

In the opinion of Bond Counsel, based on existing law and assuming the District's compliance with certain tax covenants, interest on the Series 2013 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 adjusted current earnings of certain corporations for purposes of alternative minimum tax on corporations. Under existing law, the Series 2013 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 "Tax Matters" herein.)

\$29,225,000

**HARPETH VALLEY UTILITIES DISTRICT OF
DAVIDSON AND WILLIAMSON COUNTIES, TENNESSEE
Utilities Revenue Refunding Bonds, Series 2013**

Dated: Date of Delivery

Due: September 1, as shown below

The Utilities Revenue Refunding Bonds, Series 2013 (the "Series 2013 Bonds") of the Harpeth Valley Utilities District of Davidson and Williamson Counties, Tennessee (the "District"), will be issued as fully registered bonds, without coupons, in denominations of \$5,000 or any integral multiple thereof and will bear interest at the annual rates shown below. Interest on the Series 2013 Bonds will be payable semi-annually on March 1 and September 1, commencing September 1, 2013. Principal of, premium, if any, and interest on the Series 2013 Bonds will be payable at the principal corporate trust office of Regions Bank, Nashville, Tennessee, as Paying Agent and Bond Registrar, provided that interest may be paid by check or draft mailed by the Registration Agent to each registered owner as of the record date.

The Series 2013 Bonds are being issued for the purpose of providing funds to (i) refund the District's Utilities Revenue Improvement Bonds, Series 2004, maturing September 1, 2015 and thereafter, and (ii) pay the cost of issuing the Series 2013 Bonds.

The Series 2013 Bonds are payable solely from and secured by a lien upon and pledge of the Net Revenues (as herein defined) of the District's water and sewer system pursuant to the provisions of the Bond Resolution (as defined herein). The Series 2013 Bonds are not obligations of the State of Tennessee, or any of its political subdivisions, other than the District, nor is the State of Tennessee, or any of its political subdivisions, other than the District, liable for the payment of the principal of, premium, if any, or interest on the Series 2013 Bonds. The Bond Resolution does not grant to owners of the Series 2013 Bonds any mortgage on or security interest in any real or personal property of the District other than the lien on the Net Revenues of the District's water and sewer system and the statutory mortgage lien on said System as described more fully herein. The District has no taxing power.

The maturities, interest rates, yields and prices on the Series 2013 Bonds are shown below.

Maturity (September 1)	Amount	Interest Rate	Yield	Price	CUSIP	Maturity (September 1)	Amount	Interest Rate	Yield	Price	CUSIP
2013	\$ 75,000	2.000%	0.500%	100.436	413581 KW8	2023	\$ 1,250,000	5.000%	2.080%	126.924	413581 LF4
2015	1,000,000	3.000%	0.610%	105.430	413581 KX6	2024	1,305,000	4.000%	2.280%	115.696 c	413581 LG2
2016	1,040,000	3.000%	0.740%	107.335	413581 KY4	2025	1,330,000	4.000%	2.400%	114.511 c	413581 LH0
2017	1,085,000	3.000%	0.880%	108.908	413581 KZ1	2026	1,385,000	4.000%	2.520%	113.340 c	413581 LJ6
2018	1,085,000	4.000%	1.070%	115.033	413581 LA5	2027	1,435,000	4.000%	2.690%	111.705 c	413581 LK3
2019	1,120,000	4.000%	1.290%	116.324	413581 LB3	2028	1,495,000	4.000%	2.780%	110.851 c	413581 LL1
2020	1,155,000	4.000%	1.500%	117.204	413581 LC1	2029	1,830,000	4.000%	2.860%	110.098 c	413581 LM9
2021	1,185,000	3.000%	1.740%	109.688	413581 LD9	2030	1,900,000	3.000%	3.250%	96.709	413581 LN7
2022	1,235,000	2.250%	1.910%	102.880	413581 LE7						

\$8,315,000 4.000% Term Bonds due September 1, 2034, Priced To Yield 3.100% C CUSIP 413581 LP2

(c) Priced to call date of September 1, 2023.

The Series 2013 Bonds are subject to redemption prior to maturity as described herein under the heading "The Series 2013 Bonds – Redemption."

The Series 2013 Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of legality by Bass, Berry & Sims PLC, Nashville, Tennessee, Bond Counsel. Certain legal matters will be passed upon for the District by Parker, Lawrence, Cantrell & Smith, Nashville, Tennessee, Counsel to the District and for the Underwriter by Waller Lansden Dortch & Davis, LLP, Nashville, Tennessee, Counsel to the Underwriter. It is expected that the Series 2013 Bonds in book-entry form will be available for delivery through The Depository Trust Company on or about May 16, 2013.

**WILEY BROS.
AINTREE CAPITAL, LLC
Investments Since 1945**

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**HARPETH VALLEY UTILITIES DISTRICT
OF DAVIDSON AND WILLIAMSON COUNTIES,
TENNESSEE**

DISTRICT OFFICIALS

Board of Commissioners

Robert F. Wheaton, President
Bernard Kwas, Vice President
Dolores H. Carter, Secretary

District Manager

John E. Brown

Counsel to the District

Parker, Lawrence, Cantrell & Smith
Nashville, Tennessee

Underwriter

Wiley Bros. – Aintree Capital, LLC
Nashville, Tennessee

Bond Counsel

Bass, Berry & Sims PLC
Nashville, Tennessee

Independent Certified Public Accountants

Alexander Thompson Arnold PLLC
Jackson, Tennessee

Verification Agent

The Arbitrage Group
Tuscaloosa, Alabama

Paying Agent, Bond Registrar and Escrow Agent

Regions Bank
Nashville, Tennessee

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TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY STATEMENT	1
THE REFUNDING PLAN	3
Refunding Certain of the Series 2004 Bonds	3
SOURCES AND USES OF FUNDS	3
SERIES 2013 BONDS	3
SUMMARY OF OPERATIONS	4
THE SERIES 2013 BONDS	5
Security for the Series 2013 Bonds	5
Description of the Series 2013 Bonds	6
Debt Service Reserve Fund	7
Redemption	7
Transfer or Exchange	8
Book-Entry-Only System	8
DEBT SERVICE SCHEDULE	11
CURRENT AND PROPOSED DEBT SERVICE COVERAGE TABLE	12
UNDERWRITING	14
LITIGATION	14
EXPERTS	14
PRIOR PERIOD ADJUSTMENTS	15
TAX MATTERS	15
Federal Taxes	15
State Taxes	17
Changes in Federal and State Law	17
APPROVAL OF LEGAL PROCEEDINGS	18
RATING	18
CONTINUING DISCLOSURE	18
FUTURE ISSUES	18
VERIFICATION	19
FORWARD LOOKING STATEMENTS	19
MISCELLANEOUS	19
<u>APPENDIX A</u> GENERAL INFORMATION CONCERNING THE DISTRICT	A-1
The District	A-1
Organization	A-1
Powers	A-1
Government	A-1
Administrative Personnel	A-2
Employees	A-3
Regulation of the District	A-3
Population	A-4
Largest Employers	A-5
Unemployment Rates	A-5
Per Capita Income	A-6
Sales Tax Collections	A-6
The System	A-6
Service Area	A-6
Water System	A-9
Sewer System	A-11
Water and Sewer Rates	A-13
Billings and Collections	A-15
Competition	A-15
Environmental Matters	A-16
<u>APPENDIX B</u> INDEPENDENT AUDITORS' OPINION AND FINANCIAL STATEMENTS	B-1
<u>APPENDIX C</u> SUMMARY OF BOND RESOLUTION	C-1
<u>APPENDIX D</u> DISCLOSURE CERTIFICATE	D-1
<u>APPENDIX E</u> FORM OF OPINION OF BOND COUNSEL FOR THE SERIES 2013 BONDS	E-1

In connection with the offering of the Series 2013 Bonds, the Underwriter may over allot or effect transactions that stabilize or maintain the market price of the Series 2013 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offers made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the District or the Underwriter. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The Series 2013 Bonds have not been registered under the Securities Act of 1933, as amended.

OFFICIAL STATEMENT

\$29,225,000

**HARPETH VALLEY UTILITIES DISTRICT OF
DAVIDSON AND WILLIAMSON COUNTIES,
TENNESSEE
UTILITIES REVENUE REFUNDING BONDS, SERIES 2013**

INTRODUCTORY STATEMENT

This Official Statement, including the cover page and the Appendices attached hereto, is furnished in connection with the issuance by Harpeth Valley Utilities District of Davidson and Williamson Counties, Tennessee (the “District”), of its \$29,225,000 Utilities Revenue Refunding Bonds, Series 2013 (the “Series 2013 Bonds”). The District is a municipality or public corporation, organized and existing under the laws of the State of Tennessee (the “State”), including particularly The Utility District Law of 1937, codified as Sections 7-82-101, et seq., Tennessee Code Annotated (the “District Act”), and is authorized to issue the Series 2013 Bonds.

The District has outstanding its Utilities Revenue Bond, Series 1997, dated August 13, 1998 (the “Series 1997 Bond”), its Utilities Improvement Revenue Bonds, Series 1998, dated September 1, 1998 (the “Series 1998 Bonds”), its Utilities Revenue Refunding Bonds, Series 2004, dated October 1, 2004 (the “Series 2004 Bonds”), its Utilities Revenue Refunding Bonds, Series 2005, dated May 24, 2005 (the “Series 2005 Bonds”), its Utilities Revenue Refunding Bonds, Series 2005A, dated June 22, 2005 (the “Series 2005A Bonds”), its Utilities Revenue Improvement Bonds, Series 2007, dated July 12, 2007 (the “Series 2007 Bonds”) and its Utilities Revenue Bonds, Series 2012A, dated June 14, 2012 (the “Series 2012A Bonds”), and its Utilities Revenue Bonds, Series 2012B (Federally Taxable), dated June 14, 2012 (the “Series 2012B Bonds”).

The District intends to use the proceeds from the sale of the Series 2013 Bonds to (i) refund the Series 2004 Bonds, maturing September 1, 2015 and thereafter (the “Refunded Obligations”) and (ii) pay the costs of issuance of the Series 2013 Bonds.

The Series 2013 Bonds are secured on a parity and equality of lien on the Net Revenues (as herein defined) on parity with the Series 1997 Bond, the Series 1998 Bonds, the Series 2004 Bonds, the Series 2005 Bonds, the Series 2005A Bonds, the Series 2007 Bonds, the Series 2012A Bonds and the Series 2012B Bonds (collectively, the “Bonds”). The Bonds together with any additional bonds issued on parity with the Series 2013 Bonds are referred to in this Official Statement as the “Parity Bonds.”

The Series 2013 Bonds are issued pursuant to the District Act and a resolution adopted by the Board on March 22, 1993, (the “1993 Resolution”), as supplemented by the resolution adopted September 12, 1997, relating to the Series 1997 Bond, the resolution adopted on August 24, 1998, relating to the Series 1998 Bonds, the resolution adopted on September 27, 2004, relating to the Series 2004 Bonds, the resolution adopted on February 28, 2005, relating to the Series 2005 Bonds, the resolution adopted on June 1, 2005, relating to the Series 2005A Bonds, the resolution adopted on May 21, 2007, relating to the Series 2007 Bonds, the resolution adopted on March 26, 2012, relating to the Series 2012A Bonds and the Series 2012B Bonds and a resolution adopted on February 21, 2013 relating to the Series 2013 Bonds (collectively, the “Bond Resolution”), and other proceedings and determinations related thereto.

The Series 2013 Bonds will be payable solely from and secured by a pledge of the Net Revenues (hereinafter defined) of the District, all as provided in the Bond Resolution. “Net Revenues” of the System consist of Gross Earnings, excluding any profits or losses on the sale or other disposition, not in

the ordinary course of business, of investments or fixed or capital assets, less Current Expenses. "Gross Earnings" as used herein means all revenues, rentals, earnings and income of the District from whatever source, determined in accordance with generally accepted accounting principles, including all revenues derived from the operation of the System including tapping privileges and meter and hydrant fees reported as contributions in aid of construction; proceeds from the sale of property; proceeds of insurance and condemnation awards and compensation for damages, to the extent not applied to the payment of the cost of repairs, replacements and improvements; and all amounts realized from the investment of funds of the System, including money in any accounts and funds created by the Bond Resolution and resolutions authorizing any Parity Bonds or subordinate lien bonds (excluding any investment earnings from construction or improvement funds created for the deposit of bond proceeds pending use, to the extent such income is applied to the purposes for which the bonds were issued, and funds created to defease any outstanding obligations of the District); provided, however, that the term "Gross Earnings" shall not include non-cash contributions in aid of construction; and provided, however, at the election of the Governing Body, the term "Gross Earnings" as used herein shall not include any revenues, rentals, earnings or other income received by the District from the operation of an Acquired System which is being operated as a separate system as permitted under the Bond Resolution.

"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, cost of producing potable water, salaries and wages, cost of material and supplies, and insurance premiums, but shall exclude depreciation and amortization of utility plant and financing costs and interest on any bonds, notes or other obligations of the District.

The "System" shall mean, collectively, the complete water procurement, treatment, storage and distribution system and wastewater collection, treatment and disposal system of the District together with and including all properties of every nature hereafter owned by the District, including all improvements and extensions made by the District while the Series 2013 Bonds and Parity Bonds remain outstanding, and including all real and personal property of every nature comprising part of or used or useful in connection with the foregoing, and including all appurtenances, contracts, leases, franchises, and other intangibles; provided, however, at the election of the Governing Body, an Acquired System may be included within the System as defined herein and become a part thereof or, at the election of the Governing Body, not become a part of the System but be operated as a separate and independent system by the Governing Body with the continuing right, upon the election of the Governing Body, to incorporate such separately Acquired System within the System. For a summary of the definitions, see Appendix C hereto.

This Official Statement includes descriptions of, among other matters, the Series 2013 Bonds, the District and the Bond Resolution. Such descriptions and information do not purport to be comprehensive or definitive. All references to the Bond Resolution are qualified in their entirety by reference to such documents, and references to the Series 2013 Bonds are qualified in their entirety by reference to the form thereof included in such Bond Resolution. During the period of the offering of the Series 2013 Bonds, copies of the Bond Resolution and other documents described herein may be reviewed at the offices of Wiley Bros. – Aintree Capital, LLC, 40 Burton Hills Blvd., Suite 350, Nashville, Tennessee 37215. After the delivery of the Series 2013 Bonds, copies of such documents will be available for inspection at the principal office of the District. A Summary of The Bond Resolution is attached hereto as Appendix C. Terms not defined herein shall have the meaning assigned to them in the Summary of the Bond Resolution.

THE REFUNDING PLAN

Refunding Certain of the Series 2004 Bonds

Pursuant to an Escrow Agreement (the “Escrow Agreement”), \$31,828,439.52 of the proceeds of the Series 2013 Bonds plus \$348,164 of other moneys contributed by the District will be deposited with the Escrow Agent to purchase investments authorized under Tennessee law (the “Government Securities”). These Government Securities will be held in a separate fund established by the Escrow Agent. The principal amount of the Government Securities and earnings thereon are calculated to be sufficient to pay the principal of and interest on the District’s Refunded Obligations through their redemption date. Neither the principal of nor the interest on the Government Securities will be available for payment of the Series 2013 Bonds or any other obligations other than the Refunded Obligations. The District will give the Escrow Agent irrevocable directions to redeem the Refunded Obligations on September 1, 2014, at par plus accrued interest to the redemption date.

SOURCES AND USES OF FUNDS

The following table sets forth the sources and uses of funds in connection with the issuance of the Series 2013 Bonds.

SERIES 2013 BONDS

SOURCES OF FUNDS

Par Amount of Bonds	\$29,225,000.00
Original Issue Premium	<u>2,948,891.45</u>
Total Sources	\$32,173,891.45

USES OF FUNDS

Deposit to Escrow Fund ¹	\$ 31,828,439.52
Cost of Issuance ²	<u>345,451.93</u>
Total Uses	\$ <u>32,173,891.54</u>

¹ The District will also deposit \$348,164 of its own funds to the Escrow Fund, which together with the \$31,828,439.52 of Series 2013 Bond proceeds deposited and earnings thereon will be sufficient to redeem the Refunded Obligations on September 1, 2014.

² Including Underwriter’s discount and rounding amount of \$4,876.93.

SUMMARY OF OPERATIONS

The Summary of Operations for the District for the fiscal years 2008, 2009, 2010, 2011 and 2012 set forth below have been derived from the District's audited financial statements and should be read in conjunction with said statements. The following Summary of Operations and Debt Service Coverage Ratio does not purport to represent a Statement of Cash Flows of the District. The 2012 audited financial statements appear as Appendix B hereto. For a summary of debt service requirements and current and proposed debt service coverage ratios following the issuance of the Series 2013 Bonds, see "Debt Service Schedule" and "Current And Proposed Debt Service Coverage Table" herein.

	2008	2009	2010	2011	2012
Revenue and Capital Contributions					
Metered & Usage Sales, Net	\$23,603,194	\$21,857,835	\$27,301,635	\$27,255,758	\$30,342,138
Penalties, Inspection Fees, Meter Sales and Other Income	539,237	472,496	395,368	553,504	361,326
Capacity Fees	995,715	209,504	677,549	187,174	145,185
Disaster Assistance Grants	-	-	2,390,303	2,352,950	-
Contributions in Aid of Construction	280,000	223,036	-	110,586	116,878
Contributions of System Assets	1,409,156	1,469,428	946,696	287,163	-
Interest Income	947,001	257,783	275,200	292,487	140,156
<i>Total Revenue and Capital Contributions</i>	<u>\$27,774,303</u>	<u>\$24,490,082</u>	<u>\$31,986,751</u>	<u>\$31,039,622</u>	<u>\$31,105,683</u>
Expenses					
Operating	11,911,654	11,599,146	11,758,402	13,557,528	14,099,417
Administrative and General	3,601,580	3,370,605	3,387,860	3,397,998	3,278,700
Depreciation	6,090,397	6,188,861	6,137,929	7,115,707	7,719,361
Interest	4,859,896	4,551,719	5,133,982	6,639,218	6,392,359
Loss From Flood	-	-	3,164,193	108,722	-
Amortization	129,110	129,110	70,084	(39,317)	(44,472)
<i>Total Expenses</i>	<u>\$26,592,637</u>	<u>\$25,839,441</u>	<u>\$29,652,450</u>	<u>\$30,779,856</u>	<u>\$31,445,365</u>
<i>Excess of Revenue over Expenses</i>	\$ 1,181,666	\$ (1,349,359)	\$ 2,334,301	\$ 259,766	\$ (339,682)
Add Back					
Depreciation	6,090,397	6,188,861	6,137,929	7,115,707	7,719,361
Loss From Flood	-	-	3,164,193	108,722	-
Interest	4,859,896	4,551,719	5,133,982	6,639,218	6,392,359
Amortization	129,110	129,110	70,084	(39,317)	(44,472)
<i>Total Add Backs</i>	<u>\$11,079,403</u>	<u>\$10,869,690</u>	<u>\$14,506,188</u>	<u>\$13,824,330</u>	<u>\$14,067,248</u>
Subtract					
Disaster Assistance Grants	-	-	2,390,303	2,352,950	-
Contributions of System Assets	1,409,156	1,469,428	946,696	287,163	116,878
<i>Total Subtracts</i>	<u>1,409,156</u>	<u>1,469,428</u>	<u>3,336,999</u>	<u>2,640,113</u>	<u>116,878</u>
Net Revenue For Calculation	\$10,851,913	\$ 8,050,903	\$13,503,490	\$11,443,983	\$13,610,688
Maximum Annual Debt Service ⁽¹⁾⁽²⁾	\$ 7,648,075	\$ 7,648,075	\$ 9,149,650	\$ 9,149,650	\$11,031,088
Debt Service Coverage Ratio ⁽¹⁾⁽²⁾	<u>1.42</u>	<u>1.05</u>	<u>1.48</u>	<u>1.25</u>	<u>1.23</u>
Minimum Ratio Required	1.20	1.20	1.20	1.20	1.20
Net Revenue Less Debt Service (Max Annual)	\$ 3,203,838	\$ 402,828	\$ 4,353,840	\$ 2,294,333	\$ 2,579,600
Net Revenue Over (Under) Cover	\$ 1,674,223	\$ (1,126,787)	\$ 2,523,910	\$ 464,403	\$ 373,382

(1) As hereinafter described, the Maximum Annual Debt Service and Debt Service Coverage Ratio do not include any amounts payable with respect to the District's obligation to Metro because such obligation is not secured by a lien on the Net Revenues. For more information on the Metro Obligation, see Appendix A SEWER SYSTEM – Metro Obligation.

(2) Excludes any subordinate debt of the District, all of which was refunded in 2012.

THE SERIES 2013 BONDS

Security for the Series 2013 Bonds

The Series 2013 Bonds will be payable solely from and secured by a pledge of the Net Revenues of the System, all as provided for in the Bond Resolution. The Series 1997 Bond, the Series 1998 Bonds, the Series 2004 Bonds, the Series 2005 Bonds, the Series 2005A Bonds, the Series 2007 Bonds, the Series 2012A Bonds, the Series 2012B Bonds and the Series 2013 Bonds and any Parity Bonds hereafter issued will be on parity as to the Net Revenues.

The Series 2013 Bonds are payable solely from and secured by a lien upon and pledge of the Net Revenues of the District's System as set forth above pursuant to the provisions of the Bond Resolution. The Series 2013 Bonds are not obligations of the State of Tennessee, or any of its political subdivisions (other than the District) nor is the State of Tennessee, or any of its political subdivisions (other than the District) liable for the payment of the principal of, premium, if any, or interest on the Series 2013 Bonds. The Bond Resolution does not grant to holders of the Series 2013 Bonds any mortgage on or security interest in any real or personal property of the District other than the lien on the Net Revenues of the District's System and the statutory mortgage lien on said System, as more fully described herein. The District has no taxing power.

Prior to the commencement of each Fiscal Year, the Governing Body will cause to be made an estimate of the revenues and expenditures for the Fiscal Year next succeeding, based on rates then in effect, and, based on such estimate, will adjust rates to the extent necessary to produce Net Revenues for the next succeeding Fiscal Year (i) equal to not less than 1.20 times the amount of principal, Compound Accreted Value and interest payable during the next succeeding Fiscal Year on the Series 2013 Bonds and the Parity Bonds and subordinate lien bonds, if any, whether by maturity or mandatory redemption, (ii) sufficient, in addition, to provide for any required deposits during the succeeding Fiscal Year to the Reserve Fund and any other funds established by the District pursuant to the Bond Resolution, any resolution authorizing Parity Bonds or subordinate lien bonds or pursuant to sound and prudent operating practices as determined by the Governing Body, and (iii) sufficient to pay any amounts payable during such Fiscal Year under any Financial Guaranty Agreement or with respect to any Reserve Fund Credit Facility.

Pursuant to the Bond Resolution, the District is required at all times to maintain in the Debt Service Reserve Fund as the "Reserve Fund Requirement", an amount equal to the least of (i) the Maximum Annual Principal and Interest Requirement on the Series 2013 Bonds and the Parity Bonds during any Fiscal Year during the term of the Series 2013 Bonds and the Parity Bonds (excluding Short-Term Indebtedness), (ii) 125% of the average annual principal and interest requirement on the Series 2013 Bonds and the Parity Bonds during any Fiscal Year during the term of the Series 2013 Bonds and the Parity Bonds (excluding Short-Term Indebtedness), or (iii) 10% of the proceeds of the Series 2013 Bonds and the Parity Bonds (excluding Short-Term Indebtedness), as from time to time interpreted under the Internal Revenue Code of 1986, as amended.

"Maximum Annual Principal and Interest Requirement" means the maximum amount of principal and Compound Accreted Value of and interest on the Series 2013 Bonds and Parity Bonds, including principal payable by reason of mandatory redemption, required to be paid during a Fiscal Year during the term of the Series 2013 Bonds and Parity Bonds; provided, with respect to Short-Term Indebtedness, the annual principal and interest requirement for purposes of this definition shall be calculated as that amount necessary to amortize the Short-Term Indebtedness in twenty approximately equal annual payments of principal and interest; provided (i) if interest on the Short-Term Indebtedness is intended to be excludable from gross income for purposes of federal income taxation, the interest rate for Short-Term Indebtedness

shall be assumed to be an interest rate equal to the most recently published Twenty-Five Revenue Bond Index as published in The Bond Buyer (or comparable index if no longer published) plus fifty (50) basis points, or (ii) if interest on the Short-Term Indebtedness is not intended to be excludable from gross income for purposes of federal income taxation, the interest rate shall be assumed to be an interest rate equal to the most recently published rates on U.S. Treasury Obligations with comparable maturities as the Twenty-Five Revenue Bond Index, plus fifty (50) basis points. Any reimbursement or guaranty payment made to a Credit Facility Issuer pursuant to a Financial Guaranty Agreement shall not be included in the calculation of principal or interest for purposes of determining the Maximum Annual Principal and Interest Requirement. For a summary of the definitions see Appendix C hereto.

The District Act provides for the creation of a statutory lien in the nature of a mortgage lien on the System, including all extensions and improvements thereto or combinations thereof subsequently made, which lien shall be in favor of the owner of any of the Bonds, and the System shall remain subject to such statutory lien until the payment in full of the principal of and interest on said Bonds. The Series 2013 Bonds are secured by said statutory lien, on a parity with the statutory lien securing the Parity Bonds previously described and any additional Parity Bonds hereafter issued. The lien herein described does not have the effect of granting to the owner of any Series 2013 Bond any interest, other than as stated above and as provided in Section 7-82-505, Tennessee Code Annotated, in any real or personal property owned by the District.

Any owner of the Series 2013 Bonds may, either at law or in equity, by suit, action, mandamus or other proceeding, in any court of competent jurisdiction, protect and enforce the statutory lien and compel the performance of all duties required to be performed under such Act, including the setting and collection of sufficient rates, the proper accounting therefor, and the performance of any obligations required by covenants in the Bond Resolution. If the District shall fail to pay the principal of or interest on the Series 2013 Bonds, any court having jurisdiction of such failure may appoint a receiver to administer the District and the System, with power to charge and collect rates sufficient to provide for the payment of amounts due on the Series 2013 Bonds and other obligations outstanding against the System, and for the payment of operating expenses, and to apply the income and revenues thereof in conformity with the Bond Resolution.

Description of the Series 2013 Bonds

The Series 2013 Bonds will be dated as of the date of delivery and will bear interest at the rates and mature on the dates set forth on the cover page of this Official Statement. Interest on the Series 2013 Bonds will be payable on September 1, 2013, and semiannually thereafter on each March 1 and September 1 thereafter until maturity. The Series 2013 Bonds will be issued as fully registered bonds in denominations of \$5,000, or any integral multiple thereof. The principal of, premium, if any, and the final payment of interest on the Series 2013 Bonds will be payable at the principal corporate trust office of Regions Bank, as Paying Agent and Bond Registrar (the "Registration Agent") in Nashville, Tennessee. Except as described in the next sentence, semiannual payments of interest on the Series 2013 Bonds will be paid by check mailed by the Registration Agent to each registered owner of a Series 2013 Bond as shown on its registration books on the 15th day of the calendar month immediately preceding the interest payment date at such owners' addresses as shown on said registration books, without, except for final payment, the presentation or surrender of said Series 2013 Bonds, and all such payments will discharge the District in respect of said Series 2013 Bonds to the extent of the payments so made. If and to the extent the District fails to pay or cause to be paid, the interest due on any interest payment date, such defaulted interest shall be paid to the person in whose names outstanding Series 2013 Bonds are registered at the close of business on a special record date to be established by the Registration Agent. The Registration Agent is required to give notice of such special record date to registered owners not less than ten (10) days prior to such date.

Debt Service Reserve Fund

The District is required to maintain in the Debt Service Reserve Fund an amount equal to the Reserve Fund Requirement as described herein under Security for the Series 2013 Bonds. Money in the Reserve Fund shall be used solely for the purpose of paying principal or Compound Accredited Value of or interest on the Series 2013 Bonds and any Parity Bonds of which funds are not available in the Bond Fund. Any deficiency in such fund shall be replenished over a period of not to exceed twenty-four months.

Redemption

The Series 2013 Bonds are subject to redemption prior to maturity as follows:

Optional Redemption – Series 2013 Bonds. The Series 2013 Bonds maturing on or before September 1, 2023 may not be redeemed prior to their maturities. The Series 2013 Bonds maturing on or after September 1, 2024, are subject to redemption prior to maturity at the option of the District on or after September 1, 2023, in whole or in part at any time at par, plus accrued interest to the date of redemption.

If less than all the Series 2013 Bonds shall be called for redemption, the maturities 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 in the event the Bonds are being held under a Book Entry System. If not held under a Book Entry System and if less than all the Series 2013 Bonds of a maturity shall be called for redemption, the Series 2013 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 shall elect.

Mandatory Redemption. Subject to any credits as permitted by the terms of the Resolution, the District shall redeem Series 2013 Bonds maturing on September 1, 2034, on the redemption dates set forth below, 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 Series 2013 Bonds to be so redeemed shall be selected in the same manner as described above under *Optional Redemption - Series 2013 Bonds*. The dates of redemption and principal amount of Series 2013 Bonds to be redeemed on said dates are as follows:

<u>Maturity</u>	<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
September 1, 2034	September 1, 2031	\$1,960,000
	September 1, 2032	2,035,000
	September 1, 2033	2,120,000
	September 1, 2034 *	2,200,000

*Final Maturity

At its option, to be exercised on or before the forty-fifth (45th) day next preceding any such redemption date, the District may (i) deliver to the Registration Agent for cancellation Series 2013 Bonds of the maturity to be redeemed, in any aggregate principal amount desired, and/or (ii) receive a credit in respect of its mandatory redemption obligation for any Series 2013 Bonds of the maturity to be redeemed which prior to said date have been purchased or redeemed (other than through mandatory redemption) and cancelled by the Registration Agent and not theretofore applied as a credit against any mandatory redemption obligation. Each Series 2013 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 Series 2013 Bonds to be redeemed by mandatory redemption shall be accordingly reduced.

Notice of Redemption. Notice of redemption, whether optional or mandatory, will be given by first class mail at least thirty (30) days and not more than sixty (60) days prior to the redemption date, to all registered owners of Series 2013 Bonds to be redeemed at their addresses of record as they appear on the books of the Registration Agent. Failure to mail any such notice, or any defect therein, will not affect the validity of the proceedings for the redemption of any other Series 2013 Bond. Failure of any bondholder to receive such notice if mailed as aforesaid will not affect the validity of the proceedings for the redemption of such Series 2013 Bond. Interest shall cease to accrue on any Series 2013 Bonds duly called for redemption on the redemption date if payment thereof has been duly provided for.

Transfer or Exchange

The Series 2013 Bonds are transferable only by presentation to the Registration Agent by the registered owner, or his legal representative duly authorized in writing, of the registered Series 2013 Bond(s) to be transferred with the form of assignment on the reverse side thereof completed in full and signed with the name of the registered owner as it appears upon the face of the Series 2013 Bond(s) accompanied by appropriate documentation necessary to prove the legal capacity of any legal representative of the registered owner. Upon receipt of the Series 2013 Bond(s) in such form and with such documentation, if any, as shall be required by the Registration Agent, the Registration Agent shall issue a new Series 2013 Bond or Series 2013 Bonds to the assignee(s) in \$5,000 denominations, or integral multiples thereof, as requested by the registered owner requesting transfer. The Registration Agent shall not be required to transfer or exchange any Series 2013 Bond during the period commencing on a Regular or Special Record Date and ending on the corresponding interest payment date of such Series 2013 Bond, nor to transfer or exchange any Series 2013 Bond after the notice calling such Series 2013 Bond for redemption has been sent, nor to transfer or exchange any Series 2013 Bond during the period following the receipt of instructions from the District to call such Series 2013 Bonds for redemption; provided, the Registration Agent, at its option, may make transfers after any of said dates. No charge shall be made to any registered owner for the privilege of transferring any Series 2013 Bond, provided that any transfer tax relating to such transaction shall be paid by the registered owner requesting transfer. The person in whose name any Series 2013 Bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes and neither the District nor the Registration Agent shall be affected by any notice to the contrary whether or not any payments due on the Series 2013 Bonds shall be overdue. Series 2013 Bonds, upon surrender to the Registration Agent other than upon final payment, may, at the option of the registered owner, be exchanged for an equal aggregate principal amount of bonds of the same maturity in any authorized denomination or denominations.

Book-Entry-Only System

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2013 Bonds. The Series 2013 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security will be issued for each maturity of the Series 2013 Bonds, as set forth on the cover hereof each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest 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, 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. 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 Standard & Poor's rating of AA+. The DTC rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2013 Bonds ("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 Series 2013 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 Series 2013 Bonds, except in the event that use of the book-entry system for the Series 2013 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013 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 authorized representative of DTC. The deposit of Series 2013 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2013 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.

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 Series 2013 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013 Bonds, such as redemptions, tenders, defaults and proposed amendments to the Series 2013 Bond documents. For example, Beneficial Owners of Series 2013 Bonds may wish to ascertain that the nominee holding the Series 2013 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 Series 2013 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2013 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Series 2013 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 District or the Registration Agent, on the relevant payment date in accordance with their respective holdings shown on DTC's records. Payments by Direct or Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct or Indirect Participant and not of DTC, the Registration Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. 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 the Direct Participants is the responsibility of DTC, and disbursements of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2013 Bonds at any time by giving reasonable notice to the District or the Registration Agent. Under such circumstances, in the event that a successor securities depository is not obtained, certificated Series 2013 Bonds will be required to be printed and delivered to the holders of record. Additionally, the District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depository) with respect to the Series 2013 Bonds. The District understands, however, that under current industry practices, DTC would notify its Direct or Indirect Participants of the District's decision but will only withdraw beneficial interests from a Series 2013 Bond at the request of any Direct or Indirect Participant. In that event, certificates for the Series 2013 Bonds will be printed and delivered to the applicable Direct or Indirect Participant.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District, the Underwriter and the Registration Agent believe to be reliable, but none of the District, the Registration Agent or the Underwriter take any responsibility for the accuracy of such statements. None of the District, the Underwriter nor the Registration Agent has any responsibility for the performance by DTC or its Direct or Indirect Participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

So long as Cede & Co. is the registered owner of the Series 2013 Bonds, the District will have no obligation or responsibility to the DTC Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

For a summary of the Bond Resolution, see Appendix C - Summary of Bond Resolution.

DEBT SERVICE SCHEDULE

The following schedule contains the debt service for the Bonds (excluding the Refunded Obligations) and the Series 2013 Bonds.

December 31	Outstanding Debt Service ⁽¹⁾	SERIES 2013			Combined Debt Service
		Principal	Interest	Total	
2013	10,333,416	\$ 75,000	\$ 319,750.52	\$ 394,750.52	\$ 10,728,166.52
2014	9,637,194		1,094,787.50	1,094,787.50	10,731,981.50
2015	8,633,119	1,000,000	1,094,787.50	2,094,787.50	10,727,906.50
2016	8,617,619	1,040,000	1,064,787.50	2,104,787.50	10,722,406.50
2017	8,604,019	1,085,000	1,033,587.50	2,118,587.50	10,722,606.50
2018	8,631,669	1,085,000	1,001,037.50	2,086,037.50	10,717,706.50
2019	8,642,382	1,120,000	957,637.50	2,077,637.50	10,720,019.50
2020	8,650,407	1,155,000	912,837.50	2,067,837.50	10,718,244.50
2021	8,665,333	1,185,000	866,637.50	2,051,637.50	10,716,970.50
2022	8,663,482	1,235,000	831,087.50	2,066,087.50	10,729,569.50
2023	8,668,369	1,250,000	803,300.00	2,053,300.00	10,721,669.00
2024	8,678,969	1,305,000	740,800.00	2,045,800.00	10,724,769.00
2025	8,706,619	1,330,000	688,600.00	2,018,600.00	10,725,219.00
2026	8,702,944	1,385,000	635,400.00	2,020,400.00	10,723,344.00
2027	8,705,706	1,435,000	580,000.00	2,015,000.00	10,720,706.00
2028	8,701,313	1,495,000	522,600.00	2,017,600.00	10,718,913.00
2029	6,282,144	1,830,000	462,800.00	2,292,800.00	8,574,944.00
2030	6,277,444	1,900,000	389,600.00	2,289,600.00	8,567,044.00
2031	6,276,544	1,960,000	332,600.00	2,292,600.00	8,569,144.00
2032	6,278,382	2,035,000	254,200.00	2,289,200.00	8,567,582.00
2033	6,277,719	2,120,000	172,800.00	2,292,800.00	8,570,519.00
2034	6,274,669	2,200,000	88,000.00	2,288,000.00	8,562,669.00
2035	6,278,169				6,278,169.00
2036	6,245,173				6,245,173.00
2037	6,205,113				6,205,113.00
2038	6,205,875				6,205,875.00
2039	6,205,950				6,205,950.00
2040	6,204,875				6,204,875.00
2041	6,207,188				6,207,188.00
2042	6,206,913				6,206,913.00
TOTAL	\$ 228,668,718	\$ 29,225,000	\$14,847,638.02	\$44,072,638.02	\$272,741,356.02

⁽¹⁾ As hereinafter described, the debt service schedule does not include any amounts payable with respect to the District's obligation to Metro because such obligation is not secured by a lien on the Net Revenues. See Metro Obligation described in Appendix A SEWER SYSTEM – Metro Obligation.

CURRENT AND PROPOSED DEBT SERVICE COVERAGE TABLE

The following table contains the current and forecasts of proposed debt service coverage ratios for the District following issuance of the Series 2013 Bonds.

THE FINANCIAL FORECAST IS BASED SOLELY UPON ASSUMPTIONS MADE BY THE DISTRICT, INCLUDING WITHOUT LIMITATION, ASSUMPTIONS AS TO RATES FOR WATER SERVICE AND SEWER SERVICE, STABILITY AND GROWTH OF THE CUSTOMER BASE, AND OPERATING EXPENSES. THERE IS NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH SUCH ASSUMPTIONS, THAT UNCONTROLLABLE FACTORS WILL NOT AFFECT SUCH ASSUMPTIONS, OR THAT THE FORECASTED RESULTS WILL BE ACHIEVED. THE ACHIEVEMENT OF THE FINANCIAL FORECAST WILL BE AFFECTED BY ECONOMIC CONDITIONS AND OTHER UNCONTROLLABLE FACTORS AND IS DEPENDENT UPON THE OCCURRENCE OF FUTURE EVENTS WHICH CANNOT BE ASSURED. THERE WILL BE DIFFERENCES BETWEEN FORECAST AND ACTUAL RESULTS, BECAUSE EVENTS AND CIRCUMSTANCES FREQUENTLY DO NOT OCCUR AS EXPECTED; AND, THESE DIFFERENCES MAY BE MATERIAL.

	<u>Audited</u> 2010	<u>Audited</u> 2011	<u>Audited</u> 2012	<u>Budgeted</u> 2013	<u>Projected</u> 2014
Revenue and Capital Contributions					
Water Sales	\$ 20,000,047	\$ 19,788,073	\$ 21,926,309	\$ 23,854,902	\$ 25,907,616
Wastewater Sales	7,402,712	7,564,270	8,415,829	\$ 9,007,477	\$ 9,552,429
And Other Income	395,368	533,504	361,326	628,817	393,689
Capacity Fees	677,549	187,174	145,185	115,779	118,095
Interest Income	275,200	292,487	140,156	384,912	395,215
<i>Total Revenue</i>	<u>\$ 28,750,876</u>	<u>\$ 28,365,508</u>	<u>\$ 30,988,805</u>	<u>\$ 33,991,887</u>	<u>\$ 36,367,044</u>
Expenses					
Operating Expenses	11,758,402	13,557,528	14,099,417	15,678,811	16,053,364
Administrative and General	<u>3,387,860</u>	<u>3,397,998</u>	<u>3,278,700</u>	<u>3,847,154</u>	<u>3,913,563</u>
<i>Total Expenses</i>	<u>15,146,262</u>	<u>16,955,526</u>	<u>17,378,117</u>	<u>19,525,965</u>	<u>19,966,927</u>
Net Revenue Available for Debt Service	\$ 13,604,614	\$ 11,409,982	\$ 13,610,688	\$ 14,465,922	\$ 16,400,117
Current Maximum Annual Senior Debt Service					
<i>Total Debt Service</i>	\$ 9,149,650	\$ 9,149,788	\$ 9,250,986	\$ 10,728,167	\$ 10,731,981
Current and Proposed Maximum Annual Senior Debt Service Coverage Ratio	1.49X	1.25X	1.47X ⁽¹⁾	1.35X ⁽²⁾	1.53X

⁽¹⁾ Includes \$283,885 of capitalized interest. After deducting capitalized interest, net debt service coverage would be 1.52x.

⁽²⁾ Includes \$1,327,256 of capitalized interest. After deducting capitalized interest, net debt service coverage would be 1.54x.

Historical Information and Assumptions:

- Water rate increase of 9% on municipal and governmental customer rates and an increase of 7% on irrigation customer rates in FY2012.
- Sewer Rate increase of 5% and a \$2.75 increase in the monthly customer charge in FY2012.

- The District's Board of Commissioners approved rate increases for water and wastewater rates to be adjusted to provide a combined water and wastewater net 7% increase in revenues to be effective for each of years 2013 and 2014. These increases are reflected in the FY2013 and FY2014 figures above.
- The above rate increases reflect increases already approved by the District's Board of Commissioners, but rate adjustments could be affected by the District's annual Water and Wastewater Rate studies conducted by the District and its independent rate consultant specialists.
- FY2013 revenue and expenses are from the District's adopted budget, and FY2014 revenue and expenses are from the District's 2012 rate study.

UNDERWRITING

Pursuant to a Bond Purchase Agreement, dated May 6, 2013 (the “Bond Purchase Agreement”) between the District and Wiley Bros. – Aintree Capital, LLC (the “Underwriter”), the Underwriter has agreed to purchase the Series 2013 Bonds at the par amount of the Series 2013 Bonds, plus \$2,948,891.45 original issue premium, less \$204,575 Underwriter’s discount.

The Bond Purchase Agreement provides that the Underwriter will purchase all of the Series 2013 Bonds if any are purchased. The obligation of the Underwriter to accept delivery of the Series 2013 Bonds is subject to certain conditions contained in the Bond Purchase Agreement.

The Underwriter intends to offer the Series 2013 Bonds to the public initially at the offering prices set forth on the cover page of this Official Statement, which price may be subsequently changed without prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Series 2013 Bonds to the public. The Underwriter may offer and sell Series 2013 Bonds to certain dealers (including dealers depositing Series 2013 Bonds into investment trusts) at prices lower than the public offering price. In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the Series 2013 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The District has agreed to indemnify the Underwriter against certain civil liabilities, including certain liabilities under federal securities laws, in connection with the offering of the Series 2013 Bonds. Under existing statutes, regulations, rulings and judicial decisions, the enforceability of such provisions is uncertain.

LITIGATION

The District, like other similar bodies, is subject to a variety of suits and proceedings arising in the ordinary conduct of its affairs. The District, after reviewing the current status of all pending and threatened litigation with its counsel believes that, while the outcome of litigation cannot be predicted, the final settlement of all lawsuits which have been filed and of any actions or claims pending or threatened against the District or its officials in such capacity are adequately covered by insurance or sovereign immunity or will not have a material adverse effect upon the financial position or results of operations of the District.

There is no litigation now pending or, to the knowledge of the District, threatened which restrains or enjoins the issuance or delivery of the Series 2013 Bonds, the use of Net Revenues for the payment of the Series 2013 Bonds, or the use of the proceeds of the Series 2013 Bonds or which questions or contests the validity of the Series 2013 Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization, nor existence of the District, nor the title of the present members or other officials of the District to their respective offices, is being contested or questioned.

EXPERTS

The Financial Statements of the District for the Fiscal Year ended December 31, 2012, included herein as **Appendix B**, have been examined by Alexander Thompson Arnold PLLC, independent certified public accountants, whose report thereon also appears in **Appendix B**, and have been so included in reliance upon the report of Alexander Thompson Arnold PLLC, given upon their authority as experts in accounting and auditing. In 2012, the District replaced Crosslin & Associates PC with Alexander Thompson Arnold PLLC as its principal independent accountant.

The reports on the District's financial statements by Crosslin & Associates during the previous fiscal years and any subsequent interim period did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles. Also, there were no disagreements with Crosslin & Associates on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure during this time that, if not resolved to the satisfaction of Crosslin & Associates, would have caused Crosslin & Associates to make a reference to the subject matter of any such disagreement in connection with its report on the District's financial statements.

PRIOR PERIOD ADJUSTMENTS

Following the recommendations of Alexander Thompson Arnold PLLC, certain changes have been made in the District's accounting policies and procedures as described herein and as more fully disclosed in the financial statements for the year ending December 31, 2012 included herein as **Appendix B**. In 2012, the District determined that depreciation associated with water and wastewater plant assets had been under depreciated by \$5,536,202 in 2011. Therefore, restatements to the 2012 business-type activities financial statements were required. The result of this was a prior-year adjustment of \$5,536,202 and a restatement of the 2012 financial statements in the amount of \$5,536,202. The prior-period adjustment and the restatement represent a decrease in capital assets, an increase in expenses, and an offsetting reduction to the January 1, 2012 net assets.

In 2012, the District determined that inventory associated with water and wastewater assets had been understated by \$878,437 in 2011. Therefore, restatements to the 2012 business-type activities financial statements were required. The result of this was a prior-year adjustment of \$878,437 and a restatement of the 2012 financial statements in the amount of \$878,437. The prior-period adjustment and the restatement represent an increase in current assets, a decrease in expenses, and an offsetting increase to the January 1, 2012 net assets.

In 2012, the District determined that allowance for doubtful accounts associated with water and wastewater assets had been overstated by \$98,586 in 2011. Therefore, restatements to the 2012 business-type activities financial statements were required. The result of this was a prior-year adjustment of \$98,586 and a restatement of the 2012 financial statements in the amount of \$ 98,586. The prior-period adjustment and the restatement represent an decrease in current assets, and an offsetting reduction to the January 1, 2012 net assets.

TAX MATTERS

Federal Taxes

General. Bass, Berry & Sims PLC, Nashville, Tennessee, is Bond Counsel for the Series 2013 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 Series 2013 Bonds:

- is excluded from a bondholder's federal gross income under the Internal Revenue Code of 1986,
- is not a preference item for a bondholder under the federal alternative minimum tax, and
- is taken into account in determining the adjusted current earnings of a corporation under the federal corporate alternative minimum tax.

The "Code" imposes requirements on the Series 2013 Bonds that the District must continue to meet after the Series 2013 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 Series 2013 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 Series 2013 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 Series 2013 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 Series 2013 Bonds or affect the market price of the Series 2013 Bonds.

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 Series 2013 Bonds, or under State, local or foreign tax law.

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 Series 2013 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 Series 2013 Bonds will be increased. If a bondholder owns one of these Series 2013 Bonds, it should consult its tax advisor regarding the tax treatment of original issue discount.

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 Series 2013 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 Series 2013 Bonds with bond premium, it should consult its tax advisor regarding the tax accounting treatment of bond premium.

Information Reporting and Backup Withholding. Information reporting requirements apply to interest on tax-exempt obligations, including the Series 2013 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 payer 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 “payer” 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 Series 2013 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 Series 2013 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.

Prospective bondholders should consult their own tax advisors regarding the foregoing matters.

State Taxes

Under existing law, the Series 2013 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 Series 2013 Bonds during the period the Series 2013 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 Series 2013 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 Law

Tax legislation, administrative actions taken by tax authorities, and court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2013 Bonds under Federal or state law and could affect the market price or marketability of the Series 2013 Bonds. 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 Series 2013 Bonds or otherwise prevent holders of the Series 2013 Bonds from realizing the full benefit of the tax exemption of interest on the Series 2013 Bonds. Further, such proposals may impact the marketability or market value of the Series 2013 Bonds simply by being proposed. President Obama in his fiscal 2013 Budget sought to cap the value of all tax expenditures or exclusions at 28%. It cannot be predicted whether President Obama’s proposal might be enacted into law or whether such law would have impact on the Series 2013 Bonds or in what form any other 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 Series 2013 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 Series 2013 Bonds would be impacted thereby. Purchasers of the Series 2013 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 Series 2013 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.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization and issuance of the Series 2013 Bonds are subject to the approving opinion of Bass, Berry & Sims, PLC, Bond Counsel. The form of such opinion appears as Appendix E.

Certain legal matters will be passed upon for the District by its counsel, Parker, Lawrence, Cantrell & Smith.

Certain legal matters will be passed upon for the Underwriter by its counsel, Waller Lansden Dortch & Davis, LLP.

RATING

Standard & Poor's Rating Services has assigned the Series 2013 Bonds the rating of "AA".

An explanation of the significance of such rating may be obtained from Standard & Poor's Rating Services. A rating is not a recommendation to buy, sell or hold the Series 2013 Bonds, and there is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2013 Bonds. The Underwriter and the District have undertaken no responsibility after issuance of the Series 2013 Bonds to assure the maintenance of the ratings or to oppose such revision or withdrawal.

CONTINUING DISCLOSURE

The District will at the time the Series 2013 Bonds are delivered execute a Continuing Disclosure Certificate under which it will covenant for the benefit of holders and beneficial owners of the Series 2013 Bonds to provide certain financial information and operating data relating to the District and the System by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending December 31, 2013 (the "Annual Report"), and to provide notice of the occurrence of certain enumerated events, if determined by the District to be material under applicable federal securities laws. The Annual Report (and audited financial statements if filed separately) will be filed by the District with the Municipal Securities Rulemaking Board ("MSRB") at www.emma.msrb.org and any State Information Depository which may be established in Tennessee (the "SID"). If the District is unable to provide the Annual Report to the MSRB and the SID, if any, by the date set forth above for the filing of the Annual Report, notice of such failure shall be sent to the MSRB and the SID, if any, on or before such date. The notices of material events will be filed by the District with the MSRB at www.emma.msrb.org and with any SID. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12 (b), as it may be amended from time to time (the "Rule"). The District has never failed to comply with a previous undertaking with respect to the Rule, although it filed its 2010 annual report late through the inadvertence of its agent undertaking to make such filing. The form of the Continuing Disclosure Certificate is attached hereto as Appendix D. The specific nature of the information to be contained in the Annual Report or the notices of material events is described in Appendix D.

FUTURE ISSUES

Within the next twelve months, the District does not anticipate that it will issue any additional indebtedness other than to refund outstanding indebtedness if targeted savings are met. The District

anticipates that it will issue approximately \$25,000,000 in fiscal year 2014 to finance costs incurred in constructing and equipping improvements to the District's System.

VERIFICATION

The accuracy of the mathematical computations supporting the conclusions (i) that the principal amounts and interest thereon of the Government Securities and other funds to be deposited with the Escrow Agent under the Escrow Agreement, are adequate to pay the principal of and interest due and to become due on the Refunded Obligations to September 1, 2014, and (ii) that the Series 2013 Bonds are not "arbitrage" bonds under Section 148 of the Code, will be verified by The Arbitrage Group.

FORWARD LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided that are not purely historic, are forward-looking statements, including statements regarding the expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available on the date hereof, and assumes no obligation to update any such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business and policy decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

MISCELLANEOUS

The foregoing summaries do not purport to be complete and are expressly made subject to the exact provisions of the complete documents. The District has furnished certain information in this Official Statement relating to its operations and present and proposed facilities. For details of all terms and conditions, purchasers are referred to the Bond Resolution, copies of which may be obtained from the District or the Underwriter.

Any statement made in this Official Statement involving matters of opinion or estimates, 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 will be realized.

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The execution and delivery of this Official Statement was duly authorized by the District.

HARPETH VALLEY UTILITIES DISTRICT OF
DAVIDSON AND WILLIAMSON COUNTIES,
TENNESSEE

By: /s/ Robert F. Wheaton
President, Board of Commissioners

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APPENDIX A

GENERAL INFORMATION CONCERNING THE DISTRICT

The District

Organization

The District was incorporated on August 4, 1959 by Order of the County Judge of Davidson County, Tennessee (the "Order"), pursuant to the provisions of the District Act which provide that such an incorporated municipality or public corporation shall exist in perpetuity and possess the powers set forth in the District Act. The District is authorized to issue and sell the Series 2013 Bonds in furtherance of the purposes for which it is organized.

The District Act provides that as long as the District continues to furnish any of the services which it is authorized to furnish, it shall continue to be the sole entity having the power to furnish such services in 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. The boundaries of the District are established by the Order as may be from time to time amended.

Powers

The District Act provides that the District is empowered 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, and furnish, deliver and sell to any municipality, the State, any public institution and the public, generally, any of its services. The District has the power of eminent domain and has the power to issue its negotiable bonds for the purpose of constructing, acquiring, reconstructing, improving, bettering or extending any of its facilities 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, systems or combination thereof. The District has no taxing power.

Government

All corporate powers of the District are vested in and exercised by the Board of Commissioners of the District. The Board consists of three members, serving staggered four-year terms. The members of the Board are appointed to office by the County Mayor of Williamson County and the Probate Judge of Davidson County. The Board prepares a list of three nominees to fill a vacancy in order of preference. The said County Mayor and Probate Judge elect the new member of the Board by a majority vote. If there is a tie vote, the nominee whose name stood highest on the list submitted by the Board becomes the new member of the Board. If the County Mayor and Probate Judge fail to act upon the list of candidates within 21 days, the first name on the list of nominees is appointed to fill the vacancy by operation of law. If the County Mayor and Probate Judge reject all of the candidates on the list, the Board must continue to submit new lists of nominees until such procedure shall result in the vacancy being filled. Each appointed commissioner must reside within the District's boundaries or be a customer of the District.

Pursuant to the District Act, the Board acts by a majority of its members. The Board is authorized by the District Act to, among other things, exercise by vote, ordinance or resolution all of the general and

specific powers of the District, to make all necessary rules, regulations and by-laws for the management and conduct of the affairs of the District and to issue bonds of the District by resolution of the Board.

Pursuant to the District Act, the members of the Board may receive compensation for their services not to exceed \$350 per meeting for not more than twelve meetings per year.

The current membership of the Board is as follows:

NAME AND OCCUPATION	FIRST APPOINTED COMMISSIONER	CURRENT TERM EXPIRES
Robert F. Wheaton, President Executive Director, Vanderbilt University Environmental Health and Safety, Sustainability and Environmental Management Office	January, 2011	August, 2015
Bernard Kwas, Vice-President Vice-President, SunTrust Bank	August, 2010	August, 2014
Dolores H. Carter, Secretary Retired; formerly Owner of Bellevue Market	August, 1993	August, 2013

Administrative Personnel

The General Manager of the District serves at the discretion of the Board and is responsible for the appointment and selection of all personnel of the District.

In 1998, the Board named John E. Brown General Manager of the District. Mr. Brown has a Bachelor's degree in Business Administration and over twenty-five years' experience in the water and wastewater industry. As General Manager of the District, Mr. Brown has managed approximately \$160 million in construction for the District consisting of two new wastewater treatment plants and pump stations, three water treatment plant expansions adding 36 million gallons per day of capacity, a high service pump station, and large diameter water transmission lines to serve the District's municipal customers (cities and other utility districts in Williamson County). Mr. Brown has also overseen the construction of the new administration facilities for the District and the relocation of operations to such facility. Mr. Brown has served on the Water and Wastewater Finance Board for the State of Tennessee. He has also formerly served as Vice President, President and Treasurer of the Tennessee Association of Utility Districts. Mr. Brown currently serves on the TAUD Board of Directors.

John H. Barnes was hired as Assistant General Manager of the District in 1999. Mr. Barnes has a Bachelor's Degree in Civil Engineering and over 40 years experience in the water and wastewater industry. Mr. Barnes' experience includes 22 years working for a consulting engineering firm where his various duties included surveying, design, and quality control for numerous water and wastewater lines, water and wastewater pump stations, and water and wastewater treatment plants. Mr. Barnes is a Registered Professional Engineer in Tennessee, North Carolina, Georgia, and Kentucky and a Registered Land Surveyor in Tennessee.

In 2012, the District determined to hire a new Fiscal Officer following the departure of its former Fiscal Officer. The new Fiscal Officer began employment with the District on April 29, 2013.

Jay Tant was hired as an Assistant Manager for the District in 2012. Mr. Tant has over 20 years of experience in the water and wastewater industry. The experience includes 12 years working for a consulting engineering firm developing capital plans, project designs and construction documents for various water and wastewater projects. This experience also includes 8 years working for a municipal water and wastewater department developing and managing capital, regulatory compliance and quality assurance/quality control programs as well as providing general management support. Mr. Tant has a Bachelor's Degree in Civil Engineering and is a Registered Professional Engineer in Tennessee and also holds a Water Distribution System Operator's license in Tennessee.

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

<u>NAME AND POSITION</u>	<u>YEAR EMPLOYED</u>
Richard Caruthers Superintendent, Water Distribution & Wastewater Collection	1988
James T. Aslinger Superintendent, Water Treatment Plant	2008
James Pendleton Wastewater Plant Superintendent	1987
Michelle Sadler Office Manager	1997

Employees

The District has 83 full-time employees. Thirty-six employees are devoted to the water system, 22 employees are devoted to the sewer system, 9 employees are devoted to support services such as inspections, meter reading and the auto shop, and 16 employees are office employees including the general manager, assistant general manager, other supervisory personnel, and customer service representatives. All of the District's supervisory personnel, who are required to be certified, are certified by the Tennessee Department of Health and Environment for the operation of the water system and the sewer system.

The turnover in the District's work force has averaged less than six employees per year over the last five 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 of the District

State and Local Regulation. The District is required by law to maintain a set of rules and regulations regarding the 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. In addition, the District is required to have its books and records audited annually by an independent certified public accountant or by the Department of Audit of the Comptroller of the Treasury of the State, and annually to file such audit with the Comptroller of the Treasury of the State and the County Mayor of Williamson County and Probate Judge of Davidson County.

Prior to taking any action to issue bonds, the District must submit to the State Director of Local Finance for review the resolution authorizing the issuance of the bonds, together with a statement showing as of the beginning of the then current fiscal year the total outstanding bonds, notes, warrants, refunding bonds and other evidences of indebtedness of the District, together with maturity dates thereof, interest rates, special provisions for payment, the project to be funded by the bonds, the current financial statement of the District and any other pertinent financial information and, prior to the issuance of any refunding bonds, the plan of refunding. The Director of State and Local Finance may transmit comments to the District within 15 days from the date such information is received. If such comments are received, they must be published once in a newspaper of general circulation in the county of the principal office of the District and any other counties in which the District operates during the week following receipt. Only upon the receipt and publication of such comments, or upon expiration of 15 days from the receipt of the statement and information by the Director of State and Local Finance, whichever is earlier, may the District take action with respect to the proposed bond issue.

Rate Regulation. The Board determines the rates paid by the District's customers. The District is required to publish within ninety days after the close of the fiscal year a statement showing the financial condition of the District, the earnings of the District and the water rates then being charged by the District and the method used in arriving at such rates. Within 30 days of the date such statement is published, any customer of the District may file with the Board a protest concerning such rates. The Board must then give notice of a hearing to determine the validity of the protest and whether the published rates are reasonable. After the Board makes its determination, the customer may seek review of the Board's decision by the Utility Management Review Board ("UMRB") with the right of judicial review of UMRB's action by writ of certiorari in the county of the District's principal office.

In 1987, the Tennessee General Assembly created the UMRB to provide state oversight in utility management. The review board promulgated its rules and regulations and began hearing cases in January 1989. The UMRB's primary function has been financial oversight of utility districts. Each utility district is audited and financially distressed districts are reported to the UMRB. A utility district is generally considered to be financially distressed if it is in default on any outstanding indebtedness, it has operated with net losses for two consecutive years, and/or it has a deficit total net assets. The UMRB has the authority to study the possibility of consolidating a financially distressed utility district with other districts or municipal or county public utility systems. If the review board concludes that consolidation is in the public's best interest, it may negotiate a merger under the auspices of the Chancery Court. However, the most common actions taken by the UMRB are rate restructuring, improvements in accounting methods and reporting, and reductions in operating expenses by correcting leaks. The District has never been required to appear before the UMRB as a financially distressed utility district.

In addition to the above, the UMRB has the power to review the rates charged and services provided by the District. The review may only be instituted by a petition signed by ten percent of the users of services provided by the District within the authorized area of the District. Such petition properly served requires the UMRB to review the actions of the Board at a public hearing held after the giving of proper notice.

Licenses, Permits and Approvals. The District has received all licenses, permits and approvals necessary for the operation of the System. The District is subject to regulation with regard to water quality and other environmental matters by various Federal, state and local authorities.

Population

The following table reflects the population of Davidson County, Williamson County and Cheatham County, Tennessee (collectively, the "Counties") and the State of Tennessee.

<u>Year</u>	<u>Davidson County</u>	<u>Williamson County</u>	<u>Cheatham County</u>	<u>Tennessee</u>
1970	447,877	34,423	13,199	3,926,018
1980	477,811	58,108	21,616	4,591,023
1990	510,784	81,021	27,140	4,877,185
2000	569,891	126,638	35,912	5,689,283
2010	626,681	183,182	39,105	6,346,105

Source: United States Bureau of Census.

Largest Employers

Set forth below is a list of the top private employers in the Nashville Economic Market Area, consisting of Davidson County, Cheatham County, Dickson County, Maury County, Montgomery County, Robertson County, Rutherford County, Sumner County, Williamson County and Wilson County and the approximate number of employees in 2012. There can be no assurance that any employer listed below will continue to be located in the Nashville Economic Market Area or will continue employment at the level stated. No independent investigation has been made of, and no representation can be made as to, the stability or financial condition of the employers listed below.

<u>EMPLOYER</u>	<u>APPROXIMATE EMPLOYEES</u>
Vanderbilt University and Medical Center	21,400
HCA Holdings	7,000
Nissan North America	6,600
St Thomas Health Services	6,500
Gaylord Entertainment Co.	4,000
Kroger Co.	3,500
Asurion	3,500
Electrolux	3,300
Randstad	3,260
Shoneys	3,000

Source: Nashville Area Chamber of Commerce

Unemployment Rates

Set forth below are the average annual unemployment rates for the United States, the State of Tennessee and the Counties for the years 2008 through 2012.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
United States	5.8%	9.7%	9.6%	8.5%	8.1%
Tennessee	6.4%	10.6%	9.7%	8.5%	8.0%
Cheatham County	5.6%	9.4%	9.0%	8.0%	7.2%
Davidson County	5.5%	8.9%	8.8%	7.1%	6.6%
Williamson County	4.7%	7.6%	7.1%	5.6%	5.4%

Source: Tennessee Department of Labor and Workforce Development, Division of Employment Security.

Per Capita Income

Set forth below are the per capita income figures for the United States, the State of Tennessee and the Counties for the years 2007 through 2011.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
United States	\$29,392	\$40,674	\$39,635	\$39,937	\$41,560
Tennessee	34,156	35,119	34,277	34,921	36,567
Davidson County	43,742	45,138	43,457	45,913	47,318
Cheatham County	32,337	33,693	31,498	30,950	33,268
Williamson County	55,199	55,770	53,392	54,539	59,399

Source: United States Bureau of Economic Analysis

Sales Tax Collections

Set forth below are the state sales tax collections in the Counties for the fiscal years 2004 through 2012.

<u>YEAR</u>	<u>DAVIDSON COUNTY</u>	<u>CHEATHAM COUNTY</u>	<u>WILLIAMSON COUNTY</u>
2004	\$810,894,857	\$11,807,599	\$193,415,427
2005	836,992,482	13,300,874	205,058,079
2006	895,974,263	14,077,985	299,502,304
2007	943,458,918	15,399,841	248,512,791
2008	941,719,177	16,019,027	245,546,176
2009	839,966,061	14,742,753	217,418,708
2010	790,155,575	14,079,251	215,972,115
2011	827,190,399	13,853,953	232,810,177
2012	904,654,873	14,491,746	250,785,480

Source: Tennessee Department of Revenue.

The System

The District provides services consisting of (i) the treatment and distribution of water to its customers through its water system and (ii) the collection, processing and disposal of wastewater through its wastewater system.

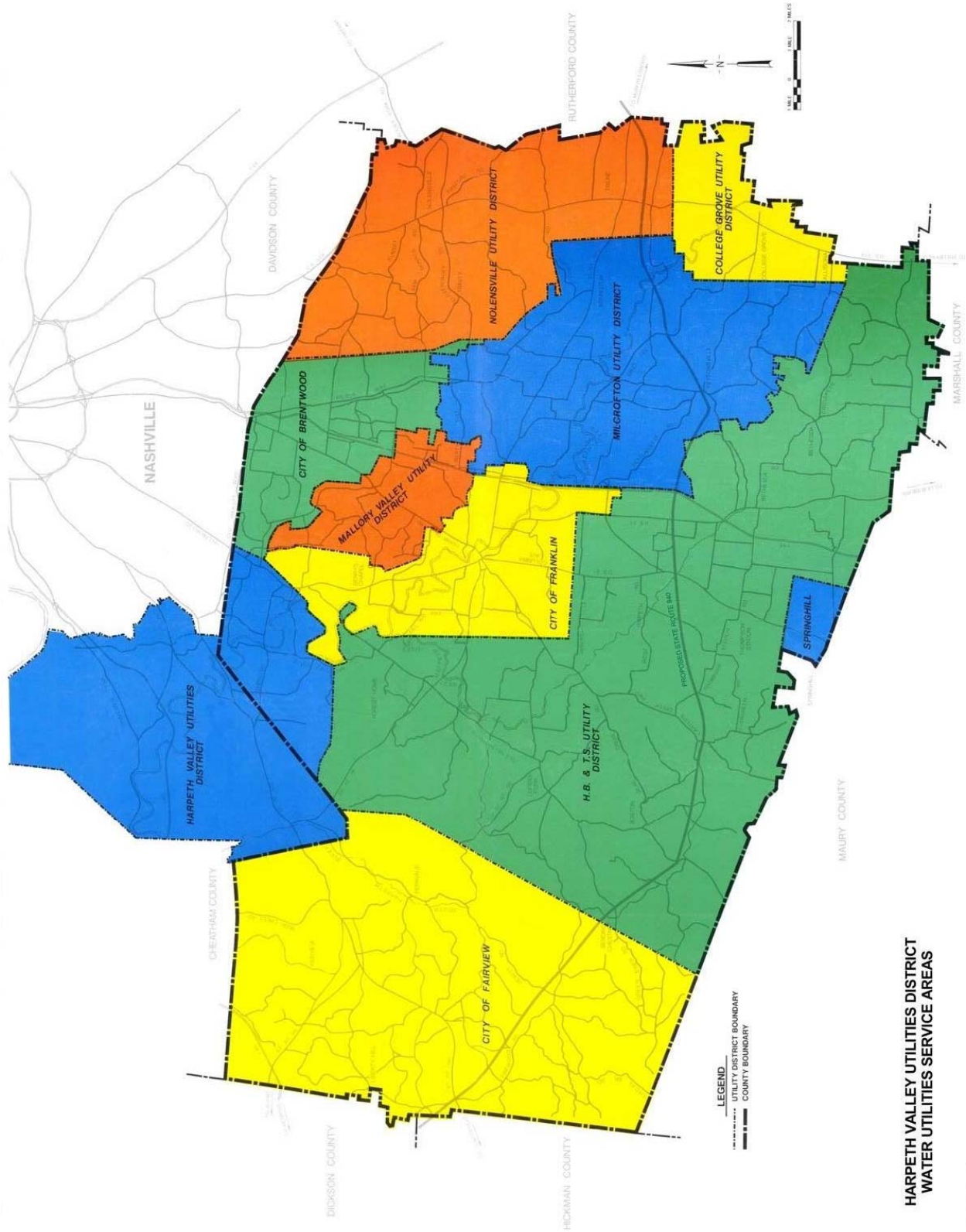
Service Area

The District provides water and wastewater services to customers in southwest Davidson County, including Bellevue, and water services to Williamson County, including the cities of Brentwood, Franklin and Fairview, and Cheatham County. The District also provides service to public utility districts including Mallory Valley Utility District, HB & TS Utility District, Milcrofton Utility District and River Road Utility District. There are approximately 84 square miles within the District's boundaries.

The District provides direct water service to approximately 15,764 connections for residential customers, 472 connections for commercial customers, 275 connections for irrigation customers, 81 connections for multi-unit customers and connections for municipal customers. Currently, approximately 21% of the District's water billing revenue is derived from sales to residential customers, 2% from sales to commercial customers, 2% from sales to irrigation customers, 5% from sales to multi-unit customers

and 70% to municipalities/utility districts. A map outlining the District's boundaries and the communities it serves is set forth on the succeeding page of this Official Statement.

The District also provides sewer service to approximately 12,854 connections for residential customers, 82 connections for multi-unit customers and 369 connections for commercial customers. Currently approximately 59% of the District's sewer billing revenue is derived from sales to residential customers, 32% from multi-unit customers and 9% to commercial customers. The District does not provide sewer service to its municipal customers.



**HARPETH VALLEY UTILITIES DISTRICT
WATER CUSTOMER BASE**

(December 2012)

CUSTOMER	ESTIMATED METERS/CUSTOMERS	AVERAGE DAILY WATER PURCHASED (million gallons)
Direct Customers of the District	16,505	4.70
City of Brentwood	8,239	4.26
City of Fairview	2,959	.45
City of Franklin	17,015	4.29
HB & TS Utility District	6,755	2.51
Mallory Valley Utility District	5,189	6.81
Milcrofton Utility District	5,332	.88
River Road Utility District	140	.02

Water System

The District's water system was first placed in service in 1963, initially serving 450 customers with a treatment capacity of .576 million gallons per day. Customer growth and increased demand have resulted in plant additions and significant expansions. The District's current water treatment capacity is 52 million gallons per day.

Customers of the Water System. The following table sets forth the number and types of customers served by the District's water system during each of the years listed.

YEAR	RESIDENTIAL⁽¹⁾	COMMERCIAL	IRRIGATION	MUNICIPAL (meters)	TOTAL
2005	14,950	430	183	17	15,580
2006	15,077	424	200	17	15,718
2007	15,311	445	247	18	16,021
2008	15,401	459	255	18	16,133
2009	15,518	456	264	22	16,260
2010	15,614	455	271	22	16,362
2011	15,750	465	273	20	16,508
2012	15,845	472	275	20	16,612

⁽¹⁾ Includes multi-unit customers

Other than the municipal customers discussed below, the District does not have a single customer that accounts for as much as 2% of its sales.

Water Sale Contracts. In addition to furnishing water service to customers located within the boundaries of the District, the District has entered into long term contracts to provide water to seven municipal customers located outside the boundaries of the District. The customers served, the gallons sold to each customer during the year ended December 31, 2012, the percentage of total water sales of the District represented by such sales and the termination dates of the contracts are as follows:

NAME	MILLION GALLONS SOLD IN 2012	PERCENT OF TOTAL SALES OF DISTRICT	TERMINATION DATE OF CONTRACT
City of Brentwood	1,649	19%	08/24/2028
City of Fairview	164	2%	04/09/2019
City of Franklin	1,631	18%	08/25/2028
H.B. and T.S. Utility District of Williamson Co.	907	10%	02/26/2030
Mallory Valley Utility District of Williamson Co.	2,476	28%	10/27/2048
Milcrofton Utility District of Williamson Co.	316	4%	10/27/2048
River Road Utility District of Cheatham Co.	5	less than 1%	07/28/2026

Each of the contracts provides for a minimum monthly bill and a maximum daily demand. Each contract also states that the customer is not prohibited from purchasing water from sources other than the District, provided the customer pays the minimum bill. The minimum bill will be reduced to the extent the District fails or is unable to make available the water for the minimum bill. Such contracts provide for billing in accordance with the District's schedule of rates, charges and fees in effect at the time of such billing. All of said entities are presently being billed at the current schedule of rates, charges and fees.

Water Consumption. For each of the fiscal years indicated, the following table sets forth the number of gallons of water sold to the District's customers.

YEAR	RESIDENTIAL⁽¹⁾	COMMERCIAL	IRRIGATION	MUNICIPAL	TOTAL
2005	1,408	170	89	4,893	6,560
2006	1,410	166	91	5,085	6,752
2007	1,621	181	166	6,105	8,073
2008	1,509	156	165	5,955	7,785
2009	1,313	128	98	5,716	7,255
2010	1,430	128	156	6,904	8,618
2011	1,385	125	137	6,732	8,379
2012	1,439	146	141	7,149	8,875

(in millions of gallons)

⁽¹⁾ Includes multi-unit customers

Water Treatment and Distribution Facilities. The District obtains water from two intakes located on the Cumberland River. One intake has a capacity of 6.0 million gallons per day using three centrifugal pumps. The newer intake is capable of pumping 65 million gallons per day using five vertical turbine pumps. All of the pumps are electrically driven.

The District's rapid sand filtration plant was expanded in 2001 and 2008 and currently has a treatment capacity of 52 million gallons per day. The plant consists of pre-settling basins, flash mix basins, flocculation basins, sedimentation basins, and dual media rapid sand filters. Treated water is stored in a 5 million gallon clearwell prior to being pumped to the system from the high service pump station. The high service pump station has a capacity of 60 million gallons per day. The water treatment facility is also equipped with a stand-by power generating system to insure uninterrupted treatment of water supply.

The District's distribution system consists of approximately 384 miles of water lines, ranging in size from 3-inch to 48-inches in diameter. There are two large booster pump stations within the District

capable of pumping 63 million gallons per day, with upgrade capacity of 88 million gallons per day. The District also has six smaller pump stations located in various areas.

Phase I of a water treatment plant expansion was funded by the District's Series 2012A Bonds. The work in progress includes design engineering of the project and construction that includes the demolition of existing structures on the future site of the plant. The site preparation portion included the relocation of the administrative facilities of the District. The District moved into the newly constructed administration building in February, 2013. The funds are also being used for various management, operations and maintenance sewer projects.

Water Billing. The following table sets forth the annual water billings of the District for the years listed.

<u>YEAR</u>	<u>RESIDENTIAL</u> ⁽¹⁾	<u>COMMERCIAL</u>	<u>IRRIGATION</u>	<u>MUNICIPAL</u>	<u>TOTAL</u>
2005	\$4,277	\$517	\$273	\$ 9,319	\$14,386
2006	4,313	505	280	10,088	15,186
2007	4,921	548	502	11,726	17,697
2008	4,586	467	508	11,871	17,432
2009	4,340	396	307	10,594	15,637
2010	5,313	448	517	13,683	19,961
2011	5,364	441	484	13,464	19,753
2012	5,583	513	529	15,272	21,897
(in thousands)					

⁽¹⁾ Includes multi-unit customers

Sewer System

Customers of the Sewer System. The following table sets forth the number and type of sewer customers served by the District in the years listed.

<u>YEAR</u>	<u>RESIDENTIAL</u> ⁽¹⁾	<u>COMMERCIAL</u>	<u>TOTAL</u>
2005	11,830	329	12,159
2006	12,164	330	12,494
2007	12,432	345	12,777
2008	12,513	363	12,876
2009	12,622	359	12,981
2010	12,715	361	13,076
2011	12,856	364	13,220
2012	12,936	369	13,305

⁽¹⁾ Includes multi-unit customers

The District does not have a single customer that accounts for as much as 2% of its sewer billings.

Sewage Collection, Treatment and Disposal Facilities. The District's sewer system was originally placed in service in 1965, provided service to 13 customers, and had a treatment plant capacity of 300,000 gallons of wastewater per day.

In early 2001, the District completed construction and put into service a wastewater treatment plant adjacent to the Cumberland River in Bells Bend. The wastewater treatment plant is designed to treat

an average flow of 10 million gallons per day (MGD) and a peak flow of 25 MGD. The wastewater treatment plant is designed to treat all of the wastewater flows from the District's customers. The District's original small wastewater treatment, adjacent to the Harpeth River, was taken out of service in 2001.

The wastewater treatment plant consists of the following unit processes:

1. Fine rotary screens-3 units.
2. Two parallel oxidation ditches.
3. Two parallel clarifiers which return solids to the oxidation ditches by means of three screw lift pumps and transport waste solids to the digesters.
4. Ultraviolet disinfection of the effluent with discharge into the Cumberland River.
5. Aerobic digestion of the waste solids in three unit oxidation ditch digesters.
6. Disposal of Class B digested solids by land application on site.

The wastewater treatment plant is also equipped with a stand-by power generating system to insure uninterrupted processing of waste materials.

Associated with the wastewater treatment plant, a pump station, the Overall Creek Pump Station, was designed and constructed to pump flows to the wastewater treatment plant. The design capacity of the such pump station is 37 MGD. The Overall Creek Pump Station was put into service in July 2001.

The existing collection system contains over 180 miles of sewer collection lines and 32 lift stations.

Sewer Billings. The following table sets forth the billings of the sewer system for the years listed.

YEAR	RESIDENTIAL ⁽¹⁾	COMMERCIAL	STATE SURCHARGE	TOTAL
2005	\$4,338	\$559	\$98	\$4,995
2006	4,559	602	103	5,264
2007	5,185	685	117	5,987
2008	5,380	662	121	6,163
2009	5,620	572	0	6,192
2010	6,731	674	0	7,405
2011	6,891	671	0	7,562
2012	7,628	786	0	8,414

(in thousands)

⁽¹⁾ Includes multi-unit customers

Metro Obligation. Pursuant to a regional facilities plan for wastewater collection and treatment systems (the "Regional Wastewater Plan"), the District consummated a wastewater treatment agreement (the "Waste Treatment Agreement") with the Metropolitan Government of Nashville and Davidson County, Tennessee, ("Metro") during June 1979, which enabled the District to transport its raw sewage or a portion thereof to the wastewater system of Metro for treatment and ultimate disposal.

On February 20, 1996, Metro and the District entered into a settlement agreement (the "Settlement Agreement") which resolved several matters in dispute between Metro and the District under

the Waste Treatment Agreement, and which resulted in the District constructing, operating, and maintaining its own wastewater treatment facility on the Cumberland River. As of January 2001, the District discontinued use of Metro's facilities for wastewater treatment and disposal. Under the Settlement Agreement, the District remains obligated to pay to Metro monthly contributions for infrastructure improvements to the Metro system which indirectly benefits the District's treatment facilities. The payment currently is \$62,500 per month and continues at such rate through the final payment in February, 2026. None of the payments to Metro are secured by revenues or any other property of the District. Even though the obligations to Metro are not secured, there could be significant negative consequences to the District should it default on its obligations to Metro. For a discussion of the possible consequences arising from such default, see "Competition" below.

In the Settlement Agreement, Metro also committed, to the extent it lawfully could do so, that it would not takeover or assume the District's water and wastewater customers residing in Davidson County, Tennessee, without the consent of the District for 30 years after the date of the Settlement Agreement.

Water and Sewer Rates

A schedule of rates and charges for water was originally adopted by the District in 1963. Sewer service charges were added to the District's rate structure in 1965. The District's current rates for water and sewer service and usage became effective on February 1, 2013. The schedule of monthly rates currently in effect in the District is as follows:

SCHEDULES OF WATER AND SEWER RATES

Residential Rates		
Water Metered	Water Rate	Wastewater Rate
Monthly Customer Charge	\$9.25	\$14.75
First 3,000 gallons	2.00 per 1,000 gallons	4.52 per 1,000 gallons
Next 3,000 gallons	3.25 per 1,000 gallons	6.30 per 1,000 gallons
Next 14,000 gallons	3.80 per 1,000 gallons	8.40 per 1,000 gallons
Next 30,000 gallons	3.85 per 1,000 gallons	8.40 per 1,000 gallons
Next 50,000 gallons	3.20 per 1,000 gallons	8.40 per 1,000 gallons
All Additional Usage	3.20 per 1,000 gallons	8.40 per 1,000 gallons
Commercial Rates		
Water Metered	Water Rate	Wastewater Rate
Monthly Customer Charge	\$7.50	\$11.75
First 5,000 gallons	2.50 per 1,000 gallons	4.99 per 1,000 gallons
Next 5,000 gallons	3.25 per 1,000 gallons	7.35 per 1,000 gallons
Next 40,000 gallons	3.60 per 1,000 gallons	7.88 per 1,000 gallons
Next 50,000 gallons	3.25 per 1,000 gallons	7.88 per 1,000 gallons
Next 200,000 gallons	3.10 per 1,000 gallons	7.88 per 1,000 gallons

All Additional Usage	3.10 per 1,000 gallons	7.88 per 1,000 gallons
Multi-Unit Rates		
Water Metered	Water Rate	Wastewater Rate
Monthly Customer Charge	\$7.50	\$11.75
First 25,000 gallons	3.08 per 1,000 gallons	7.35 per 1,000 gallons
Next 75,000 gallons	3.08 per 1,000 gallons	7.88 per 1,000 gallons
Next 200,000 gallons	3.09 per 1,000 gallons	7.88 per 1,000 gallons
Next 200,000 gallons	3.09 per 1,000 gallons	7.88 per 1,000 gallons
Next 500,000 gallons	3.12 per 1,000 gallons	7.88 per 1,000 gallons
All Additional Usage	3.12 per 1,000 gallons	7.88 per 1,000 gallons
Utility/Municipal Rates		
Water Metered	Water Rate	
Monthly Customer Charge	\$7.50	
First 1,000,000 gallons	2.36 per 1,000 gallons	
Next 24,000,000 gallons	2.36 per 1,000 gallons	
Next 25,000,000 gallons	2.36 per 1,000 gallons	
Next 50,000,000 gallons	2.36 per 1,000 gallons	
Next 100,000,000 gallons	2.36 per 1,000 gallons	
All Additional Usage	2.36 per 1,000 gallons	
Irrigation Rates		
Water Metered	Water Rate	
Monthly Customer Charge	\$7.50	
First 25,000 gallons	3.68 per 1,000 gallons	
Next 25,000 gallons	3.68 per 1,000 gallons	
Next 50,000 gallons	3.68 per 1,000 gallons	
Next 100,000 gallons	3.68 per 1,000 gallons	
Next 300,000 gallons	3.68 per 1,000 gallons	
All Additional Usage	3.68 per 1,000 gallons	

At its meeting of February 16, 2012, the District approved rate increases for the District's Water and Wastewater rates to be adjusted in 2013 and 2014 for bills with a due date on or after February 1 of each such year so as to provide a combined water and wastewater net seven percent (7%) increase in revenue from the sale of water and wastewater services in each such year. In October of the year immediately preceding such scheduled increase, the District's management shall recommend for approval by the District's Board the specific amendment required to the District's Schedule of Rates, Charges and Fees. In accordance therewith, at its October 29, 2012 meeting, the District approved the 2012 Water and

Wastewater Rate Studies and enacted the recommended revisions to the District's Rates, Charges and Fees.

Billings and Collections

The District's billings are handled by Central Service Association, a non-profit cooperative owned by its utility members having its principal place of business in Tupelo, Mississippi. Central Service Association computes and prints bills which are then forwarded to Pinnacle Data Systems where they are addressed and mailed.

Amounts uncollected for the years listed appear below.

<u>YEAR</u>	<u>AMOUNT</u>
2008	Immaterial
2009	Immaterial
2010	\$101,124
2011	\$ 96,586
2012	\$ 91,119

Competition

The District has no competition in its service area. The District does, however, derive a significant amount of its income outside of its service area. Although the District does have long-term contracts with each of its municipal customers, these contracts permit such customers to contract with other utility providers subject to payment of certain minimum bills.

Additionally, 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 in the District, and no other person, firm or corporation shall furnish or attempt to furnish any of such services in the area served by the District, unless and until it shall have been established that the public convenience and necessity require other or additional services.

A city or town which annexes adjoining territory has an exclusive right to perform or provide municipal and utility functions and services in any territory which it annexes, including territory included in the boundaries of a utility district. The annexing city or town and the utility district must attempt to reach an agreement in writing for the allocation and conveyance to the annexing city or town of any or all public functions, rights, duties and property, assets and liabilities of such utility district that justice and reason may require. If such parties fail to agree upon any such matters within sixty (60) days after the operative date of such annexation, such matters shall be settled by arbitration under the laws of the State in effect at such time. If the annexed territory is being served by a utility district which has outstanding bonds payable from the revenues derived from the sale of such utility service, any agreement or arbitration award shall also provide that the city or town shall operate the utility property in such territory and account for the revenues therefrom in such manner as not to impair the obligations of contract with reference to such bonds or the city or town shall assume the operation of the entire utility system and the payment of such bonds in accordance with their terms.

As described previously in "The Sewer System – Metro Obligation," the District settled certain matters in contention with the Metropolitan Government of Nashville and Davidson County, Tennessee ("Metro"). Pursuant to the Settlement Agreement entered into with Metro in 1996, Metro committed, to the extent that it lawfully could do so, to refrain from taking over or assuming the District's water and wastewater customers residing in Davidson County, Tennessee, without the consent of the District, for 30

years after the date of the Settlement Agreement. The Settlement Agreement also required the payment of certain sums to Metro to settle the matters in dispute. Failure of the District to make the payments called for under the Settlement Agreement could entitle Metro to exercise other remedies available at law or in equity arising upon a breach of the Settlement Agreement and could negate Metro's commitment not to take over the customers of the District within Davidson County, Tennessee. If Metro did take over these customers, it would have to assume an equitable portion of the District's bond obligations and the District's liabilities under any loan agreement.

Environmental Matters

The District expects governmental regulation of its operations will continue to become more comprehensive, particularly regarding environmental matters. The District is unable to predict the effect, if any, which such increased governmental regulation, will have on its present or future operations and on the operation of the System. Changes in applicable regulations could require changes in facilities, personnel, rates or services, which could adversely affect the District's Net Revenues and impair its ability to pay the principal of and interest on its bonded debts.

The operations of the District are subject to the Federal Clean Water Act, as amended (33 U.S.C. 1251, et seq.), the Tennessee Water Quality Control Act of 1977, as amended (T.C.A. § 69-3-101, et seq.), and regulations of the Tennessee Department of Environment and Conservation ("TDEC"). The District is presently discharging under National Pollution Discharge Elimination System permit #TN0074748. This permit has an expiration date of October 31, 2015.

The District is a party to environmental litigation relating to construction of a District wastewater collection line completed in 2007. Certain property owners filed a lawsuit in Federal Court under the Clean Water Act, 33 U.S.C. 1365, alleging that utility line installation work by the District had caused a loss of water, flow, and aquatic life on their property in and near Overall Creek. Another family, living in the same vicinity, has also claimed in a Tennessee Circuit Court condemnation action filed by the District that the same utility line installation work has caused similar damages to their property. TDEC's Commissioner has issued an Order which instructs the District to perform certain investigation and remediation activities related to the wastewater collection line.

The District is vigorously contesting these claims but the outcome of any litigation cannot be stated with certainty. The construction company which actually did the installation is also a defendant in the Federal lawsuit; and the District has pled a comparative fault claim against the construction company for damages, if any, caused by its installation work.

APPENDIX B

**INDEPENDENT AUDITORS' OPINION AND FINANCIAL
STATEMENTS**

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HARPETH VALLEY UTILITIES DISTRICT
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
DECEMBER 31, 2012

HARPETH VALLEY UTILITIES DISTRICT

TABLE OF CONTENTS

Introductory Section

Directory	1
-----------------	---

Financial Section

Independent Auditor's Report	2
------------------------------------	---

Management's Discussion and Analysis	5
--	---

Financial Statements:

Statement of Net Position	9
---------------------------------	---

Statement of Revenues, Expenses, and Changes in Net Position	11
--	----

Statement of Cash Flows	12
-------------------------------	----

Notes to Financial Statements	14
-------------------------------------	----

Requirement Supplemental Information Section:

Defined Benefit Plan - Schedule of Funding Progress	43
---	----

Other Supplementary Information Section

Schedules of Operating Income and Expenses	44
--	----

Schedule of Long-term Debt	45
----------------------------------	----

Schedule of Expenditures of Federal Awards	47
--	----

Water and Wastewater Rates in Force	48
---	----

Schedule of Unaccounted Water - unaudited	49
---	----

Internal Control and Compliance Section

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 <i>Government Auditing Standards</i>	50
---	----

Summary of Findings and Recommendations	52
---	----

INTRODUCTORY SECTION

**HARPETH VALLEY UTILITIES DISTRICT
DIRECTORY**

December 31, 2012

COMMISSIONERS

Robert Wheaton, President
Bernard Kwas, Vice-President
Dolores Carter, Secretary

MANAGEMENT TEAM

John Brown, General Manager
John Barnes, Assistant General Manager
Jay Tant, Assistant Manager

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold, PLLC
Jackson, Tennessee

FINANCIAL SECTION

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



Certified Public Accountants
Offices in Tennessee & Kentucky

227 Oil Well Rd.
Jackson, TN 38305

Phone 731.427.8571
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Independent Auditor's Report

Board of Commissioners
Harpeth Valley Utilities District
Nashville, Tennessee

We have audited the accompanying financial statements of Harpeth Valley Utilities District (The District), as of December 31, 2012, and the related notes to the financial statements, which collectively comprise the districts basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Harpeth Valley Utilities District as of December 31, 2012, and the results of the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 and the defined benefit plan schedule of funding progress on page 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section and the other supplementary information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory section and other supplementary information that is marked "unaudited" have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2013 on our consideration of 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 District's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Alexander Thompson Arnold, PLLC
Jackson, Tennessee
March 29, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Harpeth Valley Utilities District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2012. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

Management believes the District's financial condition is strong. The District is well within its more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets at year-end were \$297.87 million and exceeded liabilities in the amount of \$120.65 million (i.e. net position).
- Total assets increased by \$24.64 million, due to series 2012 bond issue.
- Operating revenues were \$30.70 million, an increase from year 2011 in the amount of \$2.89 million or (10.41%).
- Operating expenses were \$25.10 million, an increase from year 2011 in the amount of \$1.03 million or 4.26%. Administrative and general expenses decreased \$119,298 and maintenance expense decreased \$930,631 in 2011 while depreciation increased \$603,654 and plant salaries increased \$272,572.
- The operating income for the year was \$5.61 million as compared to income of \$3.74 million during the 2011 fiscal year. The increase is due to additional volume sales as well as a rate increase during the year ended.
- Ratios of operating income (loss) to total operating revenue were 0.18 and 0.13, for 2012, and 2011, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the 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 strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements and Other Supplementary Information are made up of four sections: 1) the introductory section, 2) the financial section, 3) the other supplementary information section, 4) and the internal control and compliance section. The introductory section includes the District's directory. The financial section includes the MD&A, the independent auditor's report, and the financial statements with accompanying notes and the required supplementary information. The other supplementary information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

REQUIRED FINANCIAL STATEMENTS

A Proprietary Fund is used to account for the operations of the District, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges. The financial statements report information about the District, using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Statement of Net Position* includes all of the District's assets and liabilities and deferred inflows/outflows of resources with the difference reported as net position. It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

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 measures the success of the District's operations and can be used to determine whether the District has successfully recovered all of its costs. This statement also measures the District's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

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.

FINANCIAL ANALYSIS

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District, and the changes in the net position. Net position is one way to measure the financial health or financial position of the District. Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates. The District's total net position decreased by \$5.09 million for the fiscal year ended December 31, 2012 in part due to a prior period adjustment. The District's total net position increased by \$259,766 for the fiscal year ended December 31, 2011. The analysis below focuses on the District's net position (Table 1) and changes in net position (Table 2) during the year

Table 1
CONDENSED STATEMENTS OF NET ASSETS

	December 31, 2012	December 31, 2011	Increase (Decrease)	
			\$	%
Capital assets				
Producing assets	\$ 225,418,461	\$ 236,308,154	\$ (10,889,693)	-4.61%
Construction in Progress	13,068,564	3,756,453	9,312,111	247.90%
Current assets, restricted assets and other noncurrent assets	59,379,493	33,058,258	26,321,235	79.62%
Total assets	297,866,518	273,122,865	24,743,653	9.06%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Current liabilities	9,663,143	7,584,323	2,078,820	27.41%
Long-Term liabilities	<u>167,553,542</u>	<u>139,794,676</u>	<u>27,758,866</u>	19.86%
Total liabilities	<u>177,216,685</u>	<u>147,378,999</u>	<u>29,837,686</u>	20.25%
Net assets:				
Invested in capital assets, net of related debt	96,587,780	103,933,700	(7,345,920)	-7.07%
Restricted for debt service	13,387,621	9,327,892	4,059,729	
Unrestricted	<u>10,674,432</u>	<u>12,482,274</u>	<u>(1,807,842)</u>	-14.48%
Total net assets	<u>\$ 120,649,833</u>	<u>\$ 125,743,866</u>	<u>\$ (5,094,033)</u>	-4.05%

The increase in construction in progress during the current year was due to construction on new administrative building and engineering on new plant project. Total liabilities increased during the current year due to series 2012 bond issue.

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

Table 2
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	December 31, 2012	December 31, 2011	Increase (Decrease)	
			\$	%
Revenues				
Water service revenues	\$ 21,926,309	\$ 19,715,188	\$ 2,211,121	11.22%
Wastewater service revenue	8,415,829	7,540,570	875,259	11.61%
Other revenues	361,326	553,504	(192,178)	-34.72%
Total Operating Revenues	<u>30,703,464</u>	<u>27,809,262</u>	<u>2,894,202</u>	10.41%
Expenses				
Operating:				
Water operations	10,738,660	9,746,381	992,279	10.18%
Wastewater operations	3,360,757	3,811,147	(450,390)	-11.82%
Administrative and general:				
Water administrative and general	2,339,783	2,518,336	(178,553)	-7.09%
Wastewater administrative and general	938,917	879,662	59,255	6.74%
Depreciation and amortization				
Water depreciation and amortization	5,173,183	4,618,267	554,916	12.02%
Wastewater depreciation and amortization	2,546,178	2,497,440	48,738	1.95%
Total operating expenses	<u>25,097,478</u>	<u>24,071,233</u>	<u>1,026,245</u>	4.26%
Non-operating expenses:				
Water non operating expenses	(3,436,161)	(2,088,468)	(1,347,693)	64.53%
Wastewater non-operating expenses	(2,626,385)	(1,678,822)	(947,563)	56.44%
Total Non-operating expenses	<u>(6,062,546)</u>	<u>(3,767,290)</u>	<u>(2,295,256)</u>	60.93%
Total expenses	<u>31,160,024</u>	<u>27,838,523</u>	<u>3,321,501</u>	11.93%
Extraordinary item	-	(108,722)	108,722	-100.00%
Capital contributions	116,878	397,749	(280,871)	-70.62%
Change in net assets	(339,682)	259,766	(599,448)	-230.76%
Total net position - beginning	125,743,866	125,484,100	259,766	0.21%
Prior period adjustment	(4,754,351)	-	(4,754,351)	100.00%
Total net position - beginning (restated)	<u>120,989,515</u>	<u>125,484,100</u>	<u>(4,494,585)</u>	-3.58%
Total net position - ending	<u>\$ 120,649,833</u>	<u>\$ 125,743,866</u>	<u>\$ (5,094,033)</u>	-4.05%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating revenues showed a 10.41% increase from 2011 to 2012. Of this increase, 55% was due to additional volume sales and 45% due to rate adjustments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012 the system had \$238.49 million (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, distribution systems and their related equipment, and various types of equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as land, utility plant in service, and construction in progress.

The following tables summarizes the District's capital assets, net of accumulated depreciation, and changes therein, for the years ended December 31, 2012 and 2011. These changes are presented in detail in Note 3E to the financial statements.

Table 3
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	December 31, 2012	December 31, 2011	Increase (Decrease)	
			\$	%
Land	\$ 6,995,377	\$ 6,987,343	\$ 8,034	0.11%
Utility plant and service rights	218,423,084	229,320,811	(10,897,727)	-4.75%
Construction in progress	13,068,564	3,756,453	9,312,111	247.90%
Total capital assets	<u>\$ 238,487,025</u>	<u>\$ 240,064,607</u>	<u>\$ (1,577,582)</u>	-0.66%

Debt Administration

The District has outstanding bonds and notes payable of \$170.24 million as of December 31, 2012. Principal payments are due in the upcoming fiscal year in the amount of \$4.18 million with interest payments totaling \$7.58 million also due. Details relating to the outstanding debt can be found in Note 3F. The District also has no current plans to issue new debt or refund outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District will continue to function under the current operations. Management will continue to do everything possible to keep the customer costs as reasonable as possible and continue to maintain the District's financial position. The District is currently in the process of moving into a newly constructed administrative building which will allow the district to proceed with new construction and expansion to the water plant surrounding the old administrative building in the coming years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the commissioners at the mailing address of P.O. Box 210319, Nashville, Tennessee 37221, or by telephone at (615) 352-7076.

HARPETH VALLEY UTILITIES DISTRICT
STATEMENT OF NET POSITION
December 31, 2012

ASSETS	<u>2012</u>
Current assets:	
Cash and cash equivalents	\$ 670,804
Accounts receivable - customer (less allowance of \$91,119 at December 31, 2012)	1,355,986
Other accounts receivable (less allowance of \$189,614 at December 31, 2012)	1,510,968
Inventory	1,549,987
Prepaid expenses	<u>142,914</u>
Total current assets	<u>5,230,659</u>
Restricted assets:	
Cash and cash equivalents	33,239,154
Investments	10,962,994
Accrued interest receivable	<u>11,675</u>
Total restricted cash accounts	<u>44,213,823</u>
Capital assets:	
Capital assets not being depreciated	
Land and land rights	6,995,377
Construction in progress	<u>13,068,564</u>
Total capital assets not being depreciated	<u>20,063,941</u>
Capital assets being depreciated	
Water and sewer plants	307,449,405
Service area rights purchased from Metropolitan Government	9,415,984
Less accumulated depreciation and amortization	<u>(98,442,305)</u>
Total capital assets being depreciated	<u>218,423,084</u>
Total capital assets	<u>238,487,025</u>
Other non-current assets:	
Board designated funds:	
Cash and cash equivalents	2,971,871
Investments	2,070,682
Annuities	<u>6,188</u>
Total Board designated funds	<u>5,048,741</u>
Cash surrender value of life insurance	934,897
Deferred bond issue costs, net	1,861,262
Prepaid interest and insurance cost	<u>2,090,111</u>
Total other non-current assets	<u>9,935,011</u>
Total Assets	<u>\$ 297,866,518</u>

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

HARPETH VALLEY UTILITIES DISTRICT
STATEMENT OF NET POSITION
December 31, 2012

	<u>2012</u>
LIABILITIES	
Current liabilities (payable from current assets):	
Accounts payable and accrued expenses	\$ 2,472,875
Accrued compensated absences	523,029
Current portion of bonds and notes payable	<u>393,176</u>
Total Current liabilities (payable from current assets)	<u>3,389,080</u>
Current liabilities payable from restricted assets:	
Current portion of long-term debt	3,788,631
Accrued construction costs and retainages	108,265
Accrued interest expense	<u>2,377,167</u>
Total Current liabilities payable from restricted assets:	<u>6,274,063</u>
Long-term Debt, Including Obligation to Metropolitan Government	<u>166,058,208</u>
Other Noncurrent liabilities:	
Retirement plan and deferred compensation	941,085
Customer advances	<u>554,249</u>
Total noncurrent liabilities	<u>1,495,334</u>
Total liabilities	<u>177,216,685</u>
NET POSITION	
Invested in capital assets, net of related debt	96,587,780
Restricted for debt service	13,387,621
Unrestricted	<u>10,674,432</u>
Total net position	<u>120,649,833</u>
Total Net Position and Liabilities	<u>\$ 297,866,518</u>

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

HARPETH VALLEY UTILITIES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
December 31, 2012

	<u>2012</u>
Operating revenues:	
Sales	\$ 30,342,138
Other operating revenue	<u>361,326</u>
Total operating revenues	<u>30,703,464</u>
Operating expenses:	
Plant salaries	3,575,993
Payroll taxes	264,535
Employee benefits	1,625,090
Repairs and maintenance	786,309
Transportation	84,846
Utilities	2,985,320
Chemical supplies	4,514,948
Miscellaneous	262,376
Administrative and general expenses	3,278,700
Provision for depreciation	<u>7,719,361</u>
Total operating expenses	<u>25,097,478</u>
Operating income (loss)	<u>5,605,986</u>
Non-operating revenue (expenses)	
Interest expense	(6,392,359)
Interest income	140,156
Capacity fees	145,185
Amortization	<u>44,472</u>
Total non-operating expense	<u>(6,062,546)</u>
Income (loss) before contributed capital	<u>(456,560)</u>
Capital contributions	<u>116,878</u>
	<u>116,878</u>
Change in net position	(339,682)
Total net position - beginning	125,743,866
Prior period adjustment	<u>(4,754,351)</u>
Total net position - beginning (restated)	120,989,515
Total net position - ending	\$ 120,649,833

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

HARPETH VALLEY UTILITIES DISTRICT
STATEMENTS OF CASH FLOWS
December 31, 2012

	<u>2012</u>
Cash flows from operating activities:	
Cash received from customers	\$ 31,833,288
Cash payments to employees	(7,553,602)
Cash payments to suppliers	(9,088,867)
Net cash provided by (used in) operating activities	<u>15,190,819</u>
Cash flows from investing activities:	
Purchase of certificate of deposits	(5,962,994)
Maturity of certificate of deposits	3,170,501
Interest and dividends on investments	155,418
Sales (purchases) of investments	30,158
Decrease (increase) in cash surrender value of life insurance	204,303
Net cash provided by (used in) investing activities	<u>(2,402,614)</u>
Cash flows from capital and related financing activities:	
Principal paid on debt	(18,225,922)
New debt proceeds	46,185,427
Interest paid on debt	(5,993,722)
Capacity fees	145,185
Capital contributions	116,878
Accrued construction costs and retainages	67,165
Construction and acquisition of plant	(11,677,981)
Net cash provided by (used in) financing activities:	<u>10,617,030</u>
Increase (decrease) in cash and cash equivalents	23,405,235
Cash and cash equivalents - beginning	<u>13,476,594</u>
Cash and cash equivalents - ending	<u>36,881,829</u>
Cash and cash equivalents:	
Unrestricted cash and cash equivalents	670,804
Restricted cash and cash equivalents	33,239,154
Board designated cash and cash equivalents	2,971,871
Total cash and cash equivalents	<u>\$ 36,881,829</u>

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

HARPETH VALLEY UTILITIES DISTRICT
STATEMENTS OF CASH FLOWS
December 31, 2012

	<u>2012</u>
Reconciliation of operating income to net cash provided (used)	
by operating activities:	
Net operating income (loss)	\$ 5,605,986
Adjustments to reconcile net income to net cash	
provided by operating activities:	
Provision for depreciation	7,719,361
(Increase) decrease in current assets:	
Accounts receivable	1,129,824.00
Inventory	(671,550)
Prepaid expenses	306,829
Increase (decrease) in current liabilities:	
Accounts payable	1,135,171
Accrued vacation	15,888
Deferred income	(372,079)
Customer deposits	<u>321,389</u>
 Net cash provided by (used in) operating activities	 <u>\$ 15,190,819</u>

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

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Harpeth Valley Utilities District of Davidson and Williamson Counties, Tennessee (the "District") was incorporated on August 4, 1959 as a public corporation pursuant to the provisions of The Utility District Law of 1937 for the purpose of constructing, operating and maintaining a system for the furnishing of water and wastewater services for the public.

The financial statements of the Harpeth Valley Utilities District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to the governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

The Harpeth Valley Utilities District's general purpose financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name),
- The District holds the corporate powers of the organization,
- The District appoints a voting majority of the organization's board,
- The District is able to impose its will on the organization,
- The organization has the potential to impose a financial benefit/burden on the District, and
- There is fiscal dependency by the organization on the District.

Based on the aforementioned criteria, the Harpeth Valley Utilities District has no component units.

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The District's financial statements are reported using the economic resources measurement and focus and the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accounting policies of the District conform to applicable generally accepted accounting principles as defined in the pronouncements of the GASB. GASB Statement No. 20 gives governments the option of applying all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, to its proprietary funds, unless they conflict or contradict GASB

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

pronouncements. The District has elected to implement FASB statements and interpretations issued thereafter, unless they conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principle ongoing operations. The principle operating revenues of the District are sales of water and wastewater services as well as a broad range of ancillary services such as connection fees, inspection fees and availability fees. Operating expenses include costs to operate and maintain the District's treatment, distribution and collection assets including payroll expenses and employee benefits, repairs and maintenance expenses, chemical supplies, utilities and other expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Assets, Liabilities, and Deferred Outflows/Inflows of Resources and Net Position

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments held by the District are carried at fair market value. Gains or losses on investments disposed of are recorded to non-operating revenues or expenses.

State statutes authorize the District to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

Accounts Receivable

Trade receivables result from unpaid billings for water and wastewater service to customers. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible customer accounts recorded by the District is based on past history of uncollectible accounts and management's analysis of current accounts.

The District does not accrue the unbilled revenue receivable from the dates of the most recent meter readings to the statement of net position date.

Inventories and Prepaid Items

All inventories are valued at the lower of average cost or market, using the moving average cost method. The cost of such inventories is recorded as expensed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

Restricted Assets

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Certain cash accounts and investments are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The District's restricted assets consist of cash and cash equivalents, investments and accrued interest income on funds restricted for debt service and construction. The District elects to use restricted assets before unrestricted assets when the situation arises when either can be used.

Capital Assets

The property, plant, and equipment are stated at original cost including all direct cost of materials and labor during the construction period. All donated material is stated at the current fair market value.

The costs of replacements, normal maintenance, and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of the District are depreciated using the straight line method over the following useful lives:

Line rights	7 - 40 years
Water treatment rights	40 years
Source of supply plant	40 years
Water and wastewater treatment plants	13 - 50 years
Pumping plants	13 - 50 years
Transmission, distribution, and collection plants	16 - 50 years
General plant	6 - 50 years

Depreciation is calculated using either the unit or group method. The unit method is used for tanks, pumps and other specifically identifiable assets. The group method is used for most other depreciable assets. Gains or losses on sales or disposals of assets depreciated using the unit method, which are identifiable, are included in the operating results. When assets accounted for using the group method are disposed of, the cost of removal or proceeds from disposal of such are charged, or credited, to the allowance for depreciation and amortization.

The carrying value of long-lived assets held and used are reviewed whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. For purpose of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted net cash flows before consideration of interest expense. Should the sum of the expected future net cash flows be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The evaluation of asset impairment requires the District to make assumptions about future cash flows over the life of the asset being evaluated. Assets to be disposed of are reported at the lower of their carrying amount or fair value less costs to sell, and are no longer depreciated.

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

The District's policy is to capitalize assets with a historical cost of \$2,000 or more. Service area rights purchased from Metropolitan Government are amortized using the straight-line method over the term of the agreement (30 years).

Accrued Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits in conformity with GASB Statement No. 16, *Accounting for Compensated Absences*. The District accrues vacation and sick pay benefits as earned by its employees. This liability was \$523,029 at December 31, 2012.

Long-term Obligations

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Actual results from applying the straight-line method are not materially different from those that would result from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Fair Value Measurements

Assets and liabilities recorded at fair value in the balance sheets are categorized based on the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by ASC 820, Fair Value Measurements, are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Customer Advances

Customer advances are monies that are received from customers, in advance of construction. These monies are either 100% refundable, partially refundable, or are to be recorded to revenue by the District at a later date. Changes in customer advances are presented below:

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Customer advances at December 31, 2011	\$ 232,860
Advances collected	321,389
Advances refunded	-
Customer advances at December 31, 2012	<u>\$ 554,249</u>

Capital Contributions

Contributed utility plant is recorded in accordance with the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* and GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis' for State and Local Governments*. These statements require that capital contributions be recorded in the statement of revenue, expenses and changes in net position as a separate line item after non-operating revenues and expenses, rather than as direct additions to contributed capital, as under previous standards.

Deferred Outflows/Inflows of Resources

During the year ended December 31, 2012, the district adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of the statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred bond issue cost reported in the statement of net position. A deferred bond issue cost results from the difference in the carrying value of refunded debt and its acquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category as of December 31, 2012.

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. It is the Districts policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Net Position

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

- Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.
- Restricted for debt service – Consists of restricted cash and investments.
- Unrestricted - All other net position that do not meet the description of the above categories.

D. Use of Estimates

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

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The fiscal year 2012 budget was approved unanimously at the December 2011 Board meeting. The budget is not legally adopted but only used as a management tool.

NOTE 3 – DETAILED NOTES

A. Deposits and Investments

Custodial Credit Risk

The District's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statute authorizes the District to invest in obligations of the United States and its agencies and instrumentalities; bond or certificates of indebtedness of the State of Tennessee and its agencies and municipalities; interest bearing deposit accounts in financial institutions chartered in the State of Tennessee insured by an agency of the United States up to the amount thus insured and in larger amounts, provided such financial institutions pledge as security obligations of the United States having such value as may be satisfactory to the District. As of December 31, 2012, all bank deposits were fully covered by the collateral pool administered by the Treasurer of the State of Tennessee.

Investments

All certificates of deposit are either fully insured by the Federal Deposit Insurance Corporation or fully collateralized through the State of Tennessee collateral pool. All U.S. Treasury bills and notes and Federal Home Loan Bank notes are guaranteed by the Federal government.

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

The District's investments at December 31, 2012 and 2011 consist of the following:

	2012	2011
Certificates of deposit	\$ 10,962,994	\$ 8,170,501
Federal Home Loan and Similar Bank Notes	2,070,682	2,098,710
Total	\$ 13,033,676	\$ 10,269,211

At December 31, 2012, the future maturities of the District's investments are as follows:

Type of Investment	Carrying Amount	Maturity Fiscal 2013
Certificates of Deposit	\$10,962,994	\$10,962,994
Federal Home Loan and Similar Bank Notes	2,070,682	2,070,682
Total	\$13,033,676	\$13,033,676

Details of the District's classifications of the funds required by the Bond Indenture and Board designated categories are described below

	December 31, 2012		December 31, 2011	
Bond Funds:	Cost	Market	Cost	Market
Bond Funds				
Cash and cash equivalents	\$ 4,790,119	\$ 4,790,119	\$ 3,087,025	\$ 3,087,025
Debt Service Reserve				
Certificates of deposit	10,962,994	10,962,994	8,170,501	8,170,501
Proceeds held for construction				
Cash and cash equivalents	28,449,035	28,449,035	5,900,652	5,900,652
Accrued interest receivable	11,675	11,675	26,937	26,937
Total Restricted Assets	\$ 44,213,823	\$ 44,213,823	\$ 17,185,115	\$ 17,185,115
	December 31, 2012		December 31, 2011	
Board Designated Funds:	Cost	Market	Cost	Market
Cash and cash equivalents	\$ 2,971,871	\$ 2,971,871	\$ 2,213,912	\$ 2,213,912
Federal Home Loan and similar bank notes	2,072,769	2,070,682	2,099,933	2,098,710
Annuities	6,188	6,188	8,318	8,318
Total Board Designated Funds	\$ 5,050,828	\$ 5,048,741	\$ 4,322,163	\$ 4,320,940

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

At December 31, 2012, the District had bond construction expenses paid from unrestricted cash and cash equivalents and not reimbursed from restricted bond fund cash and cash equivalents until after year end in the amount of \$3,422,073.

B. Receivables

Receivables as of the fiscal year ends were made up of the following:

	2012	2011	Increase (Decrease)	
			\$	%
Billed service for utility customers	\$ 1,447,105	\$ 1,254,852	\$ 192,253	15.32%
Less: allowance for doubtful	(91,119)	(109,952)	18,833	-17.13%
Other accounts receivable	1,700,582	2,948,464	(1,247,882)	-42.32%
Less: other allowance for doubtful	(189,614)	-	(189,614)	-100.00%
Total	<u>\$ 2,866,954</u>	<u>\$ 4,093,364</u>	<u>\$ (1,226,410)</u>	-29.96%

Other receivables consist primarily of Federal Emergency Management Agency (FEMA) reimbursement amount receivable from expenses incurred during 2010 flood damages.

C. Restricted Assets

Restricted assets as of the fiscal year ends were made up of the following:

	2012	2011	Increase (Decrease)	
			\$	%
Cash and equivalents	\$ 33,239,154	\$ 8,987,677	\$ 24,251,477	269.83%
Investments	10,962,994	8,170,501	2,792,493	34.18%
Accrued interest receivable	11,675	26,937	(15,262)	-56.66%
Total	<u>\$ 44,213,823</u>	<u>\$ 17,185,115</u>	<u>\$ 27,028,708</u>	157.28%

Increase in cash and equivalents due primarily to unspent construction bond proceeds at December 31, 2012.

D. Net Position

Net position represents the difference between assets and liabilities and deferred outflows/inflows of resources. The restricted net position amounts were as follows:

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

	<u>2012</u>	<u>2011</u>
Invested in capital assets, net of related liabilities		
Net property, plant and equipment in services	\$ 238,487,025	\$ 240,064,607
Less: accrued construction costs and retainages	(108,265)	(41,100)
Long term debt (including current portion)		
net of unspent construction bond proceeds	<u>(141,790,980)</u>	<u>(136,089,807)</u>
Total net position invested in capital assets, net of related debt	<u>96,587,780</u>	<u>103,933,700</u>
Net position restricted for capital activity and debt service		
Restricted cash and equivalents	33,239,154	8,987,677
Restricted investments	10,962,994	8,170,501
Accrued interest income on restricted assets	11,675	26,937
Deductions:		
Unspent construction bond proceeds	(28,449,035)	(5,900,652)
Accrued interest expense payable from restricted assets	<u>(2,377,167)</u>	<u>(1,956,571)</u>
Total net position restricted for capital activity and debt service	<u>13,387,621</u>	<u>9,327,892</u>
Unrestricted net position	<u>10,674,432</u>	<u>12,482,274</u>
Total net position	<u>\$ 120,649,833</u>	<u>\$ 125,743,866</u>

Net position invested in capital assets net of related debt represents the utility plant in service that the District has full ownership of through settlement of the debt issued in order to obtain and construct those assets.

Net position restricted for capital activity and debt service represents assets owned by the District that have been restricted by the related bond issues or to be used in servicing the District's debt.

E. Capital Assets

Capital asset activity during the year was as follows:

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Description	Balance at December 31, 2011	Adjustments	Additions	Disposals	Reclassification	Balance at December 31, 2012
Capital assets, not being depreciated						
Land and land rights	\$ 6,987,343	\$ -	\$ 8,034	\$ -	\$ -	\$ 6,995,377
Construction in progress	3,756,453	-	9,791,758	-	(479,647)	13,068,564
Total Utility plant, not being depreciated	10,743,796	-	9,799,792	-	(479,647)	20,063,941
Capital assets, being depreciated						
Water and wastewater plants:						
Line rights	178,750	-	-	-	-	178,750
Water treatment rights	184,253	-	-	-	-	184,253
Source of supply plant	6,689	-	-	-	-	6,689
Water and wastewater treatment plants	102,228,143	-	739,285	-	315,798	103,283,226
Pumping plants	25,132,512	-	175,410	-	-	25,307,922
Transmission, distribution, and collection plant	169,908,660	-	831,964	-	163,849	170,904,473
General Plant	7,452,562	-	131,530	-	-	7,584,092
Intangible service area rights purchased from Metropolitan Government	9,415,984	-	-	-	-	9,415,984
Total utility plant, being depreciated	314,507,553	-	1,878,189	-	479,647	316,865,389
Accumulated depreciation	(85,186,742)	(5,536,202)	(7,719,361)	-	-	(98,442,305)
Total utility plant, being depreciated, net	229,320,811	(5,536,202)	(5,841,172)	-	479,647	218,423,084
Net utility plant	\$ 240,064,607	\$ (5,536,202)	\$ 3,958,620	\$ -	\$ -	\$ 238,487,025

Depreciation expense amounted to \$7,719,361 for the fiscal year ended December 31, 2012. Adjustment for prior years depreciation not depreciated, see note 4G for further information.

F. Long-term Debt

At year end, the District's long-term liabilities consisted of the following:

Utilities Revenue Bond, Series 1997 (\$931,783)

Purpose

The Series 1997 Bond were issued for the purpose of paying part of the cost of improvements and extensions to its water system.

Description of the Series 1997 Bonds

Principal and interest of \$5,867 is payable monthly until maturity. The interest rate on the unpaid balance is 5.125%. The last payment is due on September 13, 2036. The Series 1997 Bonds may be prepaid at any time.

Utilities Improvement Revenue Bonds, Series 1998

Purpose

The Series 1998 Bonds were issued for the purposes of providing funds to pay the cost of acquiring and constructing certain improvements to the District's water and wastewater

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

system, a portion of a debt service reserve fund, and certain expenses of issuing the Series 1998 Bonds.

The Refunding

In accordance with the Bond resolution, the proceeds from the Series 2005 Bonds, excluding the amounts to pay issuance expenses, were deposited in an escrow fund created pursuant to a Refunding Escrow Agreement dated May 24, 2005 for the purpose of defeasing a portion of the Series 1998 Bonds. The escrow agent has purchased direct obligations of the United States of America with the escrowed funds. The principal of and interest on the governmental securities will be sufficient to provide for payment until maturity or redemption, as applicable, of the principal and interest on the Series 1998 Serial Bonds with maturity dates on or after September 1, 2009 and all Term Bonds with maturity dates of September 1, 2020 and after. Neither the principal of, nor interest on, the governmental securities will be available for any purpose other than payment of the Series 1998 Bonds.

The deposit of the government securities to the Escrow Fund constitutes an irrevocable deposit for the benefit of the owners of the Refunded Bonds. The Refunded Bonds have been deemed paid and have ceased to be entitled to any lien, benefit or security. The District's obligations under the Refunded Bonds have been satisfied. The remaining Series 1998 Bonds which were not defeased are described below.

Description of the Series 1998 Bonds

Interest on both the 1998 Serial and Term Bonds is payable semiannually on each March 1 and September 1 until maturity or earlier redemption.

\$3,965,000 5.25% Term Bonds due September 1, 2017, Priced to Yield 4.85%

Mandatory Redemption (5.25% Term Bonds)

The 5.25% Term Bonds maturing September 1, 2017, are subject to mandatory redemption on the dates and in the amounts set forth below. The Term Bonds to be redeemed will be selected by the Registration Agent and will be redeemed at a redemption price equal to 100% of the principal amount, plus interest to the redemption date.

Term Bonds		
Maturity	Date of Redemption	Amount
September, 1 2017	September, 1 2015	\$ 1,255,000
	September, 1 2016	1,320,000
	September, 1 2017	1,390,000
		<u>\$ 3,965,000</u>

The mandatory redemptions are shown as principal reductions during the year of required redemption.

Utilities Improvement Revenue Bonds, Series 1998A

Purpose

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

The Series 1998A Bonds were issued for the purposes of providing funds to pay the cost of acquiring and constructing certain improvements to the District's wastewater system, a portion of a debt service reserve fund and certain expenses of issuing the Series 1998A Bonds.

The Refunding

In accordance with the Bond resolution, the proceeds from the Series 2005A Bonds, excluding the amounts to pay issuance expenses, were deposited in an escrow fund created pursuant to a Refunding Escrow Agreement dated June 22, 2005 for the purpose of defeasing the Series 1998A Bonds. The escrow agent has purchased direct obligations of the United States of America with the escrowed funds. The principal of, and interest on, the governmental securities will be sufficient to provide for payment until maturity or redemption, as applicable, of the principal and interest on the Refunded Bonds. Neither the principal of, nor interest on, the governmental securities will be available for any purpose other than payment of the Series 1998A Bonds.

The deposit of the government securities to the Escrow Fund constitutes an irrevocable deposit for the benefit of the owners of the Refunded Bonds. The Refunded Bonds have been deemed paid and have ceased to be entitled to any lien, benefit or security. The District's obligations under the Refunded Bonds have been satisfied.

Description of the Series 1998A Bonds

Interest on both the 1998A Serial and Term Bonds is payable semiannually on each March 1 and September 1 until maturity or earlier redemption.

In June 2005, the Utilities Improvement Revenue Bonds, Series 1998A, which totaled \$27,000,000, were defeased by the District. The Series 1998A Bonds were refunded with the Utilities Revenue Refunding Bonds Series 2005A, totaling \$28,815,000. Under the Series 2005A Refunding Escrow Agreement, the Series 1998A Bonds were legally defeased by the District. The loss on refunding of \$567,946 has been netted against the Series 2005A Bonds and will be amortized over the life of the Series 2005A Bonds until maturity. Refunding the 1998A bonds created savings of approximately \$300 thousand in debt service payments per year over the life of the bonds.

Utility Revenue Improvement Bonds, Series 2004

Purpose

The Series 2004 Bonds were issued for the purposes of providing funds to pay the cost of acquiring and constructing certain improvements to the District's water and wastewater system and certain expenses of issuing the Series 2004 Bonds.

Description of the Series 2004 Bonds

Interest on both the 2004 Serial and Term Bonds is payable semiannually on each March 1 and September 1 until maturity or earlier redemption.

\$15,435,000 Serial Bonds

The Serial Bonds bear interest at the rates and mature on the dates set forth below:

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Maturity	Amount	Rate	Price or Yield
September, 1 2013	\$ 925,000	3.125	3.420
September, 1 2014	975,000	3.250	3.520
September, 1 2015	1,000,000	3.375	3.640
September, 1 2016	1,050,000	3.500	3.740
September, 1 2017	1,100,000	5.000	3.740
September, 1 2018	1,125,000	5.000	3.820
September, 1 2019	1,175,000	5.000	3.910
September, 1 2020	1,225,000	5.000	4.020
September, 1 2021	1,275,000	4.000	4.210
September, 1 2022	1,325,000	4.125	4.300
September, 1 2023	1,375,000	4.250	4.420
September, 1 2024	1,425,000	4.375	4.500
September, 1 2025	1,460,000	4.375	4.580
	<u>\$ 15,435,000</u>		

Optional Redemption

The Series 2004 Bonds maturing on or after September 1, 2015, are subject to redemption prior to maturity at the option of the District on or after September 1, 2014, in whole or in part at any time at par, plus accrued interest to the date of redemption.

If less than all the Bonds shall be called for redemption, the maturities to be redeemed shall be determined by the Registration Agent by lot or such other random manner as the Registration Agent shall elect.

\$3,115,000 4.50% Term Bonds due September 1, 2027, Priced to Yield 4.68%

Mandatory Redemption (4.50% Term Bonds)

The Series 2004 Bonds maturing September 1, 2027 are subject to mandatory redemption on the dates and in the amounts set forth below. The Term Bonds to be redeemed will be selected by the Registration Agent and will be redeemed at a redemption price equal to 100% of the principal amount, plus interest to the redemption date.

Series 2004 Bonds		
Maturity	Date of Redemption	Amount
September, 1 2027	September, 1 2026	\$ 1,525,000
	September, 1 2027	1,590,000
		<u>\$ 3,115,000</u>

The mandatory redemptions are shown as principal reductions during the year of required redemption.

\$3,410,000 5.00% Term Bonds due September 1, 2029, Priced to Yield 4.65%

Mandatory Redemption (5.00% Term Bonds)

The Series 2004 Bonds maturing September 1, 2029 are subject to mandatory redemption on the dates and in the amounts set forth below. The Term Bonds to be redeemed will be

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

selected by the Registration Agent and will be redeemed at a redemption price equal to 100% of the principal amount, plus interest to the redemption date.

Series 2004 Bonds		
Maturity	Date of Redemption	Amount
September, 1 2029	September, 1 2028	\$ 1,665,000
	September, 1 2029	1,745,000
		<u>\$ 3,410,000</u>

The mandatory redemptions are shown as principal reductions during the year of required redemption.

\$3,755,000 4.63% Term Bonds due September 1, 2031, Priced to Yield 4.78%

Mandatory Redemption (4.63% Term Bonds)

The Series 2004 Bonds maturing September 1, 2031 are subject to mandatory redemption on the dates and in the amounts set forth below. The Term Bonds to be redeemed will be selected by the Registration Agent and will be redeemed at a redemption price equal to 100% of the principal amount, plus interest to the redemption date.

Series 2004 Bonds		
Maturity	Date of Redemption	Amount
September, 1 2031	September, 1 2030	\$ 1,835,000
	September, 1 2031	1,920,000
		<u>\$ 3,755,000</u>

The mandatory redemptions are shown as principal reductions during the year of required redemption.

\$6,325,000 5.00% Term Bonds due September 1, 2034, Priced to Yield 4.70%

Mandatory Redemption (5.00% Term Bonds)

The Series 2004 Bonds maturing September 1, 2034 are subject to mandatory redemption on the dates and in the amounts set forth below. The Term Bonds to be redeemed will be selected by the Registration Agent and will be redeemed at a redemption price equal to 100% of the principal amount, plus interest to the redemption date.

Series 2004 Bonds		
Maturity	Date of Redemption	Amount
September, 1 2034	September, 1 2032	\$ 2,005,000
	September, 1 2033	2,105,000
	September, 1 2034	2,215,000
		<u>\$ 6,325,000</u>

The mandatory redemptions are shown as principal reductions during the year of required redemption.

Utilities Revenue Refunding Bonds, Series 2005

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Purpose

The Series 2005 Bonds were issued on May 24, 2005 for the purpose of refunding a portion of the District's outstanding Utilities Improvement Revenue Bonds, Series 1998 and paying certain expenses incurred in connection with the issuance of the Series 2005 Bonds.

The Refunding

In accordance with the Bond resolution, the proceeds from the Series 2005 Bonds, excluding the amounts to pay issuance expenses, were deposited in an escrow fund created pursuant to a Refunding Escrow Agreement dated May 24, 2005 for the purpose of defeasing a portion of the Series 1998 Bonds. The escrow agent has purchased direct obligations of the United States of America with the escrowed funds. The principal of and interest on the governmental securities will be sufficient to provide for payment until maturity or redemption, as applicable, of the principal and interest on the Series 1998 Serial Bonds with maturity dates on or after September 1, 2009 and all Term Bonds with maturity dates of September 1, 2020 and after. Neither the principal of, nor interest on, the governmental securities will be available for any purpose other than payment of the Series 1998 Bonds.

The deposit of the government securities to the Escrow Fund constitutes an irrevocable deposit for the benefit of the owners of the Refunded Bonds. The Refunded Bonds have been deemed paid and have ceased to be entitled to any lien, benefit or security. The District's obligations under the Refunded Bonds have been satisfied.

Description of the Series 2005 Bonds

Interest on the Series 2005 Bonds is payable semiannually on each March 1 and September 1 until maturity.

\$17,460,000 Serial Bonds

The Serial Bonds bear interest at the rates and mature on the dates set forth below:

Maturity	Amount	Price or	
		Rate	Yield
September, 1 2013	\$ 1,100,000	4.000	3.500
September, 1 2014	1,140,000	3.375	3.600
September, 1 2018	1,395,000	5.000	3.880
September, 1 2019	1,460,000	5.000	3.930
September, 1 2020	1,535,000	5.000	3.980
September, 1 2021	1,610,000	4.500	4.220
September, 1 2022	1,680,000	4.500	4.270
September, 1 2023	1,760,000	4.500	4.290
September, 1 2024	1,840,000	5.000	4.210
September, 1 2025	1,930,000	4.125	4.350
September, 1 2026	2,010,000	4.250	4.410
	<u>\$ 17,460,000</u>		

Optional Redemption

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

The Series 2005 Bonds maturing on or after September 1, 2018, are subject to redemption prior to maturity at the option of the District on or after September 1, 2015, in whole or in part at any time at par, plus accrued interest to the date of redemption.

If less than all the Bonds shall be called for redemption, the maturities to be redeemed shall be determined by the Registration Agent by lot or such other random manner as the Registration Agent shall elect.

\$4,280,000 4.375% Term Bonds due September 1, 2028, Priced to Yield 4.510%

Mandatory Redemption (4.375% Term Bonds)

The Series 2005 Bonds maturing September 1, 2028 are subject to mandatory redemption on the dates and in the amounts set forth below. The Term Bonds to be redeemed will be selected by the Registration Agent and will be redeemed at a redemption price equal to 100% of the principal amount, plus interest to the redemption date.

Series 2005 Bonds		
Maturity	Date of Redemption	Amount
September, 1 2028	September, 1 2027	\$ 2,095,000
	September, 1 2028	2,185,000
		<u>\$ 4,280,000</u>

The mandatory redemptions are shown as principal reductions during the year of required redemption.

Utilities Revenue Refunding Bonds, Series 2005A

Purpose

The Series 2005A Bonds were issued on June 22, 2005 for the purpose of refunding the District's outstanding Utilities Improvement Revenue Bonds, Series 1998A and paying certain expenses incurred in connection with the issuance of the Series 2005A Bonds.

The Refunding

In accordance with the Bond resolution, the proceeds from the Series 2005A Bonds, excluding the amounts to pay issuance expenses, were deposited in an escrow fund created pursuant to a Refunding Escrow Agreement dated June 22, 2005 for the purpose of defeasing the Series 1998A Bonds. The escrow agent has purchased direct obligations of the United States of America with the escrowed funds. The principal of and interest on the governmental securities will be sufficient to provide for payment until maturity or redemption, as applicable, of the principal and interest on the Refunded Bonds. Neither the principal of, nor interest on, the governmental securities will be available for any purpose other than payment of the Series 1998A Bonds.

The deposit of the government securities to the Escrow Fund constitutes an irrevocable deposit for the benefit of the owners of the Refunded Bonds. The Refunded Bonds have been deemed paid and have ceased to be entitled to any lien, benefit or security. The District's obligations under the Refunded Bonds have been satisfied.

Description of the Series 2005A Bonds

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Interest on the Series 2005A Bonds is payable semiannually on each March 1 and September 1 until maturity.

\$20,165,000 Serial Bonds

The Bonds bear interest at the rates and mature on the dates set forth below:

Maturity	Amount	Rate	Price or Yield
September, 1 2013	\$ 1,215,000	3.250	3.390
September, 1 2014	1,255,000	3.250	3.480
September, 1 2015	1,295,000	5.000	3.560
September, 1 2016	1,360,000	3.500	3.660
September, 1 2017	1,405,000	3.500	3.730
September, 1 2018	1,455,000	4.250	3.980
September, 1 2019	1,520,000	4.500	4.030
September, 1 2020	1,585,000	4.500	4.090
September, 1 2021	1,660,000	4.750	4.090
September, 1 2022	1,735,000	4.750	4.140
September, 1 2023	1,820,000	4.000	4.180
September, 1 2024	1,890,000	4.000	4.200
September, 1 2025	1,970,000	4.125	4.250
	<u>\$ 20,165,000</u>		

Optional Redemption

The Series 2005A Bonds maturing on or after September 1, 2016, are subject to redemption prior to maturity at the option of the District on or after September 1, 2015, in whole or in part at any time at par, plus accrued interest to the date of redemption.

If less than all the Bonds shall be called for redemption, the maturities to be redeemed shall be determined by the Registration Agent by lot or such other random manner as the Registration Agent shall elect.

\$6,410,000 4.25% Term Bonds due September 1, 2028, Priced to Yield 4.37%

Mandatory Redemption (4.25% Term Bonds)

The Series 2005A Bonds maturing September 1, 2028 are subject to mandatory redemption on the dates and in the amounts set forth below. The Term Bonds to be redeemed will be selected by the Registration Agent and will be redeemed at a redemption price equal to 100% of the principal amount, plus interest to the redemption date.

Series 2005A Bonds		
Maturity	Date of Redemption	Amount
September, 1 2028	September, 1 2026	\$ 2,045,000
	September, 1 2027	2,135,000
	September, 1 2028	<u>2,230,000</u>
		<u>\$ 6,410,000</u>

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

The mandatory redemptions are shown as principal reductions during the year of required redemption.

Utility Revenue Improvement Bonds, Series 2007

Purpose

The Series 2007 Bonds were issued for the purposes of providing funds to pay the cost of acquiring and constructing certain improvements to the District's water and sewer system and certain expenses of issuing the Series 2007 Bonds.

Description of the Series 2007 Bonds

Interest on both the 2007 Serial and Term Bonds is payable semiannually on each March 1 and September 1 until maturity or earlier redemption.

\$4,740,000 Serial Bonds

The Serial Bonds bear interest at the rates and mature on the dates set forth below:

Maturity	Amount	Rate	Price or Yield
September, 1 2013	\$ 270,000	5.000	4.060
September, 1 2014	265,000	5.000	4.100
September, 1 2015	200,000	4.500	4.140
September, 1 2016	200,000	5.000	4.180
September, 1 2017	200,000	5.000	4.240
September, 1 2018	305,000	4.000	4.300
September, 1 2019	325,000	4.500	4.340
September, 1 2020	350,000	4.500	4.430
September, 1 2021	380,000	5.000	4.410
September, 1 2022	405,000	5.000	4.440
September, 1 2023	420,000	5.000	4.470
September, 1 2024	1,420,000	5.000	4.620
	<u>\$ 4,740,000</u>		

Optional Redemption

The Series 2007 Bonds maturing on or after September 1, 2018, are subject to redemption prior to maturity at the option of the District on or after September 1, 2017, in whole or in part at any time at par, plus accrued interest to the date of redemption.

If less than all the Bonds shall be called for redemption, the maturities to be redeemed shall be determined by the Governing Body in its discretion.

\$6,500,000 5.00% Term Bonds due September 1, 2031, Priced to Yield 4.590%

Mandatory Redemption (5.00% Term Bonds)

The Series 2007 Bonds maturing September 1, 2031 are subject to mandatory redemption on the dates and in the amounts set forth below. The Term Bonds to be redeemed will be

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

selected by the Registration Agent and will be redeemed at a redemption price equal to 100% of the principal amount, plus interest to the redemption date.

Series 2007 Bonds		
Maturity	Date of Redemption	Amount
September, 1 2031	September, 1 2024	\$ 455,000
	September, 1 2025	500,000
	September, 1 2026	530,000
	September, 1 2027	560,000
	September, 1 2028	580,000
	September, 1 2029	1,230,000
	September, 1 2030	1,290,000
	September, 1 2031	1,355,000
		<u>\$ 6,500,000</u>

The mandatory redemptions are shown as principal reductions during the year of required redemption.

\$4,700,000 5.00% Term Bonds due September 1, 2035, Priced to Yield 4.680%

Mandatory Redemption (5.00% Term Bonds)

The Series 2007 Bonds maturing September 1, 2035 are subject to mandatory redemption on the dates and in the amounts set forth below. The Term Bonds to be redeemed will be selected by the Registration Agent and will be redeemed at a redemption price equal to 100% of the principal amount, plus interest to the redemption date.

Series 2007 Bonds		
Maturity	Date of Redemption	Amount
September, 1 2035	September, 1 2033	\$ 1,490,000
	September, 1 2034	1,565,000
	September, 1 2035	1,645,000
		<u>\$ 4,700,000</u>

The mandatory redemptions are shown as principal reductions during the year of required redemption.

\$3,540,000 5.25% Term Bonds due September 1, 2037, Priced to Yield 4.640%

Mandatory Redemption (5.25% Term Bonds)

The Series 2007 Bonds maturing September 1, 2037 are subject to mandatory redemption on the dates and in the amounts set forth below. The Term Bonds to be redeemed will be selected by the Registration Agent and will be redeemed at a redemption price equal to 100% of the principal amount, plus interest to the redemption date.

Series 2007 Bonds		
Maturity	Date of Redemption	Amount
September, 1 2037	September, 1 2036	\$ 1,725,000
	September, 1 2037	1,815,000
		<u>\$ 3,540,000</u>

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

The mandatory redemptions are shown as principal reductions during the year of required redemption.

\$10,610,000 5.25% Term Bonds due September 1, 2042, Priced to Yield 4.670%

Mandatory Redemption (5.25% Term Bonds)

The Series 2007 Bonds maturing September 1, 2042 are subject to mandatory redemption on the dates and in the amounts set forth below. The Term Bonds to be redeemed will be selected by the Registration Agent and will be redeemed at a redemption price equal to 100% of the principal amount, plus interest to the redemption date.

Series 2007 Bonds		
Maturity	Date of Redemption	Amount
September, 1 2042	September, 1 2038	\$ 1,910,000
	September, 1 2039	2,010,000
	September, 1 2040	2,115,000
	September, 1 2041	2,230,000
	September, 1 2042	2,345,000
		<u>\$ 10,610,000</u>

The mandatory redemptions are shown as principal reductions during the year of required redemption.

Subordinate Utilities Revenue Bonds, Series 2010 (\$9,485,000)

Purpose

The Series 2010 Bonds were issued primarily for the purposes of providing funds to pay in part the cost incurred in connection with the acquisition, construction, and equipping of extensions of and improvements to the District's water and wastewater systems and various offices and buildings of the District that serve the system.

Description of the Series 2010 Bonds

Interest on the Series 2010 Bonds is payable semiannually on each March 1 and September 1 until maturity or earlier redemption at an annual rate of 5%.

Optional Redemption

The Series 2010 Bonds are subject to redemption prior to maturity at the option of the District on or after September 1, 2012, in whole or in part at any time at par, plus accrued interest to the date of redemption.

If less than all the Bonds shall be called for redemption, the maturities to be redeemed shall be determined by the Registration Agent by lot or such other random manner as the Registration Agent shall elect.

Mandatory Redemption

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

The Series 2010 Bonds are subject to mandatory redemption on September 1, 2014. The Bonds will be redeemed at a redemption price equal to 100% of the principal amount, plus interest to the redemption date.

The bonds were redeemed during the 2012 fiscal year with the issuance of the Utilities District Refunding and Improvement Bonds, Series 2012A.

Utilities Revenue Bond, Series 2011 (\$5,000,000)

Purpose

The Series 2011 Bond was issued for the purpose of refunding the Series 2009 Bonds. The Series 2009 Bond was issued for the purpose of funding a portion of the required deposits for the District's debt service reserve fund. In 2009, the District sold the \$5 million bond to Pinnacle Financial Partners and deposited the proceeds, along with \$3,170,501 of its own funds, into certificates of deposit with Pinnacle. These funds constitute the total of the District's debt service reserve as required by the District's master bond resolution.

Description of the Series 2011 Bond

The Series 2011 Bond is taxable and interest is payable monthly at an annual rate of 4.25%. The bond matures on September 27, 2014. The Series 2011 Bond may be prepaid at any time.

The bonds were redeemed during the 2012 fiscal year.

Utilities District Refunding and Improvement Bonds, Series 2012A

Purpose

The Series 2012A Bonds were issued on July 10, 2012 for the purpose of (i) retiring the District's Subordinate Utilities Revenue Bonds, Series 2010; (ii) pay cost incurred in acquiring, construction and equipping improvements to the District's waterworks and sewer system; (iii) pay capitalized interest during construction on the portion of the Series 2012A Bonds financing such improvements; (iv) fund the Reserve Fund in the maximum amount permitted by federal tax law; and (v) pay cost of issuing the Series 2012 A Bonds.

Description of the Series 2012A Bonds

Interest on the Series 2012A Bonds is payable semiannually on each March 1 and September 1 until maturity.

Optional Redemption

The Series 2012A Bonds maturing on or after September 1, 2030, are subject to redemption prior to maturity at the option of the District on or after September 1, 2015, in whole or in part at any time at par, plus accrued interest to the date of redemption.

If less than all the Bonds shall be called for redemption, the maturities to be redeemed shall be determined by the Governing Body in its discretion.

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

\$6,950,000 4.00% Term Bonds due September 1, 2030, Priced to Yield 3.400%

Mandatory Redemption (4.00% Term Bonds)

The Series 2012A Bonds maturing September 1, 2030 are subject to mandatory redemption on the dates and in the amounts set forth below. The Term Bonds to be redeemed will be selected by the Registration Agent and will be redeemed at a redemption price equal to 100% of the principal amount, plus interest to the redemption date.

Series 2012A Bonds		
Maturity	Date of Redemption	Amount
September, 1 2030	September, 1 2023	\$ 410,000
	September, 1 2024	425,000
	September, 1 2025	445,000
	September, 1 2026	460,000
	September, 1 2027	475,000
	September, 1 2028	495,000
	September, 1 2029	2,080,000
	September, 1 2030	2,160,000
		<u>\$ 6,950,000</u>

The mandatory redemptions are shown as principal reductions during the year of required redemption.

\$4,590,000 4.25% Term Bonds due September 1, 2032, Priced to Yield 3.350%

Mandatory Redemption (4.25% Term Bonds)

The Series 2012A Bonds maturing September 1, 2032 are subject to mandatory redemption on the dates and in the amounts set forth below. The Term Bonds to be redeemed will be selected by the Registration Agent and will be redeemed at a redemption price equal to 100% of the principal amount, plus interest to the redemption date.

Series 2012A Bonds		
Maturity	Date of Redemption	Amount
September, 1 2032	September, 1 2031	\$ 2,245,000
	September, 1 2032	2,345,000
		<u>\$ 4,590,000</u>

The mandatory redemptions are shown as principal reductions during the year of required redemption.

\$22,865,000 4.00% and 5.00% Term Bonds due September 1, 2040, Priced to Yield 4.080% and 3.500%

Mandatory Redemption (4.00% and 5.00% Term Bonds)

The Series 2012A Bonds maturing September 1, 2040 are subject to mandatory redemption on the dates and in the amounts set forth below. The Term Bonds to be redeemed will be selected by the Registration Agent and will be redeemed at a redemption price equal to 100% of the principal amount, plus interest to the redemption date.

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Series 2012A Bonds		
Maturity	Date of Redemption	Amount
September, 1 2040	September, 1 2033	\$ 2,445,000
	September, 1 2034	2,550,000
	September, 1 2035	2,665,000
	September, 1 2036	2,785,000
	September, 1 2037	2,905,000
	September, 1 2038	3,035,000
	September, 1 2039	3,170,000
	September, 1 2040	3,310,000
		<u>\$ 22,865,000</u>

The mandatory redemptions are shown as principal reductions during the year of required redemption.

\$7,050,000 4.00% Term Bonds due September 1, 2042, Priced to Yield 4.100%

Mandatory Redemption (4.00% Term Bonds)

The Series 2012A Bonds maturing September 1, 2042 are subject to mandatory redemption on the dates and in the amounts set forth below. The Term Bonds to be redeemed will be selected by the Registration Agent and will be redeemed at a redemption price equal to 100% of the principal amount, plus interest to the redemption date.

Series 2012A Bonds		
Maturity	Date of Redemption	Amount
September, 1 2042	September, 1 2041	\$ 3,455,000
	September, 1 2042	3,595,000
		<u>\$ 7,050,000</u>

The mandatory redemptions are shown as principal reductions during the year of required redemption.

Utilities Revenue Bonds, Series 2012B

Purpose

The Series 2012B Bonds were issued on July 10, 2012 for the purpose of (i) funding the balance of the Reserve Fund Requirement after taking into account the deposit thereto from the proceeds of the Series 2012A Bonds and other legally available funds of the District deposited thereto and (ii) pay the cost of issuing the Series 2012B Bonds.

Description of the Series 2012B Bonds

Interest on the Series 2012B Bonds is payable semiannually on each March 1 and September 1 until maturity.

\$1,315,000 Serial Bonds

The Serial Bonds bear interest at the rates and mature on the dates set forth below:

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Maturity	Amount	Rate	Price or Yield
September, 1 2013	\$ 320,000	1.250	1.250
September, 1 2014	325,000	1.500	1.500
September, 1 2015	335,000	1.750	1.750
September, 1 2016	335,000	2.000	2.000
	<u>\$ 1,315,000</u>		

\$2,210,000 3.00% Term Bonds due September 1, 2022, Priced to Yield 3.050%

Mandatory Redemption (3.00% Term Bonds)

The Series 2012B Bonds maturing September 1, 2022 are subject to mandatory redemption on the dates and in the amounts set forth below. The Term Bonds to be redeemed will be selected by the Registration Agent and will be redeemed at a redemption price equal to 100% of the principal amount, plus interest to the redemption date.

Series 2012B Bonds		
Maturity	Date of Redemption	Amount
September, 1 2022	September, 1 2017	\$ 340,000
	September, 1 2018	350,000
	September, 1 2019	365,000
	September, 1 2020	375,000
	September, 1 2021	385,000
	September, 1 2022	395,000
		<u>\$ 2,210,000</u>

The mandatory redemptions are shown as principal reductions during the year of required redemption.

Bond Resolutions

The 1993 Bond Resolution created and established various funds to include an Operating Account (classified as cash), a Bond Fund and a Debt Service Reserve Fund. The Series 1997, Series 1998, Series 2004, Series 2005, Series 2005A and Series 2007 Bonds, retained these funds, therefore, they are still required subsequent to refunding of the Series 1993 Bonds. The Bond and Debt Service Reserve Funds are classified as restricted assets (see Note B).

In 2005, the District purchased surety bonds to fulfill the debt service reserve requirements of all outstanding bonds. These insurance contracts eliminated the need for the District to fund the Debt Service Reserve. During 2008, however, bond ratings for the two insurers from which the District purchased surety bonds were downgraded below AAA rating. Upon this occurrence, according to the District's master bond resolution, the District had one year to self-fund its debt service reserve fund as if the contracts were not in effect. In 2009, the District funded the required amount using proceeds from the taxable Series 2009 Bond and \$3,170,501 of its own reserves.

In each of the District's bonds, the District covenanted and agreed to revise its rates, fees, and charges so that budgeted net revenue during any fiscal year will be at least 120% of the amounts required to be paid into the Bond Fund, the Surcharge Trust Account, and the

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Debt Service Reserve Fund in such fiscal year. "Net Revenue" is defined in the Bond Resolution and State Loan agreement to mean all revenue (including tapping privileges, meter, and hydrant fees previously reported as contributions in aid of construction), but excluding that portion of such revenues, rentals and income deposited in the Surcharge Trust Account less all operating expenses (exclusive of any provision for depreciation and amortization of financing expenses and interest expense), but excluding any profits or losses on the sale or disposition, not in the ordinary course of business, of investments in fixed or capital assets. The Series 1997, Series 1998, Series 2004, Series 2005, Series 2005A and Series 2007 retained these covenants. The District was in compliance with these covenants as of December 31, 2012.

SECURITY FOR THE SERIES 1997, SERIES 1998, SERIES 2004, SERIES 2005, SERIES 2005A AND SERIES 2007 BONDS

The Series 1997, Series 1998, Series 2004, Series 2005, Series 2005A, Series 2007, Series 2012A and Series 2012B Bonds are payable solely from and secured by a lien upon and pledge of the net revenue of the District's System as set forth pursuant to the provisions of the Bond Resolutions. The Bond Resolutions do not grant to holders of the Series 1997, Series 1998, Series 2004, Series 2005, Series 2005A, Series 2007, Series 2012A or Series 2012B Bonds any mortgage on or security interest in any real or personal property of the District other than the lien on the net revenue of the District's System and the statutory mortgage lien on said System. The Series 1997, 1998, 2004, 2005, 2005A, 2007, Series 2012A and 2012B Bonds are on parity with each other.

Obligation to Metropolitan Government

Under the terms of a settlement agreement with Metropolitan Nashville and Davidson County, (See Note G), the District has an obligation to the Metropolitan Government. The payments are fixed at \$62,500 per month through February 28, 2026. The obligation to Metropolitan Government is non-interest bearing, therefore the District has imputed interest at a rate of 6%.

The annual requirements, by type of issue, to amortize all long-term debt outstanding except accrued annual leave at December 31, 2012, are as follows:

Year Ending December 31,	Bonds		Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 3,850,978	\$ 7,178,768	\$ 352,344	\$ 397,656	\$ 4,203,322	\$ 7,576,424
2014	3,982,079	7,047,773	374,076	375,924	4,356,155	7,423,697
2015	4,108,238	6,917,539	397,148	352,852	4,505,386	7,270,391
2016	4,289,457	6,737,069	421,644	328,356	4,711,101	7,065,425
2017	4,460,740	6,565,436	447,649	302,350	4,908,389	6,867,786
2018-2022	25,545,434	29,593,869	2,688,073	1,061,927	28,233,507	30,655,796
2023-2027	31,745,151	23,402,440	2,106,407	206,094	33,851,558	23,608,534
2028-2032	29,035,872	16,398,763	-	-	29,035,872	16,398,763
2033-2037	26,129,719	9,797,877	-	-	26,129,719	9,797,877
2038-2042	27,175,000	3,855,801	-	-	27,175,000	3,855,801
	<u>\$ 160,322,668</u>	<u>\$ 117,495,335</u>	<u>\$ 6,787,341</u>	<u>\$ 3,025,159</u>	<u>\$ 167,110,009</u>	<u>\$ 120,520,494</u>

In 2013 capitalized interest payment of \$1,327,256 made on bonds.

Debt expense associated with the above bond issues was recorded as other assets and is being amortized on a straight-line basis over the life of the issue.

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

All significant debt covenants and restrictions as set forth in the bond agreements were complied with.

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Bonds Payable	\$ 133,236,715	\$ 44,980,000	\$ 17,894,047	\$ 160,322,668	\$ 3,850,978
Obligation to Metro Nashville	7,119,216	-	331,875	6,787,341	352,344
Unamortized Premium/(Discount)	2,043,122	1,686,017	447,247	3,281,892	167,573
Deferred Loss on Refunding	(408,594)	236,759	(19,949)	(151,886)	(10,818)
	<u>\$ 141,990,459</u>	<u>\$ 46,902,776</u>	<u>\$ 18,653,220</u>	<u>\$ 170,240,015</u>	<u>\$ 4,360,077</u>

NOTE 4 – OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During the year ended December 31, 2012, the District purchased commercial insurance for all of the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in the amount of coverage provided.

B. Subsequent Events

Management has evaluated subsequent events through March 29, 2013, the date in which the financial statements were available to be issued.

C. Retirement Plan

The District has a single-employer defined benefit pension plan covering substantially all of its employees that have reached the age of 21. Management of the assets is under the direction of New England Mutual Life Insurance Company. The report may be obtained by writing to New England Mutual Life, 501 Boylston Street, Boston, MA 02116-3700 or by calling (617) 578-6354. Benefit provisions are established and amended by the Board of Commissioners. Employees become fully vested after five years of participation. The benefits are based on 2% and 2.15% of average monthly earnings multiplied by years of qualified service before August 1, 1990, and after July 31, 1990, respectively.

The contribution requirement is determined annually by actuarial valuation. It is the intention of the District to pay the full cost of the plan as determined by actuarial valuation. Contributions are made monthly.

The annual required contribution for the current year was determined as a projection of the August 1, 2012 actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions included a pre-retirement interest rate of 7.5% and post-retirement rate of 7.0%. The salary increase assumption was 2.5% per year. For valuation purposes, assets were valued at market value. Under the aggregate actuarial cost method, there is no separate unfunded actuarial liability to be funded.

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

This plan uses the aggregate actuarial cost method which does not identify or separately amortize unfunded actuarial accrued liabilities. Information about the plan's funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose and the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

The District's annual pension cost and net pension obligation to the Plan for 2012, 2011, and 2010 are as follows:

	2012	2011	2010
Annual Required Contribution	764,915	754,205	801,220
Interest on net obligation	12,423	17,525	18,034
Adjustment to annual required contribution	<u>(14,122)</u>	<u>(19,602)</u>	<u>(20,377)</u>
annual pension cost	763,216	752,128	798,877
Contributions made	<u>(936,092)</u>	<u>(820,143)</u>	<u>(805,668)</u>
Decrease in net pension obligation	(172,876)	(68,015)	(6,791)
net pension obligation, beginning of year	<u>165,646</u>	<u>233,661</u>	<u>240,452</u>
Net pension obligation, end of year	<u><u>(7,230)</u></u>	<u><u>165,646</u></u>	<u><u>233,661</u></u>
Percentage of annual pension cost contributed	<u>122.7%</u>	<u>109.0%</u>	<u>100.9%</u>

As of August 1, 2012, the most recent actuarial valuation date, the plan was 55% percent funded. The actuarial accrued liability for benefits was \$7,609,380, and the actuarial value of assets was \$4,203,754, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,405,626. The covered payroll (annual payroll of active employees covered by the plan) was \$4,259,908, and the ratio of the UAAL to the covered payroll was 80%.

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

D. Deferred Compensation

The District has entered into deferred compensation agreements with several key employees totaling \$934,897 at December 31, 2012. Under the terms of these agreements, death and retirement benefits are funded by life insurance policies to which the District contributes 10% of each key employee's compensation every year. Retirement benefits are payable when the employee reaches age 65, if the employee is still employed by the District. These benefits are limited to ownership of the contract's underlying life insurance policy or the cash value of the policy at the time of the employee's retirement. Death benefits are paid to the employees' beneficiaries in an amount equal to the proceeds of the policy less the cash surrender value, which the District retains. All distributions under the agreements are made in one lump sum payment subsequent to the occurrence of death or retirement.

In accordance with the terms of deferred compensation agreements for certain retired employees, the District has purchased annuity contracts to fund the monthly deferred compensation payments to them. The amount of annuities payable to these retired employees and included in the retirement plan and deferred compensation liability was \$6,188 at December 31, 2012.

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

E. Settlement Agreement with Metropolitan Nashville and Davidson County

Metropolitan Nashville and Davidson County ("Metro") filed suit in 1989 against the District in the Chancery Court of Davidson County, Tennessee as a result of the District's disagreement as to the amount due relating to an approximate \$7 million assessment sought by Metro from the District in connection with past, present and future treatment of the District's wastewater and planned improvements to Metro's wastewater facilities.

On February 2, 1996, a Settlement Agreement between Metro and the District was executed and the lawsuits between the District and Metro were dismissed. The Agreement resolved certain disputes and controversies between Metro and the District related to (1) a "Trunk and Treatment Agreement" dated June 27, 1979, (2) certain capital costs of expanding certain Metro Facilities to treat the District's wastewater, and (3) resolution of ordinances No. R95-102 and No. 095-149.

As part of the Agreement, the District agreed to contribute toward additional infrastructure improvements that Metro had undertaken or will undertake pursuant to an Order of the Commissioner of the Tennessee Department of Environment and Conservation, dated March 30, 1990, which benefit all residents of Davidson County; and Metro agreed not, to the extent legally permissible to so commit, to proceed to take over or assume the District's water and wastewater customers residing in Davidson County, without the consent and agreement of the District, for 30 years after the date of the Settlement Agreement.

The District has accounted for the infrastructure portion of the settlement agreement as a non-interest bearing note payable to Metro. The District has imputed interest at a rate of 6%. A summary of future debt maturities is shown in Note 3(F) to the financial statements. In connection with the note payable, the District has recorded \$9,415,984 as "Service area rights" which is shown as a component of utility plant on the balance sheet.

F. FAIR VALUES OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the District's assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures and measurements at December 31, 2012:

	Carrying Amount	Estimated Fair Value	Assets/ Liabilities Measured at Fair Value	Fair Value Measurements Using		
				Level 1	Level 2	Level 3
2011:						
Cash, cash equivalents	36,881,829	36,881,829	36,881,829	36,881,829	-	-
Investments	13,033,676	13,033,676	13,033,676	13,033,676	-	-
Annuities	6,188	6,188	6,188	-	6,188	-

The following methods were used to estimate fair value of each class of significant financial instruments:

- Cash and Cash Equivalents (both restricted and nonrestricted)

HARPETH VALLEY UTILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Cash and cash equivalents are reflected at carrying value, which is considered their fair value.

- **Accounts Receivables, Accounts payable, and Accrued Expenses**
The carrying value approximates fair value due to the short-term nature of those instruments.
- **Investments and Annuities (both restricted and unrestricted)**
Fair value is estimated based upon quoted market prices, where available, and on Level 2 inputs.
- **Cash Surrender Value of Life Insurance**
The carrying value of cash surrender value of life insurance policies approximate its fair value.
- **Long-Term Debt, Including Obligation to Metropolitan Government**
Fair value is estimated based upon market prices, and discounted cash flow analysis based on the current incremental borrowing rate.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2012. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of the financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

G. Prior Period Adjustment

In 2012, the District determined that depreciation associated with water and wastewater plant assets had been under depreciated by \$5,536,202 in 2011. Therefore, restatements to the 2012 business-type activities financial statements were required. The result of this was a prior-year adjustment of \$5,536,202 and a restatement of the 2012 financial statements in the amount of \$5,536,202. The prior-period adjustment and the restatement represent a decrease in capital assets, an increase in expenses, and an offsetting reduction to the January 1, 2012 net assets.

In 2012, the District determined that inventory associated with water and wastewater assets had been understated by \$878,437 in 2011. Therefore, restatements to the 2012 business-type activities financial statements were required. The result of this was a prior-year adjustment of \$878,437 and a restatement of the 2012 financial statements in the amount of \$878,437. The prior-period adjustment and the restatement represent an increase in current assets, a decrease in expenses, and an offsetting increase to the January 1, 2012 net assets.

In 2012, the District determined that allowance for doubtful accounts associated with water and wastewater assets had been overstated by \$98,586 in 2011. Therefore, restatements to the 2012 business-type activities financial statements were required. The result of this was a prior-year adjustment of \$98,586 and a restatement of the 2012 financial statements in the amount of \$98,586. The prior-period adjustment and the restatement represent an decrease in current assets, and an offsetting reduction to the January 1, 2012 net assets.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

HARPETH VALLEY UTILITIES DISTRICT
DEFINED BENEFIT PLAN - SCHEDULE OF FUNDING PROGRESS
December 31, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio a/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
8/1/2012	\$ 4,203,754	\$ 7,609,380	\$ 3,405,626	55%	\$ 4,259,908	80%
8/1/2011	3,517,370	6,879,447	3,362,077	51%	4,120,638	82%
8/1/2010	3,824,874	7,194,891	3,370,017	53%	4,179,578	81%
8/1/2009	2,827,804	6,450,421	3,622,617	44%	4,125,393	88%
8/1/2008	1,627,028	6,390,175	4,763,147	25%	3,723,187	128%
8/1/2007	3,250,254	5,942,926	2,692,672	55%	3,562,858	76%
8/1/2006	2,803,385	5,474,576	2,671,191	51%	3,328,999	80%
8/1/2005	3,024,642	5,767,536	2,742,894	52%	3,365,386	82%
8/1/2004	2,431,830	5,082,624	2,650,794	48%	3,187,116	83%

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION SECTION

**HARPETH VALLEY UTILITIES DISTRICT
SCHEDULES OF OPERATING INCOME AND EXPENSES**

December 31, 2012

Operating revenues:	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Sales	\$ 21,926,309	\$ 8,415,829	\$ 30,342,138
Other operating revenues	<u>255,127</u>	<u>106,199</u>	<u>361,326</u>
Total operating revenues	<u>22,181,436</u>	<u>8,522,028</u>	<u>30,703,464</u>
Operating expenses:			
Plant salaries	2,413,355	1,162,638	3,575,993
Payroll taxes	175,879	88,656	264,535
Employee benefits	1,033,445	591,645	1,625,090
Repairs and maintenance	510,939	275,370	786,309
Transportation	67,703	17,143	84,846
Utilities	2,361,275	624,045	2,985,320
Chemical supplies	4,018,052	496,896	4,514,948
Miscellaneous	<u>158,012</u>	<u>104,364</u>	<u>262,376</u>
	<u>10,738,660</u>	<u>3,360,757</u>	<u>14,099,417</u>
Administrative and general expenses			
Office Salaries	780,993	507,438	1,288,431
Payroll Taxes	59,392	34,865	94,257
Employee Benefits	227,253	105,964	333,217
Office expenses and telephone	429,240	60,378	489,618
Insurance	162,064	73,783	235,847
Professional fees	508,080	131,101	639,181
Miscellaneous	<u>172,761</u>	<u>25,388</u>	<u>198,149</u>
Total administrative and general expenses	<u>2,339,783</u>	<u>938,917</u>	<u>3,278,700</u>
Provision for depreciation	<u>5,173,183</u>	<u>2,546,178</u>	<u>7,719,361</u>
Total operating expenses	<u>18,251,626</u>	<u>6,845,852</u>	<u>25,097,478</u>
Total operating income (loss)	<u>3,929,810</u>	<u>1,676,176</u>	<u>5,605,986</u>
Non-operating revenue (expense)			
Interest expense	(3,652,377)	(2,739,982)	(6,392,359)
Interest income	93,869	46,287	140,156
Capacity fees	69,440	75,745	145,185
Amortization	<u>52,907</u>	<u>(8,435)</u>	<u>44,472</u>
Total non-operating revenue (expense)	<u>(3,436,161)</u>	<u>(2,626,385)</u>	<u>(6,062,546)</u>
Charged to water treatment plant from waste water treatment plant	<u>(1,600,621)</u>	<u>1,600,621</u>	<u>-</u>
Income (loss) before contributed capital	<u>(1,106,972)</u>	<u>650,412</u>	<u>(456,560)</u>
Capital contributions	<u>66,640</u>	<u>50,238</u>	<u>116,878</u>
Excess of Revenues over Expenses	<u>\$ (1,040,332)</u>	<u>\$ 700,650</u>	<u>\$ (339,682)</u>

See independent auditor's report.

HARPETH VALLEY UTILITIES DISTRICT
SCHEDULE OF LONG-TERM DEBT
December 31, 2012

Year Ended December 31,	Utilities Revenue Bonds, Series 1997		Utilities Revenue Improvement Bonds, Series 1998		Utilities Revenue Improvement Bonds, Series 2004		Utilities Revenue Refunding Bonds, Series 2005		Utilities Revenue Refunding Bonds, Series 2005A	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	20,978	47,266	-	208,163	925,000	1,453,250	1,100,000	973,513	1,215,000	1,106,713
2014	22,079	46,165	-	208,163	975,000	1,424,344	1,140,000	929,513	1,255,000	1,067,225
2015	23,238	45,006	1,255,000	208,163	1,000,000	1,392,658	-	891,038	1,295,000	1,026,438
2016	24,457	43,787	1,320,000	142,275	1,050,000	1,358,906	-	891,038	1,360,000	961,688
2017	25,740	42,504	1,390,000	72,975	1,100,000	1,322,156	-	891,038	1,405,000	914,088
2018	27,091	41,153	-	-	1,125,000	1,267,156	1,395,000	891,038	1,455,000	884,913
2019	28,512	39,732	-	-	1,175,000	1,210,906	1,460,000	821,288	1,520,000	803,075
2020	30,008	38,236	-	-	1,225,000	1,152,156	1,535,000	748,288	1,585,000	734,675
2021	31,583	36,661	-	-	1,275,000	1,090,906	1,610,000	671,538	1,660,000	663,350
2022	33,240	35,004	-	-	1,325,000	1,039,906	1,680,000	599,088	1,735,000	584,500
2023	34,984	33,260	-	-	1,375,000	985,250	1,760,000	523,488	1,820,000	502,088
2024	36,820	31,424	-	-	1,425,000	926,813	1,840,000	444,288	1,890,000	429,288
2025	38,752	29,492	-	-	1,460,000	864,469	1,930,000	352,288	1,970,000	353,688
2026	41,670	27,459	-	-	1,525,000	800,594	2,010,000	272,675	2,045,000	272,425
2027	42,925	25,319	-	-	1,590,000	731,969	2,095,000	187,250	2,135,000	185,513
2028	45,178	23,066	-	-	1,665,000	660,419	2,185,000	95,594	2,230,000	94,775
2029	47,548	20,698	-	-	1,745,000	577,189	-	-	-	-
2030	50,043	18,201	-	-	1,835,000	489,919	-	-	-	-
2031	52,669	15,575	-	-	1,920,000	405,050	-	-	-	-
2032	55,434	12,811	-	-	2,005,000	316,250	-	-	-	-
2033	58,342	9,903	-	-	2,105,000	216,000	-	-	-	-
2034	61,404	6,842	-	-	2,215,000	110,750	-	-	-	-
2035	64,624	3,620	-	-	-	-	-	-	-	-
2036	35,349	499	-	-	-	-	-	-	-	-
2037	-	-	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-	-	-	-
2040	-	-	-	-	-	-	-	-	-	-
2041	-	-	-	-	-	-	-	-	-	-
2042	-	-	-	-	-	-	-	-	-	-
	\$ 932,668	\$ 673,681	\$ 3,965,000	\$ 839,739	\$ 32,040,000	\$ 19,796,994	\$ 21,740,000	\$ 10,182,963	\$ 26,575,000	\$ 10,564,442

HARPETH VALLEY UTILITIES DISTRICT
SCHEDULE OF LONG-TERM DEBT
December 31, 2012

Year Ended December 31,	Utilities Revenue Improvement Bonds, Series 2007		Utilities Revenue Refunding Improvement Bonds, Series 2012 ^A		Series 2012B Taxable		Obligation to Metropolitan		Total Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	270,000	1,532,450	-	1,769,875	320,000	87,738	352,344	397,658	4,203,322	7,576,424
2014	285,000	1,518,950	-	1,769,875	325,000	83,738	374,076	375,924	4,356,155	7,423,697
2015	200,000	1,505,700	-	1,769,875	335,000	78,863	397,148	352,852	4,505,386	7,270,391
2016	200,000	1,496,700	-	1,769,875	335,000	73,000	421,644	328,358	4,711,101	7,065,425
2017	200,000	1,486,700	-	1,769,875	340,000	68,300	447,649	302,350	4,908,389	6,867,786
2018	305,000	1,476,700	-	1,769,875	350,000	56,100	475,261	274,740	5,132,352	6,641,475
2019	325,000	1,464,500	-	1,769,875	365,000	45,600	504,572	245,427	5,378,084	6,400,203
2020	350,000	1,449,875	-	1,769,875	375,000	34,650	535,694	214,306	5,635,702	6,141,861
2021	380,000	1,434,125	-	1,769,875	385,000	23,400	568,734	181,266	5,910,317	5,870,921
2022	405,000	1,415,125	-	1,769,875	395,000	11,850	603,812	146,188	6,177,052	5,601,336
2023	420,000	1,394,875	410,000	1,769,875	-	-	641,054	108,946	6,461,038	5,317,582
2024	455,000	1,373,875	425,000	1,753,275	-	-	680,593	69,407	6,752,413	5,028,370
2025	500,000	1,351,125	445,000	1,736,275	-	-	722,570	27,430	7,066,322	4,714,767
2026	530,000	1,326,125	460,000	1,716,475	-	-	62,190	311	6,673,860	4,418,064
2027	560,000	1,299,625	475,000	1,700,075	-	-	-	-	6,897,925	4,129,751
2028	580,000	1,271,625	495,000	1,681,075	-	-	-	-	7,200,178	3,826,554
2029	1,230,000	1,242,625	2,080,000	1,661,275	-	-	-	-	5,102,548	3,501,765
2030	1,290,000	1,181,125	2,160,000	1,578,075	-	-	-	-	5,335,043	3,267,320
2031	1,355,000	1,116,625	2,245,000	1,491,875	-	-	-	-	5,572,689	3,028,925
2032	1,420,000	1,048,875	2,345,000	1,396,263	-	-	-	-	5,825,434	2,774,199
2033	1,490,000	977,875	2,445,000	1,296,600	-	-	-	-	6,098,342	2,500,378
2034	1,565,000	903,375	2,550,000	1,188,050	-	-	-	-	6,391,404	2,209,017
2035	1,645,000	825,125	2,665,000	1,074,800	-	-	-	-	4,374,624	1,903,545
2036	1,725,000	742,875	2,785,000	956,450	-	-	-	-	4,545,349	1,699,824
2037	1,815,000	652,313	2,905,000	832,800	-	-	-	-	4,720,000	1,485,113
2038	1,910,000	557,025	3,035,000	703,850	-	-	-	-	4,945,000	1,260,875
2039	2,010,000	456,750	3,170,000	569,200	-	-	-	-	5,180,000	1,025,950
2040	2,115,000	351,225	3,310,000	428,650	-	-	-	-	5,425,000	779,875
2041	2,230,000	240,188	3,455,000	282,000	-	-	-	-	5,685,000	522,188
2042	2,345,000	123,113	3,595,000	143,800	-	-	-	-	5,940,000	266,913
	\$ 30,090,000	\$ 33,217,189	\$ 41,455,000	\$ 41,659,088	\$ 3,525,000	\$ 561,239	\$ 6,787,341	\$ 3,025,159	\$ 167,110,009	\$ 120,520,484
										\$ 287,630,503

See independent auditor's report.

HARPETH VALLEY UTILITIES DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2012

	Grant Number	Federal CFDA No.	Balance 1/1/2012		Balance 12/31/2012	
			Receivables	Receipts	Expenditures	Receivables
Federal Awards						
United States Department of Homeland Security						
Federal Emergency Management Agency:						
Passed through the State of Tennessee						
Emergency Management Agency:						
Public Assistance - FEMA - 1909-DR-TN	34101-00000006267	97.036	\$ (2,948,464)	\$ 1,358,096	\$ 93,028	\$ (1,683,396)
Total Federal Awards			\$ (2,948,464)	\$ 1,358,096	\$ 93,028	\$ (1,683,396)

The above is reported under the modified accrual basis of accounting whereby revenues are recorded when measurable and expenses are recorded when the liability is incurred.

HARPETH VALLEY UTILITIES DISTRICT
WATER AND WASTEWATER RATES IN FORCE
December 31, 2012

Residential Rates		Utility/Municipal Rates	
Water Metered	Water Rate	Water Metered	Water Rate
Monthly Customer Charge	\$7.50	Monthly Customer Charge	\$7.50
First 3,000 gallons	2.00 per 1,000 gallons	First 1,000,000 gallons	2.18 per 1,000 gallons
Next 3,000 gallons	3.25 per 1,000 gallons	Next 24,000,000 gallons	2.18 per 1,000 gallons
Next 14,000 gallons	3.80 per 1,000 gallons	Next 25,000,000 gallons	2.18 per 1,000 gallons
Next 30,000 gallons	3.85 per 1,000 gallons	Next 50,000,000 gallons	2.18 per 1,000 gallons
Next 50,000 gallons	3.20 per 1,000 gallons	Next 100,000,000 gallons	2.18 per 1,000 gallons
All additional usage	3.20 per 1,000 gallons	All additional usage	2.18 per 1,000 gallons

Multi-Unit Residential Rates		Irrigation Rates	
Water Metered	Water Rate	Water Metered	Water Rate
Monthly Customer Charge	\$7.50	Monthly Customer Charge	\$7.50
First 25,000 gallons	3.08 per 1,000 gallons	First 25,000 gallons	3.61 per 1,000 gallons
Next 75,000 gallons	3.08 per 1,000 gallons	Next 25,000 gallons	3.61 per 1,000 gallons
Next 200,000 gallons	3.09 per 1,000 gallons	Next 50,000 gallons	3.61 per 1,000 gallons
Next 200,000 gallons	3.09 per 1,000 gallons	Next 100,000 gallons	3.61 per 1,000 gallons
Next 500,000 gallons	3.12 per 1,000 gallons	Next 300,000 gallons	3.61 per 1,000 gallons
All additional usage	3.12 per 1,000 gallons	All additional usage	3.61 per 1,000 gallons

Commercial Rates		Number of Customers	
Water Metered	Water Rate	Year ended	Water
Monthly Customer Charge	\$7.50	December 31, 2012	16,677
First 5,000 gallons	2.50 per 1,000 gallons	December 31, 2011	16,508
Next 5,000 gallons	3.25 per 1,000 gallons		
Next 40,000 gallons	3.60 per 1,000 gallons		
Next 50,000 gallons	3.25 per 1,000 gallons		
Next 200,000 gallons	3.10 per 1,000 gallons		
All additional usage	3.10 per 1,000 gallons		

See independent auditor's report.

HARPETH VALLEY UTILITIES DISTRICT

SCHEDULE OF UNACCOUNTED WATER - UNAUDITED

December 31, 2012

AWWA WLCC Free Water Audit Software: Reporting Worksheet									
Back to Instructions									
<div style="display: flex; justify-content: space-between;"> Water Audit Report for: Harpeth Valley Utilities District Reporting Year: 2012 <small>1/2012 - 12/2012</small> </div>									
<p>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.</p> <p style="text-align: center;">All volumes to be entered as: MILLION GALLONS (US) PER YEAR</p>									
WATER SUPPLIED									
<< Enter grading in column 'E'									
Volume from own sources:	<input type="text" value="7"/>	<input type="text" value="9,642.000"/>	Million gallons (US)/yr (MG/Yr)						
Master meter error adjustment (water positive value):	<input type="text" value="4"/>	<input type="text" value="0.000"/>	under-registered MG/Yr						
Water imported:	<input type="text" value="N/A"/>	<input type="text" value="0.000"/>	MG/Yr						
Water exported:	<input type="text" value="9"/>	<input type="text" value="7,001.000"/>	MG/Yr						
WATER SUPPLIED:		2,641.000	MG/Yr						
AUTHORIZED CONSUMPTION									
Billed metered:	<input type="text" value="7"/>	<input type="text" value="1,715.000"/>	MG/Yr						
Billed unmetered:	<input type="text" value="10"/>	<input type="text" value="0.000"/>	MG/Yr						
Unbilled metered:	<input type="text" value="10"/>	<input type="text" value="258.000"/>	MG/Yr						
Unbilled unmetered:	<input type="text" value="10"/>	<input type="text" value="33.013"/>	MG/Yr						
Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed									
AUTHORIZED CONSUMPTION:		2,006.013	MG/Yr						
WATER LOSSES (Water Supplied - Authorized Consumption)									
		634.988	MG/Yr						
Apparent Losses									
Unauthorized consumption:	<input type="text" value="5"/>	<input type="text" value="6.603"/>	MG/Yr						
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed									
Customer metering inaccuracies:	<input type="text" value="3"/>	<input type="text" value="103.842"/>	MG/Yr						
Systematic data handling errors:	<input type="text" value="5"/>	<input type="text" value="110.445"/>	MG/Yr						
Systematic data handling errors are likely; please enter a non-zero value; otherwise grade = 5									
Apparent Losses:		110.445	MG/Yr						
Real Losses (Current Annual Real Losses or CARL)									
Real Losses = Water Losses - Apparent Losses:	<input type="text" value="5"/>	<input type="text" value="524.543"/>	MG/Yr						
WATER LOSSES:		634.988	MG/Yr						
NON-REVENUE WATER									
NON-REVENUE WATER:	<input type="text" value="5"/>	<input type="text" value="926.000"/>	MG/Yr						
= Total Water Loss + Unbilled Metered + Unbilled Unmetered									
SYSTEM DATA									
Length of mains:	<input type="text" value="8"/>	<input type="text" value="386.0"/>	miles						
Number of active AND inactive service connections:	<input type="text" value="6"/>	<input type="text" value="16,716"/>							
Connection density:	<input type="text" value="5"/>	<input type="text" value="43"/>	conn./mile main						
Average length of customer service lines:	<input type="text" value="5"/>	<input type="text" value="20.0"/>	ft (pipe length between curbstop and customer meter or property boundary)						
Average operating pressure:	<input type="text" value="5"/>	<input type="text" value="115.0"/>	psi						
COST DATA									
Total annual cost of operating water system:	<input type="text" value="6"/>	<input type="text" value="\$13,028,125"/>	\$/Year						
Customer retail unit cost (applied to Apparent Losses):	<input type="text" value="7"/>	<input type="text" value="\$2.18"/>	\$/1000 gallons (US)						
Variable production cost (applied to Real Losses):	<input type="text" value="5"/>	<input type="text" value="\$417.89"/>	\$/Million gallons						
PERFORMANCE INDICATORS									
Financial Indicators									
Non-revenue water as percent by volume of Water Supplied:			<input type="text" value="35.14"/>						
Non-revenue water as percent by cost of operating system:			<input type="text" value="4.54"/>						
Annual cost of Apparent Losses:			<input type="text" value="5240,769"/>						
Annual cost of Real Losses:			<input type="text" value="5219,201"/>						
Operational Efficiency Indicators									
Apparent Losses per service connection per day:			<input type="text" value="18.10"/>						
Real Losses per service connection per day:			<input type="text" value="85.97"/>						
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="0.75"/>						
Unavoidable Annual Real Losses (UARL):			<input type="text" value="212.84"/>						
From Above, Real Losses = Current Annual Real Losses (CARL):			<input type="text" value="524.54"/>						
Infrastructure Leakage Index (ILI) [CARL/UARL]:			<input type="text" value="2.46"/>						
* only the most applicable of these two indicators will be calculated									
WATER AUDIT DATA VALIDITY SCORE:									
*** YOUR SCORE IS: 68 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: Customer metering inaccuracies									
3: Variable production cost (applied to Real Losses)									
For more information, click here to see the Grading Matrix worksheet									

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



Certified Public Accountants
Offices in Tennessee & Kentucky

227 Oil Well Rd.
Jackson, TN 38305

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Fax 731.424.5701
www.atacpa.net

**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
Harpeth Valley Utilities District
Nashville, 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 Harpeth Valley Utilities District, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Harpeth Valley Utilities District's basic financial statements, and have issued our report thereon dated March 29, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harpeth Valley Utilities 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 Harpeth Valley Utilities District's internal control. Accordingly, we do not express an opinion on the effectiveness of Harpeth Valley Utilities District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding 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. However, as described in the accompanying schedule of findings and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and recommendations as item 2012-01 to be a material weakness.

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.

Compliance and Other Matters

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

In addition, we noted other matters involving internal control and its operation that we have communicated to management of Harpeth Valley Utilities District in a separate letter dated March 29, 2013.

Harpeth Valley Utilities District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. The districts response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Alexander Remington Arnold PLLC

Jackson, Tennessee

March 29, 2013

HARPETH VALLEY UTILITIES DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
December 31, 2012

Current Year Findings:

2012-01 - Record keeping and reconciliation of capital assets and depreciation schedules

Condition:

Capital asset and depreciation schedules are not being adequately up dated, calculated and reconciled to subsidiary ledgers.

Criteria:

State of Tennessee financial reporting and internal control guidelines require that subsidiary ledgers are in agreement with the general ledger which suggests that reconciliations between the subsidiary and the general ledger be performed on a regular basis.

Cause of Condition:

Lack of an adequate system in place to properly prepare and account for capital assets and their related depreciation.

Effect of Condition:

The depreciation schedule did not agree with prior year audit report balances as well as current year general ledger balances resulting in a prior period adjustment for assets on the general ledger that were not being depreciated.

Client Response:

The District is in the process of implementing a better system to reconcile and maintain capital asset listings and depreciation schedules and are reconciling and tracking the capital asset listing and depreciation schedules on a monthly basis.

Prior year findings:

None reported.

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APPENDIX C

SUMMARY OF BOND RESOLUTION

The Utilities Revenue Refunding Bonds, Series 2013 (the “Series 2013 Bonds”) are authorized and issued pursuant to a resolution of the Board of Commissioners of the District adopted on February 21, 2013 (the “2013 Resolution”). The 2013 Resolution is supplementary to a resolution of the Board of Commissioners of the District adopted on March 22, 1993 (the “1993 Resolution”), authorizing the District’s Utilities Refunding Revenue Bonds, Series 1993, dated April 1, 1993, which have previously been refunded (the “Series 1993 Bonds”); a resolution adopted on September 12, 1997 (the “1997 Resolution”) authorizing the District’s outstanding Utilities Revenue Bond, Series 1997, dated August 13, 1998 (the “Series 1997 Bond”); a resolution adopted on August 24, 1998 (the “1998 Resolution”) authorizing the District’s outstanding Utilities Improvement Revenue Bonds, Series 1998 (the “Series 1998 Bonds”); a resolution adopted on October 27, 2003 (the “2003 Resolution”); a resolution adopted on September 27, 2004 (the “2004 Resolution”) authorizing the District’s outstanding Utilities Revenue Improvement Bonds, Series 2004 (the “Series 2004 Bonds”); a resolution adopted on February 28, 2005 (the “2005 Resolution”) authorizing the District’s outstanding Utilities Revenue Refunding Bonds, Series 2005 (the “Series 2005 Bonds”); a resolution adopted on June 1, 2005, authorizing the District’s outstanding Utilities Revenue Refunding Bonds, Series 2005A (the “Series 2005A Bonds”) and a resolution adopted on May 21, 2007, authorizing the District’s outstanding Utilities Revenue Refunding and Improvement Bonds, Series 2007 (the “Series 2007 Bonds”) and a resolution dated March 26, 2012, authorizing the District’s Utilities Revenue Bonds, Series 2012A (the “Series 2012A Bonds”) and the District’s Utilities Revenue Bonds, Series 2012B (the “Series 2012B Bonds”) . The 1993 Resolution, as supplemented and amended by the 1997 Resolution, the 1998 Resolution, the 2003 Resolution, the 2004 Resolution, the 2005 Resolution, the 2005A Resolution, the 2007 Resolution, the 2012 Resolution and the Series 2013 Resolution, is hereinafter referred to as the “Resolution.” The terms of the Resolution are equally applicable to the Series 1997 Bond, the Series 1998 Bonds, the Series 2004 Bonds, the Series 2005 Bonds, the Series 2005A Bonds, the Series 2007 Bonds, the Series 2012A Bonds, the Series 2012B Bonds and the Series 2013 Bonds.

Definitions

For purposes of this discussion and as used hereinafter, the following capitalized terms shall have the following meanings.

“Acquired System” shall mean any water procurement, treatment, storage or distribution system or sewage collection, transmission or treatment system, or combination thereof which the District may now or hereafter be authorized by State law or its order of incorporation to own and operate which is acquired by the District pursuant to State law, which, at the election of the Governing Body, may be included within the System as defined herein and become a part thereof or, at the election of the Governing Body, not become a part of the System but be operated as a separate and independent system by the Governing Body with the continuing right, upon the election of the Governing Body, to incorporate such separately operated acquired system into the System;

“Board” shall mean the Board of Commissioners of the District;

“Bonds” shall mean the Series 1997 Bond, the Series 1998 Bonds, the Series 2004 Bonds, the Series 2005 Bonds, the Series 2005A Bonds, the Series 2007 Bonds, the Series 2013 Bonds and any Parity Bonds so long as any such Bonds are issued and outstanding and have not been paid in full or discharged and defeased as described herein;

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

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

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

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

“Current Interest Bonds” shall mean bonds that pay interest semi-annually or at other periodic intervals of not greater than one year;

“Financial Guaranty Agreement” shall mean any Financial Guaranty Agreement executed and delivered in connection with a Reserve Fund Credit Facility;

“Fiscal Year” means the twelve-month period commencing January 1 of each year and ending December 31 of the same year;

“General Fund” means the General Fund established pursuant to Section 8 of the 1993 Resolution;

“Governing Body” means the Board of Commissioners of the District;

“Gross Earnings” 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, including tapping privileges and meter and hydrant fees reported as contributions in aid of construction; proceeds from the sale of property; proceeds of insurance and condemnation awards and compensation for damages, to the extent not applied to the payment of the cost of repairs, replacements and improvements; and all amounts realized from the investment of funds of the System, including money in any accounts and funds created by the Resolution and resolutions authorizing any Parity Bonds or subordinate lien bonds (excluding any investment earnings from construction or improvement funds created for the deposit of bond proceeds pending use, to the extent such income is applied to the purposes for which the bonds were issued, and funds created to defease any outstanding obligations of the District); provided, however, that the term “Gross Earnings” shall not include non-cash contributions in aid of construction; and provided further, that, at the election of the Governing Body, the term “Gross Earnings” as used herein shall not include any revenues, rentals,

earnings or other income received by the District from the operation of an Acquired System which is being operated as a separate system as permitted herein;

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

“Maturity Amount” shall mean the Compound Accreted Value on the stated maturity date of a Capital Appreciation Bond as shall be established by the resolution authorizing the Capital Appreciation Bond or any bond purchase agreement relating thereto;

“Maximum Annual Principal and Interest Requirement” shall mean the maximum amount of principal and Compound Accreted Value of and interest on the Bonds and Parity Bonds, including principal payable by reason of mandatory redemption, required to be paid during a Fiscal Year during the term of the Bonds and Parity Bonds; provided, with respect to Short-Term Indebtedness, the annual principal and interest requirement for purposes of this definition shall be calculated as that amount necessary to amortize the Short-Term Indebtedness in twenty approximately equal annual payments of principal and interest; provided (i) if interest on the Short-Term Indebtedness is intended to be excludable from gross income for purposes of federal income taxation, the interest rate for Short-Term Indebtedness shall be assumed to be an interest rate equal to the most recently published Twenty-Five Revenue Bond Index as published in The Bond Buyer (or comparable index if no longer published) plus fifty (50) basis points, or (ii) if interest on the Short-Term Indebtedness is not intended to be excludable from gross income for purposes of federal income taxation, the interest rate shall be assumed to be an interest rate equal to the most recently published rates on U.S. Treasury Obligations with comparable maturities as the Twenty-Five Revenue Bond Index, plus fifty (50) basis points. Any reimbursement or guaranty payment made to a Credit Facility Issuer pursuant to a Financial Guaranty Agreement shall not be included in the calculation of principal or interest for purposes of determining the Maximum Annual Principal and Interest Requirement;

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

“Parity Bonds” shall mean bonds, notes, Loan Agreements, and other debt obligations, including Short-Term Indebtedness and Variable Rate Bonds, issued or entered into by the District on a parity with the Bonds herein authorized in accordance with the restrictive provisions of the Resolution, provided in the event of the acquisition of any Acquired System, any bonds or other obligations secured by a pledge of and/or lien on such 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) may become Parity Bonds secured by a lien on the revenues of the System and the statutory mortgage lien on the System provided that the requirements of the Resolution are met with respect to such bonds and the terms of the resolution authorizing such bonds permit such and so long as the Acquired System is not being operated separately from the System as is permitted herein;

“Reserve Fund” means the Debt Service Reserve Fund established pursuant to Section 8(d) of the 1993 Resolution and described herein;

“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 the Reserve Fund Requirement in

the event of an insufficiency of moneys in the Bond Fund to pay when due principal of and interest on all or a portion of the Bonds and Parity Bonds;

“Reserve Fund Credit Facility Issuer” shall mean the issuer of a Reserve Fund Credit Facility rated in the highest rating category by Standard & Poor’s Rating Group, if rated by Standard & Poor’s, and Moody’s Investors Service, Inc., if rated by Moody’s and, A.M. Best & Company, if rated by A.M. Best & Company;

“Reserve Fund Requirement” means the least of (a) the Maximum Annual Principal and Interest Requirement on the Bonds and Parity Bonds (excluding Short-Term Indebtedness) during the term of the Bonds and Parity Bonds; (b) 125% of the average annual principal and interest requirement, including the payment of Compound Accreted Value when due, on a Fiscal Year basis, including principal payable by reason of the mandatory redemption provisions of any Bonds or Parity Bonds, on the Bonds and Parity Bonds (excluding Short-Term Indebtedness) during the term of the Bonds and Parity Bonds, or (c) 10% of the stated principal amount of the Bonds and Parity Bonds (excluding Short-Term Indebtedness), as from time to time interpreted under the Code;

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

“State” means the State of Tennessee;

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

“Variable Rate Indebtedness” shall mean any Parity Bonds, the interest rate on which is subject to periodic adjustment, at intervals, at such times and in such manner as shall be determined by resolution authorizing such Parity Bonds. For purposes of calculating the Reserve Fund Requirement, determining compliance with the covenant as to rates contained in the Resolution, and determining compliance with the requirements of the Resolution relating to the issuance of Parity Bonds, Variable Rate Indebtedness shall be assumed to bear interest at the highest of: (i) the actual rate on the date of calculation, or, if the indebtedness is not yet outstanding, the initial rate (if established and binding), (ii) if the indebtedness has been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii)(A) if interest on the Variable Rate Bonds is intended to be excludable from gross income for purposes of federal income taxation, an interest rate equal to the most recently published Twenty-Five Revenue Bond Index as published in The Bond Buyer (or comparable index if no longer published) plus fifty (50) basis points, or (B) if interest on the Variable Rate Bonds is not intended to be excludable from gross income for purposes of federal income taxation, an interest rate equal to the most recently published rates on direct U.S. Treasury Obligations with comparable maturities, plus fifty (50) basis points. For purposes of any rate covenant measuring actual debt service

coverage during a test period, Variable Rate Bonds shall be deemed to bear interest at the actual rate per annum applicable during the test period.

Funds and Application of Revenues

As long as any of the Bonds shall be outstanding and unpaid either as to principal or as to interest, or until the discharge and satisfaction of all the Bonds as provided in the Resolution, the entire revenues, rentals, earnings and income of the System shall be applied as summarized below. All such revenues, rentals, earnings and income of the System shall be deposited as collected in the General Fund and used only as follows:

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

(b) The next available money in the General Fund shall next be used to make deposits into a separate and special fund, to be known as the "Bond and Interest Sinking Fund," to be kept separate and apart from all other funds of the District and used to pay principal and Compound Accreted Value of and interest on the Bonds and Parity Bonds as the same become due, either by maturity or mandatory redemption. Such deposits shall be made monthly until the Bonds and Parity Bonds are paid in full or discharged and satisfied pursuant to the defeasance provisions of the Resolution summarized herein under the heading "Discharge and Satisfaction of Bonds". Each monthly deposit shall consist of an interest component and a principal component. The interest component shall be an amount equal to one-sixth (1/6th) of the interest coming due on the Current Interest Bonds and any Parity Bonds that are Current Interest Bonds then outstanding on the next succeeding interest payment date. The principal component shall be an amount which shall be established annually on each September 1 for all payments to be made during the ensuing twelve-month period commencing in September of each year and ending in August of the next year and shall be not less than one-twelfth (1/12) of the total of the Compound Accreted Value and principal amounts, as the case may be, coming due, whether by maturity or mandatory redemption, on the Bonds and Parity Bonds then outstanding during such twelve-month period. No further deposit shall be required when the Bond Fund balance is equal to or greater than the amount needed to pay interest on the next interest payment date and the total of the Compound Accreted Values or principal amounts payable, either by maturity or mandatory redemption, during the applicable twelve-month period. Notwithstanding the foregoing, deposits for payment of interest and principal on Variable Rate Indebtedness shall be made as set forth in the resolution authorizing such Variable Rate Indebtedness. Money in the Bond Fund shall be used solely and is hereby expressly and exclusively pledged for the purpose of paying principal and Compound Accreted Value of and interest on the Bonds and Parity Bonds.

(c) The next available money in the General 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.

(d) To the extent the Reserve Fund Requirement for the Bonds and Parity Bonds is not fully satisfied by a Reserve Fund Credit Facility or Facilities or funds of the District, or a combination thereof, the next available money in the General Fund shall be used to make deposits into a separate and special fund, to be known and designated as the "Debt Service Reserve Fund" to be kept separate and apart from all other funds of the District. No deposit shall be required to be made to the Reserve Fund unless the amount in the Reserve Fund, together with the Reserve Fund Credit Facility or Facilities, if any, becomes less than the Reserve Fund Requirement. In the event deposits to the Reserve Fund shall be required

pursuant to the preceding sentence, said deposits shall be payable monthly as hereafter provided and each deposit shall be in a minimum amount equal to 1/24th of the difference between the Reserve Fund Requirement and the amount in said Fund, together with the Reserve Fund Credit Facility or Facilities, if any, immediately following the occurrence of such deficiency, so that any deficiency in said Fund shall be replenished over a period of not greater than twenty-four (24) consecutive months; provided, any monthly payments in excess of said minimum payments shall be a credit against the next ensuing payment or payments. Any deposits required to be made hereunder shall be made monthly at the same time as deposits are made to the Bond Fund, commencing the first month in which the amount in the Fund, together with the Reserve Fund Credit Facility or Facilities, if any, is less than the Reserve Fund Requirement. All deposits to the Reserve Fund shall be made from the first money in the General Fund thereafter received which shall not then be required to pay Current Expenses, to be transferred into the Bond Fund, or to be paid to the Reserve Fund Credit Facility Issuer or Issuers as above provided. Money in the Reserve Fund shall be used solely for the purpose of paying principal or Compound Accreted Value of or interest on the Bonds and any Parity Bonds for the payment of which funds are not available in the Bond Fund.

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

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

In the event the Reserve Fund Requirement, or any part thereof, shall be satisfied with a Reserve Fund Credit Facility or Facilities, notwithstanding the terms of provisions of the Resolution summarized

under the heading “Discharge and Satisfaction of Bonds” herein, the terms, covenants, liability and liens provided or created herein or in any resolution supplemental hereto shall remain in full force and effect and said terms, covenants, liability and liens shall not terminate until all amounts payable under any Financial Guaranty Agreement have been paid in full and all obligations thereunder performed in full.

It shall be the responsibility of the Registration Agent to maintain adequate records, verified with the Reserve Fund Credit Facility Issuer or Issuers, as to the amount available to be drawn at any given time under the Reserve Fund Credit Facility or Facilities and as to the amounts paid and owing to the Reserve Fund Credit Facility Issuer or Issuers under the terms of any Financial Guaranty Agreement.

(e) If the District enters into an interest rate swap or other interest rate hedging transaction with respect to the payment of interest with respect to the Bonds or Parity Bonds, the amounts that the District pays or receives under such interest rate swap or other hedging transaction shall be taken into account in calculating the interest requirements on such Bonds or Parity Bonds. Such payments shall be made or such funds received at such times and in such amounts as shall be established by a supplemental resolution authorizing the interest rate swap or other hedging transaction. In the case of Variable Rate Indebtedness in which financial covenants are based on the synthetic fixed rate under a swap, utilization of the synthetic fixed rate under a swap for purposes of performing any required calculations under the applicable legal documentation shall be permitted only if such documentation and the applicable swap satisfy the following requirements:

1. The swap provider must be rated least A-/A3 or better by Standard & Poor’s and Moody’s (the “Initial Rating Requirement”).

2. Assuming satisfaction of the Initial Rating Requirement, and thereafter as long as the long-term indebtedness of the swap provider or the claims paying ability of the swap provider does not fall below Baa2 or BBB by either Standard & Poor’s or Moody’s (the “Minimum Rating Requirement”), all interest rate assumptions for purposes of establishing or demonstrating compliance with financial covenants (e.g., rate covenant, reserve requirement, additional bonds test) may be based upon the synthetic fixed interest rate under the swap.

3. Failure to maintain a swap provider holding the Minimum Rating Requirement or, if the issuer elects, failure to replace any such swap provider by another swap provider which holds the Initial Rating Requirement within ten business days, will have the following effects: (1) compliance with any required rate covenant for the preceding Fiscal Year will be based on the actual interest paid on the Variable Rate Indebtedness during such Fiscal Year without regard to the swap; (2) in the case of Reserve Fund Requirement, the amount required to be on deposit therein will be re-calculated based on the variable rate, calculated as of the date of original issuance of the Variable Rate Indebtedness and any resulting deficiency will be restored within the same twelve- (12) month restoration period established herein; and (3) any “forward-looking” financial covenant based upon “Debt Service,” “Annual Debt Service” or “Maximum Annual Debt Service” will be based upon the variable rate.

4. For short-dated swaps having terms or weighted average maturities of ten years or less, whereupon related bonds automatically convert to a pre-set fixed rate, the embedded swap provider must meet the Initial Rating Requirement. With respect to financial covenants, the synthetic fixed rate based on the swap may be utilized for purposes of demonstrating or establishing compliance with the applicable covenant. Failure to maintain a swap provider holding the Minimum Rating Requirement during the embedded swap period will require replacement of the Swap provider within ten business days. Failure to replace will require re-calculation of the applicable financial covenants as described above.

(f) Money thereafter remaining in the General Fund may be used to pay principal of and interest on (including reasonable reserves therefor) any bonds or other obligations payable from the revenues of the System but junior and subordinate in all respects to the Bonds.

(g) The next available money in the General Fund shall be used to fund such additional reserves and funds as in the judgment and determination of the Governing Body are necessary for the sound and prudent operation of the System.

(h) Money on deposit in the Funds described in this Section may be invested at the direction of 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 General 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 herein.

(i) The money in the General Fund shall be allotted and paid into the funds hereinbefore described in the order in which said funds are listed on a cumulative basis, and, if in any month the money in the General Fund shall be insufficient to place the required amount in said funds, the deficiency shall be made up in the following month or months after payment into all Funds enjoying a prior claim to the Revenues shall have been met in full.

(j) Money on deposit in the funds described above may be invested by the District in such investments as shall be permitted by applicable law, 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 credited to the General 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.

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

(l) All monies which the fiscal agent shall have withdrawn from any account or fund described above under its control, and holds for the payment of the principal of or interest on any Bonds, or shall have received from any other source and set aside, shall be held in trust for the respective holders of such bonds for five (5) years and after such period shall be paid to the District and any unpaid Bond owner shall look only to the District for payment thereof.

Charges for Services Supplied by the System

While the Bonds remain outstanding and unpaid, the District has covenanted and agreed 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 1998 Resolution.

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

General Covenants

Maintenance and Operation of the System. The District will maintain the System in good condition and operate the System in an efficient manner and at reasonable cost and conduct all activities associated therewith or incident thereto.

Insurance. The District will maintain insurance on properties of the System of a kind and in an amount that would normally be carried by private companies engaged in a similar type and size of business. The proceeds of any insurance, except public liability insurance, received by the District 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.

Accounting Records and Reports. The District will cause to be kept proper books and accounts adapted to the System, and shall cause the books and accounts to be audited at the end of each Fiscal Year by a recognized independent certified public accountant or firm of such accountants, and, upon request, will make generally available to the owners of any of the Bonds the audited financial statements 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 at least the following: (i) a statement in detail of the revenues and expenditures of the System and the excess of revenues over expenditures for the Fiscal Year; (ii) a statement showing beginning and ending balances of each fund described in the Bond Resolution; (iii) a balance sheet as of the end of the Fiscal Year; (iv) the accountants' comments regarding the manner in which the District has carried out the requirements of the Resolution and the accountants' recommendations with respect to any change or improvement in the operation of the System; (v) a list of the insurance policies in force at the end of the Fiscal Year, setting out as to each policy the amount of the policy, the risks covered, the name of the insurer and the expiration date of the policy; (vi) the number and classification of customer service connections to the System as of the end of the Fiscal Year; (vii) the disposition of any Bond proceeds during the Fiscal Year; and (viii) a statement as to all breaches or defaults by the District of its covenants 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.

The District will furnish copies of such audits to the owner of any of the Bonds, upon written request thereof, within 120 days after the close of each Fiscal Year. The owners of any of the Bonds shall have at all reasonable times the right to inspect the System and the records, accounts and data of the District relating thereto. If the District shall fail to provide such audits and reports, the owner or owners of twenty-five percent (25%) in principal amount of the outstanding Bonds may cause such audits and reports to be prepared at the expense of the District.

Performance of Duties. The District will faithfully and punctually perform all duties with reference to the System required by the constitution and laws of the State of Tennessee, including the making and collecting of reasonable and sufficient rates for the services rendered by the System as

provided by the Resolution, and will apply the revenues of the System to the purposes and Funds specified in the Resolution.

Rate Covenant. Prior to the commencement of each Fiscal Year, the Governing Body will cause to be made an estimate of the revenues and expenditures for the Fiscal Year next succeeding, based on rates then in effect, and, based on such estimate, the Governing Body shall adjust such rates to the extent necessary to produce Net Revenues for the next succeeding Fiscal Year (i) equal to not less than 1.20 times the amount of principal, Compound Accreted Value and interest payable during the next succeeding Fiscal Year on the outstanding Bonds, Parity Bonds, if any, and subordinate lien bonds, if any, whether by maturity or mandatory redemption, (ii) sufficient, in addition, to provide for any required deposits during the succeeding Fiscal Year to the Reserve Fund and any other funds established by the District pursuant to the 1998 Resolution, any resolution authorizing Parity Bonds or subordinate lien bonds or pursuant to sound and prudent operating practices as determined by the Governing Body, and (iii) sufficient to pay any amounts payable during such Fiscal Year under any Financial Guaranty Agreement or with respect to any Reserve Fund Credit Facility.

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

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

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

3. The abandonment, sale or disposition is for the purpose of disposing of facilities which are no longer necessary or no longer useful to the operation of the System and the operation of the System or 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; and

4. The District shall have received an opinion of recognized bond counsel to the effect that such sale, lease, mortgage or other disposition will not jeopardize the exclusion from federal income taxation of interest on any Bonds or Parity Bonds then outstanding intended to be excludable from gross income for federal income tax purposes.

Nothing herein is intended to prohibit the lease purchase of equipment or facilities of the System hereafter to be put in service or to prohibit the transfer or exchange of service areas to provide for more efficient

operation of the System so long as the District is in full compliance with the covenants set forth herein immediately following such transfer or exchange.

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

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

Competing Franchises. The District will not construct, finance or grant a franchise for the development or operation of facilities that compete for service with the services to be provided by the System or consent to the provision of any such services in the area currently served by the District by any other public or private entity and will take all steps necessary and proper, including appropriate legal action to prevent any such entity from providing such service; providing nothing contained 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 Master Bond Resolution immediately following such transfer or exchange.

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

Remedies of Bond Owners

Except as otherwise set forth in the Resolution, the owners of the Bonds and Parity Bonds shall have all the rights of action and remedies afforded by the common law, the constitution and statutes of the State of Tennessee and of the United States of America for the enforcement of payment of their Bonds and of the pledge of Net Revenues, and of all covenants of the District pursuant to the Resolution, including all the benefits and rights granted by the District Act relating to the creation of the statutory mortgage lien.

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

If any default be made in the payment of principal of, premium, if any, or interest on the Bonds, then upon the filing of suit by any registered owner of said Bonds, any court having jurisdiction of the

action may appoint a receiver to administer the System in behalf of the District with power to charge and collect rates sufficient to provide for the payment of all bonds and obligations outstanding against the System and for the payment of Current Expenses, and to apply the income and revenues thereof in conformity with the provisions of the Resolution.

Additional Bonds

The Resolution provides that the District shall issue no other bonds or obligations of any kind or nature payable from or enjoying a lien or claim on the revenues of the System having priority over the lien of the Bonds.

The Resolution further provides for the issuance of bonds on a parity with the Bonds under the following conditions, but not otherwise:

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

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

(c) For the purpose of refunding any outstanding Bonds or Parity Bonds, under circumstances not resulting in the defeasance of all of the Bonds and Parity Bonds, and/or extending, improving or replacing the System, and/or acquiring an Acquired System or any additional System improvements, if all of the following conditions shall have been met:

1. Either:

(A) the Net Revenues of the System for the most recent Fiscal Year for which the annual audit required by the terms hereof has been delivered must have been equal to at least 1.20 times the Maximum Annual Principal and Interest Requirement computed with respect to the bonds, notes, Loan Agreements or obligations proposed to be issued and all outstanding Bonds and Parity Bonds other than any Bonds or Parity Bonds intended to be refunded by the proposed additional bonds, notes, Loan Agreements or obligations, plus the amounts payable to the Reserve Fund pursuant to the requirements hereof and amounts payable under any Financial Guaranty Agreement and in connection with any Reserve Fund Credit Facility; provided, however, if the annual audit for

the most recent Fiscal Year has not been delivered within nine (9) months after the end of such Fiscal Year, Parity Bonds may not be issued pursuant to this subsection (c)(1)(A) unless the District obtains from the certified public accountant engaged by the District to audit its financial records a certification as the coverage required by this subparagraph; or

- (B) (i) the Net Revenues of the System for the most recent Fiscal Year for which the annual audit required by the terms hereof has been delivered must be equal at least to 1.20 times the Maximum Annual Principal and Interest Requirement computed with respect to the bonds, notes, Loan Agreements or obligations proposed to be issued and all outstanding Bonds and Parity Bonds other than any Bonds or Parity Bonds intended to be refunded by the proposed bonds, notes, Loan Agreements or obligations; provided, however, that if the annual audit for the most recent Fiscal Year has not been delivered within nine (9) months after the end of such Fiscal Year, Parity Bonds may not be issued pursuant to this subsection (c)(1)(B) unless the District obtains from the certified public accountant engaged by the District to audit its financial records a certification as the coverage required by this subparagraph; provided, further, that if prior to the issuance of such additional bonds, notes, Loan Agreements or obligations 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, notes, Loan Agreements or obligations, then the Net Revenues for the Fiscal Year immediately preceding the issuance of such additional bonds, notes, Loan Agreements or obligations, 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 (ii) the Net Revenues for each of the next three (3) Fiscal Years ending after the issuance of the additional bonds, notes, Loan Agreements or obligations, 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 1.20 times the Maximum Annual Principal and Interest Requirement computed with respect to the additional bonds, notes, Loan Agreements or obligations proposed to be issued and all outstanding Bonds and Parity Bonds other than any Bonds or Parity Bonds intended to be refunded by the proposed additional bonds, notes, Loan Agreements or obligations; provided, however, that if the proposed additional bonds, notes, Loan Agreements or obligations are to be issued for the acquisition or construction of any extension, improvement or replacement to the System or the acquisition of an Acquired System, then the estimate of Net Revenues may be for the next three (3) Fiscal Years ending after the time that such improvement, extension or replacement is expected to be placed in service and the period of construction thereof, subject to reduction in debt service during the period of construction in an amount

equal to any capitalized interest funded from proceeds of the additional bonds;

2. The payments required to be made into the Bond Fund and the Reserve Fund must be current;

3. The proceeds of the additional bonds, notes, Loan Agreements or obligations may be used only to (i) make improvements, extensions, renewals or replacements to the System or to refund Bonds or Parity Bonds, (ii) fund necessary reserves related thereto (iii) fund capitalized interest related to the additional bonds, notes, Loan Agreements or other obligations, and (iv) pay the costs and expenses of issuance and sale of the additional bonds.

All the provisions and covenants of the Resolution relating to negotiability and registration of Bonds, creation and investment of funds and the application of revenues, the operation of the System and charges for services of the System, the remedies of owners of the Bonds, the issuance of additional bonds or obligations, modification of the Resolution, the defeasance of Bonds, and such other provisions thereof as are appropriate may be incorporated by reference into supplemental resolutions authorizing additional bonds or obligations, and said provisions, when so incorporated, shall be equally applicable to the additional bonds or obligations issued pursuant to the terms of the Section summarized above 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 or obligations remain outstanding.

Resolution a Contract

The provisions of the Resolution will constitute a contract between the District and the owners of the Bonds and Parity Bonds shall not be amended, except as provided in the Resolution, until such time as all of the Bonds and Parity Bonds shall have been discharged and satisfied as provided in the Resolution.

Amendment of the Resolution

The Resolution may be amended without the consent of or notice to the registered owners of the Bonds for the purpose of curing any ambiguity or formal defect or omission therein.

The Resolution may also be amended if such amendment shall have been consented to by a majority in aggregate principal amount of the Bonds at any time outstanding (not including in any case any Bonds which may then be held or owned by or for the account of the District but including such refunding bonds as may have been issued for the purpose of refunding any of such Bonds if such refunding bonds shall not then be owned by the District) shall have the right from time to time to consent to and approve the adoption by the Governing Body of a resolution or resolutions modifying any of the terms or provisions contained in the Resolution; provided, however, that the Resolution may not be so modified or amended in such manner as to:

- (a) Make any change in the maturities or redemption dates of the Bonds;
- (b) Make any change in the rates of interest borne by the Bonds;
- (c) Reduce the amount of the principal payments or redemption premiums payable on the Bonds;

- (d) Modify the terms of payment of principal of or interest on the Bonds or impose any conditions with respect to such payments;
- (e) Affect the rights of the registered owners of less than all of the Bonds then outstanding;
- (f) Reduce the percentage of the principal amount of the Bonds the consent of the registered owners of which is required to effect a further modification.

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

Whenever at any time within one (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 Bonds then outstanding, which instrument or instruments shall refer to the proposed amendatory resolution described in said notice and shall specifically consent to and approve the adoption thereof, thereupon, but not otherwise, the District may adopt such amendatory resolution and such resolution shall become effective and binding upon the owners of all Bonds.

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

Any consent given by the registered owner of a Bond pursuant to the provisions of the Resolution 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 Bond and Parity Bond during such period. Such consent may be revoked at any time after six (6) months from the date of publication of such notice by the registered owner who gave such consent or by a successor in title by filing notice of such revocation at the District office, but such revocation shall not be effective if the registered owners of a majority in aggregate principal amount of the Bonds outstanding 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 the Section summarized hereby may be proved by the certificate of any officer in any jurisdiction who by the laws thereof is authorized to take acknowledgments of deeds within such jurisdiction, that the person signing such instrument acknowledged before him the execution thereof, or may be proved by an affidavit of a witness to such execution sworn to before such officer.

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

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, to wit:

1. by paying or causing to be paid, by depositing sufficient funds as and when required with the Registration Agent for the Bonds being retired, the principal of, premium, if any, and interest on such Bonds, as and when the same become due and payable; or
2. by depositing or causing to be deposited with any trust company or any financial institution which has trust powers and which is regulated by and the deposits of which are insured by the Federal Deposit Insurance Corporation or similar federal agency (an "Agent"; which may be the Registration Agent) in trust or escrow, at or prior to the maturity or redemption date of the Bonds, Federal Obligations in such amount as will, together with the income or increment to accrue thereon without consideration of any reinvestment thereof, be fully sufficient to pay or redeem such Bonds and to pay interest thereon until the maturity or redemption date; and/or
3. by delivering such Bonds to the Registration Agent for cancellation by it;

and if the District shall also pay or cause to be paid all other sums payable under the terms of the Resolution by the District with respect to such Bonds, or make adequate provision therefor, and by resolution of the Governing Body instruct any such Agent to pay amounts when and as required to the Registration Agent for payment of principal of and interest and redemption premiums, if any, on such Bonds when due, then and in that case the indebtedness evidenced by such Bonds shall be discharged and satisfied and all covenants, liens and pledges entered into, created, or imposed hereunder, including the pledge of and lien on the Net Revenues and the statutory mortgage lien set forth herein, shall be fully discharged and satisfied with respect to such Bonds and the owners thereof and shall thereupon cease, terminate and become void.

If the District shall pay and discharge the indebtedness evidenced by any such Bonds in the manner provided above then the registered owners thereof shall thereafter be entitled only to payment out of the money or Federal Obligations deposited as aforesaid.

Except as otherwise provided herein, neither Federal Obligations nor moneys deposited with the Agent pursuant to the Resolution nor principal or interest payments on any such Federal Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust or escrow for, the payment of the principal of and premium, if any, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Federal Obligations deposited with the 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 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 Federal Obligations maturing at times and in amounts sufficient to pay when due the principal and premium, if any, 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, to the extent not needed for the payment of such principal, premium and interest, shall be paid over to the District, as received by the Agent. For the purposes of the Section of the Resolution summarized above, Federal Obligations shall mean and include any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of Federal agencies to the extent unconditionally guaranteed by the United States of America, 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.

Nothing contained in the Section summarized above shall be construed to alter or change the redemption provisions set forth in the Resolution. No optional redemption privilege shall be exercised with respect to the Bonds except at the option and election of the District. The right of redemption set forth herein shall not be exercised by any Registration Agent or Agent unless expressly so directed in writing by an authorized representative of the District.

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APPENDIX D

DISCLOSURE CERTIFICATE

This Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered this ____ day of _____, 2013, by Harpeth Valley Utilities District of Davidson And Williamson Counties, Tennessee (the “District”), in connection with the issuance of \$29,225,000 in aggregate principal amount of its Utilities Revenue Refunding Bonds, Series 2013 (the “Series 2013 Bonds”). The District hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Beneficial Owners (as herein defined) of the Series 2013 Bonds and in order to assist the Participating Underwriter (as herein defined) in complying with the Rule (as herein defined).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution (as herein defined), which apply to any capitalized terms used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the District pursuant to the Rule and this Disclosure Certificate.

“Beneficial Owner” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2013 Bonds (including persons holding Series 2013 Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Series 2013 Bonds for federal income tax purposes.

“Fiscal Year” shall mean any period of twelve consecutive months adopted by the District as its fiscal year for financial reporting purposes and shall initially mean the period beginning on January 1 of each calendar year and ending December 31 of the next calendar year.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board, or any successor thereto. Currently, the MSRB’s address is:

MSRB
1900 Duke Street, Suite 600
Alexandria, VA 22314

As long as sanctioned by the Securities Exchange Commission, filings may be made electronically with the Electronic Municipal Market Access (“EMMA”) at such address as specified by the Municipal Securities Rulemaking Board.

“Official Statement” shall mean the Official Statement of the District relating to the Series 2013 Bonds.

“Participating Underwriter” shall mean Wiley Bros. – Aintree Capital, LLC.

“Resolution” shall mean the Resolution of the District pursuant to which the Series 2013 Bonds were issued, adopted on February 21, 2013 .

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of Tennessee.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule. As of the date of this Disclosure Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) Not later than 270 days after the end of the Fiscal Year, commencing with Fiscal Year 2013, the District shall provide an Annual Report to the State Repository, if any, and to the MSRB. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate. Notwithstanding the foregoing, the audited financial statements of the District may be submitted separately from the balance of the Annual Report when such audited financial statements are available. In the event that the audited financial statements are not included with the Annual Report and will be submitted at a later date, the District shall include unaudited financial statements of the District in the Annual Report and shall indicate in the Annual Report the date on which the audited financial statements of the District will be submitted. The audited financial statements of the District when available will be provided to the State Repository, if any, and to the MSRB. The Annual Report shall note if the accounting principles changed from the previous Fiscal Year and describe the impact of such change.

(b) The District shall also:

(i) determine each year prior to the date for providing the Annual Report the name and address of the State Repository, if any; and

(ii) if the Annual Report (or audited financial statements which were to be separately submitted) is not filed in accordance with subsection (a), send a notice to the MSRB and each State Repository, if any, in substantially the form attached as **Exhibit A**.

SECTION 4. Content of Annual Reports. The District’s Annual Report shall contain or incorporate by reference the following:

(a) When audited financial statements are available but at least annually, the audited financial statements of the District, such financial statements to be prepared in conformity with generally accepted accounting principles, as in effect from time to time. Such financial statements shall be accompanied by an audit report resulting from an audit conducted by an independent certified public accountant or firm of independent certified public accountants in conformity with generally accepted auditing standards.

(b) Summary of Operations for the preceding year in the format shown on page 4 of the Official Statement.

(c) The numbers and types of customers of the District's water system for the preceding year in the format shown on page A-9 of the Official Statement.

(d) The identity of the customers, the gallons sold, the percentage of water sales and the termination dates of the contracts for those customers who have entered into long term contracts with the District in the format provided on page A-10 of the Official Statement.

(e) The amount of water consumed by the District's customers during the previous year in the format provided on page A-10 of the Official Statement.

(f) The annual water billings of the District for the prior year in the format provided on page A-11 of the Official Statement.

(g) The number and type of sewer customers and the sewer usage for the prior year in the format provided in the tables on page A-11 of the Official Statement.

(h) The billings of the sewer system for the prior year in the format provided on page A-12 of the Official Statement.

(i) The debt service coverage for the preceding year in the format shown on page 12 of the Official Statement.

(j) The schedule of rates and charges for water and sewer services in the format provided on page A-14 of the Official Statement.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the District is an "obligated person" (as defined by the Rule), which have been filed in accordance with the Rule and the other rules of the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events:

(i) Principal and interest payment delinquencies;

(ii) Non-payment related default; if material;

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties;

(v) Substitution of credit or liquidity providers, or their failure to perform;

(vi) 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

security or other material events affecting the tax-exempt status of the Series 2013 Bonds;

- (vii) Modifications to rights of the security holders if material;
- (viii) Bond calls, if material, and tender options;
- (ix) Defeasances;
- (x) Release, substitution or sale of property securing repayment of the security, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (xiii) 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
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The District shall, in a timely manner not in excess of within ten business days after the occurrence of the event specified in Section 5(a) above, file a notice of such events with the MSRB through EMMA.

The content of any notice of the occurrence of a Listed Event shall be determined by the District and shall be in substantially the form attached as **Exhibit B**.

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the defeasance (within the meaning of the Rule), prior redemption or payment in full of all of the Series 2013 Bonds. The District shall notify the MSRB through EMMA that the District's obligations under this Disclosure Certificate have terminated. If the District's obligations are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Certificate in the same manner as if it were the District, and the original District shall have no further responsibility hereunder.

SECTION 7. Dissemination Agent. The District may, from time to time, appoint a dissemination agent to assist it in carrying out its obligations under this Disclosure Certificate, and the District may, from time to time, discharge the dissemination agent, with or without appointing a successor dissemination agent. If at any time there is not a designated dissemination agent, the District shall be the dissemination agent.

SECTION 8. Amendment. This Disclosure Certificate may not be amended unless independent counsel experienced in securities law matters has rendered an opinion to the District to the effect that the amendment does not violate the provisions of the Rule.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of any party to comply with this Disclosure Certificate shall be an action to compel performance. The cost to the District of performing its obligations under the provisions of this Disclosure Certificate shall be paid solely from funds lawfully available for such purpose.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The Dissemination Agent may consult with counsel (who may, but need not, be counsel for any party hereto or the District), and the opinion of such Counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such Counsel. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2013 Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Participating Underwriter, and Beneficial Owners from time to time of the Series 2013 Bonds, and shall create no rights in any other person or entity.

SECTION 13. Intermediaries; Expenses. The Dissemination Agent is hereby authorized to employee intermediaries to carry out its obligations hereunder. The Dissemination Agent shall be reimbursed immediately for all such expenses and any other reasonable expense incurred hereunder (including, but not limited to, attorney's fees).

SECTION 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 15. Governing Law. This Disclosure Certificate shall be governed by and construed in accordance with the laws of the State.

SECTION 16. Severability. In case any one or more of the provisions of this Disclosure Certificate shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect

any other provision of this Disclosure Certificate, but this Disclosure Certificate shall be construed and enforced as if such illegal or invalid provision had not been contained herein.

HARPETH VALLEY UTILITIES DISTRICT OF
DAVIDSON AND WILLIAMSON COUNTIES,
TENNESSEE

By: _____
President

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of District: Harpeth Valley Utilities District of Davidson And Williamson Counties,
Tennessee

Name of Bond Issue: Harpeth Valley Utilities District of Davidson And Williamson Counties,
Tennessee, Utilities Revenue Refunding Bonds, Series 2013

CUSIP Number¹:

Date of Issuance:

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report due with respect to the above-named Series 2013 Bonds as required by its Disclosure Certificate, dated _____, 2013. The District anticipates that the Annual Report will be filed by _____.

This notice is based on the best information available at the time of dissemination. Any questions regarding this notice should be directed to _____.

Dated: _____

HARPETH VALLEY UTILITIES DISTRICT OF
DAVIDSON AND WILLIAMSON COUNTIES,
TENNESSEE

By: _____
President

¹ No representation is made as to the correctness of the CUSIP number either as printed on the bonds or as contained herein, and reliance may only be placed on other bond identification contained herein.

EXHIBIT B

**NOTICE TO REPOSITORIES
OF THE OCCURRENCE OF [INSERT THE LISTED EVENT]**

Related to

**HARPETH VALLEY UTILITIES DISTRICT OF DAVIDSON AND WILLIAMSON COUNTIES,
TENNESSEE, UTILITIES REVENUE REFUNDING BONDS,
SERIES 2013¹**

CUSIP Number¹:

Notice is hereby given that [insert the Listed Event] has occurred. [Describe circumstances leading up to the event, action being taken and anticipated impact]

This notice is based on the best information available at the time of dissemination and is not guaranteed as to accuracy or completeness. Any questions regarding this notice should be directed to [insert instructions for presenting securities, if applicable].

Dated: _____

HARPETH VALLEY UTILITIES DISTRICT OF
DAVIDSON AND WILLIAMSON COUNTIES,
TENNESSEE

By: _____
President

¹ No representation is made as to the correctness of the CUSIP number either as printed on the bonds or as contained herein, and reliance may only be placed on other bond identification contained herein.

APPENDIX E

FORM OF OPINION OF BOND COUNSEL FOR THE SERIES 2013 BONDS

(Closing Date)

Harpeth Valley Utilities District of
Davidson and Williamson Counties, Tennessee
Nashville, Tennessee

Wiley Bros. – Aintree Capital, LLC
Nashville, Tennessee

Re: Harpeth Valley Utilities District of Davidson and Williamson Counties, Tennessee,
Utilities Revenue Refunding Bonds, Series 2013

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by Harpeth Valley Utilities District of Davidson and Williamson Counties, Tennessee (the “Issuer”) of \$29,225,000 Utilities Revenue Refunding Bonds, Series 2013, dated May 16, 2013 (the “Series 2013 Bonds”). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

1. The Series 2013 Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and constitute valid and binding obligations of the Issuer.
2. The resolution of the Board of Commissioners of the Issuer authorizing the Series 2013 Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with its terms.
3. The principal of and interest on the Series 2013 Bonds are payable solely from and secured by a pledge of revenues to be derived from the operation of the water and sewer system of the Issuer, subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring said system, and on a parity and equality of lien with the Issuer’s outstanding Utilities Revenue Bond, Series 1997, Utilities Improvement Revenue Bonds, Series 1998, Utilities Revenue Improvement Bonds, Series 2004, Utilities Revenue Refunding Bonds, Series 2005, Utilities Revenue Refunding Bonds, Series 2005A, Utilities Revenue Refunding and Improvement Bonds, Series 2007 and Utilities Revenue Bonds, Series 2012A and Utilities Revenue Bonds, Series 2012B (Federally Taxable). We express no opinion as to the sufficiency of such revenues for the payment of principal of and interest on the Series 2013 Bonds.

4. Interest on the Series 2013 Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for purposes of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2013 Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Series 2013 Bonds to be so included in gross income retroactive to the date of issuance of the Series 2013 Bonds. The Issuer has covenanted to comply with all such requirements. Except as set forth in this Paragraph 4, we express no opinion regarding other federal tax consequences arising with respect to the Series 2013 Bonds.

5. Under existing law, the Series 2013 Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on all or a portion of the interest on any of the Series 2013 Bonds during the period such Series 2013 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 Series 2013 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.

It is to be understood that the rights of the owners of the Series 2013 Bonds and the enforceability of the Bonds and the resolution authorizing the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Series 2013 Bonds.

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

Yours truly,

Bass Berry & Sims PLC