures with physicians and healthcare companies. UHS is affiliated with the University of Tennessee Graduate School of Medicine and numerous regional hospitals and physician organizations. UHS supports and collaborates with the UT Graduate School of Medicine and other academic endeavors as part of its commitment to excellence in education and research.

The *UT Medical Center* in Knoxville is an acute care teaching hospital with 581 beds and about 456 doctors. The hospital employs about 3,986 people and had 25,588 admissions for 2011. Designated as the region's Level I adult and pediatric Trauma Center by the state of Tennessee, the Medical Center provides the highest level of programs and emergency services. Critically ill patients are transported to the Medical Center via one of LIFESTAR'S two helicopters.

Special care units such as cardiac care, open heart, medical intensive care, neuro-respiratory, and trauma surgical intensive care are available for patients who require maximum medical attention. A Level IV Intensive Care Nursery, a Pediatric Intensive Care Unit, a newborn nursery and many other programs comprising Children's Health Services enable the hospital to provide the region's most comprehensive medical services for infants and children. University Hospital also serves as the Regional Perinatal Center. The new Heart Hospital was opened in 2010. The Cancer Institute has finished construction in 2012. See "RECENT DEVELOPMENTS" for new construction on the facility.

*Source:* Covenant Health, Mercy Health Partners, East TN Children's Hospital, University Health Center, News Sentinel.

## SCIENCE AND ENERGY

### *History*

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

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

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

### *Research*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### *Nuclear*

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

In 2015 \$424 million was set aside for the environmental cleanup activities in Oak Ridge. The 2009 stimulus act passed by Congress gave the DOE Oak Ridge's office \$1.9 billion for environmental cleanup projects. The stimulus money sent directly for projects in Oak Ridge, \$1.2 billion, saved or created about 3,863 new jobs through sub-contracting construction-type jobs as well as technical and specialty positions associated with handling radioactive materials and evaluating environmental risks. The clean-up money was divided among four sites: \$239 million to ORNL, \$292 million to Y-12, \$144 million to East Tennessee Technology Park and \$80 million to the Transuranic Waste Processing Center. At Y-12 alone, seven cleanup projects created 2,000 jobs, demolished about 150,000 square feet of old buildings and got rid of about 74,000 cubic meters of waste.

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

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

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

Contractors have already demolished dozens of World War II era buildings at Y-12, about a million square feet since 2001, to reduce the surveillance and maintenance costs, and to

support the new programs. Some new office buildings already have been built, including the Jack Case Center that holds about a third of the workforce, or around 1,500 employees. This \$58 million, 420,000-square-foot office building was completed in the summer of 2007. A new 137,000-square-foot visitor's center and auditorium, for about \$18 million, was also completed in 2007.

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

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

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

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

### *Solar*

Tennessee has seen unprecedented growth in the solar business with the introduction of state and federal incentives for solar power generation (the *Volunteer State Solar Initiative*) and an expansion of the TVA's buy-back program for the power generated by solar and other renewable technologies. The nationwide solar industry grew 69 percent during 2011. In Tennessee the amount of solar energy being generated went from about one megawatt in 2009 to over 77 megawatts in 2013. In 2015 the County announced plans to install 5 megawatts of solar photovoltaic systems on the rooftops of several County buildings to provide more than \$29 million in energy savings to the county over the next three decades. (See "RECENT DEVELOPMENTS" for more information.)

Located in Knoxville, the *Tennessee Solar Institute* is part of the new Volunteer State Solar Initiative with The University of Tennessee and Oak Ridge National Laboratory. The objective of the Initiative will be to find ways of reducing the cost of producing solar energy and ways to store energy until needed. Among other purposes, it brings together scientists, engineers and technical experts with business leaders, policy makers and industry workers to help speed the deployment of solar photovoltaic technology. It is designed to be a home for regional and state initiatives that foster the creation of new businesses.

Tennessee has attracted a several large solar manufactures to the state. A 2011 report by the Tennessee Solar Institute identified more than 200 organizations making up the state's solar industry, including 174 for-profit and 62 nonprofit businesses. Thirty-three of those businesses joined since 2009, with 15 setting up shop in 2010. There are also several more multi-megawatt solar farms either completed or under construction in the state.

East Tennessee has several manufacturing plants. In East Knoxville *Efficient Energy* built a 1.2 megawatt solar panel site with Natural Energy Group to be used for local research and education (see "RECENT DEVELOPMENTS"). In Roane County near the *Oak Ridge National Lab* a smaller array of 200-kilowatts was online in 2012 with plans to expand into the Brightfeld One Project. In Bradley County the \$2.4 billion *Wacker Polysilicon* plant will create 650 jobs to produce silicon used for the solar energy industry. It is expected to be completed in late 2015. Also in Bradley County a new \$30 million, 9.5 megawatts solar park is providing power to the *Volkswagen Plant* in Chattanooga. It is the state's largest solar array when it went on line in 2012.

In Middle Tennessee (Montgomery County), the 1,215-acre, \$1.2 billion dollar polycrystalline silicon manufacturing plant, Hemlock Semicondutor, closed in 2013 just prior to launching production. This resulted in 300 people being laid off due to significant oversupply in the polysilicone industry and the threat of protective tariffs on its products sold into China. The plant closed before production began, but the plant may start producing at any time once the market improves.

In West Tennessee Sharp Electronics in Shelby County (Memphis) has a large array consisting of nearly 4,160 solar panels for \$4.3 million that cover the plant's roof to generate about 200 kilowatts of power. Sharp Electronics also has produced over 2 million solar panels since 2003 and has over 480 employees. The West Tennessee Solar Farm in Haywood County has two solar arrays that came online in 2012: a \$31 million, five megawatt generating facility uses more than 21,000 panels, and another solar array that generates 1 megawatts of energy.

*Source:* Memphis Commercial Appeal, the News Sentinel and the University of Tennessee.

## **MANUFACTURING AND COMMERCE**

Because of its central location in the eastern United States, the Knoxville area serves thousands of industrial and commercial customers in a concentrated eight-state area. It is within 500 miles of approximately one-third of the population of the United States. The City for many years has been known as one of the south's leading wholesale markets. Located within the County and City are approximately 971 wholesale and distribution houses and more than 1,629 retail establishments and more than 5,400 service industries.

As published in the 2015 Forbes magazine listed Knoxville as the fifth most affordable city in America based on housing prices, living costs and the consumer price index. In 2012 Knoxville was ranked tenth in economic-growth potential and eighth on the nation's fastest-growing cities in the Business Facilities publication.

Economic diversity characterizes Knoxville's landscape of commerce and industry, with companies like media giant Scripps Networks Interactive (HGTV, Food, Travel, DIY, Cooking,

and GAC) and Sysco Corporation (largest food service marketer and distributor in North America) calling the area home. Also here are national and global leaders Clayton Homes, Brunswick Corporation, Keurig Green Mountain, Bush Brothers, Pilot Flying J, and Ruby Tuesday.

The County has seven business parks and a Technology Corridor to meet a wide range of corporate facility needs. The Forks of The River Industrial Park has 1,460 acres with only 14 acres still available. EastBridge Business Park has 807 acres with about 153 left for development. WestBridge Business Park has 252 acres with about 11 acres left. Pellissippi Corporate Center has about 159 acres with 82 acres left. Hardin Business Park is a new light industrial park with the total 46 acres still available. CenterPoint Business Park is a commercial park full with about 56 acres. The 44-acre I-275 Business Park was sold to Sysco Corp.

The County had about 11,397 businesses and the MSA had 18,140 businesses operating in 2014. In 2014, 2,502 building permits totaled \$633,130 million. There were 614 industrial buildings totaling over 32.9 million in square feet in 2014. The vacancy rate for these buildings was 16.4%. The County had 401 manufacturing facilities in 2014 and the MSA had 780 for the same period.

Knoxville-Oak Ridge Innovation Valley Inc. is an investor-directed program for five counties designed to recruit, retain and expand business growth throughout the Innovation Valley region. The organization is focused on technology-led economic development, as well as education and workforce development. These two areas of focus represent key differentiators in this plan of work.

*Source:* Knox News Sentinel and Knox County Metro Planning Commission 2015.

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## LARGEST EMPLOYERS

The major areas of employment in Knox County are the services, retail trade and government. Comparatively, both the State and the Nation show a heavier concentration in manufacturing than does Knox County.

The following is a list of the major sources of employment in the Knoxville MSA:

### Ten Largest Employers in the County

<u>Name</u>	<u>County</u>	<u>Industry</u>	<u>Employment</u>
Covenant Health Alliance <sup>1</sup>	Knox	Health Care	10,458
Knox County Public Schools	Knox	Education	6,804
The University of TN, Knoxville	Knox	Education	6,660
University of TN Medical Center	Knox	Health Care	4,224
Tennova Health System <sup>2</sup>	Knox	Health Care	4,067
State of Tennessee	Knox	Regional Government	3,226
Knox County	Knox	Government	3,014
City of Knoxville	Knox	Government	2,828
K-VA-T Food Stores (Food City)	Knox	Retail	2,668
East TN Children's Hospital	Knox	Health Care	1,900

<sup>1</sup> Includes Ft. Sanders Reg Med Center, Parkwest, Methodist Med Center & all other Covenant Hospitals in the area.

<sup>2</sup> Includes all Tennova Health System hospitals in the area.

Source: Greater Knoxville Chamber of Commerce and the News Sentinel – 2015.

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### Major Employers in the Knoxville MSA

<u>Name</u>	<u>County</u>	<u>Industry</u>	<u>Employment</u>
Covenant Health Alliance <sup>1</sup>	Knox	Health Care	10,458
B&W Y-12 <sup>2</sup>	Roane	National Security	7,000
Knox County Public Schools	Knox	Education	6,804
The University of TN, Knoxville	Knox	Education	6,660
Oak Ridge National Lab <sup>2</sup>	Roane	National Security	4,374
University of TN Medical Center	Knox	Health Care	4,224
Wal-Mart Stores	MSA	Retail	4,100
Tennova Health System <sup>3</sup>	Knox	Health Care	4,067
Denso <sup>4</sup>	Blount	Automotive Parts	3,500
State of Tennessee	Knox	Regional Government	3,226
Knox County	Knox	Government	3,014
Kroger Co	MSA	Retail	2,851
City of Knoxville	Knox	Government	2,828
Clayton Homes	Blount	Mobile Homes	2,712
K-VA-T Food Stores (Food City)	Knox	Retail	2,668
Dollywood Co. <sup>5</sup>	Sevier	Amusement Park	2,500
Sevier County Schools	Sevier	Education	2,500
Lowe's Home Improvement	MSA	Retail	2,421
Blount Memorial Hospital	Blount	Healthcare	2,396
East TN Children's Hospital	Knox	Health Care	1,900
McGhee Tyson ANG Base	Blount	Air National Guard Unit	1,717
Team Health Inc.	Knox	Healthcare	1,640
Tennessee Valley Authority <sup>6</sup>	Knox	Power	1,600
U.S. Postal Service	MSA	Mail Service	1,545
Pilot / Flying J	Knox	Fuel and Travel Centers	1,529
Cracker Barrel	MSA	Restaurant	1,467
United Parcel Service	Knox	Transportation	1,450
Copper Cellar Corp	Knox	Restaurants	1,265
Summit Medical Group	Knox	Health Care Providers	1,220
Blount County Schools	Blount	Education	1,200
Elavon	Knox	Credit Card Processing	1,200
Brothers Management	Knox	McDonalds	1,200
ALCOA <sup>7</sup>	Blount	Aluminum Ingot, Coiled Steel	1,176
Roane County Schools	Roane	Public School System	1,150
CVS Caremark Inc.	MSA	Retail	1,100
Jewelry Television	Knox	Home-Shopping Cable Network	1,100
Darden Restaurants	MSA	Restaurants	1,080

<b><u>Name</u></b>	<b><u>County</u></b>	<b><u>Industry</u></b>	<b><u>Employment</u></b>
Anderson County Schools	Anderson	Education	1,050
Scripps Networks (HGTV)	Knox	Cable Networks	1,050
Target Co.	MSA	Retail	1,045
Home Depot	MSA	Retail	1,041
Walgreens Co.	MSA	Retail	1,000
Knoxville Utilities Board	Knox	Utilities	960
Southeast Foods Co.	MSA	Wendy's restaurants	959
Green Mountain Coffee Roasters	Knox	Manufacture	950
Oak Ridge Associated Universities <sup>2</sup>	Roane	National Security	933
Aubrey's Restaurants	Knox	Restaurants	925
Sears, Roebuck & Co.	MSA	Retail	903
Pellissippi State Tech. College	Knox	Education	785
First Tennessee Bank	Knox	Banking	773
SL Tennessee	Anderson	Auto Parts	750
Rural Metro – Tennessee	Knox	Fire and Emergency Service	750
Helen Ross McNabb Center	Knox	Mental Healthcare	750

<sup>1</sup> Includes Ft. Sanders Reg Med Center, Parkwest, Methodist Med Center & all other Covenant Hospitals in the area.

<sup>2</sup> Joint venture of University of Tennessee and Battelle

<sup>3</sup> Includes all Tennova Health System hospitals in the area.

<sup>4</sup> Headquarters based in Blount Co., but employment excludes some 874 employees working in McMinn Co.

<sup>5</sup> Employment figure is based on Operating season, it drops to around 300 during the off-season.

<sup>6</sup> Includes Corporate headquarters in Knoxville, Bull Run Steam Plant, Norris and Corryton.

<sup>7</sup> Includes some employees working in Knox Co.

*Source:* Dept. of Economic & Community Development, the News Sentinel & Anderson County Audit - 2015.

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## EMPLOYMENT INFORMATION

For the month of September 2015, the unemployment rate for Knoxville stood at 5.2% with 88,410 persons employed out of a labor force of 93,290. For the month of February 2015, the unemployment rate for Knox County stood at 4.8% with 217,680 persons employed out of a labor force of 228,590.

The Knoxville MSA's unemployment for February 2015 was at 5.3% with 384,510 persons employed out of a labor force of 405,890. As of February 2015, the unemployment rate in the Knoxville-Sevierville-Harriman-LaFollette CSA stood at 5.4%, representing 489,770 persons employed out of a workforce of 517,880.

	Unemployment				
	Annual Average	Annual Average	Annual Average	Annual Average	Annual Average
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
National	9.6%	8.9%	8.1%	7.4%	6.2%
Tennessee	9.7%	9.2%	8.0%	8.2%	6.7%
<b>Knoxville</b>	<b>8.8%</b>	<b>8.3%</b>	<b>7.4%</b>	<b>7.8%</b>	<b>6.1%</b>
Index vs. National	92	93	91	105	98
Index vs. State	91	90	92	95	91
<b>Knox County</b>	<b>7.6%</b>	<b>6.9%</b>	<b>6.3%</b>	<b>6.6%</b>	<b>5.5%</b>
Index vs. National	79	77	78	89	89
Index vs. State	78	75	79	80	82
<b>Knoxville MSA</b>	<b>7.9%</b>	<b>7.3%</b>	<b>6.6%</b>	<b>6.9%</b>	<b>6.2%</b>
Index vs. National	82	82	82	93	100
Index vs. State	81	79	83	84	93
<b>Knoxville-Sevierville- Harriman CSA</b>	<b>8.9%</b>	<b>8.3%</b>	<b>7.5%</b>	<b>7.7%</b>	<b>6.5%</b>
Index vs. National	93	93	93	104	105
Index vs. State	92	90	94	94	97

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

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A diversified economy is credited for the stability of local employment and wages. Employment by industry (excluding self-employed) for the Knoxville MSA in 2014:

<u>Industry</u>	<u>Employment Number</u>	<u>Percentage</u>
<b>Goods Producing</b>	<b>52,326</b>	<b>15.2%</b>
Agriculture/Forestry/Fishing/Hunting	1,284	0.4%
Construction	16,679	4.6%
Manufacturing	37,110	10.2%
Natural Resources/Mining	253	0.1%
<b>Service Providing</b>	<b>308,885</b>	<b>84.8%</b>
Accommodation /Food Services	35,661	9.8%
Administrative/Support/Waste Management	29,778	8.2%
Arts/Entertainment/Recreation	4,609	1.3%
Educational Services	34,875	9.6%
Finance/Insurance	13,614	3.7%
Health Care/Social Assistance	51,133	14.0%
Information	6,542	1.8%
Management of Companies/Enterprises	5,064	1.4%
Other Services (excludes Public Administration)	10,472	2.9%
Professional/Scientific/Technical Services	23,843	6.5%
Public Administration	10,144	2.8%
Real Estate/Rental/Leasing	4,305	1.2%
Retail Trade	47,071	12.9%
Transportation/Warehousing	12,457	3.4%
Utilities	2,484	0.7%
Wholesale Trade	<u>16,833</u>	<u>4.6%</u>
<b>TOTAL</b>	<b><u>364,211</u></b>	<b>100.0%</b>

*Source:* Knoxville-Knox County Metropolitan Planning Commission.

## ECONOMIC DATA

The quality of life, low cost of living and excellent transportation facilities are among the factors that attract firms to the Knoxville area. Telecommunications is a field that is rapidly growing in the area. Several national firms, Hospitality Franchise Systems (Days Inn), Talbots, Whirlpool and Sears have established telecommunication centers in Knoxville. The City has put significant emphasis on attracting companies to the area and on the expansion of existing facilities. Companies which have their corporate headquarters in Knoxville include Pilot Flying

J, Clayton Homes, Scripps Networks, Anchor Advanced Products, Inc., Regal Cinemas and Bandit Lites.

*Leisure Boat Manufacturing.* Due to the Tennessee Valley Authority system of lakes and rivers, East Tennessee is an excellent place to test boats without worrying about hurricanes while being near the Interstate crossroads. Channelization of the Tennessee River to a 9-foot minimum navigable depth from its junction with the Ohio River at Paducah, Kentucky to Knoxville, Tennessee gives the surrounding communities the benefits of year round, low cost water transportation and a port on the nation's 10,000 mile-inland waterway system. It takes a week to deliver the yachts too large for the interstate from the reservoir down the series of locks on the Tennessee River, along the Tennessee-Tombigbee Waterway, then on to the Gulf of Mexico and beyond. This system formed largely by the Mississippi River and its tributaries, effectively links the River with the Great Lakes to the north and the Gulf of Mexico to the south.

The Yamaha jet boat plant located in Monroe County expanded in 2015. A \$17.7 million expansion was begun, which will add 150 new jobs to the current work force of 335 employees.

*Source:* News Sentinel.

Boat manufactures in the area listed by county are below:

Knox County:	Bullet Boats, and Sailabration Houseboats
Monroe County:	Sea Ray Boats, Mastercraft Boats, Yamaha-TWI and Bryant Boats
Blount County:	Skier's Choice, Allison and Stroker Boats
Loudon County:	Malibu Boats and Christensen Shipyards
Cumberland County:	Leisure Kraft Pontoons
Campbell County:	Norris Craft Boat Company

*The Pavilion at Turkey Creek.* Turkey Creek is the largest single commercial development ever built in the metropolitan area of Knoxville. Designed for mixed use and beautifully landscaped, Turkey Creek boasts more than 300 acres of space zoned for retail shopping outlets, medical facilities, theaters, office space, banks, restaurants and hotels. The developers of Turkey Creek also created a 58 acre nature preserve and designed greenways throughout the site. Only three miles from the junction of Interstate 75 and 40 to the west and 14 miles from downtown Knoxville makes the site a quick drive from the urban center, suburban Knoxville, and rural counties.

Completed in 2002, the original 287,847 square foot complex is anchored by Office Max and Old Navy. Gander Mountain Company, specializing in outdoor equipment, opened its 66,000 square foot store for \$3.95 million in the fall of 2006. Belk, the nation's largest privately owned business, also opened a store in 2006. A row of furniture stores are open, including Braden's Lifestyles and Ethan Allen. Also, Earth Fare opened Tennessee's first organic market.

In 2009 several retail chains opened stores in Turkey Creek. Belk opened a new 30,000-square-foot store at Colonial Pinnacle that were part of a \$3.8 million expansion and renovation project. The final phase at Belk includes an adjacent 74,349-square-foot store that expanded the Women's and Children's offerings in the summer of 2009. JCPenneys opened a 104,000-square-foot freestanding store in Turkey Creek. Marshalls opened a new 5,000-square-foot store next to

Belk, and Off Broadway Shoes also opened a new store.

Historically, due to the County's predominantly commercial economic base, Knox County's level of per capita income has exceeded the State level each year. On the following page is a chart showing the per capital personal income for the County, the MSA and the CSA of the area.

	<b>Per Capita Personal Income</b>				
	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>
National	\$39,379	\$40,144	\$42,332	\$44,200	\$44,765
Tennessee	\$34,439	\$35,426	\$37,151	\$39,002	\$39,558
<b>Knox County</b>	<b>\$36,341</b>	<b>\$37,367</b>	<b>\$39,602</b>	<b>\$40,972</b>	<b>\$41,533</b>
Index vs. National	92	93	94	93	93
Index vs. State	106	105	107	105	105
<b>Knoxville MSA</b>	<b>\$33,723</b>	<b>\$34,714</b>	<b>\$36,586</b>	<b>\$37,997</b>	<b>\$38,506</b>
Index vs. National	86	86	86	86	86
Index vs. State	98	98	98	97	97
<b>Knoxville-Sevierville-Harriman CSA</b>	<b>\$32,548</b>	<b>\$33,476</b>	<b>\$35,223</b>	<b>\$36,557</b>	<b>\$37,039</b>
Index vs. National	83	83	83	83	83
Index vs. State	95	94	95	94	94

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

## **RECREATION AND TOURISM**

Although industry is frequently considered the core of an economic base, secondary and tertiary activities also make important contributions to economic development. The convention and tourist business contribute to the City's economic base in the sense that income is drawn into the region resulting in employment and investment opportunities in tourist-related facilities.

This influx in tourist related income provides stimulus to economic development in the area. In recognition of the important role tourism plays in the economy of the County, local authorities created the Knoxville Tourism and Sports Corporation. The organization's purpose is to encourage tourism and tourist-related activity.

*Sports.* Knox County has over 6,200 acres of park and recreation space, including 25 recreation centers, seven senior citizen centers, three skateparks, 10 public golf courses, and approximately 157 miles of greenway and walking trails. Just three miles from downtown is 1,000 forested acres and 40 miles of multiuse trails known as Knoxville Urban Wilderness. Two big attractions for both young and old are the Knoxville Zoological Gardens and Ijams Nature

Center. The Tennessee Smokies provide AA minor league baseball in neighboring Sevier County. The Knoxville Ice Bears provide professional hockey at the Coliseum October through March. National championship UT sports teams, including the 2007 and 2008 NCAA National Champions Lady Vols, draw thousands of enthusiasts to games each year. The city is also home to the Women's Basketball Hall of Fame.

State and National Parks. The County is the principal gateway area to the Great Smoky Mountains National Park (GSMNP), located 40 miles to the southeast. The beauty of the Great Smoky Mountains has always attracted visitors to this region. There are over 500,000 acres that make up the nation's most visited National Park, extending over the States of Tennessee and North Carolina. The GSMNP received over 10 million visitors in 2014, more than twice the number of any other national park in the country. Major attractions in the Smokies are Gatlinburg (40 miles southeast of the City), a tourist town in the mountains with overnight accommodations for 60,000 people, and Pigeon Forge (20 miles southeast of the City), and a tourist town at the foothills of the mountain with overnight accommodations for 40,000 people. Numerous restaurants, gift and craft shops, along with ski lodge, ski lifts and tramway, make Gatlinburg a year-round resort town. Pigeon Forge is known for being home to hundreds of retail outlets and Dollywood, a theme park named for the country music singer, Dolly Parton.

Other parks and recreational areas in the Greater Knoxville area include: Big South Fork National River and Recreational Area 100,000 acres; Frozen Head State Natural Area 11,562 acres; Norris Dam State Resort Park 4,000 acres; Big Ridge State Park 3,687 acres; Cumberland Mountain State Park 1,720 acres; Panther Creek State Park 1,400 acres; Cove Lake State Recreational Area 667 acres; Roan Mountain State Resort Park 600 acres; Fort Loudon State Historical Area 500 acres; Indian Mountain State Park 213 acres; Warriors' Path State Recreational Park 500 acres; Trail of the Lonesome Pine: State Scenic Trail 35 miles; and Cumberland Trail: Section II: Tennessee Scenic Trails System Act 31 miles.

Lakes and Wildlife. Seven TVA lakes surround Knoxville and provide year-round fishing and boating. There are no closed seasons on TVA waterways. Area lakes provide over 3,425 miles of shoreline and 266 square miles of water surface.

Alpine Skiing. Ober Gatlinburg Ski Resort in Sevier County and Cumberland Gardens Resort in nearby Cumberland County offer convenient facilities for winter skiing.

Conventions, Events and Festivals. Special seasonal events include the Dogwood Arts Festival in the spring, Sundown in the City during summer months and December's celebration, Christmas in the City. Knoxville supports an active tourism and convention trade with a 500,000-square foot convention center located downtown at World's Fair Park. Other local facilities are a large civic coliseum/auditorium, two exhibition halls, and UT's 22,000-seat Thompson Boling Arena.

Cultural Activities. The General James White Memorial Civic Auditorium and Coliseum Complex hosts the Knoxville Symphony Orchestra, touring Broadway productions, ice shows, circuses and concerts of all types and the professional hockey team, The Knoxville Ice Bears. The historic Tennessee Theatre and the Bijou Theater offer a variety of live entertainment. Local

radio station WDVX hosts a live radio broadcast weekdays downtown called “The Blue Plate Special” where nationally known artists and area performers appear free of charge.

The University of Tennessee Theaters continues to provide a wealth of entertainment and culture to Knoxville. The Clarence Brown Theater, the University’s premier performance space seats 600 in a proscenium theater. The Clarence Brown Theater Company is dedicated to the classics of the stage and produces three full scale and one or two touring productions each season. The Carousel Theater is the University’s smaller theater which holds 250-300 people.

The Knoxville Museum of Art and the Emporium Center for Arts and Culture feature changing exhibits throughout the year, while the area’s libraries, historic sites, and museums, such as East Tennessee History Center, McClung Museum of Natural History and Culture, Museum of Appalachia, and Beck Cultural Center, celebrate regional heritage.

Other popular events in Knoxville are presented by the Knoxville Symphony, Knoxville Chamber Orchestra, Knoxville Community Bank, Knoxville Opera Company, the City Ballet, the Appalachian Ballet, Metropolitan Dance Theater, the Knoxville Ballet, the Tennessee Stage Company, the Community Theater, the Knoxville Choral Society, Sidewalk Dance Company and the Children’s Dance Ensemble, the only professional dance troupe for children in the country.

*Ijams Nature Center.* Ijams Nature Center is a nonprofit environmental education and resource center located on eighty acres on the banks of the Tennessee River in South Knoxville. The area encompasses woods, meadows, sinkholes, a spring-fed pond, and informal perennial gardens connected by a series of trails. The park has been developed to display East Tennessee’s ecological systems at work and provide a conservation area for wildlife indigenous to the park. A number of high-quality programs, events, and environmental information are available to schools, the media and the general public.

*The Knoxville Zoo.* The Knoxville Zoological Gardens is recognized as one of the top 20 zoos in America. It is located on 80 acres and has more than 1,000 species of animals. The Knoxville Zoo has the largest “big cat” collection in the United States and is home to the first African Elephant birth in the United States and the newly developed Gorilla Valley. This zoo has a collection of red pandas and is the world leader in captive breeding of this rare breed.

*Source:* Knoxville News Sentinel and the Knox County Metro Planning Commission.

## **RECENT DEVELOPMENTS**

Following are some recent developments within the boundaries of the City and County and the Knoxville MSA that have had a direct economic impact on the area. The source for statistical information below is the Knoxville Area Chamber Partnership, the City of Knoxville, the Knoxville-Knox County Metropolitan Planning Commission, the Knoxville News Sentinel and The Daily Times.

### **EAST KNOX COUNTY**

*Brunswick Boat Group.* The Brunswick Boat Group closed the Sea Ray production plant in the Forks of the River Industrial Park in 2012. Production was moved to other Brunswick

plants in nearby Monroe County, TN and Florida. About 225 jobs at the plant were lost due to the closing. However, the company will keep the Sea Ray Boat's headquarters at the Forks of the River Park, and the Brunswick Boat Group's headquarters will remain in downtown Knoxville. A decline in boat sales led to the layoffs at many East Tennessee plants, totaling 1,000 employees within the company to be let go. Sea Ray Boats moved to the Forks of the River Park in 1978 and in Monroe County in 1983. At one point the company had as many as 2,000 workers in Knox County.

*East Tennessee Zinc Co.* As of 2009, East Tennessee Zinc Co. has sold its three zinc mines in Jefferson and Knox Counties to the Belgium company Nyrstar NV for \$126 million. East Tennessee had idled the mines in early 2009 due to zinc prices plummeting to about 52 cents a pound. 320 workers were laid off with about 70 staying on to maintain the mines. As of October 2010, Nyrstar has reopened the Coy mine with a limited employment and production. No date has been announced yet when all three mines will be back in full operation again.

The Young mine in New Market opened in 1956; the Coy mine in Strawberry Plains was started in 1957; and the Immel mine in East Knox County's Mascot community opened in 1965. Zinc from the Young, Coy and Immel mines is widely used to galvanize steel.

*Efficient Energy of Tennessee.* Efficient Energy, in partnership with Natural Energy Group, built a solar panel site in East Knoxville in 2010. The site has more than one megawatt worth of solar panels on a five-acre lot. The 4,608 solar panels can produce nearly 1.2 megawatts of electricity, enough to power about 125 homes. The site will also be a resource for local research and educational organizations, such as the Oak Ridge National Lab, Cleveland State Community College and Pellissippi State community College.

*Fresenius Medical Care.* The German company Fresenius Medical Care announced plans to locate its East Coast manufacturing facility in Knoxville. The company is a renal services provider. The \$140 million project will begin to build a dialysis production plant in 2016 in the city's old Panasonic building. It is expected to create about 665 jobs.

*Green Mountain Coffee.* In 2011 it was announced a partnership with Starbucks to sell individual coffee packs of the Starbucks brand coffee. The company shares have spiked in value recently due to the success of the company's K-Cup business, which is individual coffee packs for single cup servings. The company bought three large acquisitions in 2009: Tully's Coffee Brand for \$40.3 million, Timothy's Coffees of the World Inc. for \$157 million and Diedrick Coffee Inc. for \$290 million. An \$8 million coffee roasting equipment was installed and coffee silos were built in 2009. Green Mountain Coffee Company built a \$4 million expansion of its Knox County operation to boost efficiency, without many jobs created. The company started production in late 2008 at a new 334,000-square-foot facility in Forks of the River Industrial Park. The company invested about \$55 million dollars on the plant and had a staff of about 25. Green Mountain's Knoxville operation employs about 900 people in 2013.

*Knox County Detention Center.* The Detention Center in east Knoxville installed over 300 solar panels, five solar storage tanks, 65 concrete pads and more than 6,000 feet of copper piping to make it one of the largest solar thermal systems for domestic use in the nation. Trane, Knox County and FLS Energy partnered to save Knox County \$60,000 annually in switching

from natural gas to solar power as the primary way to heat water for the detention center's 1,036 inmates. The project was funded by a \$1.88 million grant from the U.S. Department of Energy Efficiency. The County also plans to renovate and upgrade 40 facilities, 24 parks and 37 traffic intersections with the grant money, all completed in January 2011. The total project is expected to save the County about \$6 million annually.

*Leisure Pools.* Leisure Pools, which makes composite swimming pools, announced in 2013 that it was moving its headquarters to Knox County and creating about 240 jobs. The company acquired the old Sea Ray facility in the Forks of the River Industrial Park for about \$4.5 million. Many of the laid-off Sea Ray employees will transition to the new company since much of the same equipment and systems used by the boat company will be used by Leisure Pools.

*Melaleuca.* Located in the Forks of the River Industrial Park, Melaleuca is expanding its operations and will hire up to 500 more workers in the next 10 years. A new 222,000-square-foot distribution center was opened in mid-2010. Melaleuca produces nutritional supplements, cleaning supplies, personal care and other products and sells these through workers who operate as direct marketers. The company has been operating in Knoxville since 1993.

## **WEST KNOX COUNTY**

*ADT Corporation.* A planned expansion to facilities and work force in 2013 resulted in about 300 more workers to its workforce. ADT provides electronic security for residential and small business customers in the U.S. and Canada. Its Knoxville center has about 300 workers and following a recent upgrade, the facility is now ADT's IT Disaster Recovery Center.

*Cellular Sales Verizon Wireless.* Cellular Sales Verizon Wireless is a Knoxville-based company that operates authorized Verizon Wireless stores nationwide. The company began expanding its facility in West Knoxville that resulted in 250 new jobs when completed in 2014. The company operates nearly 500 stores across the country. The Knoxville-based company is the nation's largest premium Verizon retailer.

*Comcast.* The Comcast call center began hiring 250 new employees in 2015, part of the mass media company's move to enhance nationwide customer care. The jobs will be filled before the end of 2017. The move will allow Comcast to answer more calls in an efficient and timely manner. The expansion is part of a national Comcast hiring wave, with a projected 5,500 new jobs to be created across America within the next three years. The changes have greatly affected the Knoxville branch, a 96,000-square-foot facility that underwent a \$7 million dollar face-lift in 2015.

*East Tennessee Healthcare Center.* Construction has been completed in 2014 on a \$119 million proton therapy center in the East Tennessee Healthcare Center. ProNova, a division of Provision Health Alliance, installed three cyclotron parts for its compact proton therapy system. The two-room ProNova SC360 system uses patent-pending superconducting magnet technology to treat cancer patients. It will be the first in the world to treat patients in this manner. The system is small and more cost effective than traditional proton therapy systems. The system came on line in December of 2014, and after testing should be treating patients in 2016.

The development is situated on 120 acres in the 90,000-square-foot facility Dowell Springs Business Park, a central location to physicians, hospitals, and area residences. The project has an estimated \$1.5 million annual economic impact that will create 1,250 construction jobs and 100 full time employees. Proton therapy is a noninvasive and painless form of precision radiation treatment that has minimal to no side effects. It is expected to treat up to 1,500 patients per year. There are about 10 proton therapy centers operating in the country.

Initial construction completed in 2009 included a \$35 million medical office development, consisting of two buildings which offered 175,000 square feet of clinical and office space. The Knoxville Comprehensive Breast Center and Tennessee Cancer Specialists are the anchor tenants of the office space. Plans for the grounds support the East Tennessee Healthcare Center's holistic approach to wellness and healthy living with "walking paths, waterfalls and beautiful mountain views."

*Regal Entertainment Group.* Headquartered in Knoxville, Regal Cinemas opened 4 new IMAX locations across the country in 2010. Regal has an agreement with Imax Corporation. Regal Cinemas' Pinnacle 18 opened an \$18-million megaplex in 2005 in Turkey Creek. The 18-screen theater encompasses over 82,000 square-foot. Regal Cinemas is one of the nation's fastest growing theater companies. Major movie premiers have occurred at the Pinnacle.

*Scripps Networks.* The Travel Channel (part of the Scripps Networks) announced it was moving its headquarters from Maryland to Knoxville by the middle of 2016. About 100 employees will be moving with the company. Scripps Network relocated its corporate headquarters in 2010 to Knoxville from Cincinnati. The company's technical center - which includes satellite uplink operations, a control center for all its television networks and a wide range of other administrative, business and creative functions - is based in Knoxville. Scripps Network is the home of Home and Garden TV network and had revenues totaling \$2.5 billion in 2013.

*Tennova Healthcare.* Tennova will begin construction on a new \$303.5 million hospital in west Knoxville. The 272-bed, five-story facility will replace Physicians Regional Medical Center, formerly called St. Mary's. The new facility is scheduled to open in 2018.

#### **NORTH KNOX COUNTY**

*WS Packaging Group, Inc.* WS Packaging opened a new \$43 million expansion in 2014 of its current operations by opening a new location in the PBR building in northwest Knox County. The expansion increased operations and consolidated its Knoxville facilities. The expansion brought 231 new jobs.

#### **SOUTH KNOX COUNTY**

*Baptist Hospital Site.* Developers began tearing down the former Baptist Hospital site in early 2014 to make way for a \$125 million to \$150 million redevelopment that will include a hotel, apartments, student housing and retail. Located on the other side Fort Loudoun Lake from downtown Knoxville, the former hospital has been mostly vacant for years. The demolition should be completed in 2015.

*Cityview at Riverwalk.* A 122-unit waterfront condominium on the site of Knoxville Glove Co. at the South Knoxville waterfront broke ground in spring of 2006 and went into receivership in May 2009. The developers were in default of a \$23 million construction loan. The site was sold to developers for about \$15 million. The development consists of one-, two- and three-bedroom units, ranging in price from \$165,000 to more than \$300,000. The total cost of the residential development is about \$30.5 million and was completed in 2010. Cityview amenities include a fitness center, covered secured parking and a marina. The 96-slip marina has been approved by TVA, and some slips are to be sold to the public.

## **DOWNTOWN BUSINESS DISTRICT**

*Community Health Alliance.* The nonprofit insurer, Community Health Alliance, expanded its Knoxville operations at its offices in the Miller's Building, located downtown. The insurer added 70 employees at a customer service center to help enroll individuals in the federal health insurance exchange. Community Health also has offices in Memphis, Chattanooga and Nashville.

*Converted Apartments.* Several notable downtown buildings have been converted into apartment spaces. A former office property, the Medical Arts Building, was converted to 49 apartments with some retail spaces in 2014. It is located close to the courthouses and has an attached parking garage. The Tailor Lofts building on Gay Street was also converted into nine apartments plus a ground-floor restaurant.

*East Tennessee Children's Hospital.* The non-profit Children's Hospital began construction in the summer of 2014 for a \$75 million expansion that should be completed in 2016. The expansion will offer over 245,000 square feet of new space, including a 44-bed, private room Neonatal Intensive Care Unit, a new perioperative surgery center, two levels of parking and enhanced family areas, such as roof-top gardens.

*Fort Sanders Apartments.* A Georgia firm bought up property near the Fort Sanders Hospital for \$6.3 million to build 240 student apartments. Construction began in 2015 and is expected to be completed in mid-2016.

*Gulf & Ohio Railways.* The Knoxville Locomotive Works operation of the Gulf & Ohio Railways, a Knoxville-based short line railroad, began renovating its existing facility to begin producing locomotives based on its fuel-efficient prototype. This \$6 million expansion created 203 jobs for the company and was operational in 2014.

*Marble Alley Lofts.* Just off Gay Street, a developer began construction in 2014 on a 238-unit apartment complex. The project was in development since 2009. The first phase of construction includes an internal parking garage with the apartment building foundations to be built surrounding the garage. Additional retail and commercial space would be added in the second phase.

*Solar Arrays on County-Owned Buildings.* In 2015 the County announced plans to install 5 megawatts of solar photovoltaic systems on the rooftops of several County buildings. The \$12.5 million project is expected to provide more than \$29 million in energy savings to the

county over the next three decades. Along with the Knox County Central building, a total of 11 schools and three other public buildings will have the solar panel. In all the project would support more than 125 jobs during the installation phase. The solar array at the L&N Stem Academy will be connected to a kiosk that the students can participate in monitoring the system.

*Tennessee Valley Authority.* Tennessee Valley Authority (the “TVA”) was established as a wholly-owned corporate agency and instrumentality of the United States of America by the Tennessee Valley Authority Act of 1933, as amended. The Act’s objective is the development of the resources of the Tennessee Valley and adjacent areas in order to strengthen the regional and national economy and the national defense. Its specific purposes include: (1) flood control on the Tennessee River and its tributaries, and assistance to flood control on the lower Ohio and the Mississippi Rivers; (2) a modern navigable channel for the Tennessee River; (3) ample supply of power within an area of 80,000 square miles; (4) development and introduction of more efficient soil fertilizers; and (5) greater agricultural and industrial development and improved forestry in the region. TVA, a corporation owned by the U.S. government, provides electricity for utility and business customers in most of Tennessee and parts of Alabama, Mississippi, Kentucky, Georgia, North Carolina and Virginia — an area of 80,000 square miles with a population of 9 million. The utility operates 29 hydroelectric dams, 11 coal-fired power plants, three nuclear plants and 11 natural gas-fired power facilities and supplies up to 33,700 megawatts of electricity via more than 16,000 miles of high-voltage power lines.

In 2014 750 employees voluntarily retired or resigned from TVA. Another 1,000 vacant positions were eliminated to result in the largest staff reduction that the federal utility has undergone in more than 20 years. The goal is to reduce \$500 million in annual expenses in 2015.

Due to a massive, 2010 ash spill at a coal plant in Roane County, TVA has instituted a strategic vision that by 2015 it would meet a portion of its power needs through energy efficiency and demand response measures, nuclear power and natural gas.

In April of 2011 TVA announced plans to retire 18 coal-fired units at three of its older fossil plants, effectively closing one of the plants. This action is in an unprecedented agreement with the Environmental Protection Agency, four states and three environmental groups to settle complaints that the federal utility violated the Clean Air Act. TVA's board of directors approved the shutdown of two units at the John Sevier plant near Rogersville, Tenn., six at Widows Creek in North Alabama and all 10 units at the Johnsonville plant in Middle Tennessee. The permanent shutdowns, called retirements, will take place in phases through 2017 and will affect 300 to 400 workers. The combined idled and retired units will reduce TVA's coal-fired capacity by 2,700 megawatts out of total 17,000 megawatts generated by the country's largest public utility. The utility also has to invest \$3 billion to \$5 billion on pollution controls and \$350 million on clean energy projects. Penalties included a \$1 million to the National Park Service and the National Forest Service and a civil penalty of \$10 million to various entities, including the States of Alabama, Kentucky and Tennessee.

The Unit 2 reactor at Watts Bar Nuclear Plant in Rhea County, TN was granted an operating license in October of 2015, nearly 43 years after the original construction permit was awarded. The license allows TVA to load nuclear fuel into the new unit and begin testing of the equipment. It is estimated to cost \$2.5 billion dollars and should be producing power in early

2016. In 2007 TVA restarted a nuclear reactor at Browns Ferry in North Alabama. It was the first time the reactor had been at full power in 22 years. TVA, a federal utility, spent five years and about \$2 billion revamping the reactor. It was the first increase in the United States' nuclear generating capacity since 1996.

## UNIVERSITY OF TENNESSEE

The University of Tennessee Knoxville Campus is undergoing a record \$1 billion makeover to transform the look and feel of the campus. As of mid-2015 about one-fourth of the university's footprint is under construction in an effort to improve facilities and infrastructure to become a Top 25 public research institution.

*Ayres Hall.* The historic hall, built in 1921, underwent a \$23 million renovation in 2010. The building was made more energy efficient to be LEED certified, a front patio, marble walls and clocks were added to its bell tower.

*Cherokee Campus.* The Cherokee Farm concept came into being about in 2001 years ago as a way to further research by UT and ORNL in computational sciences, climate and environment, advanced materials, biomedical sciences, and renewable energy. UT and ORNL started development of the campus with \$87 million in capital investments and incentives. This is part of a UT goal to join the ranks of the nation's top 25 public research universities. The former site of UT's 188-acre dairy operation was chosen, and development of 77 acres of the property began in 2010. The farm is less than a mile from the Knoxville campus.

The first building, the \$47 million, 142,000-square-foot Joint Institute for Advanced Materials facility, is due to open in early 2015. The rest of the campus will include 16 building sites, seven of which are ready. These sites, ranging up to 2 acres, should allow a total of 1.6 million square feet of development. Moving research to the proposed Cherokee campus would free up buildings on the main campus, which could be renovated and used for additional administration and instructional space.

The Joint Institute for Advanced Materials building will house seven high-powered microscopes that researchers from UT, ORNL and elsewhere will use in screening and analyzing materials. The work is oriented toward producing strong, lightweight materials for the automotive and aerospace industries. Researchers will also be able to make use of supercomputers Kraken at UT and Titan at ORNL.

*Classroom and Science Laboratory Facility.* A new 22,000-square-foot, \$5 million building will house a classroom and science laboratory facility. It is expected to be completed in 2018. It will house research laboratories, a vivarium, classrooms, and faculty offices. It will be between the Jessie Harris Building and the Hoskins Library.

*Min H. Kao Electrical Engineering and Computer Science Building.* The first new engineering building on the UT campus in nearly 50 years opened in early 2012. The \$37.5 million, 150,000-square-foot building will consolidate engineering students into one building for classrooms and labs.

*Science Laboratory Facility.* In early 2015 construction began on the new Science Laboratory Facility, a \$114 million nine-story modern science class and laboratory facility at the Strong Hall dormitory site. It will feature 500-seat and 250-seat lecture halls, general purpose classrooms and house the Anthropology and Earth and Planetary Sciences departments.

*Steam Plan Conversion.* The coal-fired boilers will be removed and replaced with natural gas boilers at the steam plant on campus. The conversion is expected to cost \$25 million and will be completed in 2016. The large smokestacks will also be removed.

*Stokely Athletic Center and Dorm Gibbs Hall.* In 2014 demolition was completed on the closed and outdated buildings that are Stokely Athletic Center and Gibbs Hall. The Stokely Athletic Center, the home of the basketball team before the move to the Thompson-Boling Arena, was built in 1958 and was closed in 2012. The Dorm Gibbs Hall was built in 1963 with only the dining services remaining operating in recent years. Plans are to first to build a 1,000-space parking garage along Volunteer Boulevard, costing \$24.4 million. It is expected to finish in summer 2015. Next the UT will build a 600 bed co-ed resident hall, with added services like dining. That will cost \$64.3 million and is planned for a summer 2016 completion date. And third, an extension to the current Haslam football practice field is planned. According to UT, a sole private donation will fund the \$10 million project. That is expected to start in 2016.

*Student Union.* The new 391,000-square-foot, six-story, \$160 million Student Union project began construction in 2014 and will be completed in 2017. It will replace the outdated University Center that was originally built in 1952. It will hold a 50,000-square-foot bookstore, ten dining establishments, a 10,000-square-foot auditorium and a 12,000-square-foot ballroom.

*Support Services Complex.* Expected to be completed in 2016, the new Support Services Complex is a \$18.7 million complex that reuses the a former industrial facility to house the 91,000-square-foot Department of Facilities headquarters and other units. It will feature offices, warehouses, workshops, labs and fleet parking.

*Torchbearer Plaza / Circle Park.* The \$1.2 million renovation project on the Torchbearer statue at Circle Park will be completed by the fall of 2015. The project will rebuild and enlarge the plaza area with renovating the landscaping and lighting.

*University Health System.* Construction was completed in October of 2012 on a new \$25 million Cancer Institute. The new building is almost triple the size of the existing facility to 100,000 square feet. It is located adjacent to the current facility. Also in 2011 the UT Graduate School of Medicine broke ground on an \$8 million project that will expand and renovate its family medicine clinic and academic training facility. The first phase of the project is to be completed in late 2012.

The new Heart Hospital was opened in 2010. The four-story, 126,000-square-foot, \$26 million facility will serve the inpatient needs of the hospital's Heart Lung Vascular Institute. Just like the 103,000-square-foot Heart Lung Vascular Institute, which opened in 2004, the new tower also will promote medical staff collaboration and offer multi-disciplinary care to patients. UT Medical Center is the area's only teaching hospital and Level One trauma center.

*University of Tennessee Veterinary Hospital.* An expansion and renovation of the Veterinary Medical Center's Equine and Farm Animal Hospitals began in 2011. Completion of the \$21 million project on the agriculture campus was in December 2012. The \$8 million expansion for the small animal clinic was completed in 2008. UT's veterinary hospital treats about 35,000 animals annually.

*West Housing Redevelopment.* The West Housing Redevelopment project is a multiphase, \$234 million project to replace the dining facilities and six residence halls (north Carrick, South Carrick, Reese, Humes, Morrill, and Andy Holt Apartments) with seven new halls and a community / dining facility on the Presidential Court Complex. The first new residence hall to be built in 43 years, Fred Brown Residence Hall, opened for the 2014-2015 semester. The others should be finished by 2019.

*William M. Bass Forensic Anthropology Building.* A new building on the campus of the UT Medical Center was dedicated to one of the world's foremost forensic anthropologists, Dr. William Bass. The new, privately funded building will enhance research programs and provide classroom facilities for UT students and the many law enforcement, fire and medical professionals who train at the adjacent Anthropological Research Facility, also known as the Body Farm. Dr. Bass created the Body Farm in 1981, and more than a quarter of the nation's board-certified forensic anthropologists, who serve in key roles in government, museums and private sector jobs, were trained.

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## **APPENDIX C**

### **SUMMARY OF BOND RESOLUTION**



## **SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION AND SUPPLEMENTAL RESOLUTION**

### **Authorization**

The resolution adopted by the Board of Commissioners of the District (the "Board") on June 11, 1997, as amended and restated in its entirety by a resolution adopted by the Board on August 27, 2009 (the "General Resolution"), as supplemented by a resolution adopted by the Board on October 28, 2010 and December 9, 2015 (collectively, the "Resolution") authorizes the District to issue Bonds.

### **Definitions**

For purposes of this discussion as used herein, the following capitalized terms are defined in the Resolution as follows:

(a) "Acquired System" shall mean any separate water or sewer system or any combination thereof acquired by the District pursuant to State law.

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

(c) "Authority" shall mean The Public Building Authority of Sevier County, Tennessee or any other governmental authority authorized to make loans to the District to finance or to refinance extensions and improvements to the System.

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

(e) "Bond Fund" shall mean the Bond and Interest Fund established pursuant to the Resolution.

(f) "Build America Bonds" shall mean Taxable Bonds of that name as described in the Recovery Act which are issued by the District pursuant to Section 54AA of the Code for which the District elects to receive Direct Subsidy Payments in an amount equal to a percentage of the interest paid on such Bonds.

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

(h) "Code" shall mean the Internal Revenue Code of 1986, as amended, and all lawful regulations promulgated or proposed thereunder.

(i) "Compound Accreted Value" shall mean the value at any applicable date of any Capital Appreciation Bond, computed as the original principal amount thereof for each maturity date, plus an amount equal to interest on said principal amount (computed on the basis of a 360-day year of twelve 30-day months) compounded semi-annually on such dates as shall be

established by the Series Resolution authorizing the Capital Appreciation Bonds, from the dated date to said applicable date, at an interest rate which will produce at maturity the Maturity Amount for such maturity date.

(j) "Credit Facility" shall mean, with respect to any Obligations, a Letter of Credit and any Substitute Credit Facility provided by the borrower for such Obligations.

(k) "Credit Provider" shall mean, with respect to any Obligations, the provider of any Credit Facility.

(l) "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 water, salaries and wages, cost of material and supplies, and insurance premiums, but shall exclude depreciation, amortization and interest on any bonds, notes or other obligations of the District; provided that any payments made by the District to purchase water 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 water 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;

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

(1) The Debt Service Requirement with respect to Variable Rate Indebtedness shall be determined as if the variable rate in effect at all times during future periods equaled, at the option of the District, either (A) the average of the actual variable rate which was in effect (weighted according to the length of the period during which each such variable rate was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period), or (B) the current average annual fixed rate of interest on securities of similar quality and tax status and having a similar maturity date, as certified by a Financial Adviser.

(2) The Debt Service Requirement with respect to any Hedged Obligations for so long as the provider of the related Hedge Agreement has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by the District on such Hedged Obligations pursuant to their terms and (y) the amount of Hedge Payments payable by the District under the related Hedge Agreement and subtracting (z) the amount of Hedge Receipts payable by the provider of the related Hedge Agreement at the rate specified in the related Hedge Agreement; provided, however, that to the extent that the provider of any Hedge Agreement is in default thereunder, the amount of interest payable by the District on the related Hedged Obligations shall be the interest calculated as if such Hedge Agreement had not been executed. In determining the amount of Hedge Payments or Hedge Receipts that are not fixed throughout the Hedge Period (i.e., which are variable), payable or receivable for any future period, such Hedge Payments or Hedge Receipts for any period of calculation

(the "Determination Period") shall be computed (i) by assuming that the variables comprising the calculation (e.g., indices) applicable to the Determination Period are equal to the average of the actual variables which were in effect (weighted according to the length of the period during which each such variable was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period) or (ii) by using the same assumptions with respect to the Hedged Obligations as may be used for determining the assumed interest rate for Variable Rate Indebtedness.

(3) For the purpose of calculating the Debt Service Requirement on Balloon Indebtedness and Short-Term Indebtedness, at the option of the District, (x) the actual principal and interest on such Balloon Indebtedness and Short Term Indebtedness shall be included in the Debt Service Requirement, subject to the other assumptions contained in the Resolution, or (y) such Balloon Indebtedness and Short Term Indebtedness shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period of 20 years at an assumed interest rate (which shall be the interest rate certified by a Financial Adviser to be the interest rate at which the District could reasonably expect to borrow the same amount by issuing bonds with the same priority of lien as such Balloon Indebtedness and Short Term Indebtedness and with a 20-year term); provided, however, that if the maturity of such Balloon Indebtedness is in excess of 20 years from the date of issuance, then such Balloon Indebtedness shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period of years equal to the number of years from the date of issuance of such Balloon Indebtedness to maturity and at the interest rate applicable to such Balloon Indebtedness; provided further that this paragraph shall not be applicable for purposes of determining the District's Debt Service Requirement for purposes of the resolution unless the District has a written commitment from a bank, underwriting firm or other financial institution with a Rating in the investment grade rating categories of at least one Rating Agency (ignoring any gradations within a Rating Category) to refinance at least 90% of the principal amount of such Balloon Indebtedness or Short-Term Indebtedness coming due in the relevant Fiscal Year.

(4) For the purpose of calculating the Debt Service Requirement on any Obligations or proposed Obligations with respect to which the federal government or any agency thereof is obligated to make tax refunds or other payments to the District for the purpose of reducing the interest costs associated therewith (including, without limitation, build America bonds under Section 54AA of the Internal Revenue Code of 1986, as amended), the District may offset any stated interest payment on such Obligations or proposed Obligation by the amount of the scheduled tax refund or other payment corresponding thereto.

(n) "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 in the Resolution, 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.

(o) "Direct Subsidy Bonds" shall mean Build America Bonds issued pursuant to the Resolution.

(p) "Direct Subsidy Payment" shall mean, with respect to Direct Subsidy Bonds issued pursuant to the Resolution, payments in an amount equal to a percentage of interest paid on such Bonds provided directly to the District from the United States Treasury Secretary, or other party designated by the federal government to issue such payments.

(q) "District" shall mean West Knox Utility District of Knox County, Tennessee.

(r) "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.

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

(t) "Fiscal Year" shall mean each fiscal year of the District as determined from time to time by the Governing Body. As of the date hereof, the fiscal year of the District is the annual period which begins on July 1 any calendar year and ends on June 30 in the following calendar year.

(u) "Governing Body" shall mean the Board of Commissioners of the District.

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

(w) "Hedged Obligations" shall mean any Obligations for which the District shall have entered into a Hedge Agreement.

(x) "Hedge Payments" shall mean amounts payable by the District pursuant to any Hedge Agreement or under a Loan Agreement (including the II-D-2 Loan Agreement) that relate to a Hedge Agreement, other than Termination Payments, fees, expenses, and indemnity payments.

(y) "Hedge Period" shall mean the period during which a Hedge Agreement is in effect.

(z) "Hedge Receipts" shall mean amounts payable by any provider of a Hedge Agreement pursuant to such Hedge Agreement, other than Termination Payments, fees, expenses, and indemnity payments.

(aa) "Loan Agreement(s)" shall mean any agreement or contract entered into by the District with an Authority, where such Authority agrees to advance funds to the District and the District agrees to repay those funds with interest.

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

(cc) "Maximum Annual Debt Service Requirement" shall mean the maximum annual Debt Service Requirement for any Fiscal Year of the District.

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

(ee) "Obligations" shall mean outstanding Bonds authorized pursuant to the Resolution and any Parity Obligations issued thereafter.

(ff) "Parity Obligations" shall mean bonds, notes, Loan Agreements, and other debt obligations, including Balloon Indebtedness, Short-Term Indebtedness and Variable Rate Indebtedness, issued by or entered into by the District, including any bonds, notes 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 Revenues. Reimbursement Payments constitute Parity Obligations.

(gg) "Payments in Respect of Interest" shall mean (a) payments of interest on Obligations, (b) Hedge Payments net of Hedge Receipts and (c) Reimbursement Payments payable under a Loan Agreement made as a reimbursement for an interest payment or payment of the interest portion of purchase price made by a Credit Provider. Payments in Respect of Interest constitute Parity Obligations.

(hh) "Payments in Respect of Principal" shall mean (a) payments of principal, Compound Accreted Value, and premium, if any, on Obligations and (b) Reimbursement Payments payable under a Loan Agreement made as a reimbursement for principal payment or payment of the principal portion of purchase price made by a Credit Provider. Payments in Respect of Principal constitute Parity Obligations.

(ii) "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;

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

(kk) "Rating Agencies" or "Rating Agency" means Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., or any successors thereto and any other nationally recognized credit rating agency.

(ll) "Rebate Year" shall mean, with respect to a particular Series of Bonds issued pursuant to the Resolution, a one-year period (or shorter period from the date of issue) that ends at the close of business on the day in the calendar year selected by the District as the last day of a Rebate Year. The final Rebate Year with respect to a particular Series of Bonds issued pursuant to the Resolution, however, shall end on the date of final maturity of that Series of Bonds.

(mm) "Recovery Act" shall mean the American Recovery and Reinvestment Act of 2009.

(nn) "Reimbursement Agreement" shall mean, with respect to any Obligations, the Reimbursement Agreement or Credit Agreement between the Credit Provider and the District, and any amendments or supplements thereto, together with any reimbursement or similar agreement between the District and any subsequent Credit Provider, and any amendments and supplements thereto.

(oo) "Reimbursement Payments" shall mean any amounts payable by the District under a Loan Agreement or a Reimbursement Agreement to reimburse a Credit Provider for amounts advanced under the related Credit Facility, including interest on the amounts advanced thereunder.

(pp) "Reserve Fund" shall mean any Debt Service Reserve Fund established pursuant to any Series Resolution, and any such Reserve Fund shall not be a commingled reserve fund but shall secure only the specific Obligations issued under the Series Resolution providing for such reserve fund.

(qq) "Reserve Fund Credit Facility" shall mean 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 any Reserve Fund Requirement in the event of an insufficiency of moneys in the Bond Fund to pay when due principal of and interest on the Obligation for which such Reserve Fund is created.

(rr) "Reserve Fund Credit Facility Issuer" shall mean the issuer of a Reserve Fund Credit Facility rated in one of the three highest rating categories by each Rating Agency that rates such Reserve Fund Credit Facility Issuer.

(ss) "Reserve Fund Requirement" shall mean, with respect to any Obligation, the amount required to be maintained in any Reserve Fund, which such amount, if any, shall be established in the Series Resolution authorizing such Obligation.

(tt) "Revenue Fund" shall mean the Revenue Fund established pursuant to the Resolution.

(uu) "Revenues" shall mean 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 money in the accounts and funds of the System, including money in any accounts and funds created by the resolution, and resolutions authorizing any Parity Obligations or obligations subordinate to the Obligations (excluding any investment earnings from construction or improvement funds created for the deposit of bond proceeds pending use, to the extent such income is applied to the purposes for which the bonds were issued, and funds created to refund any Refunded Loan Agreements payable from Revenues of the System); provided, however, (i) at the election of the District, Revenues shall not include any rates, fees, rentals or other charges 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 Obligations, and (ii) Revenues shall not include any payments to the District with respect to which an adjustment to the Debt Service Requirement has been made pursuant to Section (2)(o)(4) hereof.

(vv) "Secretary" shall mean the Secretary of the District.

(ww) "Series Resolution" shall mean a resolution of the District authorizing the issuance of an Obligation in accordance with the terms and provisions hereof.

(xx) "Short-Term Indebtedness" shall mean Obligations, including Variable Rate Indebtedness, maturing five (5) years or less from their date of issuance, issued by the District as Parity Obligations in accordance with the restrictive provisions of the Resolution.

(yy) "State" shall mean the State of Tennessee.

(zz) "System" shall mean the water and sewer system of the District, any water and/or sewer system hereafter acquired, constructed or otherwise established, including all improvements and extensions made by the District or the Governing Body on behalf of the District while the Obligations 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 District, not become a part of the System but be operated as a separate and independent system by the District with the continuing right, upon the election of the District, to incorporate such separately Acquired System within the System.

(aaa) "Taxable Bond" shall mean any *Series 2010* Bond where the interest income thereon is includable in the gross income of the holder thereof for federal income tax purposes or that such interest is subject to federal income taxation.

(bbb) "Termination Payments" means an amount payable by or to the District (whether directly or pursuant to a Loan Agreement upon termination of a Hedge Agreement.

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

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

The punctual payment of Payments in Respect of Principal and Payments in Respect of Interest shall be payable from and secured equally and ratably by the Net Revenues without priority by reason of number or time of sale or execution or delivery. The Net Revenues are hereby irrevocably pledged to the punctual payment of Payments in Respect of Principal and Payments in Respect of Interest as the same become due.

## **Statutory Mortgage Lien**

For the further protection of the registered owners or other holders of the Obligations, a statutory lien in the nature of a mortgage lien upon the System is granted and created by the Act, which said statutory mortgage lien is hereby recognized as valid and binding upon the District and to be a lien upon the System and the System shall remain subject to such statutory mortgage lien until the payment in full of the principal and interest on the Obligations.

## **Application of Revenues**

From and after the delivery of Obligations pursuant to the Resolution, and as long as any Obligations shall be outstanding and unpaid either as to principal or as to interest and other amounts thereunder, or until the discharge and satisfaction of all the Obligations as provided in the Resolution, the entire Revenues of the System shall be deposited as collected to the Revenue Fund of the District hereby established (the "Revenue Fund"). The money so deposited shall be used only as follows:

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

(b) The money remaining in the Revenue Fund, after payment of Current Expenses, shall next be used to make deposits into a separate and special fund, to be known as the "Bond and Interest Fund" (the "Bond Fund"), to be kept separate and apart from all other funds of the District and used to pay Payments in Respect of Principal and Payments in Respect of Interest on Obligations as the same become due, either by maturity or mandatory redemption. Such deposits shall be made monthly, or as otherwise set forth in the Resolution, until the Obligations are paid in full or discharged and satisfied, beginning in the month next following delivery of the Obligations.

With respect to principal, for the period commencing with the month next following the delivery of the Obligations, each monthly deposit shall be an amount that, together with all other monthly deposits of approximately equal amounts during such period and amounts otherwise in said Bond Fund, will be equal to Payments in Respect of Principal due on the Obligations on the next due date of such Payments in Respect of Principal, divided by the number of months from and including the month of the first such deposit to and including the months preceding the next due date of such Payments in Respect of Principal; provided that, if the next due date of such Payments in Respect of Principal is more than 13 months following the month next following the delivery of the Obligations, such monthly deposits to the Bond Fund shall commence in the month that is 13 months prior to the month of the next due date of such Payments in Respect of Principal.

If Payments in Respect of Interest are payable semi-annually, then there shall be deposited monthly in an amount equal to one-sixth (1/6) of the Payments in Respect of Interest coming due on the next due date of Payments in Respect of Interest, or (ii) if Payments in Respect

of Interest are payable more frequently than semi-annually, then as specified in the Series Resolution authorizing such Parity Obligations.

In each month thereafter, each monthly deposit shall consist of an interest component and a principal component. If the Payment in Respect of Interest is payable semi-annually, then the Payment in Respect of Interest shall be an amount equal to not less than one-sixth (1/6th) of the interest coming due on any Obligations then outstanding on the next succeeding interest payment date, unless otherwise specified in the Series Resolution authorizing such Obligations. If the Payment in Respect of Interest is payable more frequently than semi-annually, then the amount of the Payment in Respect of Interest to be deposited shall be specified in any Series Resolution authorizing such Obligations. The principal component shall be an amount not less than one-twelfth (1/12) of the total of the Payment in Respect of Principal coming due, whether by maturity or mandatory redemption, on the Obligations then outstanding during such twelve-month period. No further monthly or periodic deposit shall be required with respect to the next due date of any Payment in Respect of Interest or Payment in Respect of Principal when the Bond Fund balance is equal to or greater than the amount needed to pay the Payment in Respect of Interest coming due on the next interest payment date and the total of the Payments in Respect of Principal payable, either by maturity or mandatory redemption, during the applicable twelve-month period. Money in the Bond Fund shall be used solely and is hereby expressly and exclusively pledged for the purpose of paying Payments in Respect of Interest and Payments in Respect of Principal on the Obligations and Parity Obligations.

Each deposit as to interest shall take into account expected Hedge Payments related to such interest payments.

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

(d) Any Reserve Fund with respect to any Obligation shall be established in the Series Resolution authorizing such Obligation, and the Reserve Fund Requirement with respect to any such Reserve Fund shall be established in the Series Resolution authorizing such Obligation. No deposit shall be required to be made to any 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.

The next available money in the Revenue Fund shall be used to make deposits on a pro rata basis to any Reserve Fund created by a Series Resolution. In the event deposits to any Reserve Fund shall be required, such deposits shall be made in accordance with the Series Resolution creating such Reserve Fund.

Only so long as there is no deficiency with respect to clauses (e) and (f), funds in excess of the Reserve Fund Requirement with respect to all Reserve Funds, if any, created by any Series Resolution may be released to be used by the District for legally permissible purposes

(e) The next available money in the Revenue Fund shall be used for the payment of all other payments to be made under pursuant to the Resolution.

(f) The next available money in the Revenue Fund shall be used for the purpose of the payment of principal of and interest on (including reasonable reserves therefor) any bonds or other obligations payable from revenues of the System, but junior and subordinate to the Obligations. Termination Payments received in connection with a Hedge Agreement shall be deposited to the Revenue Fund and Termination Payments required of a District in connection with a Hedge Agreement shall be paid as a subordinate lien obligation pursuant to this subsection.

(g) Money on deposit in the Funds 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 (2) 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.

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

### **Prohibition of Prior Lien; Parity Obligations**

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 Obligations.

Additional bonds may hereafter be issued on a parity with the Obligations under the following conditions but not otherwise:

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

(b) Additional bonds may be issued on a parity with the Obligations without regard to the requirements of subsection (c) of this Section, if such bonds shall be issued for the purpose of refunding any outstanding Obligations under circumstances not resulting in the defeasance of all of the Obligations pursuant to the resolution authorizing such Obligations, provided the Maximum Annual Debt Service Requirement computed with respect to all Obligations to be outstanding as of the date of issuance of such additional bonds (and after giving effect to the application of the proceeds thereof) shall not be greater than 105% of the Maximum Annual Debt Service Requirement computed with respect to all Obligations outstanding as of the date immediately preceding the issuance of such additional bonds.

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

(1) Either:

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

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

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

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

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

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

### **Charges for Services Supplied by the System**

While the Obligations 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.

### **Covenants Regarding the Operation of the System**

Pursuant to the Resolution, the District covenanted and agreed with the owners of the Obligations so long as the Obligations 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.

(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 Obligations 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) The number and classifications of customer service connections to the System as of the end of the Fiscal Year;
- (6) The disposition of any Obligation proceeds during the Fiscal Year;
- (7) A statement as to all breaches or defaults under the Resolution of which the accountants have knowledge or, in the alternative, a statement that they have no knowledge of any such breach or default.

All expenses incurred in the making of the audits required by this subsection shall be regarded and paid as Current Expenses. The registered owner of any of the Parity Obligations shall have at all reasonable times the right to inspect the System and the records, accounts and data of the District relating thereto. It is further agreed that 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 Parity Obligations may cause such audits and reports to be prepared at the expense of the District.

(d) 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 the Obligations, and 100% of the Debt Service Requirement on any subordinate lien obligations 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, on any Reserve Fund Credit Facility Agreement and any required payments under any Reimbursement 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; and

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

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

(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 the System or any portion of the System or of the System facilities sold or otherwise disposed of, provided that:

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

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

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

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

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

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

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

(i) The District, either directly or indirectly, will not construct, finance or grant a franchise for the development or operation of facilities that compete for service with the services to be provided by the System 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 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 Obligations 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 Obligations and made a part of the contract rights which will vest in such owners at the time of delivery of the Obligations that the System will be so operated by the Governing Body.

### **Remedies of Bond Owners**

An Authority and any owner of any Obligations, including the holder or assignee of a Loan Agreement, may either at law or in equity, by suit, action, mandamus or other proceedings, in any court of competent jurisdiction enforce and compel performance of all duties imposed upon the 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 hereof.

If any default be made in the payment of principal or Compound Accreted Value of or interest on Obligations, then upon the filing of suit by an Authority, its assignee or those succeeding to its rights, or any holder of Obligations, including the holder or assignee of a Loan Agreement, any court having jurisdiction of the action may appoint a receiver to administer the System on behalf of the District with power to charge and collect rates sufficient to provide for the payment of all Obligations 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.

### **Defeasance**

If the District shall pay and discharge the indebtedness evidenced by Resolution 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 Paying Agent, the principal of and interest on such Obligations as and when the same become due and payable;

(b) By depositing or causing to be deposited with a trust company or financial institution whose deposits are insured by the Federal Deposit Insurance Corporation or similar federal agency and which has trust powers 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 Obligations and to pay interest thereon when due until the maturity or redemption date (provided, if such Obligations 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 Obligations to the Paying Agent for cancellation by it; and if the District shall also pay or cause to be paid all other sums payable under the Resolution by the District with respect to such Obligations, or make adequate provision therefore, and by resolution of the Board instruct any such escrow agent to pay amounts when and as required to the Paying Agent for the payment of principal of and interest on such Obligations when due, then and in that case the indebtedness evidenced by such Obligations shall be discharged and satisfied and all covenants, agreements and obligations of the District to the holders of such Obligations 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 Obligations in the manner provided in either clause (a) or (b) above, then the registered owners thereof shall 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 Paying 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 for trust for, the paying of the principal of and interest on said Obligations; provided that any cash received from such principal or interest payments on such Defeased Obligations deposited with the Paying 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 Paying 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 Obligations on or prior to the 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 Paying Agent.

### **Modification of Resolution**

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

(b) In addition to the amendments to the resolution without the consent of registered owners as referred to in subsection (a) above or subsection (c) below, the registered owners of a majority in aggregate principal amount of the Parity Obligations at any time outstanding (not including in any case any Parity Obligations 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 Parity Obligations 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 Obligations, as to:

- (1) Make any change in the maturities or redemption dates of the Parity Obligations;
- (2) Make any change in the rates of interest borne by the Parity Obligations;
- (3) Reduce the amount of the principal payments or redemption premiums payable on the Parity Obligations;
- (4) Modify the terms of payment of principal of or interest on the Parity Obligations or impose any conditions with respect to such payments;
- (5) Affect the rights of the registered owners of less than all of the Parity Obligations then outstanding;
- (6) Reduce the percentage of the principal amount of the Parity Obligations the consent of the registered owners of which is required to effect a further modification.

For purposes of this subsection (b) the aggregate principal amount of any Hedge Agreement, shall be deemed to be zero, and the aggregate principal amount with respect to any Reimbursement Agreement shall be the aggregate principal amount of Obligations outstanding relating to such Reimbursement Agreement.

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 Parity Obligation 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 (1) year from the date of mailing of said notice there shall be filed with the Secretary of the Governing Body an instrument or instruments executed by the registered owners of at least a majority in aggregate principal amount of the Parity Obligations 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 Parity Obligations.

If the registered owners of at least a majority in aggregate principal amount of the Parity Obligations outstanding as in this section defined, at the time of the adoption of such amendatory resolution, or the predecessors in title of such owners, shall have consented to and approved the adoption thereof as provided in the Resolution, no registered owner of any Parity Obligations, 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 Parity Obligation pursuant to the provisions of this Section shall be irrevocable for a period of six (6) months from the date of the publication of the notice above provided for and shall be conclusive and binding upon all future registered owners of the same Parity Obligation during such period. Such consent may be revoked at any time after six (6) months from the date of publication of such notice by the registered owner who gave such consent or by a successor in title by filing notice of such revocation at the District office, but such revocation shall not be effective if the registered owners of a majority in aggregate principal amount of the Parity Obligations 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 Parity Obligations owned by any person executing such instrument and the date of the ownership of the same shall be proved by reference to the Obligation registration records maintained by the Registration Agent, which records shall constitute conclusive proof of the ownership thereof.

(c) Notwithstanding anything in the Resolution to the contrary, no amendment to the resolution may be made while any other Loan Agreement is outstanding unless consent is obtained from all persons for whom consent must be obtained to amend.

**Prepayment Notices**

The President, the Secretary and the General Manager of the District, or any of them, are authorized to provide notice of prepayment of each Refunded Loan Agreement and the Refunded Bonds the forms of which are attached to the Resolution.

**Continuing Disclosure**

The District covenanted and agreed in the Resolution that it will provide financial information and material event notices if and as required by Rule 15c2-12 of the Securities Exchange Commission.



**GENERAL PURPOSE FINANCIAL STATEMENTS**  
**OF**  
**WEST KNOX UTILITY DISTRICT**  
**OF KNOX COUNTY, TENNESSEE**  
**FOR THE FISCAL YEAR ENDED**  
**June 30, 2015**

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



**THE WEST KNOX UTILITY DISTRICT  
OF KNOX COUNTY**

**Knoxville, Tennessee**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE YEARS ENDED  
June 30, 2014 and 2013**



# THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY

June 30, 2014 and 2013

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**Board of Commissioners:**

**Daniel H. Hurst**

President

**Robert H. Sterchi**

Vice President

**Ann Milsaps**

Secretary

**Drexel Heidel, P.E.**

General Manager

**Wayne Hastings, P.E.**

Assistant Manager

December 2, 2014

Board of Commissioners of  
The West Knox Utility District  
of Knox County  
Knoxville, Tennessee

State law and the Comptroller of the Treasury, State of Tennessee, requires that every political subdivision or municipal corporation publish within six months of the close of each fiscal year-end, a complete set of audited financial statements. This Comprehensive Annual Financial Report (CAFR) of The West Knox Utility District of Knox County (the District) is published to fulfill these requirements for the fiscal years ended June 30, 2014 and 2013.

### Internal Controls

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

### Independent Audit

Pugh and Company, P.C. have issued an unqualified ("clean") opinion on the District's financial statements for the year ended June 30, 2014. As stated in the independent auditor's report, the audit was conducted in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. The independent auditor's report is located at the front of the financial section of this report.

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

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

### Profile of the District

The District was created under the authority of Title 7, Chapter 82 of the 1937 Utility District Law of the State of Tennessee. The District began operations on October 18, 1954. The purpose of the District is to "acquire, construct, improve, extend, operate, and maintain a wastewater and water treatment system." The District serves 26,347 water and 21,562 wastewater customers in the northwestern portion of Knox County. The District's primary source of water is drawn from the Clinch River that forms Melton Hill Lake which borders Knox and Anderson counties.

The District is governed by a Board of Commissioners composed of three citizens who reside in or are customers of the District. Board members are appointed by the Knox County Mayor for a term of four years.

The District's capital assets consist of two water treatment plants, one wastewater treatment facility, one office building and related maintenance facility, and five water reservoir tanks. The collection system, consisting of mains, laterals and pump stations, is owned and maintained by the District.

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

### **Budgeting**

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

### **Financial Overview**

During 2014, the District's operating income was \$4,496,873 which was \$1,800,648 more than 2013 or 66.8%. The District's pledged revenue bond coverage ratio increased to 3.59 in 2014 vs. 2.91 in 2013. The operating income increased mainly due to an increase in water and wastewater revenues from increasing rates and reducing the minimum bill from 500 gallons to 0 gallons.

### **Local Economy**

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

For calendar year-ended 2013, the unemployment rates according to the U.S. Bureau of Labor Statistics for Knox County, State and Nation were 5.6%, 7.9% and 7.4%, respectively.

Per capita income in calendar year 2012 for Knox County, State and Nation was \$41,127, \$38,752 and \$43,375 respectively.

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

### **Long-Term Financial Planning**

The District has projected a 1% to 2% annual increase in the number of customers over the next five years. The District is currently making several capital improvements including several water line improvements and extensions.

The financing of the District's capital improvements is by internally generated cash flows and the issuance of long-term debt. The District's debt coverage ratio has consistently been in excess of the required bond covenants.

### **Major Initiatives**

The District completed the expansion of their Daugherty Water Treatment Plant from 2 million gallons per day to 8 million gallons per day of water treatment capacity. Bids for the WTP and raw water intake were opened on September 13, 2011 with the contract being awarded to the low bidder Judy Construction, Inc. on November 11, 2011. The expansion was completed in December 2013. The Daugherty Water Treatment Plant expansion also included a significant water main construction project. This project involved the installation of larger diameter 30-inch, 24-inch and 16-inch water transmission mains to transfer the additional treated water into the water distribution system. The transmission mains project required the installation of 31,000 linear feet of water main. Bids for the transmission mains were opened on March 7, 2013. The contract was awarded to the low bidder Merkel Brothers, Inc. on April 2, 2013. The project was completed in the late fall of 2013 and is now in operation. These projects were financed by current operations and internally generated cash flows and a bond issue.

The District is in the process of locating a new wastewater treatment plant in Hardin Valley. The study for the new WWTP was completed in January 2014 to determine the most cost effective processes which will provide the required level of treatment while considering many factors such as construction costs, long term energy usage, repair and maintenance costs, operational costs and other factors. The State of Tennessee issued the NPDES permit for the new WWTP discharge on March 29, 2013 with proposed discharge limits essentially equivalent to advanced secondary treatment requirements. Detailed designs on the proposed new facilities are underway. The design phase is expected to be completed in the spring/summer of 2015.

The District has contracted with a local engineering consulting firm for assistance in the design and rehabilitation of several sanitary sewer projects within sub-basin 9, the District's largest sewer sub-basin. The projects are a result of an EPA Administrative Order issued to the District in September 2011. Likewise, the same has been done for the Ten Mile Sewer Basin with another engineering firm. The District's current 5-year capital improvements plan reflects funds to complete these capital improvement projects.

The District worked with a local engineering firm on the design of the Mini-basin 9C Sewer Rehabilitation and Replacement Project. Through the use of the flow monitoring data this area was identified as having a significant amount of rainfall derived inflow and infiltration. The project is completed and consisted of rehabilitation of over 17,240 linear feet of 8 and 12 inch diameter sewer line, 558 vertical feet of manhole rehabilitation, 3 manhole replacements, 47 sewer service reconnections (by dig and replace), and 71 CIPP lined sewer service connections. The EPA CAP scheduled completion date was met.

The District worked with the same engineering firm on the design of the Mini-basin 9D Sewer Rehabilitation and Replacement Project. The project also included some sewer rehabilitation in the Wexford Downs Subdivision. This project is completed and consisted of approximately 7,880 linear feet of 8-inch pipe rehabilitation; 1,410 linear feet of 8-inch pipe replacement through pipe bursting; 80 linear feet of 8-inch pipe replacement through traditional dig and replace methods; 12 point repairs; 685 vertical feet of manhole rehabilitation; and the rehabilitation of 63 sewer service connections by CIPP lateral lining and traditional dig and replace methods. The EPA CAP scheduled completion date was met.

A design for the Meadow Creek Sewer Upgrade has been completed. This project consists of the replacement of approximately 8800 linear feet of 8 inch gravity sewer with a new 12 inch gravity sewer line to provide greater capacity and to reduce the amount of infiltration and inflow (I/I) entering the system through the deteriorated lines. This project is under construction and is over 50% completed and is scheduled to be completed in 2014. This is an EPA CAP project and it is on schedule.

A design of the sewer rehabilitation of portions of Ten Mile Sub-basins 1-6 was completed and the project was constructed. The 2012 Phase 1 project consisted of rehabilitating 31,048 linear feet of sanitary sewer ranging from 8–24 inches in diameter; 547 linear feet of 8-inch pipe replacement; 280 linear feet of 8-inch pipe replacement by pipe bursting; 1,961 vertical feet of manhole rehabilitation in 201 manholes; 29 point repairs were made; rehabilitation of 113 sewer services by CIPP lateral lining and 141 sewer services replaced by traditional dig and replace methods. This project is completed.

WKUD also worked with the same engineering firm to begin the construction of a second phase of sewer rehabilitation work in the Ten Mile Sub-basins 1-6. The 2013 Phase 2 project began construction in the fall of 2013. At the end of the fiscal year this project was approximately 90% complete. This project consists of rehabilitating approximately 34,800 linear feet of sanitary sewer ranging from 8-24 inches in diameter; 400 linear feet of pipe replacement; and approximately 1,580 vertical feet of manhole rehabilitation.

The District continues to maintain a flow monitoring network to provide data on the effectiveness of the current work and to assist in prioritizing the areas that need to be investigated and rehabilitated.

Design for Ten Mile Sewage Pump Station (SPS) has been on hold pending the results of the Basins 1-6 I/I rehabilitation efforts. The SPS pumping capacity is expected to increase from a peak of 4 million gallons per day to a peak of 6 million gallons per day in order to accommodate the peak flows in this area. The intent of the rehabilitation work and the SPS upgrade is to eliminate current wet weather flow conditions causing overflows into the First Utility District collection system. This project is expected to be under design in 2014/2015.

In addition to contracted projects WKUD continues sewer line and pump station rehabilitation, upgrades, and maintenance projects with its own sewer maintenance crews.

The District continues waterline replacement projects to replace several problematic and deteriorating water lines within the District's water distribution system. The latest of these projects involves replacing waterlines at 3 different locations in the water distribution system.

The first of these was a water main replacement project that included Marietta Church Road, Pittman Drive and Graybeal Road. This project included over 11,000 linear feet of 12-inch water main installation and replaced older galvanized and cast iron water mains that have been problematic to the District and have been prone to numerous leaks. This project was completed in November 2013.

The second project is the Diggs Road Replacement Project. Construction is underway and the project will replace 18,100 linear feet of deteriorated and problematic 2 1/4" galvanized and 6 inch PVC water lines with 6 inch ductile iron water lines. The new line will extend north along Diggs Road continue along Lovelace road and into Shoreline Estates subdivision. The line will then connect to an existing 6 inch water line at Diggs Road and Hickory Creek Road. The project is projected to be completed in December 2014.

The third project is the Walbrook Drive Project consisting of 1,400 linear feet of 6 inch water line. The existing line is PVC and runs cross country along and then crosses Ten Mile Creek. This line has been problematic in the past. The new line will run along Walbrook Road from an existing line on Bridgewater Road. The project is anticipated to have bids requested in the fall of 2014.

WKUD water maintenance crews replaced several small sections of small diameter water mains that were badly deteriorated. These projects included water line replacements on Ripon Circle, Chicory Circle, Aqua Lane, and along Yount Road. Water crews continued required maintenance keeping water loss at a very low rate.

A new valve maintenance program has been added and began implementation in September 2013. Contents of this program include exercising valves, collecting salient features pertaining to the valves, marking valve locations in the field, attaining GPS data locations, preparing work orders for valves in need of repair, cleaning valve boxes, and ensuring valves are left in the open position.

#### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its CAFR for the fiscal year ended June 30, 2013. This was the tenth consecutive year that the District received this award. In order to be awarded a Certificate of Achievement, the District must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

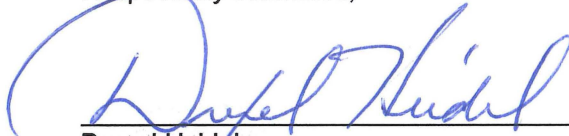
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

#### **Acknowledgements**

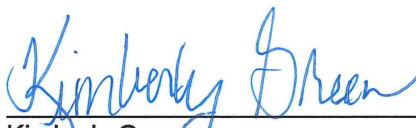
The preparation of this CAFR results from the combined efforts of the staff of the Finance Department and technical assistance provided by our independent auditors. Those involved have our sincere appreciation for the individual and collective contributions made in preparation of the report. Thank you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

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

Respectfully submitted,

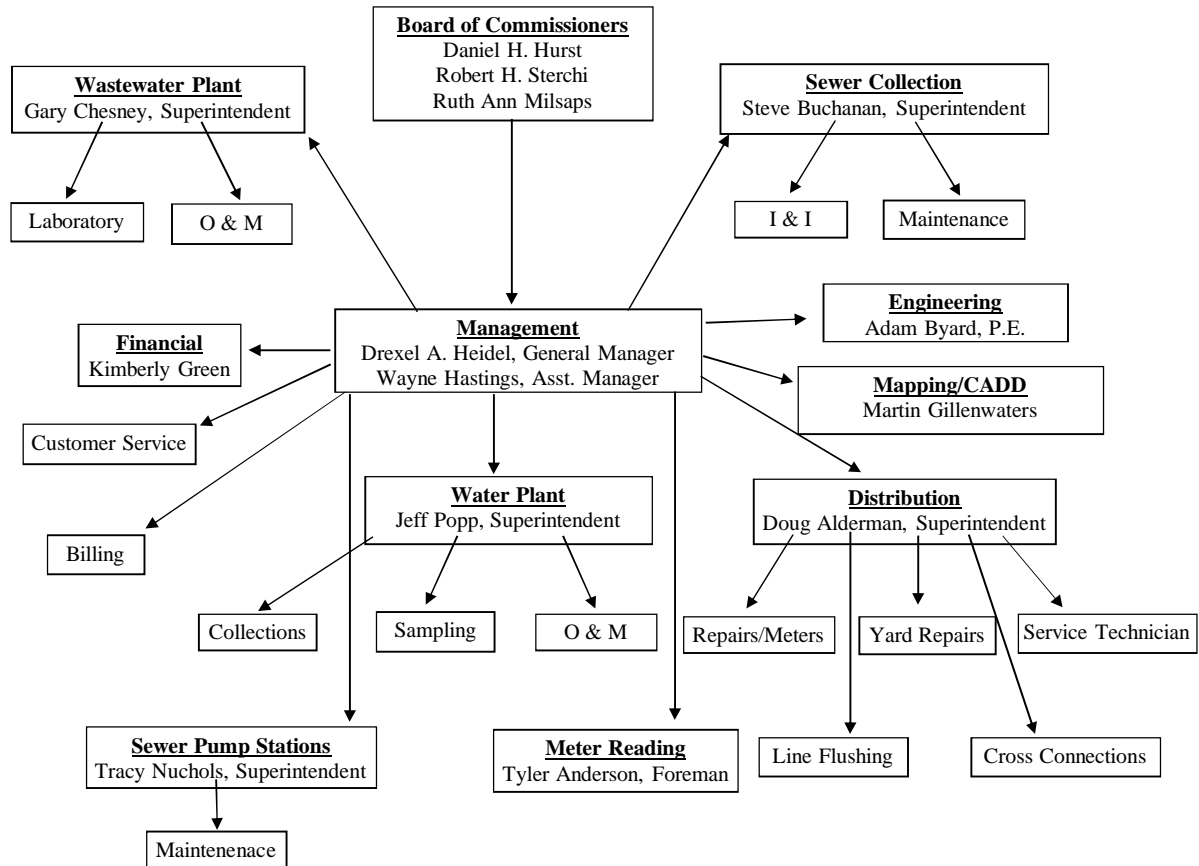


Drexel Heidel  
General Manager



Kimberly Green  
Accounting Manager

**WEST KNOX UTILITY DISTRICT  
ORGANIZATIONAL CHART  
June 30, 2014**



**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**

**ROSTER OF DISTRICT OFFICIALS AND OTHERS**

**June 30, 2014**

**Board of Commissioners**

**Expiration of Term**

Daniel H. Hurst, President

December 31, 2017

Robert H. Sterchi, Jr., Vice-President

December 31, 2015

Ruth A. Milsaps, Secretary

December 31, 2016

**Management**

Drexel A. Heidel, PE, General Manager

Wayne Hastings, Assistant Manager

Kimberly Green, Accounting Manager

**General and Bond Counsel**

John Owings, Attorney at Law  
Robertson, Overbey, Wilson & Beeler  
Knoxville, Tennessee

**Consulting Engineer**

Louis Robbins  
GRW Engineers, Inc.  
Nashville, Tennessee



Government Finance Officers Association

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

Presented to

**West Knox Utility District  
of Knox County, Tennessee**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

A handwritten signature in black ink, which appears to read 'Jeffrey R. Enen'. The signature is written in a cursive, flowing style.

Executive Director/CEO

**KNOXVILLE OFFICE:**

315 NORTH CEDAR BLUFF ROAD – SUITE 200  
KNOXVILLE, TENNESSEE 37923  
TELEPHONE 865-769-0660



PUGH & COMPANY, P.C.  
www.pughcpas.com

**OAK RIDGE OFFICE:**

800 OAK RIDGE TURNPIKE – SUITE A404  
OAK RIDGE, TENNESSEE 37830  
TELEPHONE 865-769-1657

## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
The West Knox Utility District  
of Knox County  
Knoxville, Tennessee

### Report on the Financial Statements

We have audited the accompanying financial statements of The West Knox Utility District of Knox County (the "District") which comprise the proprietary fund balance sheets as of June 30, 2014 and 2013, and the related proprietary fund statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the statement of fiduciary net position - pension fiduciary fund and statement of changes in fiduciary net position - pension fiduciary fund as of and for the year ended June 30, 2014, 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



An Independently Owned Member  
**MCGLADREY ALLIANCE**



**TSCPA**  
Members of the Tennessee Society  
Of Certified Public Accountants

## **Opinions**

In our opinion, the proprietary fund financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2014 and 2013 and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the pension fiduciary fund financial statements referred to above present fairly, in all material respects, the pension fiduciary fund net position and changes in pension fiduciary fund net position as of and for the year ended June 30, 2014, 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 on pages 3 through 11 and the Schedule of Changes in District's Net Pension Liability and Related Ratios and Schedule of District's Pension Contributions on pages 40 and 41 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the District's financial statements as a whole. The introductory, other information, and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated December 2, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

*Pugh & Company, P.C.*

Certified Public Accountants  
Knoxville, Tennessee  
December 2, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of The West Knox Utility District of Knox County's (the District) financial condition and results of operations for the years ending June 30, 2014, 2013 and 2012. This information should be read in conjunction with the accompanying financial statements and the additional information we have furnished in our letter of transmittal on pages i to iv.

### FINANCIAL HIGHLIGHTS

Management believes the District's proprietary fund financial position is strong. The District maintained good debt service coverage and was in compliance with all debt covenants. The following are key financial highlights:

- During 2014, the District delivered 1.89 billion gallons of water and treated 1.33 billion gallons of wastewater, representing an decrease of (3.9)% and a decrease of (0.05)%, respectively, from the previous year.
- Total assets at year-end 2014 were \$160.3 million and exceeded liabilities by \$81.4 million. Of the total net position, \$18.1 million was unrestricted and was available to support operations. Total assets and total net position increased from 2013 to 2014 by \$0.1 million and \$4.1 million, respectively. Unrestricted net position increased during 2014 by \$0.6 million.
- Operating revenues were \$18.9 million in 2014, an increase of \$1.7 million from 2013.
- Operating expenses before depreciation decreased by \$(552,573) or (5.3)% when compared to 2013.
- Operating income for the year was \$4.5 million, representing a 66.8% increase from 2013. The increase in net position before capital contributions increased by \$1,705,564 when compared to 2013.
- The ratios of operating income to total operating revenues were 23.8% for 2014 and 15.6% for 2013.
- Debt service coverage ratio was 3.59% for 2014, exceeding the 1.20% required by various bond covenants.
- Cash capital contributions were \$5,100 for 2014, a decrease of \$2,550 when compared to 2013. Developer contributions of facilities were \$1,216,660, an increase of \$501,886 when compared to 2013.
- As a result of ongoing state and county road construction within the District, several water and wastewater line relocation projects were in progress and engineering costs were incurred related to the new wastewater treatment plant on Melton Hill Lake. The amount of construction in progress was \$12,123,872 and \$30,849,617 at year-end 2014 and 2013, respectively. The remaining commitments were \$2,584,571 and \$4,236,697 at June 30, 2014 and 2013, respectively.

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

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

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

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

The proprietary fund financial statements include a balance sheet; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the District on the accrual basis of accounting. While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs. The District's rates are based on a cost of service rate study that is updated annually. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting standards. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth. The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The pension fiduciary fund financial statements are used to account for the resources held in trust for the benefit of the participants in the District's pension plan. These resources are not available to support the District's operations. The accounting for the pension fiduciary fund is much like that used for the proprietary fund discussed above.

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

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

The District was created under the authority of Title 7, Chapter 82 of the 1937 Utility District Law of the State of Tennessee. The District began operations on October 18, 1954. The purpose of the District is to "acquire, construct, improve, extend, operate and maintain a water and wastewater treatment system. The District serves 26,347 water and 21,562 wastewater customers in the northwestern portion of Knox County. The District's primary source of water is drawn from the Clinch River that forms Melton Hill Lake which borders Knox and Anderson counties.

The District is governed by a Board of Commissioners composed of three citizens who reside in or are current customers of the District. Board members are appointed by the Knox County Mayor for a term of four years.

The District's capital assets consist of two water treatment plants, one wastewater treatment facility, one office building and related maintenance facility, and five water reservoir tanks. The collection system, consisting of mains, laterals and pump stations, is owned and maintained by the District.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### FINANCIAL ANALYSIS

The following comparative condensed proprietary fund financial statements and other selected information provides key financial data and indicators for management, monitoring, and planning.

Condensed Balance Sheets  
(In Thousands of Dollars)  
June 30, 2014 and 2013, 2012

	2014	Restated 2013	Restated 2012
<b>ASSETS AND DEFERRED OUTFLOWS</b>			
Current Assets	\$ 25,239	\$ 33,349	\$ 48,877
Capital Assets:			
Producing – Net	122,307	93,810	92,649
Construction in Progress	12,124	30,850	12,360
Other	628	2,242	2,848
Total Assets	160,298	160,251	156,734
Deferred Outflows of Resources	3,583	3,496	5,065
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 163,881</b>	<b>\$ 163,747</b>	<b>\$ 161,799</b>
<b>LIABILITIES AND DEFERRED INFLOWS</b>			
Current Liabilities	\$ 4,115	\$ 7,101	\$ 3,477
Non-Current Liabilities	75,268	76,416	78,927
Total Liabilities	79,383	83,517	82,404
Deferred Inflows of Resources	3,136	3,014	4,546
<b>NET POSITION</b>			
Net Investment in Capital Assets	62,875	57,685	57,114
Restricted:			
Debt Service	392	2,009	1,998
Unrestricted	18,095	17,522	15,737
Total Net Position	81,362	77,216	74,849
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$ 163,881</b>	<b>\$ 163,747</b>	<b>\$ 161,799</b>

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

**FINANCIAL ANALYSIS (Continued)**

Condensed Proprietary Fund Statements of Revenues, Expenses,  
and Changes in Net Position  
(In Thousands of Dollars)  
For The Years Ended June 30, 2014, 2013 and 2012

	<u>2014</u>	<u>Restated 2013</u>	<u>Restated 2012</u>
<b>Operating Revenues</b>			
Water	\$ 7,882	\$ 7,417	\$ 7,226
Wastewater	9,577	8,731	8,019
Connection Fees	837	550	487
Customer Forfeited Discounts	259	258	237
Service Fees	112	102	91
Wastewater Inspection Fees	12	8	5
Miscellaneous	<u>243</u>	<u>183</u>	<u>151</u>
Total Operating Revenues	<u>18,920</u>	<u>17,250</u>	<u>16,217</u>
<b>Operating Expenses</b>			
Water Purification and Supply	1,114	1,155	1,132
Wastewater Collection and Treatment	2,221	2,822	2,326
Water Treatment and Distribution	2,547	2,393	2,446
Capacity Management Operations			
Maintenance (CMOM)	1,466	1,415	1,302
Shop and General Maintenance	471	375	306
Customer Accounting	123	142	132
Administrative and General	1,881	2,072	2,211
Depreciation	<u>4,601</u>	<u>4,179</u>	<u>3,916</u>
Total Operating Expenses	<u>14,423</u>	<u>14,554</u>	<u>13,772</u>
Operating Income	<u>4,497</u>	<u>2,696</u>	<u>2,445</u>

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

**FINANCIAL ANALYSIS (Continued)**

Condensed Proprietary Fund Statements of Revenues, Expenses,  
and Changes in Net Position (Continued)  
(In Thousands of Dollars)  
For The Years Ended June 30, 2014, 2013 and 2012

	2014	Restated 2013	Restated 2012
<b>Non-Operating Revenues (Expenses)</b>			
Investment Income	136	234	280
Interest Expense	(1,714)	(1,722)	(2,014)
Gain (Loss) on Disposal of Capital Assets	4	10	(30)
	<u>          </u>	<u>          </u>	<u>          </u>
Total Non-Operating Revenues (Expenses) - Net	<u>(1,574)</u>	<u>(1,478)</u>	<u>(1,764)</u>
 Increase (Decrease) in Net Position Before Capital Contributions	 <u>2,923</u>	 <u>1,218</u>	 <u>681</u>
 <b>Capital Contributions</b>			
Cash Contributions	5	4	69
Non-Cash	1,217	715	1,746
	<u>          </u>	<u>          </u>	<u>          </u>
Total Capital Contributions	<u>1,222</u>	<u>718</u>	<u>1,815</u>
 Change in Net Position	 <u>4,145</u>	 <u>1,936</u>	 <u>2,496</u>
 Net Position, Beginning of Year, As Previously Reported	 77,216	 75,280	 78,949
 Prior Period Adjustments	 <u>0</u>	 <u>0</u>	 <u>(6,165)</u>
 Net Position, Beginning of Year, as Restated	 <u>77,216</u>	 <u>75,280</u>	 <u>72,784</u>
 Net Position, End of Year	 <u>\$ 81,361</u>	 <u>\$ 77,216</u>	 <u>\$ 75,280</u>

# MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

## OTHER SELECTED INFORMATION

Selected Data:	2014	Restated 2013	Restated 2012
Employees at Year-End	65	63	63
Average Employees	64	63	63
Customers (Billing Units) at Year End:			
Water	26,347	25,743	25,474
Wastewater	21,562	21,022	20,734
Water (Millions of Gallons)			
Treated (Pumped)	1,893	1,969	2,023
Sold	1,693	1,782	1,855
Wastewater Treated (Millions of Gallons)	1,334	1,328	1,525
Per Average Employee:			
Operating Revenues	\$ 295,630	\$ 273,810	\$ 257,406
Operating Expenses	225,367	231,013	218,601
Average Realized Rates per 1,000 Gallons of Water Sold:			
Water - Residential	\$ 4.79	\$ 4.32	\$ 3.99
Wastewater - Residential	7.60	6.90	6.21
Ratio of Operating Revenues to:			
Operating Expenses	1.31	1.19	1.18
Operating Expenses - Net of Depreciation	1.93	1.66	1.65
Total Assets	0.12	0.11	0.10
Net Position	0.23	0.22	0.20
Debt Related Ratios:			
Long-Term Liabilities to Net Position	0.93	1.00	0.87
Long-Term Liabilities to Total Assets	0.46	0.47	0.44
Operating Coverage	3.59	2.91	2.16

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### GENERAL TRENDS AND SIGNIFICANT EVENTS

Customer growth in the District increased 3% during 2014 and increased 25% over the last ten years.

#### PROPRIETARY FUND FINANCIAL CONDITION

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

During 2014, total assets and deferred outflows grew 0.1%, or \$134,000. Net position increased in 2014 by \$4,145,000, with approximately 30% of the increase resulting from capital contributions. During 2013, total assets grew 1.2%, or \$1,948,000, with the majority of the increase from capital assets. Net position increased in 2013 by \$1,936,000, with approximately 37% of the increase resulting from capital contributions.

Accounts receivable at year-end 2014 were 7% more than fiscal year 2013 and 8% more than fiscal year 2012. At 2014 year-end, 85% of accounts receivable were current within 30 days. The District's provision for bad debt expense for 2014 was \$103,000 compared to \$188,000 in 2013.

#### PROPRIETARY FUND RESULTS OF OPERATIONS

##### Operating Revenues

Revenues from operations fall into three general categories: water service, wastewater service and ancillary charges. Ancillary charges include connection fees, account set up and penalty fees, and charges for miscellaneous billed services. Operating income increased \$1,800,000 in 2014, increased \$251,000 in 2013, and increased \$716,000 in 2012.

The average realized rate from water sales was \$4.79 per thousand gallons in 2014, \$4.32 in 2013, and \$3.99 in 2012.

##### Capital Contributions

The District collects water and wastewater connection fees to ensure that current customers do not bear the burden of growth. These fees are paid at the time a new customer water meter is connected to the system. In addition, the District accepts new water and wastewater lines that are donated by residential and commercial real estate developers.

Capital contributions during 2014, 2013 and 2012 consisted of the following:

	2014	2013	2012
Cash Capital Contributions from			
Various Developers	\$ 5,100	\$ 2,550	\$ 10,200
State of TN - ARRA Grant	0	0	59,090
Donated Lines by Developers	1,216,660	714,774	1,745,692
Total	\$ 1,221,760	\$ 717,324	\$ 1,814,982

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### GENERAL TRENDS AND SIGNIFICANT EVENTS (Continued)

#### Expenses

Operating expenses, excluding depreciation, decreased by \$(552,573) in 2014, increased by \$518,874 in 2013, and increased \$1,229,154 in 2012 or (5.3), 5.0%, and 14.2% respectively. This was a result of significant increases (decreases) in:

	2014	2013	2012
Salaries and Benefits	\$ (51,604)	\$ (40,736)	\$ 379,041
Power Purchased	(33,689)	(45,403)	77,779
Repairs and Maintenance	(276,931)	329,957	319,752
CMOM Program	50,561	112,699	184,725
Chemicals	(8,582)	3,928	24,347
Legal	(90,175)	(33,991)	66,626
Treatment of Wastewater	(23,469)	85,437	(19,633)
Sludge Disposal	(66,068)	N/A	N/A
Other	(52,613)	106,983	196,517
Total	\$ <u>(552,570)</u>	\$ <u>518,874</u>	\$ <u>1,229,154</u>

Depreciation expense of the District's system increased by \$422,201 in 2014, increased by \$263,140 in 2013, and increased by \$62,665 in 2012 or 10.1%, 6.7%, and 1.6%, respectively.

#### PROPRIETARY FUND CAPITAL ASSETS

The District is undergoing an extensive water and wastewater line relocation, replacement, and extension program. The majority of the relocations are due to several state and county road projects within the District. In addition, the District is improving and increasing the capacity of its water and wastewater treatment facilities in order to provide adequate capacity for future customer growth.

During 2014, 2013, and 2012, the District increased its capital assets before depreciation by \$14,354,531, \$23,813,948, and \$6,721,787, respectively. This increase is due to the following:

	2014	2013	2012
Water Line Extensions and Improvements	\$ 6,618,769	\$ 3,396,942	\$ 298,920
Water Plant Upgrades	20,634,484	0	113,263
Wastewater Lines	5,132,463	1,428,897	5,924,847
Wastewater Plant Improvements	62,152	293,834	868,962
Office Buildings and Equipment	650,124	220,624	72,194
Vehicles and Equipment	0	0	347,879
Disposals	(17,717)	(16,391)	(2,705,616)
	<u>33,080,275</u>	<u>5,323,906</u>	<u>4,920,449</u>
Construction in Progress-Net	(18,725,744)	18,490,042	1,801,338
Total	\$ <u>14,354,531</u>	\$ <u>23,813,948</u>	\$ <u>6,721,787</u>

The District's capital asset activity for 2014 and 2013 is described in Notes 3 and 4 to the financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### GENERAL TRENDS AND SIGNIFICANT EVENTS (Continued)

#### PROPRIETARY FUND DEBT

At year-end 2014, 2013 and 2012, the District had \$70.3, \$71.7, and \$72.6 million in long and short-term debt, a decrease of \$1,383,083 in 2014, a decrease of \$979,391 in 2013, and a decrease of \$854,352 in 2012. During 2014, 2013 and 2012, the District paid principal of \$1,388,364, \$984,232, and \$948,267, respectively.

The long-term liabilities to total asset ratio was .46, .47, and .44 in 2014, 2013 and 2012 respectively.

More detailed information about the District's long-term debt is described in Notes 6 and 7 to the financial statements.

#### ECONOMIC FACTORS AND NEXT FISCAL YEAR

- Number of customers is projected to increase by 1% to 2% during 2015.
- Overall a salary rate increase of 3.5% is expected for employees for 2015.
- Effective July 1, 2014, the District's Board of Commissioners approved a water customer monthly charge increase of \$1.75, a sewer customer monthly charge increase of \$1.00, and an increase in wastewater rates of \$0.75 per thousand gallons.
- FY 2015 Budget:

Revenues	\$ 21,320,414
Expenses	<u>(19,685,539)</u>
Increase in Net Position Before Capital Contributions	\$ <u>1,634,875</u>

#### CONTACTING THE DISTRICT

This comprehensive annual financial report is designed to provide our customers, creditors and regulatory agencies with a general overview of the District's finances. If you have any questions about this report or need additional information, you may contact the District at:

Drexel Heidel, General Manager  
West Knox Utility District  
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**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**  
**PROPRIETARY FUND BALANCE SHEETS**

	As of June 30,	2014	Restated 2013
<b>ASSETS AND DEFERRED OUTFLOWS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$	16,337,368	\$ 16,085,897
Cash and Cash Equivalents - Restricted		394,918	938,497
Investments, at Fair Value		6,061,006	6,541,286
Investments - Restricted, at Fair Value		0	7,508,638
Accounts Receivable - (Net of Allowance for Uncollectible Accounts of \$94,000 for 2014 and \$85,000 for 2013)		2,337,602	2,175,619
Inventory - Materials		45,451	34,351
Prepaid Expenses		<u>62,922</u>	<u>64,718</u>
<b>Total Current Assets</b>		<u>25,239,267</u>	<u>33,349,006</u>
<b>NON-CURRENT ASSETS</b>			
Capital Assets			
Property, Plant and Equipment		181,363,034	148,282,760
Construction in Progress		12,123,872	30,849,617
Less: Accumulated Depreciation		<u>(59,056,174)</u>	<u>(54,472,509)</u>
<b>Capital Assets - Net</b>		<u>134,430,732</u>	<u>124,659,868</u>
Other Assets			
Investments - Restricted, at Fair Value		500,625	2,113,884
Deposits		<u>127,652</u>	<u>127,652</u>
<b>Total Other Assets</b>		<u>628,277</u>	<u>2,241,536</u>
<b>Total Non-Current Assets</b>		<u>135,059,009</u>	<u>126,901,404</u>
<b>TOTAL ASSETS</b>		<u>160,298,276</u>	<u>160,250,410</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Interest Rate Swap		3,137,203	3,013,567
Deferred Bond Refunding Loss		<u>445,586</u>	<u>481,974</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>		<u>3,582,789</u>	<u>3,495,541</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	\$	<u><u>163,881,065</u></u>	\$ <u><u>163,745,951</u></u>

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

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**  
**PROPRIETARY FUND BALANCE SHEETS (Continued)**

	As of June 30,	2014	Restated 2013
<b>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$	323,234	\$ 588,100
Accounts and Retainage Payable - Construction		2,037,070	4,151,819
Payroll and Related Liabilities		248,277	225,116
Other Accrued Liabilities		574,557	545,300
Accrued Revenue Bond Interest Payable		195,489	201,385
Revenue Bonds and Note Payable - Current Portion		<u>736,260</u>	<u>1,388,845</u>
<b>Total Current Liabilities</b>		<u>4,114,887</u>	<u>7,100,565</u>
<b>NON-CURRENT LIABILITIES</b>			
Revenue Bonds and Note Payable - Net of Current Portion		69,536,629	70,267,127
Net Pension Liability		5,612,320	6,034,770
Accrued Interest - Knox County Note Payable		<u>118,860</u>	<u>114,044</u>
<b>Total Non-Current Liabilities</b>		<u>75,267,809</u>	<u>76,415,941</u>
<b>Total Liabilities</b>		<u>79,382,696</u>	<u>83,516,506</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Derivative Instrument - Interest Rate Swap		3,137,203	3,013,567
Pension Plan		<u>0</u>	<u>0</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>		<u>3,137,203</u>	<u>3,013,567</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets		62,874,634	57,684,980
Restricted:			
Debt Service		391,779	2,008,705
Unrestricted		<u>18,094,753</u>	<u>17,522,193</u>
<b>Total Net Position</b>		<u>81,361,166</u>	<u>77,215,878</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$</b>	<u><u>163,881,065</u></u>	<b>\$</b> <u><u>163,745,951</u></u>

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

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**  
**PROPRIETARY FUND STATEMENTS OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**

	For the Years Ended June 30,	2014	Restated 2013
<b>OPERATING REVENUES</b>			
Water, Net	\$	7,881,838	\$ 7,417,294
Wastewater		9,577,125	8,731,351
Connection Fees		836,668	550,392
Customer Forfeited Discounts		258,507	258,370
Service Fees		111,675	102,125
Wastewater Inspection Fees		11,730	7,775
Miscellaneous		242,788	182,748
		<hr/>	<hr/>
<b>Total Operating Revenues</b>		18,920,331	17,250,055
		<hr/>	<hr/>
<b>OPERATING EXPENSES</b>			
Water Purification and Supply		1,114,272	1,154,874
Wastewater Collection and Treatment		2,220,697	2,821,772
Water Treatment and Distribution		2,547,171	2,393,421
Wastewater Capacity Management Operations			
Maintenance (CMOM)		1,465,689	1,415,128
Shop and General Maintenance		470,839	375,418
Customer Accounting		122,870	141,547
Administrative and General		1,880,537	2,072,488
Depreciation - Water System		2,015,471	1,722,069
Depreciation - Wastewater System		2,315,151	2,196,148
Depreciation - Other		270,761	260,965
		<hr/>	<hr/>
<b>Total Operating Expenses</b>		14,423,458	14,553,830
		<hr/>	<hr/>
<b>Operating Income</b>		4,496,873	2,696,225
		<hr/>	<hr/>

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

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**  
**PROPRIETARY FUND STATEMENTS OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION (Continued)**

For the Years Ended June 30,	2014	Restated 2013
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Investment Income, Net	136,580	234,383
Interest Expense	(1,714,150)	(1,722,259)
Net Gain (Loss) on Disposal of Capital Assets	4,225	9,615
<b>Total Non-Operating Revenues (Expenses), Net</b>	<u>(1,573,345)</u>	<u>(1,478,261)</u>
<b>INCREASE (DECREASE) IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS</b>	<u>2,923,528</u>	<u>1,217,964</u>
<b>CAPITAL CONTRIBUTIONS</b>		
Cash Contributions	5,100	2,550
Developers Contributions of Capital Assets	1,216,660	714,774
<b>Total Capital Contributions</b>	<u>1,221,760</u>	<u>717,324</u>
<b>CHANGE IN NET POSITION</b>	<u>4,145,288</u>	<u>1,935,288</u>
<b>NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED</b>	77,215,878	82,023,201
<b>PRIOR PERIOD ADJUSTMENTS - SEE NOTE 14</b>	<u>0</u>	<u>(6,742,611)</u>
<b>NET POSITION, BEGINNING OF YEAR, AS RESTATED</b>	<u>77,215,878</u>	<u>75,280,590</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 81,361,166</u>	<u>\$ 77,215,878</u>

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

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**  
**PROPRIETARY FUND STATEMENTS OF CASH FLOWS**

	For the Years Ended June 30,	2014	Restated 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers and Users	\$	18,787,612	\$ 17,276,291
Payments to Employees		(5,640,636)	(4,905,804)
Payments to Suppliers		<u>(4,751,720)</u>	<u>(5,031,957)</u>
<b>Net Cash Provided by (Used in) Operating Activities</b>		<u>8,395,256</u>	<u>7,338,530</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Cash Capital Contributed by Customers		5,100	2,550
Acquisition and Construction of Capital Assets		(14,440,557)	(19,613,786)
Interest Paid on Long - Term Debt		(2,507,595)	(2,575,817)
Principal Paid on Long - Term Debt		<u>(1,388,364)</u>	<u>(984,232)</u>
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>		<u>(18,331,416)</u>	<u>(23,171,285)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest Received on Investments		178,455	626,111
Purchases of Investments		(3,251,102)	(13,918,970)
Proceeds from Sales and Maturities of Investments		<u>12,716,699</u>	<u>31,619,972</u>
<b>Net Cash Provided by (Used in) Investing Activities</b>		<u>9,644,052</u>	<u>18,327,113</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		(292,108)	2,494,358
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>		<u>17,024,394</u>	<u>14,530,036</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$	<u><u>16,732,286</u></u>	\$ <u><u>17,024,394</u></u>
<b>Cash and Cash Equivalents at End of Year Consist of:</b>			
Unrestricted Cash and Cash Equivalents	\$	16,337,368	\$ 16,085,897
Restricted Cash and Cash Equivalents		<u>394,918</u>	<u>938,497</u>
<b>Total</b>	\$	<u><u>16,732,286</u></u>	\$ <u><u>17,024,394</u></u>

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

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**  
**PROPRIETARY FUND STATEMENTS OF CASH FLOWS (Continued)**

For the Years Ended June 30,	<u>2014</u>	<u>Restated 2013</u>
<b>RECONCILIATION OF OPERATING INCOME TO</b>		
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Operating Income	\$ 4,496,873	\$ 2,696,225
Adjustments to Reconcile Operating Income		
to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	4,601,383	4,179,182
Bad Debt Expense	103,187	188,164
Changes in:		
Accounts Receivable	(161,983)	(2,302)
Other Current Assets	(9,304)	322
Other Assets	0	(11,887)
Accounts Payable	(264,866)	302,822
Payroll and Related Liabilities	23,161	(42,535)
Other Accrued Liabilities	<u>(393,195)</u>	<u>28,539</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$ <u>8,395,256</u></b>	<b>\$ <u>7,338,530</u></b>
<b>Noncash Investing, Capital and Financing Activities:</b>		
Gain (Loss) on Investments	\$ (41,875)	\$ (391,729)
Amortization of Bond and Note Discounts	10,098	9,658
Amortization of Bond Issuance Costs	0	33,224
Amortization of Deferred Cost of Defeased Bonds	36,388	37,165
Deferred Inflows - Pension Plan	0	0
Contributions of Capital Assets by Developers	1,216,660	714,774
Capitalized Interest on Construction Projects	829,776	896,706

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

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**  
**STATEMENT OF FIDUCIARY NET POSITION - PENSION FIDUCIARY FUND**

**June 30, 2014**

**ASSETS**

Investments:

    Mutual Funds:

Domestic Equity	\$ 1,576,522
International Equity	894,633
Bonds	1,587,343
Market Neutral/Alternative	851,434
Real Estate	289,179
Bank Loans	227,097
Cash & Other	<u>530,554</u>
<b>Total Investments</b>	<u><b>5,956,762</b></u>

<b>TOTAL ASSETS</b>	<b>5,956,762</b>
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**LIABILITIES**

<b>Total Liabilities</b>	<u><b>0</b></u>
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**NET POSITION**

Held in Trust for Pension Benefits	<u><u><b>\$ 5,956,762</b></u></u>
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The accompanying notes are an integral part of these financial statements.

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - PENSION FIDUCIARY FUND**  
**For the Year Ended June 30, 2014**

**ADDITIONS**

Employer Contributions	\$ 840,000
Net Investment Earnings	<u>686,171</u>
<b>Total Additions</b>	<u>1,526,171</u>

**DEDUCTIONS**

Benefit Payments:	
Lump Sum Payments	(288,150)
Annuity Payments	(44,790)
Administrative Expenses	<u>(1,415)</u>
<b>Total Deductions</b>	<u>(334,355)</u>

<b>CHANGE IN NET POSITION</b>	1,191,816
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<b>TOTAL NET POSITION HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR</b>	<u>4,764,946</u>
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<b>TOTAL NET POSITION HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR</b>	<u>\$ 5,956,762</u>
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## THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014 and 2013

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The West Knox Utility District of Knox County (WKUD or the District) was created under the authority of Title 7, Chapter 82 of the 1937 Utility District Law of the State of Tennessee.

The WKUD Board of Commissioners are appointed by the Knox County Mayor for a term of four years. Knox County does not have any fiscal or budgetary control over WKUD. The operations of WKUD (the District) are funded by water and wastewater rates established by the Board of Commissioners.

**Basis of Accounting and Presentation** - The District's financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

All operating activities (other than fiduciary fund activities related to the pension plan) of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) 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.

The District makes a distinction between operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with its principal ongoing operations. The principal operating revenues of the District are water and wastewater charges to customers. Operating expenses consist of salaries, benefits, utilities, operating contracts for maintenance, insurance and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets plus deferred outflows, net of total liabilities plus deferred inflows) are segregated into net investment in capital assets; restricted for capital assets activity and debt service; and unrestricted components.

The pension fiduciary fund is used to account for resources held in trust for the benefit of the participants in the District's pension plan. These resources are not included in the District's proprietary fund financial statements because they are not available to support the operations of the District. The accounting used for the pension fiduciary fund is essentially the same as that used for the proprietary fund, using the same measurement focus and basis of accounting. The WKUD Board of Commissioners provides fiduciary responsibility for the administration and investment of the pension plan and its trust fund.

**Budgeting** - The District adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the District's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contributions, grants, borrowings and certain revenues for capital projects. The District's budgets are not legally binding. During the year, management is authorized to transfer budgeted amounts between line items within the District's departments.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash Equivalents, Deposits and Investments** - Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, certificates of deposit, and debt security investments with a maturity at purchase of three months or less.

Investments are reported at their fair value. Fair value is based upon quoted market prices. Realized gains and (losses) from the sale of investments are calculated separately from the change in the fair value. Realized gains or (losses) in the current period include unrealized amounts from prior periods.

**Restricted Assets** - Restricted assets represent cash and investments maintained in accordance with bond resolutions, loan agreements, grant awards, and other resolutions and formal actions of the District or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the system. Restricted assets are generally not available for current operating expenses (see Note 8).

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.

**Receivables, Revenues and Unbilled Revenues** - Revenues are billed monthly to customers on a cyclical meter reading basis. Recognition has been given to unbilled revenue in the financial statements.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The District provides for estimated uncollectible receivables through a reduction of gross water revenues and a credit to an allowance based on its assessment of the current status of individual accounts and historical write-off experience. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Operating revenues consist of water and wastewater revenues net of allowance for uncollectibles, and forfeited discounts, inspection fees and various service fees. Connection (tap) fees are recorded as revenue to the extent of expenses incurred in connecting a customer to the system. Connection fees in excess of costs, if any, are recorded as cash capital contributions.

Non-operating revenue consists of investment income. Investment income is interest earned, the accretion of interest on zero coupon debt instruments and the change in the fair value of investment securities.

**Expenses** - Operating expenses consist of the cost of water and wastewater collection, treatment, storage, and distribution. Other operating expenses include customer billing, collections, administrative and general and depreciation of capital assets.

Non-operating expenses consist of interest on long-term liabilities and loss on the disposal or impairment of capital assets.

**Inventories** - Material and supply inventories are stated cost using the first-in, first-out method. Incidental supplies and chemicals are not included in inventory.

**Capital Assets** - Property, plant and equipment in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to fair market value.

Maintenance and repairs, which do not significantly extend the value or life of property plant or equipment, are expensed as incurred. The District defines capital asset as an asset with an initial individual cost, or a project with a cumulative cost, of more than \$3,000 and an estimated useful life in excess of one year.

Interest is not capitalized on project costs funded by contributed capital, such as grants, gifts and impact fees. Interest costs of tax-exempt borrowings are capitalized net of related investment earnings on the proceeds. Depreciation is not recorded until the assets are actually put into use.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Source of Supply Equipment	15-50
Water Treatment Plant	40-50
Wastewater Treatment Plant	40
Transmission and Distribution Systems	40-50
Equipment	5-20
Structures and Improvements	10-50
Office Furniture, Equipment and Vehicles	5-20

**Long-Term Obligations and Costs** - Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts, and gains or losses on advance refundings and defeasances after June 30, 1994, are deferred and amortized over the life of the bonds.

**Compensation for Future Absences** - Accumulated vacation eligible to be paid to employees at termination is recorded as an expense and liability as the benefits are earned.

**Pension Plan** - For purposes of measuring the District's net pension liability, pension expense, and deferred inflows of resources related to the pension plan, management determines these amounts using the same basis as they are reported in the pension fiduciary fund financial statements. Benefit payments are recognized by the Plan when due and payable in accordance with the benefit terms and the Plan reports its investments at estimated fair value. See Notes 9 and 14 for additional information.

**Contributions** - Contributions are recognized in the statement of revenues, expenses, and changes in net position when earned. Contributions include developer contributed utility systems, capacity and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

**Presentation of Certain Taxes** - The District collects various taxes from customers and remits these amounts to applicable taxing authorities. The District's accounting policy is to exclude these taxes from revenues and cost of sales.

**Deferred Outflows/Inflows of Resources** - In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

**Net Position** - Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted for capital assets activity and debt service; and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and deferred outflows of resources and deferred inflows of resources and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets; debt or deferred inflow of resources attributable to unspent proceeds or other restricted cash and investments are excluded from the determination. Restricted for capital assets activity and debt service consists of net positions for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Net Position Flow Assumption** - Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted resources are available for use, it is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

**Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other amounts. Actual results may differ from those estimates.

**Implementation of GASB Statement No. 62** - During the fiscal year ended June 30, 2013, the District implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance, included in certain FASB and AICPA pronouncements issued prior to November 30, 1989, which does not conflict with or contradict GASB pronouncements.

**Implementation of GASB Statement No. 63** - During the fiscal year ended June 30, 2013, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting the balance sheets and statements of revenues, expenses and changes in net position.

**Implementation of GASB Statements No. 65, 67 and 68** - During the fiscal year ended June 30, 2014, the District implemented GASB Statements No. 65, *Items Previously Reported as Assets and Liabilities*, No. 67, *Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25*, and No 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27*. The requirements of these new standards and their effect on the financial statements are more fully explained in Notes 9 and 14.

**Restatement of Comparative Financial Statements** - The 2013 financial statements have been restated to record prior period adjustments related to implementing new GASB statements as discussed above and in Note 14.

## NOTE 2 - DEPOSITS AND INVESTMENTS

At June 30, 2014 and 2013, the District had the following deposits and investments:

	Proprietary Fund				Fiduciary Fund	
	2014		2013		2014	
	Fair Value	Weighted Average Maturity (Years)	Fair Value	Weighted Average Maturity (Years)	Fair Value	Weighted Average Maturity (Years)
Deposits:						
Demand Deposits	\$ 16,732,286	N/A	\$ 17,024,394	N/A	\$ 0	N/A
Investments:						
Federal Agency Securities	508,797	1.87	500,475	0.41	0	0.00
U.S. Treasuries	500,626	2.00	2,113,884	1.00	0	0.00
Municipal Bonds	0	0.00	6,258,663	0.22	0	0.00
Certificates of Deposit	5,552,208	1.11	7,290,786	1.04	0	0.00
Mutual Funds	0	N/A	0	N/A	5,956,762	N/A
Total Investments	6,561,631		16,163,808		5,956,762	
Total	\$ 23,293,917		\$ 33,188,202		\$ 5,956,762	

## NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

A summary of the deposits and investments on the proprietary fund balance sheets at June 30, 2014 and 2013 is as follows:

	2014	2013
Current Assets:		
Cash and Cash Equivalents	\$ 16,337,368	\$ 16,085,897
Cash and Cash Equivalents - Restricted	394,918	938,497
Investments	6,061,006	6,541,286
Investments - Restricted	0	7,508,638
	<u>22,793,292</u>	<u>31,074,318</u>
Other Assets:		
Investments - Restricted	500,625	2,113,884
	<u>500,625</u>	<u>2,113,884</u>
Total	<u>\$ 23,293,917</u>	<u>\$ 33,188,202</u>

As of June 30, 2014 and 2013, the District's investments were in the following:

	Proprietary Fund	Fiduciary Fund
	2014	2013
Certificates of Deposits	84.6%	45.1%
Federal Agency Securities	7.8%	3.1%
U.S. Treasuries	7.6%	13.1%
Municipal Bonds	0.0%	38.7%
Mutual Funds	0.0%	0.0%
	<u>0.0%</u>	<u>100.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

### Deposits - Custodial Credit Risk

The District's deposits, with a carrying amount of \$16,337,368 and \$16,085,897 at June 30, 2014 and 2013, respectively, were covered by the bank collateral pool administered by the Treasurer of the State of Tennessee. The bank may use one of three different pledged security levels (90, 100 or 105%) depending on the specific bank holding the deposit. Participating banks determine the aggregate balance of their public fund accounts for the District. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured and classified as Category 1, under GASB Statement No. 40, for purposes of custodial credit risk disclosure.

### Investments, at Fair Value

The District's proprietary fund investments at June 30, 2014 and 2013, with a carrying amount of \$1,009,423 and \$8,873,022 are in U.S. Government and Federal Agency Debt Securities and Municipal Bonds which are registered in the District's name. As required by GASB Statement No. 31, the carrying value of investments is presented at fair value.

### Investment Income, Net

Investment income, net for the proprietary fund for 2014 and 2013 consisted of the following:

	2014	2013
Interest Income	\$ 178,455	\$ 626,112
Gains (Losses) - Net	<u>(41,875)</u>	<u>(391,729)</u>
Net Total	<u>\$ 136,580</u>	<u>\$ 234,383</u>

## NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

### Investment Policies - Proprietary Fund

State statute (T.C.A. § 7-82-108) authorizes the District to invest in obligations of the federal government, federal agency securities, State of Tennessee, state local government investment pool (SLGIP), municipal bonds issued in Tennessee, money market funds, certificates of deposit and other time deposits and repurchase agreements. The District may also invest in collateralized certificates of deposit, money market funds or repurchase agreements by banks pledging specific debt securities or those which participate in the state collateral pool.

*Custodial Credit Risk:* The District's investment policy requires that investment securities be registered in the name of West Knox Utility District.

*Credit Risk:* The District's investment policy and state law limits investments in non-federal obligations to issuers that are rated in the two highest rating categories by a nationally recognized rating agency of such obligations. Ratings were obtained from either Moody's or Standard & Poor's.

At June 30, 2014, the District's investment in marketable debt securities, which is carried at fair value, had the following credit rating:

		<u>Credit Rating</u>
<u>Federal Agency Securities</u>		
Freddie Mac	\$ <u>508,797</u>	AAA

*Interest Rate Risk:* The District's Investment Policy limits its holdings to obligations having a final maturity on the date of investment of not to exceed forty-eight (48) months, or which may be tendered by the holder to the issuer thereof, or an agent of the issuer, at not less than forty-eight (48) month intervals. Investments are made based upon prevailing market conditions with the intent to hold the instrument until maturity. If the performance of the portfolio can be improved upon by the sale of an investment prior to maturity, the policy allows for the implementation of this strategy.

### Investment Policies - Fiduciary Fund

See Note 9 for information concerning the investment policies for the fiduciary fund.

### NOTE 3 - CAPITAL ASSETS

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2014 is as follows:

	Balance 07/01/13	Additions Transfers	Deletions Retirements Transfers	Balance 06/30/14
Capital Assets Not Being Depreciated				
Water System:				
Land and Easements	\$ 215,580	\$ 0	\$ 0	\$ 215,580
Construction in Progress	23,488,929	6,925,340	(26,888,662)	3,525,607
Wastewater System:				
Land and Easements	464,672	0	0	464,672
Construction in Progress	7,360,688	5,495,595	(4,258,018)	8,598,265
Office Property and Equipment - Land	244,189	0	0	244,189
Total Capital Assets Not Being Depreciated	<u>31,774,058</u>	<u>12,420,935</u>	<u>(31,146,680)</u>	<u>13,048,313</u>
Capital Assets Being Depreciated:				
Water System:				
Mains, Lines and Equipment	48,806,126	364,590	6,254,179	55,424,895
Treatment Facilities	14,266,176	0	20,634,484	34,900,660
Wastewater System:				
Collection Lines and Equipment	57,458,112	874,446	4,258,017	62,590,575
Treatment Facilities	22,443,956	62,152	0	22,506,108
Office Property and Equipment	<u>4,383,949</u>	<u>650,124</u>	<u>(17,717)</u>	<u>5,016,356</u>
Total Capital Assets Being Depreciated	<u>147,358,319</u>	<u>1,951,312</u>	<u>31,128,963</u>	<u>180,438,594</u>
Less Accumulated Depreciation				
Water System:				
Mains, Lines and Equipment	(15,934,244)	(1,492,257)	0	(17,426,501)
Treatment Facilities	(6,723,928)	(523,215)	0	(7,247,143)
Wastewater System:				
Collection Lines and Equipment	(17,403,040)	(1,468,942)	0	(18,871,982)
Treatment Facilities	(11,521,037)	(846,209)	0	(12,367,246)
Office Property and Equipment	<u>(2,890,260)</u>	<u>(270,760)</u>	<u>17,717</u>	<u>(3,143,303)</u>
Total Accumulated Depreciation	<u>(54,472,509)</u>	<u>(4,601,383)</u>	<u>17,717</u>	<u>(59,056,175)</u>
Total Capital Assets Being Depreciated - Net	<u>92,885,810</u>	<u>(2,650,071)</u>	<u>31,146,680</u>	<u>121,382,419</u>
Total Capital Assets	<u>\$ 124,659,868</u>	<u>\$ 9,770,864</u>	<u>\$ 0</u>	<u>\$ 134,430,732</u>

Depreciation expense was \$4,601,383 for 2014.

### NOTE 3 - CAPITAL ASSETS (Continued)

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2013 is as follows:

	Balance 07/01/12	Additions Transfers	Deletions Retirements Transfers	Balance 06/30/13
Capital Assets Not Being Depreciated				
Water System:				
Land and Easements	\$ 215,580	\$ 0	\$ 0	\$ 215,580
Construction in Progress	5,165,258	21,407,398	(3,083,727)	23,488,929
Wastewater System:				
Land and Easements	464,672	0	0	464,672
Construction in Progress	7,194,316	1,045,722	(879,350)	7,360,688
Office Property and Equipment - Land	244,189	0	0	244,189
Total Capital Assets Not Being Depreciated	<u>13,284,015</u>	<u>22,453,120</u>	<u>(3,963,077)</u>	<u>31,774,058</u>
Capital Assets Being Depreciated:				
Water System:				
Mains, Lines and Equipment	45,409,184	313,215	3,083,727	48,806,126
Treatment Facilities	14,266,176	0	0	14,266,176
Wastewater System:				
Collection Lines and Equipment	56,029,215	549,547	879,350	57,458,112
Treatment Facilities	22,150,122	293,834	0	22,443,956
Office Property and Equipment	<u>4,179,716</u>	<u>220,624</u>	<u>(16,391)</u>	<u>4,383,949</u>
Total Capital Assets Being Depreciated	<u>142,034,413</u>	<u>1,377,220</u>	<u>3,946,686</u>	<u>147,358,319</u>
Less Accumulated Depreciation				
Water System:				
Mains, Lines and Equipment	(14,565,595)	(1,368,649)	0	(15,934,244)
Treatment Facilities	(6,370,508)	(353,420)	0	(6,723,928)
Wastewater System:				
Collection Lines and Equipment	(16,043,824)	(1,359,216)	0	(17,403,040)
Treatment Facilities	(10,684,109)	(836,928)	0	(11,521,037)
Office Property and Equipment	<u>(2,645,686)</u>	<u>(260,965)</u>	<u>16,391</u>	<u>(2,890,260)</u>
Total Accumulated Depreciation	<u>(50,309,722)</u>	<u>(4,179,178)</u>	<u>16,391</u>	<u>(54,472,509)</u>
Total Capital Assets Being Depreciated - Net	<u>91,724,691</u>	<u>(2,801,958)</u>	<u>3,963,077</u>	<u>92,885,810</u>
Total Capital Assets	<u>\$ 105,008,706</u>	<u>\$ 19,651,162</u>	<u>\$ 0</u>	<u>\$ 124,659,868</u>

Depreciation expense was \$4,179,182 for 2013.

#### NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress at June 30, 2014 and 2013 consists of:

Project	2014		2013	
	Actual To Date	Remaining Commitment	Actual To Date	Remaining Commitment
Hydraulic Analysis - Flow Monitoring	\$ 243,853	\$ 208,082	\$ 235,561	\$ 0
Ball Camp Road Water Line Relocation - Engineering	194,750	0	194,750	0
Ten Mile WWPS Basin Study - Engineering	435,918	0	412,423	0
Sub-Basin 9 SSES	2,778,851	0	2,675,595	730,937
Sub-Basin 1-6 Rehab Phase I	0	0	2,447,825	547,017
Sub-Basin 1-6 Rehab Phase II	3,036,054	596,501	N/A	N/A
Melton Lake WWTP - Engineering	4,693,025	0	4,305,689	0
Daugherty Water Plant Upgrades	0	0	17,102,777	365,973
Daugherty Plant Transmission Lines	0	0	3,166,823	2,008,867
Pittman Road Water Line Replacement	0	0	244,577	583,903
Meadow Creek Gravity Sewer Line	235,727	882,803	N/A	N/A
Diggs Road Water Line Replacement	344,571	466,244	N/A	N/A
Cross Park Water & Sewer Rel	68,633	210,235	39,932	N/A
Bob Gray Roundabouts	24,497	190,688	23,665	N/A
Other Small Projects	67,993	30,018	0	0
Total	\$ <u>12,123,872</u>	\$ <u>2,584,571</u>	\$ <u>30,849,617</u>	\$ <u>4,236,697</u>

#### NOTE 5 - GAIN (LOSS) ON DISPOSAL OF CAPITAL ASSETS

During 2014 and 2013, the District abandoned various equipment no longer in service. The gain on disposals of capital assets is as follows:

	2014	2013
Insurance Proceeds	\$ 4,225	\$ 9,615
Less: Net Book Value of Capital Assets	<u>0</u>	<u>0</u>
Gain (Loss)	\$ <u>4,225</u>	\$ <u>9,615</u>

## NOTE 6 - REVENUE BONDS AND NOTES PAYABLE

### Overview

Bonds and notes payable at June 30, 2014 and 2013, consisted of the following:

	2014	2013
Water and Sewer System Revenue Bonds Build America Bonds (BABS) \$35,000,000 Dated November 30, 2010, Series 2010	\$ 35,000,000	\$ 35,000,000
Public Building Authority of Sevier County, Tennessee Loan Agreement \$35,425,000 dated August 1, 2009, Series 2009 V-B-1	30,995,000	31,915,000
Rural Development Water and Sewer Revenue Bonds, \$1,340,000 Series 2004	1,166,010	1,187,025
Note Payable - Knox County, Tennessee	1,350,000	1,700,000
Note Payable - State Revolving Funds	1,898,347	1,995,695
Total Bonds and Notes Payable	70,409,357	71,797,720
Less: Unamortized Discount	(136,468)	(141,748)
	70,272,889	71,655,972
Less: Current Portion	(736,260)	(1,388,845)
Total Long-Term Bonds and Notes	\$ 69,536,629	\$ 70,267,127

The bond holders have a statutory mortgage lien upon the District as created by T.C.A. § 7-82-101, and will remain in effect until the various bond issues are paid in full. There is a bond covenant with a minimum debt service coverage ratio of 1.2, and as of June 30, 2014 and 2013 the ratio was 3.59 and 2.91, respectively.

Interest expense for 2014 and 2013 consisted of the following:

	2014	2013
Interest Paid	\$ 2,496,235	\$ 2,571,003
Less Construction Period Interest Capitalized	(829,776)	(896,706)
Amortization of Bond Discounts	5,281	4,841
Amortization of Note Discounts	4,816	4,816
Paying Agent's Fees and Service Charges	1,206	1,140
Amortization of Deferred Cost of Refunding	36,388	37,165
Total	\$ 1,714,150	\$ 1,722,259

## NOTE 6 - REVENUE BONDS AND NOTES PAYABLE (Continued)

### Activity

Long-term debt activity during 2014 and 2013 was as follows:

	2014				
	Balance July 01, 2013	Additions	Reductions	Balance June 30, 2014	Due Within One Year
Revenue Bonds	\$ 67,960,277	\$ 0	\$ 935,735	\$ 67,024,542	\$ 636,953
Notes Payable	3,695,695	0	447,348	3,248,347	99,307
Total	<u>\$ 71,655,972</u>	<u>\$ 0</u>	<u>\$ 1,383,083</u>	<u>\$ 70,272,889</u>	<u>\$ 736,260</u>

	2013				
	Balance July 01, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Revenue Bonds	\$ 68,851,141	\$ 0	\$ 890,864	\$ 67,960,277	\$ 941,015
Notes Payable	3,784,222	0	88,527	3,695,695	447,830
Total	<u>\$ 72,635,363</u>	<u>\$ 0</u>	<u>\$ 979,391</u>	<u>\$ 71,655,972</u>	<u>\$ 1,388,845</u>

### Debt Service

A summary of the debt service requirements for principal and interest at June 30, 2014, is as follows:

Fiscal Years Ending June 30,	Principal	Coupon Interest	BABS Treasury Rebate	Net Interest	Total
2015	\$ 736,260	\$ 3,989,042	\$ (826,324)	\$ 3,162,718	\$ 3,898,978
2016	1,118,750	3,955,812	(826,324)	3,129,488	4,248,238
2017	1,171,281	3,903,514	(826,324)	3,077,190	4,248,471
2018	1,223,898	3,848,647	(826,324)	3,022,323	4,246,221
2019	2,631,587	3,931,208	(826,324)	3,104,884	5,736,471
2020-2024	6,915,890	18,186,460	(4,109,261)	14,077,199	20,993,089
2025-2029	10,150,257	16,123,355	(4,010,385)	12,112,970	22,263,227
2030-2034	12,086,516	13,427,576	(3,880,929)	9,546,647	21,633,163
2035-2039	13,832,436	9,938,104	(3,410,100)	6,528,004	20,360,440
2040-2044	16,742,482	4,920,667	(1,718,227)	3,202,440	19,944,922
2045	3,800,000	266,000	(93,108)	172,892	3,972,892
Total	<u>\$ 70,409,357</u>	<u>\$ 82,490,385</u>	<u>\$ (21,353,630)</u>	<u>\$ 61,136,755</u>	<u>\$ 131,546,112</u>

## NOTE 6 - REVENUE BONDS AND NOTES PAYABLE (Continued)

### Description of the Loan Payable to Public Building Authority of Sevier County Series 2009 V-B-1

The Public Building Authority of Sevier County has issued its Local Government Public Improvement Bonds, Series 2009 V-B-1. The bonds are to provide refunding of Series 1997 I-A-1, 2000 II-D-2, and 2005 IV-C-1 Bonds. Interest payments are made the first of each month. Monthly payments include a reimbursement to the letter of credit provider. One monthly payment each quarter includes additional interest and swap payments and fees, in addition to the LOC reimbursement. The effective interest rate for 2014 was 2.65%. The loan principal payments began June 1, 2010, and annual principal payments due June 1 of each year continue through 2035. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$634,946. This difference is reported in the accompanying financial statements as a deduction from bonds payable and is being charged to operations through the year 2034 using the proportionate-to-stated interest requirements method. Although the reacquisition price exceeded the net carrying amount of the old debt, the District reduced its aggregate debt service payments by \$1,237,925. No economic gain or loss was obtained since the transaction exchanged old variable rate debt with new variable rate debt. The amount of the reacquisition price recorded as part of the bond interest expense was \$36,388 and \$37,165 for the years ended June 30, 2014 and 2013, respectively.

Under its loan agreement, the Public Building Authority, at the request of the District, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Revenue Bonds, Series II-D-2. Based on the loan agreement and swap agreement, the District owes interest at an effective fixed rate of 3.38% and 3.46% at June 30, 2014 and 2013, respectively (see Note 7).

### Description of the Build America Bonds (BABS), Series 2010

The District has issued taxable water and sewer revenue bonds, series 2010 (Federally Taxable – Build America Bonds – Direct Subsidy). The funds are to provide the District financing for certain water and sewer improvement projects under the agreement dated November 30, 2010. Interest payments are made semi-annually at a gross interest rate of 6.83%, or at a net rate of 4.44% after subsidies. The loan principal payments begin June 1, 2021 and continue through June 1, 2045. Beginning in year 2026 there is a mandatory redemption of bonds with various maturity dates. The District receives a direct subsidy of 35% from the United States Government that reduces its interest costs. The District has no assurance that the United States Government will continue to make the direct subsidy payments, at a gross interest rate of 6.83% or that the United States Congress will not attempt to reduce the amount of the direct subsidy payments. The bonds received a AA+ rating from Standard & Poor's. Interest subsidies received by the District during the years ended June 30, 2014 and 2013 totaled \$766,828 and \$784,388, respectively.

### Description of the 2004 Rural Development Bonds

The Series 2004 Water and Sewer Revenue Bonds dated June 23, 2004 were issued by the U.S. Department of Agriculture - Rural Development in the amount of \$1,340,000. The Bonds carry an interest rate of 4.375% and are payable in 456 monthly installments of \$6,044 beginning July 23, 2004 and ending on June 23, 2042.

### Note Payable - Knox County

Knox County agreed to participate with the District by providing funds to expedite utility relocation necessary for construction of improved roadways within the northwest portion of the County. The District has received a total of \$2,000,000 from the County before repayments.

The District is obligated to repay the funds including an additional \$140,000 to reimburse the County for administrative costs associated with the agreement. The funds are to be reimbursed as follows:

Fiscal Years Ending June 30,	2014
2019	\$ <u>1,490,000</u>

The District has accrued a portion of the \$140,000 as interest payable. The amount accrued for 2014 and 2013 was \$118,860 and \$114,044, respectively.

## NOTE 6 - REVENUE BONDS AND NOTES PAYABLE (Continued)

### Note Payable - State Revolving Fund

The District entered into an agreement with the Tennessee Department of Environment and Conservation's State Revolving Fund Loan Program on September 29, 2009. The agreement was to provide financing for the wastewater collection system expansion along Ball Camp Road and Northampton Commons areas. The total project is estimated at \$3,658,096, of which \$1,829,048 will be a loan from the State Revolving Fund and \$1,829,048 will be provided by the American Recovery and Reinvestment Act of 2009 (ARRA). The funds provided by ARRA consist of \$1,463,238 in debt forgiveness and \$365,810 as a note payable. Interest begins after each disbursement request is made by the District as the project progresses at 1.5%. Principal payments begin within 90 days after the project is complete or within 120 days after 90% of the project loan has been disbursed, whichever event occurs earlier. The note payable will be amortized over 20 years. The project was completed during 2012. The amount of note payable as of June 30, 2014 and 2013 was \$1,898,347 and \$1,995,695, respectively.

## NOTE 7 - INTEREST RATE SWAP

Under its loan agreement, the Public Building Authority of Sevier County, TN (the "Authority"), at the request of the District, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Revenue Bonds, Series II-D-2. The District has one interest rate swap classified as a hedging derivative instrument. The hedging derivative is an effective hedge using the regression analysis method. The regression analysis method measures the statistical relationship between the fair value or cash flows of the potential hedging derivative and the hedgeable item.

### Objective of the Interest Rate Swap

In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the District requested the Authority, on its behalf, to enter into an interest rate swap in connection with its \$12.5 million Series II-D-2 variable-rate bonds. The intention of the swap was to effectively change the District's variable interest rate on the bonds to a synthetic fixed rate. The Series II-D-2 bonds have since been refunded with a portion of the proceeds of the Series V-B-1 bonds and the interest rate swap is now associated with the Series V-B-1 bonds.

### Terms

Under the swap, the Authority pays the counterparty a fixed payment of 4.40% and receives a variable payment computed as 63.50% of the Five-Year London Interbank Offered Rate (LIBOR). The swap has a notional amount of \$12.50 million and the associated variable-rate bond has a \$12.50 million principal amount. At no time will the notional amount on interest rate swap agreement exceed the outstanding principal of the Series V-B-1 Bonds. The bonds' variable rates have historically approximated the Securities Industry and Financial Markets Association Index™ (the "SIFMA"). The bonds and the related swap agreement mature on June 1, 2030. As of June 30, 2014 and 2013, rates were as follows:

	2014	2013
Interest Rate Swap:		
Fixed Payment to Counterparty	4.40 %	4.40 %
Variable Payment from Counterparty	<u>(1.08)</u>	<u>(1.01)</u>
Net Interest Rate Swap Payments	3.32	3.39
Variable-Rate Bond Coupon Payments	<u>0.06</u>	<u>0.07</u>
Synthetic Interest Rate on Bonds	<u>3.38 %</u>	<u>3.46 %</u>

## **NOTE 7 - INTEREST RATE SWAP (Continued)**

### **Fair Value**

As of June 30, 2014 and 2013, the swap had a negative fair value of \$(3,137,203) and \$(3,013,567), respectively. The fair value is reported on the balance sheet under deferred inflows and outflows of resources. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the District's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates and then discounts those cash flows at their present value.

### **Credit Risk**

As of June 30, 2014 and 2013, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty, Morgan Keegan Financial Products ("MKFP") was rated "A+" by Standard and Poor's as of June 30, 2014, with its Credit Support Provider, Deutsche Bank, rated Aa3/A+/AA- by Moody's, Standard & Poor's and Fitch, respectively.

### **Termination Risk**

The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the Authority for a payment equal to the swap's fair value.

### **Interest Rate Risk**

The District is exposed to interest rate risk on the interest rate swap. The bonds' variable rates have historically approximated the Securities Industry and Financial Markets Association Index (SIFMA). As the SIFMA swap index decreases, the District's net payments on the swap increase.

### **Basis Risk**

As noted above, the swap exposes the District to basis risk should SIFMA increase to above 63.5% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the SIFMA to be below 63.5% of LIBOR, then the synthetic rate on the bonds will decrease.

### **Rollover Risk**

The District is not exposed to rollover risk because the maturity dates for the hedged variable rate bonds and the interest rate swap agreement are the same.

## NOTE 7 - INTEREST RATE SWAP (Continued)

### Swap Payments and Associated Debt

As of June 30, 2014, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	Variable Rate Bonds		Net Interest	Total
	Principal	Interest	Rate Swap Payment	
2015	\$ 0	\$ 7,500	\$ 415,063	\$ 422,563
2016	0	7,500	415,063	422,563
2017	0	7,500	415,063	422,563
2018	0	7,500	415,063	422,563
2019	0	7,500	415,063	422,563
2020-2024	0	37,500	2,075,313	2,112,813
2025-2029	9,455,000	30,315	1,677,683	11,162,998
2030	3,045,000	1,827	101,109	3,147,936
	<u>\$ 12,500,000</u>	<u>\$ 107,142</u>	<u>\$ 5,929,420</u>	<u>\$ 18,536,562</u>

## NOTE 8 - NET POSITION

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. The net position for 2014 and 2013 is as follows:

	2014	2013
Net Investment in Capital Assets:		
Net Property, Plant and Equipment	\$ 134,430,732	\$ 124,659,868
Less: Revenue Bonds Payable - Net of Discounts, Premiums and Deferred Refunding Losses	(66,578,956)	(67,478,303)
Less: Notes Payable	(3,248,347)	(3,695,695)
Add: Debt Proceeds to be Used for Capital Assets	308,275	8,350,929
Less: Reclassification from Restricted for Capital Assets Activity	(2,037,070)	(4,151,819)
	<u>62,874,634</u>	<u>57,684,980</u>
Restricted for Capital Assets Activity:		
Restricted Cash and Cash Equivalents	308,275	842,291
Restricted Investments	0	7,508,638
Less: Accounts Payable for Capital Assets	(2,037,070)	(4,151,819)
Less: Debt Proceeds to be Used for Capital Assets	(308,275)	(8,350,929)
Reclassified to Net Investment in Capital Assets	<u>2,037,070</u>	<u>4,151,819</u>
	<u>0</u>	<u>0</u>
Restricted for Debt Service:		
Restricted Cash and Cash Equivalents	86,643	96,206
Restricted Investments	500,625	2,113,884
Less: Accrued Bond Interest Payable	(195,489)	(201,385)
	<u>391,779</u>	<u>2,008,705</u>
Unrestricted	<u>18,094,753</u>	<u>17,522,193</u>
Total	<u>\$ 81,361,166</u>	<u>\$ 77,215,878</u>

## NOTE 9 - PENSION PLAN

### General Information about the Pension Plan

*Plan Description* - The District's qualified defined benefit pension plan, the West Knox Utility District Defined Benefit Pension Plan (the Plan), provides pension benefits for all full-time employees of the District who have been employed for at least 6 months and are at least 21 years old. The Plan is a single-employer noncontributory retirement plan and is administered by USI Consulting Group.

*Benefits Provided* - The Plan provides retirement, disability and death benefits. Retirement benefits are calculated as 2.25% per year of service (limited to 100%) times the highest average of 36 consecutive months of compensation. The Plan provides participants with several options for retirement benefit payments, including several annuity choices or a lump sum payment. Vesting begins at 20% per year after one year of service. An employee becomes fully vested after five years of service and normal retirement age is 65. The Plan does not issue separate financial statements. The District's Board of Commissioners has the authority to amend or change the Plan and its benefit terms.

The District's Board of Commissioners amended the Plan on November 21, 2013 to provide another option that can be chosen, whereby the beneficiary of a participant who dies after annuity benefit payments under the Plan begin will be entitled to a death benefit equal to the excess, if any, of the lump sum value of the participant's total accrued benefit compared to the total amount of benefit payments made to the participant prior to their death.

*Employees Covered by Benefit Terms* - At June 30, 2014, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	1
Inactive Employees Entitles to, but not yet Receiving Benefits	4
Active Employees	62
	<u>67</u>

*Contributions* - The Board of Commissioners establishes contribution amounts based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability for past service costs. For the year ended June 30, 2014 the District's contributions were approximately 31% of annual covered-employee payroll.

### Net Pension Liability

The District's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2013.

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

Actuarial Cost Method: Entry Age Normal
Amortization Method: Level Percentage of Payroll, Closed
Remaining Amortization Period: 30
Asset Valuation Method: Fair Market Value
Investment Rate of Return: 7.25% per Annum
Discount Rate: 7.25%
Salary Increases: 3% per Annum
Lump Sums: 50% Election Rate; 4.25% Present Value Rate
Retirement Age: Normal Retirement Age
Cost of Living Increase: 0.0%
Mortality: IRS Combined 2013 Static Mortality Table

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actual experience with the plan for the past several years.

## NOTE 9 - PENSION PLAN (Continued)

The long-term expected rate of return on pension plan investments was determined using a modified building blocks methodology 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. These ranges are combined to produce 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 an assumed inflation rate of 2.4% per annum. The target allocation and best estimates of average long-term expected real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Average Long-Term Expected Real Rate of Return
Domestic Equity	28%	11.89%
International Equity	15%	8.20%
Bonds	28%	6.51%
Market Neutral/Alternative	15%	5.33%
Real Estate	5%	12.74%
Bank Loans	4%	5.94%
Cash & Other	5%	6.50%
Total	100%	

*Discount Rate.* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### Changes in Net Pension Liability

The changes in net pension liability are shown below:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Position Liability
	(a)	(b)	(a) - (b)
<b>Balances at June 30, 2013</b>	<b>\$ 10,799,716</b>	<b>\$ 4,764,946</b>	<b>\$ 6,034,770</b>
Changes for the Year			
Service Cost	327,590	0	327,590
Interest	774,716	0	774,716
Difference between Expected and Actual Experience	0	0	0
Contributions - Employer	0	840,000	(840,000)
Net Investment Income	0	686,171	(686,171)
Benefit Payments - Annuities	(44,790)	(44,790)	0
Benefit Payments - Lump Sum	(288,150)	(288,150)	0
Administrative Expenses	0	(1,415)	1,415
Net Changes	769,366	1,191,816	(422,450)
<b>Balances at June 30, 2014</b>	<b>\$ 11,569,082</b>	<b>\$ 5,956,762</b>	<b>\$ 5,612,320</b>

## NOTE 9 - PENSION PLAN (Continued)

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* - The following presents the net pension liability of the District, calculated using the discount rate of 7.25%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Net Pension Liability	\$6,795,508	\$5,612,320	\$4,593,411

### Pension Expense and Deferred Inflow of Resources Related to Plan

For the year ended June 30, 2014, the District recognized pension expense of \$417,550. At June 30, 2014, the District did not report any deferred inflows of resources related to the Plan.

### Payable to Pension Plan

At June 30, 2014, the District did not report a payable for any outstanding amount of contributions to the Plan required for the year ended June 30, 2014 since all contributions were paid prior to year end.

### Trend Information

The schedule of changes in the District's net position liability and related ratios and the schedule of the District's pension contributions as presented in required supplementary information (RSI) following the notes to financial statements, will present multiyear trend information in the future about whether the Plan's fiduciary net position is increasing or decreasing over time relative to the total pension liability and net pension liability and whether the District's contributions are in accordance with the actuarially determined amounts.

## NOTE 10 - NET WATER REVENUES

Net Water revenues earned during 2014 and 2013 was as follows:

	<u>2014</u>	<u>2013</u>
Gross Water Revenues	\$ 7,985,022	\$ 7,605,458
Less: Provision for Bad Debt Expense	<u>(103,184)</u>	<u>(188,164)</u>
Net Water Revenues	<u>\$ 7,881,838</u>	<u>\$ 7,417,294</u>

## NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of damage to, and destruction of assets; injuries to employees; and natural disasters. The District carries commercial insurance for these risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

## NOTE 12 - ECONOMIC CONCENTRATION

The majority of the District's customers reside in the western portion of Knox County, Tennessee. A significant number of the District's customers are employed with various federal government contractors located in Oak Ridge, Tennessee. These contractors operate three U.S. Department of Energy (DOE) facilities that are vital to research and development, national defense and waste management. DOE operations are contingent upon annual U.S. congressional appropriations.

The District's ten largest customers approximate 9% and 10% of water and wastewater sales during 2014 and 2013, respectively. These customers are primarily rental properties, various corporations and a hospital.

## **NOTE 13 - VIOLATIONS OF ENVIRONMENTAL REGULATIONS**

On September 26, 2011, the District entered into an administrative order with the U.S. Environmental Protection Agency (EPA) concerning the District's compliance with the Clean Water Act (CWA) and specifically Sanitary Sewer Overflows (SSO). The District was required to submit a Corrective Action Plan (CAP) to the EPA by April 1, 2012. The CAP was expected to provide details of the District's plans for improvements to its wastewater collection system to address ongoing SSO issues in sewer sub-basins 9 and 10. The CAP was also to include an implementation schedule for these improvements for the years of 2012 through 2016.

The Corrective Action Plan was prepared and submitted to the EPA on schedule by April 1, 2012. The EPA subsequently approved the CAP in May 2012. The CAP identified five capital improvement projects to be completed by the District at an estimated cost of \$6,600,000. Currently two of the five projects have been completed and a third project is under construction. The last two projects are in the planning and design stages. To date the District is in full compliance, is slightly ahead of schedule and slightly under budget in executing these projects.

The EPA administrative order also specifically called for two other capital improvement projects to be completed that were not part of the CAP. These have both also been completed at a combined cost of approximately \$1,300,000.

Additionally, there is approximately \$8,000,000 currently in the District's Capital Improvements Plan in an effort to reduce inflow and infiltration (I/I) into the wastewater collection system and to eliminate recurring overflows. Although these projects are not specifically identified in the Order, the Order does call for WKUD to address recurring overflow locations and for improvements to address them.

## **NOTE 14 - PRIOR PERIOD ADJUSTMENTS / ADOPTION OF NEW ACCOUNTING STANDARDS**

During 2014 the District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* which reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Per this new standard, debt issuance costs are recorded as an expense in the period incurred. Therefore, unamortized debt issuance costs have been recorded as a prior period adjustment and as a decrease in the District's other assets and unrestricted net position amounting to \$557,683 and \$590,908 as of July 1, 2013 and 2012, respectively. There was no material effect on the statement of cash flows for the year ended June 30, 2013.

GASB Statement No. 65 also requires that deferred refunding losses resulting from prior refunding losses be reported as a deferred outflow of resources. As of June 30, 2014 and 2013 respectively, \$445,586 and \$481,974 of deferred refunding losses were reclassified on the balance sheets from long-term debt to deferred outflows of resources and had no other effect on the District's financial statements.

During 2014 the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27*, which requires the District to recognize a net pension liability on the balance sheet. The new standard also changes the assumptions and methodology of how the net pension expense and liability is calculated. During 2014, the District also adopted GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25*. See Note 9 for additional information about the District's pension plan.

**NOTE 14 - PRIOR PERIOD ADJUSTMENTS / ADOPTION OF NEW ACCOUNTING STANDARDS (Continued)**

As a result of adopting GASB Statements No. 65, 67 and 68, the District has recorded a prior period adjustment to unrestricted net position as of July 1, 2012. The following 2013 financial statement line items were affected by the restatement:

	As of June 30,	As Originally Reported 2013	As Restated	Effect of Change
<b>BALANCE SHEET</b>				
Total Current Assets		\$ 33,349,006	\$ 33,349,006	\$ 0
Capital Assets - Net		124,659,868	124,659,868	0
Total Other Assets		<u>2,916,152</u>	<u>2,241,536</u>	<u>(674,616)</u>
<b>TOTAL ASSETS</b>		<u>160,925,026</u>	<u>160,250,410</u>	<u>(674,616)</u>
Total Deferred Outflows of Resources		<u>3,495,541</u>	<u>3,495,541</u>	<u>0</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>		<u>\$ 164,420,567</u>	<u>\$ 163,745,951</u>	<u>\$ (674,616)</u>
Total Liabilities		\$ 77,481,732	\$ 83,516,506	\$ 6,034,774
Total Deferred Inflows of Resources		3,013,567	3,013,567	0
Total Net Position		<u>83,925,268</u>	<u>77,215,878</u>	<u>(6,709,390)</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>		<u>\$ 164,420,567</u>	<u>\$ 163,745,951</u>	<u>\$ (674,616)</u>
<b>STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>				
Total Operating Revenues		\$ 17,250,059	\$ 17,250,055	\$ (4)
Total Operating Expenses		14,553,830	14,553,830	0
Total Non-Operating Revenues (Expenses), Net		(1,511,486)	(1,478,261)	(33,225)
Total Capital Contributions		<u>717,324</u>	<u>717,324</u>	<u>0</u>
<b>CHANGE IN NET POSITION</b>		<u>1,902,067</u>	<u>1,935,288</u>	<u>33,221</u>
<b>NET POSITION, BEGINNING OF YEAR</b>		<u>82,023,201</u>	<u>75,280,590</u>	<u>(6,742,611)</u>
<b>NET POSITION, END OF YEAR</b>		<u>\$ 83,925,268</u>	<u>\$ 77,215,878</u>	<u>\$ (6,709,390)</u>

**NOTE 15 - SUBSEQUENT EVENT**

Effective July 1, 2014, the District's Board of Commissioners approved a water customer monthly charge increase of \$1.75, a sewer customer monthly charge increase of \$1.00, and an increase in wastewater rates of \$0.75 per thousand gallons.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**  
**SCHEDULE OF CHANGES IN DISTRICT'S NET PENSION LIABILITY**  
**AND RELATED RATIOS**

**Fiscal Year Ended June 30, 2014**

<b>Total Pension Liability</b>	
Service Cost	\$ 327,590
Interest	774,716
Changes Due to Benefit Terms	0
Differences between Expected and Actual Experience	0
Benefit Payments	<u>(332,940)</u>
<b>Net Change in Total Pension Liability</b>	769,366
<b>Total Pension Liability - Beginning</b>	<u>10,799,716</u>
<b>Total Pension Liability - Ending (a)</b>	<u><u>\$ 11,569,082</u></u>
 <b>Plan Fiduciary Net Position</b>	
Contributions - Employer	\$ 840,000
Net Investment Income	686,171
Benefit Payments	(332,940)
Administrative Expense	<u>(1,415)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	1,191,816
<b>Plan Fiduciary Net Position - Beginning</b>	<u>4,764,946</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u><u>\$ 5,956,762</u></u>
 <b>Net Pension Liability - Ending (a) - (b)</b>	<u><u>\$ 5,612,320</u></u>
 <b>Plan Fiduciary Net Position as a Percentage of the</b>	
<b>Total Pension Liability</b>	51.49%
<b>Covered-Employee Payroll</b>	\$ 2,698,662
<b>Net Pension Liability as a Percentage of</b>	
<b>Covered-Employee Payroll</b>	207.97%

Note: This schedule is first required for the fiscal year ended June 30, 2014. Subsequent years will include subsequent disclosures for comparative purposes.

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**  
**SCHEDULE OF DISTRICT'S PENSION CONTRIBUTIONS**  
**Fiscal Year Ended June 30, 2014**

Actuarially Determined Contribution	\$ 768,824
Contributions in Relation to the Actuarially Determined Contribution	<u>840,000</u>
Contribution Deficiency (Excess)	\$ <u>(71,176)</u>
 Covered-Employee Payroll	 \$ 2,698,662
 Contributions as a Percentage of Covered-Employee Payroll	 31.13%

Note: This schedule is first required for the fiscal year ended June 30, 2014. Subsequent years will include subsequent disclosures for comparative purposes.

## **OTHER INFORMATION SECTION**

## THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY

## SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2014

Fiscal Year Ending June 30,	\$35,425,000 Public Improvement Revenue Bonds Series 2009-V-B-1		\$35,000,000 Water and Sewer Revenue Bonds (BABS) - Series 2010		\$1,340,000 Rural Development Water & Sewer Revenue Bonds Series 2004		Total Revenue Bonds	
	Principal	Interest	Principal	Interest (a)	Principal	Interest	Total Principal	Total Interest
2015	\$ 615,000	\$ 1,549,750	\$ 0	\$ 1,534,601	\$ 21,953	\$ 50,575	\$ 636,953	\$ 3,134,926
2016	995,000	1,519,000	0	1,534,601	22,933	49,595	1,017,933	3,103,196
2017	1,045,000	1,469,250	0	1,534,601	23,957	48,571	1,068,957	3,052,422
2018	1,095,000	1,417,000	0	1,534,601	25,026	47,502	1,120,026	2,999,103
2019	1,150,000	1,362,250	0	1,534,601	26,145	46,385	1,176,145	2,943,236
2020	0	1,304,750	0	1,534,601	27,310	45,218	27,310	2,884,569
2021	1,210,000	1,304,750	250,000	1,534,601	28,529	43,999	1,488,529	2,883,350
2022	1,270,000	1,244,250	250,000	1,527,857	29,803	42,725	1,549,803	2,814,832
2023	1,335,000	1,180,750	250,000	1,520,870	31,133	41,395	1,616,133	2,743,015
2024	1,400,000	1,114,000	250,000	1,513,557	32,523	40,008	1,682,523	2,667,565
2025	1,470,000	1,044,000	250,000	1,506,082	33,974	38,554	1,753,974	2,588,636
2026	1,545,000	970,500	250,000	1,498,364	35,491	37,037	1,830,491	2,505,901
2027	1,620,000	893,250	250,000	1,490,401	37,075	35,453	1,907,075	2,419,104
2028	1,700,000	812,250	250,000	1,481,139	38,730	33,798	1,988,730	2,327,187
2029	1,785,000	727,250	250,000	1,471,876	40,459	32,072	2,075,459	2,231,198
2030	1,875,000	638,000	250,000	1,462,614	42,265	30,263	2,167,265	2,130,877
2031	1,970,000	544,250	250,000	1,452,051	44,152	28,376	2,264,152	2,024,677
2032	2,070,000	445,750	250,000	1,441,489	46,123	26,405	2,366,123	1,913,644
2033	2,170,000	342,250	250,000	1,430,926	48,181	24,347	2,468,181	1,797,523
2034	2,280,000	233,750	250,000	1,420,364	50,332	22,196	2,580,332	1,676,310
2035	2,395,000	119,750	250,000	1,409,802	52,579	19,949	2,697,579	1,549,501
2036	0	0	2,550,000	1,399,239	54,926	17,602	2,604,926	1,416,841
2037	0	0	2,675,000	1,291,502	57,378	15,150	2,732,378	1,306,652
2038	0	0	2,775,000	1,178,483	59,939	12,592	2,834,939	1,191,075
2039	0	0	2,900,000	1,054,024	62,614	9,914	2,962,614	1,063,938
2040	0	0	3,025,000	923,959	65,409	7,119	3,090,409	931,078
2041	0	0	3,150,000	788,288	68,329	4,199	3,218,329	792,487
2042	0	0	3,275,000	644,963	58,742	124	3,333,742	645,087
2043	0	0	3,475,000	495,950	0	0	3,475,000	495,950
2044	0	0	3,625,000	337,838	0	0	3,625,000	337,838
2045	0	0	3,800,000	172,891	0	0	3,800,000	172,891
Total	\$ 30,995,000	\$ 20,236,750	\$ 35,000,000	\$ 39,656,736	\$ 1,166,010	\$ 851,123	\$ 67,161,010	\$ 60,744,609

(a) Note: The interest related to the BABS is net of the 35% subsidy payment from the U.S. Government.

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS (Continued)**

**June 30, 2014**

Fiscal Year Ending June 30,	Knox County Note Payable		State Revolving Fund Note Payable		Total Debt Service
	Principal	Interest	Principal	Interest	
2015	\$ 0	\$ 0	\$ 99,307	\$ 27,792	\$ 3,898,978
2016	0	0	100,817	26,292	4,248,238
2017	0	0	102,324	24,768	4,248,471
2018	0	0	103,872	23,220	4,246,221
2019	1,350,000	140,000	105,444	21,648	5,736,473
2020	0	0	107,040	20,052	3,038,971
2021	0	0	108,648	18,444	4,498,971
2022	0	0	110,292	16,800	4,491,727
2023	0	0	111,960	15,132	4,486,240
2024	0	0	113,652	13,440	4,477,180
2025	0	0	115,368	11,724	4,469,702
2026	0	0	117,108	9,984	4,463,484
2027	0	0	118,884	8,220	4,453,283
2028	0	0	120,672	6,420	4,443,009
2029	0	0	122,496	4,596	4,433,749
2030	0	0	124,344	2,748	4,425,234
2031	0	0	116,119	866	4,405,814
2032	0	0	0	0	4,279,767
2033	0	0	0	0	4,265,704
2034	0	0	0	0	4,256,642
2035	0	0	0	0	4,247,080
2036	0	0	0	0	4,021,767
2037	0	0	0	0	4,039,030
2038	0	0	0	0	4,026,014
2039	0	0	0	0	4,026,552
2040	0	0	0	0	4,021,487
2041	0	0	0	0	4,010,816
2042	0	0	0	0	3,978,829
2043	0	0	0	0	3,970,950
2044	0	0	0	0	3,962,838
2045	0	0	0	0	3,972,891
Total	\$ 1,350,000	\$ 140,000	\$ 1,898,347	\$ 252,146	\$ 131,546,112

THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY

SCHEDULE OF WATER RATES AND STATISTICS

June 30, 2014

1. As of June 30, 2014 and 2013, the District serviced water and wastewater customers as show below. Hotels, motels and apartments are billed on a commercial per unit basis.

	Water Customers	Billing Units	Wastewater Customers	Billing Units
<u>2014</u>				
Residential	21,334	21,334	17,054	17,133
Commercial	886	892	577	582
Multi-Space Units	44	4,121	40	3,847
TOTAL	<u>22,264</u>	<u>26,347</u>	<u>17,671</u>	<u>21,562</u>
<u>2013</u>				
Residential	20,783	20,787	16,529	16,608
Commercial	871	877	564	569
Multi-Space Units	42	4,079	38	3,845
TOTAL	<u>21,696</u>	<u>25,743</u>	<u>17,131</u>	<u>21,022</u>

2. Monthly Water Rate Schedule - (Effective July 1, 2013).

- (a) Residential Water Rate:  
Customer Charge \$11.30 minimum bill  
\$3.21 per 1,000 Gal.
- (b) Commercial, Municipal, Public Schools, Hospital Service Rate:  
Customer Charge \$14.25 minimum bill  
\$3.21 per 1,000 Gal.
- (c) Hotel, Motel per Unit or Space:  
Customer Charge \$4.36 minimum bill  
\$3.21 per 1,000 Gal.

3. Monthly Wastewater Rate Schedule - (Effective July 1, 2013)

- (a) Residential Rate:  
1st 0 Gal. - \$21.27 minimum bill  
Next 12,000 Gal. - \$4.09 per 1,000 Gal.  
All over 13,000 Gal. - No Charge
- (b) Commercial, Municipal, Public Schools, Hospital Rate:  
1st 0 Gal. - \$29.80 minimum bill  
All over 0 Gal. - \$4.09 per 1,000 Gal.
- (c) Hotel, Motel per Unit or Space:  
1st 0 Gal. - \$15.92 minimum bill  
All over 0 Gal. - \$4.09 per 1,000 Gal.
- (d) Industrial Rate determined on an individual basis.

	<u>2014</u>	<u>2013</u>
4. Wastewater Treated (Per Thousand Gallons)	1,334,200	1,327,641

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**  
**SCHEDULE OF INSURANCE COVERAGE**  
**June 30, 2014**

	<u>Coverage</u>
<b>Selective Insurance Company of South Carolina</b>	
Commercial General Liability	\$ 2,000,000
Products Liability and Completed Operations	2,000,000
Personal and Advertising Injury	1,000,000
<b>Selective Insurance Company of South Carolina</b>	
Comprehensive Automobile Liability:	
Bodily Injury and Property Damage	1,000,000
Medical Payments (Private Passenger Autos)	5,000
Uninsured Motorist	1,000,000
Comprehensive (Designated Vehicles) - Deductible	500 - 2,000
Collision (Designated Vehicles) - Deductible	500 - 2,000
<b>Selective Insurance Company of South Carolina</b>	
Fire and Extended Coverage:	
Office Building and Service Shop:	
Lovell Road - Co-insurance 90%	1,264,000
Personal Property - Co-insurance 90%	150,000
West Top Trail Tanks	1,350,000
Sewer Plant Lab - Byington Solway Industrial Park - Co-insurance 90%	1,811,710
Personal Property - Co-insurance 90%	150,000
Taylor's View Road Tank	750,000
Water Treatment Plant - Henderson - Co-insurance 90%	8,530,000
Personal Property - Co-insurance 90%	100,000
Water Treatment Plant - Williams Bend Road - Co-insurance 90%	1,500,000
Personal Property - Co-insurance 90%	75,000
Chemical Storage Building - Williams Bend Road - Co-insurance 90%	200,000
Personal Property - Co-insurance 90%	50,000
Water Pumping Station - Williams Bend Road - Co-insurance 90%	322,000
Pellissippi and Carmichael Road Tanks	1,500,000
Pump Station - 10 Mile - Co-insurance 90%	500,000
Pump Station - Watt Road - Co-insurance 90%	150,000
Pump Station - Couch Mill Road - Co-insurance 90%	750,000
Pump Station - Karns #1 - Co-insurance 90%	350,000
Pump Station - Karns #2 - Co-insurance 90%	150,000
Pump Station - Pellissippi State 90%	300,000
Pump Station - Dutchtown 90%	200,000
Pump Station - Hardin Valley 90%	300,000
Pump Station - Covered Bridges Road 90%	400,000
Pump Station - Parkwest Hospital 90%	200,000
<b>Selective Insurance Company of South Carolina</b>	
Contractors Equipment - \$500 Deductible	631,754
<b>Selective Insurance Company of South Carolina</b>	
Business Computer Coverage	282,000
Burglary and Robbery - Inside	1,000
Burglary and Robbery - Outside	1,000
Employee Dishonesty (Per Employee)	100,000
<b>Selective Insurance Company of South Carolina</b>	
Worker's Compensation:	
Bodily Injury by Accident	100,000
Bodily Injury by Disease	500,000

All policies begin November 1, 2013 and expire November 1, 2014.

AWWA WLCC Free Water Audit Software: **Reporting Worksheet**

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[Back to Instructions](#)Water Audit Report for: **West Knox Utility District**Reporting Year: **2014** **7/2013 - 6/2014**

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

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

&lt;&lt; Enter grading in column 'E'

Volume from own sources:	<input type="button" value="1"/>	<input type="button" value="8"/>	<input type="text" value="1,893.113"/>	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	<input type="button" value="1"/>	<input type="button" value="2"/>	<input type="text" value="0.000"/>	over-registered MG/Yr
Water imported:	<input type="button" value="1"/>	<input type="button" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
Water exported:	<input type="button" value="1"/>	<input type="button" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
<b>WATER SUPPLIED:</b>			<b>1,893.113</b>	MG/Yr

**AUTHORIZED CONSUMPTION**

Billed metered:	<input type="button" value="1"/>	<input type="button" value="10"/>	<input type="text" value="1,692.922"/>	MG/Yr
Billed unmetered:	<input type="button" value="1"/>	<input type="button" value="10"/>	<input type="text" value="0.000"/>	MG/Yr
Unbilled metered:	<input type="button" value="1"/>	<input type="button" value="10"/>	<input type="text" value="25.235"/>	MG/Yr
Unbilled unmetered:	<input type="button" value="1"/>	<input type="button" value="8"/>	<input type="text" value="23.664"/>	MG/Yr
Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed				
<b>AUTHORIZED CONSUMPTION:</b>	<input type="button" value="1"/>		<b>1,741.821</b>	MG/Yr

Click here:  for help using option buttons below

Pcnt:  Value:

Use buttons to select percentage of water supplied OR value

**WATER LOSSES (Water Supplied - Authorized Consumption)** **151.292** MG/Yr**Apparent Losses**

Unauthorized consumption:	<input type="button" value="1"/>	<input type="button" value="5"/>	<input type="text" value="4.733"/>	MG/Yr
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed				
Customer metering inaccuracies:	<input type="button" value="1"/>	<input type="button" value="10"/>	<input type="text" value="17.355"/>	MG/Yr
Systematic data handling errors:	<input type="button" value="1"/>	<input type="button" value="8"/>	<input type="text" value="0.000"/>	MG/Yr
Systematic data handling errors are likely, please enter a non-zero value; otherwise grade = 5				
<b>Apparent Losses:</b>	<input type="button" value="1"/>		<b>22.088</b>	

Pcnt:  Value:

Choose this option to enter a percentage of billed metered consumption. This is NOT a default value

**Real Losses (Current Annual Real Losses or CARL)**

Real Losses = Water Losses - Apparent Losses:	<input type="button" value="1"/>		<input type="text" value="129.204"/>	MG/Yr
<b>WATER LOSSES:</b>			<b>151.292</b>	MG/Yr

**NON-REVENUE WATER**

<b>NON-REVENUE WATER:</b>	<input type="button" value="1"/>		<b>200.191</b>	MG/Yr
= Total Water Loss + Unbilled Metered + Unbilled Unmetered				

**SYSTEM DATA**

Length of mains:	<input type="button" value="1"/>	<input type="button" value="9"/>	<input type="text" value="389.0"/>	miles
Number of active AND inactive service connections:	<input type="button" value="1"/>	<input type="button" value="9"/>	<input type="text" value="25,048"/>	
Connection density:			<input type="text" value="64"/>	conn./mile main
Average length of customer service line:	<input type="button" value="1"/>	<input type="button" value="10"/>	<input type="text" value="0.0"/>	ft (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	<input type="button" value="1"/>	<input type="button" value="9"/>	<input type="text" value="150.0"/>	psi

**COST DATA**

Total annual cost of operating water system:	<input type="button" value="1"/>	<input type="button" value="10"/>	<input type="text" value="\$6,263,299"/>	\$/Year
Customer retail unit cost (applied to Apparent Losses):	<input type="button" value="1"/>	<input type="button" value="10"/>	<input type="text" value="\$3.21"/>	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	<input type="button" value="1"/>	<input type="button" value="10"/>	<input type="text" value="\$979.10"/>	\$/Million gallons

**PERFORMANCE INDICATORS****Financial Indicators**

Non-revenue water as percent by volume of Water Supplied:	<input type="text" value="10.6%"/>
Non-revenue water as percent by cost of operating system:	<input type="text" value="3.9%"/>
Annual cost of Apparent Losses:	<input type="text" value="\$70,902"/>
Annual cost of Real Losses:	<input type="text" value="\$126,504"/>

**Operational Efficiency Indicators**

Apparent Losses per service connection per day:	<input type="text" value="2.42"/>	gallons/connection/day
Real Losses per service connection per day*:	<input type="text" value="14.13"/>	gallons/connection/day
Real Losses per length of main per day*:	<input type="text" value="N/A"/>	
Real Losses per service connection per day per psi pressure:	<input type="text" value="0.09"/>	gallons/connection/day/psi
<input type="button" value="1"/> Unavoidable Annual Real Losses (UARL):	<input type="text" value="320.93"/>	million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	<input type="text" value="129.20"/>	million gallons/year
<input type="button" value="1"/> Infrastructure Leakage Index (ILI) [CARL/UARL]:	<input type="text" value="0.40"/>	

\* only the most applicable of these two indicators will be calculated

**WATER AUDIT DATA VALIDITY SCORE:****\*\*\* YOUR SCORE IS: 88 out of 100 \*\*\***

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

**PRIORITY AREAS FOR ATTENTION:**

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

**1: Volume from own sources****2: Unauthorized consumption****3: Systematic data handling errors**[For more information, click here to see the Grading Matrix worksheet](#)

AWWA WLCC Free Water Audit Software: **Reporting Worksheet**

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[Back to Instructions](#)Water Audit Report for: **West Knox Utility District**Reporting Year: **2013** **7/2012 - 6/2013**

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the

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

&lt;&lt; Enter grading in column 'E'

Volume from own sources:	<input type="button" value="1"/>	<input type="button" value="9"/>	<input type="text" value="1,968.943"/>	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	<input type="button" value="2"/>	<input type="button" value="8"/>	<input type="text" value="0.013"/>	under-registered MG/Yr
Water imported:	<input type="button" value="2"/>	<input type="button" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
Water exported:	<input type="button" value="2"/>	<input type="button" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr

**WATER SUPPLIED:**  MG/Yr**AUTHORIZED CONSUMPTION**

Billed metered:	<input type="button" value="1"/>	<input type="button" value="10"/>	<input type="text" value="1,737.011"/>	MG/Yr
Billed unmetered:	<input type="button" value="2"/>	<input type="button" value="10"/>	<input type="text" value="0.000"/>	MG/Yr
Unbilled metered:	<input type="button" value="2"/>	<input type="button" value="10"/>	<input type="text" value="22.326"/>	MG/Yr
Unbilled unmetered:	<input type="button" value="2"/>	<input type="button" value="8"/>	<input type="text" value="24.612"/>	MG/Yr

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

**AUTHORIZED CONSUMPTION:**  MG/YrClick here:  for help using option buttons belowPent:  Value: 

Use buttons to select percentage of water supplied OR value

**WATER LOSSES (Water Supplied - Authorized Consumption)** MG/Yr**Apparent Losses**Unauthorized consumption:  5  MG/Yr

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

Customer metering inaccuracies:	<input type="button" value="2"/>	<input type="button" value="10"/>	<input type="text" value="17.771"/>	MG/Yr
Systematic data handling errors:	<input type="button" value="2"/>	<input type="button" value="8"/>	<input type="text" value="0.000"/>	MG/Yr

Systematic data handling errors are likely, please enter a non-zero value; otherwise grade = 5

**Apparent Losses:** 

Choose this option to enter a percentage of billed metered consumption. This is NOT a default value

**Real Losses (Current Annual Real Losses or CARL)**Real Losses = Water Losses - Apparent Losses:  MG/Yr**WATER LOSSES:**  MG/Yr**NON-REVENUE WATER****NON-REVENUE WATER:**  MG/Yr

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

**SYSTEM DATA**

Length of mains:	<input type="button" value="1"/>	<input type="button" value="9"/>	<input type="text" value="386.2"/>	miles
Number of active AND inactive service connections:	<input type="button" value="1"/>	<input type="button" value="9"/>	<input type="text" value="24,299"/>	
Connection density:			<input type="text" value="63"/>	conn./mile main
Average length of customer service line:	<input type="button" value="1"/>	<input type="button" value="10"/>	<input type="text" value="0.0"/>	ft (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	<input type="button" value="1"/>	<input type="button" value="9"/>	<input type="text" value="150.0"/>	psi

**COST DATA**

Total annual cost of operating water system:	<input type="button" value="1"/>	<input type="button" value="10"/>	<input type="text" value="\$6,119,185"/>	\$/Year
Customer retail unit cost (applied to Apparent Losses):	<input type="button" value="1"/>	<input type="button" value="10"/>	<input type="text" value="\$3.21"/>	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	<input type="button" value="1"/>	<input type="button" value="10"/>	<input type="text" value="\$965.19"/>	\$/Million gallons

**PERFORMANCE INDICATORS****Financial Indicators**

Non-revenue water as percent by volume of Water Supplied:	<input type="text" value="11.8%"/>
Non-revenue water as percent by cost of operating system:	<input type="text" value="4.5%"/>
Annual cost of Apparent Losses:	<input type="text" value="\$72,846"/>
Annual cost of Real Losses:	<input type="text" value="\$156,663"/>

**Operational Efficiency Indicators**

Apparent Losses per service connection per day:	<input type="text" value="2.56"/>	gallons/connection/day
Real Losses per service connection per day*:	<input type="text" value="18.30"/>	gallons/connection/day
Real Losses per length of main per day*:	<input type="text" value="N/A"/>	
Real Losses per service connection per day per psi pressure:	<input type="text" value="0.12"/>	gallons/connection/day/psi
<input type="button" value="1"/> Unavoidable Annual Real Losses (UARL):	<input type="text" value="313.95"/>	million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	<input type="text" value="162.31"/>	million gallons/year
<input type="button" value="1"/> Infrastructure Leakage Index (ILI) [CARL/UARL]:	<input type="text" value="0.52"/>	

\* only the most applicable of these two indicators will be calculated

**WATER AUDIT DATA VALIDITY SCORE:****\*\*\* YOUR SCORE IS: 89 out of 100 \*\*\***

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

**PRIORITY AREAS FOR ATTENTION:**

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

**1: Volume from own sources****2: Unauthorized consumption****3: Systematic data handling errors**[For more information, click here to see the Grading Matrix worksheet](#)

## STATISTICAL SECTION

This part of the District's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

<b><u>Contents</u></b>	<b><u>Pages</u></b>
Financial Trends	
These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time. ....	48-50
Revenue Capacity	
These schedules contain information to help the reader assess the District's operating revenues and customer statistics. ....	51-57
Debt Capacity	
This schedule presents information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future. ....	58-59
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place. ....	60-61
Operating Information	
These schedules contain service data to help the reader understand how the information in the District's financial report relates to the water and wastewater services provided by the District. ....	62-64

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY

NET POSITION BY COMPONENT

Last Ten Fiscal Years

Fiscal Year	Net Investment in Capital Assets	Restricted		Unrestricted	Total
		Capital Activity	Debt Service		
2005	\$ 33,859,670	\$ 0	\$ 5,157,203	\$ 14,088,571	\$ 53,105,444
2006	42,199,197	0	5,888,019	11,705,233	59,792,449
2007	41,267,013	0	2,326,654	20,120,991	63,714,658
2008	49,936,793	0	2,492,214	18,208,290	70,637,297
2009	56,070,348	0	2,714,591	15,369,624	74,154,563
2010	58,903,105	0	2,735,181	15,826,000	77,464,286
2011	56,393,854	0	3,449,387	19,717,854	79,561,095
2012 (Restated)	57,113,801	0	1,997,699	16,169,090	75,280,590
2013 (Restated)	57,684,980	0	2,008,705	17,522,193	77,215,878
2014	62,874,634	0	391,779	18,094,753	81,361,166

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**

**CHANGES IN NET POSITION**

**Last Ten Fiscal Years**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Operating Revenues					
Water	\$ 4,549,526	\$ 4,918,348	\$ 5,209,055	\$ 6,107,965	\$ 6,035,260
Wastewater	4,842,546	5,124,708	5,309,446	6,091,063	6,035,520
Connection Fees	758,989	896,803	950,182	1,036,402	479,445
Customer Forfeited Discounts	118,042	127,405	117,458	164,054	119,988
Service Fees	83,660	115,575	111,045	116,000	86,260
Wastewater Inspection Fees	12,850	14,950	15,200	14,650	4,850
Miscellaneous	26,456	49,200	96,029	95,856	56,249
Total Operating Revenues	<u>10,392,069</u>	<u>11,246,989</u>	<u>11,808,415</u>	<u>13,625,990</u>	<u>12,817,572</u>
Operating Expenses:					
Water Purification and Supply	723,464	825,479	870,009	984,906	971,009
Wastewater Collection & Treatment	1,235,609	1,485,914	1,611,691	1,727,789	2,019,948
Water Treatment and Distribution	1,703,661	1,960,942	2,062,880	2,057,086	2,177,862
Wastewater CMOM Program	644,939	814,525	881,854	1,166,283	937,514
Shop & General Maintenance	205,935	193,322	205,248	279,609	244,752
Customer Accounting	104,136	105,870	109,609	121,805	136,668
Administrative & General	1,256,631	1,335,677	1,543,671	1,623,820	1,677,726
Depreciation	2,307,360	2,521,052	2,839,447	2,985,239	3,239,722
Total Operating Expenses	<u>8,181,735</u>	<u>9,242,781</u>	<u>9,242,781</u>	<u>10,946,537</u>	<u>11,405,201</u>
Operating Income	<u>2,210,334</u>	<u>2,004,208</u>	<u>2,565,634</u>	<u>2,679,453</u>	<u>1,412,371</u>
Non-Operating Revenues (Expenses):					
Investment Income, Net	524,426	684,283	948,715	1,334,549	729,435
Interest Expense	(1,464,854)	(1,822,819)	(1,357,753)	(1,925,886)	(1,781,968)
Arbitrage Expense - Net	0	0	(385,000)	0	0
Net Gain (Loss) on Disposal of Capital Assets	108,335	0	(11,817)	0	(55,931)
Total Non-Operating Revenues (Expenses), Net	<u>(832,093)</u>	<u>(1,138,536)</u>	<u>(805,855)</u>	<u>(591,337)</u>	<u>(1,108,464)</u>
Increase (Decrease) in Net Position					
Before Capital Contributions	<u>1,378,241</u>	<u>865,672</u>	<u>878,151</u>	<u>2,088,116</u>	<u>303,907</u>
Capital Contributions:					
Cash	33,600	42,150	61,150	93,815	44,295
Developers Contributions of Capital Assets	2,548,991	5,863,437	3,067,164	4,824,956	3,253,324
Total Capital Contributions	<u>2,582,591</u>	<u>5,905,587</u>	<u>3,128,314</u>	<u>4,918,771</u>	<u>3,297,619</u>
Change in Net Position	<u>\$ 3,960,832</u>	<u>\$ 6,771,259</u>	<u>\$ 4,006,465</u>	<u>\$ 7,006,887</u>	<u>\$ 3,601,526</u>

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**  
**CHANGES IN NET POSITION (Continued)**

**Last Ten Fiscal Years**

	2010	2011	Restated 2012	Restated 2013	2014
Operating Revenues					
Water	\$ 5,905,111	\$ 6,579,910	\$ 7,226,168	\$ 7,417,294	\$ 7,881,838
Wastewater	6,080,389	6,627,587	8,018,859	8,731,351	9,577,125
Connection Fees	668,361	561,677	486,860	550,392	836,668
Customer Forfeited Discounts	167,133	179,705	237,367	258,370	258,507
Service Fees	110,980	90,425	91,025	102,125	111,675
Wastewater Inspection Fees	12,875	8,075	5,250	7,775	11,730
Miscellaneous	36,956	161,405	151,066	182,748	242,788
Total Operating Revenues	<u>12,981,805</u>	<u>14,208,784</u>	<u>16,216,595</u>	<u>17,250,055</u>	<u>18,920,331</u>
Operating Expenses:					
Water Purification and Supply	952,291	954,279	1,132,055	1,154,874	1,114,272
Wastewater Collection & Treatment	2,001,501	2,147,830	2,325,821	2,821,772	2,220,697
Water Treatment and Distribution	2,056,341	2,203,916	2,445,654	2,393,421	2,547,171
Wastewater CMOM Program	976,066	1,008,816	1,302,429	1,415,128	1,465,689
Shop & General Maintenance	223,464	318,855	306,275	375,418	470,839
Customer Accounting	131,183	131,543	132,195	141,547	122,870
Administrative & General	1,821,978	1,861,405	2,211,369	2,072,488	1,880,540
Depreciation	3,772,274	3,853,377	3,916,042	4,179,182	4,601,380
Total Operating Expenses	<u>11,935,098</u>	<u>12,480,021</u>	<u>13,771,840</u>	<u>14,553,830</u>	<u>14,423,458</u>
Operating Income	<u>1,046,707</u>	<u>1,728,763</u>	<u>2,444,755</u>	<u>2,696,225</u>	<u>4,496,873</u>
Non-Operating Revenues (Expenses):					
Investment Income, Net	357,591	3,591	279,997	234,383	136,580
Interest Expense	(1,354,288)	(1,850,135)	(2,013,882)	(1,722,259)	(1,714,150)
Arbitrage Expense - Net	0	0	0	0	0
Net Gain (Loss) on Disposal of Capital Assets	1,386	0	(29,891)	9,615	4,225
Total Non-Operating Revenues (Expenses), Net	<u>(995,311)</u>	<u>(1,846,544)</u>	<u>(1,763,776)</u>	<u>(1,478,261)</u>	<u>(1,573,345)</u>
Increase (Decrease) in Net Position Before Capital Contributions	<u>51,396</u>	<u>(117,781)</u>	<u>680,979</u>	<u>1,217,964</u>	<u>2,923,528</u>
Capital Contributions:					
Cash	770,123	910,539	69,290	2,550	5,100
Developers Contributions of Capital Assets	2,446,918	839,805	1,745,692	714,774	1,216,660
Total Capital Contributions	<u>3,217,041</u>	<u>1,750,344</u>	<u>1,814,982</u>	<u>717,324</u>	<u>1,221,760</u>
Change in Net Position	<u>\$ 3,268,437</u>	<u>\$ 1,632,563</u>	<u>\$ 2,495,961</u>	<u>\$ 1,935,288</u>	<u>\$ 4,145,288</u>

THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY

CUSTOMER STATISTICS AND RATES

Last Ten Fiscal Years

Fiscal Year	Customer Billing		Water		Wastewater	
	Units		Minimum Bill	Rates per 1,000 Gallons	Minimum Bill	Rates per 1,000 Gallons
	Water	Wastewater				
2005	20,648	16,537	\$ 9.17	\$ 2.79	\$ 14.57	\$ 3.34
2006	22,040	17,481	9.17	2.79	14.57	3.34
2007	22,524	17,508	10.55	3.21	16.27	3.84
2008	23,099	18,110	10.55	3.21	16.27	3.84
2009	23,449	18,587	10.55	3.21	16.27	3.84
2010	25,117	20,266	10.55	3.21	16.27	3.84
2011	25,368	20,509	10.55	3.21	16.27	3.84
2012	25,474	20,734	11.30	3.21	19.77	3.84
2013	25,743	21,022	11.30	3.21	21.27	3.84
2014	26,347	21,562	11.30	3.21	21.27	4.09

Notes: Rates are based upon a single family residence.

Minimum bill is based upon the first 2,500 gallons of water purchased for fiscal years 2005 to 2009.

Minimum bill is based upon the first 1,500 gallons of water purchased for the fiscal year 2010 and 2011.

Minimum bills are based upon the first 1,000 gallons of water purchased for the fiscal year 2012.

Effective August 1, 2012 the minimum bill is based upon the first 500 gallons of water purchased and effective July 1, 2013 the gallons were reduced to zero.

The water and wastewater rates are per 1,000 gallons.

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**

**WATER PRODUCED, SOLD AND CONSUMED**

**Last Ten Fiscal Years**

Fiscal Year	Gallons of Water (In Thousands)			Percent Lost
	Water Pumped	Water Sold and Consumed	Water Unbilled	
2005	1,861,679	1,474,606	387,073	20.79
2006	2,010,141	1,644,854	365,287	18.17
2007	1,941,109	1,595,267	345,842	17.82
2008	2,046,717	1,734,393	312,324	15.26
2009	1,921,738	1,686,815	234,923	12.22
2010	1,789,928	1,659,172	130,756	7.31
2011	1,970,355	1,748,860	221,495	11.24
2012	2,023,431	1,854,798	168,633	8.33
2013	1,968,943	1,781,663	187,280	9.51
2014	1,893,113	1,692,922	200,191	10.57

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**

**ANNUAL TAP SALES**

**Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Water Meter Taps Sold</u>	<u>Sewer Taps Sold</u>	<u>Total Taps</u>
2005	695	634	1,329
2006	663	596	1,259
2007	683	611	1,294
2008	671	586	1,257
2009	263	196	459
2010	522	481	1,003
2011	315	317	632
2012	227	206	433
2013	356	318	674
2014	509	471	980

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**  
**NUMBER OF WATER AND SEWER CUSTOMERS BY TYPE**  
**Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Residential</u>	<u>Multi-Family</u>	<u>Commercial</u>	<u>Hotel/Motel</u>	<u>Total</u>
<b>Water</b>					
2005	17,309	40	521	5	17,875
2006	18,190	40	605	5	18,840
2007	18,671	42	629	5	19,347
2008	19,194	42	681	5	19,922
2009	19,498	N/A	722	5	20,225
2010	20,477	N/A	740	5	21,222
2011	20,474	N/A	839	5	21,318
2012	20,531	N/A	854	42	21,427
2013	20,783	N/A	871	42	21,696
2014	21,334	N/A	886	44	22,264
<b>Wastewater</b>					
2005	12,929	32	354	5	13,320
2006	13,874	32	390	5	14,301
2007	14,328	32	402	5	14,767
2008	14,890	32	442	5	15,369
2009	15,093	N/A	467	5	15,565
2010	15,931	N/A	482	5	16,418
2011	16,044	N/A	538	5	16,587
2012	16,258	N/A	549	36	16,843
2013	16,529	N/A	564	38	17,131
2014	17,054	N/A	577	40	17,671

Effective July 2009, the multi-family category was eliminated.

THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY

WATER AND WASTEWATER RATES

Last Ten Fiscal Years

**Water Rates**

<b>Base Rate</b>	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
(First 2,500 Gallons) (e)(f)(g)(h)										
Residential	\$ 9.17	\$ 9.17	\$ 10.55	\$ 10.55	\$ 10.55	\$ 10.55	\$ 10.55	\$ 11.30	\$ 11.30	\$ 11.30
Multi-Family	8.13	8.13	9.35	9.35	N/A	N/A	N/A	N/A	N/A	N/A
Commercial	12.39	12.39	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25
Hotel/Motel (per unit)	3.79	3.79	4.36	4.36	4.36	4.36	4.36	4.37	4.37	4.36

**Usage Rates**

(Per 1,000 Gallons)										
Residential	\$ 2.79	\$ 2.79	\$ 3.21	\$ 3.21	\$ 3.21	\$ 3.21	\$ 3.21	\$ 3.21	\$ 3.21	\$ 3.21
Multi-Family	2.79	2.79	3.21	3.21	N/A	N/A	N/A	N/A	N/A	N/A
Commercial	2.79	2.79	3.21	3.21	3.21	3.21	3.21	3.21	3.21	3.21
Hotel/Motel (per unit)	2.79	2.79	3.21	3.21	3.21	3.21	3.21	3.21	3.21	3.21

All Over 75,000

Residential	\$ 1.75	\$ 1.75	\$ 2.01	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Multi-Family	1.75	1.75	2.01	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Commercial	1.75	1.75	2.01	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Hotel/Motel (per unit)	1.75	1.75	2.01	N/A	N/A	N/A	N/A	N/A	N/A	N/A

**Wastewater Rates**

(First 2,500 Gallons) (e)(f)(g)(h)										
Residential	\$ 14.57	\$ 14.57	\$ 16.27	\$ 16.27	\$ 16.27	\$ 16.27	\$ 16.27	\$ 19.77	\$ 21.27	\$ 21.27
Multi-Family	13.41	13.41	14.93	14.93	N/A	N/A	N/A	N/A	N/A	N/A
Commercial	21.99	21.99	24.80	24.80	24.80	24.80	24.80	28.30	29.80	29.80
Hotel/Motel (per unit)	9.92	9.92	10.92	10.92	10.92	10.92	10.92	14.42	14.42	15.92

- \*Note:
- (a) Increases in water and wastewater rates must be approved by the Board of Commissioners.
  - (b) The water rate tier of all over 75,000 was eliminated in 2008.
  - (c) Effective June 2008, the commercial and hotel/motel changed to a single tier rate structure for wastewater.
  - (d) Effective July 2009, the multi-family category was eliminated.
  - (e) Effective April 2010, the minimum bill was reduced from 2,500 gallons to 1,500 gallons.
  - (f) Effective July 2011, the minimum bill was reduced from 1,500 gallons to 1,000 gallons.
  - (g) Effective July 2012, the minimum bill was reduced from 1,000 gallons to 500 gallons.
  - (h) Effective July 2013, the minimum bill was reduced from 500 gallons to 0 gallons.

THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY

WATER AND WASTEWATER RATES (Continued)

Last Ten Fiscal Years

Wastewater Rates Base Rate (Continued) (Per 1,000 Gallons)	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Residential										
2,500 to 10,500	\$ 3.34	\$ 3.34	\$ 3.84	\$ 3.84	\$ 3.84	N/A	N/A	N/A	N/A	N/A
1,500 to 13,000	N/A	N/A	N/A	N/A	N/A	\$ 3.84	\$ 3.84	N/A	N/A	N/A
1,000 to 13,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$ 3.84	\$ 3.84	\$ 4.09
All over 13,000	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Multi-Family										
2,500 to 10,500	\$ 3.34	\$ 3.34	\$ 3.84	\$ 3.84	N/A	N/A	N/A	N/A	N/A	N/A
All over 13,000	No Charge	No Charge	No Charge	No Charge	N/A	N/A	N/A	N/A	N/A	N/A
Commercial										
All Over 2,500	N/A	N/A	N/A	\$ 3.67	\$ 3.67	N/A	N/A	N/A	N/A	N/A
All Over 1,500	N/A	N/A	N/A	N/A	N/A	\$ 3.84	\$ 3.84	N/A	N/A	N/A
All Over 1,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$ 3.84	\$ 3.84	\$ 4.09
2,500 to 27,500	\$ 3.19	\$ 3.19	\$ 3.67	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Next 45,000	3.15	3.15	3.62	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Next 75,000	2.55	2.55	2.93	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Next 75,000	2.41	2.41	2.77	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Next 75,000	2.39	2.39	2.75	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Hotel/Motel										
All Over 1,500	N/A	N/A	N/A	\$ 3.84	\$ 3.84	\$ 3.84	\$ 3.84	N/A	N/A	N/A
All Over 1,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$ 3.84	\$ 3.84	\$ 4.09
2,500 to 13,000	\$ 3.34	\$ 3.34	\$ 3.84	N/A	N/A	N/A	N/A	N/A	N/A	N/A
All over 13,000	No Charge	No Charge	No Charge	N/A	N/A	N/A	N/A	N/A	N/A	N/A

- \*Note:
- (a) Increases in water and wastewater rates must be approved by the Board of Commissioners.
  - (b) The water rate tier of all over 75,000 was eliminated in 2008.
  - (c) Effective June 2008, the commercial and hotel/motel changed to a single tier rate structure for wastewater.
  - (d) Effective July 2009, the multi-family category was eliminated.
  - (e) Effective April 2010, the minimum bill was reduced from 2,500 gallons to 1,500 gallons.
  - (f) Effective July 2011, the minimum bill was reduced from 1,500 gallons to 1,000 gallons.
  - (g) Effective July 2012, the minimum bill was reduced from 1,000 gallons to 500 gallons.
  - (h) Effective July 2013, the minimum bill was reduced from 500 gallons to 0 gallons.

THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY

TEN LARGEST CUSTOMERS

Current Fiscal Year and Nine Years Ago

Customer	Type of Business	FY 2014		FY 2005	
		(a) Total Annual Sales	Percentage of Total Sales	(a) Total Annual Sales	Percentage of Total Sales
Parkwest Hospital	Medical	\$ 325,850	1.87 %	\$ 175,021	1.87 %
Sunchase Apartments	Rental Real Estate	293,465	1.68	165,515	1.77
Woodlands West Apartments	Rental Real Estate	258,769	1.48	0	0.00
Brendon Park Apartments	Rental Real Estate	156,076	0.89	80,995	0.87
Country Club Apartments	Rental Real Estate	143,731	0.82	0	0.00
Cedar Bluff Apartments	Rental Real Estate	138,160	0.79	0	0.00
Holiday Inn	Hospitality	114,326	0.65	93,650	1.00
Warren House Apartments	Rental Real Estate	102,382	0.59	0	0.00
Hampton Inn	Hospitality	62,433	0.36	48,445	0.52
Tennessee Veterans Home	Medical	47,912	0.27	0	0.00
The Wilkinson Group	Rental Real Estate	0	0.00	178,021	1.90
Tom's Foods	Food Processor	0	0.00	164,683	1.76
PBR Automotive	Manufacturing	0	0.00	39,086	0.42
Cracker Barrel	Food Service	0	0.00	18,170	0.19
Fort Sanders Parkwest	Medical	0	0.00	15,673	0.17
Total		\$ <u>1,643,104</u>	<u>9.41 %</u>	\$ <u>963,586</u>	<u>10.29 %</u>

Note: (a) Sales include only water and wastewater net revenues.

THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY

OUTSTANDING DEBT PER CUSTOMER

Last Ten Fiscal Years

<u>Fiscal Year</u>		<u>Revenue Bonds</u>		<u>Notes Payable</u>	<u>Total</u>	<u>Number of Customers (a)</u>	<u>Outstanding Debt per Customer</u>
2005	\$	33,992,462	\$	1,900,000	\$ 35,892,462	20,648	\$ 1,738
2006		41,418,978		1,900,000	43,318,978	22,040	1,965
2007		39,825,115		1,700,000	41,525,115	22,524	1,844
2008		37,880,936		1,700,000	39,580,936	23,099	1,714
2009		36,415,147		1,700,000	38,115,147	23,449	1,625
2010		35,664,823		2,458,343	38,123,166	25,117	1,518
2011		69,699,187		3,790,530	73,489,717	25,368	2,897
2012		68,851,141		3,784,222	72,635,363	25,474	2,851
2013		67,960,277		3,695,695	71,655,972	25,743	2,784
2014		67,024,542		3,248,347	70,272,889	26,347	2,667

(a) Number of customers is based upon water customer billing units.

(b) No debt to personal income ratio is shown because personal income for the District's service area is not available.

THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY

PLEDGED REVENUE COVERAGE

Last Ten Fiscal Years

Fiscal Year	(a) Gross Revenues	(b) Operating Expenses	Net Revenues Available for Debt Service	Debt Service Requirements			Coverage Ratio
				(c) Principal	(c) Interest Paid	Total	
2005	\$ 10,631,562	\$ 5,874,375	\$ 4,757,187	\$ 1,943,393	\$ 1,807,015	\$ 3,750,408	1.28
2006	11,942,756	6,721,729	5,221,027	1,846,236	2,244,398	4,090,634	1.28
2007	12,776,854	7,284,963	5,491,891	1,117,980	1,806,377	2,924,357	1.88
2008	14,557,107	7,961,297	6,595,810	1,383,206	2,441,758	3,824,964	1.72
2009	13,536,061	8,165,479	5,370,582	856,893	2,347,530	3,204,423	1.68
2010	13,348,152	8,162,823	5,185,329	1,110,082	1,348,672	2,458,754	2.11
2011	14,558,877	8,626,644	5,932,233	813,327	2,034,247	2,847,574	2.08
2012	17,062,739	9,855,798	7,206,941	853,326	2,477,826	3,331,152	2.16
2013	17,775,859	10,374,648	7,401,211	894,932	1,647,020	2,541,952	2.91
2014	19,076,456	9,882,078	9,254,378	941,015	1,637,920	2,578,935	3.59

Note: (a) Includes operating revenues, interest income received less accretion and cash contributions.  
 (b) Does not include depreciation expense.  
 (c) Interest includes interest paid, paying agent's fees and service charges net of capitalized construction period interest.

THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY

DEMOGRAPHIC AND ECONOMIC STATISTICS (b)

Last Ten Calendar Years

Calendar Year	Population (c)	Personal Income (Thousands of Dollars) (d)	Per Capita Personal Income	Unemployment Rate (e)	
				County	State
2004	400,340	\$ 12,826,956	\$ 32,040	4.1 %	5.4 %
2005	404,972	13,301,853	32,815	4.4	5.1
2006	411,967	14,140,692	33,963	4.5	4.5
2007	416,352	15,201,428	34,180	3.4	4.7
2008	430,019	15,666,206	34,696	4.8	6.4
2009	435,725	15,371,687	35,278	8.0	10.5
2010	432,226	15,222,567	35,219	7.0	9.5
2011	436,104	16,961,829	38,894	6.9	9.2
2012	440,725	18,149,825	41,127	6.3	8.0
2013	441,311	N/A	N/A	5.6	7.9

Notes: (a) N/A = Data not available.

(b) Demographic and economic information is for Knox County, Tennessee. This information for the District's service area is not available.

(c) Population – U.S. Bureau of the Census.

(d) Income – Bureau of Economic Analysis, U.S. Department of Commerce.

(e) Unemployment Rates – Tennessee Department of Labor and Workforce Development.

THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY

PRINCIPAL EMPLOYERS

Current Calendar Year and Nine Years Ago

Employer (a)	Industry	2013		2004	
		Number of Employees	% of Total MSA Employees	Number of Employees	% of Total Knox County Workforce
Covenant Health	Health Care	9,122	4.00 %	8,000	3.76 %
The University of Tennessee	Education	6,550	2.87	7,934	3.72
Knox County Schools	Education	7,066	3.10	7,848	3.68
Wal-Mart Stores, Inc.	Retail Store	5,776	2.53	4,600	2.16
University Health Systems	Health Services	4,061	1.78	N/A	N/A
K-VA-T Food Stores	Retail Grocery	3,857	1.69	N/A	N/A
Tennova Healthcare	Health Care	3,124	1.37	3,461	1.62
Baptist Health	Health Care	N/A	N/A	3,000	1.41
City of Knoxville	Government	N/A	N/A	2,858	1.34
Tennessee Medical Center	Health Care	N/A	N/A	2,764	1.30
Knox County	Government	2,991	1.31	2,500	1.17
State of Tennessee	Government	2,808	1.23	2,470	1.16
Kroger Co.	Retail Grocery	2,555	1.12	N/A	N/A
Total		47,910	21.00 %	45,435	21.32 %

Notes: (a) Only Knox County presented.

(b) The Knoxville – Knox County MSA consists of six counties: Anderson, Blount, Knox, Loudon, Sevier, and Union.

Source: Greater Knoxville Chamber Partnership.

[illegible]

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**  
**ANNUAL WASTEWATER PLANT FLOWS AND CAPACITY**  
**IN MILLIONS OF GALLONS**

**Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Annual Wastewater Plant Flow</u>	<u>Annual Design Flow</u>	<u>Unused Plant Capacity</u>	<u>Percent of Plant Utilization</u>
2005	1,475.22	1,460.00	(15.22)	101.0
2006	1,269.82	1,460.00	190.18	87.0
2007	1,201.53	1,460.00	258.47	82.3
2008	1,130.71	1,460.00	329.29	77.4
2009	1,310.83	1,460.00	149.17	89.8
2010	1,484.55	1,460.00	(24.55)	101.7
2011	1,432.23	1,460.00	27.77	98.1
2012	1,524.81	1,460.00	(64.81)	104.4
2013	1,327.64	1,460.00	132.36	90.9
2014	1,334.20	1,460.00	125.80	91.4

Note: Flows expressed in millions of gallons.

Source: Monthly operating reports to the Tennessee Department of Environment and Conservation.

# WEST KNOX UTILITY DISTRICT OF KNOX COUNTY

## OPERATING AND CAPITAL INDICATORS

### Last Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Area in Square Miles:	72	72	72	72	72	72	72	72	72	72
Water System:										
Miles of Water Mains	310	315	355	366	368	378	383	384	387	389
Number of Treatment Plants	2	2	2	2	2	2	2	2	2	2
Number of Service Connections	17,875	18,840	19,347	19,922	20,225	21,222	21,318	21,427	21,696	22,264
Number of Fire Hydrants	934	971	1,011	1,013	1,195	1,195	1,195	1,195	1,195	1,195
Daily Average Consumption in Gallons	5.35 million	5.10 million	5.73 million	6.0 million	5.65 million	4.90 million	5.39 million	5.54 million	4.84 million	5.19 million
Maximum Daily Capacity of Plants in Gallons	12.48 million	12.48 million	12.48 million	12.48 million	12.48 million	12.48 million	12.48 million	12.48 million	12.48 million	18.00 million
Wastewater System:										
Miles of Sanitary Sewers	150	157	225	236	246	260	264	276	280	282
Number of Treatment Plants	1	1	1	1	1	1	1	1	1	1
Number of Service Connections	13,320	14,301	14,767	15,369	15,565	16,418	16,587	16,843	17,131	17,671
Daily Average Treatment in Gallons	4.04 million	3.48 million	3.29 million	3.10 million	3.59 million	4.07 million	3.92 million	4.18 million	3.64 million	3.66 million
Maximum Daily Capacity of Treatment Plant in Gallons	4 million	4 million	4 million	4 million	4 million	4 million	4 million	4 million	4 million	4 million

Note: During 2014, the District completed its upgrade of the Daugherty Water Treatment Plant

## **COMPLIANCE SECTION**

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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  
The West Knox Utility District  
of Knox County  
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of West Knox Utility District of Knox County (the "District") which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements, and have issued our report thereon dated December 2, 2014.

**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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2013-001 that we consider to be a significant deficiency.



An Independently Owned Member  
**MCGLADREY ALLIANCE**



**TSCPA**  
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Of Certified Public Accountants

### **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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2011-005.

### **The District's Response to Findings**

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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.

*Pugh & Company, P.C.*

Certified Public Accountants  
Knoxville, Tennessee  
December 2, 2014

## THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY

### SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2014

#### 2013-001 Reconciliation of Construction Project Accounts

**Criteria or Specific Requirement** - Transactions related to construction projects should be periodically reconciled to amounts in the general ledger and correcting entries made on a timely basis.

**Condition** - Correcting entries were not made to the general ledger on a timely basis for activities related to construction projects.

**Cause and Effect** - Accounting personnel were overwhelmed with the sheer volume of transactions and staff size was not sufficient to keep up with the correcting entries needed.

**Recommendation** - We recommend that management utilize available professional assistance as needed when transaction volumes increase throughout the year to supplement the work performed by accounting personnel.

**Management's Previous Response** - Management will monitor construction transaction volumes more closely and will schedule outside professional assistance to periodically assist accounting personnel when construction transaction volumes are higher than normal.

**Current Year Update** - In the current year we also noted that accounting personnel are not reconciling between construction project and fixed asset subsidiary ledger worksheets and balances in the general ledger on a timely basis. This issue is related primarily to the CMOM program in particular and is due to maintaining too much detail in the general ledger accounts.

**Management's Current Year Response** – We will reduce the number of accounts in the general ledger to a more manageable level and utilize the subsidiary ledgers for maintaining detailed information in the future.

#### 2011-005 EPA Violations

**Criteria or Specific Requirement** - The District is required to comply with the Clean Water Act.

**Condition** - The District is in violation of the Clean Water Act.

**Cause and Effect** - On September 26, 2011, the District entered into an administrative order with the Environmental Protection Agency (EPA).

**Recommendation** - The District must maintain compliance with the EPA's administrative order and monitor all schedules, budgets, and projects as stated in their Corrective Action Plan.

**Management's Previous Response** - Management is satisfied that schedules are being met as required, that projects are being executed within budget and is pleased to have EPA concurrence with the Corrective Action Plan. Management is closely monitoring to ensure that the District remains in full compliance with the administrative order and that schedules and budgets stay on track. The Board of Commissioners has been advised of the EPA Order requirements, the CAP requirements, the financial impacts, and the schedule and the Board is in concurrence with proposed actions.

**Current Year Update** – The District continues to meet all of the schedules in the current year as required.

**Management's Current Year Response** We will continue to monitor and ensure compliance until completed.

