

# OFFICIAL STATEMENT

NEW ISSUE  
BOOK-ENTRY-ONLY

Ratings: S&P: “AA” (stable outlook) (AGM)  
Moody’s : “A1” underlying  
(See “MISCELLANEOUS-Rating” herein)

*In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the City, as hereafter defined, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. For an explanation of certain tax consequences under federal law which may result from the ownership of the Bonds, see the discussion under the heading “LEGAL MATTERS – Tax Matters” herein. Under existing law, the Bonds and the income therefrom will be exempt from all state, county and municipal taxation in the State of Tennessee, except Tennessee franchise and excise taxes. (See “LEGAL MATTERS -Tax Matters” herein.)*

## \$64,995,000

### CITY OF NEWPORT, TENNESSEE Electric System Revenue Bonds, Series 2019


Dated: August 1, 2019.

Due: May 1, as shown below.

The \$64,995,000 Electric System Revenue Bonds, Series 2019 (the “Bonds”) issued by the City of Newport (the “City”) are issuable in fully registered form in denominations of \$5,000 and authorized integral multiples thereof. The Bonds will be issued in book-entry-only form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as the nominee for DTC, principal and interest with respect to the Bonds shall be payable to Cede & Co., as nominee for DTC, which will, in turn, remit such principal and interest to the DTC participants for subsequent disbursements to the beneficial owners of the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of \$5,000 or integral multiples thereof and will bear interest at the annual rates as shown below. Interest on the Bonds is payable semi-annually from the date thereof commencing on November 1, 2019 and thereafter on each May 1 and November 1 by check or draft mailed to the owners thereof as shown on the books and records of Regions Bank, Nashville, Tennessee, the registration and paying agent (the “Registration Agent”). In the event of discontinuation of the book-entry-only system, principal of and interest on the Bonds are payable at the designated corporate trust office of the Registration Agent.

The Bonds are payable solely from and secured by a pledge of the income and revenues to be derived from the operation of the Issuer’s electrical power distribution system (the “System”) subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing, and insuring the System. The owner of these Bonds shall have no recourse to the taxing power of the Issuer. See section entitled “SECURITIES OFFERED – Security”.

The Bonds maturing May 1, 2028 and thereafter are subject to optional redemption prior to maturity on or after May 1, 2027.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.** 

<u>Due</u> <u>(May 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP**</u>	<u>Due</u> <u>(May 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP**</u>
2022	\$ 100,000	5.00%	1.35%	652376 DG6	2034	\$2,525,000	3.00%	2.70%	c 652376 DU5
2023	1,535,000	5.00	1.36	652376 DH4	2035	2,600,000	3.00	2.80	c 652376 DV3
2024	1,610,000	5.00	1.40	652376 DJ0					
2025	1,695,000	5.00	1.50	652376 DK7	2039	2,930,000	3.00	3.02	652376 DZ4
2026	1,775,000	5.00	1.60	652376 DL5	2040	3,015,000	3.00	3.03	652376 EA8
2027	1,865,000	5.00	1.67	652376 DM3	2041	3,105,000	3.00	3.04	652376 EB6
2028	1,960,000	5.00	1.75	c 652376 DN1	2042	3,200,000	3.00	3.05	652376 EC4
2029	2,055,000	5.00	1.80	c 652376 DP6	2043	3,295,000	3.00	3.06	652376 ED2
2030	2,160,000	5.00	1.90	c 652376 DQ4	2044	3,395,000	3.00	3.07	652376 EE0
2031	2,270,000	4.00	2.10	c 652376 DR2	2045	3,495,000	3.00	3.08	652376 EF7
2032	2,360,000	4.00	2.20	c 652376 DS0	2046	3,600,000	3.00	3.09	652376 EG5
2033	2,455,000	3.00	2.60	c 652376 DT8	2047	3,710,000	3.00	3.10	652376 EH3
\$ 8,285,000 3.00% Term Bond Due May 1, 2038 @ 3.00% 652376 DY7									

c = Yield to call on May 1, 2027

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

The Bonds are offered when, as and if issued, subject to the approval of the legality thereof by Bass, Berry & Sims PLC, Knoxville, Tennessee, Bond Counsel, whose opinion will be delivered with the Bonds. Certain legal matters will be passed upon for the City by Troutman & Troutman, P.C., counsel to the City. It is expected that the Bonds will be available for delivery through the facilities of Depository Trust Company in New York, New York, on or about August 1, 2019.

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

July 9, 2019

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

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

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

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

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

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

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE" and "APPENDIX E – BOND INSURANCE AND SPECIMEN MUNICIPAL BOND INSURANCE POLICY".

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

# CITY OF NEWPORT, TENNESSEE

## OFFICIALS

Honorable Roland Dykes, III	<i>Mayor</i>
James Finchum	<i>City Administrator</i>
Tina Matthews	<i>City Recorder / Finance Director</i>
Terry Hurst	<i>City Attorney</i>
Glenn Ray	<i>Utilities General Manager</i>

## BOARD OF MAYOR AND ALDERMEN

Mike Proffitt, Vice Mayor  
Mike Hansel  
Bobby Knight  
Louanna Ottinger  
Steve Smith

## UNDERWRITER

Robert W. Baird & Co., Inc.  
Red Bank, New Jersey

## BOND REGISTRATION AND PAYING AGENT

Regions Bank  
Nashville, Tennessee

## BOND COUNSEL

Bass, Berry & Sims PLC  
Knoxville, Tennessee

## MUNICIPAL ADVISOR

Cumberland Securities Company, Inc.  
Knoxville, Tennessee



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## SUMMARY STATEMENT

The information set forth below is provided for convenient reference and does not purport to be complete and is qualified in its entirety by the information and financial statements appearing elsewhere in this *Preliminary Official Statement*. This Summary Statement shall not be reproduced, distributed or otherwise used except in conjunction with the remainder of this *Preliminary Official Statement*.

- The Issuer .....City of Newport, Tennessee (the “City” or “Issuer”). See APPENDIX B contained herein.
- Securities Offered.....\$64,995,000 Electric System Revenue Bonds, Series 2019 (the “Bonds”) of the City, dated August 1, 2019. The Bonds mature each May 1 beginning May 1, 2022 through May 1, 2035, inclusive, May 1, 2038, and May 1, 2039 through May 1, 2047, inclusive. See the section entitled “SECURITIES OFFERED” herein for additional information.
- Security .....The Bonds are payable solely from and secured by a lien on the Net Revenues to be derived from the operation of the City’s electric system (the “Electric System”) on a parity and equality of lien with other obligations of the City that may be herein after issued under the Resolution, subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System. **Neither the full faith and credit nor the taxing power of the City shall be pledged or deemed to be pledged to the payment of the Bonds, but said Bonds shall be payable solely from and secured by the Net Revenues of the System, subject to the payment of certain costs.** For the definition of Net Revenues of the System, see “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ELECTRIC RESOLUTION”.
- Bond Insurance.....Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (“AGM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as Appendix E to this Official Statement. See “APPENDIX E: Bond Insurance and Specimen Municipal Bond Insurance Policy” for additional information.
- Purpose .....The Bonds are being issued for the purpose of providing funds for (i) refinancing the Outstanding Debt, as described herein; (ii) the acquisition of land and the construction, renovation, extension and equipping of site improvements, facilities and equipment for the System; (iii) the acquisition of all property, real and personal, appurtenant to the foregoing (collective, the “Projects”); and (iv) the payment of legal, fiscal, administrative costs incident to the indebtedness described herein.
- Optional Redemption .....The Bonds maturing May 1, 2028 and thereafter are subject to optional redemption prior to maturity on or after May 1, 2027. See the section entitled “SECURITIES OFFERED – Optional Redemption”.
- Tax Matters.....In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the City, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. For an explanation of certain tax consequences under federal law which may result from the ownership of the Bonds, see the discussion under the heading “LEGAL MATTERS – Tax Matters” herein. Under existing law, the Bonds and the income therefrom will be exempt from all state, county and municipal taxation in the State of Tennessee, except Tennessee franchise and excise taxes. (See “LEGAL MATTERS -Tax Matters” herein.)

Ratings .....	S&P: AGM Insured “AA” (stable outlook). Moody’s: “A1” underlying. See the section entitled “MISCELLANEOUS - Ratings” for more information.
Municipal Advisor.....	Cumberland Securities Company, Inc., Knoxville, Tennessee. See the section entitled “MISCELLANEOUS-Municipal Advisor; Related parties; Other” herein.
Underwriter.....	Robert W. Baird & Company, Inc., Red Bank, New Jersey.
Bond Counsel .....	Bass, Berry & Sims PLC, Knoxville, Tennessee.
Book-Entry Only .....	The Bonds will be issued under the Book-Entry-Only System except as otherwise described herein. For additional information, see the section entitled “BASIC DOCUMENTATION - Book-Entry-Only System”
Registration Agent.....	Regions Bank, Nashville, Tennessee.
General.....	The Bonds are being issued in full compliance with applicable provisions of Title 7, Chapter 34, <i>Tennessee Code Annotated</i> , as supplemented and revised. See “SECURITIES OFFERED” herein. The Bonds will be issued with CUSIP numbers and delivered through the facilities of The Depository Trust Company, New York, New York.
Disclosure .....	In accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as amended, the City will provide the Municipal Securities Rulemaking Board (the “MSRB”) through the operation of the Electronic Municipal Market Access system (“EMMA”) and the State Information Depository (“SID”), if any, annual financial statements and other pertinent credit or event information, including Comprehensive Annual Financial Reports, see the section entitled “MISCELLANEOUS-Continuing Disclosure.”
Other Information.....	For more information concerning the City or this <i>Official Statement</i> , Glenn Ray, General Manager, 170 Cope Boulevard, Newport, Tennessee 37822, Telephone: (423) 625-2821; or the City's Municipal Advisor, Cumberland Securities Company, Inc., Telephone: (865) 988-2663.



**\$64,995,000**  
**CITY OF NEWPORT, TENNESSEE**  
**Electric System Revenue Bonds, Series 2019**

**SECURITIES OFFERED**

**AUTHORITY AND PURPOSE**

This OFFICIAL STATEMENT which includes the Summary Statement hereof and appendices hereto, is furnished in connection with the offering by City of Newport, Tennessee (the “City” or the “Issuer”) of \$64,995,000 Electric System Revenue Bonds, Series 2019 (the “Bonds”).

The Bonds are authorized to be issued pursuant to the provisions of Sections 9-21-101 *et. seq.*, *Tennessee Code Annotated*, and other applicable provisions of law and pursuant to a resolution duly adopted by the Board of Mayor and Alderman of the City on June 11, 2019 (the “Resolutions”).

The Bonds are being issued for the purpose of providing funds for (i) refinancing the Outstanding Debt, as described herein; (ii) the acquisition of land and the construction, renovation, extension and equipping of site improvements, facilities and equipment for the City's electric system (the "System"); (iii) the acquisition of all property, real and personal, appurtenant to the foregoing (collective, the "Projects"); and (iv) the payment of legal, fiscal, administrative costs incident to the indebtedness described herein.

**REFUNDING PLAN**

The City is proposing to issue the Bonds to refinance the City’s outstanding: (i) \$22,500,000 Electric System Bond Anticipation Notes, Series 2018, dated September 12, 2018 (the “2018 BAN”) and (ii) \$14,500,000 Electric System Bond Anticipation Notes, Series 2019, dated May 15, 2019 (the “2019 BAN”) (collectively, the “Outstanding Debt”). The Outstanding Debt will be called for redemption within 15 days of the closing.

**DESCRIPTION OF THE BONDS**

The Bonds will be dated and bear interest from their date of issuance and delivery August 1, 2019. Interest on the Bonds will be payable semi-annually on May 1 and November 1, commencing November 1, 2019. The Bonds are issuable in book-entry-only form in \$5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

The Bonds shall be signed by the Mayor and shall be attested by the City Recorder. No Bond shall be valid until it has been authorized by the manual signature of an authorized officer or employee of the Registration Agent and the date of the authentication noted thereon.

## SECURITY

The Bonds are payable solely from and secured by a lien on the Net Revenues to be derived from the operation of the System on a parity and equality of lien with other obligations of the City that may be herein after issued under the Resolution, subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System. Neither the full faith and credit nor the taxing power of the City shall be pledged or deemed to be pledged to the payment of the Bonds, but said Bonds shall be payable solely from and secured by the Net Revenues of the System, subject to the payment of certain costs. For the definition of Net Revenues of the System, see "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ELECTRIC RESOLUTION".

"Gross Earnings" means all revenues, rentals, earnings and income of the System from whatever source, determined in accordance with generally accepted accounting principles; proceeds from the sale of System property; proceeds of System-related 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 this 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 System); provided, however, at the election of the Board, the term "Gross Earnings" as used herein shall not include any revenues, rentals, earnings or other income received from the operation of an Acquired System, and any bonds or other obligations issued in connection with such Acquired System shall not be payable from or secured by Net Revenues or be deemed to be Parity Bonds.

"Net Revenues" shall mean (i) 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 and further excluding non-cash or non-recurring items, including but not limited to, non-cash contributions in aid of construction, less (ii) Operating Expenses.

"Operating Expenses" means and shall include but not be limited to, expenses for ordinary repairs, removals and replacements of the System, salaries and wages, employees' health, hospitalization, pension and retirement expenses, fees for services, materials and supplies, rents, administrative and general expenses (including legal, engineering, accounting and financial advisory fees and expenses and costs of other consulting or technical services not funded with proceeds of bonds, notes or other debt obligations), insurance expenses, taxes and other governmental charges, the imposition or amount of which is not subject to control of the Utilities Board, any payments made by the Utilities Board during any Fiscal Year to purchase electrical power for distribution and sale during or after the end of that Fiscal Year, and other payments made under any electrical power supply contract or commodity swap or other hedging mechanism, and any principal or interest payments made by the Utilities Board during any Fiscal Year on bonds, notes or other obligations, including loan agreements, issued or entered into for the purpose of financing the purchase of electrical power, and to the extent so provided by the resolution authorizing such bonds, notes or obligations and to the extent not inconsistent with generally accepted accounting principles. Operating Expenses do not include payments in lieu of taxes to the City or other governmental

jurisdictions, depreciation or obsolescence charges or reserves therefore, amortization of intangibles or other bookkeeping entries of a similar nature, on bonds, notes or other debt obligations of the System payable from Net Revenues of the System, costs or charges made therefor, capital additions, replacements, betterments, extensions or improvements to or retirement from the System which under generally accepted accounting principles are properly chargeable to the capital account or the reserve for depreciation, and do not include losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of the System, nor such property items, including taxes and fuels, which are capitalized pursuant to the then existing accounting practices of the Utilities Board or expenses of an Acquired System if revenues of the Acquired System are not included in Gross Earnings at the election of the Board.

“Utilities Board” means the Newport Utility Board of the City of Newport, Tennessee.

## **BOND INSURANCE POLICY**

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (“AGM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as Appendix E to this Official Statement.

## **RELATIONSHIP BETWEEN THE SYSTEM AND THE CITY’S BROADBAND NETWORK**

The proceeds of the Bonds will be used to finance the purchase and installation of fiber-based communications infrastructure (the “Fiber Infrastructure”). The Fiber Infrastructure primarily benefits the System and will be recorded as an asset of the System. The Fiber Infrastructure connects, directly or indirectly, to each electric meter of the System, and enhances the quality and efficiency of the System’s electric service by, among other things, (i) allowing the System to read electric meters remotely, (ii) allowing the System to remotely connect and disconnect meters, (iii) providing real-time outage reports, thereby enabling the System to respond more quickly to power outages, (iv) providing real-time usage reports that will allow the System’s customers to tailor their electric power needs more effectively and (v) allowing the System to better manage its peak power load, thereby reducing the demand for additional electric generation facilities and reducing costs to the System’s customers.

The Fiber Infrastructure is also used by a broadband telecommunications network established by the City. The broadband telecommunications network (the “Broadband Division”) operates as a separate division of Newport Utilities and is not a part of the System, which is operated as the “Electric Division”. The Broadband Division offers digital video, high-speed internet, and voice services that are unrelated to the transmission and distribution of electricity. The Broadband Division is permitted to use the Fiber Infrastructure (and certain other assets of the Electric Division) only upon the payment by the Broadband Division to the Electric Division of a monthly use charge equal to the portion of the cost of the Fiber Infrastructure (and other assets) allocable to the Broadband Division. The portion of the Fiber Infrastructure allocable to the Broadband Division is expected to continue to grow as customers are added to the Broadband Division. This allocation is based upon the actual number of customers utilizing the Broadband Division and is periodically reallocated to assure proper division of costs.

Newport Utilities has also committed to loan up to \$3,350,285 of System (or Electric Division) funds to the Broadband Division for the purpose of funding certain capital and working capital costs of the Broadband Division. This interdivision loan bears interest at a rate of 4.5%, and is required to be repaid by the Broadband Division to the Electric Division over a period of 7 years.

The City cannot predict or guarantee the future success of the Broadband Division. If the Broadband Division is unsuccessful, it may have difficulty making scheduled monthly use payments and/or interdivision loan payments. Accordingly, the City cannot guarantee the amount of monthly use payments or interdivision loan payments that will be made by the Broadband Network to the System.

Any monthly use charges and any interdivision loan interest payable to the System by the Broadband Division will be treated as revenues of the Electric Division. However, revenues derived from sales of the Broadband Division will not constitute revenues of the Electric Division and will not be available for the payment of or the security for the Bonds.

#### **PARITY OF PLEDGE**

As provided in the Resolution, the punctual payment of principal of, premium, if any, and interest on the Bonds shall be secured equally and ratably by said revenues without priority by reason of series, number or time of sale or delivery. The City has covenanted in the Resolution and does hereby covenant that it will fix and impose such rates and charges for the services rendered by the System and will collect and account for sufficient revenues to pay promptly the principal of and interest on this Bond, the issue of which it is a part, and any bonds hereafter issued on a parity herewith, as each payment becomes due. See “Additional Bonds” and APPENDIX C – “Summary of Certain Provisions of the Electric Resolution”.

#### **RATE COVENANT**

While the Bonds and any additional parity bonds remain outstanding and unpaid, the City have covenanted and agreed that it will permit no free service to be furnished to any consumer or user whatsoever, and that the charges for all services supplied through the medium of the System to all consumers shall be reasonable and just, taking into account and consideration the costs and value of the System, the cost of maintaining, operating, repairing, and insuring the System, and the amount necessary for the payment of principal of and interest on the Bonds and all parity bonds payable from such revenues. The City have further covenanted that there shall be charged against all users of the services of the System such rates and amounts as shall be fully adequate to meet the requirements of the resolutions pursuant to which the Bonds and all parity bonds were issued.

Rates and fees for electricity provided by the System are established by the Issuer, as hereinafter defined, in accordance with the contract between the City and the Tennessee Valley Authority. (See APPENDIX C - “Summary of Certain Provisions of the Electric Resolution”.)

#### **DEBT SERVICE RESERVE FUND**

The Bonds will not have a debt service reserve fund.

## **ADDITIONAL BONDS**

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

Additional bonds may be issued on a parity with the Bonds. See “Summary of Certain Provisions of the Electric Resolution” for more information.

## **OPTIONAL REDEMPTION OF THE BONDS**

The Bonds maturing May 1, 2028 and thereafter are subject to optional redemption prior to maturity on or after May 1, 2027 at a redemption price of par plus accrued interest.

If less than all the Bonds shall be called for redemption, the maturities to be redeemed shall be designated by the Board of Mayor and Aldermen, in its discretion. If less than all the principal amount of the Bonds of a maturity shall be called for redemption, the interests within the maturity to be redeemed shall be selected as follows:

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

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

## **MANDATORY REDEMPTION**

Subject to the credit hereinafter provided, the City shall redeem Bonds maturing May 1, 2038 on the redemption dates set forth below opposite the maturity date, in aggregate principal amounts equal to the respective dollar amounts set forth below opposite the respective redemption dates at a price of par plus accrued interest thereon to the date of redemption. The Bonds to be so redeemed within a maturity shall be selected in the manner described above relating to optional redemption.

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

<u>Maturity</u>	<u>Redemption Date</u>	<u>Principal Amount of Bonds Redeemed</u>
May 1, 2038	May 1, 2036	\$2,680,000
	May 1, 2037	\$2,760,000
	May 1, 2038*	\$2,845,000

\*Final Maturity

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

## **NOTICE OF REDEMPTION**

Notice of call for redemption, whether optional or mandatory, shall be given by the Registration Agent on behalf of the City not less than twenty (20) nor more than sixty (60) days prior to the date fixed for redemption by sending an appropriate notice to the registered owners of the Bonds to be redeemed by first-class mail, postage prepaid, at the addresses shown on the Bond registration records of the Registration Agent as of the date of the notice; but neither failure to mail such notice nor any defect in any such notice so mailed shall affect the sufficiency of the proceedings for redemption of any of the Bonds for which proper notice was given. The notice may state that it is conditioned upon the deposit of moneys in an amount equal to the amount necessary to affect the redemption with the Registration Agent no later than the redemption date ("Conditional Redemption"). As long as DTC, or a successor Depository, is the registered owner of the Bonds, all redemption notices shall be mailed by the Registration Agent to DTC, or such successor Depository, as the registered owner of the Bonds, as and when above provided, and neither the City nor the Registration Agent shall be responsible for mailing notices of redemption to DTC Participants or Beneficial Owners. Failure of DTC, or any successor Depository, to provide notice to any DTC Participant or Beneficial Owner will not affect the validity of such redemption. The Registration Agent shall mail said notices as and when directed by the City pursuant to written instructions from an authorized representative of the City (other than for a mandatory sinking fund redemption, notices of which shall be given on the dates provided herein) given at least forty-five (45) days prior to the redemption date (unless a shorter notice period shall be satisfactory to the Registration Agent). From and after the redemption date, all Bonds called for redemption shall cease to bear interest if funds are available at the office of the Registration Agent for the payment thereof and if notice has been duly provided as set forth herein. In the case of a Conditional Redemption, the failure of the City to make funds available in part or in whole on or before the redemption date shall not constitute an event of default, and the Registration Agent shall give immediate notice to the Depository or the affected Bondholders that the redemption did not occur and that the Bonds called for redemption and not so paid remain outstanding.

## **PAYMENT OF BONDS**

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

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## BASIC DOCUMENTATION

### REGISTRATION AGENT

The Registration Agent, Regions Bank, Nashville, Tennessee, its successor or the City will make all interest payments with respect to the Bonds on each interest payment date directly to Cede & Co., as nominee of DTC, the registered owner as shown on the Bond registration records maintained by the Registration Agent, except as follows.

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

### BOOK-ENTRY-ONLY SYSTEM

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

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

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

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



Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

*Purchase of Ownership Interests.* Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry-only system for the Bonds is discontinued.

*Payments of Principal and Interest.* Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Registration Agent on the payable date in accordance with their respective holdings shown on DTC's records, unless DTC has reason to believe it will not receive payment on such date. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with municipal securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Issuer or the Registration Agent subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, tender price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Registration Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

*Notices.* Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial

Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

In the event that (i) DTC determines not to continue to act as securities depository for the Bonds or (ii) to the extent permitted by the rules of DTC, the City determines to discontinue the Book-Entry-Only System, the Book-Entry-Only System shall be discontinued. Upon the occurrence of the event described above, the City will attempt to locate another qualified securities depository, and if no qualified securities depository is available, Bond certificates will be printed and delivered to Beneficial Owners.

*No Assurance Regarding DTC Practices.* The foregoing information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the City believes to be reliable, but the City, the Bond Counsel, the Registration Agent and the Municipal Advisor do not take any responsibility for the accuracy thereof. So long as Cede & Co. is the registered owner of the Bonds as nominee of DTC, references herein to the holders or registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds. None of the City, the Bond Counsel, the Registration Agent or the Municipal Advisor will have any responsibility or obligation to the Participants, DTC or the persons for whom they act with

respect to (i) the accuracy of any records maintained by DTC or by any Direct or Indirect Participant of DTC, (ii) payments or the providing of notice to Direct Participants, the Indirect Participants or the Beneficial Owners or (iii) any other action taken by DTC or its partnership nominee as owner of the Bonds.

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

## **DISPOSITION OF BOND PROCEEDS**

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

- (a) all accrued interest shall be deposited into the Bond Fund of the City and used to pay interest on the Bonds on the first interest payment date following delivery of the Bonds;
- (b) a portion of the proceeds from the sale of the Bonds, together with such other City funds as may be identified by the Mayor and, if applicable, investment earnings on the foregoing, shall be applied to the refunding of the Outstanding Debt by paying such funds directly to the holders (or paying agents or trustees for the holders) of the Outstanding Bonds; and
- (c) the balance of the proceeds of the sale of the Bonds shall be deposited with a financial institution regulated by the Federal Deposit Insurance Corporation or similar federal agency in a special fund known as the 2019 Electric Construction Fund (the "Construction Fund"), or such other designation as shall be determined by the Mayor to be kept separate and apart from all other funds of the City. The City shall disburse funds in the Construction Fund to pay costs of issuance of the Bonds, including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, administrative and clerical costs, Registration Agent fees, bond insurance premiums, if any, and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds. Notwithstanding the foregoing, costs of issuance of the Bonds may be withheld from the good faith deposit or purchase price of the Bonds and paid to the Municipal Advisor to be used to pay costs of issuance of the Bonds. The remaining funds in the Construction Fund shall be disbursed solely to pay the costs of the Projects and to reimburse the City for any funds previously expended for costs of the Projects. Money in the Construction Fund shall be invested in such investments as shall be permitted by applicable law.

## **DISCHARGE AND SATISFACTION OF BONDS**

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

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

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

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

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

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

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

## **REMEDIES OF BONDHOLDERS**

Under Tennessee law, any Bondholder has the right, in addition to all other rights:

(1) By mandamus or other suit, action or proceeding in any court of competent jurisdiction to enforce its rights against the City, including, but not limited to, the right to require the

City to assess, levy and collect taxes adequate to carry out any agreement as to, or pledge of, such taxes, fees, rents, tolls, or other charges, and to require the City to carry out any other covenants and agreements, or

(2) By action or suit in equity, to enjoin any acts or things which may be unlawful or a violation of the rights of such Bondholder.

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## LEGAL MATTERS

### LITIGATION

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

### TAX MATTERS

#### **Federal**

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

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

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

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

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

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

Bond Counsel is not responsible for updating its opinion in the future. It is possible that future events or changes in applicable law could change the tax treatment of the interest on the Bonds or affect the market price of the Bonds. See also section "CHANGES IN FEDERAL AND STATE TAX LAW" below.

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

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

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

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

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

## **State Taxes**

Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) Tennessee excise taxes on interest on the Bonds during the period the Bonds are held or beneficially owned by any organization or entity, or other than a sole proprietorship or general partnership doing business in the State of Tennessee,

and (b) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee.

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

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

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

## **CLOSING CERTIFICATES**

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



preparation and distribution of certain annual financial information and notification of certain material events, if any.

## **APPROVAL OF LEGAL PROCEEDINGS**

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

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## MISCELLANEOUS

### RATINGS

S&P Global Ratings (“S&P”) is expected to assign the Bonds the rating of “AA” based on the issuance of a Municipal Bond Insurance Policy for the Bonds by Assured Guaranty Municipal Corp. (“AGM”) concurrently with the issuance of the Bonds. Moody’s Investors Service, Inc. (“Moody’s”) has given the Bonds an underlying rating of “A1”.

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

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

### COMPETITIVE PUBLIC SALE

The Bonds were offered for sale at competitive public bidding on July 9, 2019. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated June 25, 2019.

The successful bidder for the Bonds was an account led by Robert W. Baird, Red Bank, New Jersey (the “Underwriters”) who contracted with the City, subject to the conditions set forth in the Official Notice of Sale and Bid Form to purchase the Bonds at a purchase price of \$67,672,037.12 (consisting of the par amount of the Bonds, plus a net reoffering premium of \$3,497,043.35, less an underwriter’s discount of \$601,206.23 and less an insurance premium paid by the Underwriter of \$218,800.00) or 104.119% of par.

On April 1, 2019, Baird Financial Corporation, the parent company of Baird, acquired HL Financial Services, LLC, its subsidiaries, affiliates and assigns (collectively "Hilliard Lyons"). As a result of such common control, Baird, Hilliard Lyons and Hilliard Lyons Trust Company are now affiliated. It is expected that Hilliard Lyons will merge with and into Baird later in 2019.

## **MUNICIPAL ADVISOR; RELATED PARTIES; OTHER**

*Municipal Advisor.* Cumberland Securities Company, Inc., Knoxville, Tennessee, has served as Municipal Advisor (the “Municipal Advisor”) to the City for purposes of assisting with the development and implementation of a bond structure in connection with the issuance of the Bonds. The Municipal Advisor has not been engaged by the City to compile, create, or interpret any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT relating to the City, including without limitation any of the City’s financial and operating data, whether historical or projected. Any information contained in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT concerning the City, any of its affiliates or contractors and any outside parties has not been independently verified by the Municipal Advisor, and inclusion of such information is not, and should not be construed as, a representation by the Municipal Advisor as to its accuracy or completeness or otherwise. The Municipal Advisor is not a public accounting firm and has not been engaged by the City to review or audit any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT in accordance with accounting standards.

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

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

Cumberland Securities Company, Inc. distributed the PRELIMINARY OFFICIAL STATEMENT, in final form, and the OFFICIAL STATEMENT, in final form on behalf of the City and will be compensated and/or reimbursed for such distribution and other such services.

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

*Other.* Among other services, Cumberland Securities Company, Inc. and the Bank may also assist local jurisdictions in the investment of idle funds and may serve in various other capacities, including Cumberland Securities Company’s role as serving as the City’s Dissemination Agent. If the City chooses to use one or more of these other services provided by Cumberland Securities

Company, Inc. including Dissemination Agent and/or the Bank, then Cumberland Securities Company, Inc. and/or the Bank may be entitled to separate compensation for the performance of such services.

## **DEBT RECORD**

There is no record of a default on principal and interest payments by the City from information available. Additionally, no agreements or legal proceedings of the City relating to securities have been declared invalid or unenforceable.

## **CONTINUING DISCLOSURE**

The City will at the time the Bonds are delivered execute a Continuing Disclosure Certificate under which it will covenant for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information relating to the City by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending June 30, 2019 (the "Annual Report"), and to provide notice of the occurrence of certain significant events not later than ten business days after the occurrence of the events and notice of failure to provide any required financial information of the City. The issuer will provide notice in a timely manner to the MSRB of a failure by the City to provide the annual financial information on or before the date specified in the continuing disclosure agreement. The Annual Report (and audited financial statements if filed separately) and notices described above will be filed by the City with the Municipal Securities Rulemaking Board ("MSRB") at [www.emma.msrb.org](http://www.emma.msrb.org) and with any State Information Depository which may be established in Tennessee (the "SID"). The specific nature of the information to be contained in the Annual Report or the notices of events is summarized below. These covenants have been made in order to assist the Underwriters in complying with Securities Exchange Act Rule 15c2-12(b), as it may be amended from time to time (the "Rule 15c2-12").

*Five-Year History of Filing.* While it is believed that all appropriate filings were made with respect to the ratings of the Issuer's outstanding bond issues, some of which were insured by the various municipal bond insurance companies, no absolute assurance can be made that all such rating changes of the bonds or various insurance companies which insured some transaction were made or made in a timely manner as required by Rule 15c2-12. The Issuer does not deem any of the forgoing omissions to be material, and therefore, in the judgment of the Issuer, for the past five years, the Issuer has complied in all material respects with its existing continuing disclosure agreements in accordance with Rule 15c2-12.

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

1. The Top Ten Customers as shown on page B-6;
2. Residential and General Power Resale Rates of the System as shown on page B-7 through B-8;
3. Schedule of Bonded Indebtedness as shown on page B-10;
4. Bonded Debt Service Requirements as shown on page B-11;
5. Electric System Schedule of Revenues, Expenses and Changes in Retained Earnings as shown on page B-12; and
6. Historical Coverage of Maximum Annual Debt Service Requirement as of the end of such fiscal year as shown on page B-13;

Any or all of the items above may be incorporated by reference from other documents, including Official Statements in final form for debt issues of the City or related public entities, which have been submitted to the MSRB or the U.S. Securities and Exchange Commission. If the document incorporated by reference is a final Official Statement, in final form, it will be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so incorporated by reference.

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

1. Upon the occurrence of a Listed Event (as defined in (3) below), the City shall in a timely manner, but in no event more than ten (10) business days after the occurrence of such event, file a notice of such occurrence with the MSRB and SID, if any.
2. For Listed Events where notice is only required upon a determination that such event would be material under applicable Federal securities laws, the City shall determine the materiality of such event as soon as possible after learning of its occurrence.
3. The following are the Listed Events:
  - a. Principal and interest payment delinquencies;
  - b. Non-payment related defaults, if material;
  - c. Unscheduled draws on debt service reserves reflecting financial difficulties;
  - d. Unscheduled draws on credit enhancements reflecting financial difficulties;
  - e. Substitution of credit or liquidity providers, or their failure to perform;
  - f. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form

5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

- g. Modifications to rights of Bondholders, if material;
- h. Bond calls, if material, and tender offers;
- i. Defeasances;
- j. Release, substitution, or sale of property securing repayment of the securities, if material;
- k. Rating changes;
- l. Bankruptcy, insolvency, receivership or similar event of the obligated person;
- m. The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- n. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- o. Incurrence of a financial obligation (which includes a debt obligation, a derivative instrument entered into connection with, or pledged as security or as a source of payment for, an existing or planned debt obligation, or a guarantee of debt obligation or derivative instrument but does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with Rule 15c2-12) of the City, if material, or agreement as to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and
- p. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation (as described above) of the City, any of which reflect financial difficulties.

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

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

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

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

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

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

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

## **ADDITIONAL INFORMATION**

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

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

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

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

*(The remainder of this page left blank intentionally.)*



**CERTIFICATION OF THE CITY**

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

/s/ Roland Dykes, III  
Mayor

ATTEST:

/s/ Tina Matthews  
City Recorder



**APPENDIX A**

**LEGAL OPINION**



August 1, 2019

City Council  
City of Newport, Tennessee

Robert W. Baird & Co., Inc.  
Red Bank, New Jersey

Re: City of Newport, Tennessee Electric System Revenue Bonds, Series 2019

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Newport, Tennessee (the "Issuer") of \$64,995,000 Electric System Revenue Bonds, Series 2019, dated the date hereof (the "Bonds"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

1. The Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and constitute valid and binding obligations of the Issuer.
2. The resolution of the City Council of the Issuer authorizing the Bonds has been duly and lawfully adopted, is in full force and effect and is the valid and binding agreement of the Issuer, enforceable in accordance with its terms.
3. The principal of and interest on the Bonds are payable solely from and secured by a pledge of the income and revenues to be derived from the operation of the electric transmission and distribution system of the Issuer (the "System"), subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing, and insuring the System. We express no opinion as to the sufficiency of any of such revenues for the payment of principal of, premium, if any, or interest on the Bonds.
4. Interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The Issuer has

covenanted to comply with all such requirements. Except as set forth in this Paragraph 4, we express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

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

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

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

Yours truly,

BASS BERRY & SIMS PLC

**APPENDIX B**

**SUPPLEMENTAL INFORMATION STATEMENT**





# CITY OF NEWPORT ELECTRIC DEPARTMENT

## HISTORY AND ORGANIZATION

The City of Newport was incorporated in March of 1903. In 1911, \$50,000 in bonds was issued for the purpose of improving the city's water and sewage systems. With the approved bond money, the town purchased the Gray Spring which produced 150 gallons of water per minute. Through the years, the city relied on various public and private wells to supply the water needs of the town. In February 1939, the city, by private act, created a three member "Board of Public Utilities" to manage the Newport water system.

In March 1939, by private act, the City of Newport created a three member "Board of Public Utilities" to manage an electric system. In February 1940 the City of Newport purchased the existing electric system from TVA. The Newport Electric System consisted of 1,281 customers and was purchased for \$240,000.

In April 1949, the City combined both "Boards of Public Utilities" into a single five member appointed board called the "Newport Utilities Board" (NUB) with management authority over both the electric and the water systems.

By private act, in March 1959, the "Newport Utilities Board" was authorized to manage and operate the Newport sewage system consisting of a limited collection system which discharged into the Pigeon River. Also in 1959, the "Newport Utilities Board" built its existing main office and moved all three departments from city hall to 300 East Main Street.

In December 1962, the "Newport Utilities Board" began operating its first wastewater treatment plant between Chemwood Drive (Lisega Blvd.) and the Pigeon River. Due to expanding industry, the existing 4.35 MGD wastewater treatment plant was built at 465 Lisega Blvd. in 1979.

In 1963, the Cocke County Water Utility District built a new 3.0 MGD surface water treatment plant at 850 Cedar Street and began taking water from the French Broad River. At this time the "Newport Utilities Board" abandoned its use of well water and began purchasing all of its water from the Cocke County Water Utility District. In 1980, the "Newport Utilities Board" purchased the Cocke County Water Utility District and expanded the plant to 6.0 MGD. The "Newport Utilities Board" water department now serves all of the City of Newport and a large portion of Cocke County, including portions of Jefferson and Sevier Counties.

In 1988, the "Newport Utilities Board" built its existing Charles Rhyne Operations Center located at 1419 West Highway 25-70. The Operations Center is the home of the electric, water and wastewater construction crews, as well as the electric engineering, garage, warehouse, and billing and meter reading.

In June 2000, "Newport Utilities Board" adopted a logo and a new name: Newport Utilities. This change in name, with the new logo, was made coincident with moving into the new administration building located at 170 Cope Boulevard. The new administration building is

home to administration, customer service, accounting and finance, human resources and information technology. The building includes two drive-thru lanes and seven window stations for taking payments. The building heating and cooling is provided by ground source heat pump, the most efficient method of heating and cooling available.

In 2005, by private act (City Charter amendment), the number of Newport Utilities board members was increased from five to seven. At least one of the seven must be a current member of the board of mayor and aldermen.

The present members of the Board, their terms of office, and their occupations are as follows:

<u>Members</u>	<u>Term Expiration</u>	<u>Occupation</u>
Craig Wild – Chairman	June 1, 2021	Coke County Chancery Court Clerk
William Green – Secretary	June 1, 2021	Newport Printing Co. Owner
Claude D. Gatlin, Jr. – Member	April 1, 2021	Retired
Dianne M. Stokely – Member	April 1, 2020	Retired
Jeffery C. Fancher – Member	February 1, 2021	Coke County School Teacher

The Department provides electric service to approximately 22,176 consumers located in Coke County and in a portion of Sevier and Jefferson Counties. As of June 30, 2018, operating revenues were approximately \$54,439,558

## **MANAGEMENT**

Mr. Glenn Ray is the General Manager of Newport Utilities. He has been General Manager since January 2015. Ray began his career in 1979 as a structural design engineer with Johnson City Foundry and Steel Works. In 1981, he joined Daniel International as a construction engineer at Eastman Chemicals Coal Gasification Project in Kingsport. He has also worked for Daniel International Project Clients including Kansas Gas & Electric, Florida Power, Georgia Power, Proctor & Gamble, Unocol Refineries, Lockheed Martin, Bowater Paper, Houston Light & Power, and BMW Assembly.

During this time, Ray was promoted to Senior Project Management and Operations Management positions concentrating efforts with engineering, procurement, construction, and commissioning of power plants and industrial manufacturing plants.

In November 1999, Ray assumed the position of Senior Manager of Project with Lockwood Greene Engineering. His work with them included high profile projects with Bush Brothers' new Chestnut Hill plant, DuPont, Johns Manville, Areva Nortup Grumman, Alcoa Aluminum, and Suncor Energy Canada.

Ray's responsibilities included master planning all utility power, water and waste treatment system infrastructures, engineering and facilities construction, and final completion of plant systems and buildings. He was responsible for operations oversight, cost controls, business development and proposals, and worked closely with public and private business customers and community leaders.

The Department employs 62 full-time employees.

## **SUBSTATIONS AND TRANSMISSION SYSTEM**

The Department currently has nine (9) substations connected to the TVA system at two (2) delivery points as follows:

- (i) 161 kV point for the Primary:161.69 Substation (2 lines from TVA);
- (ii) 161 kV point for the Cosby 161:13 kV Substation;

The Department has 36.55 miles of 69 kV transmission lines that feed seven (7) other substations as follows:

- (i) 69 kV point for the District 69:13 kV Substation (2 lines);
- (ii) 69 kV point for the Eastport 69:13 kV Substation;
- (iii) 69 kV point for the Liberty Hill 69:13 kV Substation;
- (iv) 69 kV point for the Parrottsville 69:13 kV Substation;
- (v) 69 kV point for the West Newport 69:13 kV Substation;
- (vi) 69 kV point for Wilton Springs Substation;
- (vii) 69 kV point for Chestnut Hill Substation;

## **DISTRIBUTION SYSTEM**

All power is distributed by twenty-three (23) distribution feeders exiting the nine (9) substations at a nominal system voltage of 13.2/7.62 kV over approximately 2,191 miles of distribution lines. The Department experienced a peak demand of 136,195 kW in January 2014, and the historical peak demand of 139,904 kW occurred in January 2009.

## **SOURCE OF ELECTRIC POWER**

The Department does not generate any electric power but purchases its entire supply from the TVA pursuant to a power contract dated as of December 14, 1979 (the "Power Contract") assigned by the City to the Department. Under the Power Contract, the Department agreed to purchase all of its electric power from TVA. The Power Contract became effective as of February 5, 1980 and shall continue in effect for 20 years from said date, subject to termination by either party, effective not earlier than 10 years from said date, or not less than four years prior written notice.

The cost and availability of power to the Department may be affected by, among other things, factors relating to TVA's nuclear program, fuel supply, environmental considerations such as future legislation regulating the mining of coal, the construction and financing of future

generating and transmission facilities and other factors relating to TVA's ability to supply the power demands of its customers, including the Department. The power sold to the Department is supplied from the entire TVA system and not one specific generating facility.

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

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

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

## **THE TENNESSEE VALLEY AUTHORITY**

TVA was established as a wholly owned corporate agency and instrumentality of the United States of America by the Tennessee Valley Authority Act of 1933, as amended. The Acts' objective is the development of the resources of the Tennessee Valley and adjacent areas in order to strengthen the regional and national economy and the national defense. Its specific purposes include: (1) flood control on the Tennessee River and its tributaries, and assistance to flood control on the lower Ohio and the Mississippi Rivers; (2) a modern navigable channel for the Tennessee River; (3) ample supply of power within an area of 80,000 square miles; (4) development and introduction of more efficient soil fertilizers; and (5) greater agricultural and industrial development and improved forestry in the region. All powers of TVA are vested in its Board, which functions on a part-time basis and consists of nine directors appointed by the President of the United States and confirmed by the United States Senate for nine-year terms. The TVA Board employs a Chief Executive Officer to carry out the Board's policies.

## **ELECTRIC RATES**

Pursuant to the Power Contract, the Energy Department has agreed to adhere to the resale rates set forth in certain schedules established by the TVA. The schedules include the provision that customer billings will be adjusted in accordance with the Adjustment Addenda published by the TVA. The Energy Department is not otherwise subject to rate regulation under existing law and there is no known legislation pending to make its electric rates subject to regulation. The Power Contract provides further that if the resale rates set forth therein do not provide sufficient revenues for the operation and maintenance of the Energy Department on a self-supporting, financially sound basis, including debt service, the Energy Department and TVA shall agree to changes in rates to provide increased revenues. In like manner, if the rates and changes produce excess revenues, the parties shall agree to rate reductions. Since the date of the Power Contract,

the wholesale and resale rates have been adjusted from time to time through TVA's publication of Adjustment Addenda. Accordingly, the Energy Department has modified its rates to customers to pass the recent TVA increases on to its customers effective on October 1, 2018.

## ENERGY DEPARTMENT OPERATING STATISTICS

*Number of Customers.* The table on the following page shows the by type, the number of customers for the most recent five (5) fiscal periods as reported to TVA.

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Residential	18,067	18,454	18,575	18,731	18,869
Commercial	3,246	2,878	2,877	2,893	2,890
Industrial	208	199	198	204	210
Street and Athletic	56	56	59	60	61
Outdoor Lighting	149	148	148	148	146
<b>Total</b>	<b><u>21,726</u></b>	<b><u>21,735</u></b>	<b><u>21,857</u></b>	<b><u>22,036</u></b>	<b><u>22,176</u></b>

Source: The Department.

*Kilowatt Hours of Energy Power Purchase and Sold.* The following table depicts Kilowatt Hours of Energy Power Purchased and Sold for the most recent five (5) fiscal years as reported to TVA.

<u>Fiscal Year</u>	<u>Power Purchased (kWh)</u>	<u>Cost</u>	<u>Power Used/ Sold (kWh)</u>	<u>Percentage Power Lost</u>	<u>Sales</u>	<u>Wholesale Cost Percentage of Sales</u>
<b>2014</b>	586,199,884	\$41,723,333	557,411,477	4.91%	\$51,172,535	81.5%
<b>2015</b>	581,136,788	40,333,339	553,952,544	4.68%	50,145,196	80.4%
<b>2016</b>	558,327,763	37,807,119	545,220,480	2.35%	47,979,863	78.8%
<b>2017</b>	562,865,241	39,918,697	538,342,639	4.36%	50,264,875	79.4%
<b>2018</b>	597,485,708	42,048,769	568,169,681	4.91%	52,757,696	79.7%

Source: The Department.

[balance of page left]

*Kilowatt Hours of Electric Power Sold.* The following table depicts Kilowatt Hours of Electric Power Sold for the most recent five (5) fiscal years as reported to TVA.

<b>Fiscal Year</b>	<b>Residential</b>	<b>Commercial</b>	<b>Industrial</b>	<b>Street &amp; Outdoor Lighting</b>	<b>Total</b>
<b>2014</b>	261,458,847	38,102,538	249,673,604	8,176,488	557,411,477
<b>2015</b>	258,689,717	37,325,728	249,690,971	8,246,128	553,952,544
<b>2016</b>	240,592,398	38,510,707	257,566,098	8,551,277	545,220,480
<b>2017</b>	242,050,811	38,712,770	249,210,581	8,368,477	538,342,639
<b>2018</b>	257,148,231	40,117,417	262,511,315	8,392,718	568,169,681

Source: The Department.

### TOP TEN ELECTRIC CUSTOMERS

For the twelve months ended June 30, 2018, the largest customers of the Energy Department in order of total kWh sales are listed below. Also depicted on the following chart are the percentages of total Energy Department kWh sales and estimated percentage of total Energy Department revenues for the most recent fiscal year represented by each customer:

<b>Customer</b>	<b>kWH Usage</b>	<b>Revenues</b>	<b>Percent Total Revenue</b>
1. Sonoco Prod Payable	43,933,271	\$ 2,443,970	4.49%
2. Bush Brothers and Co	37,752,994	2,277,828	4.18%
3. Con Agra Foods FSC AP	26,377,802	1,777,428	3.26%
4. Phoenix Closures	20,257,770	1,706,965	3.14%
5. SI Group	19,133,820	1,620,195	2.98%
6. American Appliance	12,928,600	1,230,173	2.26%
7. Ball Metall Container LLC	15,057,790	1,003,496	1.84%
8. NU Wastewater Plant	5,387,200	450,730	0.83%
9. Eastern Plating Co	4,096,500	372,095	0.68%
10. Wal-Mart Stores East	<u>4,170,360</u>	<u>357,364</u>	<u>0.66%</u>
<b>TOTAL</b>	<b><u>189,096,107</u></b>	<b><u>\$13,240,244</u></b>	<b><u>24.32%</u></b>

Source: City of Newport Electric Department.

### RESIDENTIAL AND GENERAL POWER RESALE RATES OF THE DEPARTMENT

The resale electric rates that the Energy Department charges to commercial, industrial, governmental and general residential power customers are determined in accordance with the

provisions of the TVA Power Contract. All rates are subject to change. Recently, TVA revised the power rates and charges through an amendment to the TVA Power Contract which is effective on October 1, 2011.

After adoption of the Power Contract amendment adjusting rates in October 2011, the Energy Department will still offer one of the lowest costs of electric power in the TVA distribution Department. See the sections entitled “Source of Power” and “Residential and General Power Resale Rates of the Department” for additional information.

The following outlines the Energy Department’s current rate schedule, which was effective on October 1, 2018.

**RESIDENTIAL RATE - RS**

Customer Charge:	\$18.59 per delivery point per month less \$1.60 Hydro allocation credit
Energy Charge:	
Transition Rate:	7.069 cents per kWh
Winter Rate:	7.270 cents per kWh
Summer Rate:	7.591 cents per kWh

**GENERAL POWER RATE - GSA 1 (Demand 0-50 kW)**

Customer Charge Single Phase:	\$18.59 per delivery point per month
Customer Charge Three Phase:	\$41.89 per delivery point per month
Energy Charge:	
Transition Rate;	8.034 cents per kWh
Winter Rate:	8.234 cents per kWh
Summer Rate:	8.556 cents per kWh

**GENERAL POWER RATE - GSA 2 (Demand 51-1,000 kW)**

Customer Charge Single Phase:	\$28.00 per delivery point per month
Customer Charge Three Phase:	\$77.00 per delivery point per month

Transition Rate:	
Demand Charge:	First 50 kW - No charge
Over 50 kW -	\$11.50 per kW
Energy Charge:	
First 15,000 kWh per month	8.183 cents per kWh
Additional kWh	4.101 cents per kWh

Winter Rate:	
Demand Charge:	First 50 kW – No charge
Over 50 kW -	\$11.50 per kW
Energy Charge:	
First 15,000 kWh per month	8.383 cents per kWh
Additional kWh	4.239 cents per kWh

Summer Rate:	
Demand Charge:	First 50 kW – No charge

Over 50 kW -	\$12.44 per kW
Energy Charge:	
First 15,000 kWh per month	8.704 cents per kWh
Additional kWh	4.556 cents per kWh

**GENERAL POWER RATE - GSA 3 (Demand 1,000-5,000 kW)**

Customer Charge: \$242.00 per delivery point per month

Transition Rate:

Demand Charge:	\$11.32 per kW first 1000
Over 1000 kW -	\$13.40 per kW
Energy Charge:	
All kWh per month	3.931 cents per kWh

Winter Rate:

Demand Charge:	\$11.32 per kW first 1000
Over 1000 kW -	\$13.40 per kW
Energy Charge:	
All kWh per month	4.066 cents per kWh

Summer Rate:

Demand Charge:	\$12.26 per kW first 1000
Over 1000 kW -	\$14.35 per kW
Energy Charge:	
All kWh per month	4.386 cents per kWh

**OUTDOOR LIGHTING POWER RATE**

<u>Type of Fixture</u>	<u>Lamp Size (Watts)</u>	<u>Monthly Charge</u>
High Pressure Sodium	150	\$ 6.20
	400	\$14.12
	1000	\$30.51
Mercury Vapor	400	\$10.93
Metal Halide	175	\$ 5.56
LED	150	\$ 8.59
	400	\$13.30

Source: City of Newport Electric Department.

**PENSION PLANS (401k)**

The System contributes to the Newport Utilities Board 401(k) Retirement Plan (“401(k) plan”), a defined contribution plan, for its eligible employees. Eligible employees include Electric and Broadband System and Water and Sewer System Employees. Employees become eligible to participate after having completed six months of service and attained the age of 21. The 401(k) plan is administered by a third-party administrator at the direction of the System’s board of directors.



For additional information on the funding status, trend information and actuarial status of the City's retirement programs, please refer to the appropriate Notes to Financial Statements located in the General Purpose Financial Statements of the City attached herein.

## **UNFUNDED ACCRUED LIABILITY FOR POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

GASB Statement 45 establishes standards for the measurement, recognition, and display of Other Post-Employment Benefits (“OPEB”) in the financial reports of state and local government employers. GASB 45 requires the recognition of the accrued liability for the respective year, plus the disclosure of the total unfunded liability. Cash funding of the unfunded liability is not required.

Newport Utility’s Retiree Medical Insurance Plan (the “Plan”), provides medical insurance benefits to eligible retirees and their spouses. The Plan is a single-employer defined benefit OPEB plan administered by the System. No assets are accumulated in a trust that meet the criteria in paragraph 4 of Statement 75. For more information see the Note #10 to the General Purpose Financial Statements located herein.

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**CITY OF NEWPORT, TENNESSEE**  
**ELECTRIC SYSTEM**

Summary of Bonded Indebtedness

AMOUNT ISSUED	PURPOSE	DUE DATE	INTEREST RATE(S)	(1) As of June 30, 2019 OUTSTANDING
\$ 22,500,000	(2) Electric System Bond Anticipation Notes, Series 2018	Sept. 2020	Fixed	\$ 22,500,000
14,500,000	(2) Electric System Bond Anticipation Notes, Series 2019	Sept. 2020	Fixed	14,500,000
\$ 37,000,000	<b>TOTAL BONDED DEBT</b>			\$ 37,000,000
\$ 64,995,000	(2) Electric System Revenue Bonds, Series 2019	May 2047	Fixed	\$ 64,995,000
(37,000,000)	(3) Less: Refunded Series 2018 BAN and Series 2019 BAN			(37,000,000)
<b>\$ 64,995,000</b>	<b>NET TOTAL DEBT</b>			<b>\$ 64,995,000</b>

**NOTES:**

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

(2) Revenue-only bonds.

(3) The Electric System Bond Anticipation Notes, Series 2018 and the Electric System Bond Anticipation Notes, Series 2019 will be paid in full with the issuance of the Electric System Revenue Bonds, Series 2019.

**CITY OF NEWPORT, TENNESSEE**  
ELECTRIC SYSTEM  
BONDED DEBT SERVICE REQUIREMENTS - Electric System

F. Y. Ended	Existing Debt - Electric System (1) - As Of 6-30-2019		Electric System Revenue Bonds, Series 2019		Refunded or Defeased Bonds		Debt Service Requirements (1)		% All Principal Repaid
	Principal	Interest	Principal	Interest (2)	Principal	Interest	Principal	Interest	
2020	\$ 725,000	\$ 991,665	\$ 1,718,438	\$ 1,718,438	\$ (725,000)	\$ (991,665)	\$ -	\$ 1,718,438	0.00%
2021	362,275,000	520,845	2,291,250	2,291,250	(36,275,000)	(520,845)	-	2,291,250	
2022	-	-	2,291,250	2,291,250	-	-	100,000	2,291,250	
2023	-	-	1,535,000	2,286,250	-	-	1,535,000	2,286,250	
2024	-	-	1,610,000	2,209,500	-	-	1,610,000	2,209,500	
2025	-	-	1,695,000	2,129,000	-	-	1,695,000	2,129,000	4.99%
2026	-	-	1,775,000	2,044,250	-	-	1,775,000	2,044,250	
2027	-	-	1,865,000	1,955,500	-	-	1,865,000	1,955,500	
2028	-	-	1,960,000	1,862,250	-	-	1,960,000	1,862,250	
2029	-	-	2,055,000	1,764,250	-	-	2,055,000	1,764,250	19.38%
2030	-	-	2,160,000	1,661,500	-	-	2,160,000	1,661,500	
2031	-	-	2,270,000	1,553,500	-	-	2,270,000	1,553,500	
2032	-	-	2,360,000	1,462,700	-	-	2,360,000	1,462,700	
2033	-	-	2,455,000	1,368,300	-	-	2,455,000	1,368,300	
2034	-	-	2,525,000	1,294,650	-	-	2,525,000	1,294,650	37.49%
2035	-	-	2,600,000	1,218,900	-	-	2,600,000	1,218,900	
2036	-	-	2,680,000	1,140,900	-	-	2,680,000	1,140,900	
2037	-	-	2,760,000	1,060,500	-	-	2,760,000	1,060,500	
2038	-	-	2,845,000	977,700	-	-	2,845,000	977,700	
2039	-	-	2,930,000	892,350	-	-	2,930,000	892,350	58.74%
2040	-	-	3,015,000	804,450	-	-	3,015,000	804,450	
2041	-	-	3,105,000	714,000	-	-	3,105,000	714,000	
2042	-	-	3,200,000	620,850	-	-	3,200,000	620,850	
2043	-	-	3,295,000	524,850	-	-	3,295,000	524,850	
2044	-	-	3,395,000	426,000	-	-	3,395,000	426,000	83.38%
2045	-	-	3,495,000	324,150	-	-	3,495,000	324,150	
2046	-	-	3,600,000	219,300	-	-	3,600,000	219,300	100.00%
2047	-	-	3,710,000	111,300	-	-	3,710,000	111,300	
			<u>\$ 37,000,000</u>	<u>\$ 1,512,510</u>	<u>\$ 37,000,000</u>	<u>\$ (1,512,510)</u>	<u>\$ 64,995,000</u>	<u>\$ 36,927,838</u>	
			<u>\$ 38,512,510</u>	<u>\$ 38,512,510</u>	<u>\$ (38,512,510)</u>	<u>\$ (38,512,510)</u>	<u>\$ 101,922,838</u>	<u>\$ 101,922,838</u>	

**NOTES:**

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

(2) Average Coupon of 3.2435%.

**CITY OF NEWPORT, TENNESSEE**  
**ELECTRIC SYSTEM**  
Changes In Fund Balances - Electric System  
For the Fiscal Year Ended June 30

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b>Revenues:</b>					
Sale of electric energy	\$ 51,172,535	\$ 50,145,195	\$ 47,979,864	\$ 50,264,875	\$ 52,757,695
Other electric revenue	1,445,443	1,488,442	1,478,646	1,757,193	1,681,863
<b>Total Revenues</b>	<u>\$ 52,617,978</u>	<u>\$ 51,633,637</u>	<u>\$ 49,458,510</u>	<u>\$ 52,022,068</u>	<u>\$ 54,439,558</u>
Purchased Power	\$ 41,723,333	\$ 40,333,339	\$ 37,807,120	\$ 39,918,697	\$ 42,048,769
<b>Operating Expenses:</b>					
Distribution	1,775,104	1,487,124	1,538,360	1,369,181	1,182,577
Operations	1,310,645	1,449,551	1,594,276	1,723,473	1,970,079
Administration	1,059,416	1,124,786	1,313,478	2,048,201	1,882,179
Maintenance	1,741,582	1,495,041	1,616,320	2,054,248	2,376,927
Taxes	-	-	-	-	-
<b>Total before Depreciation</b>	<u>\$ 5,886,747</u>	<u>\$ 5,556,502</u>	<u>\$ 6,062,434</u>	<u>\$ 7,195,103</u>	<u>\$ 7,411,762</u>
Depreciation	2,394,299	2,572,214	2,809,699	3,052,303	3,205,498
<b>Total Operating Expenses</b>	<u>\$ 8,281,046</u>	<u>\$ 8,128,716</u>	<u>\$ 8,872,133</u>	<u>\$ 10,247,406</u>	<u>\$ 10,617,260</u>
<b>Total Expenses</b>	<u>\$ 50,004,379</u>	<u>\$ 48,462,055</u>	<u>\$ 46,679,253</u>	<u>\$ 50,166,103</u>	<u>\$ 52,666,029</u>
Operating Income	\$ 2,613,599	\$ 3,171,582	\$ 2,779,257	\$ 1,855,965	\$ 1,773,529
<b>Non-Operating Revenues (Expenses):</b>					
Interest Income	130,548	103,225	99,283	86,197	60,832
Interest Expense	(103,200)	(89,842)	(76,111)	(76,001)	(75,989)
Amortization of debt expense	-	-	-	-	-
Loss on disposal of obsolete meters	-	-	-	-	-
Miscellaneous	1,112	(198)	(115)	(636)	(7,125)
Intergovernmental - in lieu of Tax	(270,165)	(276,242)	(321,216)	-	-
<b>Total</b>	<u>\$ (241,705)</u>	<u>\$ (263,057)</u>	<u>\$ (298,159)</u>	<u>\$ 9,560</u>	<u>\$ (22,282)</u>
Income Before Contributions and Transfer	2,371,894	2,908,525	2,481,098	1,865,525	1,751,247
Capital Contributions	-	-	-	-	-
Intergovernmental - in lieu of tax	(930,569)	(951,498)	(1,106,410)	(1,487,442)	(1,587,168)
Change in Net Position	<u>\$ 1,441,325</u>	<u>\$ 1,957,027</u>	<u>\$ 1,374,688</u>	<u>\$ 378,083</u>	<u>\$ 164,079</u>
<b>Net Position - July 1</b>	55,970,761	57,412,086	59,369,113	60,743,801	61,121,884
Prior Year Adjustments	-	-	-	-	(352,842)
<b>Net Position - June 30</b>	<u><u>\$ 57,412,086</u></u>	<u><u>\$ 59,369,113</u></u>	<u><u>\$ 60,743,801</u></u>	<u><u>\$ 61,121,884</u></u>	<u><u>\$ 60,933,121</u></u>

Source: Comprehensive Annual Financial Reports for the City of Newport Electric System.

**CITY OF NEWPORT, TENNESSEE**  
**ELECTRIC SYSTEM**

Historical Coverage Of Performa Maximum Annual Debt Service Requirements - Electric System  
For Fiscal Year Ended June 30

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Operating Revenue	\$ 52,617,978	\$ 51,633,637	\$ 49,458,510	\$ 52,022,068	\$ 54,439,558
Operating Expenses	<u>47,610,080</u>	<u>45,889,841</u>	<u>43,869,554</u>	<u>47,113,800</u>	<u>49,460,531</u>
Net Operating Revenue Before Interest Expense, Depreciation, Amortization & Taxes	5,007,898	5,743,796	5,588,956	4,908,268	4,979,027
Other Income Before Interest Expense, Depreciation, Amortization & Taxes	<u>130,548</u>	<u>103,225</u>	<u>99,283</u>	<u>86,197</u>	<u>60,832</u>
Income Available For Debt Service	<u><u>\$ 5,138,446</u></u>	<u><u>\$ 5,847,021</u></u>	<u><u>\$ 5,688,239</u></u>	<u><u>\$ 4,994,465</u></u>	<u><u>\$ 5,039,859</u></u>
Projected Maximum Debt Service Requirements on all Electric Debt (2025)	\$ 3,824,000	\$ 3,824,000	\$ 3,824,000	\$ 3,824,000	\$ 3,824,000
Bond Coverage	1.34 x	1.53 x	1.49 x	1.31 x	1.32 x

Source: Comprehensive Annual Financial Reports for the City of Newport Electric System.

# THE CITY OF NEWPORT

## LOCATION

Newport (the “City”) is the county seat of Cocke County (the “County”). The City is located in the northeastern portion of Tennessee, about 50 miles east of Knoxville and about 60 miles northwest of Asheville, North Carolina. Geographically the County lies against the Appalachian mountain range that forms the western boundary of North Carolina and hosts the Cherokee National Forest, the Martha Sundquist State Forest, and the eastern entrance to The Great Smoky Mountains National Park. Six miles of the Appalachian Trail traverses Cocke County. Jefferson and Hamblen Counties lie to the north, and Greene County lies to the east.

## GENERAL

The County, with a land area of approximately 276,500 acres or 432 square miles, is an average-sized county in the State of Tennessee. Farming is a vital part of the County's economic base with 65% of the County's land area devoted to agriculture. The predominant products are tobacco, tomatoes, corn and soybeans, while beef, dairy and poultry farming are also an important part of the farming community.

Newport was designated a Micropolitan Statistical Area (the “mSA”) that had a population of 35,662 according to the 2010 US Census. An mSA is defined by the U.S. Census Bureau as a non-urban community that is anchored by a town of no more than 50,000 residents.

The County is also part of the Knoxville-Sevierville-Harriman Combined Statistical Area (the “CSA”). According to the 2010 Census, the CSA had a population of 1,056,442. The CSA includes Roane, Anderson, Blount, Knox, Loudon, Union, Grainger, Hamblen, Jefferson, Campbell, Cocke and Sevier Counties. The City of Knoxville is the largest city in the CSA with a population of 178,874 according to the 2010 Census. According to the 2010 Census, Cocke County's population was 35,662 persons and Newport was 6,945.

## TRANSPORTATION

The County has approximately 845 miles of County-wide road network and approximately 22 miles of interstate roadway traversing the County. More specifically, Interstate Highway 40, U.S. Highways 25, 70, 25E, 411 and State Highways 9, 32, 35, 73, 321 and 339 all serve the County. Large percentage of visitors to the Great Smoky Mountains National Park travel via these routes. Railroad service is provided by the Norfolk/Southern Railroad. The community's air service is served by the Moore-Murrell airport in Morristown, about 18 miles away. It has a 5,700-foot asphalt runway. The nearest commercial airport is the McGee Tyson Airport in Knoxville, about 61 miles away.

## EDUCATION

The *Cocke County School System* is made-up of twelve public schools, which include nine K-8 elementary schools, one middle school and two senior high schools. The system had a

fall 2017 total student enrollment of 4,458 students with about 306 teachers. In addition to the County system, the *City of Newport* has an independent elementary school. The fall 2017 enrollment was 669 students with about 43 teachers.

*Source:* Tennessee Department of Education.

*The Tennessee College of Applied Technology at Morristown.* The Tennessee College of Applied Technology at Morristown (the “TCAT-M”) is part of a statewide system of 26 vocational-technical schools. The TCAT-M meets a Tennessee mandate that no resident is more than 50 miles from a vocational-technical shop. The institution’s primary purpose is to meet the occupational and technical training needs of the citizens including employees of existing and prospective businesses and industries in the region. The TCAT-M serves the northeast region of the state including Greene, Cocke, Jefferson, Hancock, Hawkins, Claiborne, Grainger, Sevier and Hamblen Counties. The TCAT-M main campus is located in Hamblen County. Fall 2016 enrollment was 1,106 students. There are three satellite campuses for Morristown: Tazewell, Claiborne County; Greeneville, Greene County; and Sevierville, Sevier County.

*Source:* Tennessee College of Applied Technology at Morristown and TN Higher Education Commission.

*Walters State Community College*, a public two-year higher education institution founded in 1970, is located in Morristown, Tennessee. The college offers programs of study that lead to the Associate of Science, Associate of Arts, and Associate of Applied Science degrees. Fall 2017 enrollment was 6,125 students. There are four principal campuses in Hamblen, Sevier, Greene, and Claiborne counties.

Walters State serves ten predominantly rural East Tennessee counties in the mountains and foothills of the Great Smokies and Clinch Mountains. The primary service area includes the counties of Claiborne, Cocke, Grainger, Greene, Hamblen, Hancock, Hawkins, Jefferson, Sevier, and Union.

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

## HEALTH CARE

*Newport Medical Center* (previously Baptist Hospital of Cocke County) is classified as a general acute care facility and is licensed by the State of Tennessee to operate 74 beds. Services provided by the hospital include a 24-hour emergency room, a laboratory, a pharmacy, a Maternal Infant Care Unit, a Critical Care Unit, same-day surgery, EKG's, CT scans, ultrasounds, mammography, nuclear medicine, physical therapy and imaging services. Newport Medical Center is owned and operated by Tennova Healthcare. Tennova Healthcare was acquired by one of the largest for-profit hospital companies in the country, Community Health Systems, Inc. (the “CHS”). CHS is one of the nation's leading operators of general acute care hospitals based in Brentwood, TN. The organization’s affiliates own, operate or lease 127 hospitals in 20 states with approximately 21,000 licensed beds. There are sixteen CHS hospitals in Tennessee.

*Source:* Community Health Systems.

*Mariner Health Care Center* also provides services to Newport. The Center is licensed by the State of Tennessee as an Intermediate and Skilled Level care facility. Mariner Health Center is a privately owned facility and offers 150 beds and a twenty-four-hour licensed nursing

staff, as well as doctors on call at all times. The Center offers Physical Therapy, Occupational Therapy, and Speech Therapy, all by certified professionals.

**MANUFACTURING AND COMMERCE**

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

**Major Employers in Cocke County**

<u>Company</u>	<u>Product</u>	<u>Employment</u>
ConAgra Grocery Products	Van Camp/Wolfe Products	475
Wal-Mart	Retail Sales	375
Cocke County Schools*	Education	398
Newport Medical Center	Medical Services	335
Cocke County Government	Government	220
Food City	Retail	214
Sonoco Products Company	Paperboard, Cores	171
American Appliance Products	Wire Fabrication	165
Lowe's Home Improvement	Retail	145
Commercial Furniture Group	Manufacturer	141
Newport Health & Rehab Center	Medical Services	140
Eastern Plating, Inc.	Chrome and Zinc Plating	136
City of Newport	Government	125
Cracker Barrel	Restaurant	110
Newport Grammar School*	Education	66

\* Teachers, administrators and staff only.  
 Source: Cocke County Partnership - 2018.

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## EMPLOYMENT INFORMATION

For the month of March 2019, the unemployment rate for the Newport mSA and Cocke County stood at 4.7% with 14,370 persons employed out of a labor force of 15,080. As of March 2019, the unemployment rate in the Knoxville-Sevierville-Harriman CSA stood at 3.3%, representing 539,600 persons employed out of a workforce of 557,950.

	Unemployment				
	Annual Average	Annual Average	Annual Average	Annual Average	Annual Average
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
National	6.2%	5.3%	4.9%	4.4%	3.6%
Tennessee	6.6%	5.6%	4.7%	3.8%	3.5%
<b>Newport mSA &amp; Cocke County</b>	<b>9.0%</b>	<b>7.8%</b>	<b>6.3%</b>	<b>5.3%</b>	<b>4.7%</b>
Index vs. National	145	147	129	120	131
Index vs. State	136	139	134	139	134
<b>Knoxville-Sevierville-Harriman CSA</b>	<b>6.4%</b>	<b>5.5%</b>	<b>4.6%</b>	<b>3.7%</b>	<b>3.4%</b>
Index vs. National	103	104	94	84	94
Index vs. State	97	98	98	97	97

Source: Tennessee Department of Labor and Workforce Development

## ECONOMIC DATA

	Per Capita Personal Income				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
National	\$44,826	\$47,025	\$48,940	\$49,831	\$51,640
Tennessee	\$39,549	\$40,977	\$42,810	\$43,932	\$45,517
<b>Newport mSA &amp; Cocke County</b>	<b>\$28,107</b>	<b>\$28,414</b>	<b>\$29,768</b>	<b>\$30,436</b>	<b>\$31,362</b>
Index vs. National	63	60	61	61	61
Index vs. State	71	69	70	69	69
<b>Knoxville-Sevierville-Harriman CSA</b>	<b>\$36,786</b>	<b>\$38,233</b>	<b>\$39,953</b>	<b>\$40,847</b>	<b>\$42,102</b>
Index vs. National	82	81	82	82	82
Index vs. State	93	93	93	93	92

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

## Social and Economic Characteristics

	<u>National</u>	<u>Tennessee</u>	<u>Cocke County</u>	<u>Newport</u>
Median Value Owner Occupied Housing	\$193,500	\$151,700	\$107,200	\$89,600
% High School Graduates or Higher Persons 25 Years Old and Older	87.30%	86.50%	79.0%	82.4%
% Persons with Income Below Poverty Level	12.30%	15.00%	23.0%	40.8%
Median Household Income	\$57,652	\$48,708	\$32,027	\$22,127

*Source:* U.S. Census Bureau State & County QuickFacts - 2017.

### RECREATION

*Appalachian National Scenic Trail (the “AT”).* The Appalachian Trail is a 2,175-mile long footpath stretching through 14 eastern states from Maine to Georgia. It can be accessed in Cocke County though the Great Smokey Mountain National Park. Conceived in 1921 and first completed in 1937, it traverses the wild, scenic, wooded, pastoral, and culturally significant lands of the Appalachian Mountains. The AT is enjoyed by an estimated 4 million people each year.

*Source:* National Park Service.

*Cherokee National Forest (the “CNF”).* The Cherokee National Forest is located in Eastern Tennessee and stretches from Polk, Monroe, Cocke, Greene, Unicoi, Carter and Johnson Counties along the North Carolina border. The 640,000-acre forest is the largest tract of public land in Tennessee. It lies in the heart of the Southern Appalachian mountain range, one of the world's most diverse areas. These mountains are home to more than 20,000 species of plants and animals. Also popular are the 650 miles of hiking trails and the 500 miles of streams for fishing. Each year millions of people visit Tennessee's Cherokee National Forest. The area is the former homeland of the Cherokee Indians and is Tennessee's only National Forest. National forests are lands of many uses. The original purpose for their creation was to protect water quality and provide a continuous supply of timber. Today the national forest mission includes outdoor recreation, wildlife and fish habitat, wilderness, water quality, minerals, wood products, and much more.

*Source:* USDA Forest Service.

*Douglas Dam and Reservoir.* Work on Tennessee Valley Authority’s (“TVA”) Douglas Dam in the City of Dandridge along the French Broad River began in February 1942 and was completed on a crash schedule in just 12 months and 17 days. The construction of Douglas set a world record for projects of equivalent size. Douglas Dam is 202 feet high and stretches 1,705 feet across the French Broad River. The water used to generate power at Douglas is used again and again at the nine TVA hydroelectric plants located along the Tennessee River from Knoxville to Paducah, Kentucky. The generating capacity of Douglas’s four units combined is 165,600 kilowatts of electricity.

The Douglas Reservoir extends 43 miles upriver from the Dam through the foothills of the Great Smoky Mountains. It travels through Jefferson, Sevier, Cocke and Hamblen Counties. Douglas and other TVA reservoirs built during World War II made a historic contribution, providing hydropower to drive the war effort. Under normal conditions, Douglas stores spring rainwater for release during the dry summer and fall months to maintain adequate depth for navigation on the Tennessee River and to generate electricity. Set against the backdrop of the lush, green Smoky Mountain foothills, Douglas attracts two million recreation visitors a year. Picnicking, camping, boating, and fishing are all popular activities at the Reservoir.

*Source:* Tennessee Valley Authority.

*Great Smoky Mountains National Park (the "Park").* The Great Smoky Mountains National Park straddles the border between North Carolina and Tennessee in Blount and Sevier Counties and the southern part of Cocke County. Monroe County is located southwest of the Park. Over 500,000 acres were set aside in 1934 to form the Park. It includes 97 historic and 342 modern structures that are maintained by the Park. The Park is a hiker's paradise with over 800 miles of maintained trails, including the Appalachian Trail. The Smoky Mountains have the most biological diversity of any area in the world's temperate zone. Located in the center of the eastern half of the United States, the Park is readily accessible to 70% of the country's population. Each year it draws the largest attendance of any of the National Parks in the United States.

In 2008 construction was completed to build a \$4.5 million Twin Creeks Science and Education Center near Gatlinburg. And in late 2009 construction was completed on the \$3 million Oconoluftee Visitor Center near Cherokee, N.C. These are the first new major buildings to be built in the Park since the Sugarlands Visitor Center opened in 1964 at the Gatlinburg entrance.

*Source:* National Park Service.

*Martha Sundquist State Forest.* Martha Sundquist State Forest has about 2,001 acres and is located in Cocke County near the North Carolina-Tennessee border. It is surrounded by the Cherokee National Forest on three sides. This tract is considered a wildlife management area and has special provisions for bear hunting. It is used primarily for recreation, hunting, fishing, timber production, and demonstration.

*Source:* Tennessee Wildlife Resources Agency.

*Recreational Rivers.* There are three rivers that run through the County: The Nolichucky, Pigeon and French Broad Rivers. The Nolichucky spans Blue Ridge Mountains in North Carolina and ends in Cocke County. It forms the county lines on Hamblen and Greene Counties borders. The stream is a popular white water rafting and canoeing destination since it has stretches of both white water areas and calm water. The Pigeon River has recreational rafting popular in two sections of the river, the Upper and the Lower. Both sections are found in Hartford, Tennessee. The Upper section begins at the powerhouse (located right on the North Carolina/Tennessee border) and features exciting Class III-IV whitewater rapids. The French Broad River also flows from North Carolina into Tennessee, approximately 33 river miles in Cocke County. Its confluence with the Holston River at Knoxville, Tennessee is considered to be the headwaters of the Tennessee River.



## **APPENDIX C**

### **SUMMARY OF CERTAIN PROVISIONS OF THE ELECTRIC RESOLUTION**



## SUMMARY OF RESOLUTION

The following is a summary of the bond resolution authorizing the issuance of the city of Newport's Electric System Revenue Bonds, Series 2019.

### ARTICLE I DEFINITIONS

The following terms shall have the following meanings in this resolution unless the text expressly or by necessary implication requires otherwise:

"Acquired System" shall mean any electrical power generation, transmission and/or distribution system acquired by the Municipality or NU and/or any such facilities hereafter constructed or otherwise established by the Municipality or NU pursuant to the Act.

"Act" shall mean Sections 7-34-101 et seq., Tennessee Code Annotated.

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

"Board" means the Board of Directors of NU.

"Bond Fund" shall mean the Series 2019 Principal and Interest Sinking Fund established pursuant to Section 6.1(b) hereof.

"Bonds" means the Series 2019 Bonds and any Parity Bonds.

"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.

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

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

"Consulting Engineer" means (i) an engineering firm or individual engineer employed by the NU with substantial experience in advising municipal electric power systems as to the construction and maintenance of such systems and in the projection of costs of expansion of such systems or (ii) an engineer or engineers who are employees of NU whose reports or projections are certified by a Financial Adviser.

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

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

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

(b) For the purpose of calculating the Debt Service Requirement on Balloon Indebtedness and Short-Term Indebtedness, at the option of NU, (i) the actual principal and interest on such Balloon Indebtedness and Short Term Indebtedness shall be included in the Debt Service Requirement, subject to the other assumptions contained herein, or (ii) such Balloon Indebtedness and Short Term Indebtedness shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period of 20 years at an assumed interest rate (which shall be the interest rate certified by a Financial Adviser to be the interest rate at which the Municipality could reasonably expect to borrow the same amount by issuing bonds with the same priority of lien as such Balloon Indebtedness and Short Term Indebtedness and with a 20-year term); provided, however, that if the maturity of such Balloon Indebtedness is in excess of 20 years from the date of issuance, then such Balloon Indebtedness shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period of years equal to the number of years from the date of issuance of such Balloon Indebtedness to maturity and at the interest rate applicable to such Balloon Indebtedness; provided further that this paragraph shall not be applicable for purposes of determining the Debt Service Requirement for purposes of Section 7.4 of this resolution unless the Municipality or NU has a written commitment from a bank, underwriting firm or other financial institution to refinance at least 90% of the principal amount of such Balloon Indebtedness or Short-Term Indebtedness coming due in the relevant Fiscal Year.

"Defeasance Obligations" shall mean direct obligations of, or obligations, the principal of and interest on which are 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.

"Financial Adviser" means an investment banking or financial/municipal advisory firm, commercial bank, or any other person who or which is retained by the Municipality or NU for the purpose of passing on questions relating to the availability and terms of specified types of debt obligations or the financial condition or operation of the System and is actively engaged in and, in the



good faith opinion of NU, has a favorable reputation for skill and experience in providing financial advisory services of the type with respect to which the Financial Adviser has been retained.

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

"Fiscal Year" means the twelve-month period commencing July 1<sup>st</sup> of each year and ending June 30<sup>th</sup> of the following year.

"Governing Body" means the City Council of the Municipality.

"Gross Earnings" means all revenues, rentals, earnings and income of the System from whatever source, determined in accordance with generally accepted accounting principles; proceeds from the sale of System property; proceeds of System-related 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 this 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 System); provided, however, at the election of the Board, the term "Gross Earnings" as used herein shall not include any revenues, rentals, earnings or other income received from the operation of an Acquired System, and any bonds or other obligations issued in connection with such Acquired System shall not be payable from or secured by Net Revenues or be deemed to be Parity Bonds.

"Loan Agreement" shall mean any agreement or contract entered into by the Municipality or NU whereby a third party agrees to advance funds to the Municipality or NU and the Municipality or NU agrees to repay those funds with interest from all or a portion of Gross Earnings.

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

"Maximum Annual Debt Service Requirement" means the maximum annual Debt Service Requirement for any Fiscal Year.

"Moody's" means Moody's Investors Service, Inc.

"Municipality" means the City of Newport, Tennessee.

"Net Revenues" shall mean (i) 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 and further excluding non-cash or non-recurring items, including but not limited to, non-cash contributions in aid of construction, less (ii) Operating Expenses.

"NU" means Newport Utilities, a board of public utilities formed pursuant to T.C.A. § 7-52-101 et seq.

"Operating Expenses" means and shall include but not be limited to, expenses for ordinary repairs, removals and replacements of the System, salaries and wages, employees' health, hospitalization, pension and retirement expenses, fees for services, materials and supplies, rents, administrative and

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

"Parity Bonds" means bonds, notes, Loan Agreements, and other debt obligations, including Balloon Indebtedness, Short-Term Indebtedness and Variable Rate Indebtedness, issued or entered into by the Municipality or NU on a parity with the Series 2019 Bonds herein authorized in accordance with the restrictive provisions of Article IX hereof, including any bonds or other obligations secured by a pledge of and/or lien on an Acquired System and the revenues derived from the operation of such Acquired System (provided such pledge and lien are subject only to normal and customary expenses of operating, maintaining, repairing and insuring any such System), so long as the Acquired System is not being operated separately from the System as is permitted herein or the revenues from such Acquired System are not excluded from Gross Earnings.

"Rate Covenant Requirement" means an amount of Net Revenues which is equal to the sum of: (a) 120% of the Debt Service Requirement for the forthcoming Fiscal Year plus (b) 100% of (i) the amounts, if any, required by the Resolution to be deposited by the Issuer into the Reserve Fund during the forthcoming Fiscal Year, (ii) debt service payable on, or reserve fund funding requirements for, any subordinate lien indebtedness, and (iii) any required payments in lieu of taxes to the Municipality or other governmental entities.

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

"Rating Agencies" or "Rating Agency" means Moody's and S&P, or any successors thereto and any other nationally recognized credit rating agency.

"Registration Agent" means Regions Bank, or any successor designated by the Governing Body.

"Reserve Fund" shall mean the Series 2019 Debt Service Reserve Fund established pursuant to Section 6.1(d) hereof.

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

"Reserve Fund Credit Facility Issuer" means the issuer of a Reserve Fund Credit Facility that is, at the time such Reserve Fund Credit Facility is procured by the Issuer, assigned a financial strength rating of at least "AA-" by S&P or "Aa3" by Moody's.

"Reserve Fund Requirement" means an amount determined from time to time by the Municipality as a reasonable reserve, if any, for the payment of principal of and interest on a series of Bonds pursuant, which shall be set forth in the supplemental resolution authorizing such Bonds. With respect to the Series 2019 Bonds authorized herein, the Reserve Fund Requirement shall be established by the Mayor of the Municipality and the Chairman of the Board pursuant to Article X hereof.

"Revenue Fund" shall have the meaning ascribed in Section 6.1 hereof.

"Series 2019 Bonds" means the electric system revenue bonds authorized to be issued by this resolution.

"Short-Term Indebtedness" means bonds, notes, Loan Agreements or other debt obligations, including Variable Rate Indebtedness, maturing five years or less from their date of issuance, issued by the Municipality or NU as Parity Bonds in accordance with the restrictive provisions of Article IX hereof.

"State" means the State of Tennessee.

"System" means the electrical power distribution system operated by NU, any electrical power distribution and/or transmission system hereafter acquired, constructed or otherwise established, including all improvements and extensions made by NU while the Bonds remain outstanding, and including all real and personal property of every nature comprising part of or used or useful in connection with the foregoing, and including all appurtenances, contracts, leases, franchises, and other intangibles; provided, however, at the election of the Board, an Acquired System may be included within the System as defined herein and become a part thereof or, at the election of the Board, not become a part of the System but be operated as a separate and independent system by NU with the continuing right, upon the election of the Board, to incorporate such separately Acquired System within the System.

"S&P" means S&P Global Ratings.

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

## **ARTICLE II. AUTHORIZATION AND TERMS OF THE SERIES 2019 BONDS**

(Reserved for Purposes of Summary)

**ARTICLE III.  
REDEMPTION**

(Reserved for Purposes of Summary)

**ARTICLE IV.  
SOURCE OF PAYMENT AND SECURITY**

The Bonds shall be payable solely from and secured by a pledge of the Net Revenues. The punctual payment of principal of and premium, if any, and interest on the Bonds shall be secured equally and ratably by the Net Revenues without priority by reason of series, number or time of sale or delivery. The Net Revenues are hereby irrevocably pledged to the punctual payment of such principal, premium, if any, and interest as the same become due. The Bonds do not constitute a debt of the State of Tennessee or the City of Newport (other than with respect to the Net Revenues).

**ARTICLE V.  
FORM OF SERIES 2019 BONDS**

(Reserved for Purposes of Summary)

**ARTICLE VI.  
APPLICATION OF REVENUES**

6.1 Application of Revenues. From and after the delivery of any of the Series 2019 Bonds hereunder, and as long as any of the Bonds shall be outstanding and unpaid either as to principal or as to interest, or until the discharge and satisfaction of all the Bonds, the Gross Earnings of the System shall be deposited as collected by NU to the Revenue Fund hereby established (the "Revenue Fund"), administered and controlled by the Board. The funds so deposited in the Revenue Fund created under this Series 2019 Resolution shall be used only as follows:

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

(b) Bond Fund. The money thereafter remaining in the Revenue Fund shall next be used to make deposits into a separate and special fund, to be known as the "Series 2019 Principal and Interest Sinking Fund" (the "Bond Fund") to be kept separate and apart from all other funds of NU and used to pay principal of and interest on the Bonds as the same become due, either by maturity or mandatory redemption. Such deposits shall be made monthly until the Bonds are paid in full or discharged and satisfied pursuant to Article XII hereof, beginning in the month next following delivery of the Series 2019 Bonds.

For the period commencing with the month next following the delivery of any Bonds, to and including the month of the next interest payment date for such Bonds, each monthly deposit as to interest shall be an amount that, together with all other monthly deposits of approximately equal amounts during such period and amounts otherwise in said Fund, will be equal to interest due on such Bonds on the next interest payment date, and for each six month period thereafter, each monthly deposit as to interest for such Bonds shall be an equal to not less than one-sixth (1/6<sup>th</sup>) of the interest coming due on such Bonds on the next interest payment date net of any interest earnings on such amounts.

For the period commencing with the month next following the delivery of any Bonds to and including the month of the next principal payment for such Bonds, each monthly deposit as to principal shall be an amount that, together with all other monthly deposits during such period and amounts otherwise in said Fund, will be equal to the principal due on such Bonds on the next principal payment date (provided that, in the event that the next principal payment date is more than 12 months following the month next following delivery of such Bonds, monthly deposits to the Bond Fund in respect of principal shall begin in the month which is 12 months prior to the month of the next principal payment date), and for each twelve-month period thereafter, each monthly deposit as to principal for such Bonds shall be an amount equal to not less than one-twelfth ( $1/12^{\text{th}}$ ) of the principal amount or Maturity Amount, as the case may be, coming due on such Bonds, whether by maturity or mandatory redemption, on the next principal payment date net of any interest earnings on such amounts.

No further deposit shall be required as to any Bonds when the Bond Fund balance is equal to or greater than the amount needed to pay interest on the next interest payment date, the total of the principal amounts payable, either by maturity or mandatory redemption, during the applicable twelve-month period. Notwithstanding the foregoing, deposits for payment of interest and principal on Variable Rate Indebtedness shall be made as set forth in the resolution authorizing such Variable Rate Indebtedness, and if interest is not paid semi-annually and/or principal is not paid annually with respect to any Bonds, the deposits may be adjusted by the Municipality or NU as provided in the resolution authorizing the issuance of such Bonds. Money in the Bond Fund shall be used and is hereby expressly pledged for the purpose of paying principal of and interest on the Bonds.

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

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

for the payment of which funds are not available in the Bond Fund. Funds in excess of the Reserve Fund Requirement may be released to be used by the Municipality for legally permissible purposes.

At the option of the Municipality, the Municipality may satisfy the Reserve Fund Requirement applicable to a series of Bonds, or a portion thereof, by providing for the benefit of owners of such series of Bonds a Reserve Fund Credit Facility or Facilities, at any time, in an amount not greater than the Reserve Fund Requirement applicable to such series of Bonds and release an equal amount of funds on deposit in the corresponding subaccount of the Reserve Fund to be used by the Municipality for legally permissible purposes. At any time during the term hereof, the Municipality shall have the right and option to substitute a new Reserve Fund Credit Facility or Facilities for any Reserve Fund Credit Facility or Facilities previously delivered, upon notice to the Registration Agent and the Reserve Fund Credit Facility Issuer or Issuers and delivery of a Reserve Fund Credit Facility or Facilities in substitution therefor. In the event of the issuance of Parity Bonds pursuant to the restrictive provisions of Article IX hereof with a Reserve Fund Requirement or the substitution of a Reserve Fund Credit Facility or Facilities for less than the full amount of the Reserve Fund Requirement, the Municipality shall satisfy the applicable Reserve Fund Requirement by depositing funds to the Reserve Fund or obtaining a Reserve Fund Credit Facility or Facilities, or any combination thereof, in an aggregate amount equal to the applicable Reserve Fund Requirement for the series of Bonds taking into account any funds then held therein or the amount of any Reserve Fund Credit Facility or Facilities then in effect.

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

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

Notwithstanding anything herein to the contrary, the Municipality may issue Parity Bonds without a Reserve Fund Requirement, as shall be specified in the bond resolution authorizing such Parity Bonds.

(e) Surplus Funds. The next available money in the Revenue Fund shall be used (i) to make payments in lieu of taxes to the Municipality and other governmental jurisdictions, (ii) for the purpose of the payment of principal of and interest on (including reasonable reserves therefor) any bonds or other obligations payable from revenues of the System, but junior and subordinate to the Bonds, and (iii) for any legally permissible purpose, as the Board shall determine.

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

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

## **ARTICLE VII. COVENANTS**

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

NU covenants that the System will be operated on a fully metered basis and that NU will bill customers of the System on a monthly basis and will establish and maintain policies and procedures for discontinuing service to customers with delinquent bills.

7.2 Insurance. The Municipality or NU (as applicable) shall maintain insurance on the properties of the System of a kind and in an amount which would normally be carried by private companies engaged in a similar type and size of business, provided, the Municipality and NU shall not be required to insure beyond the limits of immunity provided by Sections 29-20-101 et seq., Tennessee Code Annotated, or other applicable law. The proceeds of any such insurance, except public liability

insurance, shall be used to replace the part or parts of the System damaged or destroyed, or, if not so used, shall be placed in the Revenue Fund.

7.3 Books and Accounts; Audits. NU will cause to be kept proper books and accounts adapted to the System, will cause the books and accounts to be audited in accordance with GAAP at the end of each Fiscal Year by a recognized independent certified public accountant or a firm of such accountant or accountants and, upon written request, will make available to any registered owner of the Bonds the balance sheet and the profit and loss statement of NU as certified by such accountant or accountants.

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

7.4 Rate Covenant. NU shall, through the Board, will establish, fix, prescribe and collect rates, charges and fees for the sale or use of System services furnished by the Issuer which, together with other income, are reasonably expected to yield Net Revenues which are at least equal to the Rate Covenant Requirement for the forthcoming Fiscal Year. The Issuer agrees that should the annual financial statement made in accordance with the provisions of Section 7.3 disclose that during the period covered by such financial statement the Net Revenues were not at least equal to the Rate Covenant Requirement, the Issuer shall revise the schedule of rates, charges and fees insofar as is practicable and further revise Operating Expenses so as to produce the necessary Net Revenues as herein required. The Issuer shall revise the schedules of rates, charges and fees as provided in the preceding sentence within 120 days after the filing of the financial statements pursuant to Section 7.3.

7.5 Sale or Disposal of System. The Municipality and NU 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 otherwise disposed of or any of the System facilities sold at fair market value, provided that:

(a) The Municipality and NU are 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;

(b) Any sale proceeds will be applied either (A) to redemption of Bonds in accordance with the provisions governing repayment of Bonds in advance of maturity, or (B) to the purchase of Bonds at the market price thereof so long as such price does not exceed the amount at which the Bonds could be redeemed on such date or the next optional redemption date as set forth 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;



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

(d) If the facilities are being sold or disposed to an entity that is not a state or local government and the facilities were financed with the proceeds of Bonds the interest on which is excludable from gross income for federal income tax purposes, the Municipality or NU shall have received an opinion of nationally recognized bond counsel to the effect that such sale, lease, mortgage or other disposition will not jeopardize the exclusion from federal income taxation of interest on any Bonds then outstanding intended to be excludable from gross income for federal income tax purposes.

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

Notwithstanding anything elsewhere provided in this resolution, and without being subject to any of the foregoing restrictions, with the approval of NU, the Municipality shall have the right to sell, lease, transfer, or otherwise dispose of the System, as a whole or substantially as a whole, to any municipal corporation, county, political subdivision, governmental corporation, or governmental agency (each of which shall be included within the term "Transferee" as herein used), provided the Transferee thus acquiring the System from the Municipality will assume the performance of and be bound by all of the obligations of the Municipality and NU to the holders of the Bonds under the covenants and provisions of this resolution.

7.6 Budgets. Prior to the beginning of each Fiscal Year, the Board shall prepare, or cause to be prepared, and adopted an annual budget of estimated revenues, Operating Expenses, and capital expenditures for the System for the ensuing Fiscal Year in compliance with the rate covenant requirement set forth in Section 7.4, 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.

7.7 Franchises. Neither the Municipality nor NU will 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 or hereafter served by the Municipality or NU by any other public or private entity and will take all steps necessary and proper, including appropriate legal action to prevent any such entity from providing such service; provided, nothing herein contained shall prohibit the transfer or exchange of service areas to provide for more efficient operation of the System so long as NU is in full compliance with the covenants set forth herein immediately following such transfer or exchange.

7.8 Control of System. That for the purpose of assuring the efficient, impartial and nonpolitical operation of said system for the benefit of the Municipality and the Bondholders of the Bonds from time to time outstanding, the complete and independent control and operation of the system shall be vested in the Board, subject, however, to the obligation and duty on the part of said Board to carry out and perform faithfully all of the covenants and agreements contained in this resolution. Notwithstanding anything herein to the contrary, all obligations of the Municipality hereunder with respect to the Bonds and the System shall be exercised and fulfilled by NU, on behalf of the

Municipality. Nothing in this Section 7.8 is intended to limit the ability of the Municipality to dispose of the System in the manner described in Section 7.5.

### **ARTICLE VIII. REMEDIES OF BOND OWNERS**

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

If any default be made in the payment of principal 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 NU or the Municipality 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 Operating Expenses, and to apply the income and revenues thereof in conformity with the provisions of this resolution.

### **ARTICLE IX. PROHIBITION OF PRIOR LIEN; PARITY BONDS**

9.1 Prohibition of Prior Liens. Neither the Municipality nor NU will issue other bonds or obligations of any kind or nature payable from or enjoying a lien on the revenues of the System having priority over the Bonds.

9.2 Parity Bonds. Additional bonds, notes, Loan Agreements or obligations may hereafter be issued on a parity with the Bonds under the following conditions but not otherwise:

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

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

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

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

(i) There shall have been procured and filed with NU a report by a Financial Adviser or a certificate by the Chairman of the Board, or his designee, to the effect that the

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

(ii) NU shall have received, at or before issuance of the Parity Bonds, a report from a Financial Adviser or a certificate of the Chairman of the Board, or his designee, to the effect that (x) the payments required to be made into the Bond Fund have been made and the balance in the Bond Fund is not less than the balance required hereby as of the date of issuance of the proposed Parity Bonds; and (y) the Reserve Fund is funded to the Reserve Fund Requirement and will be funded to the Reserve Fund Requirement immediately following the issuance of the proposed Parity Bonds.

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

(iv) The Chairman of the Board shall have certified, by written certificate dated as of the date of issuance of the Parity Bonds, that NU is in compliance with all requirements of this resolution.

(c) Upon the determination of NU to combine an Acquired System into the System, all outstanding Bonds and any bonds, notes and other obligations of the Acquired System outstanding upon such combination may, at the election of NU, be payable from Net Revenues of the combined System on a parity and equality of lien with each other, provided that there shall be filed with NU:

(i) a report by a Financial Adviser or a certificate by the Chairman of the Board, or his designee the Net Revenues of such combined System for a period of 12 consecutive months of the most recent 18 consecutive months prior to such combination were equal to at least 120% of the Maximum Annual Debt Service Requirement on all Bonds and any bonds, notes and other obligations of the Acquired System which will be outstanding immediately after the combination, provided, however, (w) the report or certificate may contain pro forma adjustments to historical related Net Revenues equal to the increased annual amount of Net Revenues attributable to improvements to the System that had

been placed in service prior to the combination and that are not fully reflected in the historical related Net Revenues actually received during such historical period used, (x) the report or certificate may contain pro forma adjustments to historical related Net Revenues equal to 100% of the increased annual amount attributable to any revision in the schedule of rates, fees, and charges for the services and facilities furnished by the System, imposed prior to the date of the combination and not fully reflected in the historical related Net Revenues actually received during such historical period used; and (y) if the Municipality or NU has entered into a contract to furnish services of the System that is not fully reflected in the historical Net Revenues of the System, such historical Net Revenues may be adjusted to include the anticipated Net Revenues from such contract.

(ii) A certificate of the Chairman of the Board, as of the date of the combination, that NU is in compliance with all requirements of this resolution.

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

**ARTICLE X.  
SALE OF THE SERIES 2019 BONDS**

(Reserved for Purposes of Summary)

**ARTICLE XI.  
DISPOSITION OF BOND PROCEEDS**

(Reserved for Purposes of Summary)

**ARTICLE XII.  
DISCHARGE AND SATISFACTION OF BONDS**

If the Municipality or NU shall pay and discharge the indebtedness evidenced by all or any portion of the Bonds in any one or more of the following ways:

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

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

such redemption shall have been given or adequate provision shall have been made for the giving of such notice);

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

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

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

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

### **ARTICLE XIII. MODIFICATION OF RESOLUTION**

13.1 Amendment Without Bondholder Consent. This 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 herein; provided such amendment shall not adversely affect the registered owners, without taking into account any bond insurance policy.

13.2 Other Amendments. In addition to the amendments to this resolution without the consent of registered owners as referred to in Section 13.1 above, the registered owners of a majority in aggregate principal amount of the Bonds at any time outstanding (not including in any case any Bonds which may then be held or owned by or for the account of the Municipality 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 Municipality) 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 this resolution; provided, however, that this resolution may not be so modified or amended in such manner, without the consent of 100% of the registered owners of the Bonds, as to:

- (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; or
- (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.

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

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

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

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

The fact and date of the execution of any instrument under the provisions of this Section may be proved by the certificate of any officer in any jurisdiction who by the laws thereof is authorized to take acknowledgments of deeds within such jurisdiction, that the person signing such instrument

acknowledged before him the execution thereof, or may be proved by an affidavit of a witness to such execution sworn to before such officer.

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

Notwithstanding the foregoing, if any Bonds are insured by a bond insurance policy, the bond insurer issuing such bond insurance policy shall be entitled to consent to any modifications to this Resolution on behalf of the owners of the Bonds insured by such bond insurer, provided that no bond insurer shall be entitled to consent to any modifications to this Resolution that require the unanimous consent of the owners of the Bonds as described above.

**ARTICLE XIV.  
OFFICIAL STATEMENT**

(Reserved for Purposes of Summary)

**ARTICLE XV.  
FEDERAL TAX COVENANTS**

NU and the Municipality recognize that the purchasers and holders of the Series 2019 Bonds will have accepted them on, and paid therefor a price that reflects, the understanding that interest thereon is excluded from gross income for purposes of federal income taxation under laws in force on the date of delivery of the Series 2019 Bonds. Accordingly, the Municipality and NU agree that they shall take no action that may render the interest on any of said Series 2019 Bonds subject to federal income taxation. It is the reasonable expectation of the Municipality and NU that the proceeds of the Series 2019 Bonds will not be used in a manner which will cause the Series 2019 Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Internal Revenue Code of 1986, as amended (the "Code"), including any lawful regulations promulgated or proposed thereunder, and to this end the said proceeds of the Series 2019 Bonds and other related funds established for the purposes herein set out, shall be used and spent expeditiously for the purposes described herein.

The Municipality and NU further covenant and represent that in the event they shall be required by Section 148(f) of the Code to pay any investment proceeds of the Series 2019 Bonds to the United States government, they will make such payments as and when required by said Section and will take such other actions as shall be necessary or permitted to prevent the interest on the Series 2019 Bonds from becoming subject to inclusion in the gross income for purposes of federal income taxation. The Mayor of the Municipality, the City Recorder and the Chairman of the Board, or any one of them, is authorized and directed to make such certifications in this regard in connection with the sale of the Series 2019 Bonds as any or all shall deem appropriate, and such certifications shall constitute a representation and certification of the System.

**ARTICLE XVI.  
CONTINUING DISCLOSURE**

NU hereby covenants and agrees that it will provide financial information and event notices if and as required by Rule 15c2-12 of the Securities Exchange Commission for the Series 2019 Bonds. The Mayor of the Municipality or the Chairman of the Board is authorized to execute at the closing of the

sale of the Series 2019 Bonds, an agreement for the benefit of and enforceable by the owners of the Series 2019 Bonds specifying the details of the financial information and material event notices to be provided and its obligations relating thereto. Failure of NU to comply with the undertaking herein described and to be detailed in said closing agreement, shall not be a default hereunder, but any such failure shall entitle the owner or owners of any of the Series 2019 Bonds to take such actions and to initiate such proceedings as shall be necessary and appropriate to cause NU to comply with its undertaking as set forth herein and in said agreement, including the remedies of mandamus and specified performance.

## **ARTICLE XVII. MISCELLANEOUS**

17.1 Resolution a Contract. The provisions of this resolution shall constitute a contract between the Municipality, NU and the registered owners of the Bonds, and after the issuance of the Series 2019 Bonds, no change, variation or alteration of any kind in the provisions of this resolution shall be made in any manner, except as provided in Article XIII hereof, until such time as the Bonds shall have been paid in full or discharged pursuant to Article XII hereof.

17.2 Repeal of Conflicting Resolutions and Effective Date. All other resolutions and orders, or parts thereof, in conflict with the provisions of this resolution are, to the extent of such conflict, hereby repealed and this resolution shall be in immediate effect from and after its adoption.

17.3 Separability. If any section, paragraph or provision of this resolution shall be held to be invalid or unenforceable for any reason, the invalidity or unenforceability of such section, paragraph or provision shall not affect any of the remaining provisions of this resolution.

17.4 Authority. The bonds authorized by this resolution are issued pursuant to the Act and other applicable provisions of law.



**APPENDIX D**

**FINANCIAL STATEMENTS**

**THE CITY OF NEWPORT, TENNESSEE  
NEWPORT ELECTRIC AND BROADBAND SYSTEM**



NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD

Financial Statements  
With Supplementary Information

Year Ended June 30, 2018

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Financial Statements  
With Supplementary Information  
Year Ended June 30, 2018

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NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Roster of Officials and Board Members  
Year Ended June 30, 2018

Officials

Glenn Ray  
Andrew Mize  
Jimmy Robertson  
Connie Frisbee  
Carmen Lichty

General Manager  
Manager of Accounting and Finance  
Manager of Electric, CPSv  
Manager of Human Resources, PHR, UHR  
Customer Service Manager

Board Members

Roland Dykes, III - Chairman  
Dianne Stokely - Secretary  
Claude D. Gatlin Jr. - Member  
William Green - Member  
McDonald Large - Member  
Craig Wild - Member

- Certified Public Accountants
  - Business Advisors

## Independent Auditors' Report

Newport Utilities Board  
City of Newport, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Newport Electric and Broadband System (the "System"), an enterprise fund of the City of Newport, Tennessee, as of and for the year ended June 30, 2018, and the related notes to the financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System'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 System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System, an enterprise fund of the City of Newport, Tennessee, as of June 30, 2018, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of a Matter**

As discussed in Note 1, the financial statements present only the System enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Newport, Tennessee, as of June 30, 2018 and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity 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 and the schedule of changes in the total OPEB liability and related ratios, as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements of the System, an enterprise fund of the City of Newport, Tennessee. The roster of officials and board members and supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and is not a required part of the financial statements.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2018, on our consideration of the Newport Electric and Broadband System'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's 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 Newport Electric and Broadband System's internal control over financial reporting and compliance.

*Rodger Moss & Co, PLLC*

Greeneville, Tennessee  
December 19, 2018

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Management's Discussion and Analysis  
Year ended June 30, 2018

This discussion presents a broad view of Newport Electric and Broadband System's (the "System") financial position and activities for fiscal year 2018. This information is provided in compliance with Government Auditing Standards. The discussion and analysis included in this document relate to electric services provided by Newport Electric System and to broadband services provided by Newport Broadband System.

Newport Electric System is an enterprise fund of the City of Newport, Tennessee, and provides electric service to Cocke County, Tennessee and surrounding areas using the best principles of public power: not-for-profit rates, local control, and responsiveness to community concerns.

Newport Broadband System is an enterprise fund of the City of Newport, Tennessee, and provides voice, internet, and video services to Cocke County, Tennessee and surrounding areas.

"Not-for-profit rates" means that the retail price of electricity includes only the cost of procuring wholesale power from the Tennessee Valley Authority, the cost of day-to-day operations, and funding for capital improvements. There is no "profit" for distribution to private owners or shareholders. Low rates encourage economic development by helping to attract new jobs, securing existing ones, and by putting more disposable income in the hands of local consumers.

"Local control" means that those who can make decisions are readily available to those served by Newport Electric System and NUConnect. Decisions regarding Newport Electric System and NUConnect policies and rates are made by a Board of Directors, members of which are appointed by the City of Newport. The individuals on the Newport Electric System and NUConnect board are local people who understand and share local concerns; in fact they are subject to the same policies and pay the same electric rates and broadband rates as do other Newport Electric System and NUConnect Customers.

"Responsiveness to community concerns" means more than just holding rates as low as possible so Customers can save money. Cost is always important, but our Customers also place a value on safety and reliability. We're proud that our Customers rarely think about how we serve them; when they want comfort, security, entertainment, or convenience, Newport Electric System and NUConnect instantly provides it at the flip of a switch. We make every effort to be proactive in addressing Customer concerns about the quality of our service. Most of what we do focuses on maintaining an ever-growing distribution network that provides safe and reliable electric power and also reliable voice, internet and video.

Newport Electric System and NUConnect are relatively small organizations, locally owned and controlled, and dedicated to meeting the needs and expectations of the citizens of Cocke County.

### **Financial Statement Overview**

The financial statements included in this report are comprised of the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows for Newport Electric System and NUConnect. Newport Electric System is a proprietary fund types, and its activities are conducted on a fee for service basis in a manner as approved by TVA and operated under the guidelines of the Federal Energy Regulatory Commission (FERC). NUConnect is also a proprietary fund type and its activities are also conducted on a fee for service basis.

The Statement of Net Position includes all of the System's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the System and assessing the liquidity and financial flexibility of the System.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Change in Net Position. The statement measures the success of the System's operations over the past year and can be used to determine whether the System has successfully recovered all its costs through its rates and fees, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balances during the reporting period.



NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Management's Discussion and Analysis (Continued)

**Highlights**

- Number of customers on our Electric System increased by 140, for a total of 22,176 customers.
- Paid to the City of Newport, Tennessee a total of \$1,587,168 in tax equivalent payments for fiscal year 2018.
- Normal cost for upgrades and expansions to power lines and service areas are approximately \$3 million per year.
- As the build out for the Smartgrid and associated ability to serve customers with voice, internet and video services continues over the next several years, capital costs will be higher than normal.

**Financial Analysis of the System**

Net Position

Net position may serve over time as a useful indicator of a governmental entity's financial position. In the case of the Newport Electric and Broadband System, assets exceeded liabilities by \$60.9 million at the end of the fiscal year. By far the largest portion of the System's net position (84 percent) reflects its investment in capital assets (land, buildings, equipment, transmission and distribution systems, etc.). Because capital assets are used to provide services to customers, the assets are not available for future spending. The System maintains \$1 million in restricted net position with the remaining balance of approximately \$9 million may be used to meet the System's ongoing obligations.

**Table 1**  
**Condensed Statement of Net Position**

	June 30, <u>2018</u>	June 30, <u>2017</u>	Increase (Decrease)	<u>%</u>
Current assets	\$ 19,489,913	\$ 16,278,145	\$ 3,211,768	19.73%
Electric plant, net	66,356,937	56,212,858	10,144,079	18.05%
Other assets	<u>3,620,033</u>	<u>4,723,593</u>	<u>(1,103,560)</u>	-23.36%
Total assets	<u>89,466,883</u>	<u>77,214,596</u>	<u>12,252,287</u>	15.87%
Deferred outflows	<u>18,475</u>	<u>-</u>	<u>18,475</u>	0.00%
Current liabilities	11,019,211	9,924,899	1,094,312	11.03%
Non-current liabilities	<u>17,533,026</u>	<u>6,520,655</u>	<u>11,012,371</u>	168.88%
Total liabilities	<u>28,552,237</u>	<u>16,445,554</u>	<u>12,106,683</u>	73.62%
Net position, restated	<u>\$ 60,933,121</u>	<u>\$ 60,769,042</u>	<u>\$ 164,079</u>	0.27%

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Management's Discussion and Analysis (Continued)

Changes in Net Position

Net position of the System increased 0.3% to \$60.9 million during the fiscal year. Of that balance, 50.9 million is invested in capital assets, 1 million is restricted for debt service, and \$9 million is available to meet the System's ongoing obligations to citizens. The following is a summary of the financial activities of the System during the fiscal year ended June 30, 2018.

**Table 2**  
**Statement of Revenues and Expenses and Changes in Net Position**

	<u>June 30,</u> <u>2018</u>	<u>June 30,</u> <u>2017</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u>
Operating Revenue				
Operating revenue	\$ 52,757,695	\$ 50,264,875	\$ 2,492,820	4.96%
Other operating revenue	<u>1,681,863</u>	<u>1,757,193</u>	<u>(75,330)</u>	-4.29%
Total operating revenue	<u>54,439,558</u>	<u>52,022,068</u>	<u>2,417,490</u>	4.65%
Operating Expenses				
Purchased power	42,048,769	39,918,697	2,130,072	5.34%
Distribution expense	1,182,577	1,369,181	(186,604)	-13.63%
Customer accounts expense	1,970,079	1,723,473	246,606	14.31%
General and administrative expense	1,882,179	2,048,201	(166,022)	-8.11%
Maintenance	2,376,927	2,054,248	322,679	15.71%
Depreciation	<u>3,205,498</u>	<u>3,052,303</u>	<u>153,195</u>	5.02%
Total operating expenses	<u>52,666,029</u>	<u>50,166,103</u>	<u>2,499,926</u>	4.98%
Operating income	<u>1,773,529</u>	<u>1,855,965</u>	<u>(82,436)</u>	-4.44%
Non-Operating Income (Expense)				
Interest income	60,832	86,197	(25,365)	-29.43%
Miscellaneous expense	(7,125)	(636)	(6,489)	1020.28%
Interest expense	<u>(75,989)</u>	<u>(76,001)</u>	<u>12</u>	-0.02%
Total non-operating income	<u>(22,282)</u>	<u>9,560</u>	<u>(31,842)</u>	-333.08%
Transfers, in lieu of taxes	<u>(1,587,168)</u>	<u>(1,487,442)</u>	<u>(99,726)</u>	6.70%
Change in net position	<u>\$ 164,079</u>	<u>\$ 378,083</u>	<u>\$ (214,004)</u>	-56.60%

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Management's Discussion and Analysis (Continued)

**Capital Assets**

At the end of the fiscal year, the System had \$66.4 million (net of accumulated depreciation) invested in capital assets, including land and land rights, construction in progress, buildings, equipment, and the electric distribution system. This amount represents an increase (including additions and deductions) of \$10.1 million, or roughly 18 percent over last year.

**Table 3**  
**Capital Assets**

	June 30, 2018	June 30, 2017	Increase (Decrease)	%
Land and land rights	\$ 1,604,824	\$ 1,604,824	\$ -	0.00%
Construction in progress	<u>13,543,510</u>	<u>4,863,674</u>	<u>8,679,836</u>	178.46%
Capital assets, not being depreciated	<u>15,148,334</u>	<u>6,468,498</u>	<u>8,679,836</u>	134.19%
Transmission equipment	18,182,496	18,182,496	-	0.00%
Distribution equipment	70,503,763	67,594,575	2,909,188	4.30%
General	<u>10,325,960</u>	<u>9,210,112</u>	<u>1,115,848</u>	12.12%
Capital assets being depreciated	<u>99,012,219</u>	<u>94,987,183</u>	<u>4,025,036</u>	4.24%
Less accumulated depreciation	<u>(47,803,616)</u>	<u>(45,242,823)</u>	<u>(2,560,793)</u>	5.66%
Total net capital assets	<u>\$ 66,356,937</u>	<u>\$ 56,212,858</u>	<u>\$ 10,144,079</u>	18.05%

**Outstanding Debt**

At the end of the fiscal year, the System had \$15.4 million in outstanding debt. This amount represents an increase of \$10.7 million over last year.

**Table 4**  
**Outstanding Debt**

	June 30, 2018	June 30, 2017	Increase (Decrease)	%
Series 2011 Bonds	\$ -	\$ 730,000	\$ (730,000)	-100.00%
Series 2019 Bonds	14,500,000	3,059,500	11,440,500	373.93%
USDA Rural Development Loan	<u>953,704</u>	<u>1,000,000</u>	<u>(46,296)</u>	-4.63%
	\$ 15,453,704	\$ 4,789,500	\$ 10,664,204	
Less unamortized reacquisitions costs	<u>(27,271)</u>	<u>(69,153)</u>	<u>41,882</u>	-60.56%
Total outstanding debt	<u>\$ 15,426,433</u>	<u>\$ 4,720,347</u>	<u>\$ 10,706,086</u>	226.81%

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Management's Discussion and Analysis (Continued)

**Contacting the System's Financial Management**

This financial report is designed to provide our customers and interested parties with a general overview of Newport Electric and Broadband System's financial position, and to demonstrate accountability for the revenues it receives. Questions regarding this report or requests for additional financial information should be addressed to:

Newport Utilities  
Post Office Box 519  
Newport, Tennessee 37822

Phone (423) 625-2800

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Statement of Net Position  
June 30, 2018

ASSETS

Current Assets

Cash	\$ 9,486,629	
Investments	3,169,905	
Receivables	5,906,477	
Due from other departments	22,287	
Materials and supplies inventories	<u>904,615</u>	
Total current assets		\$ 19,489,913

Electric plant, net

66,356,937

Other Assets

Investments restricted for debt service	1,000,439	
TVA residential program receivable	1,542,403	
USDA industry receivable	962,963	
Heat pump & other loans receivable	<u>114,228</u>	
Total other assets		<u>3,620,033</u>

Total assets

89,466,883

DEFERRED OUTFLOWS OF RESOURCES

Other post employment benefits		<u>18,475</u>
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LIABILITIES

Current Liabilities

Accounts payable	7,888,970	
Current portion of long-term debt	476,112	
Compensated absences - current	437,820	
Accrued compensation and other	<u>437,120</u>	
Total current liabilities		9,240,022

Non-Current Liabilities

Long-term debt	14,950,321	
Compensated absences - long-term	515,669	
Other postemployment benefits	511,508	
Customer deposits	1,779,189	
Other non-current liabilities	13,125	
Advances from TVA Residential Energy Services Program	<u>1,542,403</u>	

Total non-current liabilities

19,312,215

Total liabilities

28,552,237

NET POSITION

Net investment in capital assets	50,930,504	
Restricted for debt service	1,000,439	
Unrestricted	<u>9,002,178</u>	

Total net position

\$ 60,933,121

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

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Statement of Revenues, Expenses, and Changes in Net Position  
Year Ended June 30, 2018

Operating Revenues		
Residential electricity	\$ 27,863,636	
Commercial and industrial electricity - large	19,069,246	
Commercial and industrial electricity - small	4,828,344	
Street, athletic, and outdoor lighting	996,469	
Other electric income	<u>1,681,863</u>	
Total operating revenues		\$ 54,439,558
Operating Expenses		
Purchased power	42,048,769	
Depreciation	3,205,498	
Maintenance expense	2,376,927	
Administrative and general expenses	1,882,179	
Customer accounts expense	1,970,079	
Distribution expense	<u>1,182,577</u>	
Total operating expenses		<u>52,666,029</u>
Operating income		1,773,529
Non-Operating Revenues (Expenses)		
Interest income	60,832	
Miscellaneous expense	(7,125)	
Interest expense	<u>(75,989)</u>	
Net non-operating revenues		(22,282)
Transfers, in lieu of taxes		<u>(1,587,168)</u>
Increase in net position		164,079
Net position at the beginning of the year, restated		<u>60,769,042</u>
Net position at the end of the year		<u>\$ 60,933,121</u>

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD

Statement of Cash Flows  
Year Ended June 30, 2018

Cash Flows From Operating Activities		
Cash receipts from customers	\$ 53,577,701	
Cash paid to suppliers for goods and services	(42,913,356)	
Cash paid to employees for services	<u>(4,704,891)</u>	
Net cash flows from operating activities		\$ 5,959,454
Cash Flows From Non-Capital Financing Activities		
Cash payments for in lieu of taxes	<u>(1,587,168)</u>	
Net cash flows from non-capital financing activities		(1,587,168)
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(12,704,872)	
Proceeds from long-term debt	11,440,500	
Repayments of principal on long-term debt	(801,201)	
Interest paid on debt and customer deposits	<u>(75,989)</u>	
Net cash flows from capital and related financing activities		(2,141,562)
Cash Flows From Investing Activities		
Interest on investments	<u>60,832</u>	
Net cash flows from investing activities		<u>60,832</u>
Net change in cash		2,291,556
Cash at the beginning of the year		<u>7,195,073</u>
Cash at the end of the year		<u><u>\$ 9,486,629</u></u>

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Statements of Cash Flows (Continued)

Reconciliation of Operating Income to Net Cash Flows From Operating Activities	
Operating income	\$ 1,773,529
Adjustments to reconcile operating income to cash flows from operating activities	
Depreciation	3,205,498
Change in operating assets and liabilities	
Decrease (increase) in:	
Accounts and grants receivable	(741,930)
Unbilled revenue	(71,624)
Materials and supplies	(108,360)
Other receivables	89,339
Other current assets	(137,642)
Increase (decrease) in:	
Accounts payable	1,639,148
Accrued expenses	(381,573)
Accrued compensated absences	67,220
Other post employment benefits	366,746
TVA advances	67,450
Other current liabilities	188,324
Customer deposits	3,329
Net cash flows from operating activities	\$ 5,959,454



NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Notes to Financial Statements  
June 30, 2018

NOTE 1 - REPORTING ENTITY

Newport Electric and Broadband System (“the System”) is a self-supporting enterprise fund of the City of Newport, Tennessee (“the City”). The System is managed and controlled by a Board of Directors (“the Board”) who are appointed by the City. The System issues an annual financial report which is combined with the City’s annual financial report.

The Electric System’s primary purpose is to provide electricity to the citizens of Cocke County, Tennessee and surrounding areas. In 2018, the Broadband System was created to provide voice, internet, and video services to business and residential customers to the citizens of Cocke County, Tennessee and surrounding areas.

These financial statements present only Newport Electric and Broadband System and are not intended to present fairly the financial position of the City and the changes in its financial position and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** - The financial statements of the System have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applied to government units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The System applies all GASB pronouncements. The more significant accounting policies of the Electric and Broadband System are described below.

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation** - Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

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

**Net Position Flow Assumption** - Sometimes the System 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 System’s policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

**Cash Equivalents** - The System considers all certificates of deposit, money market investment accounts and other temporary investments with original maturities of three months or less from the date of acquisition to be cash equivalents.

**Accounts Receivable** - All receivables are reported net of estimated uncollectible accounts.

**Inventories and Prepaid Items** - Inventories are valued at the lower of cost or market using the average cost method and consist of expendable supplies and materials. The cost of such inventories is recorded as expenses when consumed 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.

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Notes to Financial Statements (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Capital Assets** - Capital assets, which include property, plant and equipment, are reported in the financial statements. Capital assets are defined by the System as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years.

As the System constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life.

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances. There was no interest cost capitalized in the current year.

Land and construction in progress are not depreciated. The other property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Transmission equipment	50 years
Distribution equipment	12½ - 30 years
General	5 - 20 years

**Revenues and Expenses** - The System distinguishes operating revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering electricity in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Electric and Broadband System are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The Electric and Broadband System records revenue as billed to its customers based on a monthly meter reading cycle. Any electric service rendered from the latest billing cycle date to the end of the month is unbilled and is reflected in the financial statements.

**Regulated Operations** - The System operates an electric utility in Newport, Tennessee and this operation is regulated by Tennessee Valley Authority ("TVA"), an agency of the federal government. TVA exercises oversight in the rate setting process and requires the use of accounting policies for public electric utilities as prescribed by the Federal Energy Regulatory Commission ("FERC"). Specific accounting policies which are unique to FERC include: 1) when capital assets are retired or otherwise disposed of, the average cost is removed from the asset account and the accumulated depreciation account. Removal costs less salvage is charged or credited to the accumulated depreciation account; and 2) debt issuance costs are treated as a regulatory asset as defined in GASB Statement 62 and are capitalized when incurred and amortized over the life of the related debt issue using the straight-line method.

The System also has a power contract with TVA whereby the System purchases all of its electric power from TVA and is subject to certain restrictions and conditions as provided in the contract.

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

**Postemployment Benefits Other Than Pensions ("OPEB")** - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Newport Utilities Post-Retirement Welfare Benefit Plan (the "Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are report by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. The Plan has no investments as the net OPEB liability is not funded but expenses are paid as incurred.

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Notes to Financial Statements (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Date of Management’s Review** - Management has evaluated events and transactions occurring subsequent to the statement of financial position for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of the report, which is the date these financial statements were available to be issued.

**New Accounting Pronouncements** - GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* supersedes existing guidance on financial reporting for postemployment benefits other than pensions found in Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. These related Statements affect accounting and financial reporting requirements for governments whose employees are provided with OPEB. Statement No. 75 is effective for fiscal years beginning after June 15, 2017. The System implemented GASB Statement No. 75 in the current fiscal year. The adoption of GASB Statement No. 75 created a prior period adjustment of \$352,840 decreasing net position.

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the deposits, less amounts insured by federal deposit insurance. The collateral must be held by the System, its agent, or by the Federal Reserve, in the System’s name.

Statutes also authorize the System to invest in bonds, notes, or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, state pool investment funds, and money market mutual funds. Statutes require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

The System’s deposits at June 30, 2018 consisted of cash, interest and non interest bearing bank accounts, and certificates of deposit classified as investments. At June 30, 2018, the bank balances aggregated approximately \$11.4 million, of which \$1.0 million was covered by federal depository insurance, and \$10.4 million was covered through the banks’ participation in the Tennessee Bank Collateral Pool or through securities held by the System’s agent in the System’s name.

A summary of cash at June 30, 2018, is as follows:

Cash on hand	\$ 6,908
Cash in banks	9,256,844
State of Tennessee Local Government Investment Pool	<u>222,877</u>
	<u>\$ 9,486,629</u>

Investment policies of the System follow state law and bond requirements prohibiting investments that are not secured or insured by the U.S. Government. All assets currently classified as investments by the System consist of non-negotiable certificates of deposit which are not subject to fair value reporting methods, but are reported using the historical cost method. A summary of investments at June 30, 2018, is as follows:

Certificate of deposit, maturity date 8/26/19, interest rate .75%	\$ 1,000,000
Certificate of deposit, maturity date 5/12/19, interest rate .70%	164,863
Certificate of deposit, maturity date 5/6/19, interest rate .90%	1,005,042
Certificate of deposit, maturity date 5/6/19, interest rate .90%	1,000,439
Certificate of deposit, maturity date 5/12/19, interest rate 1.25%	<u>1,000,000</u>
	<u>\$ 4,170,344</u>

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Notes to Financial Statements (Continued)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018 consisted of the following:

Customer accounts receivable, net	\$ 4,051,579
Unbilled revenue receivable	1,388,645
Rent receivable	341,205
Other receivables	<u>125,048</u>
	<u>\$ 5,906,477</u>

NOTE 5 - PROPERTY, PLANT & EQUIPMENT

Electric plant activity for the year ended June 30, 2018 consisted of the following:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated				
Land and land rights	\$ 1,604,824	\$ -	\$ -	\$ 1,604,824
Construction in progress	<u>4,863,674</u>	<u>8,679,836</u>	<u>-</u>	<u>13,543,510</u>
Total capital assets not being depreciated	<u>6,468,498</u>	<u>8,679,836</u>	<u>-</u>	<u>15,148,334</u>
Capital assets being depreciated				
Transmission equipment	18,182,496	-	-	18,182,496
Distribution equipment	67,594,575	3,336,519	(427,331)	70,503,763
General	<u>9,210,112</u>	<u>1,288,190</u>	<u>(172,342)</u>	<u>10,325,960</u>
Total capital assets being depreciated	<u>94,987,183</u>	<u>4,624,709</u>	<u>(599,673)</u>	<u>99,012,219</u>
Less accumulated depreciation				
Transmission equipment	(8,709,613)	(541,955)	-	(9,251,568)
Distribution equipment	(31,171,905)	(2,421,134)	696,229	(32,896,810)
General	<u>(5,361,305)</u>	<u>(424,217)</u>	<u>130,284</u>	<u>(5,655,238)</u>
Total accumulated depreciation	<u>(45,242,823)</u>	<u>(3,387,306)</u>	<u>826,513</u>	<u>(47,803,616)</u>
Total capital assets being depreciated, net	<u>49,744,360</u>	<u>1,237,403</u>	<u>226,840</u>	<u>51,208,603</u>
Total capital assets, net	<u>\$ 56,212,858</u>	<u>\$ 9,917,239</u>	<u>\$ 226,840</u>	<u>\$ 66,356,937</u>

Depreciation expense was \$3,387,306 in 2018, including \$181,807 charged to a clearing account.

NOTE 6 - TVA RESIDENTIAL ENERGY EFFICIENCY PROGRAM

Under a contract with Tennessee Valley Authority, the Utility participates in home energy efficiency programs providing low-interest loans to qualified customers. Customer repayments are remitted to Regions Bank.

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Notes to Financial Statements (Continued)

NOTE 7 - LONG-TERM DEBT

Long-Term debt consisted of the following at June 30, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 2011 revenue bonds, 2.00% interest rate at June 30, 2018, due in varying amounts through March 1, 2018.	\$ 730,000	\$ -	\$ (730,000)	\$ -	\$ -
Series 2019 revenue bonds, 4.00% interest rate at June 30, 2018, due in varying amounts through June 30, 2048	3,059,500	11,440,500	-	14,500,000	376,112
USDA Rural Economic Development Loan and Grant, 0% interest rate, due in annual installments of \$100,000	1,000,000	-	(46,296)	953,704	100,000
	<u>\$ 4,789,500</u>	<u>\$ 11,440,500</u>	<u>\$ (776,296)</u>	<u>15,453,704</u>	<u>\$ 476,112</u>
Less current maturities				(476,112)	
Less unamortized reacquisition costs				(27,271)	
Net long-term debt				<u>\$ 14,950,321</u>	

Future maturities of long-term debt for the years ended June 30, are as follows:

	Principal	Interest
2019	\$ 476,112	\$ 237,847
2020	482,403	231,556
2021	488,799	225,159
2022	495,303	218,656
2023	501,915	212,044
2024-2028	2,566,398	957,100
2029-2033	2,295,399	774,395
2034-2038	2,493,904	575,890
2039-2043	2,709,575	360,219
2044-2048	2,943,896	125,897
	<u>\$ 15,453,704</u>	<u>\$ 3,918,763</u>

The System issued \$1,445,000 in Revenue Refunding Bonds, Series 2011, with an interest rate of 2.00%. These bonds were issued to refund the System Refunding and Improvement Bonds, Series 2002. The bonds matured on March 1, 2018. Interest was paid semiannually on September 1 and March 1. The bonds are the obligation of the System and were secured by the revenues of the System.

The System issued \$3,059,500 in Electric and Broadband System Revenue Bonds, Series 2019, with an interest rate of 4.00% in 2017. During 2018 the System issued an additional \$11,440,500 in Series 2019 bonds. The bonds mature annually on March 1 through the year 2048. Interest is payable semiannually on September 1 and March 1. The bonds are the obligation of the System and are secured by the revenues of the System.

The bonds constitute valid and legally binding obligations of the City of Newport, Tennessee and are payable solely from and secured by a pledge of the net revenues to be derived from the operation of the System.

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Notes to Financial Statements (Continued)

NOTE 8 - COMPENSATED ABSENCES

Employees accumulate sick leave based on number of years of continuous service up to an accumulated maximum of sixty working days. Annually, sick leave days exceeding forty-eight days are paid by the System to its employees. At retirement, employees will be paid their regular straight-time pay for all sick leave days accumulated up to sixty work days. In the event of termination, employees will be paid for any unused awarded sick leave. Accrued sick leave at June 30, 2018 totaled \$640,582.

Employees accumulate vacation, ranging from 12 to 20 days per year, based on number of years of continuous service. They may not accumulate more than 26 days. Accumulated vacation is paid upon retirement. In the event of termination, employees will be paid for any unused awarded vacation. Accrued vacation at June 30, 2018 totaled \$312,907.

	Beginning Balance	Additions	Reductions	Ending Balance	Estimated Use Within 1 Year
Personal	\$ 277,227	\$ 283,201	\$ 247,521	\$ 312,907	\$ 247,521
Sick	<u>609,042</u>	<u>221,839</u>	<u>190,299</u>	<u>640,582</u>	<u>190,299</u>
	<u>\$ 886,269</u>	<u>\$ 505,040</u>	<u>\$ 437,820</u>	<u>\$ 953,489</u>	<u>\$ 437,820</u>

NOTE 9 - LEASE COMMITMENTS

Certain short-term arrangements provide for the System’s joint utilization of other local utilities’ distribution facilities in its systems. Other similar agreements provide for the joint use of the System’s distribution facilities by other utilities and certain customers. Rental revenues from the above-mentioned arrangements amounted to \$968,887 in 2018. Rental expense applicable to such agreements amounted to \$62,674 in 2018.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT (“OPEB”) PLAN

**Plan Description** - Newport Utility’s Retiree Medical Insurance Plan (the “Plan”), provides medical insurance benefits to eligible retirees and their spouses. The Plan is a single-employer defined benefit OPEB plan administered by the System. No assets are accumulated in a trust that meet the criteria in paragraph 4 of Statement 75.

**Benefits Provided**

The Plan provides medical insurance benefits for retirees and their spouse. The benefit terms provide for payment of health insurance and life insurance benefits. A portion of health insurance is paid until the retiree reaches the age of 65.

**Employees Covered by Benefit Terms**

At the measurement date of June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>94</u>
	<u>104</u>

**Total OPEB Liability**

The System’s total OPEB liability of \$511,508 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Notes to Financial Statements (Continued)

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT (“OPEB”) PLAN (Continued)

**Actuarial Assumptions and Other Inputs**

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	3.5 percent, average, including inflation
Discount rate	3.13 percent
Healthcare cost trend rates	9 percent for 2017, decreasing 1 percent per year to an ultimate rate of 5 percent for 2021 and later years
Retirees’ share of benefit related costs	The employee pays for a percentage of the premium based on years between the date the employee retires and the date they turn 65. The percentage the employer pays ranges from 20% to 88% of the premium.

The discount rate was based on the S&P Municipal Bond 20-Year High Grade Index as of July 1, 2017.

Mortality rates were based on the RP-2000 Combined Fully Generational Mortality Table with projection scale BB.

The actuarial assumptions used in the June 30, 2017 valuation were based upon the results of an actuarial experience study for the period from July 1, 2015 through July 1, 2017.

**Changes in the Total OPEB Liability**

	Total OPEB Liability (a)
Balance at 7/1/2016	\$ 497,602
Changes for the year:	
Service Cost	22,674
Interest	15,902
Benefit payments	<u>(24,670)</u>
Net changes	<u>13,906</u>
Balance at 6/30/17	<u>\$ 511,508</u>

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the total OPEB liability of the System, as well as what the System’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.13 percent) or 1-percentage-point higher (4.13 percent) than the current discount rate:

	1 % Decrease (2.13)	Current Discount Rate (3.13)	1 % Increase (4.13)
Net OPEB liability (asset)	\$ 543,860	\$ 511,108	\$ 474,382

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Notes to Financial Statements (Continued)

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT (“OPEB”) PLAN (Continued)

**Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates**

The following presents the total OPEB liability of the Utility, as well as what the Utility’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (8 percent decreasing 1 percent until 4 percent is reached) or 1-percentage-point higher (10 percent decreasing 1 percent until 6 percent is reached) than the current healthcare cost trend rates:

	1 % Decrease (8.00) decreasing to (4.00%)	Healthcare Cost Trend Rates (9.00) decreasing to (5.00%)	1 % Increase (10.00) decreasing to (6.00%)
Net OPEB liability (asset)	\$ 453,800	\$ 511,108	\$ 573,139

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2017, the System recognized OPEB expense of roughly \$22,500. At June 30, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date of June 30, 2017	\$ 18,475	\$ -
Total	<u>\$ 18,475</u>	<u>\$ -</u>

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2017,” will be recognized as a reduction (increase) to net OPEB liability in the following measurement period.

NOTE 11 - CONCENTRATION OF CREDIT RISK

Newport Utilities Board provides electric, broadband, water and sewer utility services to the City of Newport, Cocke County and portions of Jefferson and Sevier Counties. The utility grants credit to its customers, substantially all of who are local businesses and residents. A significant portion of the System’s operations are attributable to a relatively small number of large commercial customers.

NOTE 12 - JOINT UTILIZATION OF FACILITIES

The System shares its office and warehouse facilities with Newport Water and Sewer System. Related joint expense reimbursement, including rental income of \$22,633 in 2018, amounted to approximately \$52,000 for the year ended June 30, 2018. These amounts are based on the most recent cost study effective July 1, 2013.

NOTE 13 - RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System’s risks of loss are covered by its commercial package insurance policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.



NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Notes to Financial Statements (Continued)

NOTE 14 - RETIREMENT PLAN

The System contributes to the Newport Utilities Board 401(k) Retirement Plan (“401(k) plan”), a defined contribution plan, for its eligible employees. Eligible employees include Electric and Broadband System and Water and Sewer System Employees. Employees become eligible to participate after having completed six months of service and attained the age of 21. The 401(k) plan is administered by a third party administrator at the direction of the System’s board of directors.

Benefit terms, including contribution requirements, for the 401(k) plan are established and may be amended by the Board. Employees are permitted to make contributions to the 401(k) plan in a whole percentage of not less than three percent, up to applicable Internal Revenue Code limits. For each participating employee, the Board makes a contribution equal to eleven and one-half percent of the employee’s compensation. For the year ended June 30, 2018, employee contributions to the 401(k) plan totaled \$554,712, and the Board recognized pension expense of \$454,446.

Employees are immediately vested in their own contributions and earnings on those contributions. Employees become fully vested in employer matching contributions and earnings thereon after seven years of vesting service. Forfeited non-vested amounts are used to offset plan expenses.

NOTE 15 - POWER CONTRACT

The Utility has a power contract with TVA whereby the system purchases all its electric power from TVA and is subject to certain restrictions and conditions as provided in the contract.

NOTE 16 - FIBER

In 2017, the System began infrastructure improvements in a fiber optic Electric Smart Grid network. The improvements consist of establishing fiber to the electric meters. Fiber improvements are estimated to cost roughly \$21 million and will be made in multiple phases over the next several years. Phase I is expected to be completed in 2018 and will provide service to 7,000 residential customers and 1,000 business customers.

REQUIRED SUPPLEMENTARY INFORMATION

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Schedule of Changes in the Total OPEB Liability and Related Ratios (Unaudited)  
Year Ended June 30, 2018

Measurement Period Ended	<u>6/30/2017</u>
<b>Total OPEB liability</b>	
Service cost	\$ 22,674
Interest	15,902
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments	<u>(24,670)</u>
Net change in total OPEB liability (asset)	13,906
Total OPEB liability (asset) - beginning	<u>497,602</u>
Total OPEB liability (asset) - ending (a)	<u>\$ 511,508</u>
Covered - employee payroll	\$ 5,274,855
Net OPEB liability (asset) as a percentage of covered employee payroll	9.70%

**Notes to Schedule**

*Changes of benefit terms* - None

*Changes of assumptions* - None

The healthcare cost trend rate was reset at 9.0% for 2017, grading down 1.0% per annum to an ultimate trend rate of 5.0% for year 2021 and later.

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years

SUPPLEMENTARY INFORMATION

NEWPORT ELECTRIC SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Statement of Net Position  
June 30, 2018

ASSETS

Current Assets

Cash	\$ 9,486,629	
Investments	3,169,905	
Receivables	5,906,477	
Due from other departments	22,287	
Materials and supplies inventories	<u>904,615</u>	
Total current assets		\$ 19,489,913

Electric plant, net

64,232,507

Other Assets

Investments restricted for debt service	1,000,439	
TVA residential program receivable	1,542,403	
USDA industry receivable	962,963	
Heat pump & other loans receivable	114,228	
Intercompany fund advance - Broad Band	<u>2,610,257</u>	
Total other assets		<u>6,230,290</u>

		<u>89,952,710</u>
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DEFERRED OUTFLOWS OF RESOURCES

Other post employment benefits	<u>18,475</u>	
Total deferred outflows		<u>18,475</u>

LIABILITIES

Current Liabilities

Accounts payable	7,888,970	
Current portion of long-term debt	476,112	
Compensated absences - current	437,820	
Accrued compensation and other	<u>437,120</u>	
Total current liabilities		9,240,022

Non-Current Liabilities

Long-term debt	14,950,321	
Compensated absences - long-term	515,669	
Other postemployment benefits	511,508	
Customer deposits	1,779,189	
Other non-current liabilities	13,125	
Advances from TVA Residential Energy Services Program	<u>1,542,403</u>	
Total non-current liabilities		<u>19,312,215</u>

		<u>28,552,237</u>
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NET POSITION

Net investment in capital assets	48,806,074	
Restricted for debt service	1,000,439	
Unrestricted	<u>11,612,435</u>	
Total net position		<u>\$ 61,418,948</u>

NEWPORT ELECTRIC SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Statement of Revenues, Expenses, and Changes in Net Position  
Year Ended June 30, 2018

Operating Revenues		
Residential electricity	\$ 27,863,636	
Commercial and industrial electricity - large	19,069,246	
Commercial and industrial electricity - small	4,828,344	
Street, athletic, and outdoor lighting	996,469	
Other electric income	<u>1,681,863</u>	
Total operating revenues		\$ 54,439,558
Operating Expenses		
Purchased power	42,048,769	
Depreciation	3,205,498	
Maintenance expense	2,376,927	
Administrative and general expenses	1,488,309	
Customer accounts expense	1,886,370	
Distribution expense	<u>1,174,329</u>	
Total operating expenses		<u>52,180,202</u>
Operating income		2,259,356
Non-Operating Revenues (Expenses)		
Interest income	60,832	
Miscellaneous expense	(7,125)	
Interest expense	<u>(75,989)</u>	
Net non-operating revenues		(22,282)
Transfers, in lieu of taxes		<u>(1,587,168)</u>
Increase in net position		649,906
Net position at the beginning of the year, restated		<u>60,769,042</u>
Net position at the end of the year		<u>\$ 61,418,948</u>

NEWPORT ELECTRIC SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Statement of Cash Flows  
Year Ended June 30, 2018

Cash Flows From Operating Activities		
Cash receipts from customers	\$ 53,577,701	
Cash paid to suppliers for goods and services	(42,588,770)	
Cash paid to employees for services	<u>(4,543,650)</u>	
Net cash flows from operating activities		\$ 6,445,281
Cash Flows From Non-Capital Financing Activities		
Cash payments for in lieu of taxes	<u>(1,587,168)</u>	
Net cash flows from non-capital financing activities		(1,587,168)
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(10,575,442)	
Proceeds from long-term debt	11,440,500	
Repayments of principal on long-term debt	(801,201)	
Intercompany fund advance paid	(2,615,257)	
Interest paid on debt and customer deposits	<u>(75,989)</u>	
Net cash flows from capital and related financing activities		(2,627,389)
Cash Flows From Investing Activities		
Interest on investments	<u>60,832</u>	
Net cash flows from investing activities		<u>60,832</u>
Net change in cash		2,291,556
Cash at the beginning of the year		<u>7,195,073</u>
Cash at the end of the year		<u>\$ 9,486,629</u>
Reconciliation of Operating Income to Net Cash Flows From Operating Activities		
Operating income		\$ 2,259,356
Adjustments to reconcile operating income to cash flows from operating activities		
Depreciation		3,205,498
Change in operating assets and liabilities		
Decrease (increase) in:		
Accounts and grants receivable		(741,930)
Unbilled revenue		(71,624)
Materials and supplies		(108,360)
Other receivables		89,339
Other current assets		(137,642)
Increase (decrease) in:		
Accounts payable		1,639,148
Accrued expenses		(381,573)
Accrued compensated absences		67,220
Other post employment benefits		366,746
TVA advances		67,450
Other current liabilities		188,324
Customer deposits		<u>3,329</u>
Net cash flows from operating activities		<u>\$ 6,445,281</u>

See accompanying independent auditors' report.

NEWPORT BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Statement of Net Position  
June 30, 2018

ASSETS		
Broadband plant, net		\$ 2,124,430
Total assets		<u>2,124,430</u>
LIABILITIES		
Non-Current Liabilities		
Intercompany fund advance payable	<u>2,610,257</u>	
Total non-current liabilities		<u>2,610,257</u>
Total liabilities		<u>2,610,257</u>
NET POSITION		
Net investment in capital assets	2,124,430	
Unrestricted	<u>(2,610,257)</u>	
Total net position		<u>\$ (485,827)</u>



NEWPORT BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Statement of Revenues, Expenses, and Changes in Net Position  
Year Ended June 30, 2018

Operating Revenues		
Total operating revenues		\$ -
Operating Expenses		
Administrative and general expenses	393,870	
Customer accounts expense	83,709	
Distribution expense	<u>8,248</u>	
Total operating expenses		<u>485,827</u>
Operating loss		(485,827)
Decrease in net position		(485,827)
Net position at the beginning of the year		<u>-</u>
Net position at the end of the year		<u><u>\$ (485,827)</u></u>

NEWPORT BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Statement of Cash Flows  
Year Ended June 30, 2018

Cash Flows From Operating Activities		
Cash receipts from customers	\$	-
Cash paid to suppliers for goods and services		(324,586)
Cash paid to employees for services		<u>(161,241)</u>
Net cash flows from operating activities		\$ (485,827)
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets		(2,129,430)
Intercompany fund advance received		<u>2,615,257</u>
Net cash flows from capital and related financing activities		485,827
Net change in cash		-
Cash at the beginning of the year		<u>-</u>
Cash at the end of the year		<u><u>\$ -</u></u>
Reconciliation of Operating Income to Net Cash Flows From Operating Activities		
Operating income		<u>\$ (485,827)</u>
Net cash flows from operating activities		<u><u>\$ (485,827)</u></u>

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Schedule of Long-Term Debt Maturities by Issue  
Year Ended June 30, 2018

Year Ended June 30	Revenue Bond Series 2019		USDA Loan Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 376,112	\$ 237,847	\$ 100,000	\$ -	\$ 476,112	\$ 237,847
2020	382,403	231,556	100,000	-	482,403	231,556
2021	388,799	225,159	100,000	-	488,799	225,159
2022	395,303	218,656	100,000	-	495,303	218,656
2023	401,915	212,044	100,000	-	501,915	212,044
2024-2028	2,112,694	957,100	453,704	-	2,566,398	957,100
2029-2033	2,295,399	774,395	-	-	2,295,399	774,395
2034-2038	2,493,904	575,890	-	-	2,493,904	575,890
2039-2043	2,709,575	360,219	-	-	2,709,575	360,219
2044-2048	2,943,896	125,897	-	-	2,943,896	125,897
<b>Total</b>	<b>\$ 14,500,000</b>	<b>\$ 3,918,763</b>	<b>\$ 953,704</b>	<b>\$ -</b>	<b>\$ 15,453,704</b>	<b>\$ 3,918,763</b>

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Electric System  
Schedule of Utility Rates  
June 30, 2018

NOTE: TVA Fuel Cost Adjustment changes monthly and adds to base rate.

RESIDENTIAL RATE - RS

Customer Charge:	\$18.59 per delivery point per month less \$1.60 Hydro Allocation Credit	
Energy Charge:	<b>Base Rates</b>	<b>June Fuel Cost Adj.</b>
Transition Rate	7.069 cents per kWh	
Winter Rate	7.270 cents per kWh	
Summer Rate	7.591 cents per kWh	2.024 cents per kWh

SUPPLEMENTAL RESIDENTIAL (SRS)

Customer Charge:	\$18.59 per delivery point per month	
Energy Charge:	<b>Base Rates</b>	<b>June Fuel Cost Adj.</b>
Transition Rate	7.069 cents per kWh	
Winter Rate	7.270 cents per kWh	
Summer Rate	7.591 cents per kWh	2.024 cents per kWh

GENERAL POWER RATE - GSA 1 (Demand 0-50 kW)

Customer Charge:	Single Phase	\$18.59 per delivery point per month	
	Three Phase	\$41.89 per delivery point per month	
Energy Charge:	<b>Base Rates</b>	<b>June Fuel Cost Adj.</b>	
Transition Rate	8.034 cents per kWh		
Winter Rate	8.234 cents per kWh		
Summer Rate	8.556 cents per kWh	1.991 cents per kWh	

GENERAL POWER RATE - GSA 2 (Demand 51-1,000 kW)

Customer Charge:	Single Phase	\$28.00 per delivery point per month
	Three Phase	\$77.00 per delivery point per month

Transition Rate:		
Demand Charge:		
First 50 kW -	No charge	
Over 50 kW -	\$11.50 per kW	
Energy Charge:		
First 15,000 kWh per month	8.183 cents per kWh	
Additional kWh	4.101 cents per kWh	

Winter Rate:		
Demand Charge:		
First 50 kW -	No charge	
Over 50 kW -	\$11.50 per kW	
Energy Charge:		
First 15,000 kWh per month	8.383 cents per kWh	
Additional kWh	4.239 cents per kWh	

Summer Rate:		
Demand Charge:		
First 50 kW -	No charge	
Over 50 kW -	\$12.44 per kW	
Energy Charge:		<b>June Fuel Cost Adj.</b>
First 15,000 kWh per month	8.704 cents per kWh	1.991 cents per kWh
Additional kWh	4.556 cents per kWh	1.954 cents per kWh

GENERAL POWER RATE - GSA 3 (Demand 1,000-5,000 kW)

Customer Charge:	\$242.00 per delivery point per month
------------------	---------------------------------------

Transition Rate:	
Demand Charge:	
First 1,000 kW -	\$11.32 per kW
Over 1,000 kW -	\$13.40 per kW
Energy Charge:	
All kWh per month	3.931 cents per kWh

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Schedule of Utility Rates (Continued)

GENERAL POWER RATE - GSA 3 (Demand 1,000-5,000 kW) (Continued)

Winter Rate:

Demand Charge:		
First 1,000 kW -	\$11.32 per kW	
Over 1,000 kW -	\$13.40 per kW	
Energy Charge:		
All kWh per month	4.066 cents per kWh	

Summer Rate:

Demand Charge:		
First 1,000 kW -	\$12.26 per kW	
Over 1,000 kW -	\$14.35 per kW	
Energy Charge:		
All kWh per month	4.386 cents per kWh	<b>June Fuel Cost Adj.</b> 1.954 cents per kWh

OUTDOOR LIGHTING POWER RATE

Charges Per Fixture Per Month at June 30:

<u>Type of Fixture</u>	<u>Lamp Size (Watts)</u>	<u>Monthly Charge</u>
High Pressure Sodium	150	\$ 6.20
	400	\$ 14.12
	1000	\$ 30.51
Mercury Vapor	400	\$ 10.93
Metal Halide	175	\$ 5.56
LED	150	\$ 8.59
	400	\$ 13.30

The number of utility customers at June 30, 2018 was 22,176.

Independent Auditors' Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards

Newport Utilities Board  
City of Newport, 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 Newport Utilities (the "System") as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2018.

**Internal Control Over Financial Reporting**

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

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

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 following deficiencies described below to be material weaknesses.

1. Finding 2018-001: Failure To Establish Broadband As A Separate Department and Failure To Record Intercompany Advance/Receivable

Criteria

Tennessee legislation requires that the fiscal operations of the Broadband services be included in the annual financial report of the Electric System as a separate segment of the Electric System.

Condition

Newport Utilities failed to establish Broadband as its own separate reporting unit. All Broadband financial transactions were recorded in the Electric System. The Electric System loaned the Broadband System roughly 2.6 million dollars for initial startup costs and to establish services. When Newport Utilities failed to establish Broadband as its own separate reporting unit, intercompany advances and receivables were not recorded.

Effect of Condition

As a result of failing to establish Broadband as its own reporting segment, Newport Utilities failed to provide accurate and timely financial information of the Broadband System. The Electric System failed to record \$2.6 million dollars in intercompany receivables at yearend. The Broadband System failed to record \$2.6 million dollars in capitalized costs at yearend. Adjusting journal entries totaling 2.6 million dollars were proposed by the auditor and recorded by Newport Utilities to correctly establish the Broadband System.

### Recommendation

The Broadband System should be established as its own financial reporting segment under the Electric System in accordance with state law. We recommend year-end adjustments be made to record intercompany advances and payables before audit procedures begin. In addition, we recommend the trial balance be reviewed after year-end adjustments are made to determine if any additional work is required.

### Management's Response

Management agrees. Management had delayed implementing the separation of broadband due to at year end no Broadband customers had been billed. In retrospect management understands the auditor's perspective and has now separated Broadband. Management agrees that payables should be monitored to ensure they are recorded in the proper fiscal year. This will be monitored closely in future years.

## 2. Finding 2018-002: Failure To Record Payables At Year-end

### Criteria

In accordance with generally accepted accounting principles, expenditures should be recognized in the period in which they occurred.

### Condition

The Electric System failed to record \$1.03 million dollars in capitalized costs at yearend. The Broadband System failed to record \$865 thousand dollars in capitalized costs at yearend. These costs should have been accrued as payable at year-end.

### Effect of Condition

Failure to record these capitalized costs resulted in payables to be understated roughly \$1.9 million dollars between the Electric System and the Broadband System.

### Recommendation

We recommend year-end adjustments be made to record payables before audit procedures begin. In addition, we recommend the trial balance be reviewed after year-end adjustments are made to determine if any additional work is required.

### Management's Response

Management agrees that payables should be monitored to ensure they are recorded in the proper fiscal year. This will be monitored closely in future years.

## 3. Finding 2018-003: Failure To Appropriately Record Fixed Assets And Period Costs

### Criteria

Expenses should be recognized in the period occurred or capitalized and amortized over the estimated useful life of the asset in accordance with generally accepted accounting principles.

### Condition

Newport Utilities failed to establish Broadband as its own separate reporting unit. As a result, all Broadband costs were recorded as construction work in progress in the Electric System. Costs recognized in construction work in progress included period costs and costs that should be capitalized. Period costs such as meals, travel, and office supplies were incorrectly capitalized instead of being expensed in the period.

### Effect of Condition

The Electric System's fixed assets were overstated \$1,845,786 and current period expenses were overstated by approximately \$100 thousand dollars. The Broadband System's fixed assets were understated approximately \$2.1 million dollars and current year expenses were understated \$485 thousand dollars.

### Recommendation

We recommend expenses be properly recorded as a period expense or as a capitalized asset and amortized over the estimated useful life of the asset in accordance with generally accepted accounting procedures.

### Management's Response

Management agrees. Management had delayed implementing the separation of broadband due to at year end no Broadband customers had been billed. In retrospect, management understands the auditor's perspective and has now separated Broadband.

## 4. Finding 2018-004: Retainage Account

### Criteria

Tennessee Code Annotated §66-34-104 requires that for any contract in which a percentage of the contract price is retained, the retainage portion withheld shall be deposited in a separate interest-bearing escrow bank account.

### Condition

Newport Electric entered into contracts with vendors to implement the Smart Grid system. These contracts had retainage amounts withheld from payments to vendors in accordance with the contract. However, Newport Utilities did not establish separate interest-bearing escrow accounts to account for these amounts.

### Effect of Condition

Newport Utilities failed to comply with Tennessee Code Annotated §66-34-104.

### Recommendation

We recommend interest-bearing escrow bank accounts be established for all contracts exceeding \$500,000 in accordance with Tennessee Code Annotated §66-34-104.

### Management's Response

Management agrees. Escrow accounts will be set up for existing applicable contracts and also for all contracts in the future.

## 5. Finding 2018-005: Supporting Documentation - Credit Cards

### Criteria

Invoices, receipts, and other adequate supporting documentation should be retained to substantiate purchases incurred through the use of credit cards.

### Condition

Credit cards are used extensively by Newport Utilities. During the course of the audit, several purchases were made without appropriate supporting documentation being retained to substantiate the purchase. Additionally, some instances of meals being purchased through use of credit cards were noted in which these purchases appear to be personal in nature.

### Effect of Condition

Adequate support was not maintained to substantiated purchases.

### Recommendation

Adequate supporting documentation should be maintained to substantiate all purchases. Documentation should be maintained for all meals that are purchased to include the individuals who attended and the business purpose for which the meal was provided.

### Management's Response

Management agrees that credit card receipts should be maintained and documented for assurance of legitimate business purchases. The entire credit card program will be looked at in the next fiscal year.



## **Compliance and Other Matters**

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

## **Newport Electric and Broadband System's Response to Findings**

Newport Electric and Broadband System's responses to the findings identified in our audit are described above. We did not audit the System's responses and, accordingly, we express no opinion on them.

## **Purpose of this Report**

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

*Roderic Moss & Co, PLLC*

Greeneville, Tennessee  
December 19, 2018



NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Summary Schedule of Prior Audit Findings  
June 30, 2018

Internal Control over Financial Reporting

There were no prior year findings.

Compliance and Other Matters

There were no prior year findings.

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Corrective Action Plan  
June 30, 2018

**2018-001 Failure To Establish Broadband As A Separate Department**

Response and Corrective Action Plan Prepared by: Andrew Mize

Person responsible for implementing the Corrective Action: Same  
Anticipated Completion Date of Corrective Action: Immediate

Repeat Finding: NA  
Reason Why Corrective Action was not taken in prior year: NA

Planned Corrective Action:

Broadband department has now been separated and at year end Manager of Finance and Accounting will review payables to ensure they are recorded in the correct fiscal year..

**Finding 2018-002: Failure To Record Payables At Yearend**

Response and Corrective Action Plan Prepared by: Andrew Mize

Person responsible for implementing the Corrective Action: Same  
Anticipated Completion Date of Corrective Action: Immediate

Repeat Finding: NA  
Reason Why Corrective Action was not taken in prior year: NA

Planned Corrective Action:

At year end Manager of Finance and Accounting will review payables to ensure they are recorded in the correct fiscal year.

**Finding 2018-003: Failure To Appropriately Record Fixed Assets And Period Costs**

Response and Corrective Action Plan Prepared by: Andrew Mize

Person responsible for implementing the Corrective Action: Same  
Anticipated Completion Date of Corrective Action: Immediate

Repeat Finding: NA  
Reason Why Corrective Action was not taken in prior year: NA

Planned Corrective Action:

Broadband is now separated and at year end Manager of Finance and Accounting will review payables to ensure they are recorded in the correct fiscal year.

NEWPORT ELECTRIC AND BROADBAND SYSTEM  
A DEPARTMENT OF NEWPORT UTILITIES BOARD  
Corrective Action Plan  
(Continued)

**Finding 2018-004: Retainage Account**

Response and Corrective Action Plan Prepared by: Andrew Mize

Person responsible for implementing the Corrective Action: Same  
Anticipated Completion Date of Corrective Action: Immediate

Repeat Finding: NA  
Reason Why Corrective Action was not taken in prior year: NA

Planned Corrective Action:

Retainage accounts will be opened promptly for existing contracts where needed and opened in the future for all contracts as needed.

**Finding 2018-005: Supporting Documentation - Credit Cards**

Response and Corrective Action Plan Prepared by: Andrew Mize

Person responsible for implementing the Corrective Action: Same  
Anticipated Completion Date of Corrective Action: Immediate

Repeat Finding: NA  
Reason Why Corrective Action was not taken in prior year: NA

Planned Corrective Action:

Management plans to look at the entire credit card program including necessity, regulating the receipt and documentation process and ensuring that all credit card purchases are legitimate business purchases.

**APPENDIX E**

**BOND INSURANCE AND SPECIMEN MUNICIPAL BOND INSURANCE  
POLICY**



## **BOND INSURANCE**

### **BOND INSURANCE POLICY**

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **ASSURED GUARANTY MUNICIPAL CORP.**

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

#### *Current Financial Strength Ratings*

On June 27, 2019, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On December 21, 2018, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On May 7, 2018, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

### *Capitalization of AGM*

At March 31, 2019:

- The policyholders' surplus of AGM was approximately \$2,523 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,054 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,848 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGE were determined in accordance with accounting principles generally accepted in the United States of America.

### *Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (filed by AGL with the SEC on March 1, 2019); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019 (filed by AGL with the SEC on May 10, 2019).



All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof “furnished” under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC’s website at <http://www.sec.gov>, at AGL’s website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL’s website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption “BOND INSURANCE – Assured Guaranty Municipal Corp.” or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

#### *Miscellaneous Matters*

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE” or under this APPENDIX E.





## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
1633 Broadway, New York, N.Y. 10019  
(212) 974-0100