OFFICIAL STATEMENT

NEW ISSUES

Electric Ratings:	**Standard and Poor's:**	**"AA+"**
	Moody's:	**"Aa2"**
Water Ratings:	**Standard and Poor's:**	**"AAA"**
	Moody's:	**"Aa2"**
Wastewater Ratings:	**Standard and Poor's:**	**"AA+"**
	Moody's:	**"Aa2"**

(See "MISCELLANEOUS: Ratings" herein)

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

$85,000,000

CITY OF KNOXVILLE, TENNESSEE

$35,000,000 Electric System Revenue Bonds, Series FF-2015
$20,000,000 Water System Revenue Bonds, Series CC-2015
$30,000,000 Wastewater System Revenue Bonds, Series 2015B

Dated: May 20, 2015 Due: As shown on the inside cover

The $35,000,000 Electric System Revenue Bonds, Series FF-2015 ("Electric Bonds" or "Series FF-2015 Bonds"), $20,000,000 Water System Revenue Bonds, Series CC-2015 ("Water Bonds" or "Series CC-2015 Bonds"), and the $30,000,000 Wastewater System Revenue Bonds, Series 2015B ("Wastewater Bonds" or "Series 2015B Bonds"), collectively, referred to as the "Bonds" are issuable in book-entry-only form. The Bonds will be 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 form only, in denominations of $5,000 or integral multiples thereof and will bear interest at the annual rates as shown on the inside cover. Interest on the Electric Bonds will be payable semi-annually on January 1 and July 1 each year, commencing January 1, 2016. Interest on the Water Bonds will be payable semi-annually on March 1 and September 1 each year, commencing September 1, 2015. Interest on the Wastewater Bonds will be payable semi-annually on April 1 and October 1 each year, commencing October 1, 2015. Beneficial owners of the Bonds will not receive physical delivery of Bond certificates. (See "The Bonds" - Book-Entry-Only System herein.)

The Bonds are being issued to provide funds to pay the costs of extensions and improvements to the Electric System, the Water System and the Wastewater System, as described herein, and to pay the cost of issuing the Bonds as more fully described in a subsequent part of this OFFICIAL STATEMENT.

The Bonds will be issued pursuant to and secured by bond resolutions of the City of Knoxville ("City") and will be payable solely from the net revenues of the Electric System, Water System and the Wastewater System, respectively, of the City of Knoxville, which are operated by the Knoxville Utilities Board ("KUB"). The Bonds do not constitute a debt of the City within the meaning of any constitutional, City Charter or statutory limitation, and neither the faith and credit of the State of Tennessee nor the faith and credit of the City or any other political subdivision are pledged to the payment of the principal of or premium or interest on the Bonds.

A portion of the Bonds are subject to redemption prior to maturity as described herein.

Bonds are offered when, as and if issued by the City of Knoxville subject to the approval of the legality thereof by Bass, Berry & Sims PLC, Knoxville, Tennessee, Bond Counsel, whose opinions will be delivered with the Bonds. Certain legal matters will be passed upon for Knoxville Utilities Board by Hodges, Doughty & Carson, PLLC, Knoxville, Tennessee, General Counsel to the Knoxville Utilities Board. It is expected the Bonds will be available for delivery in book-entry-only form, through the facilities of The Depository Trust Company, New York, New York on or about May 20, 2015.

Cumberland Securities Company, Inc.
Financial Advisor

April 29, 2015

ELECTRIC SYSTEM REVENUE BONDS
SERIES FF-2015

Maturity (July 1)	Amount	Interest Rate	Yield		CUSIP**
2016	$ 675,000	2.00%	0.40%		499746 YA7
2017	700,000	4.00	0.73		499746 YB5
2018	725,000	5.00	1.04		499746 YC3
2019	750,000	5.00	1.27		499746 YD1
2020	775,000	5.00	1.46		499746 YE9
2021	800,000	5.00	1.66		499746 YF6
2022	825,000	5.00	1.85		499746 YG4
2023	850,000	5.00	2.01	c	499746 YH2
2024	900,000	5.00	2.15	c	499746 YJ8
2025	925,000	5.00	2.25	c	499746 YK5
2026	950,000	5.00	2.36	c	499746 YL3
2027	$ 975,000	5.00%	2.48%	c	499746 YM1
2028	1,025,000	4.00	3.04	c	499746 YN9
2029	1,050,000	4.00	3.11	c	499746 YP4
2030	1,100,000	4.00	3.18	c	499746 YQ2
2031	1,125,000	4.00	3.24	c	499746 YR0
2032	1,175,000	4.00	3.31	c	499746 YS8
2033	1,225,000	4.00	3.36	c	499746 YT6
2034	1,250,000	4.00	3.40	c	499746 YU3
2035	1,300,000	4.00	3.43	c	499746 YV1
2036	1,350,000	4.00	3.46	c	499746 YW9

c = Yield to call on July 1, 20212.

$5,900,000	4.00%	Term Bond Due	July 1, 2040	@	3.60% c	499746 ZA6
$8,650,000	4.00%	Term Bond Due	July 1, 2045	@	3.70% c	499746 ZF5

WATER SYSTEM REVENUE BONDS
SERIES CC-2015

Maturity (March 1)	Amount	Interest Rate	Yield		CUSIP**
2016	$ 350,000	2.00%	0.35%		499818 ZP0
2017	375,000	2.00	0.66		499818 ZQ8
2018	400,000	3.00	1.00		499818 ZR6
2019	425,000	4.00	1.25		499818 ZS4
2020	425,000	4.00	1.45		499818 ZT2
2021	450,000	4.00	1.63		499818 ZU9
2022	475,000	4.00	1.83		499818 ZV7
2023	475,000	3.00	2.10	c	499818 ZW5
2024	$ 500,000	2.25%	2.35%		499818 ZX3
2025	525,000	2.50	2.55		499818 ZY1
2026	550,000	2.625	2.70		499818 ZZ8
2029	600,000	3.00	3.18		499818 A44
2030	625,000	3.125	3.30		499818 A51
2031	650,000	3.25	3.41		499818 A69
2032	675,000	3.25	3.45		499818 A77

c = Yield to call on March 1, 2022.

$1,125,000	3.00%	Term Bond Due	March 1, 2028	@	3.08%	499818 A36
$2,175,000	4.00%	Term Bond Due	March 1, 2035	@	3.43% c	499818 B27
$2,400,000	3.625%	Term Bond Due	March 1, 2038	@	3.75%	499818 B50
$3,675,000	4.00%	Term Bond Due	March 1, 2042	@	3.72% c	499818 B92
$3,125,000	4.00%	Term Bond Due	March 1, 2045	@	3.85% c	499818 C42

WASTEWATER SYSTEM REVENUE BONDS
SERIES 2015B

Maturity (April 1)	Amount	Interest Rate	Yield		CUSIP**	Maturity (April 1)	Amount	Interest Rate	Yield		CUSIP**
2016	$ 575,000	3.00%	0.40%		499815 RD2	2026	$ 650,000	3.00%	2.75%	c	499815 RP5
2017	450,000	3.00	0.67		499815 RE0	2027	675,000	3.00	3.00		499815 RQ3
2018	475,000	5.00	1.00		499815 RF7	2028	700,000	4.00	3.10	c	499815 RR1
2019	500,000	5.00	1.25		499815 RG5	2029	725,000	4.00	3.18	c	499815 RS9
2020	525,000	3.00	1.45		499815 RH3	2030	775,000	4.00	3.25	c	499815 RT7
2021	525,000	4.00	1.66		499815 RJ9	2031	800,000	4.00	3.31	c	499815 RU4
2022	550,000	4.00	1.87		499815 RK6	2032	825,000	4.00	3.38	c	499815 RV2
2023	575,000	4.00	2.15	c	499815 RL4	2033	850,000	3.375	3.51		499815 RW0
2024	600,000	4.00	2.36	c	499815 RM2	2034	900,000	3.375	3.55		499815 RX8
2025	625,000	3.00	2.55	c	499815 RN0	2035	925,000	3.50	3.58		499815 RY6

c = Yield to call on April 1, 2022.

$3,475,000	4.00%	Term Bond Due	April 1, 2040	@	3.75%	c	499815 SD1
$6,000,000	4.00%	Term Bond Due	April 1, 2045	@	3.90%	c	499815 SJ8
$7,300,000	4.00%	Term Bond Due	April 1, 2050	@	4.081%		499815 SP4

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

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

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

This Official Statement and the Appendices hereto contain brief descriptions of, among other matters, KUB, the Bonds, the Resolution, the Disclosure Certificate (as defined herein), 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 Resolution.

The Bonds have not been registered under the Securities Act of 1933, 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 or the Underwriter to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations should not be relied upon as having been authorized by the Issuer or the Underwriter. Except where otherwise indicated, all information contained in this Official Statement has been provided by KUB. The information set forth herein has been obtained by KUB 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 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.

CITY OF KNOXVILLE, TENNESSEE
KNOXVILLE UTILITIES BOARD

COMMISSIONERS

Nikitia Thompson, Chair
Kathy Hamilton, Vice Chair
Bruce A. Anderson
Celeste Herbert
Sara Hedstrom Pinnell
Eston Williams
John Worden

OFFICERS

Mintha E. Roach, President and Chief Executive Officer
Bill R. Elmore, Executive Vice President
Mark A. Walker, Senior Vice President & CFO
Susan F. Edwards, Senior Vice President & CAO
H. Edward Black, Senior Vice President

GENERAL COUNSEL

Hodges, Doughty & Carson, PLLC
Knoxville, Tennessee

UNDERWRITERS

Electric **Series FF-2015**	**Water** **Series CC-2015**	**Wastewater** **Series 2015B**
J.P. Morgan Securities LLC	Raymond James	Bank of America Merrill Lynch
New York, New York	Memphis, Tennessee	New York, New York

FINANCIAL ADVISOR

Cumberland Securities Company, Inc.
Knoxville, Tennessee.

BOND COUNSEL

Bass, Berry & Sims PLC
Knoxville, Tennessee

INDEPENDENT ACCOUNTANTS

Rodefer Moss & Co., PLLC
Knoxville, Tennessee

REGISTRATION AND PAYING AGENT

Regions Bank
Nashville, Tennessee

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APPENDIX D-2: WASTEWATER DIVISION
REPORT OF INDEPENDENT ACCOUNTANTS AND FINANCIAL STATEMENTS

SUMMARY STATEMENT

The information set forth below is provided as a summary for convenient reference only; the information is not and does not purport to be complete and is qualified in its entirety by the information and financial statements appearing elsewhere in this OFFICIAL STATEMENT. No person is authorized to distribute or rely upon all or any part of the information in this “Summary Statement” without the balance of this OFFICIAL STATEMENT, including, all exhibits and appendices hereto.

The Bonds...........................	City of Knoxville, Tennessee (the “City”) $35,000,000 Electric System Revenue Bonds, Series FF-2015 (“Electric Bonds” or “Series FF-2015 Bonds”), $20,000,000 Water System Revenue Bonds, Series CC-2015 (“Water Bonds” or “Series CC-2015 Bonds”), and the $30,000,000 Wastewater System Revenue Bonds, Series 2015B (“Wastewater Bonds” or “Series 2015B Bonds”) dated May 20, 2015. The Electric Bonds, the Water Bonds and the Wastewater Bonds will be collectively referred to as the “Bonds”.
Purpose	The Bonds are being issued to provide funds to pay the costs of extensions and improvements to the Electric System, the Water System and the Wastewater System (collectively, the “Systems”), and the payment of legal, fiscal, administrative and engineering costs incident thereto and incident to the issuance and sale of the Bonds.
Security	The Bonds will be issued pursuant to and secured by bond resolutions of the City and will be payable solely from the net revenues of the Systems, respectively, as further described herein.
Redemption.........................	The Electric Bonds maturing on and after July 1, 2023 will be subject to redemption prior to maturity at the option of the Board on or after July 1, 2022 at the redemption price of par plus accrued interest as provided herein. The Water Bonds maturing on and after March 1, 2023 will be subject to redemption prior to maturity at the option of the Board on or after March 1, 2022 at the redemption price of par plus accrued interest as provided herein. The Wastewater Bonds maturing on and after April 1, 2023 will be subject to redemption prior to maturity at the option of the Board on or after April 1, 2022 at the redemption price of par plus accrued interest as provided herein.
Rates	Rates and fees for services provided by the Systems are established by the Board of Commissioners of the Knoxville Utilities Board (the “Board”). The Electric System, the Water System and the Wastewater System are not otherwise subject to rate regulation, and the Board is not aware of any pending legislation which would make its rates and fees subject to regulation.
Rate Covenants..................	The bond resolutions require that the Board will fix rates and collect charges for electric, gas, water and wastewater services, facilities and commodities furnished by the Systems so as to provide revenues sufficient to pay, as the same shall become due, the necessary expenses of operating and maintaining the respective System and all other obligations and indebtedness payable out of revenues of the respective System.
Additional Electric Revenue Bonds...............	The City, acting by and through the Board, or the Board may issue additional bonds, notes or other obligations pursuant to the Electric Bond Resolution provided that all payments required to be made to the Electric Debt Service Fund and into any reserve fund which may be required under resolutions authorizing parity indebtedness are current as of the date of issuance of the additional bonds, notes or other obligations, on a parity and equality of lien with the outstanding parity indebtedness under the Electric Bond Resolution, with respect to the lien and claim of such additional bonds, notes or other obligations to the net revenues of the Electric System and the money on deposit in the Electric Debt Service Fund (i) for the purpose of refunding any outstanding parity indebtedness, subordinate bonds, notes, loan agreements or other obligations, provided that after the issuance of such additional parity indebtedness, the Aggregate Debt Service (as defined in the Electric Bond Resolution) on all outstanding parity indebtedness, including the additional parity indebtedness to be issued, in any fiscal year shall not increase by more than ten percent (10%) after the issuance of such additional parity indebtedness; (ii) for the purpose of financing the completion or equipping of improvements to the Electric System for which outstanding parity indebtedness have previously been issued but only to the extent necessary to complete such improvements in the manner contemplated at the time of the issuance of the outstanding parity indebtedness that financed such improvements; (iii) and for

the purposes of refunding any outstanding parity indebtedness or any prior lien bonds, subordinated bonds, notes or other obligations or extending, improving or replacing the Electric System or for any other lawful purpose under applicable law, if one of the following conditions shall have been met: (A) the Net Revenues (as defined in the Electric Bond Resolution) for any twelve-month period selected by the Board ending within the twelve months prior to the date of the issuance of the additional parity indebtedness must have been equal to at least 120% of the Maximum Annual Aggregate Debt Service (as defined in the Electric Bond Resolution) on outstanding parity indebtedness plus the Debt Service on the additional parity indebtedness proposed to be issued or (B) the estimated Net Revenues of the Electric System for each of the three fiscal years next succeeding the issuance of the additional parity indebtedness, must be equal at least to 120% of Maximum Annual Aggregate Debt Service, any other outstanding parity indebtedness and all outstanding prior lien bonds plus the Debt Service on the additional parity indebtedness proposed to be issued; provided, however, that if the additional parity indebtedness is to be issued for the acquisition or construction of any extension, improvement or replacement to the Electric System, then the estimate of Net Revenues may be for the three fiscal years ensuing after the time that such improvement, extension or replacement is expected to be placed in service.

Additional Water Revenue Bonds..............The City, acting by and through the Board, or the Board may issue additional bonds, notes or other obligations pursuant to the Water Bond Resolutions (as defined herein), provided that all payments required to be made to the Water Debt Service Fund and into any reserve fund which may be required under resolutions authorizing parity indebtedness are current as of the date of issuance of the additional bonds, notes or other obligations, on a parity and equality of lien with the outstanding parity indebtedness with respect to the lien and claim of such additional bonds, notes or other obligations to the net revenues of the Water System and the money on deposit in the Water Debt Service Fund for the purpose of (i) refunding any outstanding parity indebtedness, subordinate bonds, notes, loan agreements or other obligations, provided that after the issuance of such additional parity indebtedness, the Aggregate Debt Service (as defined in the Water Bond Resolutions) on all outstanding parity indebtedness, including the additional parity indebtedness to be issued, in any fiscal year shall not increase by more than ten percent (10%) after the issuance of such additional parity indebtedness; (ii) for the purpose of financing the completion or equipping of improvements to the Water System for which outstanding parity indebtedness have previously been issued but only to the extent necessary to complete such improvements in the manner contemplated at the time of the issuance of the outstanding parity indebtedness that financed such improvements; and (iii) for the purposes of refunding any outstanding parity indebtedness or any prior lien bonds, subordinated bonds, notes or other obligations or extending, improving or replacing the Water System or for any other lawful purpose under applicable law, if one of the following conditions shall have been met: (A) the Net Revenues (as defined in the Water Bond Resolutions) for any twelve-month period selected by the Board ending within the twelve months prior to the date of the issuance of the additional parity indebtedness must have been equal to at least 120% of the Maximum Annual Aggregate Debt Service (as defined in the Water Bond Resolutions) on outstanding parity indebtedness plus the Debt Service on the additional parity indebtedness proposed to be issued or (B) the estimated Net Revenues of the Water System for each of the three fiscal years next succeeding the issuance of the additional parity indebtedness, must be equal at least to 120% of Maximum Annual Aggregate Debt Service, any other outstanding parity indebtedness and all outstanding prior lien bonds plus the Debt Service on the additional parity indebtedness proposed to be issued; provided, however, that if the additional parity indebtedness is to be issued for the acquisition or construction of any extension, improvement or replacement to the Water System, then the estimate of Net Revenues may be for the three fiscal years ensuing after the time that such improvement, extension or replacement is expected to be placed in service.

Additional Wastewater Revenue Bonds..............The City, acting by and through the Board, or the Board may issue additional bonds, notes or other obligations pursuant to the Wastewater Bond Resolution provided that all payments required to be made to the Wastewater Debt Service Fund and into any reserve fund which may be required under resolutions authorizing parity indebtedness are current as of the date of issuance of the additional bonds, notes or other obligations, on a parity and equality of lien with the outstanding parity indebtedness under the Wastewater Bond Resolution, with respect to the lien and claim of such additional bonds, notes or other obligations to the net revenues of the Wastewater System and the money on deposit in the Wastewater Debt Service Fund (i) for the purpose of refunding any outstanding parity indebtedness, subordinate bonds, notes, loan agreements or other obligations, provided that after the issuance of such additional parity indebtedness, the Aggregate Debt Service (as defined in the Wastewater Resolution) on all outstanding parity indebtedness, including the additional parity indebtedness to be issued, in any fiscal year shall not increase by more than ten percent (10%) after the issuance of such additional parity indebtedness; (ii) for the purpose of financing the completion or equipping of improvements to the Wastewater System for which outstanding parity indebtedness have previously been issued but only to the extent necessary to complete such improvements in the manner contemplated at the time of the issuance of the outstanding parity indebtedness that financed such improvements; and (iii) for the purposes of refunding any outstanding parity indebtedness or any prior lien bonds, subordinated bonds, notes or other obligations or extending, improving or replacing the Wastewater System or for any other lawful purpose under applicable law, if one of the following conditions shall have been met: (A) the Net Revenues (as defined in the Wastewater Bond Resolution) for any twelve-month period selected by the Board ending within the twelve months prior to the date of the issuance of the additional parity indebtedness must have been equal to at least 120% of the Maximum Annual Aggregate Debt Service (as defined in the Wastewater Bond Resolution) on outstanding parity indebtedness plus the Debt Service on the additional parity indebtedness proposed to be issued or (B) the estimated Net Revenues of the Wastewater System for each of the three fiscal years next succeeding the issuance of the additional parity indebtedness, must be equal at least to 120% of Maximum Annual Aggregate Debt Service, any other outstanding parity indebtedness and all outstanding prior lien bonds plus the Debt Service on the additional parity indebtedness proposed to be issued; provided, however, that if the additional parity indebtedness is to be issued for the acquisition or construction of any extension, improvement or replacement to the Wastewater System, then the estimate of Net Revenues may be for the three fiscal years ensuing after the time that such improvement, extension or replacement is expected to be placed in service.

Combined Operation of Any System Permitted in the Future.................... To the extent permitted by law, the Board may combine any or all the City's utility Systems into a single unified operation (the "Combined System") and commingle the revenues of the System in the Combined System without keeping separate accounts of the funds of each of such System, provided payments from the funds of the Combined System are required to be made into the respective Debt Service Funds from time to time in amounts sufficient to pay the principal of and interest as such principal and interest becomes due. Bonds and notes ("Parity Bonds") payable from revenues of the Combined System may be issued on a parity with outstanding bonds secured by a System's revenues provided at the time of the issuance of any such Parity Bonds, among other things, the net earnings of the Combined System after making provision for the payment of periodic installments of principal and interest on any bonds having a superior lien on a system or the revenues of any such system, for a period of twelve consecutive months (the "Twelve-Month Period") out of the fifteen months immediately preceding the issuance of such Parity Bonds shall be equal to at least 1.2 times the highest combined principal and interest requirement for any period of twelve consecutive months beginning on July 1 of any succeeding calendar year on all bonds outstanding and to be then issued directly payable from the revenues of the Combined System.

If within twelve months prior to the issuance of the Parity Bonds, the Board shall have put into effect a revised schedule of rates for the Combined System or any part thereof, then the net earnings of the Combined System for the Twelve-Month Period, as certified by independent consultants, that would have resulted from such revised rates had they been in effect for the Twelve-Month Period, may be used in lieu of the actual net earnings for such Twelve-Month Period.

Tax Matters......................... In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants by the Knoxville Utilities Board, interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining the adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. For an explanation of certain tax consequences under federal law which may result from the ownership of the Bonds, see the discussion under the heading "LEGAL MATTERS – Tax Matters" herein. Under existing law, the Bonds and the income therefrom will be exempt from all state, county and municipal

	taxation in the State of Tennessee, except inheritance, transfer and estate taxes, and Tennessee franchise and excise taxes. (See "LEGAL MATTERS – Tax Matters" herein).
Registration and Paying Agent	Regions Bank, Nashville, Tennessee.
Bond Counsel	Bass, Berry & Sims PLC, Knoxville, Tennessee.
Underwriters	*Electric Bonds:* JP Morgan Securities LLC, New York, New York. *Water Bonds:* Raymond James, Memphis, Tennessee. *Wastewater Bonds:* Bank of America Merrill Lynch, New York, New York.
Financial Advisor	Cumberland Securities Company, Inc., Knoxville, Tennessee.
General	The Bonds will be issued pursuant to Chapter 34, Title 7, and Chapter 21, Title 9, *Tennessee Code Annotated*, as amended (the "Act"). See the sections entitled SECURITIES OFFERED, herein. The Bonds will be issued with CUSIP numbers through the facilities of The Depository Trust Company, New York, New York.
Disclosure	In accordance with Rule 15c2-12 of the Securities and Exchange Commission (the "SEC"), the Board will provide the Municipal Securities Rulemaking Board ("MSRB") through the operation of the Electronic Municipal Market Access system ("EMMA") and the State information depository ("SID") established in Tennessee, if any, annual financial statements and other pertinent credit information, including the Comprehensive Annual Financial Reports of KUB for the Systems. For additional information, see the section entitled "MISCELLANEOUS - Continuing Disclosure" for additional information.
Other Information	The information in the OFFICIAL STATEMENT is deemed "final" by the City and the Board within the meaning of Rule 15c2-12 of the Securities and Exchange Commission as of the date which appears on the cover hereof. For more information concerning the City and the Board or the OFFICIAL STATEMENT, Cumberland Securities Company, Inc., Knoxville, Tennessee, Telephone: (865) 988-2663.

ELECTRIC DIVISION

For the Years Ended June 30

	2010	2011	2012	2013	2014
Operating Revenues	$463,036,187	$521,581,959	$506,053,787	$534,888,206	$527,832,791
Operating Expenses*	(418,320,430)	(471,156,397)	(457,825,178)	(481,546,956)	(485,298,618)
Net Income Before Depreciation & Taxes	$44,715,757	$50,425,562	$48,228,609	$53,341,250	$42,534,173
Other Revenue	335,108	316,068	501,903	370,800	2,016,315
FICA Tax Expense	(1,187,713)	(1,219,037)	(1,496,062)	(1,656,801)	(1,721,551)
Income Available for Debt Service	$43,863,152	$49,522,593	$47,234,450	$52,055,249	$54,729,068
Debt Service on Senior Bonds	$10,362,812	$10,458,263	$13,762,442	$13,408,457	$14,975,114
Bond Coverage	4.23x	4.74x	3.43x	3.88x	3.65x

WATER DIVISION

For the Years Ended June 30

	2010	**2011**	**2012**	**2013**	**2014**
Operating Revenues	$33,578,157	$36,415,692	$37,475,750	$38,063,528	$39,373,714
Operating Expenses	(20,066,789)	(21,183,418)	(21,189,606)	(21,427,740)	(25,913,424)
Net Income Before Depreciation & Taxes	$13,511,368	$15,232,274	$16,286,144	$16,635,788	$13,460,290
Other Revenue	110,164	73,177	200,362	139,775	590,196
FICA Tax Expense	(535,224)	(577,235)	(662,051)	(624,282)	(624,281)
Income Available for Debt Service	$13,086,308	$14,728,216	$15,824,425	$16,151,281	$16,017,728
Debt Service on Senior Bonds	$5,391,934	$5,948,815	$6,174,022	$7,550,442	$7,583,219
Bond Coverage	2.43x	2.48x	2.56x	2.14x	2.11x

WASTEWATER DIVISION

For the Years Ended June 30

	2010	**2011**	**2012**	**2013**	**2014**
Operating Revenues	$61,250,002	$65,774,599	$70,502,494	$74,579,313	$75,041,645
Operating Expenses*	(24,520,665)	(25,176,191)	(24,920,362)	(27,822,708)	(33,744,494)
Net Income Before Depreciation & Taxes	$36,729,337	$40,598,408	$45,582,133	$46,756,605	$41,297,151
Other Revenue	524,988	488,943	561,662	372,644	1,208,707
FICA Tax Expense	(533,393)	(530,895)	(622,483)	(674,060)	(719,291)
Income Available for Debt Service	$36,720,932	$40,556,456	$45,521,312	$46,455,189	$44,961,937
Debt Service on Senior Bonds	$16,516,255	$22,928,768	$26,175,686	$26,616,517	$28,041,968
Bond Coverage	2.22x	1.77x	1.74x	1.75x	1.60x

Source: The above amounts have been derived from the Annual Audited Financial Statements for the Knoxville Utilities Board, Electric, Water and Wastewater Divisions and should be read in conjunction therewith.

*Excluding Provision for Depreciation and Taxes.

$85,000,000
CITY OF KNOXVILLE, TENNESSEE
$35,000,000 Electric System Revenue Bonds, Series FF-2015
$20,000,000 Water System Revenue Bonds, Series CC-2015
$30,000,000 Wastewater System Revenue Bonds, Series 2015B

SECURITIES OFFERED

AUTHORITY AND PURPOSE

This OFFICIAL STATEMENT, which includes the cover page and "Summary Statement" hereof and the appendices hereto, is furnished in connection with the offering by the City of Knoxville, Tennessee (the "City") of its $35,000,000 Electric System Revenue Bonds, Series FF-2015 ("Electric Bonds" or "Series FF-2015 Bonds"), $20,000,000 Water System Revenue Bonds, Series CC-2015 ("Water Bonds" or "Series CC-2015 Bonds"), and the $30,000,000 Wastewater System Revenue Bonds, Series 2015B ("Wastewater Bonds" or "Series 2015B Bonds"). The Electric Bonds, the Water Bonds and the Wastewater Bonds will be collectively referred to as the "Bonds".

The Electric Bonds are being issued pursuant to Chapter 34, Title 7, and Chapter 21, Title 9, *Tennessee Code Annotated*, as amended (the "Act"), the Charter of the City (the "City Charter"), other applicable statutes, and pursuant to Resolution No. 1644 adopted by the City on January 4, 1949 as amended and supplemented by Resolution No. 2171 adopted February 22, 1955; Resolution No. 3491 adopted by the City on February 21, 1967; Resolution R-317-90 adopted by the City on October 30, 1990; Resolution No. R-469-92 adopted by the City on October 13, 1992; Resolution No. R-472-93 adopted by the City on October 26, 1993; Resolution No. R-95-95 adopted by the City on February 28, 1995; Resolution No. R-422-98 adopted by the City on October 20, 1998; Resolution No. R-64-01 adopted by the City on February 20, 2001; Resolution No. R-148-01 adopted by the City on March 20, 2001; Resolution No. R-480-01 adopted by the City on October 30, 2001; Resolution No. R-59-04 adopted by the City on March 2, 2004; Resolution No. R-261-05 adopted by the City on July 5, 2005; Resolution No. R-78-06 adopted by the City on February 28, 2006; Resolution No. R-251-08 adopted by the City on July 29, 2008; Resolution No. R-332-2010 adopted by the City on November 2, 2010; Resolution No. R-335-2011 adopted by the City on December 13, 2011; Resolution No. R-289-2012 adopted by the City on October 16, 2012; Resolution No. R-321-2012 adopted by the City on November 13, 2012; Resolution No. R-213-2014 adopted by the City on June 24, 2014; Resolution No. R-81-2015 adopted by the City on March 3, 2015; and Resolution No. R-129-2015 adopted by the City on March 31, 2015. Resolution Nos. 1644, 2171, 3491, R-317-90, R-469-92, R-472-93, R-95-95, R-422-98, R-64-01, R-148-01, R-480-01, R-59-04, R-261-05, R-78-06, R-251-08, R-332-2010, R-335-2011, R-289-2012, R-321-2012, R-213-2014, R-81-2015 and R-129-2015 are hereinafter sometimes collectively referred to as the "Electric Bond Resolutions." All Electric System Revenue Bonds issued pursuant to such Electric Bond Resolutions are hereinafter referred to as the "Electric System Bonds."

The Water Bonds are being issued pursuant to the Act, the City Charter, other applicable statutes, and pursuant to Resolution No. 2075 duly adopted by the City Council of the City on April 20, 1954, as amended and supplemented by Resolution No. 3633 duly adopted by the City on March 19, 1968; Resolution No. R-26-88 duly adopted by the City on February 9, 1988; Resolution No. R-318-90 duly adopted by the City on October 30, 1990; Resolution No. R-470-92 duly adopted by the City on October 13, 1992; Resolution No. R-474-93 duly adopted by the City on October 26, 1993; Resolution No. R-8-98 duly adopted by the City on January 27, 1998; Resolution No. R-65-01 duly adopted by the City on February 20, 2001; Resolution No. R-151-01 duly adopted by the City on March 20, 2001; Resolution No. R-482-01 duly adopted by the City on October 30, 2001; Resolution No. R-57-04 duly adopted by the City on March 2, 2004; Resolution No. R-263-05 duly adopted by the City on July 5, 2005; Resolution No. R-346-07 duly adopted by the City on August 28, 2007; Resolution No. R-211-09 duly adopted by the City on June 30, 2009; Resolution No. R-133-10 duly adopted by the City on May 4, 2010; Resolution No. R-285-2011 duly adopted by the City on October 4, 2011; Resolution No. R-337-2011 adopted by the City on December 13, 2011; Resolution No. R-323-2012 adopted by the City on November 13, 2012; Resolution No. R-243-2013 adopted by the City on July 23, 2013; Resolution No. R-214-2014 adopted by the City on June 24, 2014; Resolution No. R-83-2015 adopted by the City on March 3, 2015; and Resolution No. R-127-2015 adopted by the City on March 31, 2015. Resolution Nos. 2075, 3633, R-26-88, R-318-90, R-470-92, R-474-93, R-8-98, R-65-01, R-151-01, R-482-01, R-57-04, R-263-05, R-346-07, R-211-09, R-133-10, R-285-2011, R-337-2011, R-323-2012, R-243-2013, R-214-2014, R-83-2015 and R-127-2015 are hereinafter sometimes collectively referred to as the "Water Bond Resolutions." All Water System Revenue Bonds issued pursuant to such Water Bond Resolutions are hereinafter referred to as the "Water System Bonds."

The Wastewater Bonds are being issued pursuant to the Act, the City Charter, other applicable statutes for the purpose of providing funds to pay for the construction of improvements to and extending of the City's Wastewater System, and pursuant to Resolution No. R-129-90 adopted by the City on May 15, 1990, as amended and supplemented by Resolution No. R-130-90 adopted May 15, 1990, Resolution No. R-473-93 adopted by the City on October 26, 1992, Resolution No. R-5-98 adopted by the City on January 27, 1998, and Resolution No. R-67-01 adopted by the City on February 20, 2001; Resolution No. R-148-01 adopted by the City on March 20, 2001; Resolution No. R-481-01 adopted by the City on October 30, 2001; Resolution No. R-56-04 adopted by the City on March 2, 2004; Resolution No. R-264-05 adopted by the City on July 5, 2005; Resolution No. R-347-07 adopted by the City on August 28, 2007; Resolution No. R-252-08 adopted by the City on July 29, 2008; Resolution No. R-11-S adopted by the City on December 15, 2009; Resolution No. R-134-2010 adopted by the City on May 4, 2010; Resolution No. R-334-2010 adopted by the City on November 2, 2010; Resolution No. R-338-2011 adopted by the City on December 13, 2011; Resolution No. R-291-2012 adopted by the City on October 16, 2012; Resolution No. R-324-2012 adopted by the City on November 13, 2012; Resolution No. R-212-2014 adopted by the City on June 24, 2014; Resolution No. R-84-2015 adopted by the City on March 3, 2015; and Resolution No. R-128-2015 adopted by the City on March 31, 2015. Resolution Nos. R-129-90, R-130-90, R-473-93, R-5-98, R-67-01, R-148-01, R-481-01, R-56-04, R-264-05, R-347-07, R-252-08, R-11-S, R-134-2010, R-334-2010, R-338-2011, R-291-2012, R-324-2012, R-212-2014, R-84-2015 and R-128-2015 are hereinafter sometimes collectively referred to as the "Wastewater Bond Resolutions." All Wastewater System Revenue Bonds issued pursuant to such Wastewater Bond Resolutions are hereinafter referred to as the "Wastewater System Bonds."

In 1939 the City Charter was amended to create the Knoxville Electric Power and Water Board which name was changed in 1947 to the Knoxville Utilities Board ("KUB"). KUB provides electric, gas, water and wastewater utility services through separate City owned electric, gas, water, and wastewater systems (the "Systems"), and is governed by a seven member Board of Commissioners (the "Board").

The Bonds are being issued to provide funds to pay the costs of extensions and improvements to the Electric System, the Water System and the Wastewater System (collectively, the "Systems"), and the payment of legal, fiscal and administrative costs incident thereto and incident to the issuance and sale of the Bonds.

DESCRIPTION OF THE BONDS

General Terms

The Bonds will be initially dated May 20, 2015 and will be issued in book-entry-only form, without coupons, in denominations of $5,000 each and integral multiples thereof.

The Electric Bonds will bear interest from their dated date at the rate or rates per annum set forth on the inside cover page hereof, such interest (computed on the basis of a 360-day year of twelve 30-day months) being payable semi-annually on the first days of July and January of each year, commencing on January 1, 2016.

The Water Bonds will bear interest from their dated date at the rate or rates per annum set forth on the inside cover page hereof, such interest (computed on the basis of a 360-day year of twelve 30-day months) being payable semi-annually on the first days of March and September of each year, commencing on September 1, 2015.

The Wastewater Bonds will bear interest from their dated date at the rate or rates per annum set forth on the inside cover page hereof, such interest (computed on the basis of a 360-day year of twelve 30-day months) being payable semi-annually on the first days of April and October of each year, commencing on October 1, 2015.

The Bonds will be initially registered only in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Regions Bank, Nashville, Tennessee (the "Registration Agent") 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 KUB in respect of such Bonds to the extent of the payments so made. Payment of principal of the Bonds shall be made upon presentation and surrender of such Bonds to the Registration Agent as the same shall become due and payable.

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

So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Bondholders, Holders or Registered Owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds. See "The Book-Entry-Only System."

Optional Redemption

The Electric Bonds maturing on and after July 1, 2023 will be subject to redemption prior to maturity at the option of the Board on or after July 1, 2022 at the redemption price of par plus accrued interest as provided herein. The Water Bonds maturing on and after March 1, 2023 will be subject to redemption prior to maturity at the option of the Board on or after March 1, 2022 at the redemption price of par plus accrued interest as provided herein. The Wastewater Bonds maturing on and after April 1, 2023 will be subject to redemption prior to maturity at the option of the Board on or after April 1, 2022 at the redemption price of par plus accrued interest as provided herein.

Mandatory Redemption Of The Bonds

Electric Bonds. Subject to the credit hereinafter provided, the City, acting by and through KUB, shall redeem Electric Bonds maturing July 1, 2040 and July 1, 2045 on the redemption dates set forth on the following table the maturity dates, 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 dates of redemption and principal amount of Electric Bonds to be redeemed on said dates are as follows:

Final Maturity	Redemption Date	Principal Amount of Electric Bonds Redeemed
July 1, 2040	July 1, 2037	$1,400,000
	July 1, 2038	$1,450,000
	July 1, 2039	$1,500,000
	July 1, 2040*	$1,550,000
July 1, 2045	July 1, 2041	$1,600,000
	July 1, 2042	$1,675,000
	July 1, 2043	$1,725,000
	July 1, 2044	$1,800,000
	July 1, 2045*	$1,850,000

*Final Maturity of Electric Bonds

Water Bonds. Subject to the credit hereinafter provided, the City, acting by and through KUB, shall redeem Water Bonds maturing March 1, 2028, March 1, 2035, March 1, 2038, March 1, 2042 and March 1, 2045 on the redemption dates set forth on the following table the maturity dates, 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 dates of redemption and principal amount of Water Bonds to be redeemed on said dates are as follows:

Final Maturity	Redemption Date	Principal Amount of Electric Bonds Redeemed
March 1, 2028	March 1, 2027	$ 550,000
	March 1, 2028*	$ 575,000
March 1, 2035	March 1, 2033	$ 700,000
	March 1, 2034	$ 725,000
	March 1, 2035*	$ 750,000
March 1, 2038	March 1, 2036	$ 775,000
	March 1, 2037	$ 800,000
	March 1, 2038*	$ 825,000

March 1, 2042	March 1, 2039	$ 875,000
	March 1, 2040	$ 900,000
	March 1, 2041	$ 925,000
	March 1, 2042*	$ 975,000
March 1, 2045	March 1, 2043	$1,000,000
	March 1, 2044	$1,050,000
	March 1, 2045*	$1,075,000

*Final Maturity of Water Bonds

Wastewater Bonds. Subject to the credit hereinafter provided, the City, acting by and through KUB, shall redeem Wastewater Bonds maturing April 1, 2040, April 1, 2045 and April 1, 2050 on the redemption dates set forth on the following table the maturity dates, 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 dates of redemption and principal amount of Wastewater Bonds to be redeemed on said dates are as follows:

Final Maturity	Redemption Date	Principal Amount of Electric Bonds Redeemed
April 1, 2040	April 1, 2036	$ 975,000
	April 1, 2037	$1,000,000
	April 1, 2038	$ 500,000
	April 1, 2039	$ 500,000
	April 1, 2040*	$ 500,000
April 1, 2045	April 1, 2041	$1,100,000
	April 1, 2042	$1,150,000
	April 1, 2043	$1,200,000
	April 1, 2044	$1,250,000
	April 1, 2045*	$1,300,000
April 1, 2050	April 1, 2046	$1,350,000
	April 1, 2047	$1,400,000
	April 1, 2048	$1,450,000
	April 1, 2049	$1,525,000
	April 1, 2050*	$1,575,000

*Final Maturity of Wastewater Bonds

At its option, to be exercised on or before the forty-fifth (45th) day next preceding any such redemption date, the City, acting by and through KUB, may (i) deliver to the Registration Agent for cancellation Bonds of the applicable series to be redeemed, in any aggregate principal amount desired, and/or (ii) receive a credit in respect of its redemption obligation under this mandatory redemption provision 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 mandatory sinking fund redemption provision) and canceled by the Registration Agent and not theretofore applied as a credit against any redemption obligation under this mandatory sinking fund provision. 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 KUB 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 of this mandatory sinking fund provision shall be accordingly reduced.

Selection Of Bonds For Redemption And Notice Of Redemption

If less than all the Bonds of a series shall be called for redemption, the maturities to be redeemed shall be designated by the Board, 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-Only 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-Only System by DTC, or a successor Depository, the Bonds within the maturity to be redeemed shall be selected by the Registration Agent by lot or such other random manner as the Registration Agent in its discretion shall determine.

Notice of call for redemption, whether optional or mandatory, shall be given by the Registration Agent 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 the 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 District nor the Registration Agent shall be responsible for mailing notices of redemption to DTC Participants or Beneficial Owners. Failure of DTC, or any successor Depository, to provide notice to any DTC Participant will not affect the validity of such redemption. From and after any 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 in the Resolution. In the case of a Conditional Redemption, the failure of the City, acting by and through KUB, 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.

SOURCES AND USES OF FUNDS

The tables on the following pages set forth the sources and uses of funds in connection with the issuance of the Bonds.

The Electric Bonds

Sources:	
Principal amount of the Electric Bonds	$35,000,000.00
Net Reoffering Premium	$ 2,325,426.75
Total Sources	$37,325,426.75

Uses:

Underwriter’s Discount	$ 432,968.76
Cost of Issuance	$ 135,145.00
Deposit to the Construction Fund	$36,757,312.99
Total Uses:	$37,325,426.75

The Water Bonds

Sources:

Principal amount of the Water Bonds	$20,000,000.00
Net Reoffering Premium	$ 322,108.25
Total Sources	$20,322,108.25

Uses:

Underwriter’s Discount	$ 282,187.50
Cost of Issuance	$ 94,395.00
Deposit to the Construction Fund	$19,945,525.75
Total Uses:	$20,322,108.25

The Wastewater Bonds

Sources:

Principal amount of the Wastewater Bonds	$30,000,000.00
Net Reoffering Premium	$ 601,084.50
Total Sources	$30,601,084.50

Uses:

Underwriter’s Discount	$ 281,825.01
Cost of Issuance	$ 114,595.00
Deposit to the Construction Fund	$30,204,664.49
Total Uses:	$30,601,084.50

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 Bond Registrar 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 Bond Registrar.

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SECURITY FOR THE BONDS

SECURITY FOR THE ELECTRIC SYSTEM REVENUE BONDS, SERIES FF-2015

Pledge Under the Bond Resolutions.

The Electric Bonds constitute and, when issued, will be part of an issue of bonds known as "Electric System Revenue Bonds" under the Electric Bond Resolutions. All Electric Bonds are limited obligations of the City payable solely and ratably from the net revenues of the Electric System and are on a parity and equality of lien with the City's outstanding: (i) Electric System Revenue Refunding Bonds, Series W-2005 dated August 10, 2005; (ii) Electric System Revenue Refunding and Improvement Bonds, Series X-2006, dated May 23, 2006; (iii) Electric System Revenue Bonds, Series Y-2009, dated February 20, 2009; (iv) Electric System Revenue Bonds, Series Z-2010 (Federally Taxable Build America Bonds), dated December 8, 2010; (v) Electric System Revenue Refunding Bonds, Series AA-2012, dated April 20, 2012; (vi) Electric System Revenue Bonds, Series BB-2012, dated December 18, 2012; (vii) Electric System Revenue Refunding Bonds, Series CC-2013, dated March 15, 2013; (viii) Electric System Revenue Bonds, Series DD-2014, dated September 18, 2014; and (ix) Electric System Revenue Refunding Bonds, Series EE-2015, dated May 1, 2015 (collectively, the "Outstanding Electric System Bonds") issued pursuant to the Electric Bond Resolutions in addition to the Electric Bonds. The Electric Bonds, the Outstanding Electric Bonds and any future parity bonds are sometimes hereinafter referred to as (the "Electric System Bonds").

Neither the Electric Bonds nor any of the Outstanding Electric System Bonds are general obligations of the City, and no owner thereof shall have the right to compel the City to exercise its taxing power to pay principal of or premium or interest on the Electric Bonds or any other Outstanding Electric System Bonds of the City.

Rate Covenant

The Electric Bond Resolutions provide that the Board will fix rates and collect charges for the Electric System and the services, facilities and commodities furnished by the Electric System of the City so as to provide revenues sufficient to pay, as the same shall become due, the principal of and interest on the Electric Bonds and all other Electric System Bonds in addition to paying, as the same shall become due, the necessary expenses of operating and maintaining the Electric System and all other obligations and indebtedness payable out of the Electric Fund of the Electric System, and that such rates and charges shall not be reduced so as to be insufficient to provide revenues for said purposes. Rates and fees for electricity provided by the Electric System are established by the Board.

Additional Electric Bonds

The City and the Board have covenanted in the Electric Bond Resolutions that no indebtedness will be incurred payable from the revenues of the Electric System having priority over the Electric System Bonds, including the Electric Bonds.

The City, acting by and through the Board, or the Board may issue additional bonds, notes or other obligations pursuant to the Electric Bond Resolutions provided that all payments required to be made to the Electric Debt Service Fund and into any reserve fund which may be required under resolutions authorizing parity indebtedness are current as of the date of issuance of the additional bonds, notes or other obligations, on a parity and equality of lien with the outstanding parity indebtedness under the Electric Bond Resolution with respect to the lien and claim of such additional bonds, notes or other obligations to the net revenues of the Electric System and the money on deposit in the Electric Debt Service Fund (i) for the purpose of refunding any outstanding parity indebtedness, subordinate bonds, notes, loan agreements or other obligations, provided that after the issuance of such additional parity indebtedness, the Aggregate Debt Service (as defined in the Electric Bond Resolutions) on all outstanding parity indebtedness, including the additional parity indebtedness to be issued, in any fiscal year shall not increase by more than ten percent (10%) after the issuance of such additional parity indebtedness; (ii) for the purpose of financing the completion or equipping of improvements to the Electric System for which outstanding parity indebtedness have previously been issued but only to the extent necessary to complete such improvements in the manner contemplated at the time of the issuance of the outstanding parity indebtedness that financed such improvements; and (iii) for the purposes of refunding any outstanding parity indebtedness or any prior lien bonds, subordinated bonds, notes or other obligations or extending, improving or replacing the Electric System or for any other lawful purpose under applicable law, if one of the following conditions shall have been met: (A) the Net Revenues (as defined in the Electric Resolution) for any twelve-month period selected by the Board ending within the twelve months prior to the date of the issuance of the additional parity indebtedness must have been equal to at least 120% of the Maximum Annual Aggregate Debt Service (as defined in the Electric Resolution) on outstanding parity indebtedness plus the Debt Service on the additional parity indebtedness proposed to be issued or (B) the estimated Net Revenues of the Electric System for each of the three fiscal years next succeeding the issuance of the additional parity indebtedness, must be equal at least to 120% of Maximum Annual Aggregate Debt Service, any other outstanding parity indebtedness and all outstanding prior lien bonds plus the Debt Service on the additional parity indebtedness proposed to be issued; provided, however, that if the additional parity indebtedness is to be issued for the acquisition or construction of any extension, improvement or replacement to the Electric System, then the estimate of Net Revenues may be for the three fiscal years ensuing after the time that such improvement, extension or replacement is expected to be placed in service. **See APPENDIX F "Summary of Certain Provisions of the Electric Bond Resolutions – Additional Indebtedness" for additional information, including amendments described therein.**

SECURITY FOR THE WATER SYSTEM REVENUE BONDS, SERIES CC-2015

Pledge Under the Water Bond Resolutions

The Water Bonds constitute and, when issued, will be part of an issue known as "Water System Revenue Bonds" under the Water Bond Resolutions. All Water Bonds are limited obligations of the City payable solely and ratably from the net revenues of the Water System of the City and are on a parity and equality of lien with the City's outstanding: (i) Water System Revenue Improvement Bonds, Series R-2005, dated August 10, 2005; (ii) Water System Revenue Refunding Bonds, Series S-2005, dated August 10, 2005; (iii) Water System Revenue Bonds, Series T-2007, dated November 1, 2007; (iv) Water System Revenue Bonds, Series U-2009, dated November 12, 2009; (v) Water System Revenue Bonds, Series W-2011, dated December 1, 2011; (vi) Water System Revenue Refunding Bonds, Series X-2012, dated April 20, 2012; (vii) Water System Revenue Refunding Bonds, Series Y-2013, dated March 15, 2013; (viii) Water System Revenue Bonds, Series Z-2013, dated October 1, 2013; (ix) Water System Revenue Bonds, Series AA-2014, dated September 18, 2014; and (x) Water System Revenue Refunding Bonds, Series BB-2015, dated May 1, 2015 (collectively, the "Outstanding Water System Bonds"). The Water Bonds, the Outstanding Water System Bonds and any future parity Water Bonds are sometimes hereinafter referred to as the "Water System Bonds".

Neither the Water Bonds nor any of the Outstanding Water System Bonds are general obligations of the City, and no owner thereof shall have the right to compel the City to exercise its taxing power to pay principal of or premium or interest on the Water Bonds or any Outstanding Water System Bonds of the City.

Rate Covenant

The Water Bond Resolutions provides that the Board will fix rates and collect charges for the Water System and the services, facilities and commodities furnished by the Water System of the City so as to provide revenues sufficient to pay, as the same shall become due, the principal of and interest on the Water Bonds and all other Water System Water Bonds in addition to paying, as the same shall become due, the necessary expenses of operating and maintaining the Water System and all other obligations and indebtedness payable out of the Water Fund of the Water System, and that such rates and charges shall not be reduced so as to be insufficient to provide revenues for said purposes.

Additional Water Bonds

The City, acting through the Board, has covenanted in the Water Bond Resolutions that it will incur no indebtedness payable from the revenues of the Water System having priority over the Water System Bonds, including the Water Bonds.

The City, acting by and through the Board, or the Board may issue additional Water Bonds, notes or other obligations pursuant to the Water Bond Resolutions, provided that all payments required to be made to the Water Debt Service Fund and into any reserve fund which may be required under resolutions authorizing parity indebtedness are current as of the date of issuance of the additional Water Bonds, notes or other obligations, on a parity and equality of lien with the outstanding parity indebtedness with respect to the lien and claim of such additional Water Bonds, notes or other obligations to the net revenues of the Water System and the money on deposit in the Water Debt Service Fund for the purpose of (i) refunding any outstanding parity indebtedness, subordinate Water Bonds, notes, loan agreements or other obligations, provided that after the issuance of such additional parity indebtedness, the Aggregate Debt Service (as defined in the Water Bond Resolutions) on all outstanding parity indebtedness, including the additional parity indebtedness to be issued, in any fiscal year shall not increase by more than ten percent (10%) after the issuance of such additional parity indebtedness; (ii) for the purpose of financing the completion or equipping of improvements to the Water System for which outstanding parity indebtedness have previously been issued but only to the extent necessary to complete such improvements in the manner contemplated at the time of the issuance of the outstanding parity indebtedness that financed such improvements; and (iii) for the purposes of refunding any outstanding parity indebtedness or any prior lien Water Bonds, subordinated Water Bonds, notes or other obligations or extending, improving or replacing the Water System or for any other lawful purpose under applicable law, if one of the following conditions shall have been met: (A) the Net Revenues (as defined in the Water Bond Resolutions) for any twelve-month period selected by the Board ending within the twelve months prior to the date of the issuance of the additional parity indebtedness must have been equal to at least 120% of the Maximum Annual Aggregate Debt Service (as defined in the Water Bond Resolutions) on outstanding parity indebtedness plus the Debt Service on the additional parity indebtedness proposed to be issued or (B) the estimated Net Revenues of the Water System for each of the three fiscal years next succeeding the issuance of the additional parity indebtedness, must be equal at least to 120% of Maximum Annual Aggregate Debt Service, any other outstanding parity indebtedness and all outstanding prior lien Water Bonds plus the Debt Service on the additional parity indebtedness proposed to be issued; provided, however, that if the additional parity indebtedness is to be issued for the acquisition or construction of any extension, improvement or replacement to the Water System, then the estimate of Net Revenues may be for the three fiscal years ensuing after the time that such improvement, extension or replacement is expected to be placed in service. **See APPENDIX G "Summary of Certain Provisions of the Water Bond Resolution – Additional Indebtedness" for additional information.**

SECURITY FOR THE WASTEWATER SYSTEM REVENUE BONDS, SERIES 2015B

Pledge Under the Bond Resolution

The Wastewater Bonds constitute and, when issued, will be part of an issue known as "Wastewater System Revenue Bonds" under the Wastewater System Bond Resolutions. All Wastewater Bonds are limited obligations of the City payable solely and ratably from the net revenues of the Wastewater System of the City and are on a parity and equality of lien with the City's outstanding: (i) Wastewater System Revenue Refunding Bonds, Series 2005B, dated August 10, 2005; (ii) Wastewater System Revenue Bonds, Series 2008, dated December 23, 2008; (iii) Wastewater System Revenue Bonds, Series 2010 (Federally Taxable Build America Bonds), dated February 10, 2010; (iv) Wastewater System Revenue Bonds, Series 2010C (Federally Taxable Build America Bonds), dated December 8, 2010; (v) Wastewater System Revenue Refunding Bonds, Series 2012A, dated April 20, 2012; (vi) Wastewater System Revenue Bonds, Series 2012B, dated December 18, 2012 ; (vii) Wastewater System Revenue Refunding Bonds, Series 2013A, dated March 15, 2013; (viii) Wastewater System Revenue Bonds, Series 2014A, dated September 18, 2014; and (ix) Wastewater System Revenue Bonds, Series 2015A, dated May 1, 2015 (collectively, the "Outstanding Wastewater System Bonds"). The Wastewater Bonds, the Outstanding Wastewater System Bonds and any future parity bonds are sometimes hereinafter referred to as the "Wastewater System Bonds".

Neither the Wastewater Bonds nor any of the Outstanding Wastewater System Bonds are general obligations of the City, and no owner thereof shall have the right to compel the City to exercise its taxing power to pay principal of or premium or interest on the Wastewater Bonds or any other Outstanding Wastewater System Bonds of the City.

Rate Covenant

The Wastewater System Bond Resolutions provide that the Board will fix rates and collect charges for the Wastewater System and the services and facilities furnished by the Wastewater System of the City so as to provide revenues sufficient to pay, as the same shall become due, the principal of and interest on the Bonds and all other Wastewater System Bonds in addition to paying, as the same shall become due, the necessary expenses of operating and maintaining the Wastewater System and all other obligations and indebtedness payable out of the Wastewater Fund of the Wastewater System, and that such rates and charges shall not be reduced so as to be insufficient to provide revenues for said purposes.

Additional Wastewater Bonds

The City and the Board have covenanted in the Wastewater Bond Resolutions that it will incur no indebtedness payable from the revenues of the Wastewater System having priority over the Wastewater System Bonds, including the Wastewater Bonds.

The City, acting by and through the Board, or the Board may issue additional bonds, notes or other obligations pursuant to the Wastewater Bond Resolutions provided that all payments required to be made to the Wastewater Debt Service Fund and into any reserve fund which may be required under resolutions authorizing parity indebtedness are current as of the date of issuance of the additional bonds, notes or other obligations, on a parity and equality of lien with the outstanding parity indebtedness under the Wastewater Bond Resolution, with respect to the lien and claim of such additional bonds, notes or other obligations to the net revenues of the Wastewater System and the money on deposit in the Wastewater Debt Service Fund (i) for the purpose of refunding any outstanding parity indebtedness, subordinate bonds, notes, loan agreements or other obligations, provided that after the issuance of such additional parity indebtedness, the Aggregate Debt Service (as defined in the Wastewater Resolution) on all outstanding parity indebtedness, including the additional parity indebtedness to be issued, in any fiscal year shall not increase by more than ten percent (10%) after the issuance of such additional parity indebtedness; (ii) for the purpose of financing the completion or equipping of improvements to the Wastewater System for which outstanding parity indebtedness have previously been issued but only to the extent necessary to complete such improvements in the manner contemplated at the time of the issuance of the outstanding parity indebtedness that financed such improvements; and (iii) for the purposes of refunding any outstanding parity indebtedness or any prior lien bonds, subordinated bonds, notes or other obligations or extending, improving or replacing the Wastewater System or for any other lawful purpose under applicable law, if one of the following conditions shall have been met: (A) the Net Revenues (as defined in the Wastewater Resolution) for any twelve-month period selected by the Board ending within the twelve months prior to the date of the issuance of the additional parity indebtedness must have been equal to at least 120% of the Maximum Annual Aggregate Debt Service (as defined in the Wastewater Resolution) on outstanding parity indebtedness plus the Debt Service on the additional parity indebtedness proposed to be issued or (B) the estimated Net Revenues of the Wastewater System for each of the three fiscal years next succeeding the issuance of the additional parity indebtedness, must be equal at least to 120% of Maximum Annual Aggregate Debt Service, any other outstanding parity indebtedness and all outstanding prior lien bonds plus the Debt Service on the additional parity indebtedness proposed to be issued; provided, however, that if the additional parity indebtedness is to be issued for the acquisition or construction of any extension, improvement or replacement to the Wastewater System, then the estimate of Net Revenues may be for the three fiscal years ensuing after the time that such improvement, extension or replacement is expected to be placed in service. **See APPENDIX H "Summary of Certain Provisions of the Wastewater Bond Resolutions – Additional Indebtedness" for additional information.**

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BASIC DOCUMENTATION

BOOK-ENTRY-ONLY SYSTEM

The Bonds, when issued, will be registered in the name of Cede & Co., DTC's partnership nominee. When the Bonds are issued, ownership interests will be available to purchasers only through a book-entry-only system maintained by DTC (the **"Book-Entry-Only System"**). One or more fully-registered bond certificates 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 is a limited-purpose trust company organized under the New York Bank 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 securities that its participants (the **"Direct Participants"**) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry-only changes in DTC Participants' accounts, thereby eliminating 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, in turn, is owned by a number of its Direct Participants and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (the **"NSCC"**, **"GSCC"**, **"MBSCC"**, and **"EMCC"**, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc. (the **"NYSE"**), the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct DTC Participant, either directly or indirectly (the **"Indirect Participants"** and, together with the Direct Participants, the **"Participants"**). DTC has S&P's rating of **"AA+."** The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests. Purchases of the 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 Bond (a **"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, but beneficial owners are 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 whom such beneficial owners 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 the Bonds, except as specifically provided in the Bonds in the event that use of the book-entry-only system 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 City 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 transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. Beneficial owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to beneficial owners, or in the alternative, beneficial owners may wish to provide their names and addresses to the Registration Agent and request that copies of the 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 City 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 CITY, KUB, THE FINANCIAL ADVISOR, THE UNDERWRITER 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 City, KUB, the Financial Advisor, the Registration Agent 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.

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 acting by and through KUB, believes to be reliable, but the City, KUB, the Registration Agent and the Underwriter do not take any responsibility for the accuracy thereof.

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

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

For more information on the duties of the Registration Agent, please refer to the Resolution.

DEBT LIMITATIONS

Pursuant to Title 7, Chapter 34, Tennessee Code Annotated, as amended, there is no limit on the amount of bonds that may be issued when the City uses the statutory authority granted therein to issue bonds.

DISPOSITION OF BOND PROCEEDS

Electric Bonds

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

(a) an amount equal to interest accrued on the Electric Bonds from the dated date until the date of delivery of the Electric Bonds, if any, shall be deposited to the Electric Debt Service Fund to be used to pay interest on the Electric Bonds on the first interest payment date following delivery of the Electric Bonds; and

(b) the remainder of the proceeds of the sale of the Electric Bonds shall be used to pay the costs of the construction of improvements to and extensions to the Electric System, cost related to the issuance and sale of the Electric Bonds, including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, administrative and clerical costs, rating agency fees, Registration Agent Fees and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Electric Bonds (as more fully described in the Electric Bond Resolutions) and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Electric Bonds.

Water Bonds

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

(a) an amount equal to interest accrued on the Water Bonds, if any, from the dated date until the date of delivery of the Water Bonds, if any, shall be deposited to the Water Debt Service Fund to be used to pay interest on the Bonds on the first interest payment date following delivery of the Water Bonds; and

(b) the remainder of the proceeds of the sale of the Water Bonds shall be used to pay the costs of the construction of improvements to and extensions to the Water System, cost related to the issuance and sale of the Water Bonds, including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, administrative and clerical costs, rating agency fees, Registration Agent Fees and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Water Bonds (as more fully described in the Water Bond Resolutions) and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Water Bonds.

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Wastewater Bonds

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

(a) an amount equal to interest accrued on the Wastewater Bonds from the dated date until the date of delivery of the Wastewater Bonds, if any, shall be deposited to the Wastewater Debt Service Fund to be used to pay interest on the Bonds on the first interest payment date following delivery of the Wastewater Bonds; and

(b) the remainder of the proceeds of the sale of the Wastewater Bonds shall be used to pay the costs of the construction of improvements to and extensions to the Wastewater System, cost related to the issuance and sale of the Wastewater Bonds, including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, administrative and clerical costs, rating agency fees, Registration Agent Fees and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Wastewater Bonds (as more fully described in the Wastewater Bond Resolutions) and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Wastewater Bonds.

DISCHARGE AND SATISFACTION OF BONDS

The respective series of Bonds may be discharged and deemed paid as described in Appendix F, Appendix G and Appendix H, which are "Summaries of Resolutions".

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LEGAL MATTERS

LITIGATION

There are no suits pending or, to KUB’s knowledge, threatened challenging the legality or validity of the Bonds or the right of KUB to sell or issue the Bonds, or that will have an adverse impact on KUB’s ability to pay debt service on 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 KUB and assuming compliance by KUB with certain covenants, is that interest on the Bonds:

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

The Code imposes requirements on the Bonds that KUB 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 KUB 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. KUB 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 "Proposed Legislation and Other Matters" below in this heading.

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

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

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

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

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

State Taxes

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

CHANGES IN FEDERAL AND STATE TAX LAW

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

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

CLOSING CERTIFICATES

Upon delivery of the Bonds, the Board and / or KUB will execute in a form satisfactory to Bond Counsel, certain closing certificates (which may be combined into one or more certificates) including the following: (i) A certificate as to the OFFICIAL STATEMENT, in final form, signed by the President & Chief Executive Officer and the Chief Financial Officer of KUB acting in their official capacity to the effect that to the best of their 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 KUB 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) a non-arbitrage certificate which supports the conclusions that based upon facts, estimates and circumstances in effect, upon delivery of the Bonds, the proceeds of the Bonds will not be used in a manner which would cause the Bonds to be arbitrage Bonds; (iii) certificates as to the delivery and payment, signed by the President & CEO and the CFO acting in their official capacity, evidencing delivery of and payment for the Bonds; and (iv) a signature identification and incumbency certificate, signed by the President & Chief Executive Officer and the CFO of KUB acting in their official capacities certifying as to the due execution of the Bonds.

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 under the caption “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 is included in APPENDIX A, hereto.

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MISCELLANEOUS

RATINGS

Standard and Poor’s Ratings Services (“Standard & Poor’s”) and Moody’s Investor Services, Inc. (“Moody’s”) have given the Electric Bonds the ratings of “AA+” and “Aa2”, respectively. Standard and Poor’s and Moody’s have given the Water Bonds the ratings of “AAA” and “Aa2”, respectively. Standard and Poor’s and Moody’s have given the Wastewater Bonds the ratings of “AA+” and “Aa2”, respectively.

KUB furnished Moody's and Standard & Poor’s with certain information and materials concerning the Bonds, the City and KUB. Generally, Moody's and Standard & Poor’s base their ratings on such information and materials and also on such investigations, studies and assumptions that they may undertake independently. Such ratings reflect only the views of such organizations and explanations of the significance of such ratings should be obtained from such agencies.

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

Any explanation of the significance of the ratings may be obtained only from Moody's and Standard & Poor’s.

COMPETITIVE PUBLIC SALE

The Bonds will be offered for sale at competitive public bidding on the sale date indicated in the OFFICIAL NOTICE OF SALE. Details concerning the public sale were provided to potential bidders and others in the PRELIMINARY OFFICIAL STATEMENT dated April 10, 2015.

The successful bidder for the Electric Bonds was an account led by J.P. Morgan Securities LLC, New York, New York (the “Electric Underwriters”) who contracted with the City, acting by and through KUB, subject to the conditions set forth in the Official Notice of Sale and Bid Form, to purchase the Electric Bonds at a purchase price of $36,892,457.99 (consisting of the par amount of the Bonds, plus a reoffering premium of $2,325,426.75 and less an underwriter’s discount of $432,968.76) or 105.407% of par.

The successful bidder for the Water Bonds was an account led by Raymond James, Memphis, Tennessee (the “Water Underwriters”) who contracted with the City, acting by and through KUB, subject to the conditions set forth in the Official Notice of Sale and Bid Form, to purchase the Water Bonds at a purchase price of $20,039,920.75 (consisting of the par amount of the Bonds, plus a net reoffering premium of $322,108.25 and less an underwriter’s discount of $282,187.50) or 100.200% of par.

The successful bidder for the Wastewater Bonds was an account led by Bank of America Merrill Lynch, New York, New York (the “Wastewater Underwriters”) who contracted with the City, acting by and through KUB, subject to the conditions set forth in the Official Notice of Sale and Bid Form, to purchase the Wastewater Bonds at a purchase price of $30,319,259.49 (consisting of the par amount of the Bonds, plus a net reoffering premium of $601,084.50 and less an underwriter’s discount of $281,825.01) or 101.064% of par.

After the Bonds have been awarded, KUB will prepare an OFFICIAL STATEMENT in final form to be dated as of the sale date. The OFFICIAL STATEMENT in final form will include, among other matters, the identity of the winning bidders, the expected selling compensation to such underwriters and other information on the interest rates and offering prices or yields of the Bonds, all as supplied by the successful bidders. For additional information, see the section entitled LEGAL MATTERS - Closing Certificates contained herein.

FINANCIAL ADVISOR; RELATED PARTIES; OTHER

Financial Advisor. Cumberland Securities Company, Inc., Knoxville, Tennessee has been employed by KUB to serve as its Financial Advisor. The Financial Advisor is an independently owned financial advisory firm.

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

Official Statements. Certain information relative to the location, economy and finances of the Issuer is found in the *Preliminary Official Statement*, in final form and the *Official Statement*, in final form. Except where otherwise indicated, all information contained in this Official Statement has been provided by KUB. The information set forth herein has been obtained by KUB from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Financial Advisor or the Underwriter. The information contained herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of KUB, 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 KUB 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 KUB 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 KUB's Dissemination Agent. If KUB chooses to use one or more of these other services provided by Cumberland Securities Company, Inc. and/or the Bank, then Cumberland Securities Company, Inc. and/or the Bank may be entitled to separate compensation for the performance of such services.

INDEPENDENT ACCOUNTANTS

The financial statements of the Electric Division, the Gas Division, the Water Division and the Wastewater Division of KUB, as of June 30, 2014 and June 30, 2013 for the years then ended, included in this Official Statement, have been audited by Rodefer Moss & Co., PLLC, independent accountants, as stated in their report appearing herein. Effective January 20, 2015, KUB's independent accountants are Coulter & Justus, P.C. Coulter & Justus will perform audits of the financial systems of the Electric, Gas, Water and Wastewater Divisions beginning as of June 30, 2015.

FUTURE BONDS

KUB does expect to occasionally sell, from time to time, additional Electric System Bonds, Gas System Bonds, Water System Bonds and Wastewater System Bonds to finance normal and customary extensions and improvements to the Systems, and to refinance certain outstanding bonds at lower interest rates.

CONTINUING DISCLOSURE

KUB will at the time the Bonds are delivered execute a Continuing Disclosure Certificate as to each System under which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to KUB by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending June 30, 2015 (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 KUB. The Annual Report (and audited financial statements if filed separately) and notices described above will be filed by KUB with the Municipal Securities Rulemaking Board ("MSRB") at www.emma.msrb.org and with any State Information Depository which may be established in Tennessee (the "SID"). The specific nature of the information to be contained in the Annual Report or the notices of events is summarized below. These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b), as it may be amended from time to time (the "Rule").

Five-Year History of Filing. While it is believed that all appropriate filings were made with respect to the ratings of KUB's outstanding bond issues, which some 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 transactions were made or made in a timely manner as required by SEC Rule 15c2-2. With the exception of the foregoing, for the past five years, KUB has complied in all material respects with its existing continuing disclosure agreements in accordance with SEC Rule 15c2-12.

Content of Annual Reports. KUB's Annual Report shall contain or incorporate by reference the audited financial statements of each System for the prior fiscal year, prepared in accordance with accounting principles generally accepted in the United States of America, and audited in accordance with auditing standards generally accepted in the United States of America; provided, however, if KUB'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."

Electric Division.

1. Electric Rates of the Electric Division as shown on page B-7 through B-84;
2. Statement of revenues, expenses and changes in net position - Knoxville Utilities Board Electric Division for the fiscal year as shown on page B-87;
3. Operating and financial history for such year as shown on page B-88;
4. The ten largest electric customers of the Electric Division as shown on page B-89;
5. Summary of outstanding bonded indebtedness as shown on page B-90;
6. Summary of bonded debt service requirements as shown on page B-91; and
7. Historical Debt Service Coverages as shown on page B-92.

Water System.

1. Water Rates of the Water Division as shown on page C-6 through C-12;

2. Operating statistics and customer numbers for such year as shown on page C-14;

3. Statement of revenues, expenses and changes in net position - Knoxville Utilities Board Water Division for the fiscal year as shown on page C-15;

4. The ten largest Water customers of the Water Division as shown on page C-17;

5. Summary of outstanding bonded indebtedness as shown on page C-18;

6. Summary of bonded debt service requirements as shown on page C-19; and

4. Historical Debt Service Coverages as shown on page C-20.

Wastewater System.

1. Wastewater Rates of the Wastewater Division as shown on page D-6 through D-15;

2. Operating statistics and customer numbers for such year as shown on page D-17;

3. Statement of revenues, expenses and changes in net position - Knoxville Utilities Board Wastewater Division for the fiscal year as shown on page D-18;

4. The ten largest Wastewater customers of the Wastewater Division as shown on page D-19;

5. Summary of outstanding bonded indebtedness as shown on page D-20;

6. Summary of bonded debt service requirements as shown on page D-21; and

7. Historical Debt Service Coverages as shown on page D-22.

Any or all of the items listed above may be incorporated by reference from other documents, including OFFICIAL STATEMENTS in final form for debt issues of KUB or the City or related public entities, which have been submitted to the MSRB's EMMA site. If the document incorporated by reference is a final OFFICIAL STATEMENT, in final form, it will be available from the Municipal Securities Rulemaking Board. KUB or the City shall clearly identify each such other document so incorporated by reference.

Reporting of Significant Events. KUB 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), KUB 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. Notwithstanding the foregoing, notice of Listed Events described in subsection (3)(h) and (i) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Resolution.

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

3. The following are the Listed Events:

   a. Principal and interest payment delinquencies;

   b. Non-payment related defaults, if material;

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

   d. Unscheduled draws on credit enhancements reflecting financial difficulties;

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

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

   g. Modifications to rights of Bondholders, if material;

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

   i. Defeasances;

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

   k. Rating changes;

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

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

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

Termination of Reporting Obligation. KUB'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 a Disclosure Certificate, KUB may amend any Disclosure Certificate, and any provision of a 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 material significant events it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

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

(c) The amendment or waiver either (i) is approved by the holders of the applicable Bonds in the same manner as provided in the applicable Resolution for amendments to that Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

In the event of any amendment or waiver of a provision of a Disclosure Certificate, KUB 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 KUB. 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 KUB to comply with any provision of a Disclosure Certificate, any holder 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 KUB to comply with its obligations under the Disclosure Certificate. A default under a Disclosure Certificate shall not be deemed an event of default, if any, under any Resolution and the sole remedy under each Disclosure Certificate in the event of any failure of KUB to comply with the Disclosure Certificate shall be an action to compel performance.

ADDITIONAL INFORMATION

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

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

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

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

KUB, on behalf of the City, has deemed this OFFICIAL STATEMENT as “final” as of its date within the meaning of Rule 15c2-12(b) of the Securities and Exchange Commission.

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CERTIFICATION OF ISSUER

On behalf of the City and KUB, 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.

KNOXVILLE UTILITIES BOARD

/s/ Mintha E. Roach
President & CEO

/s/ Mark A. Walker
Senior Vice President & CFO

APPENDIX A

LEGAL OPINIONS

LAW OFFICES OF
BASS, BERRY & SIMS PLC
900 SOUTH GAY STREET, SUITE 1700
KNOXVILLE, TENNESSEE 37902

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Knoxville, Tennessee (the "Issuer") of $35,000,000 Electric System Revenue Bonds, Series FF-2015, dated May 20, 2015 (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

1. The Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and are valid and binding obligations of the Issuer.

2. Resolution No. R-129-2015 of the City Council of the Issuer authorizing the Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with its terms.

3. The principal of, premium, if any, 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 system of the Issuer, subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing, and insuring said system and on a parity and equality of lien with the Issuer's Electric System Revenue Refunding Bonds, Series W-2005, dated August 10, 2005, maturing July 1, 2015 and thereafter, its Electric System Revenue Refunding and Improvement Bonds, Series X-2006, dated May 23, 2006, maturing July 1, 2015 and thereafter, its Electric System Revenue Bonds, Series Y-2009, dated February 20, 2009, maturing July 1, 2015 and thereafter, its Electric System Revenue Bonds, Series Z-2010 (Federally Taxable Build America Bonds), dated December 8, 2010, maturing July 1, 2015 and thereafter, its Electric System Revenue Refunding Bonds, Series AA-2012, dated April 20, 2012, maturing July 1, 2015 and thereafter, its Electric System Revenue Bonds, Series BB-2012, dated December 18, 2012, maturing July 1, 2015 and thereafter, its Electric System Revenue Refunding Bonds, Series CC-2013, dated March 15, 2013, maturing July 1, 2015 and thereafter, its Electric System Revenue Bonds, Series DD-2014, dated September 18, 2014, maturing July 1, 2015 and thereafter and its Electric System Revenue Refunding Bonds, Series EE-2015, dated May 1, 2015, maturing July 1, 2015 and thereafter. We express no opinion as to the sufficiency of such revenues for the payment of principal of, premium, if any, or interest on the Bonds. The owners of the Bonds shall have no recourse to the power of taxation of the Issuer.

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, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that for purposes of computing the alternative minimum tax imposed on

certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. Except as set forth in this Paragraph 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 taxation in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on all or a portion of the interest on any of the Bonds during the period such Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base or any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee.

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

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

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

Very truly yours,

LAW OFFICES OF
BASS, BERRY & SIMS PLC
900 SOUTH GAY STREET, SUITE 1700
KNOXVILLE, TENNESSEE 37902

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Knoxville, Tennessee (the "Issuer") of $20,000,000 Water System Revenue Bonds, Series CC-2015, dated May 20, 2015 (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

1. The Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and are valid and binding obligations of the Issuer.

2. Resolution No. R-127-2015 of the City Council of the Issuer authorizing the Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with its terms.

3. The principal of, premium, if any, 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 water distribution and treatment system of the Issuer, subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing, and insuring said system and on a parity and equality of lien with the Issuer's outstanding its Water System Revenue Improvement Bonds, Series R-2005, dated August 10, 2005, maturing March 1, 2016 and thereafter, its Water System Revenue Refunding Bonds, Series S-2005, dated August 10, 2005, maturing March 1, 2016 and thereafter, its Water System Revenue Bonds, Series T-2007, dated November 1, 2007, maturing March 1, 2016 and thereafter, its Water System Revenue Bonds, Series U-2009, dated November 12, 2009, maturing March 1, 2016 and thereafter, its Water System Revenue Bonds, Series W-2011, dated December 1, 2011, maturing March 1, 2016 and thereafter, its Water System Revenue Refunding Bonds, Series X-2012, dated April 20, 2012, maturing March 1, 2016 and thereafter, its Waster System Revenue Refunding Bonds, Series Y-2013, dated March 15, 2013, maturing March 1, 2016 and thereafter, its Water System Revenue Bonds, Series Z-2013, dated October 1, 2013, maturing March 1, 2016 and thereafter, its Water System Revenue Bonds, Series AA-2014, dated September 18, 2014, maturing March 1, 2016 and thereafter and its Water System Revenue Refunding Bonds, Series BB-2015, dated May 1, 2015, maturing March 1, 2016 and thereafter. We express no opinion as to the sufficiency of such revenues for the payment of principal of, premium, if any, or interest on the Bonds. The owners of the Bonds shall have no recourse to the power of taxation of the Issuer.

4. Interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that for purposes of computing the alternative minimum tax imposed on

certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. Except as set forth in this Paragraph 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 taxation in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on all or a portion of the interest on any of the Bonds during the period such Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base or any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee.

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

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

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

Very truly yours,

LAW OFFICES OF
BASS, BERRY & SIMS PLC
900 SOUTH GAY STREET, SUITE 1700
KNOXVILLE, TENNESSEE 37902

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Knoxville, Tennessee (the "Issuer") of $30,000,000 Wastewater System Revenue Bonds, Series 2015B, dated May 20, 2015 (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

1. The Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and are valid and binding obligations of the Issuer.

2. Resolution No. R-128-2015 of the City Council of the Issuer authorizing the Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with its terms.

3. The principal of, premium, if any, 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 wastewater treatment and collection system of the Issuer, subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing, and insuring said system and on a parity and equality of lien with the Issuer's outstanding its Wastewater System Revenue Refunding Bonds, Series 2005B, dated August 10, 2005, maturing April 1, 2016 and thereafter, its Wastewater System Revenue Bonds, Series 2008, dated December 23, 2008, maturing April 1, 2016 and thereafter, its Wastewater System Revenue Bonds, Series 2010 (Federally Taxable Build America Bonds), dated February 20, 2010, maturing April 1, 2043 and thereafter, its Wastewater System Revenue Bonds, Series 2010C (Federally Taxable Build America Bonds), dated December 8, 2010, maturing April 1, 2016 and thereafter, its Wastewater System Revenue Refunding Bonds, Series 2012A, dated April 20, 2012, maturing April 1, 2016 and thereafter, its Wastewater System Revenue Bonds, Series 2012B, dated December 18, 2012, maturing April 1, 2016 and thereafter, its Wastewater System Revenue Refunding Bonds, Series 2013A, dated March 15, 2013, maturing April 1, 2016 and thereafter, its Wastewater System Revenue Bonds, Series 2014A, dated September 18, 2014, maturing April 1, 2016 and thereafter and its Wastewater System Revenue Refunding Bonds, Series 2015A, dated May 1, 2015, maturing April 1, 2016 and thereafter. We express no opinion as to the sufficiency of such revenues for the payment of principal of, premium, if any, or interest on the Bonds. The owners of the Bonds shall have no recourse to the power of taxation of the Issuer.

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, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that for purposes of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in

determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. Except as set forth in this Paragraph 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 taxation in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on all or a portion of the interest on any of the Bonds during the period such Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base or any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee.

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

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

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

Very truly yours,

APPENDIX B-1

THE ELECTRIC DIVISION

(CUSIP 499746)

THE ELECTRIC DIVISION

INTRODUCTION

Knoxville Utilities Board ("KUB") was established in 1939 and, under terms of the current City Charter, is vested with the authority to purchase, produce, sell and distribute utility services both inside and outside the city limits. All of the facilities used to provide these services are under the jurisdiction, control and management of the Board of Commissioners of KUB.

SOURCE OF ELECTRIC POWER

KUB does not generate any electric power. KUB purchases its entire power supply requirements from the Tennessee Valley Authority ("TVA") pursuant to a power contract dated May 11, 1988 as supplemented and amended (the "Power Contract"). The Power Contract is the fourth to be entered into between KUB and TVA. Under the Power Contract, TVA agrees to supply the amount of electric power required for service to KUB's electric customers and KUB agrees to purchase all of its electric power from TVA, about 6 billion kilowatt hours annually.

The Power Contract provides that TVA shall make every reasonable effort to increase the generating capacity of its system and to provide 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 KUB. Neither TVA nor KUB 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 TVA's generating and transmission facilities and the customary purchases from other companies on the power grid.

The Power Contract provides that KUB may sell power to all customers in its service area, except certain federal installations and large customers, which TVA may serve directly. At the present time, TVA does not directly serve any customers located within KUB's electric service territory.

The initial term of the contract was for twenty years, with an automatic one-year extension beginning on the tenth anniversary of the contract. In May 2002, KUB and TVA amended the contract in several ways to provide more flexibility to both parties. First, KUB's contract termination notification requirement was reduced from ten years to five years. Also, TVA relinquished its regulatory authority over KUB's electric retail rates (prior to May 2002, the Power Contract specified the retail rates to be charged by KUB, and KUB was obligated to adjust these rates in response to any adjustment in TVA wholesale rates. The adjustment of retail rates to cover changes in KUB cost also had to be approved by TVA).

To date the deregulation of the electric industry has not directly impacted the Tennessee Valley region. In April 1996 the Federal Energy Regulatory Commission (FERC) issued Order 888 which effectively ordered public interstate transmission companies to provide open access to their transmission systems. TVA, which is not presently subject to FERC jurisdiction, cannot be ordered by FERC to transmit (wheel) power on behalf of others for use inside its legislatively defined service territory (the “Fence”). Consequently, this “Anti-Cherry Picking” provision of federal law combined with KUB’s long-term power contract with TVA has essentially precluded KUB from having the opportunity to purchase power from alternative sources.

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 Act’s objective is the development of the resources of the Tennessee Valley and adjacent areas in order to strengthen the regional and national economy and the national defense. Its specific purposes include: (1) flood control on the Tennessee River and its tributaries, and assistance to flood control on the lower Ohio and the Mississippi Rivers; (2) a modern navigable channel for the Tennessee River; (3) an 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.

In 2005, Congress passed legislation that impacted TVA in two significant ways. First, it changed the structure of TVA’s Board from a three-person, full-time Board to a nine-person, part-time Board, which meets at least four times per year. The new Board members, whose appointment terms are five years, were appointed by the President and confirmed by the Senate. All powers of TVA are vested in its Board. Second, the new law requires TVA to file periodic financial updates with the Securities and Exchange Commission (the “SEC”), and be subject to certain reporting requirements of the SEC.

THE ELECTRIC SYSTEM

KUB’s electric system service territory covers 688 square miles, including portions of seven counties. The system includes over 5,268 miles of service lines and 60 distribution substations. The peak capacity of the system is 2,600 MVA.

In 2007 KUB launched Century II, a new infrastructure management program, which includes life cycle replacement programs for all major assets for KUB’s utility systems. KUB placed the programs on hold in 2009 in response to the economic recession in an effort to help customers struggling in the difficult economy. In April 2011, given the critical infrastructure needs of its systems, the KUB Board endorsed a plan to resume Century II in the fall of 2011. The Board endorsed ten-year funding plans to support the implementation of the programs, which included a combination of rate increases and debt issues to fully fund the programs over the next ten years. In September 2011, the Board adopted the first three rate increases of the ten-year funding plan for the electric system, which were effective October 2011, October 2012, and October 2013, respectively.

The electric distribution system is an older system with several major components nearing the end of or exceeding their respective service lives, including poles, underground electric cable, and certain substation transformers. In addition, KUB needs to upgrade certain existing circuits and build new circuits to provide greater operational flexibility and reduce storm restoration times.

Ten years of Century II funding for the electric system will result in the replacement of all critical substation transformers, 26,000 wood poles, and all XLP (cross-linked polyethylene) underground cable. By 2021, no poles older than the mid-1960s will remain on the distribution system.

Over the last three fiscal years, KUB has invested approximately $112 million in capital expenditures in its electric system Century II program and is on track to achieve its target replacement goals for the ten-year plan endorsed by the KUB Board in 2011.

In June 2014, the Board approved the next phase of rate increases to support the Century electric program. The rate increases will provide an additional $5 million in annual revenue to help fund Century II. The first rate increase was effective July 2014, and the remaining rate increases will be effective July 2015, and July 2016, respectively.

SMART GRID DOE GRANT

KUB was awarded a grant from the Department of Energy in October 2009 under DOE's Smart Grid Investment Grant Program. The grant, which totals $3.58 million, was used to help fund a smart grid pilot project in the University of Tennessee and surrounding areas. The pilot project included the installation of over 6,000 digital electronic smart meters and an advanced metering infrastructure (AMI) communications backbone, which provides coverage for KUB's entire service territory. The communications infrastructure enables KUB to remotely read the meters, and also provide remote service connection/disconnection capabilities. The original term for the project was three years and was due to end in 2013. An additional year was added to the project as approved by the United States Department of Energy. During fiscal year 2014, KUB developed a customer e-portal to provide detailed utility consumption information. The deployment strategy of the customer e-portal to customers is underway. Successful completion of the integration of polyphase meter data into KUB’s customer billing system for commercial and industrial customers was also achieved during fiscal year 2014. The grant funded $0.3 million of the communications infrastructure installed this fiscal year. KUB is in the process with DOE to close out this phase of the project, as all requirements of this grant were completed during fiscal year 2014.

Based on the success of the pilot, KUB intends to phase in a system-wide deployment of smart meters and other smart grid technologies over a multi-year period commencing in fiscal year 2016. The total projected cost of the system-wide deployment is $103 million through 2024, including $52 million for the installation of electric, gas and water smart meters; $35 million for the extension of fiber to substations and other critical utility system infrastructure; $11 million for the strategic installation of distribution and substation automation devices (faulted circuit indicators and voltage control devices); and $5 million for on-going support and administrative costs, including licensing fees and additional staffing. The Electric Division’s estimated share of the cost is $78.5 million. The deployment will be funded by debt and incremental rate increases beginning fiscal year 2018. The electric rate increases previously adopted by the Board for July 2015 and July 2016, respectively, will not be modified.

SUPERFUND SITE

At the request of the U.S. Department of Energy (DOE), the U.S. Department of Justice has advised KUB that KUB is a potential responsible party for contribution liability under the Superfund Act for part of the DOE’s costs of responding to the release and threatened release of hazardous substances from what is known as the Witherspoon Landfill Sites (1630 and 901 Maryville Pike, Knoxville, Tennessee). DOE completed the remedial cleanup for all sites.

PENSION PLAN

The Plan is a single-employer contributory, defined benefit pension plan established by Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville § 1107(J). The Plan is designed to provide retirement, disability and death benefits. The Plan is a governmental plan as defined by the Employee Retirement Income Security Act of 1974 and is not subject to any of the provisions of the Act, and was revised January 1, 2014 to include all prior approved amendments.

At December 31, 2013, the Plan had approximately 639 retirees and beneficiaries currently receiving benefits and 49 terminated employees entitled to benefits but not yet receiving them. Of the approximately 778 current employees in the Plan, 743 were fully vested at December 31, 2013. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Pension Division, P.O. Box 59017, Knoxville, TN 37950-9017.

Effective January 1, 2011, KUB has frozen the Plan such that persons employed or re-employed by KUB on or after January 1, 2011, shall not be eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the Plan.

For the Plan year ended December 31, 2013, a contribution of $6.3 million was required to be made in the Plan sponsor’s fiscal year ending June 30, 2015. The Electric Division’s portion of this contribution was $3 million. The annual required contribution was determined as part of the January 1, 2013 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant’s benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death. For the Plan year ended December 31, 2013, the Plan’s actuarial funded ratio was 89.3 percent, and the market value funded ratio was 94.7 percent.

Subsequent to June 30, 2014, the actuarial valuation for the Plan year ending December 31, 2014 was completed. The actuarial valuation resulted in an actuarially determined contribution of $5.7 million for the fiscal year ending June 30, 2016, based on the Plan’s current funding policy. The Electric Division’s portion of this contribution is $2.7 million. For the Plan year ending December 31, 2014, the Plan's actuarial funded ratio was 94.6 percent, and the market value funded ratio was 102.5 percent.

GASB has adopted new accounting standards for governmental defined benefit pension plans that will be effective for KUB for its fiscal year beginning July 1, 2014. These standards are known as GASB 67, which covers pension plan accounting, and GASB 68, which provides for financial reporting by governmental plan sponsors. The new standards require the immediate recognition of the plan's unfunded liability, if any, and faster recognition of investment gains and losses on plan assets. As a result, annual pension expense will be subject to increased volatility and will no longer represent annual cash contributions to the pension fund. Given the new standards effectively decouple pension accounting from pension funding, governmental plan sponsors, such as KUB, will need to adopt funding policies for their plans. In fact, the Tennessee General Assembly adopted legislation in 2014 that requires all governmental plan sponsors in the state to formally adopt funding policies, which must include certain provisions, including fully funding annual actuarially determined contributions. The KUB Board of Commissioners adopted a Formal Pension Plan Funding Policy on December 2014.

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The Governmental Accounting Standards Board (GASB) established new standards for the measurement, recognition, and reporting of other post-employment benefits (OPEB). OPEB includes post-employment benefits other than pension, which, for KUB, is presently limited to post-employment health care. GASB 45 requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the total unfunded liability. GASB 45 was effective for KUB for the fiscal year beginning July 1, 2007.

KUB currently provides post-employment health care benefits to 604 former employees and 619 covered dependents. The cost of coverage is shared with retirees and beneficiaries. KUB recognizes its share of the cost of post-employment health care benefits as an expense as claims are paid.

In anticipation of GASB 45, KUB amended its Group Health Plan in 1999, eliminating post-employment health care benefits for all employees hired on or after July 1, 1999. As of June 30, 2013, 399 active employees were eligible for individual and dependent coverage at separation if the employee meets the Rule of 80 (age plus years of service) with a minimum of 20 years of service.

In May 2006, the state of Tennessee adopted Tennessee Code Annotated, Title 8, Chapter 50, Part 12 authorizing governmental entities to establish Trusts for the purpose of pre-funding their respective OPEB liabilities.

Although GASB 45 does not require pre-funding of the liability, KUB has determined that it is in the long-term economic interest of KUB and its ratepayers to establish a Trust to pre-fund KUB's OPEB liability.

In October 2007, the KUB Board authorized the establishment of an OPEB Trust. The applicable documentation was submitted to the State Funding Board and, in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008.

The Trust issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

The general administration and responsibility for the proper operation of the Trust is governed by a board of trustees, appointed by KUB's President & CEO. The investment of all deposits to the Trust is governed by an Investment Policy, which was adopted by the KUB Board and approved by the State Funding Board.

Total contributions to the OPEB Trust for the fiscal year ended June 30, 2014 were $4.1 million (Division's share $1.9 million). The contribution to the Trust exceeded the annual actuarially determined contribution, as determined by the Postretirement Benefit Plan's actuarial valuation for the year ended December 31, 2012, which was $3.3 million (Division's share $1.6 million). As of June 30, 2014, the employer's OPEB obligation has been exceeded by $0.2 million (Division's share $0.08 million).

The actuarially determined contribution for the fiscal year ending June 30, 2015, as determined by the Plan's actuarial valuation for the year ended December 31, 2013 is $3.5 million (Division's share $1.7 million).

The actuarial valuation for the Plan for the year ending December 31, 2014 has been completed. The valuation determined that the Plan's actuarial funded ratio was 93 percent, and the market value funded ratio was 100 percent. The valuation also determined that the employer's actuarially determined contribution is $0.9 million for the fiscal year ending June 30, 2016 (Division's share $0.46 million).

FISCAL YEAR 2015 FINANCIAL UPDATE

For the six months ending December 31, 2014, KUB's Electric Division recorded earnings of $6.8 million, representing an increase of $0.3 million over the same period last fiscal year. KUB sold $40 million in electric system revenue bonds in August 2014. Electric sales volumes were 0.04 percent higher than the same period last fiscal year.

As of December 31, 2014, the Electric Division had $211 million in outstanding debt, representing a debt to capitalization ratio of 39.8 percent. The Electric Division's maximum debt service coverage ratio was 3.65 for the fiscal year ending June 30, 2014.

Capital investment in electric system infrastructure was $58.8 million for Fiscal Year 2014, reflecting KUB's continued commitment to the timely replacement of critical electric system assets, including poles, underground cable, and substation transformers, in addition to key overhead line and substation improvement projects. (KUB’s electric system registered a new all-time peak on February 20, 2015 at 1.328 MW.)

ELECTRIC RATES

The rate schedules of the Electric Division are subject to the approval of the KUB Board of Commissioners. In October 2002, the Board established a Purchased Power Adjustment (the “PPA”) mechanism, which provides for the adjustment of applicable electric rates to changes in TVA’s wholesale power costs. In October 2006, TVA incorporated a Fuel Cost Adjustment that is evaluated on a quarterly basis to reflect change in the TVA’s fuel costs. These fuel cost adjustments are flowed through the KUB’s electric customers via the PPA mechanism. In October of 2009 TVA’s Fuel Cost Adjustments were changed to a monthly evaluation.

In April 2011, TVA modified its wholesale rate structure to demand and energy billing for its distributors. In response, KUB revised its Purchased Power Adjustment to include a deferred accounting component to ensure appropriate matching of revenue and expenses and power cost recovery. KUB will adjust its retail rates on an annual basis to flow any over or under recovery of wholesale power costs through to its customers via the Purchased Power Adjustment.

The December 2014 rate schedules of the Electric Division are as follows:

RESIDENTIAL RATE - SCHEDULE RS

Availability

This rate shall apply only to electric service to a single-family dwelling and its appurtenances, where the major use of electricity is for domestic purposes such as lighting, household appliances, and the personal comfort and convenience of those residing therein.

Character of Service

Alternating current, single-phase, 60 hertz. Power shall be delivered at a service voltage available in the vicinity or agreed to by KUB. Multi-phase service shall be supplied in accordance with KUB’s standard policy.

Base Charges

Customer Charge: $14.00 per month
Energy Charge:
    Summer Period - 8.575¢ per kWh per month
    Winter Period - 8.534¢ per kWh per month
    Transition Period - 8.534¢ per kWh per month

Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

Determination of Seasonal Periods

Summer Period shall mean the June, July, August, and September billing months. Winter Period shall mean the December, January, February, and March billing months. Transition Period shall mean the April, May, October, and November billing months.

Minimum Monthly Bill

The base customer charge constitutes the minimum monthly bill for all customers served under this rate schedule except those customers for which a higher minimum monthly bill is required under KUB's standard policy because of special circumstances affecting the cost of rendering service.

Single Point Delivery

The charges under this rate schedule are based upon the supply of service through a single delivery and metering point, and at a single voltage.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

GENERAL POWER RATE - SCHEDULE GSA

Availability

This rate shall apply to the firm power requirements (where a customer's contract demand is 5,000 kW or less) for electric service to commercial, industrial, and governmental customers, and institutional customers including without limitation, churches, clubs, fraternities, orphanages, nursing homes, rooming or boarding houses, and like customers. This rate shall also apply to customers to whom service is not available under any other resale rate schedule.

Character of Service

Alternating current, single or three-phase, 60 hertz. Power shall be delivered at a service voltage available in the vicinity or agreed to by KUB.

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Base Charges

1) If (a) the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12-month period is not more than 50 kW and (b) the customer's monthly energy takings for any month during such period do not exceed 15,000 kWh:

Customer Charge: $20.00 per delivery point per month
Energy Charge:
Summer Period - 9.986¢ per kWh per month
Winter Period - 9.945¢ per kWh per month
Transition Period - 9.945¢ per kWh per month

2) If (a) the higher of (i) the customer's currently effective contract demand or (ii) its highest billing demand during the latest 12-month period is greater than 50 kW but not more than 1,000 kW or (b) the customer's billing demand is less than 50 kW and its energy takings for any month during such period exceed 15,000 kWh:

Customer Charge: $55.00 per delivery point per month
Demand Charge:
Summer Period - First 50 kW of billing demand per month, no demand charge
Excess over 50 kW of billing demand per month, at $13.05 per kW
Winter Period - First 50 kW of billing demand per month, no demand charge
Excess over 50 kW of billing demand per month, at $12.26 per kW
Transition Period - First 50 kW of billing demand per month, no demand charge
Excess over 50 kW of billing demand per month, at $12.26 per kW
Energy Charge:
Summer Period - First 15,000 kWh per month at 11.067¢ per kWh
Additional kWh per month at 5.792¢ per kWh

Winter Period - First 15,000 kWh per month at 11.026¢ per kWh
Additional kWh per month at 5.792¢ per kWh

Transition Period - First 15,000 kWh per month at 11.026¢ per kWh
Additional kWh per month at 5.792¢ per kWh

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3) If the higher of (a) the customer's currently effective contract demand or (b) its highest billing demand during the latest 12-month period is greater than 1,000 kW:

Customer Charge: $150.00 per delivery point per month

Demand Charge:

- Summer Period - First 1,000 kW of billing demand per month, at $13.10 per kW
  - Excess over 1,000 kW of billing demand per month, at $14.26 per kW, plus an additional $14.26 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kW or its contract demand
- Winter Period - First 1,000 kW of billing demand per month, at $12.34 per kW
  - Excess over 1,000 kW of billing demand per month, at $13.50 per kW, plus an additional $13.50 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kW or its contract demand
- Transition Period - First 1,000 kW of billing demand per month, at $12.34 per kW
  - Excess over 1,000 kW of billing demand per month, at $13.50 per kW, plus an additional $13.50 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kW or its contract demand

Energy Charge:

- Summer Period - 6.177¢ per kWh per month
- Winter Period - 6.177¢ per kWh per month
- Transition Period - 6.177¢ per kWh per month

Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

Determination of Seasonal Periods

Summer Period shall mean the June, July, August, and September billing months. Winter Period shall mean the December, January, February, and March billing months. Transition Period shall mean the April, May, October, and November billing months.

Determination of Demand

KUB shall meter the demands in kW of all customers having loads in excess of 50 kW. The metered demand for any month shall be the highest average during any 30-consecutive-minute period of the month of the load metered in kW. The measured demand for any month shall be the higher of the highest average during any 30-consecutive-minute period of the month of (a) the load metered in kW or (b) 85 percent of the load in kVA plus an additional 10 percent for that part of the load over 5,000 kVA, and such measured demand shall be used as the billing demand, except that the billing demand for any month shall in no case be less than 30 percent of the higher of the currently effective contract demand or the highest billing demand established during the preceding 12 months.

Minimum Bill

The monthly bill under this rate schedule shall not be less than the sum of (a) the base customer charge, (b) the base demand charge, as adjusted, applied to the customer's billing demand, and (c) the base energy charge, as adjusted, applied to the customer's energy takings; provided, however, that, under (2.) of the Base Charges, the monthly bill shall in no event be less than the sum (a) the base customer charge and (b) 20 percent of the portion of the base demand charge, as adjusted, applicable to the second block (excess over 50kW) of billing demand, multiplied by the higher of the customer's currently effective contract demand or its highest billing demand established during the preceding 12 months.

KUB may require minimum bills higher than those stated above.

Contract Requirements

KUB shall require contracts for service provided under this rate schedule to customers whose demand requirements exceed 1,000 kW and such contracts shall be for an initial term of at least one year. The customer shall contract for its maximum requirements, which shall not exceed the amount of power capable of being used by customer, and KUB shall not be obligated to supply power in greater amount at any time than the customer's currently effective contract demand. If the customer uses any power other than that supplied by KUB under this rate schedule, the contract may include other special provisions. The rate schedule in any power contract shall be subject to adjustment, modification, change, or replacement from time to time as approved by the Board.

Single – Point Delivery

The charges under this rate schedule are based upon the supply of service through a single delivery and metering point, and at a single voltage. If service is supplied to the same customer through more than one point of delivery or at different voltages, the supply of service at each delivery and metering point at each different voltage shall be separately metered and billed.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

OUTDOOR LIGHTING RATE - SCHEDULE LS

Availability

Available for service to street and park lighting systems, traffic signal systems, athletic field lighting installations, and outdoor lighting for individual customers.

Service under this schedule is for a term of not less than one year.

Determination of Seasonal Periods

Summer Period shall mean the June, July, August, and September billing months. Winter Period shall mean the December, January, February, and March billing months. Transition Period shall mean the April, May, October, and November billing months.

PART A – CHARGES FOR STREET AND PARK LIGHTING SYSTEMS, TRAFFIC SIGNAL SYSTEMS, AND ATHLETIC FIELD LIGHTING INSTALLATIONS

I. Energy Charge:

Summer Period -	6.970¢ per kWh per month
Winter Period -	6.970¢ per kWh per month
Transition Period -	6.970¢ per kWh per month

II. Facility Charge

The annual facility charge shall be 14.45 percent of the installed cost to KUB's electric system of the facilities devoted to street and park lighting service specified in this Part A. Such installed cost shall be recomputed on July 1 of each year, or more often if substantial changes in the facilities are made. Each month, one-twelfth of the then total annual facility charge shall be billed to the customer. If any part of the facilities has not been provided at the electric system's expense or if the installed cost of any portion thereof is reflected on the books of another municipality or agency or department, the annual facility charge shall be adjusted to reflect properly the remaining cost to be borne by the electric system.

Traffic signal systems and athletic field lighting installations shall be provided, owned, and maintained by and at the expense of the customer, except as KUB may agree otherwise in accordance with the provisions of the paragraph next following in this Section II. The facilities necessary to provide service to such systems and installations shall be provided by and at the expense of KUB's electric system, and the annual facility charge provided for first above in this Section II shall apply to the installed cost of such facilities.

When so authorized by policy duly adopted by the Board, traffic signal systems and athletic field lighting installations may be provided, owned, and maintained by KUB's electric system for the customer's benefit. In such cases KUB may require reimbursement from the customer for a portion of the initial installed cost of any such system or installation and shall require payment by the customer of a facility charge sufficient to cover all of KUB's costs (except reimbursed costs), including appropriate overheads, of providing, owning, and maintaining such system or installation; provided that, for athletic field lighting installations, such facility charge shall be 13.41 percent per year of such costs. Said facility charge shall be in addition to the annual facility charge on the facilities necessary to provide service to such system or installation as provided for in the preceding paragraph. Replacement of lamps and related glassware for traffic signal systems and athletic field lighting installations provided under this paragraph shall be paid for under the provisions of paragraph A in section IV.

III. Customer Charge – Traffic Signal Systems and Athletic Field Lighting Installations.
KUB shall apply a uniform monthly customer charge of $2.50 for service to each traffic signal system or athletic field lighting installation.

IV. Replacement of Lamps and Related Glassware – Street and Park Lighting
Customer shall be billed and shall pay for replacements as provided in paragraph A below, which shall be applied to all service for street and park lighting.

(a) KUB shall bill the customer monthly for such replacements during each month at KUB's cost of materials, including appropriate storeroom expense.

(b) KUB shall bill the customer monthly for one-twelfth of the amount by which KUB's cost of materials, including appropriate storeroom expenses, exceeds the products of 3 mills multiplied by the number of kilowatt-hours used for street and park lighting during the fiscal year immediately preceding the fiscal year in which such month occurs.

Metering

For any billing month or part of such month in which the energy is not metered or for which a meter reading is found to be in error or a meter is found to have failed, the energy for billing purposes for that billing month or part of such month shall be computed from the rated capacity of the lamps (including ballast) plus 5 percent of such capacity to reflect secondary circuit losses, multiplied by the number of hours of use.

Revenue and Cost Review

KUB's costs of providing service under Part A of this rate schedule are subject to review at any time to determine if KUB's revenues from the charges being applied are sufficient to cover its costs. (Such costs, including applicable overheads, include, but are not limited to, those incurred in the operation and maintenance of the systems provided and those resulting from depreciation and payments for taxes, tax equivalents and interest). If any such review discloses that revenues are either less or more than sufficient to cover said costs, the Board shall revise the above facility charges so that revenues will be sufficient to cover said costs.

PART B—CHARGES FOR OUTDOOR LIGHTING FOR INDIVIDUAL CUSTOMERS

Charges Per Fixture Per Month

(a) Type of Fixture	Lamp Size (Watts)	(Lumens)	Rated kWh	Facility Charge	Total Lamp Charge
Mercury Vapor or	175	7,650	70	$ 4.52	$ 9.40
Incandescent*	400	19,100	155	6.31	17.11
	1,000**	47,500	378	10.09	36.44
High Pressure	100	8,550	42	$ 4.52	$ 7.45
Sodium	250	23,000	105	5.36	12.68
	400	45,000	165	6.31	17.81
	1,000**	126,000	385	10.09	36.92
Decorative	100	8,550	42	$ 5.14	$8.07

* Mercury Vapor and Incandescent fixtures not offered for new service.
** 1,000 watt fixtures not offered for new service.

(b) Energy Charge: For each lamp size under (a) above,

Summer Period -	6.970¢ per kWh per month
Winter Period -	6.970¢ per kWh per month
Transition Period -	6.970¢ per kWh per month

Additional Facilities

The above charges in this Part B are limited to service from a photoelectrically controlled standard lighting fixture installed on a pole already in place. If the customer wishes to have the fixture installed at a location other than on a pole already in place, the customer shall pay an additional monthly charge of $3.00 per pole for additional poles required to serve the fixture from KUB’s nearest available source. (This section does not apply to Decorative Lighting Fixtures).

Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

Lamp Replacements

Replacements of lamps and related glassware will be made in accordance with replacement policies of KUB.

Special Outdoor Lighting Installations

When so authorized by policy duly adopted by the Board, special outdoor lighting installations (other than as provided for under Parts A and B above) may be provided, owned, and maintained by KUB’s electric system. In such cases, KUB may require reimbursement from the customer for a portion of the initial installed cost of any such installation and shall require payment by the customer of monthly charges sufficient to cover all of KUB’s costs (except reimbursed costs), including appropriate overheads of providing, owning, and maintaining such installations, and making lamp replacements.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

SEASONAL TIME OF USE GENERAL POWER RATE SCHEDULE TDGSA

Availability

This rate, subject to availability from TVA, shall be available for firm electric power requirements where the higher of a customer’s currently effective onpeak or offpeak contract demand is greater than 1,000 kW but not more than 5,000 kW for electric service to commercial, industrial, and governmental customers, and to institutional customers, including, without limitation, churches, clubs, fraternities, orphanages, nursing homes, rooming or boarding houses, and like customers, provided that the other conditions of this section are met.

For a customer requesting that its onpeak contract demand be different from its offpeak contract demand, this rate schedule shall be available only for (1) a new contract, (2) a replacement or renewal contract following expiration of the existing contract, or (3) a replacement or renewal contract or an amended existing contract in which the customer is increasing its demand requirements above the existing contract demand level, but under this item (3) neither the new onpeak nor the new offpeak contract demand shall be lower than the customer’s existing contract demand.

Character of Service

Alternating current, single or three-phase, 60 hertz. Power shall be delivered at a transmission voltage of 161 kV or, if such transmission voltage is not available, at the highest voltage available in the vicinity, unless at the customer’s request a lower standard voltage is agreed upon.

Base Charges

Customer Charge:	$1,500 per delivery point per month.
Administrative Charge:	$700 per delivery point per month.
Demand Charge:	
Summer Period -	$17.92 per kW per month of the customer’s onpeak billing demand, plus

$4.75 per kW per month of the amount, if any, by which the customer’s offpeak billing demand exceeds its onpeak billing demand plus

$17.92 per kW per month for each kW of the amount, if any, by which (1) the customer’s onpeak billing demand exceeds its onpeak contract demand or (2) the customer’s offpeak billing demand exceeds its offpeak contract demand, whichever is higher

Winter Period - $10.40 per kW per month of the customer’s onpeak billing demand, plus

$4.75 per kW per month of the amount, if any, by which the customer’s offpeak billing demand exceeds its onpeak billing demand, plus

$10.40 per kW per month for each kW of the amount, if any, by which (1) the customer’s onpeak billing demand exceeds its onpeak contract demand or (2) the customer’s offpeak billing demand exceeds its offpeak contract demand, whichever is higher

Transition Period - $4.75 per kW per month of the customer’s offpeak billing demand, plus

$10.40 per kW per month for each kW of the amount, if any, by which the customer’s offpeak billing demand exceeds its offpeak contract demand

Energy Charge:

Summer Period - 9.897¢ per kWh per month for all metered onpeak kWh, plus

6.223¢ per kWh per month for the first 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

4.248¢ per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

2.568¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy

Winter Period -	6.650¢ per kWh per month for all metered onpeak kWh, plus
	6.223¢ per kWh per month for the first 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus
	4.248¢ per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus
	2.568¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy
Transition Period -	6.223¢ per kWh per month for the first 425 hours use of maximum metered demand, plus
	4.248¢ per kWh per month for the next 195 hours use of maximum metered demand, plus
	2.568¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours

For the Summer Period, Winter Period and Transition Period, 6.223¢ per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

Facilities Rental Charge

There shall be no facilities rental charge under this rate schedule for delivery at bulk transmission voltage levels of 161kV or higher. For delivery at less than 161kV, there shall be added to the customer's bill a facilities rental charge. This charge shall be 37 cents per kW per month except for delivery at voltages below 46 kV, in which case the charge shall be 97 cents per kW per month for the first 10,000 kW and 76 cents per kW per month for the excess over 10,000 kW. Such charge shall be applied to the higher of (1) the highest billing demand established during the latest 12-consecutive-month period or (2) the higher of the customer's currently effective onpeak or offpeak contract demand and shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Reactive Demand Charge

If the reactive demand (in kVAR) is lagging during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer's highest metered demand occurs, there shall be added to the customer's bill a reactive charge of $1.46 per kVAR of the amount, if any, by which the reactive demand exceeds 33 percent of such metered demand. If the reactive demand (in kVAR) is leading during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer's lowest metered demand (excluding any metered demands which are less than 25 percent of the highest metered demand) occurs, there shall be added to the customer's bill a reactive charge of $1.14 per kVAR of the amount of reactive demand. Such charges shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

Determination of Seasonal Periods

Summer Period shall mean the June, July, August, and September billing months. Winter Period shall mean the December, January, February, and March billing months. Transition Period shall mean the April, May, October, and November billing months. The Seasonal Periods under this rate schedule are subject to change by KUB. In the event KUB determines that changed Seasonal Periods are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed periods, and KUB shall promptly notify customer.

Determination of Onpeak and Offpeak Hours

Except for Saturdays and Sundays and the weekdays that are observed as Federal holidays for New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day, onpeak hours for each day shall be 1 p.m. to 7 p.m. during the Summer Period and from 4 a.m. to 10 a.m. during the Winter Period. For the Summer Period and the Winter Period, all other hours of each day that are not otherwise defined as onpeak hours and all hours of such excepted days shall be offpeak hours. Such times shall be Central Standard Time or Central Daylight Time, whichever is then in effect. Said onpeak and offpeak hours are subject to change by KUB. In the event KUB determines that such changed onpeak and offpeak hours are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed hours, and KUB shall promptly notify customer.

For the Transition Period, all hours shall be offpeak hours.

Determination of Onpeak and Offpeak Demands, Maximum Metered Demand, and Energy Amounts

The onpeak and offpeak kWh for any month shall be the energy amounts taken during the respective hours of the month designated under this rate schedule as onpeak and offpeak hours; provided, however, that notwithstanding the metered energy amount, the offpeak energy for any month shall in no case be less than the product of (1) the offpeak billing demand as calculated in the last sentence of the paragraph below and (2) 110 hours (reflecting a 15 percent load factor applied to the average number of hours in a month).

KUB shall meter the onpeak and offpeak demands in kW of all customers taking service under this rate schedule. The onpeak metered demand and offpeak metered demand for any month shall be determined separately for the respective hours of the month designated under this rate schedule as onpeak and offpeak hours and in each case shall be the highest average during any 30-consecutive-minute period beginning or ending on a clock hour of the month of the load metered in kW, and, except as provided below in this section, such amounts shall be used as the onpeak and offpeak billing demands. The maximum metered demand for any month shall be the higher of (1) the highest onpeak metered demand in the month or (2) the highest offpeak metered demand in the month. The onpeak billing demand shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW and (2) 40 percent of any kW in excess of 5,000 kW of the higher of the currently effective onpeak contract demand or the highest onpeak billing demand established during the preceding 12 months. The offpeak billing demand shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW and (2) 40 percent of any kW in excess of 5,000 kW of the higher of the currently effective offpeak contract demand or the highest offpeak billing demand established during the preceding 12 months.

Minimum Bill

The monthly bill under this rate schedule, excluding any facilities rental charges and any reactive charges, shall not be less than the sum of (1) the base customer charge, (2) the portion of the base demand charge, as adjusted (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applicable to onpeak billing demand applied to the customer’s onpeak billing demand, (3) the portion of the base demand charge, as adjusted, (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applicable to any excess of offpeak over onpeak billing demand applied to the amount, if any, by which the customer’s offpeak billing demand exceeds its onpeak billing demand, (4) the base onpeak energy charge, as adjusted, applied to the customer’s onpeak energy takings, and (5) the base offpeak energy charge, as adjusted, applied to the higher of customer’s actual offpeak energy takings or the minimum offpeak energy takings amount provided for in the first paragraph of the section of this rate schedule entitled “Determination of Onpeak and Offpeak Demands, Maximum Metered Demand, and Energy Amounts”.

KUB may require minimum bills higher than those stated above.

Contract Requirement

KUB shall require contracts for all service provided under this rate schedule and such contracts shall be for an initial term of at least one year. The customer shall contract for its maximum requirements, which shall not exceed the amount of power capable of being used by the customer, and KUB shall not be obligated to supply power in greater amount at any time than the customer’s currently effective onpeak or offpeak contract demand. If the customer uses any power other than that supplied by KUB under this rate schedule, the contract may include other special provisions. The rate schedule in any power contract shall be subject to adjustment, modification, change, or replacement from time to time as approved by the Board.

After having received service for at least one year under this rate schedule, the customer subject to appropriate amendments in its power contract with KUB, may receive service under the General Power Rate--Schedule GSA. In such case the term of the power contract shall remain the same and the contract demand for service under the General Power Rate--Schedule GSA shall not be less than the onpeak contract demand in effect when service was taken under this rate schedule.

Single Point Delivery

The charges under this rate schedule are based upon the supply of service through a single delivery point and at a single voltage. If service is supplied to the same customer through more than one point of delivery or at different voltages, the supply of service at each delivery point and at each different voltage shall be separately metered and billed.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

GENERAL POWER RATE SCHEDULE GSB

Availability

This rate, subject to availability from TVA, shall be available for firm electric power requirements where the higher of a customer's currently effective onpeak or offpeak contract demand is greater than 5,000 kW but not more than 15,000 kW; provided that the other conditions of this section are met.

For a customer requesting that its onpeak contract demand be different from its offpeak contract demand, this rate schedule shall be available only for (1) a new contract, (2) a replacement or renewal contract following expiration of the existing contract, or (3) a replacement or renewal contract or an amended existing contract in which the customer is increasing its demand requirements above the existing contract demand level, but under this item (3) neither the new onpeak nor the new offpeak contract demand shall be lower than the customer's existing contract demand.

Character of Service

Alternating current, single or three-phase, 60 hertz. Power shall be delivered at a transmission voltage of 161 kV or, if such transmission voltage is not available, at the highest voltage available in the vicinity, unless at the customer's request a lower standard voltage is agreed upon.

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Base Charges

Customer Charge: $1,500 per delivery point per month.
Administrative Charge: $700 per delivery point per month.
Demand Charge:

Summer Period - $17.92 per kW per month of the customer’s onpeak billing demand, plus

$4.75 per kW per month of the amount, if any, by which the customer’s offpeak billing demand exceeds its onpeak billing demand plus

$17.92 per kW per month for each kW of the amount, if any, by which (1) the customer’s onpeak billing demand exceeds its onpeak contract demand or (2) the customer’s offpeak billing demand exceeds its offpeak contract demand, whichever is higher

Winter Period - $10.40 per kW per month of the customer’s onpeak billing demand, plus

$4.75 per kW per month of the amount, if any, by which the customer’s offpeak billing demand exceeds its onpeak billing demand, plus

$10.40 per kW per month for each kW of the amount, if any, by which (1) the customer’s onpeak billing demand exceeds its onpeak contract demand or (2) the customer’s offpeak billing demand exceeds its offpeak contract demand, whichever is higher

Transition Period - $4.75 per kW per month of the customer’s offpeak billing demand, plus

$10.40 per kW per month for each kW of the amount, if any, by which the customer’s offpeak billing demand exceeds its offpeak contract demand

Energy Charge:

Summer Period - 9.897¢ per kWh per month for all metered onpeak kWh, plus

6.223¢ per kWh per month for the first 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

4.248¢ per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

2.568¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy

Winter Period - 6.650¢ per kWh per month for all metered onpeak kWh, plus

6.223¢ per kWh per month for the first 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

4.248¢ per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

2.568¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy

Transition Period - 6.223¢ per kWh per month for the first 425 hours use of maximum metered demand, plus

4.248¢ per kWh per month for the next 195 hours use of maximum metered demand, plus

2.568¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours

For the Summer Period, Winter Period and Transition Period, 6.223¢ per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

Facilities Rental Charge

There shall be no facilities rental charge under this rate schedule for delivery at bulk transmission voltage levels of 161kV or higher. For delivery at less than 161kV, there shall be added to the customer’s bill a facilities rental charge. This charge shall be 37 cents per kW per month except for delivery at voltages below 46 kV, in which case the charge shall be 97 cents per kW per month for the first 10,000 kW and 76 cents per kW per month for the excess over 10,000 kW. Such charge shall be applied to the higher of (1) the highest billing demand established during the latest 12-consecutive-month period or (2) the higher of the customer’s currently effective onpeak or offpeak contract demand and shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Reactive Demand Charge

If the reactive demand (in kVAR) is lagging during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s highest metered demand occurs, there shall be added to the customer’s bill a reactive charge of $1.46 per kVAR of the amount, if any, by which the reactive demand exceeds 33 percent of such metered demand. If the reactive demand (in kVAR) is leading during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s lowest metered demand (excluding any metered demands which are less than 25 percent of the highest metered demand) occurs, there shall be added to the customer’s bill a reactive charge of $1.14 per kVAR of the amount of reactive demand. Such charges shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

Determination of Seasonal Periods

Summer Period shall mean the June, July, August, and September billing months. Winter Period shall mean the December, January, February, and March billing months. Transition Period shall mean the April, May, October, and November billing months. The Seasonal Periods under this rate schedule are subject to change by KUB. In the event KUB determines that changed Seasonal Periods are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed periods, and KUB shall promptly notify customer.

Determination of Onpeak and Offpeak Hours

Except for Saturdays and Sundays and the weekdays that are observed as Federal holidays for New Year’s Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day, onpeak hours for each day shall be 1 p.m. to 7 p.m. during the Summer Period and from 4 a.m. to 10 a.m. during the Winter Period. For the Summer Period and the Winter Period, all other hours of each day that are not otherwise defined as onpeak hours and all hours of such excepted days shall be offpeak hours. Such times shall be Central Standard Time or Central Daylight Time, whichever is then in effect. Said onpeak and offpeak hours are subject to change by KUB. In the event KUB determines that such changed onpeak and offpeak hours are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed hours, and KUB shall promptly notify customer.

For the Transition Period, all hours shall be offpeak hours.

Determination of Onpeak and Offpeak Demands, Maximum Metered Demand, and Energy Amounts

The onpeak and offpeak kWh for any month shall be the energy amounts taken during the respective hours of the month designated under this rate schedule as onpeak and offpeak hours; provided, however, that notwithstanding the metered energy amount, the offpeak energy for any month shall in no case be less than the product of (1) the offpeak billing demand as calculated in the last sentence of the paragraph below and (2) 110 hours (reflecting a 15 percent load factor applied to the average number of hours in a month).

KUB shall meter the onpeak and offpeak demands in kW of all customers taking service under this rate schedule. The onpeak metered demand and offpeak metered demand for any month shall be determined separately for the respective hours of the month designated under this rate schedule as onpeak and offpeak hours and in each case shall be the highest average during any 30-consecutive-minute period beginning or ending on a clock hour of the month of the load metered in kW, and, except as provided below in this section, such amounts shall be used as the onpeak and offpeak billing demands. The maximum metered demand for any month shall be the higher of (1) the highest onpeak metered demand in the month or (2) the highest offpeak metered demand in the month. The onpeak billing demand shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW and (2) 40 percent of any kW in excess of 5,000 kW of the higher of the currently effective onpeak contract demand or the highest onpeak billing demand established during the preceding 12 months. The offpeak billing demand shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW and (2) 40 percent of any kW in excess of 5,000 kW of the higher of the currently effective offpeak contract demand or the highest offpeak billing demand established during the preceding 12 months.

Minimum Bill

The monthly bill under this rate schedule, excluding any facilities rental charges and any reactive charges, shall not be less than the sum of (1) the base customer charge, (2) the portion of the base demand charge, as adjusted (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applicable to onpeak billing demand applied to the customer’s onpeak billing demand, (3) the portion of the base demand charge, as adjusted, (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applicable to any excess of offpeak over onpeak billing demand applied to the amount, if any, by which the customer’s offpeak billing demand exceeds its onpeak billing demand, (4) the base onpeak energy charge, as adjusted, applied to the customer’s onpeak energy takings, and (5) the base offpeak energy charge, as adjusted, applied to the higher of customer’s actual offpeak energy takings or the minimum offpeak energy takings amount provided for in the first paragraph of the section of this rate schedule entitled “Determination of Onpeak and Offpeak Demands, Maximum Metered Demand, and Energy Amounts”.

KUB may require minimum bills higher than those stated above.

Contract Requirement

KUB shall require contracts for all service provided under this rate schedule. The contract shall be for an initial term of at least five years and any renewals or extensions of the initial contract shall be for a term of at least one year; after ten years of service, any such contract for the renewal or extension of service may provide for termination upon not less than four months notice. The customer shall contract for its maximum requirements, which shall not exceed the amount of power capable of being used by customer, and KUB shall not be obligated to supply power in greater amount at any time than the customer’s currently effective onpeak or offpeak contract demand. If the customer uses any power other than that supplied by KUB under this rate schedule, the contract may include other special provisions. The rate schedule in any power contract shall be subject to adjustment, modification, change, or replacement from time to time as approved by the Board.

Single Point Delivery

The charges under this rate schedule are based upon the supply of service through a single delivery point and at a single voltage. If service is supplied to the same customer through more than one point of delivery or at different voltages, the supply of service at each delivery point and at each different voltage shall be separately metered and billed.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

GENERAL POWER RATE SCHEDULE GSC

Availability

This rate, subject to availability from TVA, shall be available for firm electric power requirements where the higher of a customer’s currently effective onpeak or offpeak contract demand is greater than 15,000 kW but not more than 25,000 kW; provided that the other conditions of this section are met.

For a customer requesting that its onpeak contract demand be different from its offpeak contract demand, this rate schedule shall be available only for (1) a new contract, (2) a replacement or renewal contract following expiration of the existing contract, or (3) a replacement or renewal contract or an amended existing contract in which the customer is increasing its demand requirements above the existing contract demand level, but under this item (3) neither the new onpeak nor the new offpeak contract demand shall be lower than the customer’s existing contract demand.

Character of Service

Alternating current, single or three-phase, 60 hertz. Power shall be delivered at a transmission voltage of 161 kV or, if such transmission voltage is not available, at the highest voltage available in the vicinity, unless at the customer's request a lower standard voltage is agreed upon.

Base Charges

Customer Charge: $1,500 per delivery point per month.
Administrative Charge: $700 per delivery point per month.
Demand Charge:

Summer Period - $17.46 per kW per month of the customer's onpeak billing demand, plus

$4.29 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand plus

$17.46 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher

Winter Period - $9.94 per kW per month of the customer's onpeak billing demand, plus

$4.29 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus

$9.94 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher

Transition Period - $4.29 per kW per month of the customer's offpeak billing demand, plus

$9.94 per kW per month for each kW of the amount, if any, by which the customer's offpeak billing demand exceeds its offpeak contract demand

Energy Charge:

Summer Period - 9.516¢ per kWh per month for all metered onpeak kWh, plus

5.945¢ per kWh per month for the first 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

3.968¢ per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

2.288¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy

Winter Period - 6.346¢ per kWh per month for all metered onpeak kWh, plus

5.945¢ per kWh per month for the first 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

3.968¢ per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

2.288¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy

Transition Period - 5.945¢ per kWh per month for the first 425 hours use of maximum metered demand, plus

3.968¢ per kWh per month for the next 195 hours use of maximum metered demand, plus

2.288¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours

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For the Summer Period, Winter Period and Transition Period, 5.945¢ per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

Facilities Rental Charge

There shall be no facilities rental charge under this rate schedule for delivery at bulk transmission voltage levels of 161kV or higher. For delivery at less than 161kV, there shall be added to the customer’s bill a facilities rental charge. This charge shall be 37 cents per kW per month except for delivery at voltages below 46 kV, in which case the charge shall be 97 cents per kW per month for the first 10,000 kW and 76 cents per kW per month for the excess over 10,000 kW. Such charge shall be applied to the higher of (1) the highest billing demand established during the latest 12-consecutive-month period or (2) the higher of the customer’s currently effective onpeak or offpeak contract demand and shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Reactive Demand Charge

If the reactive demand (in kVAR) is lagging during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s highest metered demand occurs, there shall be added to the customer’s bill a reactive charge of $1.46 per kVAR of the amount, if any, by which the reactive demand exceeds 33 percent of such metered demand. If the reactive demand (in kVAR) is leading during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s lowest metered demand (excluding any metered demands which are less than 25 percent of the highest metered demand) occurs, there shall be added to the customer’s bill a reactive charge of $1.14 per kVAR of the amount of reactive demand. Such charges shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

Determination of Seasonal Periods

Summer Period shall mean the June, July, August, and September billing months. Winter Period shall mean the December, January, February, and March billing months. Transition Period shall mean the April, May, October, and November billing months. The Seasonal Periods under this rate schedule are subject to change by KUB. In the event KUB determines that changed Seasonal Periods are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed periods, and KUB shall promptly notify customer.

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Determination of Onpeak and Offpeak Hours

Except for Saturdays and Sundays and the weekdays that are observed as Federal holidays for New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day, onpeak hours for each day shall be 1 p.m. to 7 p.m. during the Summer Period and from 4 a.m. to 10 a.m. during the Winter Period. For the Summer Period and the Winter Period, all other hours of each day that are not otherwise defined as onpeak hours and all hours of such excepted days shall be offpeak hours. Such times shall be Central Standard Time or Central Daylight Time, whichever is then in effect. Said onpeak and offpeak hours are subject to change by KUB. In the event KUB determines that such changed onpeak and offpeak hours are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed hours, and KUB shall promptly notify customer.

For the Transition Period, all hours shall be offpeak hours.

Determination of Onpeak and Offpeak Demands, Maximum Metered Demand, and Energy Amounts

The onpeak and offpeak kWh for any month shall be the energy amounts taken during the respective hours of the month designated under this rate schedule as onpeak and offpeak hours; provided, however, that notwithstanding the metered energy amount, the offpeak energy for any month shall in no case be less than the product of (1) the offpeak billing demand as calculated in the last sentence of the paragraph below and (2) 110 hours (reflecting a 15 percent load factor applied to the average number of hours in a month).

KUB shall meter the onpeak and offpeak demands in kW of all customers taking service under this rate schedule. The onpeak metered demand and offpeak metered demand for any month shall be determined separately for the respective hours of the month designated under this rate schedule as onpeak and offpeak hours and in each case shall be the highest average during any 30-consecutive-minute period beginning or ending on a clock hour of the month of the load metered in kW, and, except as provided below in this section, such amounts shall be used as the onpeak and offpeak billing demands. The maximum metered demand for any month shall be the higher of (1) the highest onpeak metered demand in the month or (2) the highest offpeak metered demand in the month. The onpeak billing demand shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW, (2) 40 percent of the next 20,000 kW, and (3) 50 percent of any kW in excess of 25,000 kW of the higher of the currently effective onpeak contract demand or the highest onpeak billing demand established during the preceding 12 months. The offpeak billing demand shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW, (2) 40 percent of the next 20,000 kW, and (3) 50 percent of any kW in excess of 25,000 kW of the higher of the currently effective offpeak contract demand or the highest offpeak billing demand established during the preceding 12 months.

Minimum Bill

The monthly bill under this rate schedule, excluding any facilities rental charges and any reactive charges, shall not be less than the sum of (1) the base customer charge, (2) the portion of the base demand charge, as adjusted (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applicable to onpeak billing demand applied to the customer’s onpeak billing demand, (3) the portion of the base demand charge, as adjusted, (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applicable to any excess of offpeak over onpeak billing demand applied to the amount, if any, by which the customer’s offpeak billing demand exceeds its onpeak billing demand, (4) the base onpeak energy charge, as adjusted, applied to the customer’s onpeak energy takings, and (5) the base offpeak energy charge, as adjusted, applied to the higher of customer’s actual offpeak energy takings or the minimum offpeak energy takings amount provided for in the first paragraph of the section of this rate schedule entitled “Determination of Onpeak and Offpeak Demands, Maximum Metered Demand, and Energy Amounts”.

KUB may require minimum bills higher than those stated above.

Contract Requirement

KUB shall require contracts for all service provided under this rate schedule. The contract shall be for an initial term of at least five years and any renewals or extensions of the initial contract shall be for a term of at least one year; after ten years of service, any such contract for the renewal or extension of service may provide for termination upon not less than four months notice. The customer shall contract for its maximum requirements, which shall not exceed the amount of power capable of being used by customer, and KUB shall not be obligated to supply power in greater amount at any time than the customer's currently effective onpeak or offpeak contract demand. If the customer uses any power other than that supplied by KUB under this rate schedule, the contract may include other special provisions. The rate schedule in any power contract shall be subject to adjustment, modification, change, or replacement from time to time as approved by the Board.

Single Point Delivery

The charges under this rate schedule are based upon the supply of service through a single delivery point and at a single voltage. If service is supplied to the same customer through more than one point of delivery or at different voltages, the supply of service at each delivery point and at each different voltage shall be separately metered and billed.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

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GENERAL POWER RATE SCHEDULE GSD

Availability

This rate, subject to availability from TVA, shall be available for firm electric power requirements where the higher of a customer's currently effective onpeak or offpeak contract demand is greater than 25,000 kW; provided that the other conditions of this section are met.

For a customer requesting that its onpeak contract demand be different from its offpeak contract demand, this rate schedule shall be available only for (1) a new contract, (2) a replacement or renewal contract following expiration of the existing contract, or (3) a replacement or renewal contract or an amended existing contract in which the customer is increasing its demand requirements above the existing contract demand level, but under this item (3) neither the new onpeak nor the new offpeak contract demand shall be lower than the customer's existing contract demand.

Character of Service

Alternating current, single or three-phase, 60 hertz. Power shall be delivered at a transmission voltage of 161 kV or, if such transmission voltage is not available, at the highest voltage available in the vicinity, unless at the customer's request a lower standard voltage is agreed upon.

Base Charges

Customer Charge: $1,500 per delivery point per month.
Administrative Charge: $700 per delivery point per month.
Demand Charge:

Summer Period - $17.69 per kW per month of the customer's onpeak billing demand, plus

$4.52 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand plus

$17.69 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher

Winter Period - $10.17 per kW per month of the customer's onpeak billing demand, plus

$4.52 per kW per month of the amount, if any, by which the customer’s offpeak billing demand exceeds its onpeak billing demand, plus

$10.17 per kW per month for each kW of the amount, if any, by which (1) the customer’s onpeak billing demand exceeds its onpeak contract demand or (2) the customer’s offpeak billing demand exceeds its offpeak contract demand, whichever is higher

Transition Period - $4.52 per kW per month of the customer’s offpeak billing demand, plus

$10.17 per kW per month for each kW of the amount, if any, by which the customer’s offpeak billing demand exceeds its offpeak contract demand

Energy Charge:

Summer Period - 9.387¢ per kWh per month for all metered onpeak kWh, plus

5.707¢ per kWh per month for the first 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

3.728¢ per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

2.050¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy

Winter Period - 6.127¢ per kWh per month for all metered onpeak kWh, plus

5.707¢ per kWh per month for the first 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

3.728¢ per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

	2.050¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy
Transition Period -	5.707¢ per kWh per month for the first 425 hours use of maximum metered demand, plus
	3.728¢ per kWh per month for the next 195 hours use of maximum metered demand, plus
	2.050¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours

For the Summer Period, Winter Period and Transition Period, 5.707¢ per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

Facilities Rental Charge

There shall be no facilities rental charge under this rate schedule for delivery at bulk transmission voltage levels of 161kV or higher. For delivery at less than 161kV, there shall be added to the customer's bill a facilities rental charge. This charge shall be 37 cents per kW per month except for delivery at voltages below 46 kV, in which case the charge shall be 97 cents per kW per month for the first 10,000 kW and 76 cents per kW per month for the excess over 10,000 kW. Such charge shall be applied to the higher of (1) the highest billing demand established during the latest 12-consecutive-month period or (2) the higher of the customer's currently effective onpeak or offpeak contract demand and shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Reactive Demand Charge

If the reactive demand (in kVAR) is lagging during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer's highest metered demand occurs, there shall be added to the customer's bill a reactive charge of $1.46 per kVAR of the amount, if any, by which the reactive demand exceeds 33 percent of such metered demand. If the reactive demand (in kVAR) is leading during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer's lowest metered demand (excluding any metered demands which are less than 25 percent of the highest metered demand) occurs, there shall be added to the customer's bill a reactive charge of $1.14 per kVAR of the amount of reactive demand. Such charges shall be in addition to all other charges under this rate schedule, including minimum bill charges.

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Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

Determination of Seasonal Periods

Summer Period shall mean the June, July, August, and September billing months. Winter Period shall mean the December, January, February, and March billing months. Transition Period shall mean the April, May, October, and November billing months. The Seasonal Periods under this rate schedule are subject to change by KUB. In the event KUB determines that changed Seasonal Periods are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed periods, and KUB shall promptly notify customer.

Determination of Onpeak and Offpeak Hours

Except for Saturdays and Sundays and the weekdays that are observed as Federal holidays for New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day, onpeak hours for each day shall be 1 p.m. to 7 p.m. during the Summer Period and from 4 a.m. to 10 a.m. during the Winter Period. For the Summer Period and the Winter Period, all other hours of each day that are not otherwise defined as onpeak hours and all hours of such excepted days shall be offpeak hours. Such times shall be Central Standard Time or Central Daylight Time, whichever is then in effect. Said onpeak and offpeak hours are subject to change by KUB. In the event KUB determines that such changed onpeak and offpeak hours are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed hours, and KUB shall promptly notify customer.

For the Transition Period, all hours shall be offpeak hours.

Determination of Onpeak and Offpeak Demands, Maximum Metered Demand, and Energy Amounts

The onpeak and offpeak kWh for any month shall be the energy amounts taken during the respective hours of the month designated under this rate schedule as onpeak and offpeak hours; provided, however, that notwithstanding the metered energy amount, the offpeak energy for any month shall in no case be less than the product of (1) the offpeak billing demand as calculated in the last sentence of the paragraph below and (2) 110 hours (reflecting a 15 percent load factor applied to the average number of hours in a month).

KUB shall meter the onpeak and offpeak demands in kW of all customers taking service under this rate schedule. The onpeak metered demand and offpeak metered demand for any month shall be determined separately for the respective hours of the month designated under this rate schedule as onpeak and offpeak hours and in each case shall be the highest average during any 30-consecutive-minute period beginning or ending on a clock hour of the month of the load metered in kW, and, except as provided below in this section, such amounts shall be used as the onpeak and offpeak billing demands. The maximum metered demand for any month shall be the higher of (1) the highest onpeak metered demand in the month or (2) the highest offpeak metered demand in the month. The onpeak billing demand shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW, (2) 40 percent of the next 20,000 kW; (3) 50 percent of the next 25,000 kW, (4) 60 percent of the next 50,000 kW, (5) 70 percent of the next 100,000 kW, (6) 80 percent of the next 150,000 kW, and (7) 85 percent of all kW in excess of 350,000 kW of the higher of the currently effective onpeak contract demand or the highest onpeak billing demand established during the preceding 12 months. The offpeak billing demand shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW, (2) 40 percent of the next 20,000 kW, (3) 50 percent of the next 25,000 kW, (4) 60 percent of the next 50,000 kW, (5) 70 percent of the next 100,000 kW, (6) 80 percent of the next 150,000 kW, and (7) 85 percent of all kW in excess of 350,000 kW of the higher of the currently effective offpeak contract demand or the highest offpeak billing demand established during the preceding 12 months.

Minimum Bill

The monthly bill under this rate schedule, excluding any facilities rental charges and any reactive charges, shall not be less than the sum of (1) the base customer charge, (2) the portion of the base demand charge, as adjusted (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applicable to onpeak billing demand applied to the customer’s onpeak billing demand, (3) the portion of the base demand charge, as adjusted, (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applicable to any excess of offpeak over onpeak billing demand applied to the amount, if any, by which the customer’s offpeak billing demand exceeds its onpeak billing demand, (4) the base onpeak energy charge, as adjusted, applied to the customer’s onpeak energy takings, and (5) the base offpeak energy charge, as adjusted, applied to the higher of customer’s actual offpeak energy takings or the minimum offpeak energy takings amount provided for in the first paragraph of the section of this rate schedule entitled “Determination of Onpeak and Offpeak Demands, Maximum Metered Demand, and Energy Amounts”.

KUB may require minimum bills higher than those stated above.

Contract Requirement

KUB shall require contracts for all service provided under this rate schedule. The contract shall be for an initial term of at least five years and any renewals or extensions of the initial contract shall be for a term of at least five years; after ten years of service, any such contract for the renewal or extension of service may provide for termination upon not less than sixteen months notice. The customer shall contract for its maximum requirements, which shall not exceed the amount of power capable of being used by customer, and KUB shall not be obligated to supply power in greater amount at any time than the customer's currently effective onpeak or offpeak contract demand. If the customer uses any power other than that supplied by KUB under this rate schedule, the contract may include other special provisions. The rate schedule in any power contract shall be subject to adjustment, modification, change, or replacement from time to time as approved by the Board.

Single Point Delivery

The charges under this rate schedule are based upon the supply of service through a single delivery point and at a single voltage. If service is supplied to the same customer through more than one point of delivery or at different voltages, the supply of service at each delivery point and at each different voltage shall be separately metered and billed.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

SEASONAL DEMAND AND ENERGY GENERAL POWER RATE—SCHEDULE SGSB

Availability

This rate, subject to availability from TVA, shall apply to the firm electric power requirements where the customer's currently effective contract demand is greater than 5,000 kW but not more than 15,000 kW

Prior to participation in this rate, contract amendments may be required for continued participation in certain other programs and rate overlays as determined at KUB's sole discretion.

Character of Service

Alternating current, single- or three-phase, 60 hertz. Power shall be delivered at a transmission voltage of 161 kV or, if such transmission voltage is not available, at the highest voltage available in the vicinity, unless at the customer's request a lower standard voltage is agreed upon.

Base Charges

Customer Charge:	$1,500 per delivery point per month	
Administrative Charge:	$700 per delivery point per month	
Demand Charge:		
Summer Period -		$23.42 per kW per month of the customer's billing demand, plus $23.42 per kW per month of the amount, if any, by which the customer's billing demand exceeds its contract demand
Winter Period -		$16.72 per kW per month of the customer's billing demand, plus

	$16.72 per kW per month of the amount, if any, by which the customer's billing demand exceeds its contract demand
Transition Period -	$11.69 per kW per month of the customer’s billing demand, plus $11.69 per kW per month of the amount, if any, by which the customer's billing demand exceeds its contract demand
Energy Charge:	
Summer Period -	4.907¢ per kWh per month
Winter Period -	4.471¢ per kWh per month
Transition Period -	4.376¢ per kWh per month

Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

Facilities Rental Charge

There shall be no facilities rental charge under this rate schedule for delivery at bulk transmission voltage levels of 161 kV or higher. For delivery at less than 161 kV, there shall be added to the customer's bill a facilities rental charge. This charge shall be 37 cents per kW per month except for delivery at voltages below 46 kV, in which case the charge shall be 97 cents per kW per month for the first 10,000 kW and 76 cents per kW per month for the excess over 10,000 kW. Such charge shall be applied to the higher of (1) the highest billing demand established during the latest 12-consecutive-month period or (2) the customer's currently effective contract demand and shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Reactive Demand Charges

If the reactive demand (in kVAR) is lagging during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s highest metered demand occurs, there shall be added to the customer’s bill a reactive charge of $1.46 per kVAR of the amount, if any, by which the reactive demand exceeds 33 percent of such metered demand. If the reactive demand (in kVAR) is leading during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s lowest metered demand (excluding any metered demands which are less than 25 percent of the highest metered demand) occurs, there shall be added to the customer’s bill a reactive charge of $1.14 per kVAR of the amount of reactive demand. Such charges shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Determination of Seasonal Periods

Summer Period shall mean the June, July, August, and September billing months. Winter Period shall mean the December, January, February, and March billing months. Transition Period shall mean the April, May, October, and November billing months. The Seasonal Periods under this rate schedule are subject to change by KUB. In the event KUB determines that changed Seasonal Periods are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed periods, and KUB shall promptly notify customer.

Determination of Demand

KUB shall meter the demands in kW of all customers served under this rate schedule. The metered demand for any month shall be the highest average during any 30-consecutive-minute period beginning or ending on a clock hour of the month of the load metered in kW, and such amount shall be used as the billing demand, except that the billing demand for any month shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW and (2) 40 percent of any kW in excess of 5,000 kW of the higher of the currently effective contract demand or the highest billing demand established during the preceding 12 months.

Minimum Bill

The monthly bill under this rate schedule, excluding any facilities rental charges and any reactive charges, shall not be less than the sum of (1) the base customer charge, (2) the base demand charge, as adjusted (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applied to the customer's billing demand, and (3) the base energy charge, as adjusted, applied to the customer's energy takings.

KUB may require minimum bills higher than those stated above.

Contract Requirement

KUB shall require contracts for all service provided under this rate schedule. The contract shall be for an initial term of at least five years and any renewals or extensions of the initial contract shall be for a term of at least one year; after ten years of service, any such contract for the renewal or extension of service may provide for termination upon not less than four months notice. The customer shall contract for its maximum requirements, which shall not exceed the amount of power capable of being used by customer, and KUB shall not be obligated to supply power in greater amount at any time than the customer's currently effective contract demand. If the customer uses any power other than that supplied by KUB under this rate schedule, the contract may include other special provisions. The rate schedule in any power contract shall be subject to adjustment, modification, change, or replacement from time to time as approved by the Board.

After having received service for at least one year under this rate schedule, the customer, subject to appropriate amendments in its power contract with KUB, may receive service under the General Power Rate - Schedule GSB. In such case the term of the power contract shall remain the same and the onpeak contract demand for service under the General Power Rate – Schedule GSB shall not be less than the contract demand in effect when service was taken under this rate schedule.

Single-Point Delivery

The charges under this rate schedule are based upon the supply of service through a single delivery and metering point, and at a single voltage. If service is supplied to the same customer through more than one point of delivery or at different voltages, the supply of service at each delivery and metering point and at each different voltage shall be separately metered and billed.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

SEASONAL DEMAND AND ENERGY GENERAL POWER RATE--SCHEDULE SGSC

Availability

This rate, subject to availability from TVA, shall apply to the firm electric power requirements where the customer's currently effective contract demand is greater than 15,000 kW but not more than 25,000 kW

Prior to participation in this rate, contract amendments may be required for continued participation in certain other programs and rate overlays as determined at KUB's sole discretion.

Character of Service

Alternating current, single- or three-phase, 60 hertz. Power shall be delivered at a transmission voltage of 161 kV or, if such transmission voltage is not available, at the highest voltage available in the vicinity, unless at the customer's request a lower standard voltage is agreed upon.

Base Charges

Customer Charge:	$1,500 per delivery point per month
Administrative Charge:	$700 per delivery point per month
Demand Charge:	
Summer Period -	$22.96 per kW per month of the customer's billing demand, plus

$22.96 per kW per month of the amount, if any, by which the customer's billing demand exceeds its contract demand

Winter Period - $16.26 per kW per month of the customer’s billing demand, plus

$16.26 per kW per month of the amount, if any, by which the customer's billing demand exceeds its contract demand

Transition Period - $11.23 per kW per month of the customer’s billing demand, plus

$11.23 per kW per month of the amount, if any, by which the customer's billing demand exceeds its contract demand

Energy Charge:
Summer Period - 4.920¢ per kWh per month
Winter Period - 4.475¢ per kWh per month
Transition Period - 4.383¢ per kWh per month

Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

Facilities Rental Charge

There shall be no facilities rental charge under this rate schedule for delivery at bulk transmission voltage levels of 161 kV or higher. For delivery at less than 161 kV, there shall be added to the customer's bill a facilities rental charge. This charge shall be 37 cents per kW per month except for delivery at voltages below 46 kV, in which case the charge shall be 97 cents per kW per month for the first 10,000 kW and 76 cents per kW per month for the excess over 10,000 kW. Such charge shall be applied to the higher of (1) the highest billing demand established during the latest 12-consecutive-month period or (2) the customer's currently effective contract demand and shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Reactive Demand Charges

If the reactive demand (in kVAR) is lagging during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s highest metered demand occurs, there shall be added to the customer’s bill a reactive charge of $1.46 per kVAR of the amount, if any, by which the reactive demand exceeds 33 percent of such metered demand. If the reactive demand (in kVAR) is leading during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s lowest metered demand (excluding any metered demands which are less than 25 percent of the highest metered demand) occurs, there shall be added to the customer’s bill a reactive charge of $1.14 per kVAR of the amount of reactive demand. Such charges shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Determination of Seasonal Periods

Summer Period shall mean the June, July, August, and September billing months. Winter Period shall mean the December, January, February, and March billing months. Transition Period shall mean the April, May, October, and November billing months. The Seasonal Periods under this rate schedule are subject to change by KUB. In the event KUB determines that changed Seasonal Periods are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed periods, and KUB shall promptly notify customer.

Determination of Demand

KUB shall meter the demands in kW of all customers served under this rate schedule. The metered demand for any month shall be the highest average during any 30-consecutive-minute period beginning or ending on a clock hour of the month of the load metered in kW, and such amount shall be used as the billing demand, except that the billing demand for any month shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW, (2) 40 percent of the next 20,000 kW, and (3) 50 percent of any kW in excess of 25,000 kW of the higher of the currently effective contract demand or the highest billing demand established during the preceding 12 months.

Minimum Bill

The monthly bill under this rate schedule, excluding any facilities rental charges and any reactive charges, shall not be less than the sum of (1) the base customer charge, (2) the base demand charge, as adjusted (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applied to the customer's billing demand, and (3) the base energy charge, as adjusted, applied to the customer's energy takings.

KUB may require minimum bills higher than those stated above.

Contract Requirement

KUB shall require contracts for all service provided under this rate schedule. The contract shall be for an initial term of at least five years and any renewals or extensions of the initial contract shall be for a term of at least one year; after ten years of service, any such contract for the renewal or extension of service may provide for termination upon not less than four months notice. The customer shall contract for its maximum requirements, which shall not exceed the amount of power capable of being used by customer, and KUB shall not be obligated to supply power in greater amount at any time than the customer's currently effective contract demand. If the customer uses any power other than that supplied by KUB under this rate schedule, the contract may include other special provisions. The rate schedule in any power contract shall be subject to adjustment, modification, change, or replacement from time to time as approved by the Board.

After having received service for at least one year under this rate schedule, the customer, subject to appropriate amendments in its power contract with KUB, may receive service under the General Power Rate - Schedule GSC. In such case the term of the power contract shall remain the same and the onpeak contract demand for service under the General Power Rate – Schedule GSC shall not be less than the contract demand in effect when service was taken under this rate schedule.

Single-Point Delivery

The charges under this rate schedule are based upon the supply of service through a single delivery and metering point, and at a single voltage. If service is supplied to the same customer through more than one point of delivery or at different voltages, the supply of service at each delivery and metering point and at each different voltage shall be separately metered and billed.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

SEASONAL DEMAND AND ENERGY GENERAL POWER RATE--SCHEDULE SGSD

Availability

This rate, subject to availability from TVA, shall apply to the firm electric power requirements where the customer's currently effective contract demand is greater than 25,000 kW.

Prior to participation in this rate, contract amendments may be required for continued participation in certain other programs and rate overlays as determined at KUB’s sole discretion.

Character of Service

Alternating current, single- or three-phase, 60 hertz. Power shall be delivered at a transmission voltage of 161 kV or, if such transmission voltage is not available, at the highest voltage available in the vicinity, unless at the customer's request a lower standard voltage is agreed upon.

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Base Charges

Customer Charge: $1,500 per delivery point per month
Administrative Charge: $700 per delivery point per month
Demand Charge:
- Summer Period - $26.99 per kW per month of the customer’s billing demand, plus

  $26.99 per kW per month of the amount, if any, by which the customer's billing demand exceeds its contract demand
- Winter Period - $20.25 per kW per month of the customer’s billing demand, plus

  $20.25 per kW per month of the amount, if any, by which the customer's billing demand exceeds its contract demand
- Transition Period - $15.24 per kW per month of the customer’s billing demand, plus

  $15.24 per kW per month of the amount, if any, by which the customer's billing demand exceeds its contract demand

Energy Charge:
- Summer Period - 4.205¢ per kWh per month
- Winter Period - 3.817¢ per kWh per month
- Transition Period - 3.732¢ per kWh per month

Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

Facilities Rental Charge

There shall be no facilities rental charge under this rate schedule for delivery at bulk transmission voltage levels of 161 kV or higher. For delivery at less than 161 kV, there shall be added to the customer's bill a facilities rental charge. This charge shall be 37 cents per kW per month except for delivery at voltages below 46 kV, in which case the charge shall be 97 cents per kW per month for the first 10,000 kW and 76 cents per kW per month for the excess over 10,000 kW. Such charge shall be applied to the higher of (1) the highest billing demand established during the latest 12-consecutive-month period or (2) the customer's currently effective contract demand and shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Reactive Demand Charges

If the reactive demand (in kVAR) is lagging during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s highest metered demand occurs, there shall be added to the customer’s bill a reactive charge of $1.46 per kVAR of the amount, if any, by which the reactive demand exceeds 33 percent of such metered demand. If the reactive demand (in kVAR) is leading during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s lowest metered demand (excluding any metered demands which are less than 25 percent of the highest metered demand) occurs, there shall be added to the customer’s bill a reactive charge of $1.14 per kVAR of the amount of reactive demand. Such charges shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Determination of Seasonal Periods

Summer Period shall mean the June, July, August, and September billing months. Winter Period shall mean the December, January, February, and March billing months. Transition Period shall mean the April, May, October, and November billing months. The Seasonal Periods under this rate schedule are subject to change by KUB. In the event KUB determines that changed Seasonal Periods are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed periods, and KUB shall promptly notify customer.

Determination of Demand

KUB shall meter the demands in kW of all customers served under this rate schedule. The metered demand for any month shall be the highest average during any 30-consecutive-minute period beginning or ending on a clock hour of the month of the load metered in kW, and such amount shall be used as the billing demand, except that the billing demand for any month shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW, (2) 40 percent of the next 20,000 kW, (3) 50 percent of the next 25,000 kW, (4) 60 percent of the next 50,000 kW, (5) 70 percent of the next 100,000 kW, (6) 80 percent of the next 150,000 kW, and (7) 85 percent of all kW in excess of 350,000 kW of the higher of the currently effective contract demand or the highest billing demand established during the preceding 12 months.

Minimum Bill

The monthly bill under this rate schedule, excluding any facilities rental charges and any reactive charges, shall not be less than the sum of (1) the base customer charge, (2) the base demand charge, as adjusted (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applied to the customer's billing demand, and (3) the base energy charge, as adjusted, applied to the customer's energy takings.

KUB may require minimum bills higher than those stated above.

Contract Requirement

KUB shall require contracts for all service provided under this rate schedule. The contract shall be for an initial term of at least five years and any renewals or extensions of the initial contract shall be for a term of at least five years; after ten years of service, any such contract for the renewal or extension of service may provide for termination upon not less than sixteen months notice. The customer shall contract for its maximum requirements, which shall not exceed the amount of power capable of being used by customer, and KUB shall not be obligated to supply power in greater amount at any time than the customer's currently effective contract demand. If the customer uses any power other than that supplied by KUB under this rate schedule, the contract may include other special provisions. The rate schedule in any power contract shall be subject to adjustment, modification, change, or replacement from time to time as approved by the Board.

After having received service for at least one year under this rate schedule, the customer, subject to appropriate amendments in its power contract with KUB, may receive service under the General Power Rate - Schedule GSD. In such case the term of the power contract shall remain the same and the onpeak contract demand for service under the General Power Rate – Schedule GSD shall not be less than the contract demand in effect when service was taken under this rate schedule.

Single-Point Delivery

The charges under this rate schedule are based upon the supply of service through a single delivery and metering point, and at a single voltage. If service is supplied to the same customer through more than one point of delivery or at different voltages, the supply of service at each delivery and metering point and at each different voltage shall be separately metered and billed.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

SEASONAL TIME OF USE
MANUFACTURING SERVICE RATE SCHEDULE TDMSA

Availability

This rate, subject to availability from TVA, shall be available for firm electric power requirements where (a) a customer’s currently effective onpeak or offpeak contract demand, whichever is higher, is greater than 1,000 kW but not more than 5,000 kW, and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive, or classified with 2002 North American Industry Classification System (NAICS) code 5181, or 2007 NAICS codes 5182, 522320, and 541214; provided, however, customers qualifying for service under this schedule on the basis of such a NAICS code shall have an average monthly load factor of at least 80 percent during the preceding 12 months; provided further, however, that for the first 12 months of service to a new customer this load factor requirement shall be based on the customer's expected load factor for those 12 months as projected before the customer begins taking service; provided that the other applicable conditions specified below in this section are met. As used in the previous sentence "monthly load factor" shall mean a percentage calculated by dividing the total metered energy for a month by the product of the metered demand for that month and the number of clock hours in that month, exclusive of any hours during which power was unavailable due to an interruption or curtailment of the customer's service and of any hours in which the customer was unable to use power due to a Force Majeure event reasonably beyond the customer's control.

Prior to initially taking any service under this schedule, and from time to time thereafter as may be required by KUB, a customer shall certify to KUB that it meets the requirements set forth in condition (b) above. The certification form to be used shall be furnished by KUB to the customer, and signed and promptly returned by the customer to KUB. Further, such customer shall promptly certify any change in the status of any of the information contained in the certification form.

Service during any period for which a customer does not meet the eligibility requirements set forth in condition (b) above will be made available by KUB under, and billed in accordance with, the applicable General Power schedule.

For a customer requesting that its onpeak contract demand be different from its offpeak contract demand, this rate schedule shall be available only for (1) a new contract, (2) a replacement or renewal contract following expiration of the existing contract, or (3) a replacement or renewal contract or an amended existing contract in which the customer is increasing its demand requirements above the existing contract demand level, but under this item (3) neither the new onpeak nor the new offpeak contract demand shall be lower than the customer's existing contract demand.

Character of Service

Alternating current, single or three-phase, 60 hertz. Power shall be delivered at a transmission voltage of 161 kV or, if such transmission voltage is not available, at the highest voltage available in the vicinity, unless at the customer's request a lower standard voltage is agreed upon.

Base Charges

Customer Charge: $1,500 per delivery point per month.
Administrative Charge: $700 per delivery point per month.
Demand Charge:
    Summer Period - $17.91 per kW per month of the customer's onpeak billing demand, plus

$4.74 per kW per month of the amount, if any, by which the customer’s offpeak billing demand exceeds its onpeak billing demand plus

$17.91 per kW per month for each kW of the amount, if any, by which (1) the customer’s onpeak billing demand exceeds its onpeak contract demand or (2) the customer’s offpeak billing demand exceeds its offpeak contract demand, whichever is higher

Winter Period - $10.39 per kW per month of the customer’s onpeak billing demand, plus

$4.74 per kW per month of the amount, if any, by which the customer’s offpeak billing demand exceeds its onpeak billing demand, plus

$10.39 per kW per month for each kW of the amount, if any, by which (1) the customer’s onpeak billing demand exceeds its onpeak contract demand or (2) the customer’s offpeak billing demand exceeds its offpeak contract demand, whichever is higher

Transition Period - $4.74 per kW per month of the customer’s offpeak billing demand, plus

$10.39 per kW per month for each kW of the amount, if any, by which the customer’s offpeak billing demand exceeds its offpeak contract demand

Energy Charge:

Summer Period - 8.274¢ per kWh per month for all metered onpeak kWh, plus

4.642¢ per kWh per month for the first 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

2.664¢ per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

0.986¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy

Winter Period - 5.093¢ per kWh per month for all metered onpeak kWh, plus

4.642¢ per kWh per month for the first 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

2.664¢ per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

0.986¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy

Transition Period - 4.642¢ per kWh per month for the first 425 hours use of maximum metered demand, plus

2.664¢ per kWh per month for the next 195 hours use of maximum metered demand, plus

0.986¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours

For the Summer Period, Winter Period and Transition Period, 4.642¢ per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

Facilities Rental Charge

There shall be no facilities rental charge under this rate schedule for delivery at bulk transmission voltage levels of 161kV or higher. For delivery at less than 161kV, there shall be added to the customer’s bill a facilities rental charge. This charge shall be 37 cents per kW per month except for delivery at voltages below 46 kV, in which case the charge shall be 97 cents per kW per month for the first 10,000 kW and 76 cents per kW per month for the excess over 10,000 kW. Such charge shall be applied to the higher of (1) the highest billing demand established during the latest 12-consecutive-month period or (2) the higher of the customer’s currently effective onpeak or offpeak contract demand and shall be in addition to all other charges under this rate schedule, including minimum bill charges.

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Reactive Demand Charge

If the reactive demand (in kVAR) is lagging during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer's highest metered demand occurs, there shall be added to the customer's bill a reactive charge of $1.46 per kVAR of the amount, if any, by which the reactive demand exceeds 33 percent of such metered demand. If the reactive demand (in kVAR) is leading during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer's lowest metered demand (excluding any metered demands which are less than 25 percent of the highest metered demand) occurs, there shall be added to the customer's bill a reactive charge of $1.14 per kVAR of the amount of reactive demand. Such charges shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

Determination of Seasonal Periods

Summer Period shall mean the June, July, August, and September billing months. Winter Period shall mean the December, January, February, and March billing months. Transition Period shall mean the April, May, October, and November billing months. The Seasonal Periods under this rate schedule are subject to change by KUB. In the event KUB determines that changed Seasonal Periods are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed periods, and KUB shall promptly notify customer.

Determination of Onpeak and Offpeak Hours

Except for Saturdays and Sundays and the weekdays that are observed as Federal holidays for New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day, onpeak hours for each day shall be 1 p.m. to 7 p.m. during the Summer Period and from 4 a.m. to 10 a.m. during the Winter Period. For the Summer Period and the Winter Period, all other hours of each day that are not otherwise defined as onpeak hours and all hours of such excepted days shall be offpeak hours. Such times shall be Central Standard Time or Central Daylight Time, whichever is then in effect. Said onpeak and offpeak hours are subject to change by KUB. In the event KUB determines that such changed onpeak and offpeak hours are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed hours, and KUB shall promptly notify customer.

For the Transition Period, all hours shall be offpeak hours.

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Determination of Onpeak and Offpeak Demands, Maximum Metered Demand, and Energy Amounts

The onpeak and offpeak kWh for any month shall be the energy amounts taken during the respective hours of the month designated under this rate schedule as onpeak and offpeak hours; provided, however, that notwithstanding the metered energy amount, the offpeak energy for any month shall in no case be less than the product of (1) the offpeak billing demand as calculated in the last sentence of the paragraph below and (2) 110 hours (reflecting a 15 percent load factor applied to the average number of hours in a month).

KUB shall meter the onpeak and offpeak demands in kW of all customers taking service under this rate schedule. The onpeak metered demand and offpeak metered demand for any month shall be determined separately for the respective hours of the month designated under this rate schedule as onpeak and offpeak hours and in each case shall be the highest average during any 30-consecutive-minute period beginning or ending on a clock hour of the month of the load metered in kW, and, except as provided below in this section, such amounts shall be used as the onpeak and offpeak billing demands. The maximum metered demand for any month shall be the higher of (1) the highest onpeak metered demand in the month or (2) the highest offpeak metered demand in the month. The onpeak billing demand shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW and (2) 40 percent of any kW in excess of 5,000 kW of the higher of the currently effective onpeak contract demand or the highest onpeak billing demand established during the preceding 12 months. The offpeak billing demand shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW and (2) 40 percent of any kW in excess of 5,000 kW of the higher of the currently effective offpeak contract demand or the highest offpeak billing demand established during the preceding 12 months.

Minimum Bill

The monthly bill under this rate schedule, excluding any facilities rental charges and any reactive charges, shall not be less than the sum of (1) the base customer charge, (2) the portion of the base demand charge, as adjusted (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applicable to onpeak billing demand applied to the customer's onpeak billing demand, (3) the portion of the base demand charge, as adjusted, (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applicable to any excess of offpeak over onpeak billing demand applied to the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, (4) the base onpeak energy charge, as adjusted, applied to the customer's onpeak energy takings, and (5) the base offpeak energy charge, as adjusted, applied to the higher of customer's actual offpeak energy takings or the minimum offpeak energy takings amount provided for in the first paragraph of the section of this rate schedule entitled "Determination of Onpeak and Offpeak Demands, Maximum Metered Demand, and Energy Amounts".

KUB may require minimum bills higher than those stated above.

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Contract Requirement

KUB shall require contracts for all service provided under this rate schedule and such contracts shall be for an initial term of at least one year. The customer shall contract for its maximum requirements, which shall not exceed the amount of power capable of being used by the customer, and KUB shall not be obligated to supply power in greater amount at any time than the customer's currently effective onpeak or offpeak contract demand. If the customer uses any power other than that supplied by KUB under this rate schedule, the contract may include other special provisions. The rate schedule in any power contract shall be subject to adjustment, modification, change, or replacement from time to time as approved by the Board.

After having received service for at least one year under this rate schedule, the customer subject to appropriate amendments in its power contract with KUB, may receive service under the General Power Rate--Schedule GSA. In such case the term of the power contract shall remain the same and the contract demand for service under the General Power Rate--Schedule GSA shall not be less than the onpeak contract demand in effect when service was taken under this rate schedule.

Single Point Delivery

The charges under this rate schedule are based upon the supply of service through a single delivery point and at a single voltage. If service is supplied to the same customer through more than one point of delivery or at different voltages, the supply of service at each delivery point and at each different voltage shall be separately metered and billed.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

MANUFACTURING SERVICE RATE SCHEDULE MSB

Availability

This rate, subject to availability from TVA, shall be available for firm electric power requirements where (a) a customer's currently effective onpeak or offpeak contract demand, whichever is higher, is greater than 5,000 kW but not more than 15,000 kW, and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive, or classified with 2002 North American Industry Classification System (NAICS) code 5181, or 2007 NAICS codes 5182, 522320, and 541214; provided, however, customers qualifying for service under this schedule on the basis of such a NAICS code shall have an average monthly load factor of at least 80 percent during the preceding 12 months; provided further, however, that for the first 12 months of service to a new customer this load factor requirement shall be based on the customer's expected load factor for those 12 months as projected before the customer begins taking service; provided that the other applicable conditions specified below in this section are met. As used in the previous sentence “monthly load factor” shall mean a percentage calculated by dividing the total metered energy for a month by the product of the metered demand for that month and the number of clock hours in that month, exclusive of any hours during which power was unavailable due to an interruption or curtailment of the customer’s service and of any hours in which the customer was unable to use power due to a Force Majeure event reasonably beyond the customer’s control.

Prior to initially taking any service under this schedule, and from time to time thereafter as may be required by KUB, a customer shall certify to KUB that it meets the requirements set forth in condition (b) above. The certification form to be used shall be furnished by KUB to the customer, and signed and promptly returned by the customer to KUB. Further, such customer shall promptly certify any change in the status of any of the information contained in the certification form.

Service during any period for which a customer does not meet the eligibility requirements set forth in condition (b) above will be made available by KUB under, and billed in accordance with, the applicable General Power schedule.

For a customer requesting that its onpeak contract demand be different from its offpeak contract demand, this rate schedule shall be available only for (1) a new contract, (2) a replacement or renewal contract following expiration of the existing contract, or (3) a replacement or renewal contract or an amended existing contract in which the customer is increasing its demand requirements above the existing contract demand level, but under this item (3) neither the new onpeak nor the new offpeak contract demand shall be lower than the customer’s existing contract demand.

Character of Service

Alternating current, single or three-phase, 60 hertz. Power shall be delivered at a transmission voltage of 161 kV or, if such transmission voltage is not available, at the highest voltage available in the vicinity, unless at the customer’s request a lower standard voltage is agreed upon.

Base Charges

Customer Charge: $1,500 per delivery point per month.
Administrative Charge: $700 per delivery point per month.
Demand Charge:
  Summer Period - $17.91 per kW per month of the customer’s onpeak billing demand, plus

$4.74 per kW per month of the amount, if any, by which the customer’s offpeak billing demand exceeds its onpeak billing demand plus

$17.91 per kW per month for each kW of the amount, if any, by which (1) the customer’s onpeak billing demand exceeds its onpeak contract demand or (2) the customer’s offpeak billing demand exceeds its offpeak contract demand, whichever is higher

Winter Period -

$10.39 per kW per month of the customer’s onpeak billing demand, plus

$4.74 per kW per month of the amount, if any, by which the customer’s offpeak billing demand exceeds its onpeak billing demand, plus

$10.39 per kW per month for each kW of the amount, if any, by which (1) the customer’s onpeak billing demand exceeds its onpeak contract demand or (2) the customer’s offpeak billing demand exceeds its offpeak contract demand, whichever is higher

Transition Period -

$4.74 per kW per month of the customer’s offpeak billing demand, plus

$10.39 per kW per month for each kW of the amount, if any, by which the customer’s offpeak billing demand exceeds its offpeak contract demand

Energy Charge:

Summer Period -

8.274¢ per kWh per month for all metered onpeak kWh, plus

4.642¢ per kWh per month for the first 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

2.664¢ per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

0.986¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy

Winter Period - 5.093¢ per kWh per month for all metered onpeak kWh, plus

4.642¢ per kWh per month for the first 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

2.664¢ per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

0.986¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy

Transition Period - 4.642¢ per kWh per month for the first 425 hours use of maximum metered demand, plus

2.664¢ per kWh per month for the next 195 hours use of maximum metered demand, plus

0.986¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours

For the Summer Period, Winter Period and Transition Period, 4.642¢ per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

Facilities Rental Charge

There shall be no facilities rental charge under this rate schedule for delivery at bulk transmission voltage levels of 161kV or higher. For delivery at less than 161kV, there shall be added to the customer’s bill a facilities rental charge. This charge shall be 37 cents per kW per month except for delivery at voltages below 46 kV, in which case the charge shall be 97 cents per kW per month for the first 10,000 kW and 76 cents per kW per month for the excess over 10,000 kW. Such charge shall be applied to the higher of (1) the highest billing demand established during the latest 12-consecutive-month period or (2) the higher of the customer’s currently effective onpeak or offpeak contract demand and shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Reactive Demand Charge

If the reactive demand (in kVAR) is lagging during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s highest metered demand occurs, there shall be added to the customer’s bill a reactive charge of $1.46 per kVAR of the amount, if any, by which the reactive demand exceeds 33 percent of such metered demand. If the reactive demand (in kVAR) is leading during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer's lowest metered demand (excluding any metered demands which are less than 25 percent of the highest metered demand) occurs, there shall be added to the customer's bill a reactive charge of $1.14 per kVAR of the amount of reactive demand. Such charges shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

Determination of Seasonal Periods

Summer Period shall mean the June, July, August, and September billing months. Winter Period shall mean the December, January, February, and March billing months. Transition Period shall mean the April, May, October, and November billing months. The Seasonal Periods under this rate schedule are subject to change by KUB. In the event KUB determines that changed Seasonal Periods are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed periods, and KUB shall promptly notify customer.

Determination of Onpeak and Offpeak Hours

Except for Saturdays and Sundays and the weekdays that are observed as Federal holidays for New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day, onpeak hours for each day shall be 1 p.m. to 7 p.m. during the Summer Period and from 4 a.m. to 10 a.m. during the Winter Period. For the Summer Period and the Winter Period, all other hours of each day that are not otherwise defined as onpeak hours and all hours of such excepted days shall be offpeak hours. Such times shall be Central Standard Time or Central Daylight Time, whichever is then in effect. Said onpeak and offpeak hours are subject to change by KUB. In the event KUB determines that such changed onpeak and offpeak hours are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed hours, and KUB shall promptly notify customer.

For the Transition Period, all hours shall be offpeak hours.

Determination of Onpeak and Offpeak Demands, Maximum Metered Demand, and Energy Amounts

The onpeak and offpeak kWh for any month shall be the energy amounts taken during the respective hours of the month designated under this rate schedule as onpeak and offpeak hours; provided, however, that notwithstanding the metered energy amount, the offpeak energy for any month shall in no case be less than the product of (1) the offpeak billing demand as calculated in the last sentence of the paragraph below and (2) 110 hours (reflecting a 15 percent load factor applied to the average number of hours in a month).

KUB shall meter the onpeak and offpeak demands in kW of all customers taking service under this rate schedule. The onpeak metered demand and offpeak metered demand for any month shall be determined separately for the respective hours of the month designated under this rate schedule as onpeak and offpeak hours and in each case shall be the highest average during any 30-consecutive-minute period beginning or ending on a clock hour of the month of the load metered in kW, and, except as provided below in this section, such amounts shall be used as the onpeak and offpeak billing demands. The maximum metered demand for any month shall be the higher of (1) the highest onpeak metered demand in the month or (2) the highest offpeak metered demand in the month. The onpeak billing demand shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW and (2) 40 percent of any kW in excess of 5,000 kW of the higher of the currently effective onpeak contract demand or the highest onpeak billing demand established during the preceding 12 months. The offpeak billing demand shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW and (2) 40 percent of any kW in excess of 5,000 kW of the higher of the currently effective offpeak contract demand or the highest offpeak billing demand established during the preceding 12 months.

Minimum Bill

The monthly bill under this rate schedule, excluding any facilities rental charges and any reactive charges, shall not be less than the sum of (1) the base customer charge, (2) the portion of the base demand charge, as adjusted (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applicable to onpeak billing demand applied to the customer's onpeak billing demand, (3) the portion of the base demand charge, as adjusted, (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applicable to any excess of offpeak over onpeak billing demand applied to the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, (4) the base onpeak energy charge, as adjusted, applied to the customer's onpeak energy takings, and (5) the base offpeak energy charge, as adjusted, applied to the higher of customer's actual offpeak energy takings or the minimum offpeak energy takings amount provided for in the first paragraph of the section of this rate schedule entitled "Determination of Onpeak and Offpeak Demands, Maximum Metered Demand, and Energy Amounts".

KUB may require minimum bills higher than those stated above.

Contract Requirement

KUB shall require contracts for all service provided under this rate schedule. The contract shall be for an initial term of at least five years and any renewals or extensions of the initial contract shall be for a term of at least one year; after ten years of service, any such contract for the renewal or extension of service may provide for termination upon not less than four months notice. The customer shall contract for its maximum requirements, which shall not exceed the amount of power capable of being used by customer, and KUB shall not be obligated to supply power in greater amount at any time than the customer's currently effective onpeak or offpeak contract demand. If the customer uses any power other than that supplied by KUB under this rate schedule, the contract may include other special provisions. The rate schedule in any power contract shall be subject to adjustment, modification, change, or replacement from time to time as approved by the Board.

Single Point Delivery

The charges under this rate schedule are based upon the supply of service through a single delivery point and at a single voltage. If service is supplied to the same customer through more than one point of delivery or at different voltages, the supply of service at each delivery point and at each different voltage shall be separately metered and billed.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

MANUFACTURING SERVICE RATE SCHEDULE MSC

Availability

This rate, subject to availability from TVA, shall be available for firm electric power requirements where (a) a customer's currently effective onpeak or offpeak contract demand, whichever is higher, is greater than 15,000 kW but not more than 25,000 kW, and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive, or classified with 2002 North American Industry Classification System (NAICS) code 5181, or 2007 NAICS codes 5182, 522320, and 541214; provided, however, customers qualifying for service under this schedule on the basis of such a NAICS code shall have an average monthly load factor of at least 80 percent during the preceding 12 months; provided further, however, that for the first 12 months of service to a new customer this load factor requirement shall be based on the customer's expected load factor for those 12 months as projected before the customer begins taking service; provided that the other applicable conditions specified below in this section are met. As used in the previous sentence "monthly load factor" shall mean a percentage calculated by dividing the total metered energy for a month by the product of the metered demand for that month and the number of clock hours in that month, exclusive of any hours during which power was unavailable due to an interruption or curtailment of the customer's service and of any hours in which the customer was unable to use power due to a Force Majeure event reasonably beyond the customer's control.

Prior to initially taking any service under this schedule, and from time to time thereafter as may be required by KUB, a customer shall certify to KUB that it meets the requirements set forth in condition (b) above. The certification form to be used shall be furnished by KUB to the customer, and signed and promptly returned by the customer to KUB. Further, such customer shall promptly certify any change in the status of any of the information contained in the certification form.

Service during any period for which a customer does not meet the eligibility requirements set forth in condition (b) above will be made available by KUB under, and billed in accordance with, the applicable General Power schedule.

For a customer requesting that its onpeak contract demand be different from its offpeak contract demand, this rate schedule shall be available only for (1) a new contract, (2) a replacement or renewal contract following expiration of the existing contract, or (3) a replacement or renewal contract or an amended existing contract in which the customer is increasing its demand requirements above the existing contract demand level, but under this item (3) neither the new onpeak nor the new offpeak contract demand shall be lower than the customer's existing contract demand.

Character of Service

Alternating current, single or three-phase, 60 hertz. Power shall be delivered at a transmission voltage of 161 kV or, if such transmission voltage is not available, at the highest voltage available in the vicinity, unless at the customer's request a lower standard voltage is agreed upon.

Base Charges

Customer Charge: $1,500 per delivery point per month.
Administrative Charge: $700 per delivery point per month.
Demand Charge:

Summer Period - $17.47 per kW per month of the customer's onpeak billing demand, plus

$4.30 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand plus

$17.47 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher

Winter Period - $9.95 per kW per month of the customer's onpeak billing demand, plus

$4.30 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus

$9.95 per kW per month for each kW of the amount, if any, by which (1) the customer’s onpeak billing demand exceeds its onpeak contract demand or (2) the customer’s offpeak billing demand exceeds its offpeak contract demand, whichever is higher

Transition Period - $4.30 per kW per month of the customer’s offpeak billing demand, plus

$9.95 per kW per month for each kW of the amount, if any, by which the customer’s offpeak billing demand exceeds its offpeak contract demand

Energy Charge:

Summer Period - 8.361¢ per kWh per month for all metered onpeak kWh, plus

4.627¢ per kWh per month for the first 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

2.651¢ per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

0.973¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy

Winter Period - 5.108¢ per kWh per month for all metered onpeak kWh, plus

4.627¢ per kWh per month for the first 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

2.651¢ per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

0.973¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy

Transition Period -	4.627¢ per kWh per month for the first 425 hours use of maximum metered demand, plus
	2.651¢ per kWh per month for the next 195 hours use of maximum metered demand, plus
	0.973¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours

For the Summer Period, Winter Period and Transition Period, 4.627¢ per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

Facilities Rental Charge

There shall be no facilities rental charge under this rate schedule for delivery at bulk transmission voltage levels of 161kV or higher. For delivery at less than 161kV, there shall be added to the customer's bill a facilities rental charge. This charge shall be 37 cents per kW per month except for delivery at voltages below 46 kV, in which case the charge shall be 97 cents per kW per month for the first 10,000 kW and 76 cents per kW per month for the excess over 10,000 kW. Such charge shall be applied to the higher of (1) the highest billing demand established during the latest 12-consecutive-month period or (2) the higher of the customer's currently effective onpeak or offpeak contract demand and shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Reactive Demand Charge

If the reactive demand (in kVAR) is lagging during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer's highest metered demand occurs, there shall be added to the customer's bill a reactive charge of $1.46 per kVAR of the amount, if any, by which the reactive demand exceeds 33 percent of such metered demand. If the reactive demand (in kVAR) is leading during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer's lowest metered demand (excluding any metered demands which are less than 25 percent of the highest metered demand) occurs, there shall be added to the customer's bill a reactive charge of $1.14 per kVAR of the amount of reactive demand. Such charges shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

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Determination of Seasonal Periods

Summer Period shall mean the June, July, August, and September billing months. Winter Period shall mean the December, January, February, and March billing months. Transition Period shall mean the April, May, October, and November billing months. The Seasonal Periods under this rate schedule are subject to change by KUB. In the event KUB determines that changed Seasonal Periods are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed periods, and KUB shall promptly notify customer.

Except for Saturdays and Sundays and the weekdays that are observed as Federal holidays for New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day, onpeak hours for each day shall be 1 p.m. to 7 p.m. during the Summer Period and from 4 a.m. to 10 a.m. during the Winter Period. For the Summer Period and the Winter Period, all other hours of each day that are not otherwise defined as onpeak hours and all hours of such excepted days shall be offpeak hours. Such times shall be Central Standard Time or Central Daylight Time, whichever is then in effect. Said onpeak and offpeak hours are subject to change by KUB. In the event KUB determines that such changed onpeak and offpeak hours are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed hours, and KUB shall promptly notify customer.

For the Transition Period, all hours shall be offpeak hours.

Determination of Onpeak and Offpeak Demands, Maximum Metered Demand, and Energy Amounts

The onpeak and offpeak kWh for any month shall be the energy amounts taken during the respective hours of the month designated under this rate schedule as onpeak and offpeak hours; provided, however, that notwithstanding the metered energy amount, the offpeak energy for any month shall in no case be less than the product of (1) the offpeak billing demand as calculated in the last sentence of the paragraph below and (2) 110 hours (reflecting a 15 percent load factor applied to the average number of hours in a month).

KUB shall meter the onpeak and offpeak demands in kW of all customers taking service under this rate schedule. The onpeak metered demand and offpeak metered demand for any month shall be determined separately for the respective hours of the month designated under this rate schedule as onpeak and offpeak hours and in each case shall be the highest average during any 30-consecutive-minute period beginning or ending on a clock hour of the month of the load metered in kW, and, except as provided below in this section, such amounts shall be used as the onpeak and offpeak billing demands. The maximum metered demand for any month shall be the higher of (1) the highest onpeak metered demand in the month or (2) the highest offpeak metered demand in the month. The onpeak billing demand shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW, (2) 40 percent of the next 20,000 kW, and (3) 50 percent of any kW in excess of 25,000 kW of the higher of the currently effective onpeak contract demand or the highest onpeak billing demand established during the preceding 12 months. The offpeak billing demand shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW, (2) 40 percent of the next 20,000 kW, and (3) 50 percent of any kW in excess of 25,000 kW of the higher of the currently effective offpeak contract demand or the highest offpeak billing demand established during the preceding 12 months.

Minimum Bill

The monthly bill under this rate schedule, excluding any facilities rental charges and any reactive charges, shall not be less than the sum of (1) the base customer charge, (2) the portion of the base demand charge, as adjusted (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applicable to onpeak billing demand applied to the customer’s onpeak billing demand, (3) the portion of the base demand charge, as adjusted, (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applicable to any excess of offpeak over onpeak billing demand applied to the amount, if any, by which the customer’s offpeak billing demand exceeds its onpeak billing demand, (4) the base onpeak energy charge, as adjusted, applied to the customer’s onpeak energy takings, and (5) the base offpeak energy charge, as adjusted, applied to the higher of customer’s actual offpeak energy takings or the minimum offpeak energy takings amount provided for in the first paragraph of the section of this rate schedule entitled “Determination of Onpeak and Offpeak Demands, Maximum Metered Demand, and Energy Amounts”.

KUB may require minimum bills higher than those stated above.

Contract Requirement

KUB shall require contracts for all service provided under this rate schedule. The contract shall be for an initial term of at least five years and any renewals or extensions of the initial contract shall be for a term of at least one year; after ten years of service, any such contract for the renewal or extension of service may provide for termination upon not less than four months notice. The customer shall contract for its maximum requirements, which shall not exceed the amount of power capable of being used by customer, and KUB shall not be obligated to supply power in greater amount at any time than the customer's currently effective onpeak or offpeak contract demand. If the customer uses any power other than that supplied by KUB under this rate schedule, the contract may include other special provisions. The rate schedule in any power contract shall be subject to adjustment, modification, change, or replacement from time to time as approved by the Board.

Single Point Delivery

The charges under this rate schedule are based upon the supply of service through a single delivery point and at a single voltage. If service is supplied to the same customer through more than one point of delivery or at different voltages, the supply of service at each delivery point and at each different voltage shall be separately metered and billed.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

MANUFACTURING SERVICE RATE SCHEDULE MSD

Availability

This rate, subject to availability from TVA, shall be available for firm electric power requirements where (a) a customer's currently effective onpeak or offpeak contract demand, whichever is higher, is greater than 25,000 kW, and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive, or classified with 2002 North American Industry Classification System (NAICS) code 5181, or 2007 NAICS codes 5182, 522320, and 541214; provided, however, customers qualifying for service under this schedule on the basis of such a NAICS code shall have an average monthly load factor of at least 80 percent during the preceding 12 months; provided further, however, that for the first 12 months of service to a new customer this load factor requirement shall be based on the customer's expected load factor for those 12 months as projected before the customer begins taking service; provided that the other applicable conditions specified below in this section are met. As used in the previous sentence "monthly load factor" shall mean a percentage calculated by dividing the total metered energy for a month by the product of the metered demand for that month and the number of clock hours in that month, exclusive of any hours during which power was unavailable due to an interruption or curtailment of the customer's service and of any hours in which the customer was unable to use power due to a Force Majeure event reasonably beyond the customer's control.

Prior to initially taking any service under this schedule, and from time to time thereafter as may be required by KUB, a customer shall certify to KUB that it meets the requirements set forth in condition (b) above. The certification form to be used shall be furnished by KUB to the customer, and signed and promptly returned by the customer to KUB. Further, such customer shall promptly certify any change in the status of any of the information contained in the certification form.

Service during any period for which a customer does not meet the eligibility requirements set forth in condition (b) above will be made available by KUB under, and billed in accordance with, the applicable General Power schedule.

For a customer requesting that its onpeak contract demand be different from its offpeak contract demand, this rate schedule shall be available only for (1) a new contract, (2) a replacement or renewal contract following expiration of the existing contract, or (3) a replacement or renewal contract or an amended existing contract in which the customer is increasing its demand requirements above the existing contract demand level, but under this item (3) neither the new onpeak nor the new offpeak contract demand shall be lower than the customer's existing contract demand.

Character of Service

Alternating current, single or three-phase, 60 hertz. Power shall be delivered at a transmission voltage of 161 kV or, if such transmission voltage is not available, at the highest voltage available in the vicinity, unless at the customer’s request a lower standard voltage is agreed upon.

Base Charges

Customer Charge: $1,500 per delivery point per month.
Administrative Charge: $700 per delivery point per month.
Demand Charge:

Summer Period - $17.68 per kW per month of the customer’s onpeak billing demand, plus

$4.51 per kW per month of the amount, if any, by which the customer’s offpeak billing demand exceeds its onpeak billing demand plus

$17.68 per kW per month for each kW of the amount, if any, by which (1) the customer’s onpeak billing demand exceeds its onpeak contract demand or (2) the customer’s offpeak billing demand exceeds its offpeak contract demand, whichever is higher

Winter Period - $10.16 per kW per month of the customer’s onpeak billing demand, plus

$4.51 per kW per month of the amount, if any, by which the customer’s offpeak billing demand exceeds its onpeak billing demand, plus

$10.16 per kW per month for each kW of the amount, if any, by which (1) the customer’s onpeak billing demand exceeds its onpeak contract demand or (2) the customer’s offpeak billing demand exceeds its offpeak contract demand, whichever is higher

Transition Period - $4.51 per kW per month of the customer’s offpeak billing demand, plus

$10.16 per kW per month for each kW of the amount, if any, by which the customer’s offpeak billing demand exceeds its offpeak contract demand

Energy Charge:

Summer Period - 8.210¢ per kWh per month for all metered onpeak kWh, plus

4.479¢ per kWh per month for the first 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

2.502¢ per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

0.824¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy

Winter Period - 4.939¢ per kWh per month for all metered onpeak kWh, plus

4.479¢ per kWh per month for the first 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

2.502¢ per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus

0.824¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy

Transition Period - 4.479¢ per kWh per month for the first 425 hours use of maximum metered demand, plus

2.502¢ per kWh per month for the next 195 hours use of maximum metered demand, plus

0.824¢ per kWh per month for the hours use of maximum metered demand in excess of 620 hours

For the Summer Period, Winter Period and Transition Period, 4.479¢ per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

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Facilities Rental Charge

There shall be no facilities rental charge under this rate schedule for delivery at bulk transmission voltage levels of 161kV or higher. For delivery at less than 161kV, there shall be added to the customer’s bill a facilities rental charge. This charge shall be 37 cents per kW per month except for delivery at voltages below 46 kV, in which case the charge shall be 97 cents per kW per month for the first 10,000 kW and 76 cents per kW per month for the excess over 10,000 kW. Such charge shall be applied to the higher of (1) the highest billing demand established during the latest 12-consecutive-month period or (2) the higher of the customer’s currently effective onpeak or offpeak contract demand and shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Reactive Demand Charge

If the reactive demand (in kVAR) is lagging during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s highest metered demand occurs, there shall be added to the customer’s bill a reactive charge of $1.46 per kVAR of the amount, if any, by which the reactive demand exceeds 33 percent of such metered demand. If the reactive demand (in kVAR) is leading during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s lowest metered demand (excluding any metered demands which are less than 25 percent of the highest metered demand) occurs, there shall be added to the customer’s bill a reactive charge of $1.14 per kVAR of the amount of reactive demand. Such charges shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

Determination of Seasonal Periods

Summer Period shall mean the June, July, August, and September billing months. Winter Period shall mean the December, January, February, and March billing months. Transition Period shall mean the April, May, October, and November billing months. The Seasonal Periods under this rate schedule are subject to change by KUB. In the event KUB determines that changed Seasonal Periods are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed periods, and KUB shall promptly notify customer.

Determination of Onpeak and Offpeak Hours

Except for Saturdays and Sundays and the weekdays that are observed as Federal holidays for New Year’s Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day, onpeak hours for each day shall be 1 p.m. to 7 p.m. during the Summer Period and from 4 a.m. to 10 a.m. during the Winter Period. For the Summer Period and the Winter Period, all other hours of each day that are not otherwise defined as onpeak hours and all hours of such excepted days shall be offpeak hours. Such times shall be Central Standard Time or Central Daylight Time, whichever is then in effect. Said onpeak and offpeak hours are subject to change by KUB. In the event KUB determines that such changed onpeak and offpeak hours are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed hours, and KUB shall promptly notify customer.

For the Transition Period, all hours shall be offpeak hours.

Determination of Onpeak and Offpeak Demands, Maximum Metered Demand, and Energy Amounts

The onpeak and offpeak kWh for any month shall be the energy amounts taken during the respective hours of the month designated under this rate schedule as onpeak and offpeak hours; provided, however, that notwithstanding the metered energy amount, the offpeak energy for any month shall in no case be less than the product of (1) the offpeak billing demand as calculated in the last sentence of the paragraph below and (2) 110 hours (reflecting a 15 percent load factor applied to the average number of hours in a month).

KUB shall meter the onpeak and offpeak demands in kW of all customers taking service under this rate schedule. The onpeak metered demand and offpeak metered demand for any month shall be determined separately for the respective hours of the month designated under this rate schedule as onpeak and offpeak hours and in each case shall be the highest average during any 30-consecutive-minute period beginning or ending on a clock hour of the month of the load metered in kW, and, except as provided below in this section, such amounts shall be used as the onpeak and offpeak billing demands. The maximum metered demand for any month shall be the higher of (1) the highest onpeak metered demand in the month or (2) the highest offpeak metered demand in the month. The onpeak billing demand shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW and (2) 40 percent of the next 20,000 kW (3) 50 percent of the next 25,000 kW, (4) 60 percent of the next 50,000 kW, (5) 70 percent of the next 100,000 kW, (6) 80 percent of the next 150,000 kW, and (7) 85 percent of all kW in excess of 350,000 kW of the higher of the currently effective onpeak contract demand or the highest onpeak billing demand established during the preceding 12 months. The offpeak billing demand shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW, (2) 40 percent of the next 20,000 kW, (3) 50 percent of the next 25,000 kW, (4) 60 percent of the next 50,000 kW, and (5) 70 percent of the next 100,000 kW, (6) 80 percent of the next 150,000 kW, and (7) 85 percent of all kW in excess of 350,000 kW of the higher of the currently effective offpeak contract demand or the highest offpeak billing demand established during the preceding 12 months.

Minimum Bill

The monthly bill under this rate schedule, excluding any facilities rental charges and any reactive charges, shall not be less than the sum of (1) the base customer charge, (2) the portion of the base demand charge, as adjusted (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applicable to onpeak billing demand applied to the customer’s onpeak billing demand, (3) the portion of the base demand charge, as adjusted, (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applicable to any excess of offpeak over onpeak billing demand applied to the amount, if any, by which the customer’s offpeak billing demand exceeds its onpeak billing demand, (4) the base onpeak energy charge, as adjusted, applied to the customer’s onpeak energy takings, and (5) the base offpeak energy charge, as adjusted, applied to the higher of customer’s actual offpeak energy takings or the minimum offpeak energy takings amount provided for in the first paragraph of the section of this rate schedule entitled “Determination of Onpeak and Offpeak Demands, Maximum Metered Demand, and Energy Amounts”.

KUB may require minimum bills higher than those stated above.

Contract Requirement

KUB shall require contracts for all service provided under this rate schedule. The contract shall be for an initial term of at least five years and any renewals or extensions of the initial contract shall be for a term of at least five years; after ten years of service, any such contract for the renewal or extension of service may provide for termination upon not less than sixteen months notice. The customer shall contract for its maximum requirements, which shall not exceed the amount of power capable of being used by customer, and KUB shall not be obligated to supply power in greater amount at any time than the customer's currently effective onpeak or offpeak contract demand. If the customer uses any power other than that supplied by KUB under this rate schedule, the contract may include other special provisions. The rate schedule in any power contract shall be subject to adjustment, modification, change, or replacement from time to time as approved by the Board.

Single Point Delivery

The charges under this rate schedule are based upon the supply of service through a single delivery point and at a single voltage. If service is supplied to the same customer through more than one point of delivery or at different voltages, the supply of service at each delivery point and at each different voltage shall be separately metered and billed.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

SEASONAL DEMAND AND ENERGY MANUFACTURING SERVICE RATE--SCHEDULE SMSB

Availability

This rate, subject to availability from TVA, shall be available for firm electric power requirements where (a) a customer's currently effective contract demand is greater than 5,000 kW but not more than 15,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive, or classified with 2002 North

American Industry Classification System (NAICS) code 5181, or 2007 NAICS codes 5182, 522320, and 541214; provided, however, customers qualifying for service under this schedule on the basis of such a NAICS code shall have an average monthly load factor of at least 80 percent during the preceding 12 months; provided further, however, that for the first 12 months of service to a new customer this load factor requirement shall be based on the customer's expected load factor for those 12 months as projected before the customer begins taking service. As used in the previous sentence "monthly load factor" shall mean a percentage calculated by dividing the total metered energy for a month by the product of the metered demand for that month and the number of clock hours in that month, exclusive of any hours during which power was unavailable due to an interruption or curtailment of the customer's service and of any hours in which the customer was unable to use power due to a Force Majeure event reasonably beyond the customer's control.

Prior to initially taking any service under this schedule, and from time to time thereafter as may be required by KUB, a customer shall certify to KUB that it meets the requirements set forth in condition (b) above. The certification form to be used shall be furnished by KUB to the customer, and signed and promptly returned by the customer to KUB. Further, such customer shall promptly certify any change in the status of any of the information contained in the certification form to Distributor.

Service during any period for which a customer does not meet the eligibility requirements set forth in condition (b) above will be made available by KUB under, and billed in accordance with, the applicable General Power schedule.

Character of Service

Alternating current, single- or three-phase, 60 hertz. Power shall be delivered at a transmission voltage of 161 kV or, if such transmission voltage is not available, at the highest voltage available in the vicinity, unless at the customer's request a lower standard voltage is agreed upon.

Base Charges

Customer Charge: $1,500 per delivery point per month
Administrative Charge: $700 per delivery point per month
Demand Charge:
  Summer Period - $20.35 per kW per month of the customer's billing demand, plus

  $20.35 per kW per month of the amount, if any, by which the customer's billing demand exceeds its contract demand

  Winter Period - $13.65 per kW per month of the customer's billing demand, plus

	$13.65 per kW per month of the amount, if any, by which the customer's billing demand exceeds its contract demand
Transition Period -	$8.61 per kW per month of the customer’s billing demand, plus $8.61 per kW per month of the amount, if any, by which the customer's billing demand exceeds its contract demand

Energy Charge:

Summer Period -	4.079¢ per kWh per month
Winter Period -	3.588¢ per kWh per month
Transition Period -	3.472¢ per kWh per month

Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

Facilities Rental Charge

There shall be no facilities rental charge under this rate schedule for delivery at bulk transmission voltage levels of 161 kV or higher. For delivery at less than 161 kV, there shall be added to the customer's bill a facilities rental charge. This charge shall be 37 cents per kW per month except for delivery at voltages below 46 kV, in which case the charge shall be 97 cents per kW per month for the first 10,000 kW and 76 cents per kW per month for the excess over 10,000 kW. Such charge shall be applied to the higher of (1) the highest billing demand established during the latest 12-consecutive-month period or (2) the customer's currently effective contract demand and shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Reactive Demand Charges

If the reactive demand (in kVAR) is lagging during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s highest metered demand occurs, there shall be added to the customer’s bill a reactive charge of $1.46 per kVAR of the amount, if any, by which the reactive demand exceeds 33 percent of such metered demand. If the reactive demand (in kVAR) is leading during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s lowest metered demand (excluding any metered demands which are less than 25 percent of the highest metered demand) occurs, there shall be added to the customer’s bill a reactive charge of $1.14 per kVAR of the amount of reactive demand. Such charges shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Determination of Seasonal Periods

Summer Period shall mean the June, July, August, and September billing months. Winter Period shall mean the December, January, February, and March billing months. Transition Period shall mean the April, May, October, and November billing months. The Seasonal Periods under this rate schedule are subject to change by KUB. In the event KUB determines that changed Seasonal Periods are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed periods, and KUB shall promptly notify customer.

Determination of Demand

KUB shall meter the demands in kW of all customers served under this rate schedule. The metered demand for any month shall be the highest average during any 30-consecutive-minute period beginning or ending on a clock hour of the month of the load metered in kW, and such amount shall be used as the billing demand, except that the billing demand for any month shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW and (2) 40 percent of any kW in excess of 5,000 kW of the higher of the currently effective contract demand or the highest billing demand established during the preceding 12 months.

Minimum Bill

The monthly bill under this rate schedule, excluding any facilities rental charges and any reactive charges, shall not be less than the sum of (1) the base customer charge, (2) the base demand charge, as adjusted (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applied to the customer's billing demand, and (3) the base energy charge, as adjusted, applied to the customer's energy takings.

KUB may require minimum bills higher than those stated above.

Contract Requirement

KUB shall require contracts for all service provided under this rate schedule. The contract shall be for an initial term of at least five years and any renewals or extensions of the initial contract shall be for a term of at least one year; after ten years of service, any such contract for the renewal or extension of service may provide for termination upon not less than four months notice. The customer shall contract for its maximum requirements, which shall not exceed the amount of power capable of being used by customer, and KUB shall not be obligated to supply power in greater amount at any time than the customer's currently effective contract demand. If the customer uses any power other than that supplied by KUB under this rate schedule, the contract may include other special provisions. The rate schedule in any power contract shall be subject to adjustment, modification, change, or replacement from time to time as approved by the Board.

After having received service for at least one year under this rate schedule, the customer, subject to appropriate amendments in its power contract with KUB, may receive service under the Manufacturing Service Rate - Schedule MSB. In such case the term of the power contract shall remain the same and the onpeak contract demand for service under the Manufacturing Service Rate – Schedule MSB shall not be less than the contract demand in effect when service was taken under this rate schedule.

Single-Point Delivery

The charges under this rate schedule are based upon the supply of service through a single delivery and metering point, and at a single voltage. If service is supplied to the same customer through more than one point of delivery or at different voltages, the supply of service at each delivery and metering point and at each different voltage shall be separately metered and billed.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

SEASONAL DEMAND AND ENERGY MANUFACTURING SERVICE RATE--SCHEDULE SMSC

Availability

This rate, subject to availability from TVA, shall be available for firm electric power requirements where (a) a customer's currently effective contract demand is greater than 15,000 kW but not more than 25,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive, or classified with 2002 North American Industry Classification System (NAICS) code 5181, or 2007 NAICS codes 5182, 522320, and 541214; provided, however, customers qualifying for service under this schedule on the basis of such a NAICS code shall have an average monthly load factor of at least 80 percent during the preceding 12 months; provided further, however, that for the first 12 months of service to a new customer this load factor requirement shall be based on the customer’s expected load factor for those 12 months as projected before the customer begins taking service. As used in the previous sentence “monthly load factor” shall mean a percentage calculated by dividing the total metered energy for a month by the product of the metered demand for that month and the number of clock hours in that month, exclusive of any hours during which power was unavailable due to an interruption or curtailment of the customer’s service and of any hours in which the customer was unable to use power due to a Force Majeure event reasonably beyond the customer’s control.

Prior to initially taking any service under this schedule, and from time to time thereafter as may be required by KUB, a customer shall certify to KUB that it meets the requirements set forth in condition (b) above. The certification form to be used shall be furnished by KUB to the customer, and signed and promptly returned by the customer to KUB. Further, such customer shall promptly certify any change in the status of any of the information contained in the certification form to Distributor.

Service during any period for which a customer does not meet the eligibility requirements set forth in condition (b) above will be made available by KUB under, and billed in accordance with, the applicable General Power schedule.

Character of Service

Alternating current, single- or three-phase, 60 hertz. Power shall be delivered at a transmission voltage of 161 kV or, if such transmission voltage is not available, at the highest voltage available in the vicinity, unless at the customer's request a lower standard voltage is agreed upon.

Base Charges

Customer Charge: $1,500 per delivery point per month
Administrative Charge: $700 per delivery point per month
Demand Charge:

Summer Period - $19.91 per kW per month of the customer’s billing demand, plus

$19.91 per kW per month of the amount, if any, by which the customer's billing demand exceeds its contract demand

Winter Period - $13.21 per kW per month of the customer’s billing demand, plus

$13.21 per kW per month of the amount, if any, by which the customer's billing demand exceeds its contract demand

Transition Period - $8.17 per kW per month of the customer’s billing demand, plus

$8.17 per kW per month of the amount, if any, by which the customer's billing demand exceeds its contract demand

Energy Charge:
Summer Period - 4.047¢ per kWh per month
Winter Period - 3.586¢ per kWh per month
Transition Period - 3.474¢ per kWh per month

Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

Facilities Rental Charge

There shall be no facilities rental charge under this rate schedule for delivery at bulk transmission voltage levels of 161 kV or higher. For delivery at less than 161 kV, there shall be added to the customer's bill a facilities rental charge. This charge shall be 37 cents per kW per month except for delivery at voltages below 46 kV, in which case the charge shall be 97 cents per kW per month for the first 10,000 kW and 76 cents per kW per month for the excess over 10,000 kW. Such charge shall be applied to the higher of (1) the highest billing demand established during the latest 12-consecutive-month period or (2) the customer's currently effective contract demand and shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Reactive Demand Charges

If the reactive demand (in kVAR) is lagging during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s highest metered demand occurs, there shall be added to the customer’s bill a reactive charge of $1.46 per kVAR of the amount, if any, by which the reactive demand exceeds 33 percent of such metered demand. If the reactive demand (in kVAR) is leading during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s lowest metered demand (excluding any metered demands which are less than 25 percent of the highest metered demand) occurs, there shall be added to the customer’s bill a reactive charge of $1.14 per kVAR of the amount of reactive demand. Such charges shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Determination of Seasonal Periods

Summer Period shall mean the June, July, August, and September billing months. Winter Period shall mean the December, January, February, and March billing months. Transition Period shall mean the April, May, October, and November billing months. The Seasonal Periods under this rate schedule are subject to change by KUB. In the event KUB determines that changed Seasonal Periods are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed periods, and KUB shall promptly notify customer.

Determination of Demand

KUB shall meter the demands in kW of all customers served under this rate schedule. The metered demand for any month shall be the highest average during any 30-consecutive-minute period beginning or ending on a clock hour of the month of the load metered in kW, and such amount shall be used as the billing demand, except that the billing demand for any month shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW, (2) 40 percent of the next 20,000 kW, and (3) 50 percent of any kW in excess of 25,000 kW of the higher of the currently effective contract demand or the highest billing demand established during the preceding 12 months.

Minimum Bill

The monthly bill under this rate schedule, excluding any facilities rental charges and any reactive charges, shall not be less than the sum of (1) the base customer charge, (2) the base demand charge, as adjusted (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applied to the customer's billing demand, and (3) the base energy charge, as adjusted, applied to the customer's energy takings.

KUB may require minimum bills higher than those stated above.

Contract Requirement

KUB shall require contracts for all service provided under this rate schedule. The contract shall be for an initial term of at least five years and any renewals or extensions of the initial contract shall be for a term of at least one year; after ten years of service, any such contract for the renewal or extension of service may provide for termination upon not less than four months notice. The customer shall contract for its maximum requirements, which shall not exceed the amount of power capable of being used by customer, and KUB shall not be obligated to supply power in greater amount at any time than the customer's currently effective contract demand. If the customer uses any power other than that supplied by KUB under this rate schedule, the contract may include other special provisions. The rate schedule in any power contract shall be subject to adjustment, modification, change, or replacement from time to time as approved by the Board.

After having received service for at least one year under this rate schedule, the customer, subject to appropriate amendments in its power contract with KUB, may receive service under the Manufacturing Service Rate - Schedule MSC. In such case the term of the power contract shall remain the same and the onpeak contract demand for service under the Manufacturing Service Rate – Schedule MSC shall not be less than the contract demand in effect when service was taken under this rate schedule.

Single-Point Delivery

The charges under this rate schedule are based upon the supply of service through a single delivery and metering point, and at a single voltage. If service is supplied to the same customer through more than one point of delivery or at different voltages, the supply of service at each delivery and metering point and at each different voltage shall be separately metered and billed.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

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SEASONAL DEMAND AND ENERGY MANUFACTURING SERVICE RATE--SCHEDULE SMSD

Availability

This rate, subject to availability from TVA, shall be available for firm electric power requirements where (a) a customer's currently effective contract demand is greater than 25,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive, or classified with 2002 North American Industry Classification System (NAICS) code 5181, or 2007 NAICS codes 5182, 522320, and 541214; provided, however, customers qualifying for service under this schedule on the basis of such a NAICS code shall have an average monthly load factor of at least 80 percent during the preceding 12 months; provided further, however, that for the first 12 months of service to a new customer this load factor requirement shall be based on the customer's expected load factor for those 12 months as projected before the customer begins taking service. As used in the previous sentence "monthly load factor" shall mean a percentage calculated by dividing the total metered energy for a month by the product of the metered demand for that month and the number of clock hours in that month, exclusive of any hours during which power was unavailable due to an interruption or curtailment of the customer's service and of any hours in which the customer was unable to use power due to a Force Majeure event reasonably beyond the customer's control.

Prior to initially taking any service under this schedule, and from time to time thereafter as may be required by KUB, a customer shall certify to KUB that it meets the requirements set forth in condition (b) above. The certification form to be used shall be furnished by KUB to the customer, and signed and promptly returned by the customer to KUB. Further, such customer shall promptly certify any change in the status of any of the information contained in the certification form to Distributor.

Service during any period for which a customer does not meet the eligibility requirements set forth in condition (b) above will be made available by KUB under, and billed in accordance with, the applicable General Power schedule.

Character of Service

Alternating current, single or three-phase, 60 hertz. Power shall be delivered at a transmission voltage of 161 kV or, if such transmission voltage is not available, at the highest voltage available in the vicinity, unless at the customer's request a lower standard voltage is agreed upon.

Base Charges

Customer Charge:	$1,500 per delivery point per month
Administrative Charge:	$700 per delivery point per month

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Demand Charge:

Summer Period -	$23.18 per kW per month of the customer’s billing demand, plus
	$23.18 per kW per month of the amount, if any, by which the customer's billing demand exceeds its contract demand
Winter Period -	$16.48 per kW per month of the customer’s billing demand, plus
	$16.48 per kW per month of the amount, if any, by which the customer's billing demand exceeds its contract demand
Transition Period -	$11.45 per kW per month of the customer’s billing demand, plus
	$11.45 per kW per month of the amount, if any, by which the customer's billing demand exceeds its contract demand

Energy Charge:

Summer Period -	3.318¢ per kWh per month
Winter Period -	2.949¢ per kWh per month
Transition Period -	2.861¢ per kWh per month

Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

Facilities Rental Charge

There shall be no facilities rental charge under this rate schedule for delivery at bulk transmission voltage levels of 161 kV or higher. For delivery at less than 161 kV, there shall be added to the customer's bill a facilities rental charge. This charge shall be 37 cents per kW per month except for delivery at voltages below 46 kV, in which case the charge shall be 97 cents per kW per month for the first 10,000 kW and 76 cents per kW per month for the excess over 10,000 kW. Such charge shall be applied to the higher of (1) the highest billing demand established during the latest 12-consecutive-month period or (2) the customer's currently effective contract demand and shall be in addition to all other charges under this rate schedule, including minimum bill charges.

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Reactive Demand Charges

If the reactive demand (in kVAR) is lagging during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s highest metered demand occurs, there shall be added to the customer’s bill a reactive charge of $1.46 per kVAR of the amount, if any, by which the reactive demand exceeds 33 percent of such metered demand. If the reactive demand (in kVAR) is leading during the 30-consecutive-minute period beginning or ending on a clock hour of the month in which the customer’s lowest metered demand (excluding any metered demands which are less than 25 percent of the highest metered demand) occurs, there shall be added to the customer’s bill a reactive charge of $1.14 per kVAR of the amount of reactive demand. Such charges shall be in addition to all other charges under this rate schedule, including minimum bill charges.

Determination of Seasonal Periods

Summer Period shall mean the June, July, August, and September billing months. Winter Period shall mean the December, January, February, and March billing months. Transition Period shall mean the April, May, October, and November billing months. The Seasonal Periods under this rate schedule are subject to change by KUB. In the event KUB determines that changed Seasonal Periods are appropriate, such decision shall be made at least 11 months prior to the effective date of such changed periods, and KUB shall promptly notify customer.

Determination of Demand

KUB shall meter the demands in kW of all customers served under this rate schedule. The metered demand for any month shall be the highest average during any 30-consecutive-minute period beginning or ending on a clock hour of the month of the load metered in kW, and such amount shall be used as the billing demand, except that the billing demand for any month shall in no case be less than the sum of (1) 30 percent of the first 5,000 kW, (2) 40 percent of the next 20,000 kW, (3) 50 percent of the next 25,000 kW, (4) 60 percent of the next 50,000 kW, (5) 70 percent of the next 100,000 kW, (6) 80 percent of the next 150,000 kW, and (7) 85 percent of all kW in excess of 350,000 kW of the higher of the currently effective contract demand or the highest billing demand established during the preceding 12 months.

Minimum Bill

The monthly bill under this rate schedule, excluding any facilities rental charges and any reactive charges, shall not be less than the sum of (1) the base customer charge, (2) the base demand charge, as adjusted (but excluding the additional portion thereof applicable to excess of billing demand over contract demand) applied to the customer's billing demand, and (3) the base energy charge, as adjusted, applied to the customer's energy takings.

KUB may require minimum bills higher than those stated above.

Contract Requirement

KUB shall require contracts for all service provided under this rate schedule. The contract shall be for an initial term of at least five years and any renewals or extensions of the initial contract shall be for a term of at least five years; after ten years of service, any such contract for the renewal or extension of service may provide for termination upon not less than sixteen months notice. The customer shall contract for its maximum requirements, which shall not exceed the amount of power capable of being used by customer, and KUB shall not be obligated to supply power in greater amount at any time than the customer's currently effective contract demand. If the customer uses any power other than that supplied by KUB under this rate schedule, the contract may include other special provisions. The rate schedule in any power contract shall be subject to adjustment, modification, change, or replacement from time to time as approved by the Board.

After having received service for at least one year under this rate schedule, the customer, subject to appropriate amendments in its power contract with KUB, may receive service under the Manufacturing Service Rate - Schedule MSD. In such case the term of the power contract shall remain the same and the onpeak contract demand for service under the Manufacturing Service Rate – Schedule MSD shall not be less than the contract demand in effect when service was taken under this rate schedule.

Single-Point Delivery

The charges under this rate schedule are based upon the supply of service through a single delivery and metering point, and at a single voltage. If service is supplied to the same customer through more than one point of delivery or at different voltages, the supply of service at each delivery and metering point and at each different voltage shall be separately metered and billed.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

LIGHT-EMITTING DIODE (LED) PILOT PROGRAM - SCHEDULE LED OUTDOOR LIGHTING

Pilot Program Description

The purpose of the LED Pilot Program is to enable a phased implementation of LED equipment on KUB’s electric system. The LED Pilot Program will provide KUB and participating customers experience with LED technologies. The duration of the LED Pilot Program shall be determined by KUB in its sole discretion.

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Pilot Program Availability

Service under the LED Pilot Program shall only be available for select outdoor (security) lighting facilities of governmental entities located in the KUB electric system service territory. Participation in the LED Pilot Program shall be on a voluntary basis. KUB reserves the right to limit the number of customers participating in the LED Pilot Program and/or to limit the extent of any customer's participation in the program.

Pilot Program Charges – No Capital Contribution

The following charges are applicable to those customers participating in the LED Pilot Program, for whom the installed cost of facilities for providing service under the program has been borne by the electric system. The following charges are per LED fixture per month.

LED Fixture Type	Facility Charge	Rated KWh	Energy Charge per kWh	Total Charge
LED - 150WE - Rectangular Head	$12.11	38	$0.06970	$14.76
LED - 150WE - Cobra Head	$11.05	38	$0.06970	$13.70
LED - 250WE - Rectangular Head	$14.56	57	$0.06970	$18.53
LED - 250WE - Cobra Head	$13.27	57	$0.06970	$17.24

In the event a customer voluntarily elects to discontinue service under this program, the customer, at the sole discretion of KUB, shall be subject to a capital recovery charge to ensure appropriate cost recovery for the electric system.

Pilot Program Charges – Capital Contribution

The following charges are applicable to those customers participating in the LED Pilot Program, for whom the installed cost of facilities providing service under the program has been borne by the customer. The following charges are per LED fixture per month.

LED Fixture Type	Facility Charge	Rated kWh	Energy Charge per kWh	Total Charge
LED - 150WE - Rectangular Head	$5.22	38	$0.06970	$7.87
LED - 150WE - Cobra Head	$5.09	38	$0.06970	$7.74
LED - 250WE - Rectangular Head	$6.07	57	$0.06970	$10.04
LED - 250WE - Cobra Head	$5.90	57	$0.06970	$9.87

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Additional Facilities

The above charges are limited to service installed on a pole already in place. If the customer wishes to have the fixture installed at a location other than on a pole already in place, the customer shall pay an additional monthly charge of $3.00 per pole for additional poles required to serve the fixture from KUB's nearest available source.

Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

Lamp Replacements

Replacements of lamps and related glassware will be made in accordance with replacement policies of KUB.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

DISCOUNT POWER – FIVE-MINUTE RESPONSE (5 MR) INTERRUPTIBLE POWER

Availability

KUB provides Five-Minute Response (5 MR) Interruptible Power to qualified general power users through its wholesale power supplier, the Tennessee Valley Authority (TVA), in accordance with the power supply contract between KUB and TVA.

5 MR shall be made available to qualified general power users pursuant to specific contractual arrangements between KUB and the customer (such contractual arrangements may be contained in one or more written instruments and are hereinafter sometimes referred to as the "Contract").

Charges for 5 MR

All 5 MR-related charges shall be established in accordance with the Contract.

Interruptibility

5MR furnished to a customer under the Contract shall be subject to interruption and to suspension of availability as provided for in the Contract.

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Rules and Regulations

Service is subject to Rules and Regulations of KUB.

DISCOUNT POWER – SIXTY-MINUTE RESPONSE (60 MR) INTERRUPTIBLE POWER

Availability

KUB provides Sixty-Minute Response (60 MR) Interruptible Power to qualified general power users through its wholesale power supplier, the Tennessee Valley Authority (TVA), in accordance with the power supply contract between KUB and TVA.

60 MR shall be made available to qualified general power users pursuant to specific contractual arrangements between KUB and the customer (such contractual arrangements may be contained in one or more written instruments and are hereinafter sometimes referred to as the "Contract").

Charges for 60 MR

All 60 MR-related charges shall be established in accordance with the Contract.

Interruptibility

60 MR furnished to a customer under the Contract shall be subject to interruption and to suspension of availability as provided for in the Contract.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

TWO-PART REAL TIME PRICING (RTP)

Availability

KUB provides Two-Part Real Time Pricing (Two-Part RTP) to qualified general power users through its wholesale power supplier, the Tennessee Valley Authority (TVA), in accordance with the power supply contract between KUB and TVA.

Two-Part RTP shall be made available to qualified general power users pursuant to specific contractual arrangements between KUB and the customer (such contractual arrangements may be contained in one or more written instruments and are hereinafter sometimes referred to as the "Contract").

Charges for Two-Part RTP

All Two-Part RTP charges shall be established in accordance with the Contract.

Interruptibility

Two-Part RTP furnished to a customer under the Contract may be subject to interruption and to suspension of availability as provided for in the Contract.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

SUMMER MARKET DAYS (SMKT) POWER

Availability

KUB provides Summer Market Days (SMKT) Power to qualified general power users through its wholesale power supplier, the Tennessee Valley Authority (TVA), in accordance with the power supply contract between KUB and TVA.

SMKT shall be made available to qualified general power users pursuant to specific contractual arrangements between KUB and the customer (such contractual arrangements may be contained in one or more written instruments and are hereinafter sometimes referred to as the "Contract").

Charges for SMKT

All SMKT-related charges shall be established in accordance with the Contract.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

SEASONAL TIME OF USE (STOU) POWER

Availability

KUB provides Seasonal Time of Use (STOU) Power to qualified general power users through its wholesale power supplier, the Tennessee Valley Authority (TVA), in accordance with the power supply contract between KUB and TVA.

STOU shall be made available to qualified general power users pursuant to specific contractual arrangements between KUB and the customer (such contractual arrangements may be contained in one or more written instruments and are hereinafter sometimes referred to as the “Contract”).

Charges for STOU

All STOU-related charges shall be established in accordance with the Contract.

Adjustment

Charges under this rate schedule may be increased or decreased to reflect changes in purchased power costs as determined by any purchased power adjustment adopted by the Board.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

HISTORIC CAPITALIZATION AND CUSTOMERS

Electric Division Capitalization - Historic

	Fiscal Year	(Net Assets) Accumulated Earnings	Revenue Bonds	Revenue Notes	Total Capitalization	Debt as % of Capitalization
Historical	2010	$ 268,467,687	$ 142,620,000	$ -	$ 411,087,687	34.69%
	2011	$ 280,656,984	$ 168,265,000	$ -	$ 448,921,984	37.48%
	2012	$ 289,790,306	$ 158,870,000	$ -	$ 448,660,306	35.41%
	2013	$ 300,996,474	$ 186,510,000	$ -	$ 487,506,474	38.26%
	2014	$ 312,984,264	$ 178,940,000	$ -	$ 491,924,264	36.38%

Electric Division Customers - Historic

(Measured by Bills Rendered)

Historical Number of Customers	2010	2011	2012	2013	2014
Residential	173,038	172,226	173,362	173,846	175,146
Small Commercial and Industrial	20,388	20,301	20,458	20,727	20,430
Large Commercial and Industrial	2,991	3,061	2,907	2,869	2,854
Outdoor Lighting	882	911	930	914	952
Total	**197,299**	**196,499**	**197,657**	**198,356**	**199,382**

Historic Electric Division Use

The following table shows historical figures for Knox County's population, the Electric Division's number of customers, and electric sales.

Fiscal Year	Knox Co. Population	Number of Customers	Total Sales MWh
1995	357,447	160,893	4,703,769
2000	382,032	177,201	5,210,716
2010	432,226	197,299	5,587,374
2011	436,929	196,499	5,674,655
2012	441,311	197,657	5,397,117
2013	444,622	198,356	5,456,983
2014	444,622	199,382	5,535,230

KNOXVILLE UTILITIES BOARD
ELECTRIC DIVISION
OPERATING STATISTICS
for the Fiscal Years ended on June 30

Revenues:	**2010**	**2011**	**2012**	**2013**	**2014**
Residential	$ 212,390,714	$ 246,186,288	$ 224,870,899	$ 244,493,773	$ 242,439,020
Commercial	38,420,449	43,080,853	42,262,802	45,486,773	45,892,309
Industrial	192,401,485	219,150,525	219,674,054	227,250,089	220,298,930
Outdoor Lighting	7,223,836	7,791,710	7,819,998	8,231,980	8,153,718
Total Sales Revenues	$ 450,436,484	$ 516,209,376	$ 494,627,753	$ 525,462,615	$ 516,783,977
Other Revenues	12,599,703	5,372,583	11,426,034	9,425,591	11,048,815
Total Revenues	$ 463,036,187	$ 521,581,959	$ 506,053,787	$ 534,888,206	$ 527,832,791
Electric Usage - MWh:					
Residential	2,528,987	2,603,859	2,344,358	2,436,697	2,499,987
Commercial	397,074	396,768	385,345	395,642	408,581
Industrial	2,600,123	2,615,431	2,609,259	2,566,669	2,569,046
Outdoor Lighting	61,191	58,597	58,154	57,976	57,616
Total Electric Usage	5,587,375	5,674,655	5,397,117	5,456,984	5,535,230
Number of Customers:					
Residential	173,038	172,226	173,362	173,846	175,146
Commercial	20,388	20,301	20,458	20,727	20,430
Industrial	2,991	3,061	2,907	2,869	2,854
Outdoor Lighting	882	911	930	914	952
Total Customers	197,299	196,499	197,657	198,356	199,382
	0.43%				
Purchased Power:					
MWh	5,811,905	5,839,091	5,627,366	5,625,144	5,728,465
Total Cost	$ 373,139,253	$ 424,040,924	$ 409,442,667	$ 432,023,455	$ 419,557,996
Wholesale Power Cost as % of Sales	82.84%	82.15%	82.78%	82.22%	81.19%
Electric Division Peak (kW)	1,246,398	1,246,398	1,246,398	1,246,398	1,312,699

KNOXVILLE UTILITIES BOARD

ELECTRIC DIVISION

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

for the years ending on June 30

	2010	2011	2012	2013	2014
Operating Revenues:	$ 463,036,187	$ 521,581,959	$ 506,053,787	$ 534,888,206	$ 527,832,791
Operating Expenses:					
Purchased power	$ 373,139,253	$ 424,040,924	$ 409,442,667	$ 432,023,455	$ 419,557,996
Distribution	23,874,770	27,128,609	29,123,344	30,914,192	32,904,889
Customer service	5,763,216	5,600,961	5,305,047	5,587,902	5,858,398
Administrative and general	15,543,191	14,385,903	13,954,120	13,021,407	13,350,746
Provision for depreciation	20,219,932	20,731,788	20,655,981	22,376,706	23,190,530
Taxes and tax equivalents	11,315,094	11,631,272	12,002,885	12,940,143	13,626,589
Total Operating Expenses	$ 449,855,456	$ 503,519,457	$ 490,484,044	$ 516,863,805	$ 508,489,148
Operating Income	$ 13,180,731	$ 18,062,502	$ 15,569,743	$ 18,024,401	$ 19,343,643
Non-Operating Revenues / Expenses:					
Contribution in aid of Construction	$ 2,725,927	$ 2,755,218	$ 4,121,515	$ 3,953,118	$ 1,726,458
Interest and dividend income	813,313	622,710	501,903	370,800	289,857
Interest Expense	(6,310,512)	(6,783,042)	(6,990,310)	(7,281,191)	(7,739,346)
Plant Costs Recovered	(2,725,927)	(2,755,218)	(4,121,515)	(3,953,118)	(1,726,458)
Other	(478,205)	(306,642)	(249,734)	(85,206)	(212,614)
Total Non-Operating	$ (5,975,404)	$ (6,466,974)	$ (6,738,141)	$ (6,995,597)	$ (7,662,103)
Change in Net Position before Capital Contributions	$ 7,205,327	$ 11,595,528	$ 8,831,602	$ 11,028,804	$ 11,681,540
Capital Contributions	3,676,638	593,769	301,720	177,364	306,250
Change in Net Position	$ 10,881,965	$ 12,189,297	$ 9,133,322	$ 11,206,168	$ 11,987,790
Beginning of Period	$ 257,585,722	$ 268,467,687	$ 280,656,984	$ 289,790,306	$ 300,996,474
Net Position					
End of period	**$ 268,467,687**	**$ 280,656,984**	**$ 289,790,306**	**$ 300,996,474**	**$ 312,984,264**

Source: The above amounts have been derived from the Annual Audited Financial Statements of the Knoxville Utilities Board - Electric Division and the Board's internal financial records should be read in conjunction therewith.

OPERATING AND FINANCIAL HISTORY OF THE ELECTRIC DIVISION

Sales in MWh

Fiscal Year	Residential	Commercial	Industrial	Outdoor Lighting	Total
2005	2,307,714	481,785	2,704,845	60,988	5,555,332
2006	2,474,091	394,502	2,858,485	61,737	5,788,815
2007	2,504,428	397,123	2,893,530	62,276	5,857,357
2008	2,550,312	399,161	2,936,301	62,902	5,948,677
2009	2,496,346	388,010	2,658,692	61,953	5,605,001
2010	2,528,987	397,074	2,600,123	61,191	5,587,375
2011	2,603,859	396,768	2,615,431	58,597	5,674,655
2012	2,344,358	385,345	2,609,259	58,154	5,397,117
2013	2,436,697	395,642	2,566,669	57,976	5,456,984
2014	2,499,987	408,581	2,569,046	57,616	5,535,230

Total Operating Revenue

Fiscal Year	Residential	Commercial	Industrial	Outdoor Lighting	Other	Total
2005	158,760,680	29,088,284	158,625,982	6,477,386	9,279,347	362,231,679
2006	179,302,246	32,699,626	177,886,318	6,833,533	8,037,545	404,759,266
2007	191,389,412	34,678,982	185,778,982	7,064,923	8,163,335	427,075,634
2008	202,366,369	36,077,584	199,104,402	7,360,942	9,722,076	454,631,373
2009	232,762,006	40,568,610	220,399,634	8,078,626	7,742,640	509,551,516
2010	212,390,714	38,420,449	192,401,485	7,223,836	12,599,703	463,036,187
2011	246,186,288	43,080,853	219,150,525	7,791,710	5,372,583	521,581,959
2012	224,870,899	42,262,802	219,674,054	7,819,998	11,426,034	506,053,787
2013	244,493,773	45,486,773	227,250,089	8,231,980	9,425,591	534,888,206
2014	242,439,020	45,892,309	220,298,930	8,153,718	11,048,815	527,832,791

Growth Rates for Key Operating Data

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Number of Customers	0.43%	-0.41%	0.59%	0.35%	0.52%
Total Sales (MWh)	-0.31%	1.56%	-4.89%	1.11%	1.43%
Total Operating Revenues	-9.13%	12.64%	-2.98%	5.70%	-1.32%

TEN LARGEST ELECTRIC SYSTEM CUSTOMERS - 2014

The ten largest Electric System customers, as of June 30, 2014 in order of total sales generated are listed below. Those ten electric customers represent 15.17% of the total electric sales based on revenue and 19.00% of the total electric sales based on sales volume.

	Customer	Consumption MWh	Electric Sales Revenue	Percent of Sales Revenue
1.	University of Tennessee	305,232	$ 19,346,324	3.67%
2.	Gerdau Ameristeel	228,353	$ 17,943,105	3.40%
3.	Knox County Schools	64,947	$ 7,290,598	1.38%
4.	KUB	67,009	$ 6,153,646	1.17%
5.	City of Knoxville	48,233	$ 6,125,719	1.16%
6.	University Health Systems Inc	74,452	$ 5,986,726	1.13%
7.	Cemex Inc	84,081	$ 5,099,580	0.97%
8.	Knoxville HMA Holdings LLC	59,213	$ 4,971,355	0.94%
9.	KEMET Foil Manufacturing LLC	73,761	$ 3,583,373	0.68%
10.	Exedy America Corporation	46,655	$ 3,562,374	0.67%
	TOTAL	**1,051,936**	**$ 80,062,800**	**15.17%**

KNOXVILLE UTILITIES BOARD
ELECTRIC DIVISION
BONDS OUTSTANDING

The following table shows the outstanding bond indebtedness of the Electric Division.

Amount Issued	Series	Due Date	Interest Rates	Outstanding as of June 30, 2014 (1) and (2)
$ 38,710,000	Electric System Revenue Refunding Bonds, Series W-2005	07-01-27	Fixed	$ 33,140,000
22,400,000	Electric System Revenue Refunding and Improvement Bonds, Series X-2006	07-01-31	Fixed	3,550,000
40,000,000	Electric System Revenue Bonds, Series Y-2009	07-01-29	Fixed	35,900,000
30,000,000	Electric System Revenue Bonds, Series Z-2010 (Federally Taxable Build America Bonds)	07-01-30	Fixed	26,470,000
36,815,000	Electric System Revenue Refunding Bonds, Series AA-2012	07-01-29	Fixed	35,795,000
35,000,000	Electric System Revenue Bonds, Series BB-2012	07-01-42	Fixed	34,500,000
9,660,000	Electric System Revenue Refunding Bonds, Series CC-2013	07-01-31	Fixed	9,585,000
40,000,000	Electric System Revenue Bonds, Series DD-2014 (Issued 9-18-2014)	07-01-44	Fixed	40,000,000
$ 252,585,000	**TOTAL DEBT**			$ 218,940,000
$ 28,550,000	Electric System Revenue Refunding Bonds, Series EE-2015	07-01-29	Fixed	$ 28,550,000
35,000,000	Electric System Revenue Bonds, Series FF-2015	07-01-45	Fixed	35,000,000
(27,500,000)	Less: Bonds Being Refunded (Series Y-2009)			(27,500,000)
$ 288,635,000	**TOTAL INDEBTEDNESS**			$ 254,990,000

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 FINANCIAL STATEMENTS included herein.

(2) The Electric System paid $7,935,000 of principal and $3,648,704.38 of interest on July 1, 2014 for the Fiscal Year Ending June 30, 2015.

KNOXVILLE UTILITIES BOARD
ELECTRIC DIVISION
DEBT SERVICE REQUIREMENTS

Fiscal	Outstanding Fiscal Year Debt Service on Bonds as of June 30, 2014 (Includes Series DD-2014 Bonds issued 9-18-2014)				Electric System Revenue Refunding Bonds, Series EE-2015			% Principal Repaid on Series	Less: Bonds Being Refunded or Defeased			Estimated Electric System Revenue Bonds, Series FF-2015			% Principal Repaid on Series	TOTAL DEBT SERVICE (1) & (3)				% Principal Repaid on
Year	Principal	Interest	Est. Rebate (4)	Total	Principal	Interest (2)	Total	EE-2015 Bonds	Principal	Interest	Total	Principal	Interest (5)	Total	FF-2015 Bonds	Principal	Interest	Est Rebate (4)	Total	All Debt
2015	$ 7,935,000	$ 7,541,748	$ (454,735)	$ 15,022,013	$ -	$ -	$ -	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	0.00%	$ 7,935,000	$ 7,541,748	$ (454,735)	$ 15,022,013	3.11%
2016	8,945,000	8,207,224	(442,903)	16,709,321	125,000	655,175	780,175		-	(1,230,375)	(1,230,375)	-	903,184	903,184		9,070,000	8,535,208	(442,903)	17,162,305	
2017	9,285,000	7,857,581	(429,072)	16,713,510	150,000	977,450	1,127,450		-	(1,230,375)	(1,230,375)	675,000	1,464,500	2,139,500		10,110,000	9,069,156	(429,072)	18,750,085	
2018	9,665,000	7,490,878	(413,154)	16,742,724	150,000	969,950	1,119,950		-	(1,230,375)	(1,230,375)	700,000	1,443,750	2,143,750		10,515,000	8,674,203	(413,154)	18,776,049	
2019	10,080,000	7,094,216	(395,055)	16,779,161	150,000	962,450	1,112,450	2.01%	-	(1,230,375)	(1,230,375)	725,000	1,411,625	2,136,625	6.00%	10,955,000	8,237,916	(395,055)	18,797,861	19.05%
2020	10,530,000	6,664,482	(374,749)	16,819,733	2,075,000	937,950	3,012,950		(1,950,000)	(1,191,375)	(3,141,375)	750,000	1,374,750	2,124,750		11,405,000	7,785,807	(374,749)	18,816,058	
2021	10,965,000	6,200,589	(352,574)	16,813,015	2,135,000	863,825	2,998,825		(2,025,000)	(1,101,750)	(3,126,750)	775,000	1,336,625	2,111,625		11,850,000	7,299,289	(352,574)	18,796,715	
2022	11,500,000	5,692,275	(328,755)	16,863,520	2,235,000	788,100	3,023,100		(2,150,000)	(997,375)	(3,147,375)	800,000	1,297,250	2,097,250		12,385,000	6,780,250	(328,755)	18,836,495	
2023	11,985,000	5,171,895	(303,151)	16,853,744	2,300,000	708,250	3,008,250		(2,250,000)	(887,375)	(3,137,375)	825,000	1,256,625	2,081,625		12,860,000	6,249,395	(303,151)	18,806,244	
2024	12,455,000	4,679,235	(275,699)	16,858,537	2,415,000	590,375	3,005,375	41.10%	(2,350,000)	(784,125)	(3,134,125)	850,000	1,214,750	2,064,750	17.43%	13,370,000	5,700,235	(275,699)	18,794,537	43.32%
2025	12,940,000	4,191,754	(246,241)	16,885,514	2,555,000	478,900	3,033,900		(2,475,000)	(687,625)	(3,162,625)	900,000	1,171,000	2,071,000		13,920,000	5,154,029	(246,241)	18,827,789	
2026	10,835,000	3,721,243	(214,613)	14,341,630	2,670,000	387,750	3,057,750		(2,600,000)	(582,875)	(3,182,875)	925,000	1,125,375	2,050,375		11,830,000	4,651,493	(214,613)	16,266,880	
2027	11,265,000	3,266,439	(180,738)	14,350,701	2,735,000	306,675	3,041,675		(2,700,000)	(470,250)	(3,170,250)	950,000	1,078,500	2,028,500		12,250,000	4,181,364	(180,738)	16,250,626	
2028	11,770,000	2,784,023	(144,643)	14,409,379	2,850,000	222,900	3,072,900		(2,850,000)	(348,750)	(3,198,750)	975,000	1,030,375	2,005,375		12,745,000	3,688,548	(144,643)	16,288,904	
2029	9,050,000	2,345,169	(106,308)	11,288,861	2,955,000	135,825	3,090,825	89.32%	(3,000,000)	(217,125)	(3,217,125)	1,025,000	985,500	2,010,500	31.07%	10,030,000	3,249,369	(106,308)	13,173,061	67.15%
2030	9,450,000	1,951,425	(65,505)	11,335,920	3,050,000	45,750	3,095,750	100.00%	(3,150,000)	(74,813)	(3,224,813)	1,050,000	944,000	1,994,000		10,400,000	2,866,363	(65,505)	13,200,858	
2031	5,225,000	1,635,794	(22,225)	6,838,569	-	-	-		-	-	-	1,100,000	901,000	2,001,000		6,325,000	2,536,794	(22,225)	8,839,569	
2032	3,335,000	1,472,569	-	4,807,569	-	-	-		-	-	-	1,125,000	856,500	1,981,500		4,460,000	2,329,069	-	6,789,069	
2033	2,700,000	1,379,000	-	4,079,000	-	-	-		-	-	-	1,175,000	810,500	1,985,500		3,875,000	2,189,500	-	6,064,500	
2034	2,825,000	1,292,594	-	4,117,594	-	-	-		-	-	-	1,225,000	762,500	1,987,500	47.29%	4,050,000	2,055,094	-	6,105,094	78.57%
2035	2,950,000	1,201,344	-	4,151,344	-	-	-		-	-	-	1,250,000	713,000	1,963,000		4,200,000	1,914,344	-	6,114,344	
2036	3,075,000	1,105,203	-	4,180,203	-	-	-		-	-	-	1,300,000	662,000	1,962,000		4,375,000	1,767,203	-	6,142,203	
2037	3,225,000	1,003,625	-	4,228,625	-	-	-		-	-	-	1,350,000	609,000	1,959,000		4,575,000	1,612,625	-	6,187,625	
2038	3,350,000	896,563	-	4,246,563	-	-	-		-	-	-	1,400,000	554,000	1,954,000		4,750,000	1,450,563	-	6,200,563	
2039	3,500,000	785,000	-	4,285,000	-	-	-		-	-	-	1,450,000	497,000	1,947,000	66.57%	4,950,000	1,282,000	-	6,232,000	87.53%
2040	3,650,000	663,875	-	4,313,875	-	-	-		-	-	-	1,500,000	438,000	1,938,000		5,150,000	1,101,875	-	6,251,875	
2041	3,800,000	533,000	-	4,333,000	-	-	-		-	-	-	1,550,000	377,000	1,927,000		5,350,000	910,000	-	6,260,000	
2042	3,975,000	396,500	-	4,371,500	-	-	-		-	-	-	1,600,000	314,000	1,914,000		5,575,000	710,500	-	6,285,500	
2043	4,150,000	253,875	-	4,403,875	-	-	-		-	-	-	1,675,000	248,500	1,923,500		5,825,000	502,375	-	6,327,375	
2044	2,225,000	136,500	-	2,361,500	-	-	-		-	-	-	1,725,000	180,500	1,905,500	89.57%	3,950,000	317,000	-	4,267,000	97.67%
2045	2,300,000	46,000	-	2,346,000	-	-	-		-	-	-	1,800,000	110,000	1,910,000		4,100,000	156,000	-	4,256,000	
2045	-	-	-	-	-	-	-		-	-	-	1,850,000	37,000	1,887,000	100.00%	1,850,000	37,000	-	1,887,000	100.00%
	$ 218,940,000	**$ 97,661,616**	**$ (4,750,119)**	**$ 311,851,497**	**$ 28,550,000**	**$ 9,031,325**	**$ 37,581,325**		**$ (27,500,000)**	**$ (12,264,938)**	**$ (39,764,938)**	**$ 35,000,000**	**$ 26,108,309**	**$ 61,108,309**		**$ 254,990,000**	**$ 120,536,312**	**$ (4,750,119)**	**$ 370,776,194**	

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 FINANCIAL STATEMENTS included herein. Additionally, the Board has requested that the City approve the issuance of $45,000,000 of Electric System Revenue Bonds for improvements to the Electric System.

(2) Average Coupon of 3.3629%

(3) The Electric System paid $7,935,000 of principal and $3,648,704.38 of interest on July 1, 2014 for the Fiscal Year Ending June 30, 2015.

(4) The original federal subsidy of 35.0% on the Electric System Revenue Bonds, Series Z-2010 (Federally Taxable Build America Bonds) has been reduced by 7.3% for the federal fiscal year ending September 30, 2015 as a result of the sequestration by the Budget Control Act of 2011. After October 1, 2015, the sequestration rate will be subject to change.

KNOXVILLE UTILITIES BOARD
ELECTRIC DIVISION
HISTORICAL DEBT COVERAGE ON OUTSTANDING ELECTRIC SYSTEM BONDS
For the Fiscal Years Ended June 30

The historical coverage for the actual debt service requirements and the maximum annual debt service requirements (FY 2019) of the Outstanding Bonds and the Series EE-2015 Bonds and the Series FF-2015 Bonds for June 30, 2010 through June 30, 2014 is set forth below.

	2010	**2011**	**2012**	**2013**	**2014**
Operating revenues	$ 463,036,187	$ 521,581,959	$ 506,053,787	$ 534,888,206	$ 527,832,791
Operating expenses *	(418,320,430)	(471,156,397)	(457,825,178)	(481,546,956)	(471,672,029)
Net income before depreciation & taxes	$ 44,715,757	$ 50,425,562	$ 48,228,610	$ 53,341,250	$ 56,160,762
Other revenue (Net)	335,108	316,068	501,903	370,800	289,857
FICA tax expense	(1,187,713)	(1,219,037)	(1,496,062)	(1,656,801)	(1,721,551)
Income available for debt service	$ 43,863,152	$ 49,522,593	$ 47,234,450	$ 52,055,249	$ 54,729,068
Actual annual debt service requirements on outstanding bonds	$ 10,362,812	$ 10,458,263	$ 13,762,442	$ 13,408,457	$ 14,975,114
Coverage (Times)	4.23 x	4.74 x	3.43 x	3.88 x	3.65 x
Maximum annual debt ** service requirements (FY 2019) on outstanding and proposed bonds	$ 19,192,916	$ 19,192,916	$ 19,192,916	$ 19,192,916	$ 19,192,916
Coverage (Times)	2.29 x	2.58 x	2.46 x	2.71 x	2.85 x

* Excluding Provision for Depreciation and Taxes

** From Debt Service Requirements Chart. Maximum debt excludes estimated BABS rebate.

APPENDIX B-2

ELECTRIC DIVISION
REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS

Knoxville Utilities Board
Electric Division

Financial Statements and Supplemental Information

June 30, 2014 and 2013

Knoxville Utilities Board Electric Division
Index
June 30, 2014 and 2013

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Independent Auditors' Report

To the Board of Commissioners
Knoxville Utilities Board - Electric Division
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Knoxville Utilities Board, Electric Division, (the "Division"), an independent agency reported as a component unit for financial reporting purposes only, of Knoxville, Tennessee, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Division, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Schedule of Funding Progress on pages 3-22 and 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Division's basic financial statements. The supplemental schedules on pages 42-71 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2014

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners governs KUB. The Board has all powers to construct, acquire, expand, or operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. The Electric Division (Division) provides services to certain customers in Knox County and in seven surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the Federal Energy Regulatory Commission and the Governmental Accounting Standards Board, as applicable. The financial statements present only the Electric Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2014 and 2013, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Division's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Division's financial activity, (c) identify major changes in the Division's financial position, and (d) identify any financial concerns.

The Division's Management Discussion and Analysis ("MD&A") focuses on the fiscal year ending June 30, 2014 activities, resulting changes and current known facts, and should be read in conjunction with the Division's financial statements.

Electric Division Highlights

System Highlights

KUB serves 199,382 electric customers over a 688 square mile service area and maintains 5,300 miles of service lines and 60 electric substations to provide 5.7 million megawatt hours to its customers annually.

KUB's electric system experienced five record peaks in demand during this fiscal year. Record breaking cold temperatures lead to a new electric system peak on January 24, 2014 of 1,313 megawatt hours. The previous peak before this fiscal year was 1,246 megawatt hours, which occurred in January 2009.

KUB added 1,026 customers to its electric system in fiscal year 2014, which is up from the addition of 650 customers in fiscal year 2013.

The Division generated $4.8 million of additional margin during the fiscal year as a result of the 2012 and 2013 rate increases, previously adopted by the KUB Board of Commissioners to help fund the electric system's Century II infrastructure program.

The typical residential customer's monthly electric bill was $99.52 as of June 30, 2014, representing a decrease of $2.76 or 2.7 percent compared to June 30, 2013. The decrease in the monthly bill during fiscal year 2014 was the net result of the flow through of previously over recovered wholesale power costs, KUB's one percent rate increase, and the flow through of TVA wholesale rate adjustments.

Two historic storm events, with a combined cost of $8.4 million, impacted the electric system during fiscal year 2011. To date, KUB's electric system has received $4.2 million in reimbursements from the Federal Emergency Management Agency (FEMA), including $0.1 million in reimbursements during fiscal year 2014. KUB anticipates an additional $1.4 million in reimbursements from FEMA in fiscal year 2015.

KUB was awarded a grant from the Department of Energy in October 2009 under DOE's Smart Grid Investment Grant Program. The grant, which totals $3.58 million, was used to help fund a smart grid pilot project in the University of Tennessee and surrounding areas. The pilot project includes the installation of over 6,000 digital electronic smart meters and an advanced metering infrastructure (AMI) communications backbone, which will provide coverage for KUB's entire service territory. The communications infrastructure will enable KUB to remotely read the meters, and also provide remote service connection/disconnection capabilities. The term of the pilot is approximately four years. During fiscal year 2014, KUB developed a customer e-portal to provide detailed utility consumption information. The deployment strategy of the customer e-portal to customers is underway. Successful completion of the integration of polyphase meter data into KUB's customer billing system for commercial and industrial customers was also achieved during fiscal year 2014. The grant funded $0.3 million of the communications infrastructure installed this fiscal year. KUB is in the process with DOE to close out this phase of the project, as all requirements of this grant have been completed during fiscal year 2014.

Century II Infrastructure Program

Century II is KUB's proactive long-range program to improve and maintain the electric, natural gas, water and wastewater systems for its customers. It includes the maintenance and replacement strategies for each system and establishes sustainable replacement cycles. Century II moves KUB into its second century of service by improving each system through sound planning, resource allocation, and continued, but accelerated, investment.

KUB's Century II programs were resumed in 2011, after a break due to the economic recession. At that time, the KUB Board of Commissioners endorsed a ten year funding plan for the electric system through a formal resolution. The Board adopted three years of electric rate increases to help fund the plan. All three of the rate increases, adopted in 2011, have gone into effect.

In May 2014, KUB management provided an updated assessment of the overall condition of each utility and the progress made during the resumption of the Century II program. At that time the Board endorsed a long range ten year funding plan for the continuation of Century II programs for the electric system, including a combination of rate increases and debt issues to fully fund the programs for the next ten years.

In June 2014, the Board approved a series of three annual rate increases for the electric system. Each electric rate increase will generate an additional $5 million in electric system revenue.

KUB exceeded its target replacement goals for its key electric system assets, while staying within the Division's total capital budget during fiscal year 2014. The electric system replaced 2,674 poles, exceeding the target level of 2,600 and 14.7 miles of underground electric cable, exceeding the target level of 14 miles.

Financial Highlights

Fiscal Year 2014 Compared to Fiscal Year 2013

The Division's net position increased $12 million or 4 percent, compared to a $11.2 million increase last fiscal year.

Operating revenue decreased $7.1 million or 1.3 percent over the prior fiscal year. The decline in operating revenue was the net result of additional revenue from KUB electric rate increases, increased sales volumes, the flow through of TVA rate adjustments and the flow through of prior year over recovered purchase power costs to electric customers. KUB flows changes to wholesale power rates directly through to its retail electric rates via its Purchased Power Adjustment.

The Division expended 81 percent of electric system sales revenue to TVA for wholesale power purchases for the fiscal year ended June 30, 2014. Purchased power expense decreased $12.5 million compared to last year, the net result of higher sales volumes and lower wholesale power rates from TVA.

Margin on electric sales (operating revenue less purchased power expense) increased $5.4 million or 5.3 percent.

Operating expenses (excluding purchased power expense) increased $4.1 million or 4.8 percent. Operating and maintenance ("O&M") expenditures increased $2.6 million or 5.2 percent. Depreciation expense increased $0.8 million or 3.6 percent. Taxes and tax equivalents were $0.7 million higher than the prior fiscal year.

Lower interest rates on investments resulted in a $0.1 million decrease in interest income. Interest expense increased $0.5 million or 6.3 percent, primarily due to the additional interest expense in the first and second quarter from revenue bonds issued December 2012.

Capital contributions increased $0.1 million, reflecting additional street lighting assets provided to KUB.

Total plant assets (net) increased $39.5 million or 9.7 percent over the end of the last fiscal year reflecting distribution system improvements and pole replacements as part of KUB's Century II electric program.

Long-term debt represented 36.4 percent of the Division's capital structure as of June 30, 2014, compared to 38.3 percent last year. Capital structure equals long-term debt (including the current portion of any revenue bonds and notes, as applicable, due to be retired the next fiscal year) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Current year debt coverage for the fiscal year was 3.66. Maximum debt service coverage was 3.63.

Fiscal Year 2013 Compared to Fiscal Year 2012

The Division's net position increased $11.2 million or 3.9 percent, compared to a $9.1 million increase last fiscal year.

Operating revenue increased $28.8 million or 5.7 percent over the prior fiscal year. The growth in operating revenue was the result of additional revenue from KUB electric rate increases, increased sales volumes, and the flow through of TVA rate adjustments. KUB flows changes to wholesale power rates directly through to its retail electric rates via its Purchased Power Adjustment.

The Division expended 81 percent of electric system sales revenue to TVA for wholesale power purchases for the fiscal year ended June 30, 2013. Purchased power expense decreased $22.6 million compared to last year, the net result of higher purchases and slightly lower TVA wholesale power rates.

Margin on electric sales (operating revenue less purchased power expense) increased $6.3 million or 6.5 percent.

Operating expenses (excluding purchased power expense) increased $3.8 million or 4.7 percent. Operating and maintenance ("O&M") expenditures increased $1.1 million or 2.4 percent. Depreciation expense increased $1.7 million or 8.3 percent. Taxes and tax equivalents were $0.9 million higher than the prior fiscal year.

Lower interest rates on investments resulted in a $0.1 million decrease in interest income. Interest expense increased $0.3 million or 4.2 percent, reflecting a partial year of interest expense on revenue bonds sold in December 2012.

Capital contributions fell $0.1 million, reflecting fewer street lighting assets provided to KUB this fiscal year.

Total plant assets (net) increased $29.7 million or 7.9 percent over the end of the last fiscal year reflecting distribution system improvements and pole replacements as part of KUB's Century II electric program.

Long-term debt represented 38.3 percent of the Division's capital structure as of June 30, 2013, compared to 35.4 percent last year. Capital structure equals long-term debt (including the current portion of any revenue bonds and notes, as applicable, due to be retired the next fiscal year) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Current year debt coverage for the fiscal year was 3.95. Maximum debt service coverage was 3.45.

Division Cash Budget Appropriations

KUB's Board of Commissioners adopted an Electric Division budget of $563.4 million for fiscal year 2014. In April 2014, additional appropriations were approved by the Board in the amount of $10 to cover higher than anticipated wholesale energy costs. Actual disbursements exceeded the original budget by $0.9 million, with Purchased Energy exceeding the original budget by $4.9 million and O&M and Capital expenses lagging the budget by a total of $3.6 million. The general fund balance was $3.3 million higher than originally budgeted as a result of higher than anticipated revenues from operations, driven primarily by the colder than normal winter. The chart below depicts KUB's original budget compared to actual results.

Electric Division Cash Report
As of June 30, 2014

(in thousands of dollars)	**FY 2014 Budget****	**FY 2014 Actual FYTD**	**Dollar Variance***	**Percent Variance**
Beginning Balance General Fund	$ 69,586	$ 69,586		
Operating Receipts	523,678	528,070	4,392	0.8%
Disbursements				
Purchased Energy Expense	413,369	418,277	(4,908)	1.2%
Operation & Maintenance Expense	53,419	52,092	1,327	2.5%
Capital Expenditures	67,176	64,869	2,307	3.4%
Debt Service & Taxes	29,477	29,138	339	1.2%
Total Disbursements	563,441	564,376	(935)	0.2%
Net Flow throughs and Transfers	(1,693)	(1,808)	(115)	-6.8%
Ending General Fund Balance with Appropriations	$ 28,130	$ 31,472	$ 3,342	11.9%

* *Impact to Cash; (-) indicates a decrease or negative impact to cash*

** *Excludes additional appropriations of $10 million*

Knoxville Utilities Board Electric Division - Financial Statements

The Division's financial performance is reported under three basic financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows.

Statement of Net Position

The Division reports its assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position in the Statement of Net Position. Assets are classified as current, restricted, electric plant in service, or other assets.

Liabilities are classified as current, other, or long-term debt. Net position is classified as net investment in capital assets; restricted; or unrestricted. Net position tells the user what the Division has done with its accumulated earnings, not just the balance.

Net investment in capital assets, is the net book value of all capital assets less the outstanding balances of debt used to acquire, construct, or improve those assets.

Restricted net position includes assets that have been limited to specific uses by the Division's bond covenants or through resolutions passed by the KUB Board of Commissioners.

Unrestricted net position is a residual classification; the amount remaining after reporting net position as either invested in capital or restricted is reported there.

Statement of Revenues, Expenses and Changes in Net Position

The Division reports its revenues and expenses (both operating and non-operating) on the Statement of Revenues, Expenses and Changes in Net Position. In addition, any capital contributions or assets donated by developers are reported on this statement.

Total revenue less total expense equals the change in net position for the reporting period. Net position at the beginning of the period is increased or decreased, as applicable, by the change in net position for the reporting period.

The change in net position for the reporting period is added to the net position segment of the Statement of Net Position.

Statement of Cash Flows

The Division reports its cash flows from operating activities, capital and related-financing activities, and investing activities on its Statement of Cash Flows. This statement tells the user the Division's sources and uses of cash during the reporting period.

The statement indicates the Division's beginning cash balance and ending cash balance and how it was either increased or decreased during the reporting period.

The statement also reconciles cash flow back to operating income as it appears on the Statement of Revenues, Expenses and Changes in Net Position.

Condensed Financial Statements

Statement of Net Position

The following table reflects the condensed Statement of Net Position for the Electric Division compared to the prior year and the year preceding the prior year.

Statements of Net Position
As of June 30

(in thousands of dollars)	2014	2013	2012
Current and other assets	$ 150,076	$ 183,172	$ 165,590
Capital assets, net	445,495	406,026	376,338
Deferred outflows of resources	1,415	1,605	1,852
Total assets and deferred outflows of resources	596,986	590,803	543,780
Current and other liabilities	108,777	106,386	98,274
Long-term debt outstanding	171,005	178,940	151,950
Deferred inflows of resources	4,220	4,481	3,766
Total liabilities and deferred inflows of resources	284,002	289,807	253,990
Net position			
Net investment in capital assets	262,995	216,052	214,981
Restricted	7,956	7,595	6,924
Unrestricted	42,033	77,349	67,885
Total net position	$ 312,984	$ 300,996	$ 289,790

Normal Impacts on Statement of Net Position

The following is a description of activities which will normally impact the comparability of the Statement of Net Position presentation.

- Change in net position (from Statement of Revenues, Expenses and Changes in Net Position): impacts (increase/decrease) current and other assets and/or capital assets and unrestricted net position.

- Issuing debt for capital: increases deferred inflows/outflows of resources and long-term debt.

- Spending debt proceeds on new capital: reduces current assets and increases capital assets.

- Spending of non-debt related current assets on new capital: (a) reduces current assets and increases capital assets and (b) reduces unrestricted net position and increases net investment in capital assets.

- Principal payment on debt: (a) reduces current and other assets and reduces long-term debt and (b) reduces unrestricted net position and increases net investment in capital assets.

- Reduction of capital assets through depreciation: reduces capital assets and net investment in capital assets.

Impacts and Analysis

Current and Other Assets

Fiscal Year 2014 Compared to Fiscal Year 2013

Current and other assets decreased $33.1 million or 18.1 percent. The decrease is predominately attributable to the reduction in general fund cash of $38.1 million primarily for funding capital projects. The decrease is offset by a $1.9 million increase in operating contingency reserves, $0.9 million increase in inventories, $0.6 million increase in other current assets and a $0.4 million increase in accounts receivable.

Fiscal Year 2013 Compared to Fiscal Year 2012

Current and other assets increased $17.6 million or 10.6 percent. The increase in assets is attributed to cash proceeds from the $35 million December 2012 bond issue and increased revenue from one percent October 2011 and 2012 rate increases. Accounts receivable was $3.9 million higher than June 30 of the previous year contributing to the overall increase in assets. Operating contingency reserves increased $1 million. Other assets decreased by $17.7 million as KUB flowed through previously under recovered wholesale power costs to its electric customers through the Purchased Power Adjustment.

Capital Assets

Fiscal Year 2014 Compared to Fiscal Year 2013

Capital assets, net of depreciation, increased $39.5 million or 9.7 percent. Major capital expenditures included $31.8 million for distribution system improvements, $8.7 million for pole replacements, $5.5 million for system growth-related expenditures and $2.7 million for fleet and heavy equipment.

Fiscal Year 2013 Compared to Fiscal Year 2012

Capital assets, net of depreciation, increased $29.7 million or 7.9 percent. Major capital expenditures included $23.6 million for distribution system improvements, $8.9 million for pole replacements, $4.6 million for system growth-related expenditures, and $2.2 million for fleet and heavy equipment.

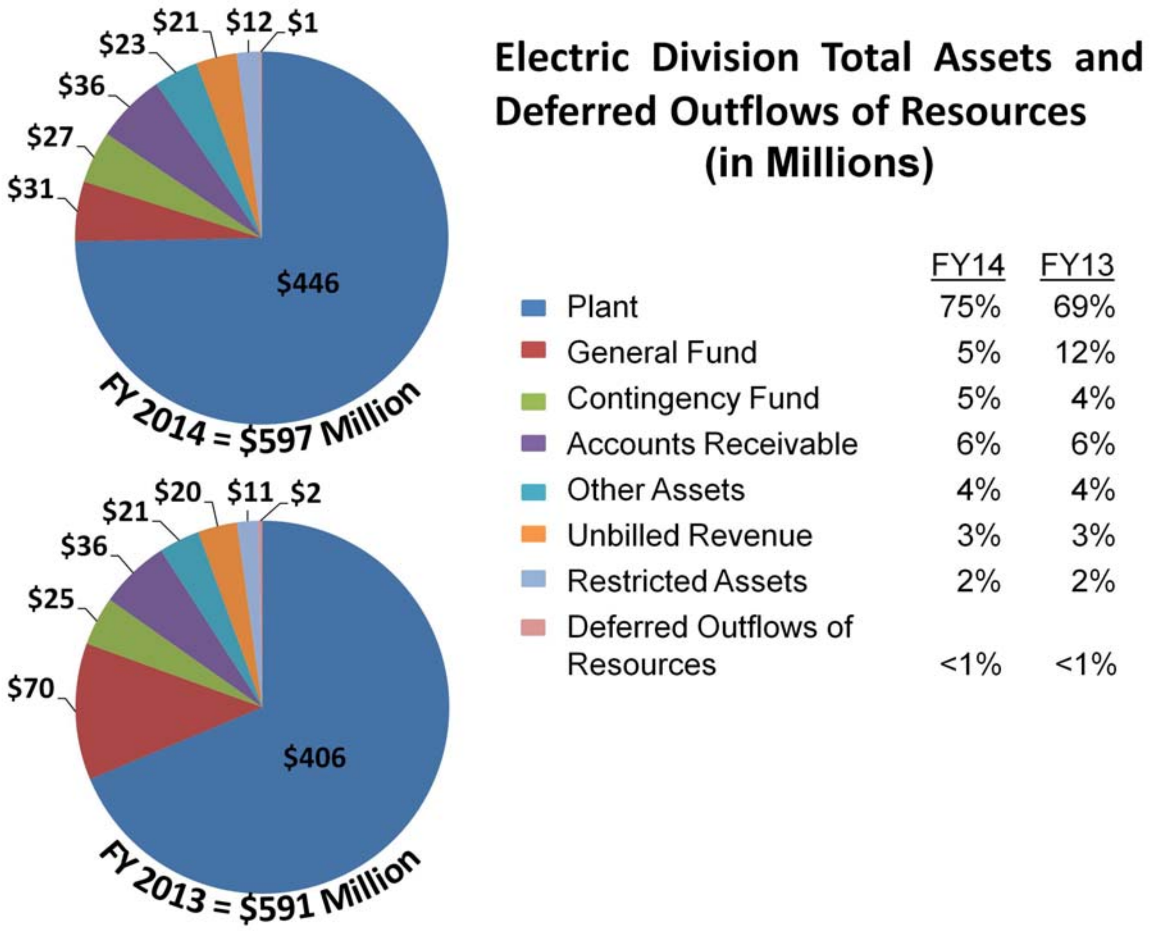
Deferred Outflows of Resources

Fiscal Year 2014 Compared to Fiscal Year 2013

Deferred outflows of resources decreased $0.2 million or 11.8 percent compared to the prior fiscal year, reflecting amortization of deferred losses on bonds refunded in prior periods.

Fiscal Year 2013 Compared to Fiscal Year 2012

Deferred outflows of resources decreased $0.2 million compared to the prior year, reflecting issuance costs received in the refunding of long term debt in March 2013.



Current and Other Liabilities

Fiscal Year 2014 Compared to Fiscal Year 2013

Current and other liabilities increased $2.4 million or 2.2 percent, due in part to increased accounts payables of $1.4 million from higher contractor costs for June 2014 compared to June 2013. TVA conservation loans increased $0.9 million. Over recovery of purchased power cost was $0.5 million less in fiscal year 2014. The $4.4 million over recovery in fiscal year 2014 will be flowed back to KUB's electric customers next fiscal year through adjustments to electric rates via the Purchased Power Adjustment.

Fiscal Year 2013 Compared to Fiscal Year 2012

Current and other liabilities increased $8.1 million or 8.3 percent, due in part to a $4.9 million over recovery of purchased power expenses in fiscal year 2013. The $4.9 million over recovery will be flowed back to KUB's electric customers next fiscal year through adjustments to electric rates via the Purchased Power Adjustment. Accounts payable rose $0.8 million, due to higher contractor costs for June 2013 compared to June 2012. TVA conservation loans increased $0.7 million.

Long-Term Debt

Fiscal Year 2014 Compared to Fiscal Year 2013

Long-term debt decreased $7.9 million or 4.4 percent from the scheduled repayment of debt.

Fiscal Year 2013 Compared to Fiscal Year 2012

Long-term debt increased $27 million or 17.8 percent, the net result of a $35 million December 2012 bond issue, the scheduled repayment of debt, and a $0.4 million reduction in principal as a result of the March 2013 debt refunding.

Deferred Inflows of Resources

Fiscal Year 2014 Compared to Fiscal Year 2013

The net unamortized cost of debt decreased $0.3 million or 5.8 percent compared to the prior fiscal year.

Fiscal Year 2013 Compared to Fiscal Year 2012

The net unamortized cost of debt increased $0.7 million reflecting premiums received in the refunding of long term debt in March 2013.

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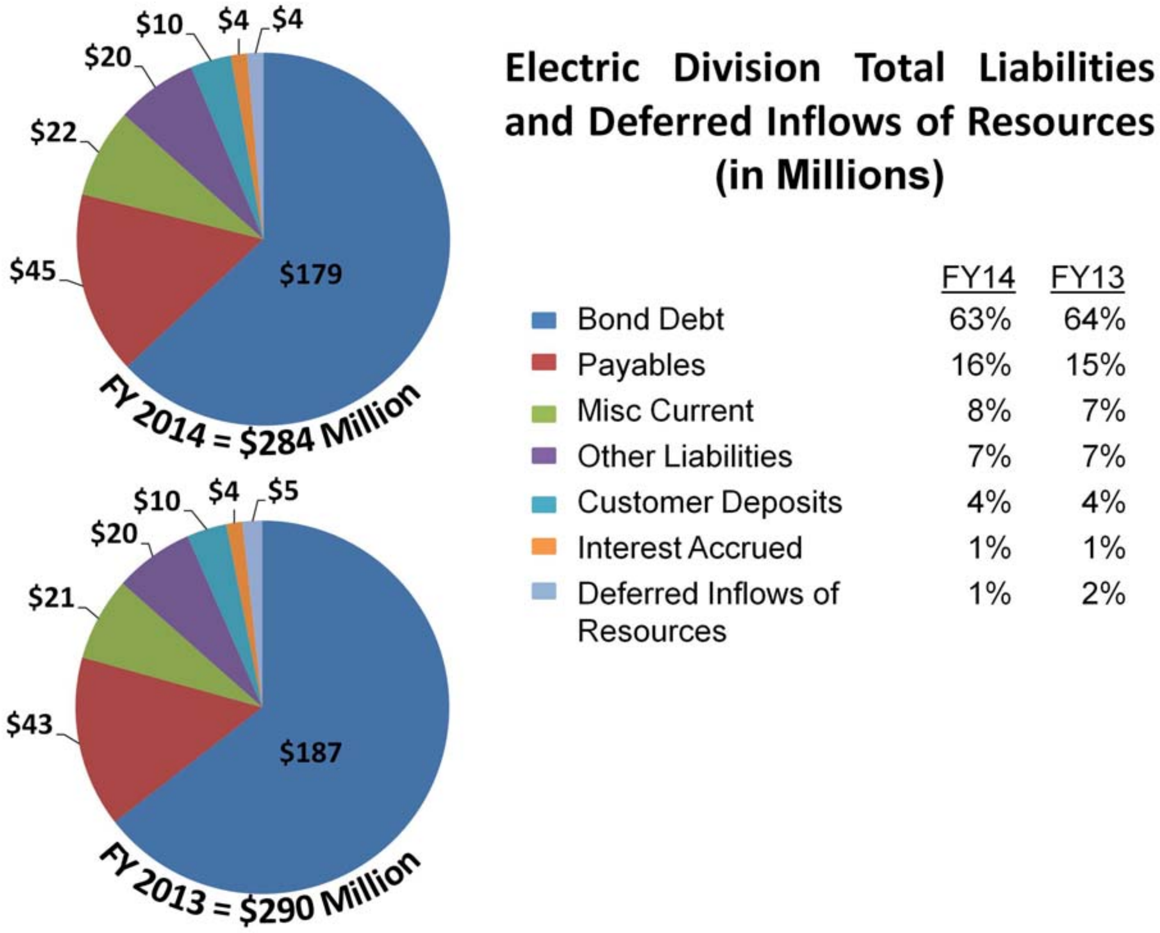


Electric Division Total Liabilities and Deferred Inflows of Resources (in Millions)

	FY14	FY13
🟦 Bond Debt	63%	64%
🟥 Payables	16%	15%
🟩 Misc Current	8%	7%
🟪 Other Liabilities	7%	7%
🟦 Customer Deposits	4%	4%
🟧 Interest Accrued	1%	1%
🟦 Deferred Inflows of Resources	1%	2%

Net Position

Fiscal Year 2014 Compared to Fiscal Year 2013

Net investment in capital assets increased by $46.9 million or 21.7 percent. The increase was primarily the result of $39.5 million of net electric plant additions. Unrestricted net position decreased $35.3 million, due to the $33.1 million decrease in current and other assets. Restricted net position increased $0.4 million, due to the net increase of the electric bond fund and the associated interest payable.

Fiscal Year 2013 Compared to Fiscal Year 2012

Net investment in capital assets increased by $1.1 million or 0.5 percent. The increase was the net result of $29.7 million of net electric plant additions and the addition of new electric system debt and debt issuance costs totaling $28.6 million. Unrestricted net position increased $9.5 million, due to the $17.6 million increase in current and other assets. Restricted net position increased $0.7 million, due to the net increase of the electric bond fund and the associated interest payable.

Statement of Revenues, Expenses and Changes in Net Position

The following table reflects the condensed Statement of Revenues, Expenses and Changes in Net Position for the Electric Division compared to the prior year and the year preceding the prior year.

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30

(in thousands of dollars)	2014	2013	2012
Operating revenues	$ 527,833	$ 534,888	$ 506,054
Less: Purchased power expense	419,558	432,024	409,443
Margin from sales	108,275	102,864	96,611
Operating expenses			
Distribution	32,905	30,914	29,123
Customer service	5,858	5,588	5,305
Administrative and general	13,351	13,021	13,954
Depreciation and amortization	23,190	22,377	20,656
Taxes and tax equivalents	13,627	12,940	12,003
Total operating expenses	88,931	84,840	81,041
Operating income	19,344	18,024	15,570
Interest income	290	371	502
Interest expense	(7,739)	(7,281)	(6,990)
Other income/(expense)	(213)	(85)	(251)
Change in net position before capital contributions	11,682	11,029	8,831
Capital contributions	306	177	302
Change in net position	$ 11,988	$ 11,206	$ 9,133

Normal Impacts on Statement of Revenues, Expenses and Changes in Net Position

The following is a description of activities which will normally impact the comparability of the Statement of Revenues, Expenses and Changes in Net Position presentation.

- Operating revenue is largely determined by the volume of electric power sales for the fiscal year. Any change (increase/decrease) in retail electric rates would also be a cause of change in operating revenue.

- Purchased power expense is determined by volume of power purchases from TVA for the fiscal year. Also, any change (increase/decrease) in TVA wholesale power rates would result in a change in purchased power expense.

- Operating expenses (distribution, customer service, administrative and general) are normally impacted by changes in areas including, but not limited to, labor costs (staffing, wage rates), active employee and retiree medical costs, and overhead line maintenance (tree trimming, pole inspection, etc.).

- Depreciation expense is impacted by plant additions and retirements during the fiscal year.

- Taxes and tax equivalents are impacted by plant additions/retirements, changes in property tax rates, and gross margin levels.

- Interest income is impacted by the level of interest rates and investments.

- Interest expense on debt is impacted by the level of outstanding debt and the interest rates on the outstanding debt.

- Other income/(expenses) is impacted by miscellaneous non-operating revenues and expenses.

- Capital contributions are impacted by a donation of facilities/infrastructure to KUB by developers and governmental agencies. The contributions are recognized as revenue and recorded as plant in service based on the fair market value of the asset(s).

Impacts and Analysis

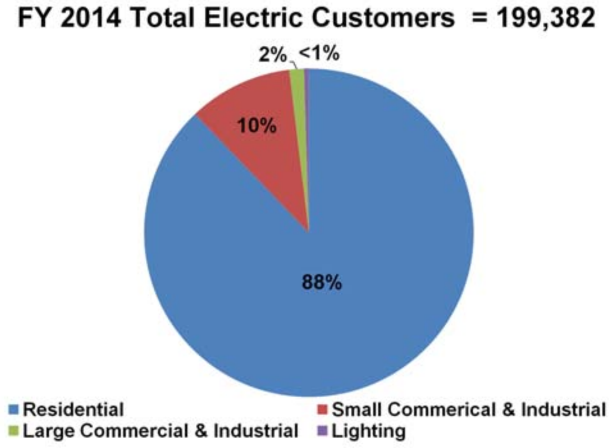
Margin from Sales

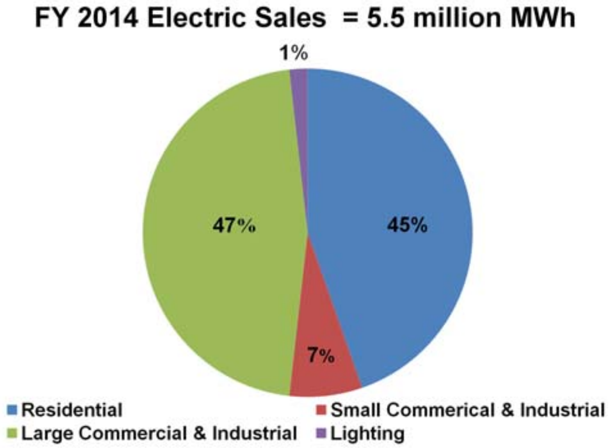
Fiscal Year 2014 Compared to Fiscal Year 2013

The Division's net position increased $12 million, which was $0.8 million more than last year's $11.2 million increase. The higher earnings were due to the net effect of a $5.4 million increase in margin on sales, a $4.1 million rise in operating expenses, a $0.5 million increase in interest expense, and a $0.1 million rise in capital contributions.

Margin on electric sales grew $5.4 million, which was the combined result of an increase in sales volumes and additional revenue from the one percent October 2012 and 2013 rate increases.

Operating revenue decreased $7.1 million or 1.3 percent, reflecting the flow through of over recovered purchased power from the prior fiscal year, a 1.4 percent in billed sales volumes and additional revenue from electric rate increases effective October 2012 and 2013. Purchased power expense decreased $12.5 million over last year the net result of higher sales volumes and wholesale purchase power rates from TVA. Power sales of 5.5 million MWh were 1.4 percent higher than the prior year.


FY 2014 Total Electric Customers = 199,382


FY 2014 Electric Sales = 5.5 million MWh

Residential customers represented 88 percent of total electric system customers and accounted for 45 percent of electric sales volumes for the year. Large commercial and industrial customers accounted for the largest portion of total sales volumes for the year, which was consistent with the prior year due to a steady customer base. KUB's ten largest electric customers accounted for 15.8 percent of KUB's billed volumes. Those ten customers represent five industrial and five commercial customers, including two governmental customers. Sales to Gerdau Ameristeel, KUB's largest industrial customer, were 305.2 MWh or 5.5 percent of total electric system sales.

Electric sales volumes were 1.1 percent lower during the first six months of fiscal year 2014 compared to the previous fiscal year. However, sales over the course of the winter heating season were significantly higher, reflecting colder temperatures than the prior fiscal year.

KUB has added 2,875 electric system customers over the past three years, representing annual growth of less than 1 percent.

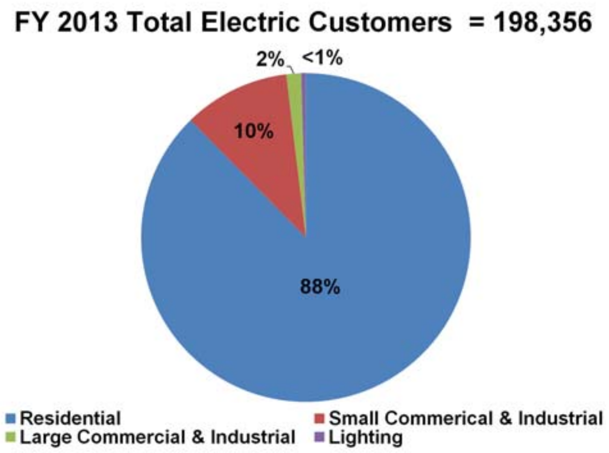
Electric sales volumes have increased 2.6 percent since fiscal year 2012. Large commercial and industrial sales have decreased 1.5 percent over the same period of time.

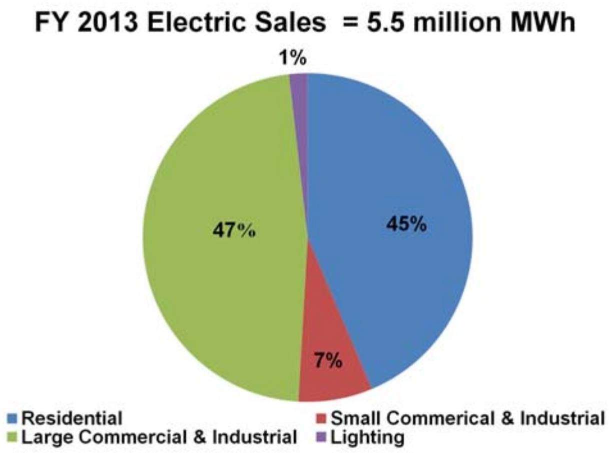
Fiscal Year 2013 Compared to Fiscal Year 2012

The Division's net position increased $11.2 million, which was $2.1 million more than last year's $9.1 million increase. The higher earnings were due to the net effect of a $6.3 million increase in margin on sales, a $3.8 million rise in operating expenses, a $0.3 million increase in interest expense, and a $0.1 million decline in capital contributions.

Margin on electric sales grew $6.3 million, which was the combined result of an increase in sales volumes and additional revenue from the one percent October 2011 and 2012 rate increases.

Operating revenue increased $28.8 million or 5.7 percent. Purchased power expense increased $22.6 million over last year, the net result of higher purchases and slightly lower TVA wholesale power rates. Power sales of 5.5 million MWh were 1.1 percent higher than the prior year.





Residential customers represented 88 percent of total electric system customers and accounted for 45 percent of electric sales volumes for the year. Large commercial and industrial customers accounted for the largest portion of total sales volumes for the year, which was consistent with the prior year due to a steady customer base. KUB's ten largest electric customers accounted for 15.6 percent of KUB's billed volumes. Those ten customers represent five industrial and five commercial customers including two governmental customers. Sales to Gerdau Ameristeel, KUB's largest industrial customer, were 291.3 MWh or 5.3 percent of total electric system sales.

Electric sales were slightly lower during the first six months of fiscal year 2013 compared to the previous fiscal year. However, sales over the course of the winter heating season were significantly higher than the prior year, reflecting colder temperatures. Sales in the last two months of the fiscal year were lower than the previous year due to milder summer temperatures.

Operating Expenses

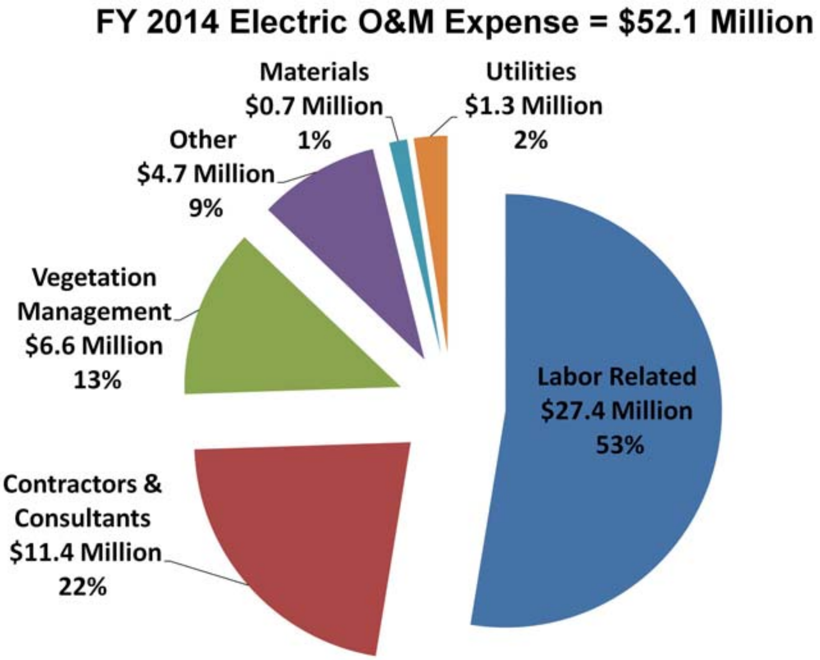
Fiscal Year 2014 Compared to Fiscal Year 2013

Operating expenses (excluding purchased power expense) increased $4.1 million, or 4.8 percent compared to fiscal year 2013. Operating expenses are categorized as distribution (O&M), customer service (O&M), administrative and general (O&M), depreciation or taxes and tax equivalents:

- Distribution expenses increased $2 million or 6.4 percent, primarily from an increase in substation breaker replacements and outside contractor expenses.

- Customer service expenses were up $0.3 million compared with the prior year, primarily due to the Division's share of increased meter reading expenses.

- Administrative and general expenses increased $0.3 million or 2.5 percent, primarily due to an increase in the Division's portion of shared costs.



- Depreciation expense for fiscal year 2014 increased $0.8 million or 3.6 percent. This increase was primarily attributable to station equipment, poles and overhead conductors.

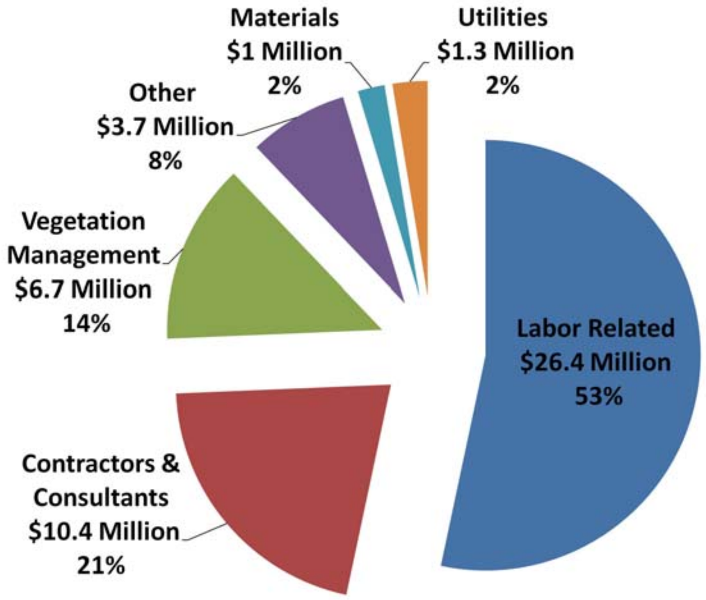
- Taxes and tax equivalents were $0.7 million higher than the prior fiscal year due to an increase in tax equivalent payments to the City of Knoxville, Knox County, and other taxing jurisdictions as a result of capital asset and margin growth.

Fiscal Year 2013 Compared to Fiscal Year 2012

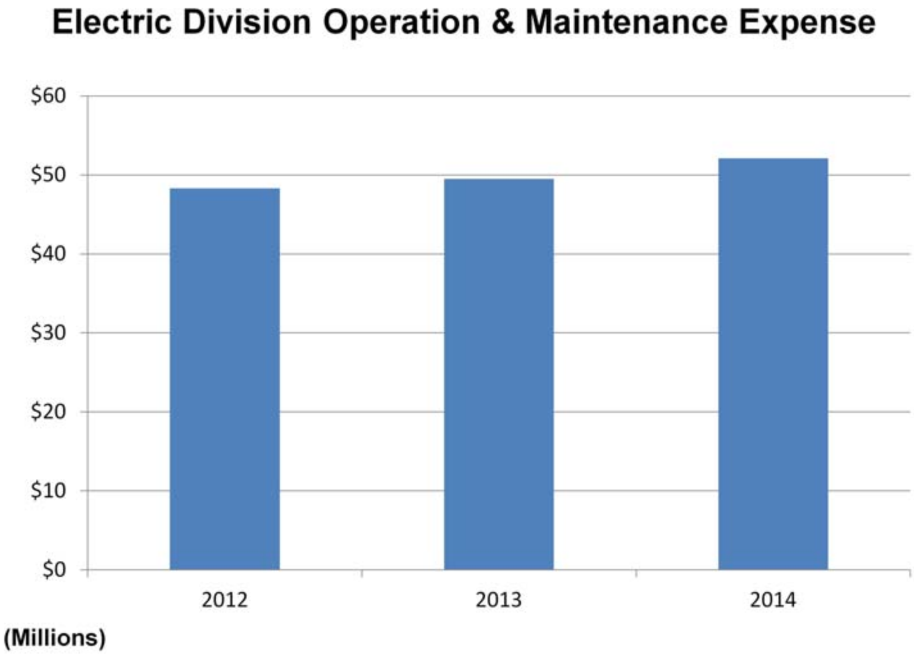
Operating expenses (excluding purchased power expense) increased $3.8 million, or 4.7 percent compared to fiscal year 2012. Operating expenses are categorized as distribution (O&M), customer service (O&M), administrative and general (O&M), depreciation or taxes and tax equivalents:

- Distribution expenses increased $1.8 million or 6.1 percent, due in large part to an increase in outside contractor expenses.
- Customer service expenses were up $0.3 million compared with the prior year, primarily due to the Division's share of increased meter reading expenses.
- Administrative and general expenses decreased $0.9 million or 6.7 percent, primarily due to a $0.7 million decrease in the Division's portion of shared costs.

FY 2013 Electric O&M Expense = $49.5 Million



- Depreciation expense for fiscal year 2013 increased $1.7 million or 8.3 percent. This increase was the result of a full year of depreciation on $27 million of assets added in the fiscal year 2012 and a partial year of depreciation on $46.4 million of assets placed in service in fiscal year 2013. The Division also retired $10.4 million in assets over the course of the fiscal year.
- Taxes and tax equivalents were $0.9 million higher than the prior fiscal year due to an increase in tax equivalent payments to the City of Knoxville, Knox County, and other taxing jurisdictions as a result of capital asset and margin growth.



Other Income and Expense

Fiscal Year 2014 Compared to Fiscal Year 2013

Interest income decreased $0.1 million. This decrease was primarily due to lower long-term interest rates on operating contingency fund investments.

Interest expense increased $0.5 million or 6.3 percent, primarily due to the additional interest from revenue bonds issued December 2012.

Other income (net) decreased $0.1 million.

The Division recorded $0.3 million in capital contributions from donated street lighting assets during the fiscal year.

Fiscal Year 2013 Compared to Fiscal Year 2012

Interest income decreased $0.1 million. This decrease was primarily due to lower long-term interest rates on operating contingency fund investments.

Interest expense increased $0.3 million or 4.2 percent, the net result of interest cost on $35 million of bonds issued during the fiscal year and savings on the refunding of $10.1 million of outstanding bonds in March 2013.

Other income (net) increased $0.2 million.

The Division recorded $0.2 million in capital contributions from donated street lighting assets during the fiscal year.

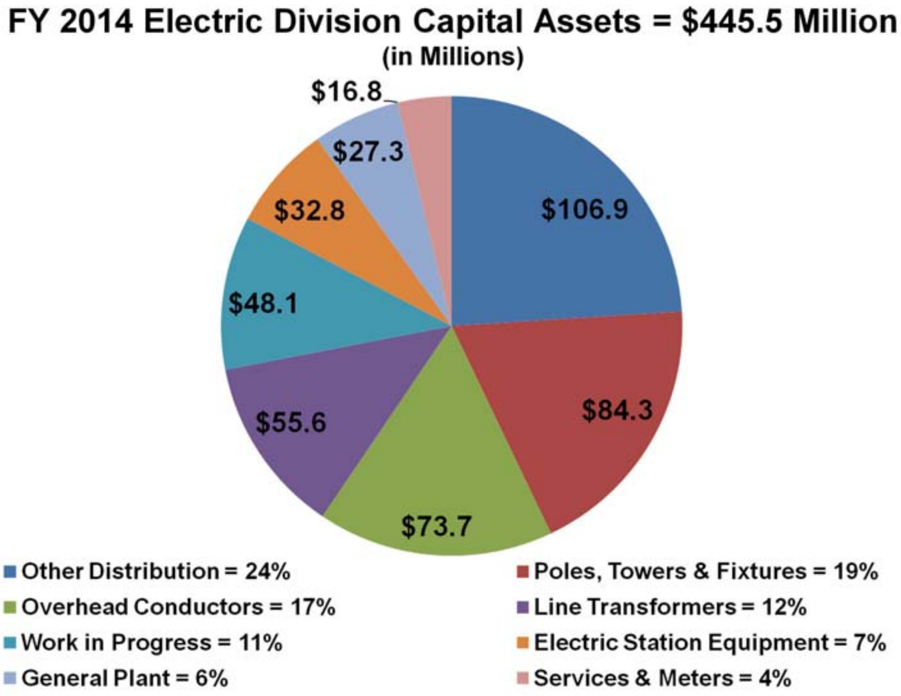
Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

(in thousands of dollars)	**2014**	**2013**	**2012**
Distribution plant:			
Services and meters	$ 16,851	$ 16,968	$ 16,949
Electric station equipment	32,797	30,227	25,181
Poles, towers and fixtures	84,332	72,274	63,621
Overhead conductors	73,663	67,448	69,161
Line transformers	55,600	52,503	48,486
Others	106,894	100,458	94,414
Total distribution plant	370,137	339,878	317,812
General plant	27,288	25,959	25,131
Total plant	397,425	365,837	342,943
Work in progress	48,070	40,189	33,395
Total net plant	$ 445,495	$ 406,026	$ 376,338

Fiscal Year 2014 Compared to Fiscal Year 2013

As of June 30, 2014, the Division had $445.5 million invested in a variety of capital assets, as reflected in the schedule above, which represents a net increase (including additions, retirements, and depreciation) of $39.5 million or 9.7 percent over the end of the last fiscal year.

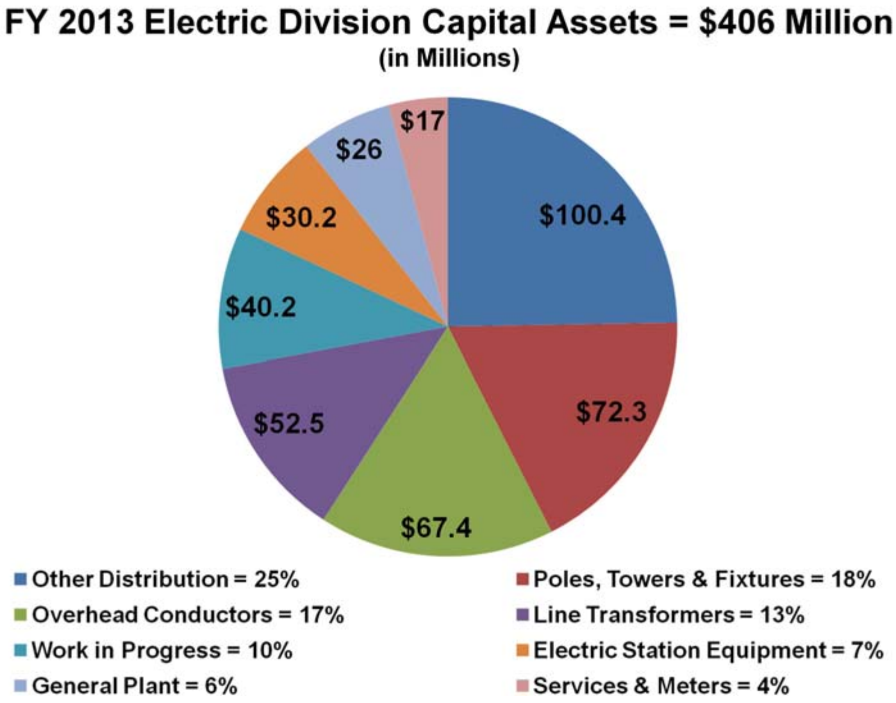


Major capital asset expenditures during the year were as follows:

- $31.8 million for various electric distribution system improvements.
- $8.7 million for pole replacements.
- $5.5 million for installation of new electric services and the upgrade or replacement of existing services.
- $2.7 million for fleet and heavy equipment.

Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, the Division had $406 million invested in a variety of capital assets, as reflected in the schedule above which represents a net increase (including additions, retirements, and depreciation) of $29.7 million or 7.9 percent over the end of the last fiscal year.



Major capital asset expenditures during the year were as follows:

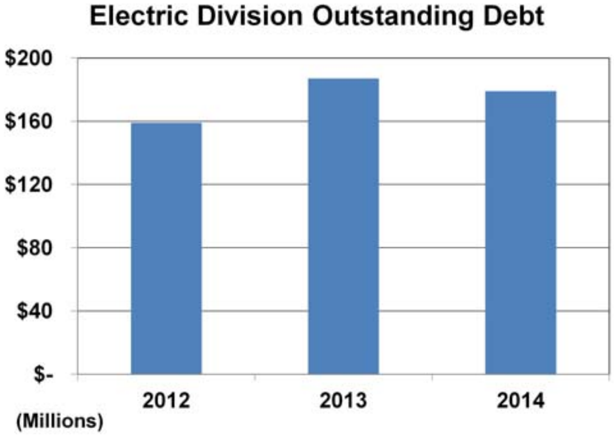
- $23.6 million for various electric distribution system improvements.
- $8.9 million for pole replacements.
- $4.6 million for installation of new electric services and the upgrade or replacement of existing services.
- $2.2 million for fleet and heavy equipment.

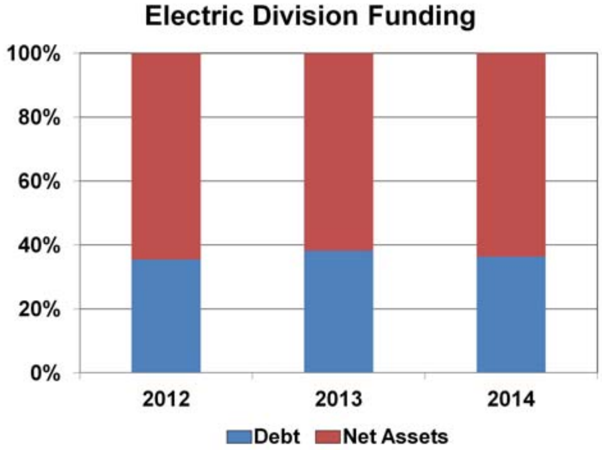
Debt Administration

The Division's outstanding debt peaked in fiscal year 2013 at $186.5 million. Scheduled repayments of debt decreased the amount outstanding as of June 30, 2014 to $178.9 million. Debt as a percentage of capitalization represented 36.4 percent in 2014, 38.3 percent in 2013 and 35.4 percent at the end of fiscal year 2012.

Outstanding Debt
As of June 30

(in thousands of dollars)	**2014**	**2013**	**2012**
Revenue bonds	$ 178,940	$ 186,510	$ 158,870
Total outstanding debt	$ 178,940	$ 186,510	$ 158,870





The Division will pay $96.1 million in principal payments over the next ten years, representing 53.7 percent of the outstanding bonds. KUB's Debt Management Policy requires that a minimum of 30 percent of electric debt principal be repaid over the next ten years.

Fiscal Year 2014 Compared to Fiscal Year 2013

As of June 30, 2014, the Division had $178.9 million in outstanding debt (including the current portion of revenue bonds), compared to $186.5 million last year, a decrease of $7.6 million or 4.1 percent. The Division's weighted average cost of debt at June 30, 2014 was 4.08 percent.

This decrease in debt was attributable to the scheduled repayment of bond debt during the fiscal year.

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2014, the Division's revenue bonds were rated AA+ by Standard & Poor's and Aa2 by Moody's Investors Service.

Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, the Division had $186.5 million in outstanding debt (including the current portion of revenue bonds), compared to $158.9 million last year, an increase of $27.6 million or 17.4 percent. The Division's weighted average cost of debt at June 30, 2013 was 4.06 percent.

This increase in debt was attributable to the net result of scheduled repayment of bond debt during the fiscal year, the issuance of $35 million in electric bonds to fund Century II capital improvements, and the refunding of outstanding bonds.

In March 2013, KUB sold $9.7 million in revenue refunding bonds for the purpose of refunding electric bonds issued in 2006 at lower interest rates. The Division will realize a total debt service savings of $1.2 million over the life of the bonds ($0.7 million on a net present value basis).

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2013, the Division's revenue bonds were rated AA+ by Standard & Poor's and Aa2 by Moody's Investors Service.

Impacts on Future Financial Position

KUB anticipates adding 1,050 additional electric system customers in fiscal year 2015.

In June 2014, the KUB Board adopted three years of rate increases for the electric systems to help fund the ongoing Century II infrastructure programs for each system. The electric rate increases will be effective July 2014, July 2015, and July 2016, respectively. Each rate increase will provide approximately $5 million in additional electric system revenue.

KUB sold $40 million in electric system revenue bonds in August 2014 for the purpose of funding electric system capital improvements in fiscal year 2015. The true interest cost of the bonds, which were sold through a competitive bidding process was 3.514 percent.

KUB debt portfolio includes $26.5 million of Electric Division 2010 Build America Bonds (BABs) in which the U.S. Treasury provides a rebate to KUB for a portion of the interest. The interest rebates were subject to federal sequestration during the fiscal year and were reduced by 7.2 percent. Any future actions by Congress may also affect the anticipated rebates for future fiscal years.

The TVA Board approved a 1.5 percent October 2014 wholesale base rate increase which will be flowed through to KUB's electric retail sales via its Purchase Power Adjustment. The flow through of this wholesale rate increase will raise the typical residential electric customer's monthly bill $1.70.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, is effective for periods beginning after June 15, 2013. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* are effective for periods beginning after June 15, 2014. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Division's financial position or results of operations during fiscal year 2014.

Financial Contact

The Division's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of the Division's financial position and results of operations for the fiscal years ending June 30, 2014 and 2013. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

Knoxville Utilities Board Electric Division
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 31,472,251	$ 60,586,059
Short-term investments	-	9,000,000
Short-term contingency fund investments	12,287,377	9,105,900
Other current assets	581,348	9,878
Accrued interest receivable	10,907	23,071
Accounts receivable, less allowance of uncollectible accounts of $542,991 in 2014 and $706,454 in 2013	56,667,360	56,265,887
Inventories	7,522,325	6,605,123
Prepaid expenses	1,112,036	1,107,435
Total current assets	109,653,604	142,703,353
Restricted assets:		
Electric bond fund	11,583,829	11,326,535
Other funds	20,620	25,295
Total restricted assets	11,604,449	11,351,830
Electric plant in service	750,921,975	708,307,167
Less accumulated depreciation	(353,496,822)	(342,470,640)
	397,425,153	365,836,527
Retirement in progress	801,031	1,264,225
Construction in progress	47,268,838	38,925,048
Net plant in service	445,495,022	406,025,800
Other assets:		
Long-term contingency fund investments	14,753,028	16,037,087
TVA conservation program receivable	11,093,821	10,189,286
Other	2,971,392	2,890,228
Total other assets	28,818,241	29,116,601
Total assets	595,571,316	589,197,584
Deferred outflows of resources:		
Unamortized bond refunding costs	1,415,368	1,605,482
Total deferred outflows of resources	1,415,368	1,605,482
Total assets and deferred outflows of resources	$ 596,986,684	$ 590,803,066

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

Knoxville Utilities Board Electric Division
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Liabilities, Deferred Inflows, and Capitalization		
Current liabilities:		
Current portion of revenue bonds	$ 7,935,000	$ 7,570,000
Sales tax collections payable	878,073	882,823
Accounts payable	44,031,673	42,610,817
Accrued expenses	21,760,276	21,440,709
Customer deposits plus accrued interest	10,526,010	10,414,112
Accrued interest on revenue bonds	3,648,729	3,756,435
Total current liabilities	88,779,761	86,674,896
Other liabilities:		
TVA conservation program	10,885,245	10,005,739
Accrued compensated absences	3,819,218	3,879,950
Customer advances for construction	755,380	588,441
Over recovered purchased power cost	4,412,769	4,927,581
Other	124,804	309,274
Total other liabilities	19,997,416	19,710,985
Long-term debt:		
Electric revenue bonds	171,005,000	178,940,000
Total long-term debt	171,005,000	178,940,000
Total liabilities	279,782,177	285,325,881
Deferred inflows of resources:		
Unamortized costs	4,220,243	4,480,711
Total deferred inflows of resources	4,220,243	4,480,711
Total liabilities and deferred inflows of resources	284,002,420	289,806,592
Net position		
Net investment in capital assets	262,994,767	216,052,130
Restricted for:		
Debt service	7,935,100	7,570,100
Other	20,620	25,295
Unrestricted	42,033,777	77,348,949
Total net position	312,984,264	300,996,474
Total liabilities, deferred inflows, and net position	$ 596,986,684	$ 590,803,066

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

Knoxville Utilities Board Electric Division
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues	$ 527,832,791	$ 534,888,206
Operating expenses		
Purchased power	419,557,996	432,023,455
Distribution	32,904,889	30,914,192
Customer service	5,858,398	5,587,902
Administrative and general	13,350,746	13,021,407
Provision for depreciation and amortization	23,190,530	22,376,706
Taxes and tax equivalents	13,626,589	12,940,143
Total operating expenses	508,489,148	516,863,805
Operating income	19,343,643	18,024,401
Non-operating revenues (expenses)		
Contributions in aid of construction	1,726,458	3,953,118
Interest and dividend income	289,857	370,800
Interest expense	(7,739,346)	(7,281,191)
Write-down of plant for costs recovered through contributions	(1,726,458)	(3,953,118)
Other	(212,614)	(85,206)
Total non-operating revenues (expenses)	(7,662,103)	(6,995,597)
Change in net position before capital contributions	11,681,540	11,028,804
Capital contributions	306,250	177,364
Change in net position	11,987,790	11,206,168
Net position, beginning of year	300,996,474	289,790,306
Net position, end of year	$ 312,984,264	$ 300,996,474

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

Knoxville Utilities Board Electric Division
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash receipts from customers	$ 520,465,490	$ 524,253,890
Cash receipts from other operations	6,753,607	8,560,444
Cash payments to suppliers of goods or services	(450,856,828)	(440,706,161)
Cash payments to employees for services	(22,182,793)	(21,692,297)
Payment in lieu of taxes	(11,905,037)	(11,301,342)
Cash receipts from collections of TVA conservation loan program participants	2,803,444	2,825,755
Cash payments for TVA conservation loan program	(2,811,356)	(2,757,835)
Net cash provided by operating activities	42,266,527	59,182,454
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	-	35,565,144
Principal paid on revenue bonds and notes payable	(7,570,000)	(6,920,000)
Interest paid on revenue bonds and notes payable	(7,405,114)	(6,488,457)
Acquisition and construction of electric plant	(66,014,116)	(57,024,217)
Changes in electric bond fund, restricted	(257,294)	(1,442,734)
Customer advances for construction	166,939	15,571
Proceeds received on disposal of plant	606,719	23,551
Cash received from developers and individuals for capital purposes	1,726,458	3,953,118
Net cash used in capital and related financing activities	(78,746,408)	(32,318,024)
Cash flows from investing activities:		
Changes in deposit and investment accounts:		
Purchase of investment securities	(2,056,857)	5,870,736
Maturities of investment securities	9,159,439	213,389
Interest received	302,020	411,611
Other property and investments	(38,529)	(29,743)
Net cash provided by investing activities	7,366,073	6,465,993
Net (decrease) increase in cash and cash equivalents	(29,113,808)	33,330,423
Cash and cash equivalents, beginning of year	60,586,059	27,255,636
Cash and cash equivalents, end of year	31,472,251	$ 60,586,059
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 19,343,643	$ 18,024,401
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expenses	24,273,528	23,437,295
Changes in operating assets and liabilities:		
Accounts receivable	(401,473)	(3,890,367)
Inventories	(917,202)	(322,532)
Prepaid expenses	(4,602)	(492,382)
TVA conservation program receivable	(904,534)	(637,077)
Other assets	(1,089,896)	(1,245,124)
Sales tax collections payable	(4,750)	33,586
Accounts payable and accrued expenses	1,679,690	353,465
Unrecovered purchased power cost	(514,812)	22,582,300
TVA conservation program payable	879,506	670,330
Customer deposits plus accrued interest	111,899	371,295
Other liabilities	(184,470)	297,263
Net cash provided by operating activities	$ 42,266,527	$ 59,182,454
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ 306,250	$ 177,364

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

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners governs KUB. The Board has all powers to construct, acquire, expand, or operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions including setting rates. The Electric Division (Division) provides services to certain customers in Knox County and in seven surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Electric Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2014 and 2013, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

2. Summary of Significant Accounting Policies

Basis of Accounting

KUB follows the provisions of GASB Statement No. 34 (Statement No. 34), *Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* Statement No. 34 established standards for external financial reporting for all state and local governmental entities.

The financial statements are prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred. The accounting and financial reporting treatment applied to the Division is determined by measurement focus. The transactions of the Division are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets and deferred outflows of resources net of total liabilities and deferred inflows of resources) are segregated into net investment in capital assets; restricted for capital activity and debt service; and unrestricted components.

Recently Adopted New Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62 (Statement No. 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for KUB's fiscal year beginning July 1, 2012. The objective of this Statement is to incorporate into the GASB's authoritative literature certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants' (AICPA) accounting and financial reporting guidance issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

Statement No. 62 supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election to apply FASB statements, related interpretations, Accounting Principles Board opinions and accounting research bulletins issued post-November 30, 1989 that do not conflict with Governmental Accounting Standards. However, FASB pronouncements issued post-November 30, 1989 that do not conflict with or contradict Governmental Accounting Standards can continue to apply as other accounting literature.

In June 2011, the GASB issued Statement No. 63 (Statement No. 63), (*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,* effective for KUB's fiscal year beginning July 1, 2012. Statement No. 63 amends the net asset reporting requirements in Statement No. 34 and other pronouncements. Under these new standards, financial statements include deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities, and will report *net position* instead of net assets. Statement No. 63 requires the classification of net position into three components – net investment in capital assets; net position-restricted; and net position-unrestricted.

These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Implementation of Statement No. 63 had no effect on KUB's net position or changes in net position.

In March 2012, the GASB issued Statement No. 65 (Statement No. 65), *Items Previously Reported as Assets and Liabilities*, effective for KUB's fiscal year beginning July 1, 2013; however, KUB early adopted Statement No. 65 effective for the fiscal year beginning July 1, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities. Implementation of Statement No. 65 had no effect on KUB's net position or changes in net position.

Electric Plant

Electric plant and other property are stated on the basis of original cost. The cost of current repairs and minor replacements is charged to operating expense. The cost of renewals and improvements is capitalized. The original cost of utility plant assets retired or otherwise disposed of and the cost of removal less salvage value is charged to accumulated depreciation. When other property is retired, the related asset and accumulated depreciation are removed from the accounts, and the gain or loss is included in the results of operations.

The provision for depreciation of electric plant in service is based on the estimated useful lives of the assets, which range from three to forty years, and is computed using the straight-line method. Pursuant to FERC, the caption "Provision for depreciation" in the statements of revenues, expenses and changes in net position does not include depreciation for transportation equipment of $1,082,998 in fiscal year 2014 and $1,060,589 in fiscal year 2013. Interest costs are expensed as incurred.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of the KUB Electric Division. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unbilled revenue. Revenues are reported net of bad debt expense of $ 1,166,257 in fiscal year 2014 and $1,555,482 in fiscal year 2013.

Non-operating Revenue

Non-operating revenue consists of revenues that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Expense

When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is KUB's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

Contributions in Aid of Construction and Capital Contributions

Contributions in aid of construction are cash collections from customers or others for a particular purpose, generally the construction of new facilities to serve new customers in excess of the investment KUB is willing to make for a particular incremental revenue source. KUB reduces the plant account balances to which contributions relate by the actual amount of the contribution and recognizes the contributions as non-operating revenue in accordance with Statement No. 62.

Capital contributions represent contributions of utility plant infrastructure constructed by developers and others in industrial parks and other developments, and transferred to KUB upon completion of construction and the initiation of utility service. In accordance with GASB Statement No. 33, *"Accounting and Financial Reporting for Nonexchange Transactions"*, such contributions are recognized as revenues and capital assets upon receipt.

Inventories

Inventories, consisting of plant materials and operating supplies, are valued at the lower of average cost or replacement value.

Pension Plan

The Division's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). The Division's policy is to fund pension cost accrued. As required by GASB Statement No. 27, KUB measures and discloses the annual pension cost on the accrual basis of accounting. At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

Investments

Investments are carried at fair value as determined by quoted market prices at the reporting date.

Self-Insurance

KUB has established self-insurance programs covering portions of workers' compensation, employee health, environmental liability, general liability, property and casualty liability and automobile liability claims. A liability is accrued for claims as they are incurred. When applicable, claims in excess of the self-insured risk are covered by KUB's insurance carrier. Additionally, KUB provides certain lifetime health benefits to eligible retired employees under a self-insurance plan administered by a third party.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and various other assumptions that KUB believes are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. Estimates are used for, but not limited to, inventory valuation, provision for doubtful accounts, depreciable lives of plant assets, unbilled revenue volumes, pension trust valuations, OPEB trust valuations, insurance liability reserves, and potential losses from contingencies and litigation. Actual results could differ from those estimates.

Restricted and Designated Assets

Certain assets are restricted by bond resolutions for the construction of utility plant and debt repayment. Certain additional assets are designated by management for contingency purposes and economic development.

Cash Equivalents

For purposes of the statements of cash flows, KUB considers all unrestricted and undesignated highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are items previously reported as assets related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. Deferred inflows of resources are items previously reported as liabilities related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. In accordance with Statement No. 62, KUB records debt issuance costs, including discounts and premiums as a deferred outflow or inflow. Likewise, KUB records costs associated with the gain or loss on refunding of debt as either a deferred outflow or inflow based on the parameters of Statement No. 65.

Compensated Absences

KUB accrues a liability for earned but unpaid paid-time off (PTO) days.

Subsequent Events

KUB has evaluated events and transactions through October 24, 2014, the date these financial statements were issued, for items that should potentially be recognized or disclosed.

Reclassifications

Certain reclassifications have been made to fiscal year 2013 balances to conform to fiscal year 2014 presentation.

Purchased Power Adjustment

In October 2002, the Board adopted a Purchased Power Adjustment (PPA) to address changes in wholesale power costs. The PPA was established in response to an amendment to KUB’s power supply contract under which, among other things, TVA relinquished its regulatory authority over KUB retail electric rates. The PPA allows KUB to promptly adjust retail electric rates in response to wholesale rate changes or adjustments, thus ensuring that KUB will recover the costs incurred for purchased power. These changes in electric costs are reflected as adjustments to the base electric rates established by KUB's Board of Commissioners. The rate-setting authority vested in the KUB Board by the City Charter meets the “self-regulated” provisions of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and KUB meets the remaining criteria of Statement No. 62.

TVA implemented a fuel cost adjustment in October 2006 applied on a quarterly basis to wholesale power rates. TVA's quarterly fuel cost adjustment became a monthly fuel cost adjustment effective October 2009. KUB flows changes to wholesale power rates, from TVA's fuel cost adjustment mechanism, directly through to its retail electric rates via the PPA.

In April 2011, TVA modified its wholesale rate structure to demand and energy billing for its distributors. In response, KUB revised its PPA to include a deferred accounting component to ensure appropriate matching of revenue and expense and cost recovery. KUB will adjust its retail rates on an annual basis to flow any over or under recovery of wholesale power costs through to its customers via the PPA.

Under the PPA mechanism, the Division tracks the actual (under)/over recovered amount in the (Under)/Over recovered Purchased Power Costs accounts. These accounts are rolled into the PPA rate adjustments thereby assuring that any (under)/over recovered amounts are promptly passed on to the Division's customers. The amount of over recovered cost was $4,412,769 at June 30, 2014 and 4,927,581 at June 30, 2013.

Recently Issued Accounting Pronouncements

In June 2012, the GASB issued two related Statements that affect accounting and financial reporting of pensions by state and local governments. GASB Statement No. 67 (Statement No. 67), *Financial Reporting for Pension Plans*, is intended to improve financial reporting for state and local government pension plans. GASB Statement No. 68 (Statement No. 68), *Accounting and Financial Reporting for Pensions,* establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. Statements No. 67 and 68 supersede existing guidance on financial reporting for defined pension plans found in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The objective of this statement is to clarify accounting and financial reporting for pensions. This statement requires governments to recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date of the beginning net pension liability calculated under Statement No. 68.

Statement No. 67 is effective for periods beginning after June 15, 2013 and Statements No. 68 and 71 are effective for periods beginning after June 15, 2014. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

3. Deposits and Investments

KUB follows the provisions of Statement No. 40 of the Governmental Accounting Standards Board *Deposit and Investment Risk Disclosures an amendment of GASB Statement No. 3*. This Statement establishes and modifies disclosure requirements for state and local governments related to deposit and investment risks.

KUB's investment policy provides the framework for the administration and investment of cash deposits. The investment policy follows State law and defines the parameters under which KUB funds should be invested. State law authorizes KUB to invest in obligations of the United States Treasury, its agencies and instrumentalities; certificates of deposit; repurchase agreements; money market funds; and the State Treasurer's Investment Pool.

Interest Rate Risk. KUB's primary investment objectives are to place investments in a manner to ensure the preservation of capital, remain sufficiently liquid to meet all operating requirements, and maximize yield of return. KUB minimizes its exposure to interest rate risk by adhering to Tennessee state law requirements for the investment of public funds. This includes limiting investments to those types described above and limiting maturity horizons. The maximum maturity is four years from the date of investment. KUB also limits its exposure by holding investments to maturity unless cash flow requirements dictate otherwise.

Credit Risk. KUB's investment policy, as required by state law, is to apply the prudent-person rule: Investments are made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable income to be derived, as well as the probable safety of their capital. KUB's Agency Bond investments are rated Aaa by Moody's Investors Service.

Custodial Credit Risk. KUB's investment policy limits exposure to custodial credit risk by restricting investments to a standard set forth by State law. All deposits in excess of federal depository insurance limits are collateralized with government securities held in KUB's name by a third-party custodian bank(s) acting as KUB's agent(s), or through the state of Tennessee's collateral pool. Financial institutions that participate in the collateral pool are subject to special assessment; therefore, the deposits are considered insured. A portion of KUB's investments are generally held in the State of Tennessee Local Government Investment Pool (LGIP). The LGIP is a part of the State Pooled Investment Fund and is sponsored by the State of Tennessee Treasury Department. Tennessee Code Annotated ¶9-4-701 *et seq*. authorizes local governments to invest in the LGIP. None of KUB's investments are exposed to custodial credit risk.

Classification of deposits and investment of net position:

	2014	**2013**
Current assets		
Cash and cash equivalents	$ 31,472,251	$ 60,586,059
Short-term investments	-	9,000,000
Short-term contingency fund investments	12,287,377	9,105,900
Other assets		
Long-term contingency fund investments	14,667,816	15,965,018
Restricted assets		
Electric bond fund	11,583,829	11,326,535
Other funds	20,620	25,295
	$ 70,031,893	$ 106,008,807

The above amounts do not include accrued interest of $85,212 in fiscal year 2014 and $72,069 in fiscal year 2013. Interest income is recorded on an accrual basis.

Investments and maturities of KUB's deposits and investments:

	Deposit and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	$ 37,546,211	$ 37,546,211	$ -
State Treasurer's Investment Pool	694	694	-
Agency Bonds	19,340,523	4,673,402	14,667,121
Certificates of Deposits	19,197,805	19,197,805	-
	$ 76,085,233	$ 61,418,112	$ 14,667,121

4. Accounts Receivable

Accounts receivable consists of the following:

	2014	2013
Wholesale and retail customers		
Billed services	$ 33,353,764	$ 33,748,677
Unbilled services	21,080,325	20,691,034
Other	2,776,262	2,532,630
Allowance for uncollectible accounts	(542,991)	(706,454)
	$ 56,667,360	$ 56,265,887

5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2014	2013
Trade accounts	$ 44,031,673	$ 42,610,817
Salaries and wages	664,201	598,379
Advances on pole rental	1,156,634	1,142,702
Self-insurance liabilities	738,983	816,900
Other current liabilities	19,200,458	18,882,728
	$ 65,791,949	$ 64,051,526

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2013	Additions	Payments	Balance June 30, 2014	Amounts Due Within One Year
W-2005 - 3.0 - 4.5%	$ 34,860,000	$ -	$ 1,720,000	$ 33,140,000	$ 1,790,000
X-2006 - 4.0 - 5.0%	5,200,000	-	1,650,000	3,550,000	1,725,000
Y-2009 - 2.5 - 5.0%	37,350,000	-	1,450,000	35,900,000	1,525,000
Z-2010 - 1.45 - 6.35%	27,725,000	-	1,255,000	26,470,000	1,265,000
AA-2012 - 3.0 - 5.0%	36,715,000	-	920,000	35,795,000	955,000
BB-2012 - 3.0 - 4.0%	35,000,000	-	500,000	34,500,000	625,000
CC-2013 - 3.0 - 4.0%	9,660,000	-	75,000	9,585,000	50,000
Total debt	$ 186,510,000	$ -	$ 7,570,000	$ 178,940,000	$ 7,935,000

Other liabilities consist of the following:

	Balance June 30, 2013	Increase	Decrease	Balance June 30, 2014	Amounts Due Within One Year
TVA conservation program	$ 10,005,739	$ 3,734,967	$ (2,855,461)	$ 10,885,245	$ 1,500,000
Accrued compensated absences	3,879,950	6,618,561	$ (6,679,293)	3,819,218	1,500,000
Customer advances for construction	588,441	536,881	(369,942)	755,380	8,000
Other	309,274	63,880	(248,350)	124,804	20,000
	$ 14,783,404	$ 10,954,289	$ (10,153,046)	$ 15,584,647	$ 3,028,000

Debt service over remaining term of the debt is as follows:

Fiscal Year	Principal	Total Interest	Grand Total
2015	$ 7,935,000	$ 7,145,450	$ 15,080,450
2016	8,270,000	6,832,230	15,102,230
2017	8,585,000	6,503,212	15,088,212
2018	8,940,000	6,157,884	15,097,884
2019	9,305,000	5,779,848	15,084,848
2020-2024	53,085,000	22,165,634	75,250,634
2025-2029	50,485,000	10,915,036	61,400,036
2030-2034	16,885,000	3,256,630	20,141,630
2035-2039	7,850,000	1,747,500	9,597,500
2040-2043	7,600,000	468,750	8,068,750
Total	$ 178,940,000	$ 70,972,174	$ 249,912,174

The Division has pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet the revenue bonds principal and interest payments when due. Such bond requirements are being met through monthly deposits to the Electric Bond Fund as required by the bond covenants. As of June 30, 2014, these requirements had been satisfied.

During fiscal year 2006, KUB's Electric Division issued Series W 2005 bonds in part to retire certain existing debt and to fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series U 2001 bonds, as such amounts mature. KUB's Electric Division also issued Series X 2006 bonds in part to retire certain existing debt and to fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the Series S 1998 bonds.

During fiscal year 2009, KUB's Electric Division issued Series Y 2009 bonds to fund electric system capital improvements.

During fiscal year 2011, KUB's Electric Division issued Series Z 2010 bonds to fund electric system capital improvements. The bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change.

During fiscal year 2012, KUB's Electric Division issued Series AA 2012 bonds to retire a portion of outstanding Series V 2004 bonds.

During fiscal year 2013, KUB's Electric Division issued Series BB 2012 bonds to fund electric system capital improvements. KUB's Electric Division also issued Series CC 2013 bonds to retire a portion of outstanding Series X 2006 bonds.

In prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $68 million at June 30, 2014, and the trust account assets are not included in the financial statements.

7. Lease Commitments

KUB has non-cancelable operating lease commitments for office equipment and vehicles, summarized for the following fiscal years:

2015	$	27,338
2016		9,861
2017		1,028
Total operating minimum lease payments	$	38,227

8. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning 6/30/2013	Increase	Decrease	Ending 06/30/2014
Distribution Plant				
Services and Meters	$ 40,494,806	$ 898,255	$ (157,890)	$ 41,235,171
Electric Station Equipment	114,555,002	6,885,926	(476,777)	120,964,151
Poles, Towers and Fixtures	114,380,474	14,300,504	(4,352,351)	124,328,627
Overhead Conductors	112,732,790	9,216,310	(1,781,000)	120,168,100
Line Transformers	86,755,917	5,304,894	(1,957,010)	90,103,801
Other Accounts	168,436,833	11,769,390	(1,470,908)	178,735,315
Total Distribution Plant	$ 637,355,822	$ 48,375,279	$ (10,195,936)	$ 675,535,165
General Plant	70,951,345	6,057,153	(1,621,688)	75,386,810
Total Plant Assets	$ 708,307,167	$ 54,432,432	$ (11,817,624)	$ 750,921,975
Less Accumulated Depreciation	(342,470,640)	(22,707,126)	11,680,944	(353,496,822)
Net Plant Assets	$ 365,836,527	$ 31,725,306	$ (136,680)	$ 397,425,153
Work In Progress	40,189,273	60,112,686	(52,232,090)	48,069,869
Total Net Plant	$ 406,025,800	$ 91,837,992	$ (52,368,770)	$ 445,495,022

9. Risk Management

KUB is exposed to various risks of loss related to active and retiree medical claims; injuries to workers; theft of, damage to, and destruction of assets; environmental damages; and natural disasters. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2014, the amount of these liabilities was $738,983 resulting from the following changes:

	2014	2013
Balance, beginning of year	$ 816,900	$ 880,493
Current year claims and changes in estimates	5,685,495	5,742,173
Claims payments	(5,763,412)	(5,805,766)
Balance, end of year	$ 738,983	$ 816,900

10. Pension Plan

Description of Plan

The Plan is a single-employer contributory, defined benefit pension plan established by Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville § 1107(J). The Plan is designed to provide retirement, disability and death benefits.

The Plan is a governmental plan as defined by the Employee Retirement Income Security Act of 1974, is not subject to any of the provisions of the Act, and was revised January 1, 2014 to include all prior approved amendments.

At December 31, 2013, the Plan had approximately 639 retirees and beneficiaries currently receiving benefits and 49 terminated employees entitled to benefits but not yet receiving them. Of the approximately 778 current employees in the Plan, 743 were fully vested at December 31, 2013. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

Effective January 1, 2011, KUB froze the Plan such that persons employed or re-employed by KUB on or after January 1, 2011, shall not be eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the Plan.

The Plan provides three different benefit arrangements for KUB participants, retirees, and beneficiaries, as follows:

Career Equity Program (CEP)
CEP is for eligible employees hired on or after January 1, 1999, and for eligible former City Division Plan A members who elected CEP coverage as of July 1, 1999. CEP is a closed plan.

All eligible employees became participants on the date of his/her KUB employment. Participants are covered by Social Security. Participation in CEP does not require or permit employee contributions.

Plan A
Plan A benefits are for former City Division Plan A active employees, vested terminated employees, retirees, and beneficiaries. Plan A is a closed plan.

All employees participating in the City Division Plan A as of June 30, 1999 were eligible to participate in KUB's Plan A or the CEP program. Participants of Plan A are covered by Social Security. Plan A is a closed plan and is not available to KUB employees hired after July 1, 1999. Participation in Plan A requires employee contributions of 3 percent of the first $4,800 of annual earnings and 5 percent of annual earnings in excess of $4,800. Plan A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or older.

Plan B
Plan B benefits are for former City Division Plan B active employees, vested terminated employees, retirees, and beneficiaries. Plan B is a closed plan.

All employees participating in the City Division Plan B as of June 30, 1999, are eligible to participate in KUB's Plan B. Plan B is now a closed plan and no participants can be added. Participants of Plan B are not covered by Social Security. Participation in Plan B requires employee contributions of 4 percent of annual earnings. Plan B provides for retirement benefits after 25 years of service and the attainment of age 50.

Funding Policy

For the Plan year ended December 31, 2013, a contribution of $6,314,399 will be made in the Plan sponsor's fiscal year ending June 30, 2015. The Electric Division's portion of this contribution is $3,030,911. The contribution was determined as part of the January 1, 2013 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death. For the Plan year ended December 31, 2013, the Plan's actuarial funded ratio was 89.3 percent.

At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund, is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

Significant actuarial assumptions used in the valuation include (a) rate of return of investments of 8 percent, (b) the RP2000 Mortality Table, (c) annual projected salary increases based on participants' ages ranging from age 25 to age 65 with salary increases from 2.58 percent to 7.92 percent, and (d) cost of living adjustment of 2.8 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period.

As of the actuarial report for the Plan year ended December 31, 2013, contributions of $6,314,399 and $5,502,677 for 2013 and 2012, respectively, will be made during the Plan sponsor's fiscal years ending June 30, 2015 and 2014, respectively. Of these amounts, $3,030,911 and $2,586,258 are attributable to the Electric Division.

Subsequent to June 30, 2014, the actuarial valuation for the Plan year ending December 31, 2014 was completed. The actuarial valuation resulted in an actuarially determined contribution of $5,669,380 for the fiscal year ending June 30, 2016, based on the Plan's current funding policy. The Electric Division's portion of this contribution is $2,721,302. For the Plan year ending December 31, 2014, the Plan's actuarial funded ratio was 94.6 percent. See Required Supplementary Information for Pension Schedule of Funding Progress.

11. Defined Contribution Plan

KUB has a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees. Employees hired prior to January 1, 2011 may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. Employees hired on or after January 1, 2011 have an enhanced 401(k) Plan due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. They also receive a nonelective KUB contribution of from 3 percent to 6 percent, depending on years of service, whether they contribute or not.

Since July 1, 2000, 401(k) matching contributions for employees eligible to participate in the KUB Pension Plan have been funded by the Pension Plan. These funds are held by the Pension trustee until eligible for distribution. IRS rules permit the funding of 401(k) matching contributions from excess pension assets for employees covered under the Pension Plan. Given the current funding level of the Pension Plan, effective July 1, 2011, KUB began to reimburse the Pension Plan for the current matching contributions. The match and nonelective contributions for employees hired on or after January 1, 2011 are paid directly by KUB.

12. Other Post-Employment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) established new standards for the measurement, recognition, and reporting of other post-employment benefits (OPEB). OPEB includes post-employment benefits other than pension, which, for KUB, is presently limited to post-employment health care. GASB Statement No. 45 (Statement No. 45) requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the total unfunded liability. Statement No. 45 was effective for KUB for the fiscal year beginning July 1, 2007.

KUB currently provides post-employment health care benefits to 604 former employees and 619 covered dependents. The cost of coverage is shared with retirees and beneficiaries. KUB recognizes its share of the cost of post-employment health care benefits as an expense as claims are paid.

In anticipation of Statement No. 45, KUB amended its Group Health Plan in 1999, eliminating post-employment health care benefits for all employees hired on or after July 1, 1999. As of June 30, 2014, 399 active employees were eligible for individual and dependent coverage at separation. To qualify, the employee must meet the Rule of 80 (age plus years of service) with a minimum of 20 years of service, and be enrolled in medical coverage on their last day.

In May 2006, the state of Tennessee adopted Tennessee Code Annotated, Title 8, Chapter 50, Part 12 authorizing governmental entities to establish Trusts for the purpose of pre-funding their respective OPEB liabilities.

Although Statement No. 45 does not require pre-funding of the liability, KUB has determined that it is in the long-term economic interest of KUB and its ratepayers to establish a Trust to pre-fund KUB's OPEB liability.

In October 2007, the KUB Board authorized the establishment of an OPEB Trust. The applicable documentation was submitted to the State Funding Board and, in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008.

The Trust issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

The general administration and responsibility for the proper operation of the Trust is governed by a Board of Trustees, appointed by KUB's President & CEO. The investment of all deposits to the Trust is governed by an Investment Policy, which was adopted by the KUB Board and approved by the State Funding Board.

Total contributions to the OPEB Trust for the fiscal year ended June 30, 2014 were $4,057,091 (Division's share $1,906,833). The contribution to the Trust exceeded the annual actuarially determined contribution, as determined by the Postretirement Benefit Plan's actuarial valuation for the year ended December 31, 2012, which was $3,327,412 (Division's share $1,563,884). As of June 30, 2014, the employer's OPEB obligation has been exceeded by $177,322 (Division's share $83,341).

The actuarially determined contribution for the fiscal year ending June 30, 2015, as determined by the Plan's actuarial valuation for the year ended December 31, 2013 is $3,497,372 (Division's share $1,678,739).

The actuarial valuation for the Plan for the year ending December 31, 2014 has been completed. The valuation determined that the Plan's actuarial accrued liability was $46,889,808 (Division's share $22,507,108). The actuarial value of the Plan's assets was $43,409,955 (Division's share $20,836,778). As a result, the Plan's unfunded actuarial accrued liability was $3,479,853 (Division's share $1,670,329). The Plan's actuarial funded ratio was 93 percent. The valuation also determined that the employer's actuarially determined contribution is $953,221 for the fiscal year ending June 30, 2016 (Division's share $457,546). See Required Supplementary Information for OPEB Schedule of Funding Progress.

13. Related Party Transactions

The Division, in the normal course of operations, is involved in transactions with the City of Knoxville and with other divisions of KUB. Such transactions for the years ended June 30, 2014 and 2013 are summarized as follows:

	2014	**2013**
City of Knoxville		
Amounts billed by the Division for utilities and related services	$ 7,258,070	$ 7,345,378
Payments by the Division in lieu of property tax	5,887,808	5,627,417
Payments by the Division for services provided	80,560	89,907
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	5,706,628	5,705,766
Interdivisional rental expense	-	-
Interdivisional rental income	743,721	688,858
Amounts billed to the Division by other divisions for utilities services provided	226,003	199,291

With respect to these transactions, accounts receivable from the City of Knoxville and the other divisions included in the balance sheet at year end were:

	2014	**2013**
Accounts receivable	$ 522,669	$ 566,006

14. Other Commitments and Contingencies

In the normal course of business, there are various lawsuits pending against KUB. Management has reviewed these lawsuits with counsel, who is vigorously defending KUB's position and is of the opinion that the ultimate disposition of these matters will not have a material adverse effect on KUB's financial position, results of operations or cash flows.

Knoxville Utilities Board Electric Division
Required Supplementary Information – Schedule of Funding Progress
June 30, 2014
(Unaudited)

Pension Plan

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2010	$ 203,704,898	$ 190,679,453	$ (13,025,445)	106.8%	$ 48,228,428	(27.01%)
January 1, 2011	195,692,781	187,257,434	(8,435,347)	104.5%	47,405,874	(17.79%)
January 1, 2012	183,980,665	195,536,152	11,555,487	94.1%	48,836,721	23.66%
January 1, 2013	175,936,548	197,049,614	21,113,066	89.3%	47,553,598	44.40%
January 1, 2014	188,770,336	199,515,466	10,745,130	94.6%	47,107,350	22.81%

Other Post-Employment Benefits (OPEB)

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2008	$ -	$ 108,329,141	$ 108,329,141	0%	$ 31,234,509	346.8%
January 1, 2009	14,593,487	100,726,738	86,133,251	14%	31,846,091	270.5%
January 1, 2010	21,275,643	58,475,364	37,199,721	36%	30,069,028	123.7%
January 1, 2011	40,749,815	64,289,254	23,539,439	63%	28,878,791	81.5%
January 1, 2012	37,907,357	61,603,466	23,696,109	62%	28,269,123	83.8%
January 1, 2013	38,571,803	63,341,531	24,769,728	61%	27,566,340	89.9%
January 1, 2014	43,409,955	46,889,808	3,479,853	93%	26,724,154	13.0%

Knoxville Utilities Board Electric Division

Supplemental Information –
Schedule of Expenditures of Federal Awards by Grant
June 30, 2014

Schedule 1

KUB was awarded a grant from the Department of Energy in October 2009, under DOE's Smart Grid Investment Grant Program. The grant, which totals $3.58 million, will be used to help fund a smart grid pilot project in the University of Tennessee and surrounding areas. This grant was fully expended as of June 30, 2014. KUB was also awarded two grants from Tennessee Emergency Management Agency (as a flow through from FEMA) for reimbursement for costs related to storms in 2011. The schedule below shows the activities for the current fiscal year.

Program Name	Federal/State Agency	CFDA Number	Contract Number	Beginning Receivable	Cash Receipts	Expenditures	Adjustments	Ending Receivable
ARRA-Electricity Delivery and Energy Reliability, Research, Development and Analysis	Department of Energy	81.122	DE-OE0000405	$ -	$ 271,271	$ 271,271	$ -	$ -
		Total Program 81.122		$ -	$ 271,271	$ 271,271	$ -	$ -
U.S. Department of Homeland Security	Tennessee Emergency Management	97.036	34101-0000009205	$ 533,760	$ 83,212	$ -	$ -	$ 450,548
U.S. Department of Homeland Security	Tennessee Emergency Management	97.036	34101-0000009832	$ 980,465	$ -	$ -	$ -	$ 980,465
		Total Program 97.036		$ 1,514,225	$ 83,212	$ -	$ -	$ 1,431,013
		Total Federal Awards		$ 1,514,225	$ 354,483	$ 271,271	$ -	$ 1,431,013

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Knoxville Utilities Board and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Insurance in Force
June 30, 2014
(Unaudited) Schedule 2

Insurance coverage is for KUB as a consolidated entity.

Crime
Covers losses resulting from employee dishonesty, robbery, burglary, and computer fraud. Limits of coverage - $5,000,000; $250,000 retention.

Directors' and Officers' Liability Insurance
Covers KUB personnel appropriately authorized to make decisions on behalf of KUB (including but not limited to Commissioners, President and CEO, Senior Vice Presidents, Vice Presidents, and Directors) for wrongful acts. Limits of coverage - $20,000,000; $1,000,000 corporate deductible, $0 individual deductible.

Employment Practices Liability
Coverage for costs related to actual or alleged employment practices violations for amounts exceeding specified amount ($500,000). Limits of coverage - $10,000,000.

Fiduciary
Covers losses resulting from wrongful acts related to KUB's Pension, 401(k), and OPEB Trust funds. Limits of coverage - $10,000,000; $150,000 deductible.

Pollution Legal Liability
New conditions coverage for losses exceeding specified amount per occurrence ($1,000,000). Limits of coverage - $20,000,000.

Property Insurance
This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - $250,000,000 per occurrence (subject to certain sublimits); $2,500,000 deductible per occurrence.

Travel Accident
Covers losses related to employees' business travel. Limits of coverage - $1,500,000 aggregate.

Excess Insurance for General Liability
As a government entity, KUB's liability is limited under the Tennessee Governmental Tort Liability Act (TCA §29-20-403). KUB is self-insured for up to the first $700,000 of any accident and has insurance of $1,000,000 above this retention.

Excess Insurance for Workers' Compensation
Covers all losses exceeding specified amount per occurrence ($1,000,000). Limits of coverage - Statutory; stop loss coverage applies for aggregate losses over $5,000,000.

Employee Health Plan Stop Loss Coverage
KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of $400,000 per individual participant.

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2014
Schedule 3

Continued on Next Page

	W-2005		X-2006		Y-2009		Z-2010			AA-2012	
FY	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Rebate*	Principal	Interest
14-15	$ 1,790,000	1,381,831	$ 1,725,000	134,375	$ 1,525,000	$ 1,466,187	$ 1,265,000	$ 1,299,244	$ 454,736	$ 955,000	1,490,838
15-16	1,870,000	1,299,481	1,825,000	45,625	1,600,000	1,427,125	1,285,000	1,265,436	442,903	990,000	1,442,213
16-17	1,940,000	1,218,606			1,675,000	1,382,000	1,305,000	1,225,919	429,072	2,540,000	1,353,963
17-18	2,015,000	1,139,506			1,750,000	1,330,625	1,330,000	1,180,440	413,154	2,670,000	1,223,713
18-19	2,095,000	1,057,306			1,850,000	1,267,375	1,355,000	1,128,729	395,055	2,805,000	1,086,838
19-20	2,185,000	970,341			1,950,000	1,191,375	1,390,000	1,070,710	374,749	2,955,000	942,838
20-21	2,275,000	878,354			2,025,000	1,101,750	1,425,000	1,007,355	352,575	3,100,000	791,463
21-22	2,370,000	781,069			2,150,000	997,375	1,470,000	939,300	328,756	3,270,000	632,213
22-23	2,470,000	678,219			2,250,000	887,375	1,515,000	866,145	303,151	3,415,000	482,163
23-24	2,580,000	569,294			2,350,000	784,125	1,560,000	787,710	275,698	3,540,000	360,763
24-25	2,695,000	453,903			2,475,000	687,625	1,615,000	703,545	246,241	3,640,000	253,063
25-26	2,820,000	333,263			2,600,000	582,875	1,670,000	613,180	214,614	1,105,000	180,506
26-27	2,950,000	205,201			2,700,000	470,250	1,725,000	516,395	180,739	1,140,000	144,025
27-28	3,085,000	69,413			2,850,000	348,750	1,785,000	413,266	144,643	1,180,000	106,325
28-29					3,000,000	217,125	1,850,000	303,738	106,308	1,225,000	65,713
29-30					3,150,000	74,813	1,925,000	187,156	65,505	1,265,000	22,138
30-31							2,000,000	63,500	22,225		
31-32											
32-33											
33-34											
34-35											
35-36											
36-37											
37-38											
38-39											
39-40											
40-41											
41-42											
42-43											
Total	$ 33,140,000	$ 11,035,787	$ 3,550,000	$ 180,000	$ 35,900,000	$ 14,216,750	$ 26,470,000	$ 13,571,768	$ 4,750,124	$ 35,795,000	$ 10,578,775

*Series Z-2010 bonds were issued as federally taxable Build America Bonds. KUB is scheduled to receive a 35 percent interest rebate payment from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change.

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Schedule 3

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	BB-2012		CC-2013		Total		Grand Total (P + I)	Grand Total (Less Rebate)
FY	Principal	Interest	Principal	Interest	Principal	Interest		
14-15	$ 625,000	$ 1,056,625	$ 50,000	$ 316,350	$ 7,935,000	$ 7,145,450	$ 15,080,450	$ 14,625,714
15-16	650,000	1,037,500	50,000	314,850	8,270,000	6,832,230	15,102,230	14,659,327
16-17	675,000	1,017,625	450,000	305,099	8,585,000	6,503,212	15,088,212	14,659,140
17-18	700,000	997,000	475,000	286,600	8,940,000	6,157,884	15,097,884	14,684,730
18-19	725,000	972,000	475,000	267,600	9,305,000	5,779,848	15,084,848	14,689,793
19-20	750,000	942,500	500,000	248,100	9,730,000	5,365,864	15,095,864	14,721,115
20-21	800,000	911,500	515,000	227,800	10,140,000	4,918,222	15,058,222	14,705,647
21-22	825,000	879,000	540,000	206,700	10,625,000	4,435,657	15,060,657	14,731,901
22-23	875,000	849,375	560,000	187,497	11,085,000	3,950,774	15,035,774	14,732,623
23-24	900,000	822,750	575,000	170,475	11,505,000	3,495,117	15,000,117	14,724,419
24-25	950,000	795,000	590,000	153,000	11,965,000	3,046,136	15,011,136	14,764,895
25-26	975,000	766,125	640,000	134,550	9,810,000	2,610,499	12,420,499	12,205,885
26-27	1,025,000	736,125	650,000	115,200	10,190,000	2,187,196	12,377,196	12,196,457
27-28	1,075,000	704,625	670,000	95,400	10,645,000	1,737,779	12,382,779	12,238,136
28-29	1,125,000	671,625	675,000	75,225	7,875,000	1,333,426	9,208,426	9,102,118
29-30	1,175,000	637,125	710,000	54,450	8,225,000	975,682	9,200,682	9,135,177
30-31	1,225,000	601,125	725,000	32,925	3,950,000	697,550	4,647,550	4,625,325
31-32	1,275,000	563,625	735,000	11,023	2,010,000	574,648	2,584,648	2,584,648
32-33	1,325,000	524,625			1,325,000	524,625	1,849,625	1,849,625
33-34	1,375,000	484,125			1,375,000	484,125	1,859,125	1,859,125
34-35	1,450,000	441,750			1,450,000	441,750	1,891,750	1,891,750
35-36	1,500,000	397,500			1,500,000	397,500	1,897,500	1,897,500
36-37	1,575,000	351,375			1,575,000	351,375	1,926,375	1,926,375
37-38	1,625,000	303,375			1,625,000	303,375	1,928,375	1,928,375
38-39	1,700,000	253,500			1,700,000	253,500	1,953,500	1,953,500
39-40	1,775,000	201,375			1,775,000	201,375	1,976,375	1,976,375
40-41	1,850,000	147,000			1,850,000	147,000	1,997,000	1,997,000
41-42	1,950,000	90,000			1,950,000	90,000	2,040,000	2,040,000
42-43	2,025,000	30,375			2,025,000	30,375	2,055,375	2,055,375
Total	$ 34,500,000	$ 18,186,250	$ 9,585,000	$ 3,202,844	$ 178,940,000	$ 70,972,174	$ 249,912,174	$ 245,162,050

Knoxville Utilities Board Electric Division
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Rate Class		**Base Charge**			**Number of Customers**
Residential		Customer Charge:	$14.60 per month, less Hydro Allocation Credit: $1.60 per month.		175,146
		Energy Charge:	Summer Period	9.043 cents per kWh per month.	
			Winter Period	9.002 cents per kWh per month.	
			Transition Period	9.002 cents per kWh per month.	
Commercial/ Industrial	**A. 1.**	If (a) the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12-month period is not more than 50 kWh, and (b) customer's monthly energy takings for any month during such period do not exceed 15,000 kWh:			20,430
		Customer Charge:	$18.00 per delivery point per month.		
		Energy Charge:	Summer Period	10.445 cents per kWh.	
			Winter Period	10.404 cents per kWh.	
			Transition Period	10.404 cents per kWh.	
	2.	If (a) the higher of (i) the customer's currently effective contract demand or (ii) its highest billing demand during the latest 12-month period is greater than 50 kW but not more than 1,000 kW, or (b) if the customer's billing demand is less than 50 kW and its energy takings for any month during such period exceed 15,000 kWh:			2,789
		Customer Charge:	$50.00 per delivery point per month.		
		Demand Charge:	First 50 kW of billing demand per month, no demand charge.		
			Excess over 50 kW of billing demand per month, at		
			Summer Period	$12.73 per kW.	
			Winter Period	$11.94 per kW.	
			Transition Period	$11.94 per kW.	
		Energy Charge:	Summer Period	First 15,000 kWh per month at 11.239 cents per kWh Additional kWh per month at 6.331 cents per kWh.	
			Winter Period	First 15,000 kWh per month at 11.198 cents per kWh Additional kWh per month at 6.331 cents per kWh.	
			Transition Period	First 15,000 kWh per month at 11.198 cents per kWh Additional kWh per month at 6.331 cents per kWh.	

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Rate Class				Number of Customers
	3. If (a) the higher of the customer's currently effective contract demand or (b) its highest billing demand during the latest 12-month period is greater than 1,000 kW:			55
	Customer Charge:	$140.00 per delivery point per month.		
	Demand Charge:	Summer Period	First 1,000 kW of billing demand per month, at $12.52 per kW. Excess over 1,000 kW of billing demand per month, at $13.94 per kW, plus an additional $13.94 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kW or its contract demand.	
		Winter Period	First 1,000 kW of billing demand per month, at $11.76 per kW. Excess over 1,000 kW of billing demand per month, at $13.18 per kW, plus an additional $13.18 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kW or its contract demand.	
		Transition Period	First 1,000 kW of billing demand per month, at $11.76 per kW. Excess over 1,000 kW of billing demand per month, at $13.18 per kW, plus an additional $13.18 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kW or its contract demand.	
	Energy Charge:	Summer Period	6.641 cents per kWh.	
		Winter Period	6.641 cents per kWh.	
		Transition Period	6.641 cents per kWh.	

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Rate Class		Base Charge			Number of Customers
Commercial/ Industrial	**B.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 5,000 kW but not more than 15,000 kW:			1
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$17.46 per kW per month of the customer's onpeak billing demand, plus $4.64 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $17.46 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Winter Period	$10.16 per kW per month of the customer's onpeak billing demand, plus $4.64 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $10.16 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Transition Period	$4.64 per kW per month of the customer's offpeak billing demand, plus $10.16 per kW per month for each kW of the amount, if any, by which the customer's offpeak billing demand exceeds its offpeak contract demand.	

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Energy Charge:	Summer Period	10.329 cents per kWh per month for all metered onpeak kWh, plus 6.756 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 4.834 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.201 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Winter Period	7.170 cents per kWh per month for all metered onpeak kWh, plus 6.756 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 4.834 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.201 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Transition Period	6.756 cents per kWh per month for the first 425 hours use of maximum metered demand, plus 4.834 cents per kWh per month for the next 195 hours use of maximum metered demand, plus 3.201 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours.

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Rate Class		Base Charge			Number of Customers
Commercial/ Industrial	**C.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 15,000 kW but not more than 25,000 kW:			1
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$16.81 per kW per month of the customer's onpeak billing demand, plus $3.99 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $16.81 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Winter Period	$9.51 per kW per month of the customer's onpeak billing demand, plus $3.99 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $9.51 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Transition Period	$3.99 per kW per month of the customer's offpeak billing demand, plus $9.51 per kW per month for each kW of the amount, if any, by which the customer's offpeak billing demand exceeds its offpeak contract demand.	

Energy Charge:	Summer Period	9.958 cents per kWh per month for all metered onpeak kWh, plus 6.486 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 4.561 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 2.929 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Winter Period	6.876 cents per kWh per month for all metered onpeak kWh, plus 6.486 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 4.561 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 2.929 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Transition Period	6.486 cents per kWh per month for the first 425 hours use of maximum metered demand, plus 4.561 cents per kWh per month for the next 195 hours use of maximum metered demand, plus 2.929 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours.

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Rate Class		Base Charge			Number of Customers
Commercial/ Industrial	**D.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 25,000 kW:			1
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$17.24 per kW per month of the customer's onpeak billing demand, plus $4.42 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $17.24 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Winter Period	$9.94 per kW per month of the customer's onpeak billing demand, plus $4.42 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $9.94 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Transition Period	$4.42 per kW per month of the customer's offpeak billing demand, plus $9.94 per kW per month for each kW of the amount, if any, by which the customer's offpeak billing demand exceeds its offpeak contract demand.	

Energy Charge:	Summer Period	9.842 cents per kWh per month for all metered onpeak kWh, plus 6.262 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 4.338 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 2.706 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Winter Period	6.671 cents per kWh per month for all metered onpeak kWh, plus 6.262 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 4.338 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 2.706 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Transition Period	6.262 cents per kWh per month for the first 425 hours use of maximum metered demand, plus 4.338 cents per kWh per month for the next 195 hours use of maximum metered demand, plus 2.706 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours.

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Rate Class		**Base Charge**			**Number of Customers**
Seasonal Time of Use	**A.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 1,000 kW but not more than 5,000 kW:			-
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$17.46 per kW per month of the customer's onpeak billing demand, plus $4.64 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $17.46 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Winter Period	$10.16 per kW per month of the customer's onpeak billing demand, plus $4.64 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $10.16 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Transition Period	$4.64 per kW per month of the customer's offpeak billing demand, plus $10.16 per kW per month for each kW of the amount, if any, by which the customer's offpeak billing demand exceeds its offpeak contract demand.	

Energy Charge:	Summer Period	10.329 cents per kWh per month for all metered onpeak kWh, plus 6.756 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 4.834 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.201 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Winter Period	7.170 cents per kWh per month for all metered onpeak kWh, plus 6.756 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 4.834 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.201 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Transition Period	6.756 cents per kWh per month for the first 425 hours use of maximum metered demand, plus 4.834 cents per kWh per month for the next 195 hours use of maximum metered demand, plus 3.201 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours.

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Rate Class		Base Charge			Number of Customers
Seasonal	**B.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 5,000 kW but not more than 15,000 kW:			3
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$22.81 per kW per month of the customer's billing demand, plus $22.81 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
			Winter Period	$16.30 per kW per month of the customer's billing demand, plus $16.30 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
			Transition Period	$11.39 per kW per month of the customer's billing demand, plus $11.39 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
		Energy Charge:	Summer Period	5.476 cents per kWh per month.	
			Winter Period	5.052 cents per kWh per month.	
			Transition Period	4.959 cents per kWh per month.	

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Rate Class		**Base Charge**			**Number of Customers**
Seasonal	**C.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 15,000 kW but not more than 25,000 kW:			-
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$22.16 per kW per month of the customer's billing demand, plus $22.16 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
			Winter Period	$15.65 per kW per month of the customer's billing demand, plus $15.65 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
			Transition Period	$10.74 per kW per month of the customer's billing demand, plus $10.74 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
		Energy Charge:	Summer Period	5.488 cents per kWh per month.	
			Winter Period	5.056 cents per kWh per month.	
			Transition Period	4.966 cents per kWh per month.	

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Rate Class		Base Charge			Number of Customers
Seasonal	**D.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 25,000 kW:			-
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$26.28 per kW per month of the customer's billing demand, plus $26.28 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
			Winter Period	$19.74 per kW per month of the customer's billing demand, plus $19.74 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
			Transition Period	$14.85 per kW per month of the customer's billing demand, plus $14.85 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
		Energy Charge:	Summer Period	4.801 cents per kWh per month.	
			Winter Period	4.425 cents per kWh per month.	
			Transition Period	4.341 cents per kWh per month.	

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Rate Class		**Base Charge**			**Number of Customers**
Manufacturing	**B.**	This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 5,000 kW but not more than 15,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive.			-
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$17.48 per kW per month of the customer's onpeak billing demand, plus $4.66 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $17.48 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Winter Period	$10.18 per kW per month of the customer's onpeak billing demand, plus $4.66 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $10.18 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Transition Period	$4.66 per kW per month of the customer's offpeak billing demand, plus $10.18 per kW per month for each kW of the amount, if any, by which the customer's offpeak billing demand exceeds its offpeak contract demand.	

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Energy Charge:	Summer Period	8.755 cents per kWh per month for all metered onpeak kWh, plus 5.221 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.299 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 1.666 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Winter Period	5.660 cents per kWh per month for all metered onpeak kWh, plus 5.221 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.299 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 1.666 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Transition Period	5.221 cents per kWh per month for the first 425 hours use of maximum metered demand, plus 3.299 cents per kWh per month for the next 195 hours use of maximum metered demand, plus 1.666 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours.

Rate Class		Base Charge			Number of Customers
Manufacturing	**C.**	This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 15,000 kW but not more than 25,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive.			-
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$16.85 per kW per month of the customer's onpeak billing demand, plus $4.03 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $16.85 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Winter Period	$9.55 per kW per month of the customer's onpeak billing demand, plus $4.03 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $9.55 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Transition Period	$4.03 per kW per month of the customer's offpeak billing demand, plus $9.55 per kW per month for each kW of the amount, if any, by which the customer's offpeak billing demand exceeds its offpeak contract demand.	

Energy Charge:	Summer Period	8.839 cents per kWh per month for all metered onpeak kWh, plus 5.207 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.285 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 1.652 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Winter Period	5.675 cents per kWh per month for all metered onpeak kWh, plus 5.207 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.285 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 1.652 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Transition Period	5.207 cents per kWh per month for the first 425 hours use of maximum metered demand, plus 3.285 cents per kWh per month for the next 195 hours use of maximum metered demand, plus 1.652 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours.

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Rate Class		Base Charge			Number of Customers
Manufacturing	**D.**	This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 25,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive.			-
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$17.24 per kW per month of the customer's onpeak billing demand, plus $4.42 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $17.24 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Winter Period	$9.94 per kW per month of the customer's onpeak billing demand, plus $4.42 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $9.94 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Transition Period	$4.42 per kW per month of the customer's offpeak billing demand, plus $9.94 per kW per month for each kW of the amount, if any, by which the customer's offpeak billing demand exceeds its offpeak contract demand.	

Energy Charge:	Summer Period	8.696 cents per kWh per month for all metered onpeak kWh, plus 5.068 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.144 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 1.513 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Winter Period	5.516 cents per kWh per month for all metered onpeak kWh, plus 5.068 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.144 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 1.513 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Transition Period	5.068 cents per kWh per month for the first 425 hours use of maximum metered demand, plus 3.144 cents per kWh per month for the next 195 hours use of maximum metered demand, plus 1.513 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours.

Rate Class		Base Charge			Number of Customers
Manufacturing Seasonal Time of Use	**A.**	This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 1,000 kW but not more than 5,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive.			-
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$17.48 per kW per month of the customer's onpeak billing demand, plus $4.66 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $17.48 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Winter Period	$10.18 per kW per month of the customer's onpeak billing demand, plus $4.66 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $10.18 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Transition Period	$4.66 per kW per month of the customer's offpeak billing demand, plus $10.18 per kW per month for each kW of the amount, if any, by which the customer's offpeak billing demand exceeds its offpeak contract demand.	

Energy Charge:	Summer Period	8.755 cents per kWh per month for all metered onpeak kWh, plus 5.221 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.299 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 1.666 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Winter Period	5.660 cents per kWh per month for all metered onpeak kWh, plus 5.221 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.299 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 1.666 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Transition Period	5.221 cents per kWh per month for the first 425 hours use of maximum metered demand, plus 3.299 cents per kWh per month for the next 195 hours use of maximum metered demand, plus 1.666 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours.

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Manufacturing			**Number of Customers**
Seasonal	**B.**	This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 5,000 kW but not more than 15,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive.	1

Customer Charge:	$1,500 per delivery point per month.	
Administrative Charge:	$700 per delivery point per month.	
Demand Charge:	Summer Period	$19.85 per kW per month of the customer's billing demand, plus $19.85 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.
	Winter Period	$13.34 per kW per month of the customer's billing demand, plus $13.34 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.
	Transition Period	$8.43 per kW per month of the customer's billing demand, plus $8.43 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.
Energy Charge:	Summer Period	4.675 cents per kWh per month.
	Winter Period	4.196 cents per kWh per month.
	Transition Period	4.085 cents per kWh per month.

					Number of Customers
Seasonal	**C.**	This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 15,000 kW but not more than 25,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive.			2
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$19.22 per kW per month of the customer's billing demand, plus $19.22 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
			Winter Period	$12.71 per kW per month of the customer's billing demand, plus $12.71 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
			Transition Period	$7.80 per kW per month of the customer's billing demand, plus $7.80 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
		Energy Charge:	Summer Period	4.644 cents per kWh per month.	
			Winter Period	4.195 cents per kWh per month.	
			Transition Period	4.087 cents per kWh per month.	

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Manufacturing			**Number of Customers**
Seasonal	**D.**	This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 25,000 kW; and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive.	1

Customer Charge:	$1,500 per delivery point per month.	
Administrative Charge:	$700 per delivery point per month.	
Demand Charge:	Summer Period	$22.59 per kW per month of the customer's billing demand, plus $22.59 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.
	Winter Period	$16.08 per kW per month of the customer's billing demand, plus $16.08 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.
	Transition Period	$11.17 per kW per month of the customer's billing demand, plus $11.17 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.
Energy Charge:	Summer Period	3.938 cents per kWh per month.
	Winter Period	3.580 cents per kWh per month.
	Transition Period	3.494 cents per kWh per month.

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Schedule 4

Rate Class	Base Charge	Number of Customers
Outdoor Lighting		

Part A - Charges for Street and Park Lighting Systems, Traffic Signal Systems, and Athletic Field Lighting Installations — Number of Customers: 51

Energy Charge:	Summer Period	7.349 cents per kWh per month.
	Winter Period	7.349 cents per kWh per month.
	Transition Period	7.349 cents per kWh per month.

Facility Charge: The annual facility charge shall be 14.27 percent of the installed cost to KUB's electric system of the facilities devoted to street and park lighting service specified in this Part A. Such installed cost shall be recomputed on July 1 of each year, or more often if substantial changes in the facilities are made. Each month, one-twelfth of the then total annual facility charge shall be billed to the customer. If any part of the facilities has not been provided at the electric system's expense, or if the installed cost of any portion thereof is reflected on the books of another municipality or agency or department, the annual facility charge shall be adjusted to reflect properly the remaining cost to be borne by the electric system.

Customer Charge: $2.50.

Part B - Charges for Outdoor Lighting for Individual Customers — Number of Customers: 901

Charges Per Fixture Per Month

a. Type of Fixture	(Watts)	(Lumens)	Rated kWh	Facility Charge	Total Lamp Charge
Mercury Vapor or Incandescent*	175	7,650	70	$ 4.46	$ 9.60
	400	19,100	155	6.23	17.62
	1000**	47,500	378	9.96	37.74
High Pressure Sodium	100	8,550	42	4.46	7.55
	250	23,000	105	5.29	13.01
	400	45,000	165	6.23	18.36
	1000**	126,000	385	9.96	38.25
Decorative	100	8,550	42	5.08	8.17

* Mercury Vapor and Incandescent fixtures not offered for new service.

** 1,000 watt fixtures not offered for new service.

b. Energy Charge: For each lamp size under **a.** above, 7.349 cents per rated kWh per month.

Additional pole charge: $3.00 per pole.

Rate Class	Base Charge	Number of Customers
LED Pilot Program	Service under the LED Pilot Program shall only be available for select outdoor (security) lighting facilities of governmental entities located in the KUB electric system service territory. Participation in the LED Pilot Program shall be on a voluntary basis.	
	Pilot Program Charges - No Capital Contribution	-

The following charges are applicable to those customers participating in the LED Pilot Program, for whom the installed cost of facilities for providing service under the program has been borne by the electric system. The following charges are per LED fixture per month.

LED Fixture Type	Facility Charge	Rated kWh	Energy Charge Per kWh	Total Charge
LED - 150WE - Rectangular Head	$ 11.96	38	$ 0.07349	$ 14.75
LED - 150WE - Cobra Head	10.91	38	0.07349	13.70
LED - 250WE - Rectangular Head	$ 14.38	57	$ 0.07349	$ 18.57
LED - 250WE - Cobra Head	13.10	57	0.07349	17.29

Pilot Program Charges - Capital Contribution -

The following charges are applicable to those customers participating in the LED Pilot Program, for whom the installed cost of facilities providing service under the program has been borne by the customer. The following charges are per LED fixture per month.

LED Fixture Type	Facility Charge	Rated kWh	Energy Charge Per kWh	Total Charge
LED - 150WE - Rectangular Head	$ 5.15	38	$ 0.07349	$ 7.94
LED - 150WE - Cobra Head	5.03	38	0.07349	7.82
LED - 250WE - Rectangular Head	$ 5.99	57	$ 0.07349	$ 10.18
LED - 250WE - Cobra Head	5.83	57	0.07349	10.02

Additional pole charge: $3.00 per pole.

• Certified Public Accountants
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RODEFER MOSS & CO, PLLC

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*

To the Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Knoxville Utilities Board ("KUB", (an independent agency reported as a component unit for financial purposes only) of Knoxville, Tennessee, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements, and have issued our report thereon dated October 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered KUB'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KUB's internal control. Accordingly, we do not express an opinion on the effectiveness of KUB's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KUB'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*.

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 KUB's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KUB's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2014

APPENDIX C-1

THE WATER DIVISION

(CUSIP 499818)

THE WATER DIVISION

INTRODUCTION

The Water Division has been owned and operated by the City since 1909. The Water Division consists of a complete system for the treatment, storage and distribution of water.

The Water Division distributes water to 78,336 customers on an exclusive basis covering 188 square miles throughout the City and on a non-exclusive basis in portions of Knox, Sevier and Jefferson counties.

SOURCE OF WATER SUPPLY

The KUB service area is supplied with water from the Tennessee River. The river furnishes an abundant supply of water for the Mark B. Whitaker Plant (the “MBW”), which is KUB’s sole water plant and has a capacity of 61.2 MGD.

Tennessee Valley Authority reservoirs are upstream, providing the river a year-round flow far in excess of the City’s needs. Even during drought conditions, Knoxville’s water supply has been more than adequate to meet customer requirements. The average daily pumpage of MBW for the past fiscal year was 33.2 million gallons.

KUB’s water quality laboratory is one of the few utility laboratories in the state certified by the State Department of Health and Environment to perform the complicated analysis necessary to maintain compliance with all federal drinking water regulations. The Safe Drinking Water Act of 1986 provides for mandatory disinfection and filtration treatment processes which the Water Division has constantly maintained.

The Water Division has long been committed to delivering a reliable supply of high quality drinking water to its customers. The goal of KUB is to ensure that high quality water is made available at the customer’s tap.

Capital projects that have recently improved the water filtration facilities at MBW included new filter valves and actuators. Those upgrades provided more operational flexibility for the plant.

KUB’s excellent track record in providing high-quality, reliable water supply to its customers has been achieved by maintaining excess capacity. KUB's reliance on a single water treatment plant combined with rising customer expectations and the potential for natural and man-made impacts on the water system provided the impetus to reassess our long-term strategy.

With an objective of achieving redundant firm capacity of approximately 40 MGD, two major options were considered, including (1) the construction of a second water plant on a different portion of our water system and (2) a combination of projects that would provide redundancy at MBW and "harden" key elements of our existing treatment processes at MBW.

After careful consideration, KUB will embark on a 15-year program to invest in redundancy and hardening at MBW through a series of capital projects, including the construction of a second full treatment train adjacent to the current plant. This additional treatment train will include dual intakes upstream of MBW on the Holston and French Broad Rivers, additional filters/clarifiers, new pumping and storage facilities, and new high service transmission mains extending from MBW.

This approach will meet reliability goals, mitigate primary risk factors at MBW, and provide additional operational flexibility for day-to-day plant operations, while achieving a considerable savings compared to the construction of a second treatment plant. The total projected cost of the various projects is $93 million over 15 years, which is significantly less than the estimated $250 million it would cost to construct a second water plant with 40 MGD treatment capacity. The deployment will be funded by debt and incremental rate increases beginning fiscal year 2018. The water rate increases previously adopted by the Board for July 2015 and July 2016, respectively, will not be modified.

KUB completed a new Low Service Pump Station (LSPS) in May 2014 to address the reliability of the raw water pumping system at MBW. The system moves raw water from the Tennessee River to the MBW clarification system. The current pump station has portions of the original 1927 construction, with numerous upgrades over the years of service. The $8.5 million project includes a new 70 million gallons per day pump station with four submersible pumps, a new electrical building, piping, and controls to help KUB provide safe, high quality water for many years to come.

THE WATER DISTRIBUTION SYSTEM

KUB's water distribution system territory covers 188 square miles. The system includes 27 pump stations, 28 storage facilities, and 1,408 miles of water service main.

In April 2007 KUB launched a new infrastructure management program for its water distribution system called Century II, which began as a phased-in increase in the level of water main replacement over several years. In early 2009, due to the impact of the economic recession on the community and KUB's customers, KUB temporarily deferred its Century II programs, but maintained its historical level of capital investment in the water system.

In April 2011 management provided an updated assessment on the condition of the water system to the KUB Board, including a recommendation to resume the Century II water program. In September 2011 the Board adopted a resolution which endorsed the Century II water program and a ten-year funding plan, which included a combination of debt issues and annual rate increases. This same Board resolution adopted the initial three water rate increases, which were effective January 2012, January 2013, and January 2014.

The water distribution system is an aging system, with approximately 50 percent of the system consisting of older pipe types, including galvanized, cast iron, and cement-lined water main. Although it represents only half of the water system, older pipe, particularly galvanized main, accounts for approximately 90 percent of annual water main breaks. As a result of the aging pipe system, the system's water loss ratio has risen steadily over the last 20 years to the point where the system loses approximately 30 percent of the water input into the system from the water plant.

Ten years of funding for the Century II water program will provide for the removal of all galvanized water main by 2020, and the removal of approximately 50 miles of cast iron pipe. At the end of ten years, the water system will look dramatically different with approximately two-thirds of the system consisting of newer pipe types.

Over the last three fiscal years, KUB has invested approximately $51 million in its water system infrastructure and is on track to achieve its target Century II program goals for the ten-year plan endorsed by the Board in 2011.

In June 2014, the Board approved the next phase of rate increases to support the Century II water program. The first rate increase was effective July 2014, and the remaining rate increases will be effective July 2015, and July 2016, respectively. The July 2014 increase will provide an additional $3.6 million in annual water system revenue, while the 2015 and 2016 rates increases will provide an additional $2 million in annual revenue.

Based on the success of its recent smart grid pilot, KUB intends to phase in a system-wide deployment of smart meters and other smart grid technologies over a multi-year period commencing in fiscal year 2016. The total projected cost of the system-wide deployment is $103 million through 2024, including $52 million for the installation of electric, gas and water smart meters; $35 million for the extension of fiber to substations and other critical utility system infrastructure; $11 million for the strategic installation of distribution and substation automation devices (faulted circuit indicators and voltage control devices); and $5 million for on-going support and administrative costs, including licensing fees and additional staffing. The Water Division's share of costs is projected to be $15.4 million. The deployment will be funded by debt and incremental rate increases beginning fiscal year 2018. The water rate increases previously adopted by the Board for July 2015 and July 2016, respectively, will not be modified.

PENSION PLAN

The Plan is a single-employer contributory, defined benefit pension plan established by Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville § 1107(J). The Plan is designed to provide retirement, disability and death benefits. The Plan is a governmental plan as defined by the Employee Retirement Income Security Act of 1974 and is not subject to any of the provisions of the Act, and was revised January 1, 2014 to include all prior approved amendments.

At December 31, 2013, the Plan had approximately 639 retirees and beneficiaries currently receiving benefits and 49 terminated employees entitled to benefits but not yet receiving them. Of the approximately 778 current employees in the Plan, 743 were fully vested at December 31, 2013. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement

System, P.O. Box 59017, Knoxville, TN 37950-9017.

Effective January 1, 2011, KUB froze the Plan such that persons employed or re-employed by KUB on or after January 1, 2011, shall not be eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the Plan.

For the Plan year ended December 31, 2013, a contribution of $6.3 million was required to be made in the Plan sponsor's fiscal year ending June 30, 2015. The Water Division's portion of this contribution was $0.8 million. The annual required contribution was determined as part of the January 1, 2013 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death. For the Plan year ended December 31, 2013, the Plan's actuarial funded ratio was 89.3 percent, and the market value funded ratio was 96.4 percent.

Subsequent to June 30, 2014, the actuarial valuation for the Plan year ending December 31, 2014 was completed. The actuarial valuation resulted in an actuarially determined contribution of $5.7 million for the fiscal year ending June 30, 2016, based on the Plan's current funding policy. The Water Division's portion of this contribution is $0.7 million. For the Plan year ending December 31, 2014, the Plan's actuarial funded ratio was 94.6 percent, and the market value funded ratio was 102.5 percent.

GASB has adopted new accounting standards for governmental defined benefit pension plans that will be effective for KUB for its fiscal year beginning July 1, 2014. These standards are known as GASB 67, which covers pension plan accounting, and GASB 68, which provides for financial reporting by governmental plan sponsors. The new standards require the immediate recognition of the plan's unfunded liability, if any, and faster recognition of investment gains and losses on plan assets. As a result, annual pension expense will be subject to increased volatility and will no longer represent annual cash contributions to the pension fund. Given the new standards effectively decouple pension accounting from pension funding, governmental plan sponsors, such as KUB, will need to adopt funding policies for their plans. In fact, the Tennessee General Assembly adopted legislation in 2014 that requires all governmental plan sponsors in the state to formally adopt funding policies, which must include certain provisions, including fully funding annual actuarially determined contributions. The KUB Board formally adopted a Pension Plan funding policy in December 2014.

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The Governmental Accounting Standards Board (GASB) established new standards for the measurement, recognition, and reporting of other post-employment benefits (OPEB). OPEB includes post-employment benefits other than pension, which, for KUB, is presently limited to postemployment health care. GASB 45 requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the total unfunded liability. GASB 45 was effective for KUB for the fiscal year beginning July 1, 2007.

KUB currently provides post-employment health care benefits to 604 former employees and 619 covered dependents. The cost of coverage is shared with retirees and beneficiaries. KUB recognizes its share of the cost of post-employment health care benefits as an expense as claims are paid.

In anticipation of GASB 45, KUB amended its Group Health Plan in 1999, eliminating postemployment health care benefits for all employees hired on or after July 1, 1999. As of June 30, 2014, 399 active employees were eligible for individual and dependent coverage at separation if the employee meets the Rule of 80 (age plus years of service) with a minimum of 20 years of service.

In May 2006, the state of Tennessee adopted Tennessee Code Annotated, Title 8, Chapter 50, Part 12 authorizing governmental entities to establish Trusts for the purpose of pre-funding their respective OPEB liabilities.

Although GASB 45 does not require pre-funding of the liability, KUB has determined that it is in the long-term economic interest of KUB and its ratepayers to establish a Trust to pre-fund KUB’s OPEB liability.

In October 2007, the KUB Board authorized the establishment of an OPEB Trust. The applicable documentation was submitted to the State Funding Board and, in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008.

The Trust issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

The general administration and responsibility for the proper operation of the Trust is governed by a board of trustees appointed by KUB’s President & CEO. The investment of all deposits to the Trust is governed by an Investment Policy, which was adopted by the KUB Board and approved by the State Funding Board.

Total contributions to the OPEB Trust for the fiscal year ended June 30, 2014 were $4.1 million million (Division’s share $0.5 million). The contribution to the Trust exceeded the annual actuarially determined contribution, as determined by the Postretirement Benefit Plan’s actuarial valuation for the year ended December 31, 2012, which was $3.3 million (Division’s share $0.4 million). As of June 30, 2014, the employer’s OPEB obligation has been exceeded by $0.2 million (Division’s share $0.02 million).

The actuarially determined contribution for the fiscal year ending June 30, 2015, as determined by the Plan’s actuarial valuation for the year ended December 31, 2013 is $3.5 million (Division’s share $0.5 million).

The actuarial valuation for the Plan for the year ending December 31, 2014 has been completed. The Plan's actuarial funded ratio was 93 percent, and the market value funded ratio was 100 percent. The valuation also determined that the employer's actuarially determined contribution is $1 million for the fiscal year ending June 30, 2016 (Division's share $0.1 million).

FISCAL YEAR 2015 FINANCIAL UPDATE

For the six months ending December 31, 2014, KUB's Water Division had earnings of $2.9 million, representing an increase of $0.9 million from the previous fiscal year. KUB sold $8 million in water system revenue bonds in August 2014. Water sales volumes were up 1.9 percent compared to last fiscal year.

As of December 31, 2014, the Water Division had $131.4 million in outstanding debt, representing a debt to capitalization ratio of 45.9 percent. The Water Division's maximum debt service coverage ratio was 2.11 for the fiscal year ending June 30, 2014.

Capital investment in water system infrastructure was $20.4 million for fiscal year 2014, reflecting KUB's continued commitment to the timely replacement of aging water pipe.

WATER RATES

The current rate schedules of the Water Division are as follows:

WATER GENERAL SERVICE - RESIDENTIAL

Availability

Service under this rate schedule shall be available only to residential customers served individually through a separate meter.

An existing customer or applicant for service under this schedule may be required to execute a contract specifying, among other things, a minimum bill and minimum term for service under this schedule.

Rate

The Water Service Charge shall be calculated using the applicable rate tables provided below, based on the customer's meter size and monthly water usage.

In the event more than one meter is utilized to determine billed consumption, multiple customer charges may apply. Charges will apply without regard to ownership of the meter(s).

1. Inside City Rate

For water furnished to premises entirely within the corporate limits of the City of Knoxville:

Customer Charge

5/8” meter	$13.00
1” meter	$27.10
1 ½” meter	$39.00
2” meter	$55.00

For meters greater than 2” the Customer Charges listed in the Water Nonresidential schedule shall be utilized.

Commodity Charge

First	2 Ccf	at	$0.25 per Ccf
Over	2 Ccf	at	$2.65 per Ccf

2. Outside City Rate

For water furnished to premises upon which any water faucet or other outlet is outside the corporate limits of the City of Knoxville:

Customer Charge

5/8” meter	$14.40
1” meter	$31.40
1 ½" meter	$45.40
2” meter	$64.40

For meters greater than 2” the Customer Charges listed in the Water Nonresidential schedule shall be utilized.

Commodity Charge

First	2 Ccf	at	$0.30 per Ccf
Over	2 Ccf	at	$3.20 per Ccf

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

WATER GENERAL SERVICE – NONRESIDENTIAL

Availability

Service under this rate schedule shall be available to any commercial or industrial customer.

An existing customer or applicant for service under this schedule may be required to execute a contract specifying, among other things, a minimum bill and minimum term for service under this schedule.

Rate

The Water Service Charge shall be calculated using the applicable rate tables provided below, based on the customer's meter size and monthly water usage.

In the event more than one meter is utilized to determine billed consumption, multiple customer charges may apply. Charges will apply without regard to ownership of the meter(s).

1. Inside City / Industrial Park Rate

For water furnished to premises entirely within the corporate limits of the City of Knoxville or within the boundaries of an area recognized as an industrial park by the Tennessee Department of Economic and Community Development:

Customer Charge

5/8" meter	$13.00
1" meter	$27.10
1 ½" meter	$39.00
2" meter	$55.00
3" meter	$121.00
4" meter	$200.00
6" meter	$438.00
8" meter	$770.00
10" meter	$1,173.00
12" meter	$1,736.00

Commodity Charge

First	2 Ccf	at $ 1.45 per Ccf
Next	8 Ccf	at $ 3.25 per Ccf
Next	90 Ccf	at $ 3.95 per Ccf
Next	300 Ccf	at $ 2.75 per Ccf
Next	4,600 Ccf	at $ 1.90 per Ccf
Over	5,000 Ccf	at $ 1.00 per Ccf

2. Outside – City Rate

For water furnished to premises upon which any water faucet or other outlet is outside the corporate limits of the City of Knoxville, excluding premises within the boundaries of an area recognized as an industrial park by the Tennessee Department of Economic and Community Development:

Customer Charge

5/8” meter	$14.40
1” meter	$31.40
1 ½" meter	$45.40
2” meter	$64.40
3” meter	$144.00
4” meter	$241.00
6” meter	$526.00
8” meter	$924.00
10” meter	$1,407.00
12” meter	$2,085.00

Commodity Charge

First	2 Ccf	at	$1.70 per Ccf
Next	8 Ccf	at	$3.80 per Ccf
Next	90 Ccf	at	$4.75 per Ccf
Next	300 Ccf	at	$3.30 per Ccf
Next	4,600 Ccf	at	$2.30 per Ccf
Over	5,000 Ccf	at	$1.20 per Ccf

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

Schedule B – PRIVATE FIRE SERVICE

Availability

Under this schedule, KUB provides water supply to privately owned automatic sprinklers or hose outlets. Such service is available to any residential, commercial, or industrial customer.

Rate

The private Fire Service Charge shall be calculated using the table below based on the customer’s fire line connections.

Monthly Service Charge per Connection

Connection less than 4”	$ 18.75
4” Connection	$ 37.50
6” Connection	$ 91.00
8” Connection	$160.00
10” Connection	$248.00
12” Connection and greater	$356.00

These service charges shall be in addition to the charge for any water use through fire line connections. The amount of unmetered water so used, as determined by KUB, shall be paid for at KUB’s applicable rate schedules.

No charge under this Schedule B shall be made where the water supply to private fire protection facilities is through one or more metered connection(s) for which payment is made under the Water General Service – Nonresidential Rate Schedule.

No credit for charges under this rate schedule shall be allowed against the Water General Service – Nonresidential Rate Schedule charge for water supplied through a fire line to one or more metered connection(s) where the fire line serves as a connecting line between the metered connection(s) and KUB’s mains.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

SCHEDULE C – UNMETERED GOVERNMENT SERVICE

For water used from KUB’s mains with KUB’s permission by any department of a governmental entity through unmetered fire hydrants for purposes other than for public fire service:

Inside – City Rate

The total amount of water used monthly by each department of a governmental entity for such purposes through a fire hydrant within the corporate limits of the City of Knoxville shall be billed to each such department at the Inside City rates set forth in the Water General Service – Nonresidential Rate Schedule.

Outside – City Rate

The total amount of water used monthly by each department of a governmental entity for such purposes through a fire hydrant outside the corporate limits of the City of Knoxville shall be billed to each such department at the Outside City rates set forth in the Water General Service – Nonresidential Rate Schedule.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

SCHEDULE D – PUBLIC FIRE PROTECTION SERVICE

Availability

Service under this schedule shall be available only to a governmental entity that undertakes to provide public fire protection service for an area that contains at least four square miles. KUB reserves the right to require any applicant for service under this schedule to execute a contract specifying, among other things, a minimum bill and minimum term for service.

Rate

For public fire protection service rendered, the governmental entity shall pay KUB a fire protection service charge at the rate of $400.14 per year for each KUB owned public fire hydrant located within the jurisdictional boundaries of the governmental entity and within areas provided public fire protection service by such governmental entity. In addition to the fire protection service charge, the governmental entity shall pay for all water used for fire fighting at rates set forth in the Water General Service – Nonresidential Rate Schedule.

KUB may contract with other utility providers to supply public fire protection service to an eligible governmental entity in any service area (or portion thereof), where KUB determines it desirable to do so. Charges to a governmental entity for fire protection service provided under such a contract shall be at the same rate specified above, and the hydrants of the utility provider utilized under such a contract shall be deemed to be facilities owned by KUB for the sole purpose of calculating charges under this schedule.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

SCHEDULE E – SALES FOR RESALE

Availability

For water purchased on an interruptible basis for resale by a customer that does not use KUB as its sole supplier of water. This service shall be available only on an interruptible basis and only to the extent, in KUB's sole opinion, that such service can be supplied through existing facilities without adversely affecting water service to any other customer of KUB. Nothing contained herein shall prevent KUB from providing water for resale under the Water General Service – Nonresidential Rate Schedule.

Commodity Charge

$1.27 per 100 Cubic Feet

Any unauthorized usage under this tariff shall be billed at the Outside City rates set forth in the Water General Service – Nonresidential Rate Schedule.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

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KNOXVILLE UTILITIES BOARD
WATER DIVISION
CAPITALIZATION HISTORY

Historical	Fiscal Year	Accumulated Earnings	Contributed Capital	Revenue Bonds	Revenue Notes	Total Capitalization	Debt as % of Capitalization
	2009	$ 136,764,136	$ -	$ 62,925,000	$ -	$ 199,689,136	31.51%
	2010	$ 139,200,405	$ -	$ 85,675,000	$ -	$ 224,875,405	38.10%
	2011	$ 142,946,121	$ -	$ 83,295,000	$ -	$ 226,241,121	36.82%
	2012	$ 147,640,402	$ -	$ 105,235,000	$ -	$ 252,875,402	41.62%
	2013	$ 150,633,304	$ -	$ 101,850,000	$ -	$ 252,483,304	40.34%
	2014	$ 152,112,627	$ -	$ 123,385,000	$ -	$ 275,497,627	44.79%

KNOXVILLE UTILITIES BOARD
WATER DIVISION
OPERATING STATISTICS
for the Fiscal Years ending on June 30

	2010	2011	2012	2013	2014
Revenues:					
General Customers	$ 28,427,773	$ 31,350,717	$ 31,748,184	$ 32,525,583	$ 33,627,204
Private Fire Protection	1,080,501	1,192,206	1,284,289	1,380,648	1,474,850
Public Fire Protection	2,730,528	2,746,424	2,751,890	2,904,544	2,883,976
Sales to Public Authorities	335,422	400,039	416,651	349,515	345,849
Total Sales Revenues	$ 32,574,224	$ 35,689,386	$ 36,201,013	$ 37,160,290	$ 38,331,879
Other Revenues	$ 1,003,933	$ 726,306	$ 1,274,737	$ 903,238	$ 1,041,835
Total Revenues	$ 33,578,157	$ 36,415,692	$ 37,475,750	$ 38,063,528	$ 39,373,714
Water Usage - (000s Gallons*):					
General Customers	7,767,868	8,092,405	8,016,089	7,739,270	7,577,083
Other	270,910	299,229	305,993	245,486	230,894
Total	8,038,778	8,391,634	8,322,082	7,984,756	7,807,977
Number of Customers:					
General Customers	76,580	76,277	76,610	76,858	76,914
Private Fire Protection	1,240	1,322	1,372	1,404	1,419
Public Fire Protection	2	2	2	2	2
Other	3	1	1	1	1
Total	77,825	77,602	77,985	78,265	78,336
Input to System (000s Gallons)	12,220,000	12,422,510	12,228,300	12,110,030	12,120,460
Source of Supply and Treatment Expense	$ 3,321,448	$ 3,706,394	$ 3,439,473	$ 2,954,150	$ 3,355,348

KNOXVILLE UTILITIES BOARD
WATER DIVISION
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For The Fiscal Years Ending on June 30

	2010	2011	2012	2013	2014
Operating Revenues:	$ 33,578,157	$ 36,415,692	$ 37,475,750	$ 38,063,528	$ 39,373,714
Operation Expenses:					
Treatment	$ 3,321,448	$ 3,706,394	$ 3,439,473	$ 2,954,150	$ 3,355,348
Distribution	11,061,393	11,774,777	11,805,687	12,760,266	13,635,443
Customer Service	1,565,982	1,493,716	1,402,123	1,461,949	1,517,093
Administrative and General	4,117,966	4,208,531	4,542,353	4,251,375	4,363,596
Provision for Deprec. & Amortization	5,604,554	5,541,635	5,768,349	6,419,430	6,933,752
Taxes and Tax Equivalents	2,655,209	2,816,753	2,882,492	2,959,900	3,041,944
Total Operating Expenses	$ 28,326,552	$ 29,541,806	$ 29,840,477	$ 30,807,070	$ 32,847,176
Operating Income	$ 5,251,605	$ 6,873,886	$ 7,635,273	$ 7,256,458	$ 6,526,538
Non-Operating Revenues / Expenses:					
Contributions in aid of construction	$ 2,725,927	$ 562,921	$ 470,062	$ 703,844	$ 464,748
Interest and dividend income	315,605	234,293	200,362	139,775	125,448
Interest expense	(3,387,391)	(3,564,274)	(3,947,812)	(4,363,951)	(5,257,923)
Write-down of plant for costs recovered through contributions	(2,725,927)	(562,921)	(470,062)	(703,844)	(464,748)
Other	(205,441)	(161,116)	(106,608)	(96,232)	(72,599)
Total Non-Operating	$ (3,277,227)	$ (3,491,097)	$ (3,854,058)	$ (4,320,408)	$ (5,205,074)
Change in Net Position before	$ 1,974,378	$ 3,382,789	$ 3,781,215	$ 2,936,050	$ 1,321,464
Capital contribution	461,891	362,927	913,066	56,852	157,859
Change in Net Position	$ 2,436,269	$ 3,745,716	$ 4,694,281	$ 2,992,902	$ 1,479,323
Net Position, beginning of year	$ 136,764,136	$ 139,200,405	$ 142,946,121	$ 147,640,402	$ 150,633,304
Net Position, end of year	**$ 139,200,405**	**$ 142,946,121**	**$ 147,640,402**	**$ 150,633,304**	**$ 152,112,627**

Source: The above amounts have been derived from the Annual Audited Financial Statements for the Knoxville Utilities Board, Water Division and the Board's internal financial records and should be read in conjunction therewith.

KNOXVILLE UTILITIES BOARD
WATER DIVISION
OPERATING AND FINANCIAL HISTORY OF THE WATER DIVISION

OPERATING REVENUE FROM WATER SALES

Fiscal Year Ended June 30	Revenue
2005	$ 28,073,548
2006	$ 28,994,225
2007	$ 30,797,817
2008	$ 33,389,396
2009	$ 32,891,651
2010	$ 33,578,157
2011	$ 36,415,692
2012	$ 37,475,750
2013	$ 38,063,528
2014	$ 39,373,714

WATER SALES IN GALLONS

Fiscal Year Ended June 30	Thousand Gallons
2005	8,819,910
2006	8,909,211
2007	8,960,463
2008	9,126,574
2009	8,620,503
2010	8,038,778
2011	8,391,634
2012	8,322,082
2013	7,984,756
2014	7,807,977

TEN LARGEST WATER SYSTEM CUSTOMERS - 2014

The ten largest Wastewater System customers, as of June 30, 2014 in order of total sales generated are listed below. Those ten wastewater customers represent 20.86% of the total wastewater sales based on revenue and 19.71% of the total wastewater based on sales volume.

	Customer	Consumption CCF	Sales Revenue	Percent of Sales Revenue
1.	City of Knoxville	222,683	$ 3,179,538	8.08%
2.	University of Tennessee	601,901	$ 1,956,573	4.97%
3.	KCDC	208,661	$ 687,974	1.75%
4.	Knox County Schools	79,494	$ 413,785	1.05%
5.	KUB	158,190	$ 399,048	1.01%
6.	University Health Systems Inc	205,110	$ 381,559	0.97%
7.	Rohm & Haas Tennessee Inc	219,067	$ 373,511	0.95%
8.	Gerdau Ameristeel	161,189	$ 302,945	0.77%
9.	Knoxville HMA Holdings LLC	98,684	$ 278,859	0.71%
10.	Pepsi Bottling Group Inc.	167,986	$ 241,287	0.61%
	TOTAL	**2,122,965**	**$ 8,215,079**	**20.86%**

KNOXVILLE UTILITIES BOARD
WATER DIVISION
BONDS OUTSTANDING

The following table shows the outstanding bond indebtedness of the Water Division.

Amount Issued	Series	Due Date	Interest Rates	Outstanding as of June 30, 2014 (1)
$ 10,000,000	Water System Revenue Improvement Bonds, Series R-2005	03-01-30	Fixed	$ 255,000
8,865,000	Water System Revenue Refunding Bonds, Series S-2005	03-01-27	Fixed	7,160,000
25,000,000	Water System Revenue Bonds, Series T-2007	03-01-33	Fixed	24,350,000
25,000,000	Water System Revenue Bonds, Series U-2009	03-01-33	Fixed	24,250,000
25,000,000	Water System Revenue Bonds, Series W-2011	03-01-40	Fixed	23,900,000
10,050,000	Water System Revenue Refunding Bonds, Series X-2012	03-01-29	Fixed	9,610,000
9,285,000	Water System Revenue Refunding Bonds, Series Y-2013	03-01-30	Fixed	9,260,000
25,000,000	Water System Revenue Bonds, Series Z-2013	03-01-44	Fixed	24,600,000
8,000,000	Water System Revenue Bonds, Series AA-2014	03-01-44	Fixed	8,000,000
$ 146,200,000	**TOTAL DEBT**			$ 131,385,000
$ 23,005,000	Water System Revenue Refunding Bonds, Series BB-2015	03-01-33	Fixed	$ 23,005,000
20,000,000	Water System Revenue Bonds, Series CC-2015	03-01-45	Fixed	20,000,000
(22,225,000)	Less: Bonds Being Refinanced (Series T-2007 Bonds)			(22,225,000)
$ 166,980,000	**TOTAL INDEBTEDNESS**			$ 152,165,000

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 FINANCIAL STATEMENTS included herein.

KNOXVILLE UTILITIES BOARD
WATER DIVISION
DEBT SERVICE REQUIREMENTS

Fiscal Year	Outstanding Fiscal Year Debt Service on Bonds - as of June 30, 2014			Water System Revenue Refunding Bonds, Series BB-2015			% Principal Repaid on BB-2015 Bonds	Less: Bonds Being Refunded			Estimated Water System Revenue Bonds, Series CC-2015			% Principal Repaid on CC-2015 Bonds	TOTAL DEBT SERVICE (1)			% Principal Repaid on All Debt
	Principal	Interest	Total	Principal	Interest (2)	Total		Principal	Interest	Total	Principal	Interest (3)	Total		Principal	Interest	Total	
2015	$ 3,765,000	$ 5,129,814	$ 8,894,814	$ -	$ -	$ -	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	0.00%	$ 3,765,000	$ 5,129,814	$ 8,894,814	2.47%
2016	3,890,000	5,142,440	9,032,440	170,000	666,833	836,833		-	(986,769)	(986,769)	350,000	554,902	904,902		4,410,000	5,377,406	9,787,406	
2017	4,085,000	4,993,240	9,078,240	100,000	791,700	891,700		-	(986,769)	(986,769)	375,000	703,906	1,078,906		4,560,000	5,502,078	10,062,078	
2018	4,245,000	4,812,590	9,057,590	865,000	786,700	1,651,700		(800,000)	(986,769)	(1,786,769)	400,000	696,406	1,096,406		4,710,000	5,308,928	10,018,928	
2019	4,385,000	4,642,440	9,027,440	885,000	743,450	1,628,450	8.78%	(825,000)	(942,769)	(1,767,769)	425,000	684,406	1,109,406	7.75%	4,870,000	5,127,528	9,997,528	14.67%
2020	4,600,000	4,466,640	9,066,640	950,000	699,200	1,649,200		(875,000)	(909,769)	(1,784,769)	425,000	667,406	1,092,406		5,100,000	4,923,478	10,023,478	
2021	4,770,000	4,290,590	9,060,590	960,000	680,200	1,640,200		(900,000)	(874,769)	(1,774,769)	450,000	650,406	1,100,406		5,280,000	4,746,428	10,026,428	
2022	5,000,000	4,104,734	9,104,734	1,000,000	661,000	1,661,000		(950,000)	(837,644)	(1,787,644)	475,000	632,406	1,107,406		5,525,000	4,560,496	10,085,496	
2023	5,160,000	3,924,634	9,084,634	1,050,000	611,000	1,661,000		(1,000,000)	(798,456)	(1,798,456)	475,000	613,406	1,088,406		5,685,000	4,350,584	10,035,584	
2024	5,320,000	3,736,209	9,056,209	1,110,000	558,500	1,668,500	30.82%	(1,050,000)	(755,956)	(1,805,956)	500,000	599,156	1,099,156	19.38%	5,880,000	4,137,909	10,017,909	32.72%
2025	5,535,000	3,541,546	9,076,546	1,170,000	503,000	1,673,000		(1,100,000)	(711,331)	(1,811,331)	525,000	587,906	1,112,906		6,130,000	3,921,121	10,051,121	
2026	5,750,000	3,335,039	9,085,039	1,210,000	467,900	1,677,900		(1,150,000)	(664,031)	(1,814,031)	550,000	574,781	1,124,781		6,360,000	3,713,689	10,073,689	
2027	5,985,000	3,111,313	9,096,313	1,245,000	428,575	1,673,575		(1,200,000)	(610,844)	(1,810,844)	550,000	560,344	1,110,344		6,580,000	3,489,388	10,069,388	
2028	6,240,000	2,869,263	9,109,263	1,260,000	385,000	1,645,000		(1,225,000)	(555,344)	(1,780,344)	575,000	543,844	1,118,844		6,850,000	3,242,763	10,092,763	
2029	6,470,000	2,632,319	9,102,319	1,275,000	340,900	1,615,900	57.60%	(1,250,000)	(501,750)	(1,751,750)	600,000	526,594	1,126,594	33.38%	7,095,000	2,998,063	10,093,063	54.41%
2030	6,785,000	2,377,863	9,162,863	1,315,000	296,275	1,611,275		(1,300,000)	(445,500)	(1,745,500)	625,000	508,594	1,133,594		7,425,000	2,737,231	10,162,231	
2031	6,100,000	2,120,750	8,220,750	2,740,000	256,825	2,996,825		(2,750,000)	(387,000)	(3,137,000)	650,000	489,063	1,139,063		6,740,000	2,479,638	9,219,638	
2032	6,300,000	1,860,219	8,160,219	2,800,000	174,625	2,974,625		(2,850,000)	(263,250)	(3,113,250)	675,000	467,938	1,142,938		6,925,000	2,239,531	9,164,531	
2033	6,625,000	1,589,531	8,214,531	2,900,000	90,625	2,990,625	100.00%	(3,000,000)	(135,000)	(3,135,000)	700,000	446,000	1,146,000		7,225,000	1,991,156	9,216,156	
2034	3,225,000	1,297,656	4,522,656	-	-	-		-	-	-	725,000	418,000	1,143,000	50.25%	3,950,000	1,715,656	5,665,656	75.62%
2035	3,275,000	1,165,906	4,440,906	-	-	-		-	-	-	750,000	389,000	1,139,000		4,025,000	1,554,906	5,579,906	
2036	3,325,000	1,031,781	4,356,781	-	-	-		-	-	-	775,000	359,000	1,134,000		4,100,000	1,390,781	5,490,781	
2037	3,375,000	894,156	4,269,156	-	-	-		-	-	-	800,000	330,906	1,130,906		4,175,000	1,225,063	5,400,063	
2038	3,425,000	754,500	4,179,500	-	-	-		-	-	-	825,000	301,906	1,126,906		4,250,000	1,056,406	5,306,406	
2039	3,475,000	612,531	4,087,531	-	-	-		-	-	-	875,000	272,000	1,147,000	70.38%	4,350,000	884,531	5,234,531	89.35%
2040	3,525,000	464,406	3,989,406	-	-	-		-	-	-	900,000	237,000	1,137,000		4,425,000	701,406	5,126,406	
2041	1,600,000	313,781	1,913,781	-	-	-		-	-	-	925,000	201,000	1,126,000		2,525,000	514,781	3,039,781	
2042	1,650,000	239,281	1,889,281	-	-	-		-	-	-	975,000	164,000	1,139,000		2,625,000	403,281	3,028,281	
2043	1,725,000	162,625	1,887,625	-	-	-		-	-	-	1,000,000	125,000	1,125,000		2,725,000	287,625	3,012,625	
2044	1,775,000	82,563	1,857,563	-	-	-		-	-	-	1,050,000	85,000	1,135,000	94.63%	2,825,000	167,563	2,992,563	99.29%
2045	-	-	-	-	-	-		-	-	-	1,075,000	43,000	1,118,000	100.00%	1,075,000	43,000	1,118,000	100.00%
	$ 131,385,000	**$ 75,700,359**	**$ 207,085,359**	**$ 23,005,000**	**$ 9,142,308**	**$ 32,147,308**		**$ (22,225,000)**	**$ (12,353,719)**	**$ (34,578,719)**	**$ 20,000,000**	**$ 13,433,277**	**$ 33,433,277**		**$ 152,165,000**	**$ 85,922,225**	**$ 238,087,225**	

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 FINANCIAL STATEMENTS included herein.

(2) Average Coupon of 3.3110%.

(3) Average Coupon 3.7326%.

KNOXVILLE UTILITIES BOARD
WATER DIVISION
HISTORICAL DEBT COVERAGE ON OUTSTANDING WATER BONDS
For the Years Ended June 30

The historical coverage for the actual debt service requirements and the maximum annual debt service requirements (FY 2030) of the Outstanding Bonds, the Series BB-2015 Bonds and the Series CC-2015 Bonds for fiscal years ended June 30, 2010 through June 30, 2014 is set forth below.

	2010	2011	2012	2013	2014
Operating Revenues	$ 33,578,157	$ 36,415,692	$ 37,475,750	$ 38,063,528	$ 39,373,714
Operating Expenses*	(20,066,789)	(21,183,418)	(21,189,636)	(21,427,740)	(22,871,480)
Net Income Before Depreciation & Taxes	$ 13,511,368	$ 15,232,274	$ 16,286,114	$ 16,635,788	$ 16,502,234
Other Revenue	110,164	73,177	200,362	139,775	139,775
FICA Tax Expense	(535,224)	(577,235)	(662,051)	(624,281)	(624,281)
Income available for debt service	13,086,308	14,728,216	15,824,425	16,151,282	16,017,728
Actual annual debt service requirements on outstanding senior bonds	$ 5,391,934	$ 5,948,815	$ 6,174,022	$ 7,550,442	$ 7,583,219
Coverage	2.43 x	2.48 x	2.56 x	2.14 x	2.11 x
Maximum annual debt ** service requirements (FY 2030) on outstanding and proposed bonds	$ 10,162,231	$ 10,162,231	$ 10,162,231	$ 10,162,231	$ 10,162,231
Coverage	1.29 x	1.45 x	1.56 x	1.59 x	1.58 x

* Excluding Provision for Depreciation and Taxes

** From Debt Service Requirements Chart

WATER DIVISION
REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS

Knoxville Utilities Board
Water Division
Financial Statements and Supplemental Information
June 30, 2014 and 2013

Knoxville Utilities Board Water Division
Index
June 30, 2014 and 2013

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RODEFER MOSS & CO, PLLC

Independent Auditors' Report

To the Board of Commissioners
Knoxville Utilities Board - Water Division
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Knoxville Utilities Board, Water Division, (the "Division"), an independent agency reported as a component unit for financial reporting purposes only, of Knoxville, Tennessee, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Division, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Schedule of Funding Progress on pages 3-23 and 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Division's basic financial statements. The supplemental schedules on pages 43-49 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2014

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners governs KUB. The Board has all powers to construct, acquire, expand, or operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. The Water Division (Division) provides services to certain customers in Knox County and in two surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Water Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2014 and 2013, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Division's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Division's financial activity, (c) identify major changes in the Division's financial position, and (d) identify any financial concerns.

The Division's Management Discussion and Analysis ("MD&A") focuses on the fiscal year ending June 30, 2014 activities, resulting changes and current known facts, and should be read in conjunction with the Division's financial statements.

Water Division Highlights

System Highlights

KUB serves 78,336 water system customers over a 188 square mile service area. KUB maintains 1,408 miles of service mains, 28 storage facilities, 27 booster pump stations, and 1 treatment plant, which provided 12.1 billion gallons of water to KUB's water customers in fiscal year 2014. The average daily flow for fiscal year 2014 was 33.2 million gallons.

KUB added 71 customers to its water system during the fiscal year.

The last of three water rate increases adopted by the KUB Board of Commissioners in 2011 to help fund Century II water system infrastructure programs went into effect January 1, 2014. KUB generated $1.7 million of additional revenue during the fiscal year as a result of the 2013 and 2014 water rate increases.

The typical residential water customer's average monthly bill was $19.45 as of June 30, 2014 (based on monthly use of 500 cubic feet or 3,740 gallons). The monthly bill increased $1 compared to the prior fiscal year, the result of increased water rates.

In September 2013, the Division sold $25 million in water system revenue bonds to fund capital system improvements.

Water sales volumes have been impacted by the use of more efficient appliances and the conservation efforts of customers. As a result, water sales volumes have declined at an annual rate of 1 percent over the past decade.

Century II Infrastructure Program

Century II is KUB's proactive long-range program to improve and maintain the electric, natural gas, water and wastewater systems for its customers. It includes the maintenance and replacement strategies for each system and establishes sustainable replacement cycles. Century II moves KUB into its second century of service by improving each system through sound planning, resource allocation, and continued, but accelerated, investment.

KUB's Century II programs were resumed in 2011, after a break due to the economic recession. At that time, the KUB Board of Commissioners endorsed a ten year funding plan for the water system through a formal resolution. The Board adopted three years of water rate increases to help fund the plan. All three of the rate increases, adopted in 2011, have gone into effect.

In May 2014, KUB management provided an updated assessment of the overall condition of each utility and the progress made during the resumption of the Century II program. At that time the Board endorsed a long range ten year funding plan for the continuation of Century II programs for the water system, including a combination of rate increases and debt issues to fully fund the programs for the next ten years.

In June 2014, the Board approved a series of three annual rate increases for the water system. The July 2014 increase will provide $3.6 million in additional water system revenue, while the July 2015 and July 2016 rate increases will result in annual water system revenue of $2 million.

The water system replaced 10.2 miles of galvanized water main and 7.1 miles of cast iron water main, while staying within the Division's total capital budget during fiscal year 2014.

Financial Highlights

Fiscal Year 2014 Compared to Fiscal Year 2013

The Division's net position increased $1.5 million or 1 percent, compared to a $3 million increase last fiscal year.

Operating revenue increased $1.3 million or 3.4 percent, the net result of additional revenue from the Century II water rate increases, which were effective January 2013 and 2014 and a 2.3 percent decrease in water sales volumes.

Operating expenses increased $2 million or 6.6 percent. Operating and maintenance expenses ("O&M") increased $1.5 million or 6.7 percent compared to the prior year. Depreciation expense increased $0.5 million or 8 percent. Taxes and tax equivalents increased $0.1 million from the prior year.

Interest income was consistent with the prior fiscal year. However, interest expense was $0.9 million higher than the prior year, due to additional expense from the $25 million in bonds sold in September 2013.

Capital contributions were $0.1 million higher than the prior fiscal year, the result of increased contributed assets from developers.

Total plant assets (net) increased $13.7 million or 6.1 percent due to main replacement and treatment plant improvements.

Long-term debt represented 44.8 percent of the Division's capital structure as of June 30, 2014, as compared to 40.3 percent last year. Capital structure equals long-term debt (which includes the current portion of revenue bonds and notes, as applicable, due to be retired the next fiscal year) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the division's outstanding bonds. Current year debt coverage for the fiscal year was 2.11. Maximum debt service coverage was 1.83.

Fiscal Year 2013 Compared to Fiscal Year 2012

The Division's net position increased $3 million or 2 percent, compared to a $4.7 million increase last fiscal year.

Operating revenue increased $0.6 million or 1.6 percent, the net result of additional revenue from the Century II water rate increases, which were effective January 2012 and 2013, respectively, and a 4.3 percent decrease in water sales volumes.

Operating expenses increased $1 million or 3.2 percent. Operating and maintenance expenses ("O&M") increased $0.2 million or 1.1 percent compared to the prior year. Depreciation expense increased $0.7 million or 11.3 percent. Taxes and tax equivalents were $0.1 million higher than the prior year.

Lower interest rates on longer-term investments resulted in a $0.1 million decrease in interest income. Interest expense was $0.4 million higher than the prior year, the net result of additional interest from a $25 million December 2011 bond issue and interest cost reductions from March 2013 and April 2012 debt refundings.

Capital contributions decreased $0.8 million, the result of a reduction in contributed assets from developers.

Total plant assets (net) increased $18.1 million or 8.7 percent due to main replacement and treatment plant improvements.

Long-term debt represented 40.3 percent of the Division's capital structure as of June 30, 2013, as compared to 41.6 percent last year. Capital structure equals long-term debt (which includes the current portion of revenue bonds and notes, as applicable, due to be retired the next fiscal year) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the division's outstanding bonds. Current year debt coverage for the fiscal year was 2.18. Maximum debt service coverage was 2.25.

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Division Cash Budget Appropriations

KUB's Board of Commissioners adopted a Water Division budget of $58.8 million for fiscal year 2014. In April 2014, additional appropriations were approved by the Board in the amount of $1 million to cover debt service expenses. Actual disbursements were under the original budget by $0.4 million, with O&M and Capital expenses lagging the budget by a total of $0.9 million. The general fund balance was $0.2 higher than originally budgeted. The chart below depicts KUB's original budget compared to actual results.

Water Division Cash Report
As of June 30, 2014

(in thousands of dollars)	**FY 2014 Budget****	**FY 2014 Actual FYTD**	**Dollar Variance***	**Percent Variance**
Beginning Balance General Fund	$ 15,623	$ 15,623		
Operating Receipts	41,463	40,233	(1,230)	-3.0%
Disbursements				
Operation & Maintenance Expense	22,941	22,983	(42)	-0.2%
Capital Expenditures	24,881	23,894	987	4.0%
Debt Service & Taxes	11,027	11,572	(545)	-4.9%
Total Disbursements	58,849	58,449	400	0.7%
Bond Proceeds	24,750	24,828	78	0.3%
Net Flow Throughs and Transfers	(966)	(56)	910	94.2%
Ending General Fund Balance	$ 22,021	$ 22,179	$ 158	0.7%

* *Impact to Cash; (-) indicates a decrease or negative impact to cash*

** *Excludes additional appropriations of $1 million*

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Knoxville Utilities Board Water Division - Financial Statements

The Division's financial performance is reported under three basic financial statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

Statement of Net Position

The Division reports its assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position in the Statement of Net Position. Assets are classified as current, restricted, water plant in service, or other assets.

Liabilities are classified as current, other, or long-term debt. Net position is classified as net investment in capital assets; restricted; or unrestricted. Net position tells the user what the Division has done with its accumulated earnings, not just the balance.

Net investment in capital assets, reflects the book value of all capital assets less the outstanding balances of debt used to acquire, construct, or improve those assets.
Restricted net position are assets that have been limited to specific uses by the Division's bond covenants or through resolutions passed by the KUB Board of Commissioners.

Unrestricted net position are a residual classification; the amount remaining after reporting net position as either invested in capital or restricted is reported there.

Statement of Revenues, Expenses, and Changes in Net Position

The Division reports its revenues and expenses (both operating and non-operating) on the Statement of Revenues, Expenses, and Changes in Net Position. In addition, any capital contributions or assets donated by developers are reported on this statement.

Total revenue less total expense equals the change in net position for the reporting period. Net position at the beginning of the period is increased or decreased, as applicable, by the change in net position for the reporting period.

The change in net position for the reporting period is added to the net position segment of the Statement of Net Position.

Statement of Cash Flows

The Division reports cash flows from operating activities, capital and related-financing activities, and investing activities on the Statement of Cash Flows. This statement tells the user the Division's sources and uses of cash during the reporting period.

The statement indicates the Division's beginning cash balance and ending cash balance and how it was either increased or decreased during the reporting period.

The statement also reconciles cash flow to operating income as it appears on the Statement of Revenues, Expenses, and Changes in Net Position.

Condensed Financial Statements

Statement of Net Position

The following table reflects the condensed Statement of Net Position for the Water Division compared to the prior year and the year preceding the prior year.

Statements of Net Position
As of June 30

(in thousands of dollars)	**2014**	**2013**	**2012**
Current and other assets	$ 42,860	$ 35,862	$ 51,812
Capital assets, net	239,706	226,022	207,969
Deferred outflows of resources	260	280	304
Total assets and deferred outflows of resources	282,826	262,164	260,085
Current and other liabilities	10,584	12,152	9,977
Long-term debt outstanding	119,745	98,785	102,075
Deferred inflows of resources	384	594	393
Total liabilities and deferred inflows of resources	130,713	111,531	112,445
Net position			
Net investment in capital assets	116,197	123,858	102,645
Restricted	1,219	1,027	1,070
Unrestricted	34,697	25,748	43,925
Total net position	$ 152,113	$ 150,633	$ 147,640

Normal Impacts on Statement of Net Position

The following is a description of activities which will normally impact the comparability of the Statement of Net Position presentation.

- Change in net position (from Statement of Revenues, Expenses, and Change in Net Position): impacts (increase/decrease) current and other assets and/or capital assets and unrestricted net position.
- Issuing debt for capital: increases deferred inflows/outflows of resources and long-term debt.
- Spending debt proceeds on new capital: reduces current assets and increases capital assets.
- Spending of non-debt related current assets on new capital: (a) reduces current assets and increases capital assets and (b) reduces unrestricted net position and increases net investment in capital assets.
- Principal payment on debt: (a) reduces current and other assets and reduces long-term debt and (b) reduces unrestricted net position and increases net investment in capital assets.
- Reduction of capital assets through depreciation: reduces capital assets and net investment in capital assets.

Impacts and Analysis

Current and Other Assets

Fiscal Year 2014 Compared to Fiscal Year 2013

Current and other assets increased $7 million or 19.5 percent. The Division's general fund cash (consisting of cash and cash equivalents, short-term investments, and long-term investments) increased $6.6 million compared to last year due to the use of $25 million in proceeds from revenue bonds, rather than general fund cash, to fund water system capital projects.

Fiscal Year 2013 Compared to Fiscal Year 2012

Current and other assets decreased $15.9 million, largely due to the expending of $13.8 million of bond proceeds from a prior year debt issue. The Division's general fund cash (consisting of cash and cash equivalents, short-term investments, and long-term investments) decreased $3.8 million compared to last year, as general fund cash was used to fund a portion of water system capital projects.

Capital Assets

Fiscal Year 2014 Compared to Fiscal Year 2013

Capital assets, net of depreciation, increased $13.7 million or 6.1 percent. Capital expenditures included $9.2 million for plant and system improvements and $7.7 million for water main replacement. The Division retired $2.7 million of assets during the fiscal year.

Fiscal Year 2013 Compared to Fiscal Year 2012

Capital assets, net of depreciation, increased $18.1 million or 8.7 percent. Capital expenditures included $11.5 million for water main replacement, $10.1 million for plant and system improvements, and $0.9 million for the relocation of water system assets in coordination with Tennessee Department of Transportation projects. The Division retired $5.1 million of assets during the fiscal year.

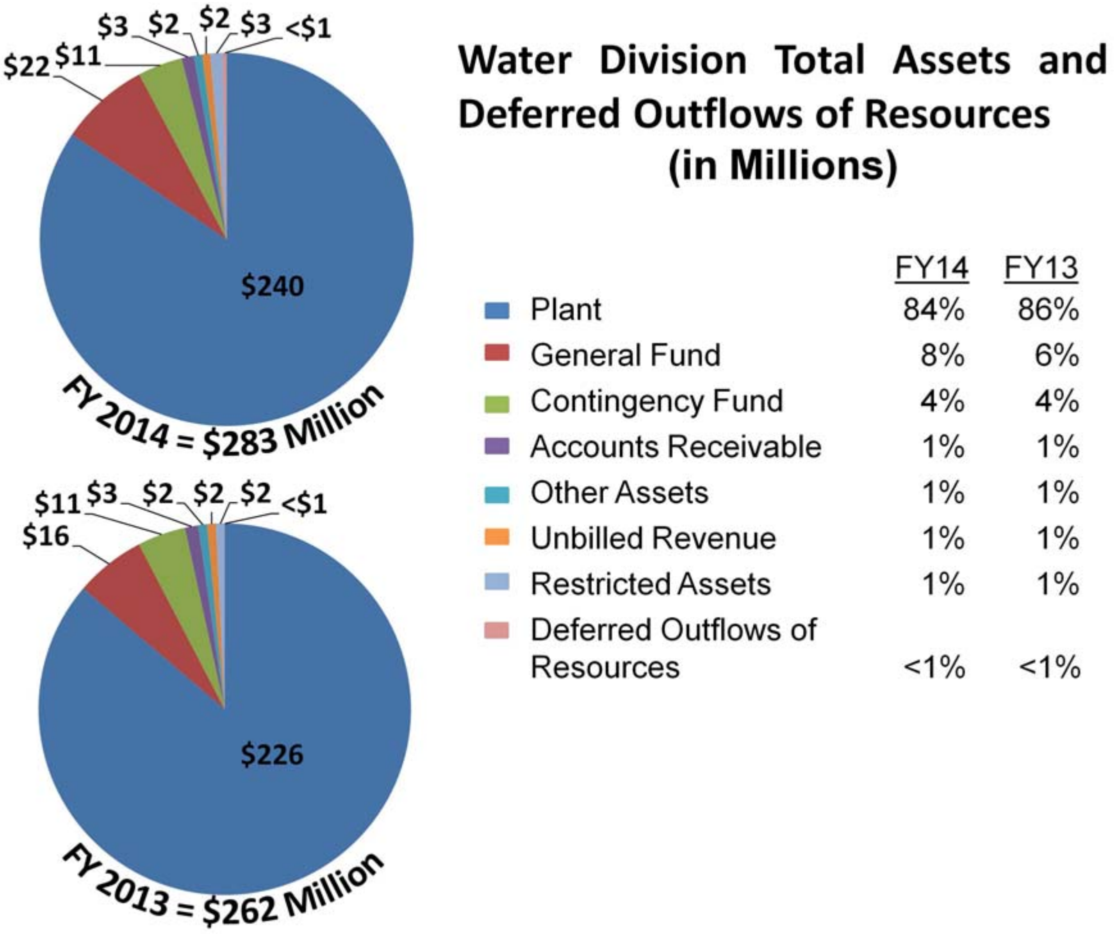
Deferred Outflows of Resources

Fiscal Year 2014 Compared to Fiscal Year 2013

Deferred outflows of resources were consistent with the prior year at $0.3 million.

Fiscal Year 2013 Compared to Fiscal Year 2012

Deferred outflows of resources were $0.3 million, which was consistent with the prior fiscal year.



Water Division Total Assets and Deferred Outflows of Resources (in Millions)

	FY14	FY13
Plant	84%	86%
General Fund	8%	6%
Contingency Fund	4%	4%
Accounts Receivable	1%	1%
Other Assets	1%	1%
Unbilled Revenue	1%	1%
Restricted Assets	1%	1%
Deferred Outflows of Resources	<1%	<1%

Current and Other Liabilities

Fiscal Year 2014 Compared to Fiscal Year 2013

Current and other liabilities decreased $1.6 million in comparison to the prior fiscal year primarily due to a $2.3 million decrease in accounts payable.

Fiscal Year 2013 Compared to Fiscal Year 2012

Current and other liabilities increased $2.2 million primarily due to a rise in accounts payable resulting from a higher level of contractor expense in June 2013 compared to June of the prior year.

Long-Term Debt

Fiscal Year 2014 Compared to Fiscal Year 2013

Long-term debt increased $21 million or 21.2 percent, the combined result of additional debt of $25 million and the scheduled repayment of outstanding revenue bonds during the fiscal year.

Fiscal Year 2013 Compared to Fiscal Year 2012

Long-term debt decreased $3.3 million or 3.2 percent, the combined result of scheduled repayment of outstanding revenue bonds during the fiscal year and a $0.2 million debt reduction due to the refunding of outstanding bonds.

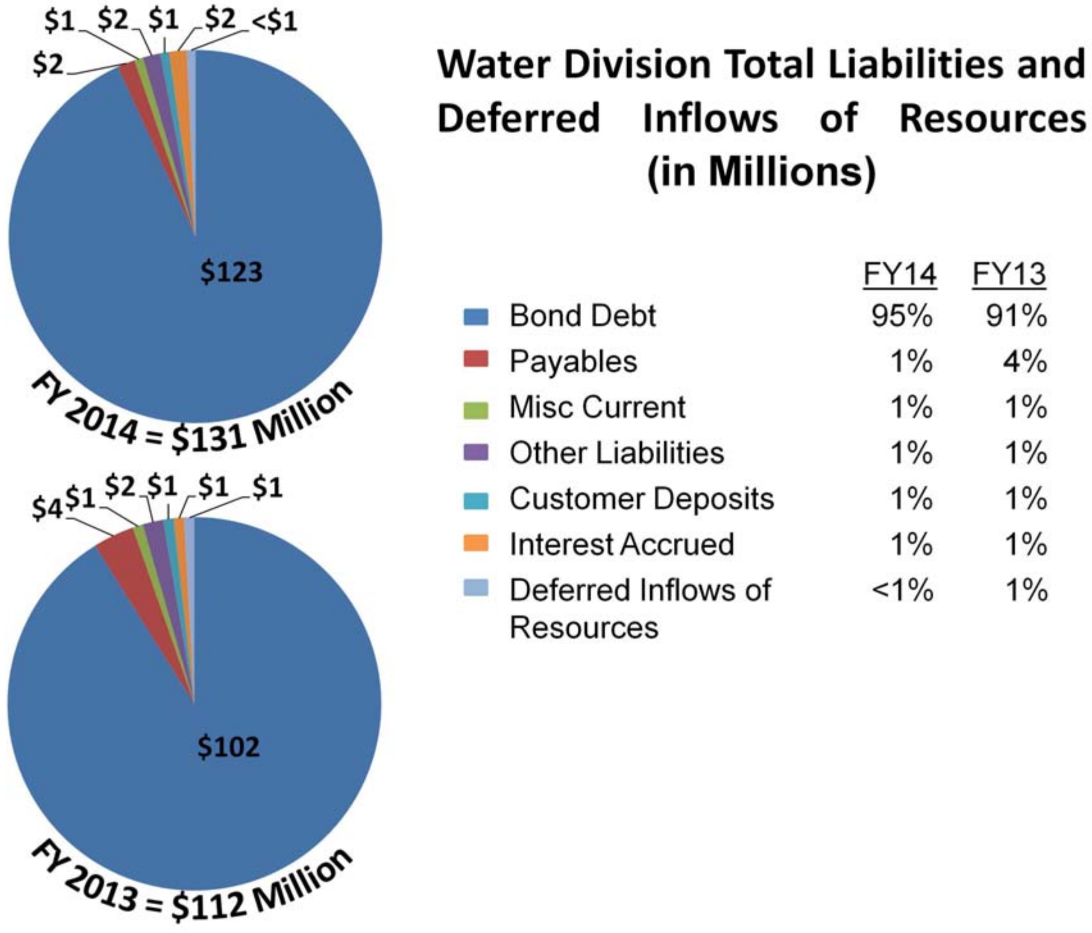
Deferred Inflows of Resources

Fiscal Year 2014 Compared to Fiscal Year 2013

Deferred inflows of resources were $0.4 million, which was $0.2 million less than the prior fiscal year, due to amortization of premiums.

Fiscal Year 2013 Compared to Fiscal Year 2012

The Division also incurred $0.3 million of unamortized premium expense as part of the refunding of $9.5 million in outstanding bonds, which was reflected in the $0.2 million increase in deferred inflows compared to the prior year.



Net Position

Fiscal Year 2014 Compared to Fiscal Year 2013

Net position increased $1.5 million this fiscal year. Net investment in capital assets decreased $7.7 million, due to the net effect of an increase to net plant in service of $13.7 million and additional debt of $25 million. Unrestricted net position increased $8.9 million, primarily due to unused bond proceeds for capital improvements in the general fund. Restricted assets increased $0.2 million, due to additional funds restricted for debt service.

Fiscal Year 2013 Compared to Fiscal Year 2012

Net position increased $3 million this fiscal year. Net investment in capital assets rose $21.2 million, as net plant in service increased $18.1 million, while debt and deferred amounts decreased $3.1 million. Unrestricted net position decreased $18.2 million, as unused bond proceeds were used for capital improvements. Restricted assets remained flat.

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Statement of Revenues, Expenses, and Changes in Net Position

The following table reflects the condensed Statement of Revenues, Expenses, and Changes in Net Position for the Water Division compared to the prior year and the year preceding the prior year.

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30

(in thousands of dollars)	2014	2013	2012
Operating revenues	$ 39,374	$ 38,063	$ 37,476
Operating expenses			
Treatment	3,355	2,954	3,440
Distribution	13,635	12,760	11,806
Customer service	1,517	1,462	1,402
Administrative and general	4,364	4,252	4,542
Depreciation and amortization	6,934	6,419	5,768
Taxes and tax equivalents	3,042	2,960	2,883
Total operating expenses	32,847	30,807	29,841
Operating income	6,527	7,256	7,635
Interest income	126	140	200
Interest expense	(5,258)	(4,364)	(3,948)
Other income/(expense)	(73)	(96)	(106)
Change in net position before capital contributions	1,322	2,936	3,781
Capital Contributions	158	57	913
Change in net position	$ 1,480	$ 2,993	$ 4,694

Normal Impacts on Statement of Revenues, Expenses, and Changes in Net Position

The following is a description of activities which will normally impact the comparability of the Statement of Revenues, Expenses, and Change in Net Position presentation.

- Operating revenues are largely determined by the volumes of water sold during the fiscal year. Any change (increase/decrease) in retail water rates would also be a cause of change in operating revenue.

- Operating expenses (treatment, distribution, customer service, administrative and general) are normally impacted by changes in areas including, but not limited to, labor cost (staffing, wage rates), active employee and retiree medical costs, chemicals, and water system maintenance.

- Depreciation expense is impacted by plant additions and retirements during the fiscal year.

- Taxes and tax equivalents are impacted by plant additions/retirements and changes in property tax rates.

- Interest expense is impacted by the level of interest rates and investments.

- Interest expense on debt is impacted by the level of outstanding debt and the interest rates on the outstanding debt.

- Other income/(expenses) is impacted by miscellaneous non-operating revenues and expenses.

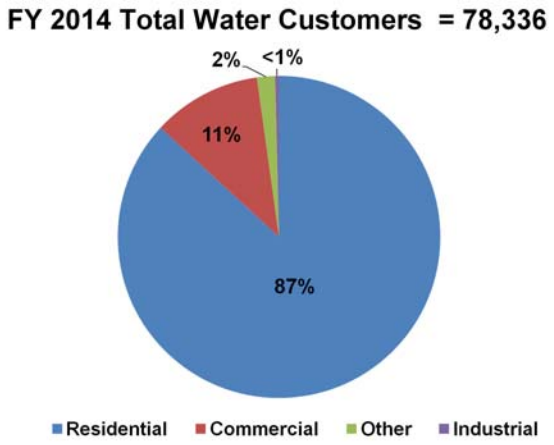
- Capital contributions are impacted by a donation of facilities/infrastructure to KUB by developers and governmental agencies. The contributions are recognized as revenue and recorded as plant in service based on the fair market value of the asset(s).

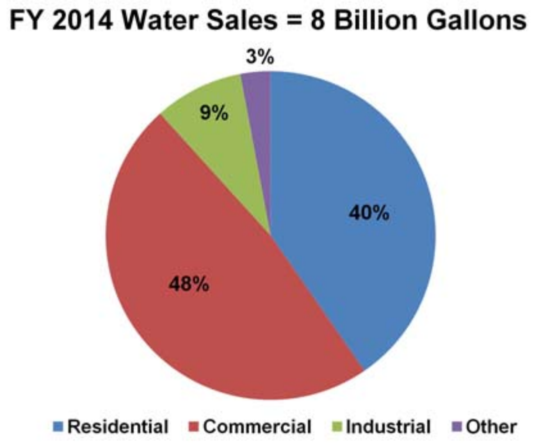
Impacts and Analysis

Margin from Sales

Fiscal Year 2014 Compared to Fiscal Year 2013

The Division's change in net position was $1.5 million this fiscal year, which is $1.5 million less than last year's $3 million increase. Operating revenues increased $1.3 million or 3.4 percent, the net result of a five percent rate increase on customers' bills in January 2013 and 2014 and a 2.3 percent reduction in water sales volumes. Operating expenses rose $2 million, interest expense increased $0.9 million, and capital contributions from developers increased $0.1 million.


FY 2014 Total Water Customers = 78,336


FY 2014 Water Sales = 8 Billion Gallons

Residential customers represented 87 percent of water customers and accounted for 40 percent of water sales volumes for the year. Commercial and industrial customers accounted for the largest portion (57 percent) of total sales volumes during the year.

KUB's ten largest water customers accounted for 11.3 percent of KUB's billed water volumes. Those ten customers represent five industrial and five commercial customers, including three governmental customers.

Residential water sales volumes were 1.8 percent lower than the prior fiscal year. Residential sales were lower throughout the majority of the year, but especially in the spring due to higher precipitation levels.

Commercial sales volumes decreased 1.7 percent compared to the prior year. Industrial sales volumes decreased 5.5 percent compared to the prior year.

KUB has added 725 water customers over the past three years, representing annual growth of less than 1 percent. Water system growth has slowed in recent years, in large part due to the slowdown of new housing construction.

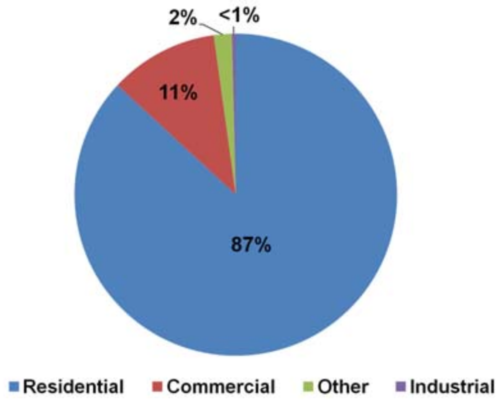
Fiscal year 2014 water sales volumes were less than the prior fiscal year, due to lower water sales for all rate classes. Sales volumes have remained relatively consistent by customer class over the last three years.

Fiscal Year 2013 Compared to Fiscal Year 2012

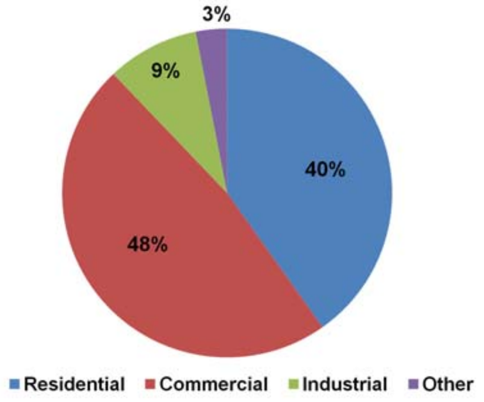
The Division's change in net position was $3 million this fiscal year, which is $1.7 million less than last year's $4.7 million increase. While operating revenues increased $0.6 million, operating expenses rose $1 million, interest expense increased $0.4 million, and capital contributions from developers declined $0.8 million.

Operating revenue increased $0.6 million or 1.6 percent, the result of additional revenue from two five percent rate increases, which were effective on customers' bills in January 2012 and January 2013, respectively. The additional revenue from the rate increases was partially offset by a 4.3 percent reduction in water sales volumes compared to the prior year.

FY 2013 Total Water Customers = 78,265



FY 2013 Water Sales = 8 Billion Gallons



Residential customers represented 87 percent of water customers and accounted for 40 percent of water sales volumes for the year. Commercial and industrial customers accounted for the largest portion (57 percent) of total sales volumes during the year.

KUB's ten largest water customers accounted for 8.1 percent of KUB's billed water volumes. Those ten customers represent nine industrial customers and one governmental customer.

Residential water sales volumes were 2.7 percent lower than the prior fiscal year. Residential sales were lower throughout the majority of the year, but especially in the spring due to higher than normal precipitation levels.

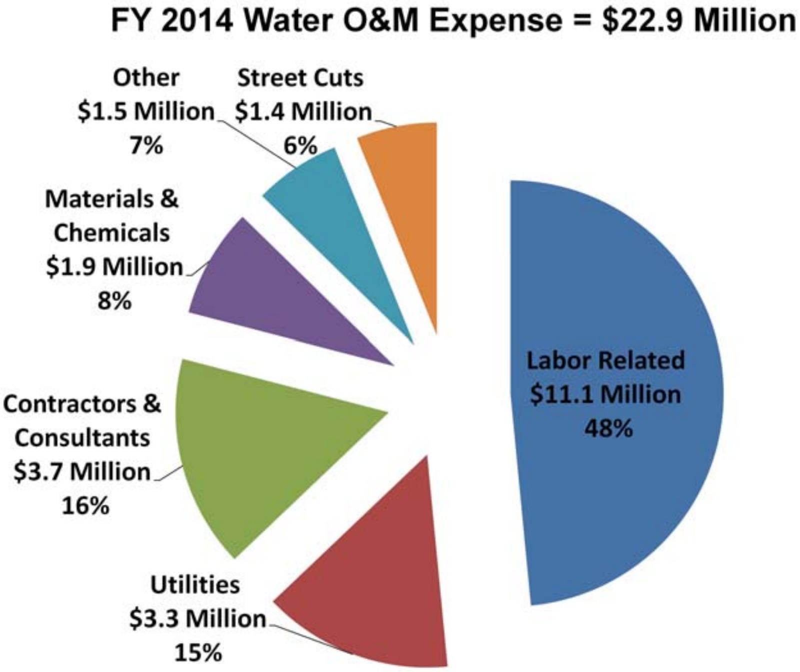
Commercial sales volumes decreased 3.9 percent compared to the prior year. Industrial sales volumes decreased 4.2 percent compared to the prior year.

Operating Expenses

Fiscal Year 2014 Compared to Fiscal Year 2013

Operating expenses increased $2 million or 6.6 percent. Operating expenses are categorized as treatment (O&M), distribution (O&M), customer service (O&M), administrative and general (O&M), depreciation or taxes and tax equivalents:

- Treatment expenses increased $0.4 million or 13.6 percent, primarily reflecting higher labor related expenses.
- Distribution expenses were $0.9 million or 6.9 percent higher than the prior fiscal year, due to increased outside contractor costs and labor related expenses.
- Customer service expenses increased $0.1 million.
- Administrative and general expenses increased $0.1 million or 2.6 percent.

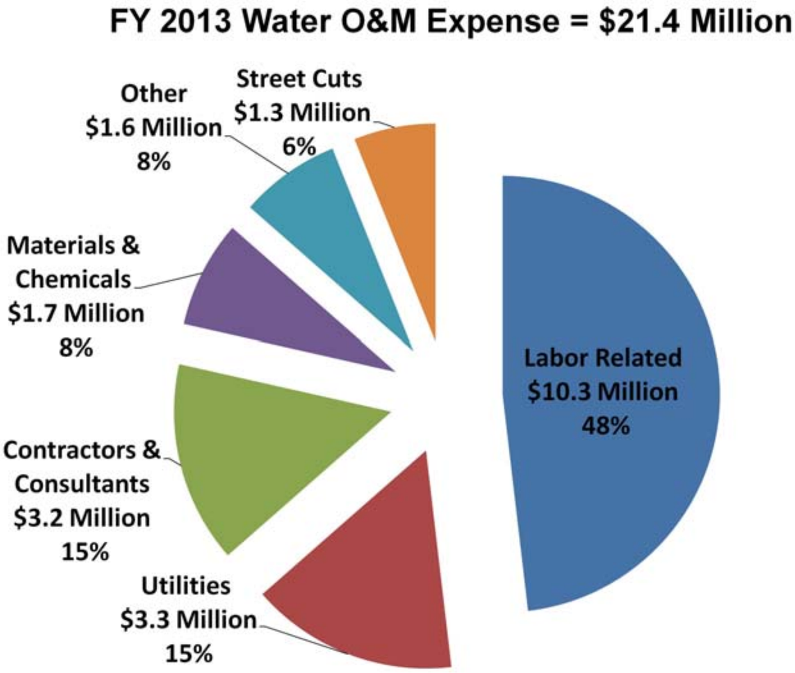


- Depreciation expense was up $0.5 million reflecting a full year of depreciation on $21.4 million of water system assets added the previous fiscal year and a partial year of depreciation on $23.9 million of assets added in fiscal year 2014. In addition, $2.7 million of assets were retired during fiscal year 2014.
- Taxes and tax equivalents increased $0.1 million from prior fiscal year.

Fiscal Year 2013 Compared to Fiscal Year 2012

Operating expenses increased $1 million or 3.2 percent. Operating expenses are categorized as treatment (O&M), distribution (O&M), customer service (O&M), administrative and general (O&M), depreciation or taxes and tax equivalents:

- Treatment expenses decreased $0.5 million or 14.1 percent, reflecting lower labor related expenses.
- Distribution expenses were $1 million or 8.1 percent higher than the prior fiscal year, partially due to increased costs for street-cuts and utilities.
- Customer service expenses increased $0.1 million, the result of increased meter reading expenses.
- Administrative and general expenses decreased $0.3 million or 6.4 percent, partially due to a $0.2 million decrease in damage claims.



- Depreciation expense was up $0.7 million reflecting a full year of depreciation on $9.9 million of water system assets added the previous fiscal year and a partial year of depreciation on $21.4 million of assets added in fiscal year 2013. In addition, $5.1 million of assets were retired during fiscal year 2013.
- Taxes and tax equivalents were up $0.1 million or 2.7 percent based on higher net plant values.

Other Income and Expense

Fiscal Year 2014 Compared to Fiscal Year 2013

Interest income was consistent with the prior fiscal year.

Interest expense increased $0.9 million, reflecting interest expense on $25 million in water bonds sold during the fiscal year.

Other income (net) was consistent with the prior fiscal year.

Capital contributions by developers were $0.1 million higher than fiscal year 2013.

Fiscal Year 2013 Compared to Fiscal Year 2012

Interest income was $0.1 million lower than the prior year due to an overall lower level of cash investments and lower longer-term interest rates.

Interest expense increased $0.4 million, reflecting interest expense on $25 million in water bonds sold during the previous fiscal year.

Other income (net) was consistent with the prior fiscal year.

Capital contributions by developers were $0.8 million lower than fiscal year 2012.

Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

(in thousands of dollars)	**2014**	**2013**	**2012**
Production plant	$ 76	$ 90	$ 103
Pumping & treatment plant	41,201	41,719	41,028
Distribution plant:			
Distribution Mains	117,714	102,333	92,994
Transmission Mains	19,506	19,401	17,942
Services and meters	18,561	17,427	16,563
Others	10,891	10,483	10,470
Total distribution plant	166,672	149,644	137,969
General plant	8,240	7,868	7,638
Total plant	216,189	199,321	186,738
Work in progress	23,517	26,701	21,231
Total net plant	$ 239,706	$ 226,022	$ 207,969

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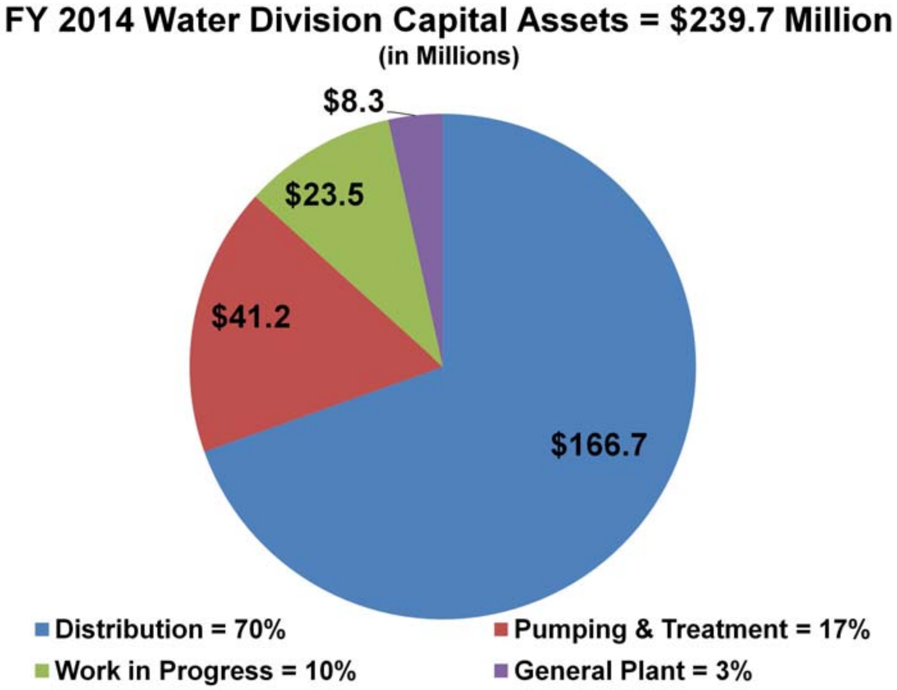
Fiscal Year 2014 Compared to Fiscal Year 2013

As of June 30, 2014, the Division had $239.7 million invested in a variety of capital assets, as reflected in the schedule of Capital Assets, which represented a net increase (including additions, retirements, and depreciation) of $13.7 million or 6.1 percent over the end of the last fiscal year.



Major capital asset expenditures during the year were as follows:

- $9.2 million for major plant and system improvements
- $7.7 million for galvanized and cast iron water main replacement

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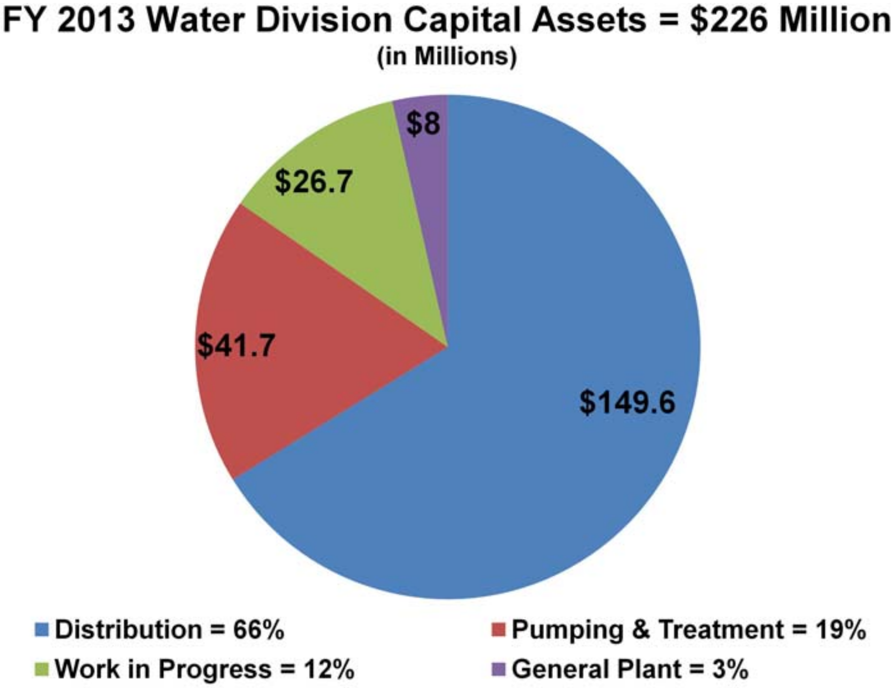
Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, the Division had $226 million invested in a variety of capital assets, as reflected in the schedule of Capital Assets, which represented a net increase (including additions, retirements, and depreciation) of $18.1 million or 8.7 percent over the end of the last fiscal year.



Major capital asset expenditures during the year were as follows:

- $11.5 million for galvanized and cast iron water main replacement
- $10.1 million for major plant and system improvements
- $0.9 million for relocation of assets in coordination with the Tennessee Department of Transportation projects

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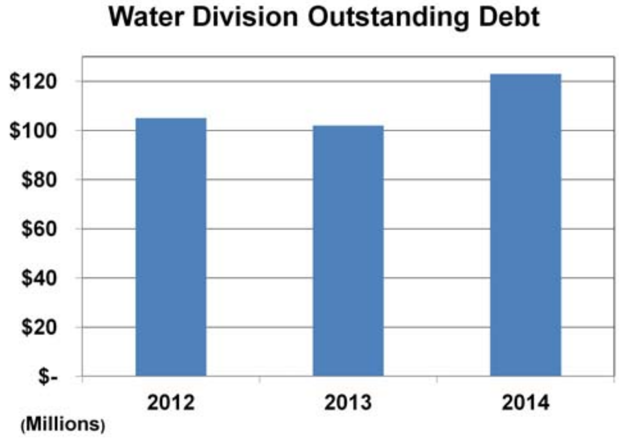
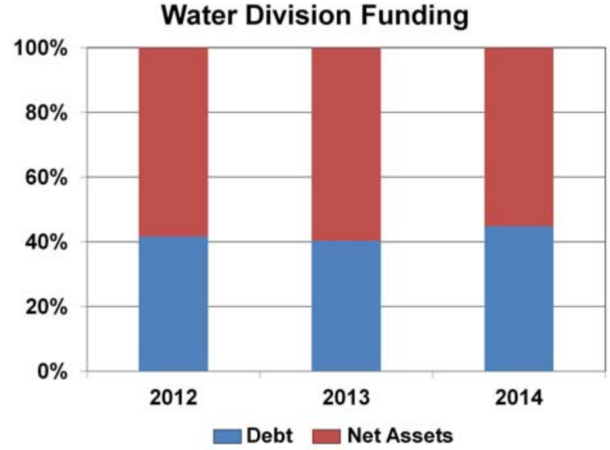
Debt Administration

The Water Division's level of debt has increased from $101.9 million in fiscal year 2013 to $123.4 million in fiscal year 2014. The increase in debt was used to fund capital improvements for the water system. Debt as a percentage of capitalization represented 44.8 percent in 2014, 40.3 percent in 2013, and 41.6 percent at the end of fiscal year 2012.

Outstanding Debt
As of June 30

(in thousands of dollars)	**2014**	**2013**	**2012**
Revenue bonds	$ 123,385	$ 101,850	$ 105,235
Total outstanding debt	$ 123,385	$ 101,850	$ 105,235





The Division will pay $43.6 million in principal payments over the next ten years, representing 35.3 percent of the outstanding bonds. KUB's Debt Management Policy requires a minimum of 30 percent of water debt principal be repaid over the next ten years.

Fiscal Year 2014 Compared to Fiscal Year 2013

As of June 30, 2014, the Division had $123.4 million in outstanding debt (including the current portion of revenue bonds), compared to $101.9 million last year, an increase of $21.5 million or 21.1 percent. The Division's weighted average cost of debt as of June 30, 2014 was 4.06 percent.

This increase in debt was the net effect of the $25 million issuance of revenue bonds and the scheduled repayment of bond debt during the fiscal year.

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2014, the Division's revenue bonds were rated AA+ by Standard & Poor's and Aa2 by Moody's Investors Service.

Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, the Division had $101.9 million in outstanding debt (including the current portion of revenue bonds), compared to $105.2 million last year, a decrease of $3.3 million or 3.1 percent. The Division's weighted average cost of debt as of June 30, 2013 was 4.02 percent.

This decrease in debt was attributable to the scheduled repayment of bond debt during the fiscal year and the refunding of outstanding bonds.

In March 2013, KUB issued $9.3 million in water system revenue refunding bonds, which when combined with a $0.3 million reoffering premium, refunded $9.5 million in outstanding water system bonds and covered the underwriter's discount and costs of issuance. The refunding will save $1.3 million in debt service over the life of the bonds ($0.8 million on a net present value basis).

As of June 30, 2013, the Division's revenue bonds were rated AA+ by Standard & Poor's and Aa2 by Moody's Investors Service.

Impacts on Future Financial Position

KUB anticipates adding 250 additional water system customers during fiscal year 2015.

In June 2014, the KUB Board adopted three years of rate increases for all four systems to help fund the ongoing Century II infrastructure programs for each system. The water rate increases will be effective July 2014, July 2015, and July 2016, respectively. The July 2014 increase will provide $3.6 million in additional water system revenue, while the July 2015 and July 2016 rate increases will result in annual water system revenue of $2 million.

KUB sold $8 million in water system revenue bonds in August 2014 for the purpose of funding water system capital improvements in fiscal year 2015. The true interest cost of bonds, which were sold through a competitive bidding process was 3.49 percent.

The Water Division's revenue bonds were upgraded with the bond sale in August 2014 to the rating of AAA, the highest rating provided by Standard & Poor's. The Aa2 bond rating from Moody's Investors Service was reaffirmed.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, is effective for periods beginning after June 15, 2013. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* are effective for periods beginning after June 15, 2014. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Division's financial position or results of operations during fiscal year 2014.

Financial Contact

The Division's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of the Division's financial position and results of operations for the fiscal years ending June 30, 2014 and 2013. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

Knoxville Utilities Board Water Division
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 15,178,461	$ 12,123,240
Short-term investments	7,000,000	3,500,000
Short-term contingency fund investments	5,202,977	4,985,531
Other current assets	103,731	74,160
Accrued interest receivable	13,961	6,025
Accounts receivable, less allowance of uncollectible accounts of $44,960 in 2014 and $52,800 in 2013	4,565,871	4,391,101
Inventories	991,866	932,104
Prepaid expenses	324,602	470,667
Total current assets	33,381,469	26,482,828
Restricted assets:		
Water bond fund	2,883,036	2,374,996
Other funds	5,703	6,997
Total restricted assets	2,888,739	2,381,993
Water plant in service	313,478,645	292,307,539
Less accumulated depreciation	(97,290,740)	(92,986,123)
	216,187,905	199,321,416
Retirement in progress	51,740	159,124
Construction in progress	23,466,042	26,541,345
Net plant in service	239,705,687	226,021,885
Other assets:		
Long-term contingency fund investments	5,768,571	6,003,006
Other	820,986	994,669
Total other assets	6,589,557	6,997,675
Total assets	282,565,452	261,884,381
Deferred outflows of resources:		
Unamortized bond refunding costs	260,151	280,012
Total deferred outflows of resources	260,151	280,012
Total assets and deferred outflows of resources	$ 282,825,603	$ 262,164,393

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

Knoxville Utilities Board Water Division
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Capitalization and Liabilities		
Current liabilities:		
Current portion of revenue bonds	$ 3,640,000	$ 3,065,000
Sales tax collections payable	237,391	224,527
Accounts payable	1,511,988	3,859,030
Accrued expenses	1,268,929	1,242,853
Customer deposits plus accrued interest	732,259	726,433
Accrued interest on revenue bonds	1,669,603	1,354,745
Total current liabilities	9,060,170	10,472,588
Other liabilities:		
Accrued compensated absences	1,491,316	1,586,092
Other	32,821	93,817
Total other liabilities	1,524,137	1,679,909
Long-term debt:		
Water revenue bonds	119,745,000	98,785,000
Total long-term debt	119,745,000	98,785,000
Total liabilities	130,329,307	110,937,497
Deferred inflows of resources:		
Unamortized costs	383,669	593,592
Total deferred inflows of resources	383,669	593,592
Total liabilities and deferred inflows of resources	130,712,976	111,531,089
Net position		
Net investment in capital assets	116,197,169	123,858,306
Restricted for:		
Debt service	1,213,433	1,020,251
Other	5,703	6,997
Unrestricted	34,696,322	25,747,750
Total net position	152,112,627	150,633,304
Total liabilities, deferred inflows, and net position	$ 282,825,603	$ 262,164,393

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

Knoxville Utilities Board Water Division

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues	$ 39,373,714	$ 38,063,528
Operating expenses		
Treatment	3,355,348	2,954,150
Distribution	13,635,443	12,760,266
Customer service	1,517,093	1,461,949
Administrative and general	4,363,596	4,251,375
Provision for depreciation and amortization	6,933,752	6,419,430
Taxes and tax equivalents	3,041,944	2,959,900
Total operating expenses	32,847,176	30,807,070
Operating income	6,526,538	7,256,458
Non-operating revenues (expenses)		
Contributions in aid of construction	464,748	703,844
Interest and dividend income	125,448	139,775
Interest expense	(5,257,923)	(4,363,951)
Write-down of plant for costs recovered through contributions	(464,748)	(703,844)
Other	(72,599)	(96,232)
Total non-operating revenues (expenses)	(5,205,074)	(4,320,408)
Change in net position before capital contributions	1,321,464	2,936,050
Capital contributions	157,859	56,852
Change in net position	1,479,323	2,992,902
Net position, beginning of year	150,633,304	147,640,402
Net position, end of year	$ 152,112,627	$ 150,633,304

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

Knoxville Utilities Board Water Division
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash receipts from customers	$ 38,747,289	$ 37,676,306
Cash receipts from other operations	904,124	1,169,939
Cash payments to suppliers of goods or services	(16,831,753)	(12,115,361)
Cash payments to employees for services	(9,559,997)	(8,831,362)
Payment in lieu of taxes	(2,377,350)	(2,335,619)
Net cash provided by operating activities	10,882,313	15,563,903
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	24,823,073	-
Principal paid on revenue bonds and notes payable	(3,465,000)	(3,160,000)
Decrease (increase) in unused bond proceeds	-	13,803,726
Interest paid on revenue bonds and notes payable	(4,518,219)	(4,390,442)
Acquisition and construction of water plant	(21,283,275)	(25,618,359)
Changes in water bond fund, restricted	(508,041)	59,673
Proceeds received on disposal of plant	23,064	24,171
Cash received from developers and individuals for capital purposes	464,748	703,844
Net cash used in capital and related financing activities	(4,463,650)	(18,577,387)
Cash flows from investing activities:		
Purchase of investment securities	(3,573,869)	(3,063,869)
Maturities of investment securities	90,858	69,170
Interest received	117,512	141,057
Other property and investments	2,057	106,356
Net cash used in investing activities	(3,363,442)	(2,747,286)
Net increase (decrease) in cash and cash equivalents	3,055,221	(5,760,770)
Cash and cash equivalents, beginning of year	12,123,240	17,884,010
Cash and cash equivalents, end of year	$ 15,178,461	$ 12,123,240
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 6,526,538	$ 7,256,458
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expenses	7,181,731	6,691,156
Changes in operating assets and liabilities:		
Accounts receivable	(174,770)	108,286
Inventories	(59,762)	(41,207)
Prepaid expenses	525	(437,475)
Other assets	(133,901)	(310,305)
Sales tax collections payable	12,865	(2,999)
Accounts payable and accrued expenses	(2,415,740)	2,252,431
Customer deposits plus accrued interest	5,825	24,077
Other liabilities	(60,998)	23,481
Net cash provided by operating activities	$ 10,882,313	$ 15,563,903
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ 157,859	$ 56,852

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

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners governs KUB. The Board has all powers to construct, acquire, expand, or operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions including setting rates. The Water Division (Division) provides services to certain customers in Knox County and in two surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Water Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2014 and 2013, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

2. Significant Accounting Policies

Basis of Accounting

KUB follows the provisions of GASB Statement No. 34 (Statement No. 34), *Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* Statement No. 34 established standards for external financial reporting for all state and local governmental entities.

The financial statements are prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred. The accounting and financial reporting treatment applied to the Division is determined by measurement focus. The transactions of the Division are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets and deferred outflows of resources net of total liabilities and deferred inflows of resources) are segregated into net investment in capital assets; restricted for capital activity and debt service; and unrestricted components.

Recently Adopted New Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62 (Statement No. 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for KUB's fiscal year beginning July 1, 2012. The objective of this Statement is to incorporate into the GASB's authoritative literature certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants' (AICPA) accounting and financial reporting guidance issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

Statement No. 62 supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election to apply FASB statements, related interpretations, Accounting Principles Board opinions and accounting research bulletins issued post-November 30, 1989 that do not conflict with Governmental Accounting Standards. However, FASB pronouncements issued post-November 30, 1989 that do not conflict with or contradict Governmental Accounting Standards can continue to apply as other accounting literature.

In June 2011, the GASB issued Statement No. 63 (Statement No. 63), (*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,* effective for KUB's fiscal year beginning July 1, 2012. Statement No. 63 amends the net asset reporting requirements in Statement No. 34 and other pronouncements. Under these new standards, financial statements include deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities, and will report *net position* instead of net assets. Statement No. 63 requires the classification of net position into three components – net investment in capital assets; net position-restricted; and net position-unrestricted.

These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Implementation of Statement No. 63 had no effect on KUB's net position or changes in net position.

In March 2012, the GASB issued Statement No. 65 (Statement No. 65), *Items Previously Reported as Assets and Liabilities*, effective for KUB's fiscal year beginning July 1, 2013; however, KUB early adopted Statement No. 65 effective for the fiscal year beginning July 1, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities. Implementation of Statement No. 65 had no effect on KUB's net position or changes in net position.

Water Plant

Water plant and other property are stated on the basis of original cost. The cost of current repairs and minor replacements is charged to operating expense. The cost of renewals and improvements is capitalized. The original cost of utility plant assets retired or otherwise disposed of and the cost of removal less salvage value is charged to accumulated depreciation. When other property is retired, the related asset and accumulated depreciation are removed from the accounts, and the gain or loss is included in the results of operations.

The provision for depreciation of water plant in service is based on the estimated useful lives of the assets, which range from three to sixty-seven years, and is computed using the straight-line method. Pursuant to NARUC, the caption "Provision for depreciation" in the statements of revenues, expenses and changes in net position does not include depreciation for transportation equipment of $247,979 in fiscal year 2014 and $271,726 in fiscal year 2013. Interest costs are expensed as incurred.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of the KUB Water Division. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unbilled revenue. Revenues are reported net of bad debt expense of $107,707 in fiscal year 2014 and $122,196 in fiscal year 2013.

Non-operating Revenue

Non-operating revenue consists of revenues that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Expense

When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is KUB's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

Contributions in Aid of Construction and Capital Contributions

Contributions in aid of construction are cash collections from customers or others for a particular purpose, generally the construction of new facilities to serve new customers in excess of the investment KUB is willing to make for a particular incremental revenue source. KUB reduces the plant account balances to which contributions relate by the actual amount of the contribution and recognizes the contributions as non-operating revenue in accordance with Statement No. 62.

Capital contributions represent contributions of utility plant infrastructure constructed by developers and others in industrial parks and other developments, and transferred to KUB upon completion of construction and the initiation of utility service. In accordance with GASB Statement No. 33, *"Accounting and Financial Reporting for Nonexchange Transactions"*, such contributions are recognized as revenues and capital assets upon receipt.

Inventories

Inventories, consisting of plant materials and operating supplies, are valued at the lower of average cost or replacement value.

Pension Plan

The Division's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). The Division's policy is to fund pension cost accrued. As required by GASB Statement No. 27, KUB measures and discloses the annual pension cost on the accrual basis of accounting. At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

Investments

Investments are carried at fair value as determined by quoted market prices at the reporting date.

Self-Insurance

KUB has established self-insurance programs covering portions of workers' compensation, employee health, environmental liability, general liability, property and casualty liability, and automobile liability claims. A liability is accrued for claims as they are incurred. When applicable, claims in excess of the self-insured risk are covered by KUB's insurance carrier. Additionally, KUB provides certain lifetime health benefits to eligible retired employees under a self-insurance plan administered by a third party.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and various other assumptions that KUB believes are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. Estimates are used for, but not limited to, inventory valuation, provision for doubtful accounts, depreciable lives of plant assets, unbilled revenue volumes, pension trust valuations, OPEB trust valuations, insurance liability reserves, and potential losses from contingencies and litigation. Actual results could differ from those estimates.

Restricted and Designated Assets

Certain assets are restricted by bond resolutions for the construction of utility plant and debt repayment. Certain additional assets are designated by management for contingency purposes and economic development.

Cash Equivalents

For purposes of the statements of cash flows, KUB considers all unrestricted and undesignated highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are items previously reported as assets related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. Deferred inflows of resources are items previously reported as liabilities related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. In accordance with Statement No. 62, KUB records debt issuance costs, including discounts and premiums as a deferred outflow or inflow. Likewise, KUB records costs associated with the gain or loss on refunding of debt as either a deferred outflow or inflow based on the parameters of Statement No. 65.

Compensated Absences

KUB accrues a liability for earned but unpaid paid-time off (PTO) days.

Subsequent Events

KUB has evaluated events and transactions through October 24, 2014, the date these financial statements were issued, for items that should potentially be recognized or disclosed.

Reclassifications

Certain reclassifications have been made to fiscal year 2013 balances to conform to fiscal year 2014 presentation.

Recently Issued Accounting Pronouncements

In June 2012, the GASB issued two related Statements that affect accounting and financial reporting of pensions by state and local governments. GASB Statement No. 67 (Statement No. 67), *Financial Reporting for Pension Plans*, is intended to improve financial reporting for state and local government pension plans. GASB Statement No. 68 (Statement No. 68), *Accounting and Financial Reporting for Pensions,* establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. Statements No. 67 and 68 supersede existing guidance on financial reporting for defined pension plans found in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The objective of this statement is to clarify accounting and financial reporting for pensions. This statement requires governments to recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date of the beginning net pension liability calculated under Statement No. 68.

Statement No. 67 is effective for periods beginning after June 15, 2013 and Statements No. 68 and 71 are effective for periods beginning after June 15, 2014. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

3. Deposits and Investments

KUB follows the provisions of Statement No. 40 of the Governmental Accounting Standards Board *Deposit and Investment Risk Disclosures an amendment of GASB Statement No. 3*. This Statement establishes and modifies disclosure requirements for state and local governments related to deposit and investment risks.

KUB's investment policy provides the framework for the administration and investment of cash deposits. The investment policy follows State law and defines the parameters under which KUB funds should be invested. State law authorizes KUB to invest in obligations of the United States Treasury, its agencies and instrumentalities; certificates of deposit; repurchase agreements; money market funds; and the State Treasurer's Investment Pool.

Interest Rate Risk. KUB's primary investment objectives are to place investments in a manner to ensure the preservation of capital, remain sufficiently liquid to meet all operating requirements, and maximize yield of return. KUB minimizes its exposure to interest rate risk by adhering to Tennessee state law requirements for the investment of public funds. This includes limiting investments to those types described above and limiting maturity horizons. The maximum maturity is four years from the date of investment. KUB also limits its exposure by holding investments to maturity unless cash flow requirements dictate otherwise.

Credit Risk. KUB's investment policy, as required by state law, is to apply the prudent-person rule: Investments are made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable income to be derived, as well as the probable safety of their capital. KUB's Agency Bond investments are rated Aaa by Moody's Investors Service.

Custodial Credit Risk. KUB's investment policy limits exposure to custodial credit risk by restricting investments to a standard set forth by State law. All deposits in excess of federal depository insurance limits are collateralized with government securities held in KUB's name by a third-party custodian bank(s) acting as KUB's agent(s), or through the state of Tennessee's collateral pool. Financial institutions that participate in the collateral pool are subject to special assessment; therefore, the deposits are considered insured. A portion of KUB's investments are generally held in the State of Tennessee Local Government Investment Pool (LGIP). The LGIP is a part of the State Pooled Investment Fund and is sponsored by the State of Tennessee Treasury Department. Tennessee Code Annotated ¶9-4-701 *et seq*. authorizes local governments to invest in the LGIP. None of KUB's investments are exposed to custodial credit risk.

Classification of deposits and investments per statement of net position:

	2014	**2013**
Current assets		
Cash and cash equivalents	$ 15,178,461	$ 12,123,240
Short-term investments	7,000,000	3,500,000
Short-term contingency fund investments	5,202,977	4,985,531
Other assets		
Long-term contingency fund investments	5,737,073	5,956,565
Restricted assets		
Water bond fund	2,883,036	2,374,996
Other funds	5,703	6,997
	$ 36,007,250	$ 28,947,329

The above amounts do not include accrued interest of $31,498 in fiscal year 2014 and $46,441 in fiscal year 2013. Interest income is recorded on an accrual basis.

Investments and maturities of KUB’s deposits and investments:

	Deposit and Investment Maturities (in Years)		
	Fair Value	**Less Than 1**	**1-5**
Supersweep NOW and Other Deposits	$ 18,123,652	$ 18,123,652	$ -
State Treasurer's Investment Pool	2,560	2,560	-
Agency Bonds	7,892,806	2,158,292	5,734,514
Certificates of Deposits	12,927,721	12,927,721	-
	$ 38,946,739	$ 33,212,225	$ 5,734,514

4. Accounts Receivable

Accounts receivable consists of the following:

	2014	**2013**
Wholesale and retail customers		
Billed services	$ 2,831,835	$ 2,734,309
Unbilled services	1,576,709	1,528,922
Other	202,287	180,670
Allowance for uncollectible accounts	(44,960)	(52,800)
	$ 4,565,871	$ 4,391,101

5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2014	2013
Trade accounts	$ 1,511,988	$ 3,859,030
Salaries and wages	243,592	207,229
Self-insurance liabilities	204,465	225,417
Other current liabilities	820,872	810,207
	$ 2,780,917	$ 5,101,883

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2013	Additions	Payments	Balance June 30, 2014	Amounts Due Within One Year
R-2005 - 3.5 - 5.0%	$ 490,000	$ -	$ 235,000	$ 255,000	$ 255,000
S-2005 - 3.5 - 5.0%	7,575,000	-	415,000	7,160,000	425,000
T-2007 - 4.0 - 5.5%	25,000,000	-	650,000	24,350,000	675,000
U-2009 - 3.0 - 4.5%	25,000,000	-	750,000	24,250,000	800,000
W-2011 - 2.0 - 4.0%	24,450,000	-	550,000	23,900,000	550,000
X-2012 - 3.0 - 5.0%	10,050,000	-	440,000	9,610,000	460,000
Y-2013 - 3.0 - 4.0%	9,285,000	-	25,000	9,260,000	25,000
Z-2013 - 2.0 - 5.0%	-	25,000,000	400,000	24,600,000	450,000
Total debt	$ 101,850,000	25,000,000	$ 3,465,000	$ 123,385,000	$ 3,640,000

Other liabilities consist of the following:

	Balance June 30, 2013	Increase	Decrease	Balance June 30, 2014	Amounts Due Within One Year
Accrued compensated absences	$ 1,586,092	$ 2,110,437	$ (2,205,213)	$ 1,491,316	$ 500,000
Other	93,817	117,599	(178,595)	32,821	-
	$ 1,679,909	$ 2,228,036	$ (2,383,808)	$ 1,524,137	$ 500,000

Debt service over remaining term of the debt is as follows:

Fiscal Year	Principal	Total Interest	Grand Total
2015	$ 3,640,000	$ 5,008,809	$ 8,648,809
2016	3,740,000	4,877,690	8,617,690
2017	3,935,000	4,731,490	8,666,490
2018	4,095,000	4,555,340	8,650,340
2019	4,235,000	4,389,690	8,624,690
2020 - 2024	23,925,000	19,340,807	43,265,807
2025 - 2029	28,855,000	14,478,980	43,333,980
2030 - 2034	27,635,000	8,424,427	36,059,427
2035 - 2039	15,150,000	3,895,094	19,045,094
2040 - 2044	8,175,000	1,027,500	9,202,500
Total	$ 123,385,000	$ 70,729,827	$ 194,114,827

The Division has pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments when due. The requirements for the bonds are being met through monthly deposits to the Water Bond Fund, as required by the bond covenants. As of June 30, 2014, these bond covenants had been satisfied.

During fiscal year 2006, KUB's Water Division issued Series R 2005 bonds for the purpose of funding water system capital improvements. KUB's Water Division also issued Series S 2005 bonds to retire certain existing debt and fund water system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series P 2001 bonds, as such amounts mature.

During fiscal year 2008, KUB's Water Division issued Series T 2007 bonds to fund water system capital improvements.

During fiscal year 2010, KUB's Water Division issued Series U 2009 bonds to fund water system capital improvements.

During fiscal year 2012, KUB's Water Division issued Series W 2011 bonds to fund water system capital improvements. KUB's Water Division also issued Series X 2012 bonds to retire Series Q 2004 bonds.

During fiscal year 2013, KUB's Water Division issued Series Y 2013 bonds to retire a portion of outstanding Series R 2005 bonds.

During fiscal year 2014, KUB's Water Division issued Series Z 2013 bonds to fund water system capital improvements.

In prior years, certain water system revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $16.6 million at June 30, 2014, and the trust account assets are not included in the financial statements.

7. Lease Commitments

KUB has non-cancelable operating lease commitments for office equipment and vehicles, summarized for the following fiscal years:

2015	$ 7,404
2016	2,671
2017	278
Total operating minimum lease payments	$ 10,353

8. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning 6/30/2013	Increase	Decrease	Ending 06/30/2014
Production Plant	$ 727,863	$ -	$ -	$ 727,863
Pumping & Treatment Plant	64,374,463	1,453,930	(290,103)	65,538,290
Distribution Plant				
Distribution Mains	129,748,438	17,316,663	(1,187,743)	145,877,358
Transmission Mains	26,795,413	509,435	(43,433)	27,261,415
Services & Meters	28,644,956	1,986,014	(789,237)	29,841,733
Other Accounts	20,857,760	955,085	(133,065)	21,679,780
Total Distribution Plant	$ 206,046,567	$ 20,767,197	$ (2,153,478)	$ 224,660,286
Total General Plant	21,158,646	1,631,977	(238,417)	22,552,206
Total Water Plant	$ 292,307,539	$ 23,853,104	$ (2,681,998)	$ 313,478,645
Less Accumulated Depreciation	(92,986,123)	(6,924,520)	2,619,903	(97,290,740)
Net Plant Assets	$ 199,321,416	$ 16,928,584	$ (62,095)	$ 216,187,905
Work In Progress	26,700,469	20,587,700	(23,770,387)	23,517,782
Total Net Plant	$ 226,021,885	$ 37,516,284	$ (23,832,482)	$ 239,705,687

9. Risk Management

KUB is exposed to various risks of loss related to active and retiree medical claims; injuries to workers; theft of, damage to, and destruction of assets; environmental damages; and natural disasters. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2014, the amount of these liabilities was $204,465 resulting from the following changes:

	2014	**2013**
Balance, beginning of year	$ 225,417	$ 237,628
Current year claims and changes in estimates	1,602,477	1,598,466
Claims payments	(1,623,429)	(1,610,677)
Balance, end of year	$ 204,465	$ 225,417

10. Pension Plan

Description of Plan

The Plan is a single-employer contributory, defined benefit pension plan established by Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville §1107(J). The Plan is designed to provide retirement, disability and death benefits. The Plan is a governmental plan as defined by the Employee Retirement Income Security Act of 1974, is not subject to any of the provisions of the Act, and was revised January 1, 2014 to include all prior approved amendments.

At December 31, 2013, the Plan had approximately 639 retirees and beneficiaries currently receiving benefits and 49 terminated employees entitled to benefits but not yet receiving them. Of the approximately 778 current employees in the Plan, 743 were fully vested at December 31, 2013. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

Effective January 1, 2011, KUB froze the Plan such that persons employed or re-employed by KUB on or after January 1, 2011, shall not be eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the Plan.

The Plan provides three different benefit arrangements for KUB participants, retirees, and beneficiaries, as follows:

Career Equity Program (CEP)

CEP is for eligible employees hired on or after January 1, 1999, and for eligible former City Division Plan A members who elected CEP coverage as of July 1, 1999. CEP is a closed plan.

All eligible employees became participants on the date of his/her KUB employment. Participants are covered by Social Security. Participation in CEP does not require or permit employee contributions.

Plan A

Plan A benefits are for former City Division Plan A active employees, vested terminated employees, retirees, and beneficiaries. Plan A is a closed plan.

All employees participating in the City Division Plan A as of June 30, 1999, were eligible to participate in KUB's Plan A or the CEP program. Participants of Plan A are covered by Social Security. Plan A is a closed plan and is not available to KUB employees hired after July 1, 1999. Participation in Plan A requires employee contributions of 3 percent of the first $4,800 of annual earnings and 5 percent of annual earnings in excess of $4,800. Plan A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or older.

Plan B
Plan B benefits are for former City Division Plan B active employees, vested terminated employees, retirees, and beneficiaries. Plan B is a closed plan.

All employees participating in the City Division Plan B as of June 30, 1999 are eligible to participate in KUB's Plan B. Plan B is now a closed plan and no participants can be added. Participants of Plan B are not covered by Social Security. Participation in Plan B requires employee contributions of 4 percent of annual earnings. Plan B provides for retirement benefits after 25 years of service and the attainment of age 50.

Funding Policy
For the Plan year ended December 31, 2013, a contribution of $6,314,399 will be made in the Plan sponsor's fiscal year ending June 30, 2015. The Water Division's portion of this contribution is $820,872. The contribution was determined as part of the January 1, 2013 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death. For the Plan year ended December 31, 2013, the Plan's actuarial funded ratio was 89.3 percent.

At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund, is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

Significant actuarial assumptions used in the valuation include (a) rate of return of investments of 8 percent, (b) the RP2000 Mortality Table, (c) annual projected salary increases based on participants' ages ranging from age 25 to age 65 with salary increases from 2.58 percent to 7.92 percent, and (d) cost of living adjustment of 2.8 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period.

As of the actuarial report for the Plan year ended December 31, 2013, contributions of $6,314,399 and $5,502,677 for 2013 and 2012, respectively, will be made during the Plan sponsor's fiscal years ending June 30, 2015 and 2014, respectively. Of these amounts, $820,872 and $715,348 are attributable to the Water Division.

Subsequent to June 30, 2014, the actuarial valuation for the Plan year ending December 31, 2014 was completed. The actuarial valuation resulted in an actuarially determined contribution of $5,669,380 for the fiscal year ending June 30, 2016, based on the Plan's current funding policy. The Water Division's portion of this contribution is $737,019. For the Plan year ending December 31, 2014, the Plan's actuarial funded ratio was 94.6 percent. See Required Supplementary Information for Pension Schedule of Funding Progress.

11. Defined Contribution Plan

KUB has a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees. Employees hired prior to January 1, 2011 may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. Employees hired on or after January 1, 2011 have an enhanced 401(k) Plan due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. They also receive a nonelective KUB contribution of from 3 percent to 6 percent, depending on years of service, whether they contribute or not.

Since July 1, 2000, 401(k) matching contributions for employees eligible to participate in the KUB Pension Plan have been funded by the Pension Plan. These funds are held by the Pension trustee until eligible for distribution. IRS rules permit the funding of 401(k) matching contributions from excess pension assets for employees covered under the Pension Plan. Based on the funding level of the Pension Plan, effective July 1, 2011, KUB began to reimburse the Pension Plan for the current matching contributions. The match and nonelective contributions for employees hired on or after January 1, 2011 are paid directly by KUB.

12. Other Post-Employment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) established new standards for the measurement, recognition, and reporting of other post-employment benefits (OPEB). OPEB includes post-employment benefits other than pension, which, for KUB, is presently limited to post-employment health care. GASB Statement No. 45 (Statement No. 45) requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the total unfunded liability. Statement No. 45 was effective for KUB for the fiscal year beginning July 1, 2007.

KUB currently provides post-employment health care benefits to 604 former employees and 619 covered dependents. The cost of coverage is shared with retirees and beneficiaries. KUB recognizes its share of the cost of post-employment health care benefits as an expense as claims are paid.

In anticipation of Statement No. 45, KUB amended its Group Health Plan in 1999, eliminating post-employment health care benefits for all employees hired on or after July 1, 1999. As of June 30, 2014, 399 active employees were eligible for individual and dependent coverage at separation. To qualify, the employee must meet the Rule of 80 (age plus years of service) with a minimum of 20 years of service, and be enrolled in medical coverage on their last day.

In May 2006, the state of Tennessee adopted Tennessee Code Annotated, Title 8, Chapter 50, Part 12 authorizing governmental entities to establish Trusts for the purpose of pre-funding their respective OPEB liabilities.

Although Statement No. 45 does not require pre-funding of the liability, KUB has determined that it is in the long-term economic interest of KUB and its ratepayers to establish a Trust to pre-fund KUB's OPEB liability.

In October 2007, the KUB Board authorized the establishment of an OPEB Trust. The applicable documentation was submitted to the State Funding Board and, in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008.

The Trust issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

The general administration and responsibility for the proper operation of the Trust is governed by a Board of Trustees, appointed by KUB's President & CEO. The investment of all deposits to the Trust is governed by an Investment Policy, which was adopted by the KUB Board and approved by the State Funding Board.

Total contributions to the OPEB Trust for the fiscal year ended June 30, 2014 were $4,057,091 (Division's share $527,422). The contribution to the Trust exceeded the annual actuarially determined contribution, as determined by the Postretirement Benefit Plan's actuarial valuation for the year ended December 31, 2012, which was $3,327,412 (Division's share $432,564). As of June 30, 2014, the employer's OPEB obligation has been exceeded by $177,322 (Division's share $23,052).

The actuarially determined contribution for the fiscal year ending June 30, 2015, as determined by the Plan's actuarial valuation for the year ended December 31, 2013 is $3,497,372 (Division's share $454,658).

The actuarial valuation for the Plan for the year ending December 31, 2014 has been completed. The valuation determined that the Plan's actuarial accrued liability was $46,889,808 (Division's share $6,095,675). The actuarial value of the Plan's assets was $43,409,955 (Division's share $5,643,294). As a result, the Plan's unfunded actuarial accrued liability was $3,479,853 (Division's share $452,381). The Plan's actuarial funded ratio was 93 percent. The valuation also determined that the employer's actuarially determined contribution is $953,221 for the fiscal year ending June 30, 2016 (Division's share $123,919). See Required Supplementary Information for OPEB Schedule of Funding Progress.

13. Related Party Transactions

The Division, in the normal course of operations, is involved in transactions with the City of Knoxville and with other divisions of KUB. Such transactions for the years ended June 30, 2014 and 2013, are summarized as follows:

	2014	**2013**
City of Knoxville		
Amounts billed by the Division for utilities and related services	$ 3,229,509	$ 3,447,230
Payments by the Division in lieu of property tax	2,377,350	2,335,619
Payments by the Division for services provided	696,190	343,159
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	358,304	327,946
Interdivisional rental expense	197,536	147,724
Interdivisional rental income	80,427	101,944
Amounts billed to the Division by other divisions for utilities services provided	3,120,332	2,997,490

With respect to these transactions, accounts receivable from and accounts payable to the City of Knoxville and the other divisions included in the balance sheet at year end were:

	2014	**2013**
Accounts receivable	$ 62,221	$ 291,817

14. Unaccounted for Water Schedule

As required by Tennessee Code Annotated, KUB is required to include a Supplemental Schedule in the annual audited financial statements for the Schedule of Unaccounted for Water. For reports submitted January 1, 2013 and later, the American Water Works Association (AWWA) water loss reporting model must be used. For fiscal years 2013 and 2014, water utilities are required to have a Validity Score greater than 65 and maintain non-revenue water as a percent by cost of operating system of less than 30%. For fiscal year 2013, KUB reported a Validity Score of 88 and non-revenue water as a percent by cost of operating system of 10.4%. For fiscal year 2014, KUB reported a Validity Score of 85 and non-revenue water as a percent by cost of operating system of 11.3%. See Supplemental Information Schedule 5 for the AWWA Reporting Worksheet.

15. Other Commitments and Contingencies

In the normal course of business, there are various lawsuits pending against KUB. Management has reviewed these lawsuits with counsel, who is vigorously defending KUB's position and is of the opinion that the ultimate disposition of these matters will not have a material adverse effect on KUB's financial position, results of operations or cash flows.

Knoxville Utilities Board Water Division
Required Supplementary Information – Schedule of Funding Progress
June 30, 2014
(Unaudited)

Pension Plan

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2010	$ 203,704,898	$ 190,679,453	$ (13,025,445)	106.8%	$ 48,228,428	(27.01%)
January 1, 2011	195,692,781	187,257,434	(8,435,347)	104.5%	47,405,874	(17.79%)
January 1, 2012	183,980,665	195,536,152	11,555,487	94.1%	48,836,721	23.66%
January 1, 2013	175,936,548	197,049,614	21,113,066	89.3%	47,553,598	44.40%
January 1, 2014	188,770,336	199,515,466	10,745,130	94.6%	47,107,350	22.81%

Other Post-Employment Benefits (OPEB)

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2008	$ -	$ 108,329,141	$ 108,329,141	0%	$ 31,234,509	346.8%
January 1, 2009	14,593,487	100,726,738	86,133,251	14%	31,846,091	270.5%
January 1, 2010	21,275,643	58,475,364	37,199,721	36%	30,069,028	123.7%
January 1, 2011	40,749,815	64,289,254	23,539,439	63%	28,878,791	81.5%
January 1, 2012	37,907,357	61,603,466	23,696,109	62%	28,269,123	83.8%
January 1, 2013	38,571,803	63,341,531	24,769,728	61%	27,566,340	89.9%
January 1, 2014	43,409,955	46,889,808	3,479,853	93%	26,724,154	13.0%

Knoxville Utilities Board Water Division
Supplemental Information –
Schedule of Expenditures of Federal Awards by Grant
June 30, 2014 Schedule 1

KUB was awarded two grants from Tennessee Emergency Management Agency (as a flow through from FEMA) for reimbursement for costs related to storms in 2011. The schedule below shows the activities for the current fiscal year.

Program Name	Federal/State Agency	CFDA Number	Contract Number	Beginning Receivable	Cash Receipts	Expenditures	Adjustments	Ending Receivable
U.S. Department of Homeland Security	Tennessee Emergency Management	97.036	34101-0000009205	$ 8,175	$ -	$ -	$ -	$ 8,175
U.S. Department of Homeland Security	Tennessee Emergency Management	97.036	34101-0000009832	$ 833	$ -	$ -	$ -	$ 833
		Total Program 97.036		$ 9,008	$ -	$ -	$ -	$ 9,008
		Total Federal Awards		$ 9,008	$ -	$ -	$ -	$ 9,008

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Knoxville Utilities Board and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Insurance in Force
June 30, 2014
(Unaudited) Schedule 2

Insurance coverage is for KUB as a consolidated entity.

Crime

Covers losses resulting from employee dishonesty, robbery, burglary, and computer fraud. Limits of coverage - $5,000,000; $250,000 retention.

Directors' and Officers' Liability Insurance

Covers KUB personnel appropriately authorized to make decisions on behalf of KUB (including but not limited to Commissioners, President and CEO, Senior Vice Presidents, Vice Presidents, and Directors) for wrongful acts. Limits of coverage - $20,000,000; $1,000,000 corporate deductible, $0 individual deductible.

Employment Practices Liability

Coverage for costs related to actual or alleged employment practices violations for amounts exceeding specified amount ($500,000). Limits of coverage - $10,000,000.

Fiduciary

Covers losses resulting from wrongful acts related to KUB's Pension, 401(k), and OPEB Trust funds. Limits of coverage - $10,000,000; $150,000 deductible.

Pollution Legal Liability

New conditions coverage for losses exceeding specified amount per occurrence ($1,000,000). Limits of coverage - $20,000,000.

Property Insurance

This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - $250,000,000 per occurrence (subject to certain sublimits); $2,500,000 deductible per occurrence.

Travel Accident

Covers losses related to employees' business travel. Limits of coverage - $1,500,000 aggregate.

Excess Insurance for General Liability

As a government entity, KUB's liability is limited under the Tennessee Governmental Tort Liability Act (TCA §29-20-403). KUB is self-insured for up to the first $700,000 of any accident and has insurance of $1,000,000 above this retention.

Excess Insurance for Workers' Compensation

Covers all losses exceeding specified amount per occurrence ($1,000,000). Limits of coverage - Statutory; stop loss coverage applies for aggregate losses over $5,000,000.

Employee Health Plan Stop Loss Coverage

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of $400,000 per individual participant.

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2014

Schedule 3

Continued on Next Page

	R-2005		S-2005		T-2007		U-2009		W-2011	
FY	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
14-15	$ 255,000	$ 9,244	$ 425,000	$ 306,521	$ 675,000	$ 1,103,644	$ 800,000	$ 988,625	$ 550,000	$ 893,750
15-16			440,000	289,521	700,000	1,066,519	825,000	964,625	550,000	882,750
16-17			465,000	267,521	750,000	1,028,019	875,000	931,625	550,000	871,750
17-18			485,000	244,271	800,000	986,769	925,000	896,625	550,000	844,250
18-19			500,000	224,871	825,000	942,769	950,000	859,625	550,000	827,750
19-20			520,000	204,871	875,000	909,769	1,000,000	821,625	550,000	805,750
20-21			545,000	183,421	900,000	874,769	1,050,000	781,625	550,000	789,250
21-22			570,000	160,940	950,000	837,644	1,125,000	739,625	550,000	772,750
22-23			590,000	137,428	1,000,000	798,456	1,175,000	694,625	500,000	756,250
23-24			615,000	112,353	1,050,000	755,956	1,225,000	647,625	500,000	741,250
24-25			640,000	86,215	1,100,000	711,331	1,300,000	598,625	500,000	726,250
25-26			665,000	58,695	1,150,000	664,031	1,350,000	546,625	500,000	710,625
26-27			700,000	30,100	1,200,000	610,844	1,425,000	492,625	500,000	693,125
27-28					1,225,000	555,344	1,500,000	435,625	500,000	673,125
28-29					1,250,000	501,750	1,575,000	375,625	500,000	655,625
29-30					1,300,000	445,500	1,650,000	308,688	500,000	635,625
30-31					2,750,000	387,000	1,750,000	238,563	500,000	617,500
31-32					2,850,000	263,250	1,825,000	164,188	500,000	598,750
32-33					3,000,000	135,000	1,925,000	86,625	500,000	580,000
33-34									2,000,000	560,000
34-35									2,000,000	480,000
35-36									2,000,000	400,000
36-37									2,000,000	320,000
37-38									2,000,000	240,000
38-39									2,000,000	160,000
39-40									2,000,000	80,000
40-41										
41-42										
42-43										
43-44										
	$ 255,000	$ 9,244	$ 7,160,000	$ 2,306,728	$ 24,350,000	$ 13,578,364	$ 24,250,000	$ 11,573,439	$ 23,900,000	$ 16,316,125

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2014

Schedule 3

Continued from Previous Page

	X-2012		Y-2013		Z-2013		TOTAL		Grand
FY	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
14-15	$ 460,000	$ 393,000	$ 25,000	$ 290,900	$ 450,000	$ 1,023,125	$ 3,640,000	$ 5,008,809	$ 8,648,809
15-16	485,000	370,000	265,000	290,150	475,000	1,014,125	3,740,000	4,877,690	8,617,690
16-17	515,000	345,750	280,000	282,200	500,000	1,004,625	3,935,000	4,731,490	8,666,490
17-18	535,000	320,000	300,000	273,800	500,000	989,625	4,095,000	4,555,340	8,650,340
18-19	565,000	293,250	320,000	261,800	525,000	979,625	4,235,000	4,389,690	8,624,690
19-20	590,000	265,000	340,000	249,000	550,000	963,875	4,425,000	4,219,890	8,644,890
20-21	625,000	235,500	350,000	235,400	575,000	947,375	4,595,000	4,047,340	8,642,340
21-22	655,000	204,250	375,000	221,400	600,000	930,125	4,825,000	3,866,734	8,691,734
22-23	670,000	184,600	400,000	210,150	625,000	912,125	4,960,000	3,693,634	8,653,634
23-24	690,000	164,500	415,000	198,150	625,000	893,375	5,120,000	3,513,209	8,633,209
24-25	710,000	143,800	435,000	185,700	650,000	874,625	5,335,000	3,326,546	8,661,546
25-26	735,000	120,725	450,000	172,650	675,000	852,688	5,525,000	3,126,039	8,651,039
26-27	765,000	95,000	470,000	159,150	700,000	828,219	5,760,000	2,909,063	8,669,063
27-28	790,000	64,400	1,250,000	145,050	750,000	800,219	6,015,000	2,673,763	8,688,763
28-29	820,000	32,800	1,300,000	107,550	775,000	770,219	6,220,000	2,443,569	8,663,569
29-30			2,285,000	68,550	800,000	738,250	6,535,000	2,196,613	8,731,613
30-31					825,000	704,250	5,825,000	1,947,313	7,772,313
31-32					850,000	669,188	6,025,000	1,695,376	7,720,376
32-33					900,000	632,000	6,325,000	1,433,625	7,758,625
33-34					925,000	591,500	2,925,000	1,151,500	4,076,500
34-35					950,000	549,875	2,950,000	1,029,875	3,979,875
35-36					1,000,000	507,125	3,000,000	907,125	3,907,125
36-37					1,025,000	460,875	3,025,000	780,875	3,805,875
37-38					1,075,000	413,469	3,075,000	653,469	3,728,469
38-39					1,100,000	363,750	3,100,000	523,750	3,623,750
39-40					1,150,000	308,750	3,150,000	388,750	3,538,750
40-41					1,200,000	251,250	1,200,000	251,250	1,451,250
41-42					1,225,000	191,250	1,225,000	191,250	1,416,250
42-43					1,275,000	130,000	1,275,000	130,000	1,405,000
43-44					1,325,000	66,250	1,325,000	66,250	1,391,250
	$ 9,610,000	$ 3,232,575	$ 9,260,000	$ 3,351,600	$ 24,600,000	$ 20,361,752	$ 123,385,000	$ 70,729,827	$ 194,114,827

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2014
(Unaudited)
Schedule 4

Rate Class	Base Charge	Number of Customers
Residential Inside City rate	For water furnished to premises entirely within the corporate limits of the City of Knoxville:	54,977

Commodity Charge

First	0 to 2	100 Cubic Feet Per Month at $0.25 Per 100 Cubic Feet
Over	2	100 Cubic Feet Per Month at $2.65 Per 100 Cubic Feet

Additional Monthly Customer Charge

For	5/8" meter	$	11.00
For	1" meter		25.10
For	1 1/2" meter		37.00
For	2" meter		53.00

Residential Outside City rate	For water furnished to premises upon which any water faucet or other outlet is outside the corporate limits of the City of Knoxville:	13,063

Commodity Charge

First	0 to 2	100 Cubic Feet Per Month at $0.30 Per 100 Cubic Feet
Over	2	100 Cubic Feet Per Month at $3.20 Per 100 Cubic Feet

Additional Monthly Customer Charge

For	5/8" meter	$	12.40
For	1" meter		29.40
For	1 1/2" meter		43.40
For	2" meter		62.40

Knoxville Utilities Board Water Division

Supplemental Information - Schedule of Current Rates in Force

June 30, 2014

(Unaudited)

Schedule 4

Rate Class	Base Charge	Number of Customers
Non-Residential Inside City rate/ Industrial Park rate	For water furnished to premises entirely within the corporate limits of the City of Knoxville or within the boundaries of an area recognized as an industrial park by the Tennessee Department of Economic and Community Development:	9,608

Commodity Charge

First	2	100 Cubic Feet Per Month at $1.25 Per 100 Cubic Feet
Next	8	100 Cubic Feet Per Month at $2.90 Per 100 Cubic Feet
Next	90	100 Cubic Feet Per Month at $3.55 Per 100 Cubic Feet
Next	300	100 Cubic Feet Per Month at $2.45 Per 100 Cubic Feet
Next	4,600	100 Cubic Feet Per Month at $1.70 Per 100 Cubic Feet
Next	5,000	100 Cubic Feet Per Month at $1.00 Per 100 Cubic Feet

Additional Monthly Customer Charge

For	5/8" meter	$ 11.00
For	1" meter	25.10
For	1 1/2" meter	37.00
For	2" meter	53.00
For	3" meter	110.00
For	4" meter	182.00
For	6" meter	398.00
For	8" meter	700.00
For	10" meter	1,066.00
For	12" meter	1,578.00

Rate Class	Base Charge	Number of Customers
Non-Residential Outside City rate	For water furnished to premises upon which any water faucet or other outlet is outside the corporate limits of the City of Knoxville, excluding premises within the boundaries of an area recognized as an industrial park by the Tennessee Department of Economic and Community Development:	688

Commodity Charge

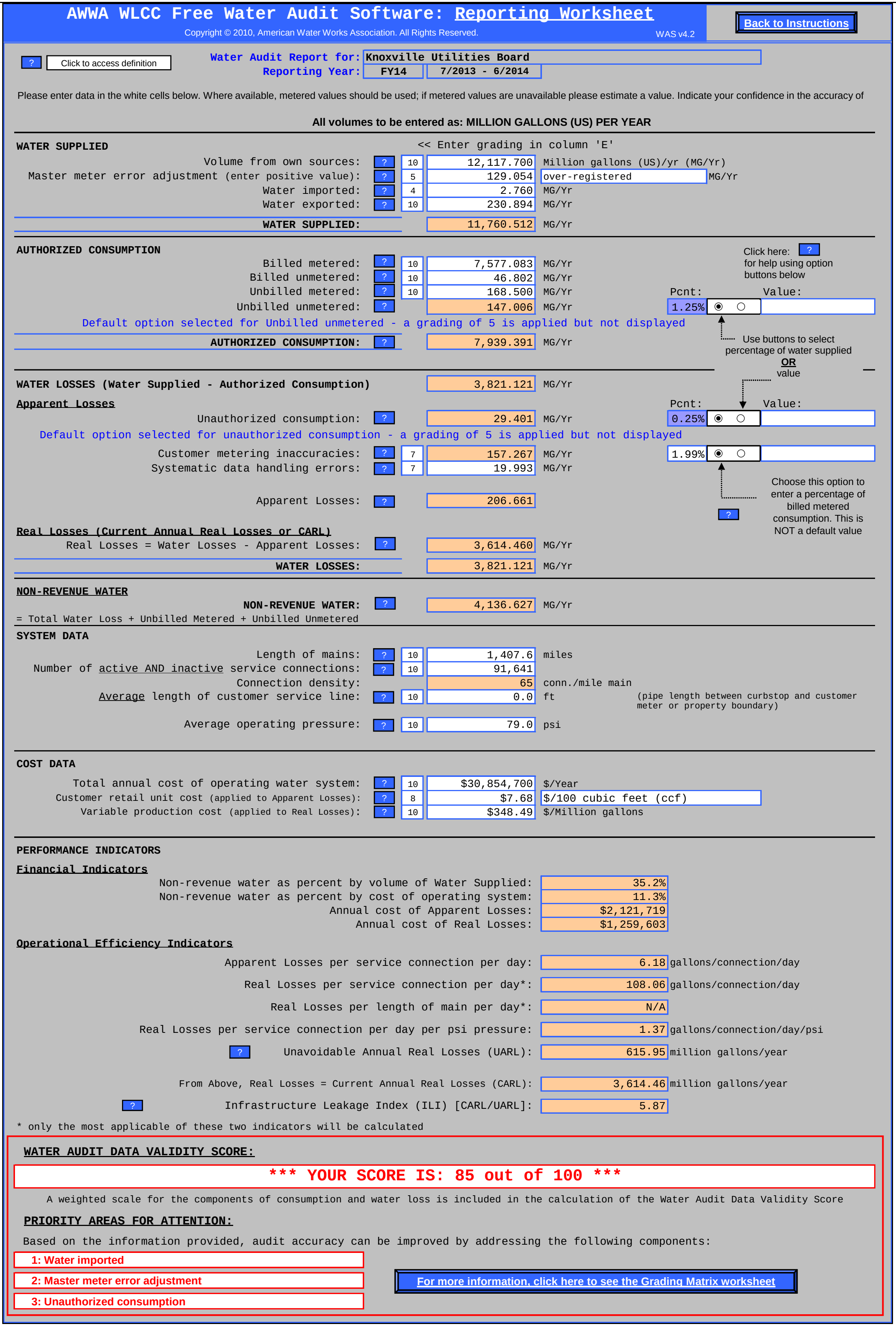
First	2	100 Cubic Feet Per Month at $1.50 Per 100 Cubic Feet
Next	8	100 Cubic Feet Per Month at $3.40 Per 100 Cubic Feet
Next	90	100 Cubic Feet Per Month at $4.25 Per 100 Cubic Feet
Next	300	100 Cubic Feet Per Month at $2.95 Per 100 Cubic Feet
Next	4,600	100 Cubic Feet Per Month at $2.05 Per 100 Cubic Feet
Next	5,000	100 Cubic Feet Per Month at $1.20 Per 100 Cubic Feet

Additional Monthly Customer Charge

For	5/8" meter	$ 12.40
For	1" meter	29.40
For	1 1/2" meter	43.40
For	2" meter	62.40
For	3" meter	131.00
For	4" meter	219.00
For	6" meter	478.00
For	8" meter	840.00
For	10" meter	1,279.00
For	12" meter	1,895.00

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Unaccounted for Water
June 30, 2014
(Unaudited)

Schedule 5



AWWA WLCC Free Water Audit Software: Reporting Worksheet

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WAS v4.2

Back to Instructions

? Click to access definition

Water Audit Report for: Knoxville Utilities Board
Reporting Year: FY14 7/2013 - 6/2014

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

WATER SUPPLIED << Enter grading in column 'E'

Volume from own sources:	10	12,117.700	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	5	129.054	over-registered MG/Yr
Water imported:	4	2.760	MG/Yr
Water exported:	10	230.894	MG/Yr
WATER SUPPLIED:		11,760.512	MG/Yr

AUTHORIZED CONSUMPTION

Click here: ? for help using option buttons below

				Pcnt:		Value:
Billed metered:	10	7,577.083	MG/Yr			
Billed unmetered:	10	46.802	MG/Yr			
Unbilled metered:	10	168.500	MG/Yr			
Unbilled unmetered:		147.006	MG/Yr	1.25%	● ○	

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION:	7,939.391	MG/Yr

Use buttons to select percentage of water supplied **OR** value

WATER LOSSES (Water Supplied - Authorized Consumption)	3,821.121	MG/Yr

Apparent Losses

				Pcnt:		Value:
Unauthorized consumption:		29.401	MG/Yr	0.25%	● ○	

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies:	7	157.267	MG/Yr	1.99%	● ○	
Systematic data handling errors:	7	19.993	MG/Yr			
Apparent Losses:		206.661				

Choose this option to enter a percentage of billed metered consumption. This is NOT a default value

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses:	3,614.460	MG/Yr
WATER LOSSES:	3,821.121	MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER:	4,136.627	MG/Yr

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	10	1,407.6	miles
Number of active AND inactive service connections:	10	91,641	
Connection density:		65	conn./mile main
Average length of customer service line:	10	0.0	ft (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	10	79.0	psi

COST DATA

Total annual cost of operating water system:	10	$30,854,700	$/Year
Customer retail unit cost (applied to Apparent Losses):	8	$7.68	$/100 cubic feet (ccf)
Variable production cost (applied to Real Losses):	10	$348.49	$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	35.2%
Non-revenue water as percent by cost of operating system:	11.3%
Annual cost of Apparent Losses:	$2,121,719
Annual cost of Real Losses:	$1,259,603

Operational Efficiency Indicators

Apparent Losses per service connection per day:	6.18	gallons/connection/day
Real Losses per service connection per day*:	108.06	gallons/connection/day
Real Losses per length of main per day*:	N/A	
Real Losses per service connection per day per psi pressure:	1.37	gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):	615.95	million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	3,614.46	million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]:	5.87	

* only the most applicable of these two indicators will be calculated

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 85 out of 100 *****

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

1: Water imported
2: Master meter error adjustment
3: Unauthorized consumption

For more information, click here to see the Grading Matrix worksheet

• Certified Public Accountants
• Business Advisors

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608 Mabry Hood Road
Knoxville, TN 37932

RM
RODEFER MOSS & CO, PLLC

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*

To the Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Knoxville Utilities Board ("KUB", (an independent agency reported as a component unit for financial purposes only) of Knoxville, Tennessee, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements, and have issued our report thereon dated October 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered KUB'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KUB's internal control. Accordingly, we do not express an opinion on the effectiveness of KUB's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KUB'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*.

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 KUB's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KUB's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2014

APPENDIX D-1

THE WASTEWATER DIVISION

(CUSIP 499815)

THE WASTEWATER DIVISION

INTRODUCTION

The Wastewater Division was established June 16, 1953 as a separate operation of the City. On November 4, 1986, voters in the City elected to transfer operation of the City's Wastewater Division to KUB, effective July 1, 1987. While the Wastewater Division is a self-sustained financial entity, the operations of both the water distribution and wastewater collection and treatment systems have been merged to achieve operating efficiencies.

The wastewater system provides collection and treatment throughout the City and portions of East Knox County.

WASTEWATER SYSTEM

When established, the wastewater system had two treatment plants. The two treatment plants and the lines were adequate to serve the needs of the original City. However, the annexation of additional land and the needs of the population created a demand beyond the capacity of the system.

The system embarked upon a significant expansion program throughout the 1960s and 1970s. This included the acquisition of the sewage facilities of the Fountain City Sanitary District. In 1982, the City completed construction of its 40 MGD treatment facility at the mouth of Third Creek. In 1985 the capacity of the Fourth Creek Treatment Plant was expanded.

In July 1987, as a result of an earlier public referendum, the operation of the wastewater system was transferred from the City to KUB. In June of 1988, the East Knox Utility District was acquired by KUB. The present KUB wastewater system consists of four (4) treatment plants, 66 pumping stations, and approximately 1,310 miles of service mains. The Third Creek Plant, now known as Kuwahee, is located at the mouth of Third Creek and serves the First Creek, Second Creek, Holston River, Baker Creek, and Goose Creek drainage areas and that portion of the Third Creek area within the original City boundaries. Secondly, the Loves Creek Treatment Plant is located at the mouth of Loves Creek and serves this entire drainage area. The Fourth Creek Treatment Plant is located at the mouth of Fourth Creek and serves the Fourth Creek drainage area, the Ten Mile Creek drainage area, and that portion of the Third Creek area outside the original city limits. The Eastbridge Treatment Plant, located on the Holston River, serves the Lyons Creek Drainage Basin and the Eastbridge Industrial Park.

In addition to the service areas outlined above, service is provided to other drainage basins through an agreement with West Knox Utility District. At the present time, the quantities of flow received from this utility district is small in comparison to total system flows.

Total flows through the wastewater system for the twelve months ended June 30, 2014 were 14.5 billion gallons. Average daily flow through the system was 39.6 MGD. The wastewater system presently provides service to approximately 69,613 customers and customer growth is essentially flat.

FEDERAL CONSENT DECREE

In February 2005, a Consent Decree was entered into federal court regarding the operation of KUB's wastewater system. Under the terms of the Consent Decree, the remediation of identified sanitary sewer overflows ("SSOs") on KUB's wastewater system must be completed by June 30, 2016. KUB anticipates the Division will spend approximately $530 million in capital investments through its Partners Acting for a Cleaner Environment (the "PACE 10") program in order to comply with the terms of the Consent Decree related to the collection system. PACE 10 is an accelerated ten-year program to help improve Knoxville's waterways, the quality of life, and the economic well being of the community. The Consent Decree also required KUB to perform an evaluation of the wet-weather performance and capacity of its wastewater treatment plants.

In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB's Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the "BEHRC") secondary treatment system to be installed at the Fourth Creek treatment plant by June 30, 2018 and at the Kuwahee treatment plant by June 30, 2021. The total cost of such improvements is estimated to be approximately $120 million.

KUB's total estimated capital investment to comply with the terms of the Consent Decree is $650 million.

During fiscal year 2006, KUB launched the Private Lateral Program (PLP), as required by the Consent Decree, under which KUB tests private collection system laterals on its wastewater system. Defective laterals and improper connections can introduce rainwater overloading the wastewater system and add pollution to area waterways. If a private lateral fails the respective inspection test, then the customer is required to have the lateral repaired/replaced within a specified time period. The $2 million Supplemental Environmental Project (the "SEP") provided funding for lateral repairs/replacements for eligible low-income customers. All of the SEP funds were disbursed as of April 2012.

KUB's funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2014, the Wastewater Division had issued $425 million in bonds to fund system capital improvements since the inception of the Consent Decree. The KUB Board of Commissioners approved two 50 percent rate increases, which went into effect in April 2005 and January 2007, respectively. The Board also approved an 8 percent rate increase, which was effective in September 2008, and a 12 percent rate increase, which was effective in April 2011. The Board also adopted a 12 percent rate increase which was effective October 2012.

KUB continues to be in compliance with Consent Decree requirements. As part of the PACE 10 program, KUB has installed storage tanks providing 34 million gallons of wastewater storage to control wet-weather overflows and rehabilitated or replaced approximately 276.5 miles of collection system pipe. KUB also continues to maintain a proactive operations and maintenance plan for the wastewater collection system including inspection, cleaning, grease control, and private lateral enforcement. The result of the PACE 10 program is a substantial reduction in sanitary sewer overflows.

During fiscal year 2014, the Wastewater Division incurred $42.3 million in total expenditures related to Consent Decree requirements, including $4.3 million for operating costs and $38 million in capital improvements which included the rehabilitation or replacement of 46.2 miles of wastewater main. During the fiscal year, $26 million was spent on sewer mini-basin rehab and replacement. Upgrades completed at the Fourth Creek treatment facility accounted for $3.7 million of fiscal year 2014 capital expenditures. Trunk line replacement and rehabilitation accounted for $2.2 million of capital expenditures during the fiscal year, while pump station improvements accounted for $3.7 million.

As of June 30, 2014, the Wastewater Division had completed its tenth full year under the Consent Decree, spending $467.5 million on capital investments to meet Consent Decree requirements. All collection system projects required under the federal Consent Decree were completed as of June 30, 2014.

In December 2013 the KUB Board adopted a resolution endorsing a ten-year funding plan for the wastewater system similar to the long-term funding plans the Board endorsed for the electric and water systems in 2011. The ten-year plan includes a combination of annual rate increases and periodic debt issues, which will help ensure KUB remains on track in fulfilling its requirements under the federal Consent Decree and on-going replacement programs for wastewater system assets.

The ten-year funding program will provide for the completion of all required collection system and plant upgrades under the federal Consent Decree by 2021. All required collection system projects were completed by June 2014. The collection system replacement program will transition into a regular infrastructure replacement program of 25 miles of pipe per year, which is equivalent to two percent of the wastewater system. Prior to the Consent Decree, older pipe types made up approximately 75 percent of the wastewater system; in ten years, older pipe will only make up 33 percent of the system.

In June 2014, the Board approved the first three rate increases in the ten-year funding plan. The rate increases will provide an additional $4.7 million in annual revenue to help fund infrastructure replacement and maintenance. The first rate increase was effective October 2014, and the remaining rate increases will be effective October 2015, and October 2016, respectively. $30 million in wastewater system revenue bonds were issued in September 2014 for the purpose of funding capital projects in fiscal year 2015.

PENSION PLAN

The Plan is a single-employer contributory, defined benefit pension plan established by Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville § 1107(J). The Plan is designed to provide retirement, disability and death benefits. The Plan is a governmental plan as defined by the Employee Retirement Income Security Act of 1974 and is not subject to any of the provisions of the Act, and was revised January 1, 2014 to include all prior approved amendments.

At December 31, 2013, the Plan had approximately 639 retirees and beneficiaries currently receiving benefits and 49 terminated employees entitled to benefits but not yet receiving them. Of the approximately 778 current employees in the Plan, 743 were fully vested at December 31, 2013. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

Effective January 1, 2011, KUB has frozen the Plan such that persons employed or re-employed by KUB on or after January 1, 2011, shall not be eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the Plan.

For the Plan year ended December 31, 2013, a contribution of $6.3 million was required to be made in the Plan sponsor's fiscal year ending June 30, 2015. The Wastewater Division's portion of this contribution was $1.3 million. The annual required contribution was determined as part of the January 1, 2013 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death. For the Plan year ended December 31, 2013, the Plan's actuarial funded ratio was 89.3 percent, and the market value funded ratio was 94.6 percent.

Subsequent to June 30, 2014, the actuarial valuation for the Plan year ending December 31, 2014 was completed. The actuarial valuation resulted in an actuarially determined contribution of $5.7 million for the fiscal year ending June 30, 2016, based on the Plan's current funding policy. The Wastewater Division's portion of this contribution is $1.2 million. For the Plan year ending December 31, 2014, the Plan's actuarial funded ratio was 94.6 percent, and the market value funded ratio was 102.5 percent.

GASB has adopted new accounting standards for governmental defined benefit pension plans that will be effective for KUB for its fiscal year beginning July 1, 2014. These standards are known as GASB 67, which covers pension plan accounting, and GASB 68, which provides for financial reporting by governmental plan sponsors. The new standards require the immediate recognition of the plan's unfunded liability, if any, and faster recognition of investment gains and losses on plan assets. As a result, annual pension expense will be subject to increased volatility and will no longer represent annual cash contributions to the pension fund. Given the new standards effectively decouple pension accounting from pension funding, governmental plan sponsors, such as KUB, will need to adopt funding policies for their plans. In fact, the Tennessee General Assembly adopted legislation in 2014 that requires all governmental plan sponsors in the state to formally adopt funding policies, which must include certain provisions, including fully funding annual actuarially determined contributions. The KUB Board formally adopted a Pension Plan funding policy in December 2014.

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The Governmental Accounting Standards Board (GASB) established new standards for the measurement, recognition, and reporting of other post-employment benefits (OPEB). OPEB includes post-employment benefits other than pension, which, for KUB, is presently limited to post-employment health care. GASB 45 requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the total unfunded liability. GASB 45 was effective for KUB for the fiscal year beginning July 1, 2007.

KUB currently provides post-employment health care benefits to 604 former employees and 619 covered dependents. The cost of coverage is shared with retirees and beneficiaries. KUB recognizes its share of the cost of post-employment health care benefits as an expense as claims are paid.

In anticipation of GASB 45, KUB amended its Group Health Plan in 1999, eliminating post-employment health care benefits for all employees hired on or after July 1, 1999. As of June 30, 2014, 399 active employees were eligible for individual and dependent coverage at separation if the employee meets the Rule of 80 (age plus years of service) with a minimum of 20 years of service.

In May 2006, the state of Tennessee adopted Tennessee Code Annotated, Title 8, Chapter 50, Part 12 authorizing governmental entities to establish Trusts for the purpose of pre-funding their respective OPEB liabilities.

Although GASB 45 does not require pre-funding of the liability, KUB has determined that it is in the long-term economic interest of KUB and its ratepayers to establish a Trust to pre-fund KUB's OPEB liability.

In October 2007, the KUB Board authorized the establishment of an OPEB Trust. The applicable documentation was submitted to the State Funding Board and, in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008.

The Trust issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

The general administration and responsibility for the proper operation of the Trust is governed by a board of trustees, appointed by KUB's President & CEO. The investment of all deposits to the Trust is governed by an Investment Policy, which was adopted by the KUB Board and approved by the State Funding Board.

Total contributions to the OPEB Trust for the fiscal year ended June 30, 2014 were $4.0 million million (Division's share $0.9 million). The contribution to the Trust exceeded the annual actuarially determined contribution, as determined by the Postretirement Benefit Plan's actuarial valuation for the year ended December 31, 2012, which was $3.3 million (Division's share $0.7 million). As of June 30, 2014, the employer's OPEB obligation has been exceeded by $0.2 million (Division's share $0.04 million).

The actuarially determined contribution for the fiscal year ending June 30, 2015, as determined by the Plan's actuarial valuation for the year ended December 31, 2013 is $3.5 million (Division's share $0.7 million).

The actuarial valuation for the Plan for the year ending December 31, 2014 has been completed. The valuation determined that the actuarial funded ratio was 93 percent and the market value funded ratio was 100 percent. The valuation also determined that the employer's actuarially determined contribution is $1 million for the fiscal year ending June 30, 2016 (Division's share $0.2 million).

FISCAL YEAR 2015 FINANCIAL UPDATE

For the six months ending December 31, 2014, KUB's Wastewater Division recorded earnings of $4.3 million, representing an increase of $0.2 million compared to the same period last fiscal year. KUB sold $30 million in wastewater system revenue bonds in August 2014. Billed sales volumes were 2.3 percent higher than the same period last fiscal year.

As of December 31, 2014, the Wastewater Division had $480.1 million in outstanding debt, representing a debt to capitalization ratio of 65 percent. The Wastewater Division's maximum debt service coverage ratio was 1.60 for the fiscal year ending June 30, 2014.

Capital investment in wastewater system infrastructure was $39.9 million for fiscal year 2014, reflecting KUB's continued commitment to fulfilling the requirements of the Consent Decree through collection system replacement and treatment plant upgrades.

WASTEWATER RATES

The current rate schedules of the Wastewater Division are as follows:

WASTEWATER GENERAL SERVICE – RESIDENTIAL RATE SCHEDULE

Availability

Service under this rate schedule shall be available only to residential customers served individually through a separate meter.

An existing customer or applicant for service under this schedule may be required to execute a contract specifying, among other things, a minimum bill and minimum term for service under this schedule.

Rate

The Wastewater Service Charge shall be calculated using the applicable rate tables provided below, based on the customer's water usage and water meter size with the following exceptions:

1) For customers whose wastewater discharge volumes are metered separately from their water usage, the metered wastewater discharge volumes will be used to calculate Service Charges under this schedule. The meter size used to calculate the Additional Monthly Charge under this schedule will be the largest equivalent water meter size as determined by KUB.

2) If neither the customer's water usage nor wastewater discharge volumes are metered, the average water usage and water meter size of comparable metered customers as determined by KUB will be used to calculate the charges under this schedule.

In the event more than one meter is utilized to determine billed consumption, multiple customer charges may apply. Charges will apply without regard to ownership of the meter(s).

1. Inside City Rate

For wastewater service provided to premises entirely within the corporate limits of the City of Knoxville:

Customer Charge

5/8" meter	$ 23.00
1" meter	$ 38.00
1 ½" meter	$ 50.00
2" meter	$ 70.00

For meters greater than 2" the Customer Charges listed in the Wastewater Nonresidential schedule shall be utilized.

Commodity Charge

First	2 Ccf	at	$ 0.70 per Ccf
Over	2 Ccf	at	$ 8.70 per Ccf

2. Outside City Rate

For wastewater service provided to premises entirely or partly outside the corporate limits of the City of Knoxville:

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Customer Charge

5/8” meter	$ 27.00
1” meter	$ 41.00
1 ½” meter	$ 58.00
2” meter	$ 78.00

For meters greater than 2” the Customer Charges listed in the Wastewater Nonresidential schedule shall be utilized.

Commodity Charge

First	2 Ccf	at	$ 0.85 per Ccf
Over	2 Ccf	at	$ 9.30 per Ccf

Additional Charges

In addition to the wastewater service charge, users whose wastewater has strength characteristics in excess of normal domestic wastewater shall pay an Extra Strength Surcharge as set forth in Schedule B. A Sewer Improvement Charge may also be payable as set forth in Schedule D.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

WASTEWATER GENERAL SERVICE – NONRESIDENTIAL RATE SCHEDULE

Availability

Service under this rate schedule shall be available to any commercial or industrial customer.

An existing customer or applicant for service under this schedule may be required to execute a contract specifying, among other things, a minimum bill and minimum term for service under this schedule.

Rate

The Wastewater Service Charge shall be calculated using the applicable rate tables provided below, based on the customer’s water usage and water meter size with the following exceptions:

1) For customers whose wastewater discharge volumes are metered separately from their water usage, the metered wastewater discharge volumes will be used to calculate Service Charges under this schedule. The meter size used to calculate the Additional Monthly Charge under this schedule will be the largest equivalent water meter size as determined by KUB.

2) If neither the customer's water usage nor wastewater discharge volumes are metered, the average water usage and water meter size of comparable metered customers as determined by KUB will be used to calculate the charges under this schedule.

In the event more than one meter is utilized to determine billed consumption, multiple customer charges may apply. Charges will apply without regard to ownership of the meter(s).

1. Inside City

For wastewater service provided to premises entirely within the corporate limits of the City of Knoxville:

Customer Charge

5/8" meter	$ 23.00
1" meter	$ 38.00
1 ½" meter	$ 50.00
2" meter	$ 70.00
3" meter	$ 123.00
4" meter	$ 200.00
6" meter	$ 427.00
8" meter	$ 742.00
10" meter	$ 1,125.00
12" meter	$ 1,658.00

Commodity Charge

First	2 Ccf	at	$ 0.75 per Ccf
Next	8 Ccf	at	$ 9.85 per Ccf
Next	90 Ccf	at	$ 8.80 per Ccf
Next	300 Ccf	at	$ 7.55 per Ccf
Next	4,600 Ccf	at	$ 6.15 per Ccf
Over	5,000 Ccf	at	$ 4.30 per Ccf

2. Outside City Rate

For wastewater service provided to premises entirely or partly outside the corporate limits of the City of Knoxville:

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Customer Charge

5/8” meter	$	27.00
1” meter	$	41.00
1 ½” meter	$	58.00
2” meter	$	78.00
3” meter	$	139.00
4” meter	$	222.00
6” meter	$	469.00
8” meter	$	817.00
10” meter	$	1,234.00
12” meter	$	1,821.00

Commodity Charge

First	2 Ccf	at	$ 0.90 per Ccf
Next	8 Ccf	at	$10.90 per Ccf
Next	90 Ccf	at	$ 9.65 per Ccf
Next	300 Ccf	at	$ 8.25 per Ccf
Next	4,600 Ccf	at	$ 6.90 per Ccf
Over	5,000 Ccf	at	$ 4.80 per Ccf

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

SCHEDULE B – EXTRA STRENGTH SURCHARGES

Applicability

For user whose discharge of wastewater contains a quantity of BOD in excess of 2,000 pounds per million gallons (240 mg/l), and a quantity of suspended solids in excess of 2,500 pounds per million gallons (300 mg/l), an additional charge, based on the following schedule, shall be applied to the excess contribution, as determined by laboratory analysis of the user’s discharge. This Extra Strength Surcharge is in addition to all other charges that may be applicable under KUB’s rate schedules.

Rate

BOD	$11.00 per hundred pounds of excess
Suspended Solids	$10.35 per hundred pounds of excess

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

SCHEDULE C – HOLDING TANK AND SPECIAL WASTE CHARGES

Domestic Waste (Commercial Waste Disposal)

For users engaged in the business of cleaning wastewater and wastewater residues from septic tanks and other private disposal systems, a domestic waste discharge permit is required and certain fees and charges are assessed against those users.

(1) Annual Access Fee:

> The annual access fee for the use of KUB's disposal facilities shall be $100.00 per fiscal year, per permitted vehicle. The full fee shall be payable for any fraction of the fiscal year. Bills under this section will be rendered annually at the beginning of KUB's fiscal year or such later time during the fiscal year that service is commenced.

(2) Domestic Waste Discharge Rate:

> Each load of Domestic Waste discharged to KUB's facilities shall be subject to a Discharge Rate of $79.00 per 1,000 gallons. Bills under this section will be rendered monthly.

Special Waste

For users who dispose of any other waste from any tank, pond, pit or other source into the KUB system, a special waste discharge permit is required and the following fees and charges will be assessed against those users.

(1) Special Waste Discharge Permit Application Fee:

> A special Wastewater Discharge Permit must be obtained before any Special Waste may be discharged into KUB's facilities. The application fee for such permit is $75.00. The application fee is non-refundable and is applicable whether or not the application is approved or the permit issued. The fee must be paid prior to discharge.

(2) Special Waste Discharge Fee:

> Due to the widely differing character of Special Wastes, the Discharge Fee shall vary, but, at a minimum, the Fee will be the sum of the Wastewater Service Charge as set forth by the Nonresidential Rate Schedule of the Wastewater Division of KUB plus the Extra Strength Surcharges as set forth in Schedule B to the Rate Schedules of the Wastewater Division of KUB. In addition to those charges set forth in the aforementioned Schedules,

the Customer will be required to pay the cost to KUB of analyzing, or providing special handling for, the Customer's Special Waste, plus a reasonable charge for the impact that the Special Waste is expected to have on the KUB treatment facilities as determined by KUB. Bills under this section will be rendered upon completion of the discharge.

Operating Procedures

KUB shall establish operating procedures including such items as permit issuance, acceptable wastes, disposal locations, reporting and billing methods for the implementation of this Rate Schedule C, which may be changed from time to time by KUB.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

SCHEDULE D – SEWER IMPROVEMENT CHARGE

Applicable Charges

All properties connected or having access to the wastewater system shall be subject to a Sewer Improvement Charge which shall be determined as follows:

For all users not described in paragraph A (2), or A (3), the Sewer Improvement Charge shall be an amount equal to the Contribution in Aid of Construction determined in accordance with the provisions of Section 33-19 of the Rules and Regulations for the Wastewater Division that may from time to time be in effect. Any contribution in Aid of Construction that is assessed under Section 33-19 (b) of the Rules and Regulations on or after December 1, 1992 may, at the customer's option, be paid as a part of the customer's utility bill in monthly installments for a period not to exceed ten (10) years at an annual interest rate of nine percent (9%).

For all users that: (i) on December 1, 1992 are being assessed, or which properly should be assessed, a Sewer Improvement Charge under the terms of this Schedule D as it existed immediately prior to December 1, 1992 or, (ii) which are located in areas annexed into the corporate limits of the City of Knoxville pursuant to Ordinance No. 0-31-87, the Sewer Improvement Charge shall be calculated on multiples of a basic charge (the "Basic Charge"), which shall be Six Hundred Seventy - Five Dollars ($675.00). At the customer's option, the Sewer Improvement Charge may be paid as a part of the customer's utility bill in monthly installments of Three and 25/100 dollars ($3.25) for the three hundred sixty (360) months. Sewer Improvement Charges assessed under the terms of this paragraph A (2) shall be calculated as follows:

(a) Each user consisting of a single-family dwelling shall pay a Sewer Improvement Charge equal to the Basic Charge, regardless of area.

(b) Each multifamily, commercial or industrial user shall pay a Sewer Improvement Charge based on the greater of the following two calculations:

(i) Area/meter basis: The lesser of (a) the Basic charge times the square footage of the area of the property divided by 15,000 or (b) the Basic Charge times the following multiples based on meter size:

Meter Size	Multiple
5/8”	1
¾”	1.5
1”	2.5
1 ½”	5
2”	8
3”	15
4”	25
6”	50
8”	80
10”	120
12”	155

* If a user is served by more than one meter, the multiple used shall be the sum of the multiple computed on each meter.

(ii) Frontage Basis – the Basic Charge times the total frontage of the property measured in feet at the building line parallel to the street along which the property lies for the greater distance divided by 100.

(c) For service to users located entirely or partly outside the corporate limits of the City of Knoxville, the Sewer Improvement Charge imposed under this paragraph A (2) shall be one and one-half (1-1/2) times the above schedule of charges.

(d) Any user charged a Sewer Improvement Charge under this paragraph A (2) that reconnects to the Wastewater system on or after December 1, 1992 because of a change in the level or character of the user’s wastewater service shall upon such reconnection be subject to the Sewer Improvement Charge calculated under paragraph A (1) hereof.

For all property located in a Transfer Area, that is subject to a Fee Agreement, the user shall be subject to a Sewer Improvement Charge equal in amount to the payments that would have been owed under the Fee Agreement for the affected property, assuming the Fee Agreement remained in effect for its duration, adjusted in accordance with KUB’s policies for any additional property users as permitted under the Fee Agreement, less a credit for any payments actually paid to KUB under the Fee Agreement. Except as otherwise provided herein, Sewer Improvement Charges assessed under this paragraph A (3) shall be paid on the same terms provided in the Fee Agreement for the affected property. As used herein” (i) the term “Transfer Area” shall mean an area: (a) that was previously provided wastewater service by a municipal utility (other than KUB) or a utility district, and (b) with respect to which KUB acquired or otherwise succeeded to the right to provide wastewater service; and (ii) the term “Fee Agreement” shall mean a contract or other agreement entered into between the owner or other user of a tract of property and a municipal utility (other than KUB) or a utility district, by the terms of which the owner or other user of the property agrees to pay all or any part of the cost of extending wastewater lines and facilities to such property or otherwise making wastewater service available to such property.

Deferral of Payment

A Sewer Improvement Charge shall not be billed or collectible for any monthly billing for any period for which a wastewater service charge is not payable.

Prepayment

A customer who has elected to pay the Sewer Improvement Charge in monthly installments may thereafter prepay the balance of such charge in whole (but not in part) in an amount equal to the unamortized balance of the Sewer Improvement charge as of the date of such prepayment.

Installment Terms

A customer who has elected to pay the Sewer Improvement Charge in monthly installments pursuant to paragraph A (1) shall be obligated to make such payments at the rate of interest and length of payment period specified in this Schedule D as of the date of the customer's election, notwithstanding customer's right of prepayment.

Definitions

The defined terms in this Schedule D shall have the meanings given to them from time to time in the Rules and Regulations for Wastewater Division.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

SCHEDULE E – WHOLESALE WASTEWATER TREATMENT

Service under this Schedule shall be available only to governmental entities, including Utility Districts, that deliver through their wastewater collection system all or portions of their wastewater flow to KUB facilities for treatment. Applicants under this schedule may be required to execute a contract specifying, among other things, a minimum bill and minimum term for service under this schedule.

Rate

Metered Flows	$3.90 per Thousand Gallons
Unmetered Flows	$4.45 per Thousand Gallons

For the purpose of determining billing volumes, metered flows are those flows metered at the point of delivery to KUB's collection system, pumping station or treatment facility; unmetered flows are those flows based upon the actual water use of the customers served by the collection system discharging to KUB's facilities, said water use being determined by the water meter readings furnished by the water service provider.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

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KNOXVILLE UTILITIES BOARD
WASTEWATER DIVISION
CAPITALIZATION HISTORY

Historical	Fiscal Year	Accumulated Earnings	Contributed Capital	Revenue Bonds	Revenue Notes	Total Capitalization	Debt as % of Capitalization
Restated [1]	2007	$ 179,542,011	$ -	$ 190,535,000	$ -	$ 370,077,011	51.49%
	2008	$ 195,217,359	$ -	$ 263,460,000	$ -	$ 458,677,359	57.44%
	2009	$ 209,932,351	$ -	$ 306,295,000	$ -	$ 516,227,351	59.33%
	2010	$ 218,192,589	$ -	$ 334,005,000	$ -	$ 552,197,589	60.49%
	2011	$ 227,596,321	$ -	$ 398,405,000	$ -	$ 626,001,321	63.64%
	2012	$ 239,554,829	$ -	$ 390,745,000	$ -	$ 630,299,829	61.99%
	2013	$ 248,325,320	$ -	$ 458,595,000	$ -	$ 706,920,320	64.87%
	2014	$ 253,999,330	$ -	$ 450,050,000	$ -	$ 704,049,330	63.92%

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[1] The financial statements for 2007 have been restated to reflect the correction of an understatement of developer contributions. The effect of the restatement was to increase Net Assets, Wastewater Plant in Service and Developer Contributions by $2,935,648 for Fiscal Year 2007. This restatement has been derived from the Annual Audited Financial Statements for the Knoxville Utilities Board and should be read in conjunction therewith.

KNOXVILLE UTILITIES BOARD
WASTEWATER DIVISION
OPERATING STATISTICS
for the Fiscal Years ending on June 30

Revenues:	2010	2011	2012	2013	2014
Service Charge	$ 59,504,517	$ 61,342,657	$ 65,896,961	$ 69,832,945	$ 71,109,817
Industrial Surcharge	322,756	423,763	497,618	442,707	394,995
Other Charges	550,904	592,996	584,605	659,451	698,362
Utility Districts	888,629	860,688	814,316	759,489	311,727
Total Sales Revenues	$ 61,266,806	$ 63,220,103	$ 67,793,501	$ 71,694,591	$ 72,514,902
Other Revenues	$ (16,804)	$ 2,554,496	$ 2,708,993	$ 2,884,722	$ 2,526,744
Total Revenues	**$ 61,250,002**	**$ 65,774,599**	**$ 70,502,494**	**$ 74,579,313**	**$ 75,041,645**

NUMBER OF CUSTOMERS - WASTEWATER

Fiscal Year	Service Accounts	Commercial Waste Disposal	Total	New Customers
04 / 05	64,784	24	64,808	612
05 / 06	65,834	28	65,862	1,054
06 / 07	67,411	23	67,434	1,572
07 / 08	68,331	26	68,357	923
08 / 09	68,292	22	68,314	-43
09 / 10	68,884	22	68,906	592
10 / 11	68,723	21	68,744	-162
11 / 12	69,162	21	69,183	439
12 / 13	69,510	18	69,528	345
13 / 14	69,596	17	69,613	85

KNOXVILLE UTILITIES BOARD
WASTEWATER DIVISION

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For The Fiscal Years Ended June 30

	2010	2011	2012	2013	2014
Operating Revenues:	$ 61,250,002	$ 65,774,599	$ 70,502,494	$ 74,579,313	$ 75,041,645
Operating Expenses:					
Treatment	$ 8,946,593	$ 9,370,566	$ 9,255,855	$ 10,402,381	$ 10,768,467
Collection	6,775,710	7,588,032	7,441,286	7,265,544	7,794,582
Customer services	2,152,961	2,091,714	1,944,802	2,457,565	2,605,271
Administrative and general	6,645,401	6,125,879	6,278,420	7,697,218	8,483,808
Provision for deprec. & amortization	11,208,870	11,421,466	12,911,050	14,454,762	16,086,344
Taxes and tax equivalents	3,382,820	3,516,085	3,624,508	3,856,206	4,092,366
Total Operating Expenses	$ 39,112,355	$ 40,113,742	$ 41,455,921	$ 46,133,676	$ 49,830,838
Operating Income	$ 22,137,647	$ 25,660,857	$ 29,046,573	$ 28,445,637	$ 25,210,807
Non-Operating Revenues / Expenses:					
Contributions in aid of construction	$ 454,662	$ 303,275	$ 247,356	$ 225,764	$ 916,996
Interest and dividend income	744,480	682,690	561,662	372,644	291,711
Interest expense	(14,928,877)	(17,970,455)	(19,313,566)	(19,841,107)	(19,263,722)
Loss on write down of plant assets	(454,662)	(303,275)	(247,356)	(225,764)	(916,996)
Other	(219,492)	(193,747)	(202,824)	(350,663)	(836,436)
Total Non-Operating	$ (14,403,889)	$ (17,481,512)	$ (18,954,728)	$ (19,819,126)	$ (19,808,447)
Changes in Net Position before Capital Contributions	$ 7,733,758	$ 8,179,345	$ 10,091,845	$ 8,626,511	$ 5,402,360
Capital Contributions [1]	526,480	1,224,385	1,866,665	143,980	271,650
Change in Net Position	$ 8,260,238	$ 9,403,730	$ 11,958,510	$ 8,770,491	$ 5,674,010
Net Position, beginning of year	$ 209,932,351	$ 218,192,589	$ 227,596,319	$ 239,554,829	$ 248,325,320
Adjustment [1]	-	-	-	-	-
Net Position, end of year	**$ 218,192,589**	**$ 227,596,319**	**$ 239,554,829**	**$ 248,325,320**	**$ 253,999,330**

Source: The above amounts have been derived from the Annual Audited Financial Statements for the Knoxville Utilities Board, Wastewater Division and the Board's internal financial records and should be read in conjunction therewith.

TEN LARGEST WASTEWATER SYSTEM CUSTOMERS - 2014

The ten largest Wastewater System customers, as of June 30, 2014 in order of total sales generated are listed below. Those ten wastewater customers represent 13.15% of the total wastewater sales based on revenue and 18.83% of the total wastewater based on sales volume.

	Customer	Usage (000s Gallons)	Sales Revenue	Percent of Sales Revenue
1.	University of Tennessee	414,621	$ 3,872,298	5.16%
2.	KCDC	153,396	$ 1,460,297	1.95%
3.	Rohm & Haas Tennessee Inc	117,810	$ 792,742	1.06%
4.	University Health Systems Inc	108,419	$ 789,041	1.05%
5.	City of Knoxville	98,820	$ 719,753	0.96%
6.	Knox County Schools	43,266	$ 558,798	0.74%
7.	Knoxville HMA Holdings LLC	57,043	$ 524,718	0.70%
8.	Volunteer Knit Apparel Plt#4	53,468	$ 404,896	0.54%
9.	KUB	128,863	$ 387,645	0.52%
10.	Tamko Building Products Inc	30,907	$ 354,211	0.47%
	TOTAL	**1,206,613**	**$ 9,864,399**	**13.15%**

KNOXVILLE UTILITIES BOARD
WASTEWATER DIVISION
BONDS OUTSTANDING

The following table shows the outstanding bond indebtedness of the Wastewater Division.

Amount Issued	Series	Due Date	Interest Rates	Outstanding as of June 30, 2014 (1)
$ 140,000,000	Wastewater System Revenue Improvement Bonds, Series 2005A	04-01-40	Fixed	$ 36,550,000
21,850,000	Wastewater System Revenue Refunding Bonds, Series 2005B	04-01-27	Fixed	17,395,000
75,000,000	Wastewater System Revenue Bonds, Series 2007	04-01-42	Fixed	75,000,000
45,000,000	Wastewater System Revenue Bonds, Series 2008	04-01-25	Fixed	30,975,000
30,000,000	Wastewater System Revenue Bonds, Series 2010 (Federally Taxable Build America Bonds)	04-01-45	Fixed	30,000,000
70,000,000	Wastewater System Revenue Bonds, Series 2010C (Federally Taxable Build America Bonds)	04-01-40	Fixed	66,850,000
17,070,000	Wastewater System Revenue Refunding Bonds, Series 2012A	04-01-29	Fixed	16,215,000
65,000,000	Wastewater System Revenue Bonds, Series 2012B	04-01-47	Fixed	64,150,000
113,340,000	Wastewater System Revenue Bonds, Series 2013A	04-01-37	Fixed	112,915,000
30,000,000	Wastewater System Revenue Bonds, Series 2014A	04-01-49	Fixed	30,000,000
$ 607,260,000	**TOTAL DEBT**			$ 480,050,000
$ 129,825,000	Wastewater System Revenue Refunding Bonds, Series 2015A	04-01-42	Fixed	$ 129,825,000
30,000,000	Wastewater System Revenue Bonds, Series 2015B	04-01-50	Fixed	30,000,000
(127,225,000)	Less: Bonds being Refinanced (Series 2005A and Series 2007 and Series 2008)			(127,225,000)
$ 639,860,000	**TOTAL INDEBTEDNESS**			$ 512,650,000

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 FINANCIAL STATEMENTS included herein.

KNOXVILLE UTILITIES BOARD
WASTEWATER DIVISION
DEBT SERVICE REQUIREMENTS

	Outstanding Fiscal Year Debt Service on Bonds - as of June 30, 2014				**Wastewater System Revenue Refunding Bonds, Series 2015A**			% Principal Repaid on Series	**Less: Bonds Being Refunded**			**Wastewater System Revenue Bonds, Series 2015B**			% Principal Repaid on Series	**NET TOTAL DEBT SERVICE (1)**				% Principal Repaid on
Fiscal Year	Principal	Interest	Est. Rebate (3)	Total	Principal	Interest (2)	Total	2015A Bonds	Principal	Interest	Total	Principal	Interest (4)	Total	2015B Bonds	Principal	Interest	Est. Rebate (3)	Total	All Debt
2015	$ 9,390,000	$ 19,633,441	$ (1,964,921)	$ 27,058,520	$ -	$ -	$ -	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	0.00%	$ 9,390,000	$ 19,633,441	$ (1,964,921)	$ 27,058,520	1.83%
2016	9,890,000	19,730,361	(1,954,372)	27,665,989	465,000	4,710,761	5,175,761		-	(5,754,950)	(5,754,950)	575,000	1,001,409	1,576,409		10,930,000	19,687,582	(1,954,372)	28,663,210	
2017	10,355,000	19,352,386	(1,940,591)	27,766,796	125,000	5,115,763	5,240,763		-	(5,754,950)	(5,754,950)	450,000	1,141,938	1,591,938		10,930,000	19,855,136	(1,940,591)	28,844,546	
2018	10,795,000	18,956,779	(1,923,049)	27,828,730	2,835,000	5,109,513	7,944,513		(2,725,000)	(5,754,950)	(8,479,950)	475,000	1,128,438	1,603,438		11,380,000	19,439,779	(1,923,049)	28,896,730	
2019	11,225,000	18,542,504	(1,902,469)	27,865,035	5,010,000	4,967,763	9,977,763	6.50%	(4,925,000)	(5,645,950)	(10,570,950)	500,000	1,104,688	1,604,688	6.67%	11,810,000	18,969,004	(1,902,469)	28,876,535	10.62%
2020	11,690,000	18,096,088	(1,879,847)	27,906,241	5,305,000	4,717,263	10,022,263		(5,200,000)	(5,420,013)	(10,620,013)	525,000	1,079,688	1,604,688		12,320,000	18,473,025	(1,879,847)	28,913,179	
2021	12,170,000	17,626,145	(1,856,495)	27,939,651	5,460,000	4,452,013	9,912,013		(5,325,000)	(5,183,450)	(10,508,450)	525,000	1,063,938	1,588,938		12,830,000	17,958,645	(1,856,495)	28,932,151	
2022	12,690,000	17,081,946	(1,832,413)	27,939,534	5,675,000	4,179,013	9,854,013		(5,525,000)	(4,931,669)	(10,456,669)	550,000	1,042,938	1,592,938		13,390,000	17,372,228	(1,832,413)	28,929,815	
2023	13,215,000	16,516,456	(1,804,924)	27,926,533	6,005,000	3,895,263	9,900,263		(5,825,000)	(4,675,219)	(10,500,219)	575,000	1,020,938	1,595,938		13,970,000	16,757,438	(1,804,924)	28,922,514	
2024	13,820,000	15,920,081	(1,775,401)	27,964,680	3,720,000	3,595,013	7,315,013	26.65%	(3,525,000)	(4,390,094)	(7,915,094)	600,000	997,938	1,597,938	15.92%	14,615,000	16,122,938	(1,775,401)	28,962,536	23.71%
2025	14,395,000	15,345,925	(1,741,408)	27,999,518	3,785,000	3,483,413	7,268,413		(3,675,000)	(4,201,469)	(7,876,469)	625,000	973,938	1,598,938		15,130,000	15,601,806	(1,741,408)	28,990,399	
2026	12,670,000	14,759,188	(1,704,894)	25,724,294	1,425,000	3,369,863	4,794,863		(1,225,000)	(4,017,344)	(5,242,344)	650,000	955,188	1,605,188		13,520,000	15,066,894	(1,704,894)	26,882,000	
2027	13,230,000	14,263,375	(1,659,258)	25,834,117	1,490,000	3,323,550	4,813,550		(1,300,000)	(3,960,688)	(5,260,688)	675,000	935,688	1,610,688		14,095,000	14,561,925	(1,659,258)	26,997,667	
2028	13,710,000	13,732,819	(1,609,471)	25,833,348	1,405,000	3,271,400	4,676,400		(1,225,000)	(3,900,563)	(5,125,563)	700,000	915,438	1,615,438		14,590,000	14,019,094	(1,609,471)	26,999,623	
2029	14,240,000	13,191,700	(1,556,236)	25,875,464	1,450,000	3,222,225	4,672,225	34.01%	(1,275,000)	(3,843,906)	(5,118,906)	725,000	887,438	1,612,438	27.17%	15,140,000	13,457,456	(1,556,236)	27,041,221	37.85%
2030	14,940,000	12,645,319	(1,500,441)	26,084,878	1,455,000	3,178,725	4,633,725		(1,300,000)	(3,784,938)	(5,084,938)	775,000	858,438	1,633,438		15,870,000	12,897,544	(1,500,441)	27,267,103	
2031	15,500,000	12,087,019	(1,442,088)	26,144,931	1,515,000	3,135,075	4,650,075		(1,375,000)	(3,724,813)	(5,099,813)	800,000	827,438	1,627,438		16,440,000	12,324,719	(1,442,088)	27,322,631	
2032	16,065,000	11,503,894	(1,379,613)	26,189,281	1,520,000	3,089,625	4,609,625		(1,400,000)	(3,662,938)	(5,062,938)	825,000	795,438	1,620,438		17,010,000	11,726,019	(1,379,613)	27,356,406	
2033	16,695,000	10,899,444	(1,314,513)	26,279,931	1,580,000	3,042,125	4,622,125		(1,475,000)	(3,599,938)	(5,074,938)	850,000	762,438	1,612,438		17,650,000	11,104,069	(1,314,513)	27,439,556	
2034	17,265,000	10,266,281	(1,246,263)	26,285,019	1,635,000	2,992,750	4,627,750	39.95%	(1,550,000)	(3,529,875)	(5,079,875)	900,000	733,750	1,633,750	41.00%	18,250,000	10,462,906	(1,246,263)	27,466,644	54.47%
2035	17,980,000	9,579,369	(1,175,388)	26,383,981	1,690,000	2,939,613	4,629,613		(1,625,000)	(3,460,125)	(5,085,125)	925,000	703,375	1,628,375		18,970,000	9,762,231	(1,175,388)	27,556,844	
2036	18,675,000	8,862,950	(1,100,838)	26,437,113	1,750,000	2,884,688	4,634,688		(1,700,000)	(3,387,000)	(5,087,000)	975,000	671,000	1,646,000		19,700,000	9,031,638	(1,100,838)	27,630,800	
2037	19,445,000	8,114,656	(1,021,843)	26,537,814	1,825,000	2,827,813	4,652,813		(1,800,000)	(3,310,500)	(5,110,500)	1,000,000	632,000	1,632,000		20,470,000	8,263,969	(1,021,843)	27,712,126	
2038	20,425,000	7,334,544	(939,111)	26,820,433	13,420,000	2,768,500	16,188,500		(13,450,000)	(3,229,500)	(16,679,500)	500,000	592,000	1,092,000		20,895,000	7,465,544	(939,111)	27,421,433	
2039	21,275,000	6,447,494	(852,644)	26,869,850	13,895,000	2,298,800	16,193,800	65.04%	(14,000,000)	(2,682,250)	(16,682,250)	500,000	572,000	1,072,000	54.00%	21,670,000	6,636,044	(852,644)	27,453,400	74.31%
2040	22,150,000	5,526,019	(762,440)	26,913,579	14,480,000	1,743,000	16,223,000		(14,600,000)	(2,113,125)	(16,713,125)	500,000	552,000	1,052,000		22,530,000	5,707,894	(762,440)	27,475,454	
2041	19,150,000	4,566,869	(668,500)	23,048,369	15,130,000	1,236,200	16,366,200		(15,200,000)	(1,520,000)	(16,720,000)	1,100,000	532,000	1,632,000		20,180,000	4,815,069	(668,500)	24,326,569	
2042	20,125,000	3,681,025	(668,500)	23,137,525	15,775,000	631,000	16,406,000	100.00%	(16,000,000)	(760,000)	(16,760,000)	1,150,000	488,000	1,638,000		21,050,000	4,040,025	(668,500)	24,421,525	
2043	14,325,000	2,788,700	(668,500)	16,445,200	-	-	-		-	-	-	1,200,000	442,000	1,642,000		15,525,000	3,230,700	(668,500)	18,087,200	
2044	14,500,000	1,999,850	(441,000)	16,058,850	-	-	-		-	-	-	1,250,000	394,000	1,644,000	71.33%	15,750,000	2,393,850	(441,000)	17,702,850	92.85%
2045	14,700,000	1,225,400	(220,500)	15,704,900	-	-	-		-	-	-	1,300,000	344,000	1,644,000		16,000,000	1,569,400	(220,500)	17,348,900	
2046	4,925,000	444,600	-	5,369,600	-	-	-		-	-	-	1,350,000	292,000	1,642,000		6,275,000	736,600	-	7,011,600	
2047	5,150,000	286,525	-	5,436,525	-	-	-		-	-	-	1,400,000	238,000	1,638,000		6,550,000	524,525	-	7,074,525	
2048	1,600,000	121,175	-	1,721,175	-	-	-		-	-	-	1,450,000	182,000	1,632,000		3,050,000	303,175	-	3,353,175	
2049	1,675,000	61,975	-	1,736,975	-	-	-		-	-	-	1,525,000	124,000	1,649,000	94.75%	3,200,000	185,975	-	3,385,975	99.69%
2050	-	-	-	-	-	-	-		-	-	-	1,575,000	63,000	1,638,000	100.00%	1,575,000	63,000	-	1,638,000	100.00%
	$ 480,050,000	**$ 371,192,300**	**$ (42,507,924)**	**$ 808,734,375**	**$ 129,825,000**	**$ 90,180,724**	**$ 220,005,724**		**$(127,225,000)**	**$(106,200,213)**	**$(233,425,213)**	**$30,000,000**	**$25,048,472**	**$ 55,048,472**		**$512,650,000**	**$380,221,283**	**$(42,507,924)**	**$850,363,358**	

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 FINANCIAL STATEMENTS included herein. Additionally, the Board has requested that the City approve the issuance of $30,000,000 of Wastewater System Revenue Bonds for improvements to the Wastewater System.

(2) Average Coupon of 3.7979%.

(3) The original federal subsidy of 35.0% on the Wastewater System Revenue Bonds, Series 2010 (Federally Taxable Build America Bonds) and the Wastewater System Revenue Bonds, Series 2010C (Federally Taxable Build America Bonds) has been reduced by 7.3% for the federal fiscal year ending September 30, 2015 as a result of the sequestration by the Budget Control Act of 2011. After October 1, 2015, the sequestration rate will be subject to change.

(4) Average Coupon 3.92%.

KNOXVILLE UTILITIES BOARD
WASTEWATER DIVISION
HISTORICAL DEBT SERVICE COVERAGES

The historical coverage for the actual debt service requirements and the maximum annual debt service requirements (FY 2018) of the Outstanding Bonds, the Series 2015A Bonds and the Series 2015B Bonds for fiscal years ended June 30, 2010 through June 30, 2014 is set forth

	2010	**2011**	**2012**	**2013**	**2014**
Operating revenues	$ 61,250,002	$ 65,774,599	$ 70,502,494	$ 74,579,313	$ 75,041,645
Operating expenses*	(24,520,665)	(25,176,191)	(24,920,362)	(27,822,708)	(29,652,128)
Net income before Depreciation & taxes	$ 36,729,337	$ 40,598,408	$ 45,582,133	$ 46,756,605	$ 45,389,517
Other revenue (Net)	524,988	488,943	561,662	372,644	291,711
FICA tax expense	(533,393)	(530,895)	(622,483)	(674,060)	(719,291)
Income available for debt service	$ 36,720,932	$ 40,556,456	$ 45,521,312	$ 46,455,189	$ 44,961,937
Actual annual debt service requirements on outstanding senior bonds	$ 16,516,255	$ 22,928,768	$ 26,175,686	$ 26,616,517	$ 28,041,968
Coverage (Times)	2.22 x	1.77 x	1.74 x	1.75 x	1.60 x
Maximum projected annual debt ** service requirements (FY2018) on outstanding and proposed senior bonds	$ 30,819,779	$ 30,819,779	$ 30,819,779	$ 30,819,779	$ 30,819,779
Coverage (Times)	1.19 x	1.32 x	1.48 x	1.51 x	1.46 x

* Excluding Provision for Depreciation and Taxes

** From Debt Service Requirements Chart. Maximum debt excludes estimated BABS rebate.

KNOXVILLE UTILITIES BOARD
WASTEWATER DIVISION
OPERATING REVENUE FROM WASTEWATER SALES

Fiscal Year Ended June 30	Revenue	
2005	$	31,952,610
2006	$	41,251,227
2007	$	52,206,322
2008	$	60,697,299
2009	$	62,399,578
2010	$	61,250,002
2011	$	65,774,599
2012	$	70,502,494
2013	$	74,579,313
2014	$	75,041,645

WASTEWATER DIVISION
REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS

Knoxville Utilities Board
Wastewater Division

Financial Statements and Supplemental Information

June 30, 2014 and 2013

Knoxville Utilities Board Wastewater Division
Index
June 30, 2014 and 2013

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• Business Advisors

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Independent Auditors' Report

To the Board of Commissioners
Knoxville Utilities Board - Wastewater Division
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Knoxville Utilities Board, Wastewater Division, (the "Division"), an independent agency reported as a component unit for financial reporting purposes only, of Knoxville, Tennessee, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Division, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Schedule of Funding Progress on pages 3-23 and 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Division's basic financial statements. The supplemental schedules on pages 44-51 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2014

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners governs KUB. The Board has all powers to construct, acquire, expand, or operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. The Wastewater Division (Division) provides services to certain customers in Knox County and in two surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Wastewater Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2014 and 2013, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Division's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Division's financial activity, (c) identify major changes in the Division's financial position, and (d) identify any financial concerns.

The Division's Management Discussion and Analysis ("MD&A") focuses on the fiscal year ending June 30, 2014 activities, resulting changes and current known facts, and should be read in conjunction with the Division's financial statements.

Wastewater Division Highlights

System Highlights

The wastewater service area covers 256 square miles and includes 69,613 wastewater customers. KUB maintains 1,320 miles of services mains, 76 pump stations, and 4 treatment plants to treat 14.5 billion gallons of wastewater on an annual basis. The average daily flow is 40 million gallons daily.

The wastewater system added 85 customers during fiscal year 2014.

The typical residential wastewater customer's monthly bill was $47.50 at fiscal year end, which is consistent with the prior fiscal year.

KUB completed its tenth full year of wastewater operations under the requirements of the federal Consent Decree. All collection system projects required under the federal Consent Decree were completed as of June 30, 2014.

During fiscal year 2014, KUB continued to construct upgrades to its Kuwahee and Fourth Creek wastewater treatment facilities in order to comply with the requirements of the Consent Decree. KUB's treatment plants continue to meet high standards of operation. KUB's Eastbridge wastewater treatment plant won an Operational Excellence award from the Tennessee Kentucky Water Environment Association. The Kuwahee and Eastbridge wastewater plants were awarded the National Association of Clean Water Agencies Peak Performance award for outstanding compliance within the permitted limits. KUB's Biosolids Program won Tennessee's award from the Tennessee Kentucky Water Environment Association for Beneficial Use of Biosolids Award.

KUB continued to maintain certification with the National Biosolids Partnership following a rigorous review process and independent audit that was conducted in December 2013. (Biosolids are nutrient-rich organic matter produced by wastewater treatment that can be recycled as fertilizer).

Century II Infrastructure Program

Century II is KUB's proactive long-range program to improve and maintain the electric, natural gas, water and wastewater systems for its customers. It includes the maintenance and replacement strategies for each system and establishes sustainable replacement cycles. Century II moves KUB into its second century of service by improving each system through sound planning, resource allocation, and continued, but accelerated, investment.

In 2013, the Board extended the funding approach for Century II to include the wastewater system. The Board formally endorsed and adopted by resolution, a ten year funding plan for the Wastewater Division.

In May 2014, KUB management provided an updated assessment of the overall condition of each utility and the progress made during the resumption of the Century II program. At that time the Board endorsed a long range ten year funding plan for the continuation of Century II programs for the wastewater system, including a combination of rate increases and debt issues to fully fund the programs for the next ten years.

In June 2014, the Board approved a series of three annual rate increases for the wastewater system. The wastewater rate increase will produce an additional $4.7 million of annual sales revenues.

The wastewater system rehabilitated or replaced 46.2 miles of wastewater system main, exceeding the target level of 25 miles, while staying within the Division's total capital budget during fiscal year 2014.

Consent Decree

In February 2005, a Consent Decree was entered into federal court regarding the operation of KUB's wastewater system. Under the terms of the Consent Decree, the remediation of identified sanitary sewer overflows ("SSOs") on KUB's wastewater system must be completed by June 30, 2016. Through its PACE 10 program, KUB is addressing the terms of the Consent Decree. PACE 10 is an accelerated ten-year program to help improve Knoxville's waterways, the quality of life, and the economic well being of the community. The Consent Decree also required KUB to perform an evaluation of the wet-weather performance and capacity of its wastewater treatment plants.

In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB's Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the "BEHRC") secondary treatment system to be installed at the Fourth Creek treatment plant by June 30, 2018 and at the Kuwahee treatment plant by June 30, 2021. The total cost of such improvements is estimated to be approximately $120 million.

KUB's funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2014, the Wastewater Division had issued $425 million in bonds to fund system capital improvements since the inception of the Consent Decree. The KUB Board of Commissioners approved two 50 percent rate increases, which went into effect in April 2005 and January 2007, respectively. The Board also approved an 8 percent rate increase, which was effective in September 2008, and two 12 percent rate increases, which were effective in April 2011 and

October 2012, respectively. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB continues to be in compliance with Consent Decree requirements. As part of the PACE 10 program, KUB has installed storage tanks providing 34 million gallons of wastewater storage to control wet-weather overflows and rehabilitated or replaced approximately 276.5 miles of collection system pipe. KUB also continues to maintain a proactive operations and maintenance plan for the wastewater collection system including inspection, cleaning, grease control, and private lateral enforcement. The result of the PACE 10 program is a substantial reduction in sanitary sewer overflows.

During fiscal year 2014, the Wastewater Division incurred $42.3 million in total expenditures related to Consent Decree requirements, including $4.3 million for operating costs and $38 million in capital improvements which included the rehabilitation or replacement of 46.2 miles of wastewater main. During the fiscal year, $26 million was spent on sewer mini-basin rehab and replacement. Upgrades completed at the Fourth Creek treatment facility accounted for $3.7 million of fiscal year 2014 capital expenditures. Trunk line replacement and rehabilitation accounted for $2.2 million of capital expenditures during the fiscal year, while pump station improvements accounted for $3.7 million.

As of June 30, 2014, the Wastewater Division had completed its tenth full year under the Consent Decree, spending $467.5 million on capital investments to meet Consent Decree requirements. All collection system projects required under the federal Consent Decree were completed as of June 30, 2014.

Financial Highlights

Fiscal Year 2014 Compared to Fiscal Year 2013

The Division's net position increased $5.7 million or 2.3 percent, compared to an $8.8 million increase last fiscal year.

Operating revenue increased $0.5 million or 0.6 percent, the net result of additional revenue generated during the fiscal year from the 12 percent rate increase effective on October 2012 customer bills, offset by a 1.9 percent decline in wastewater billed sales volumes.

Operating expenses increased $3.7 million or 8 percent. Operating and maintenance (O&M) expenditures increased $1.9 million or 6.6 percent. Depreciation expense rose $1.6 million or 11.3 percent. Taxes and tax equivalents increased $0.2 million or 6.1 percent.

Non-operating revenues were consistent with the prior year. Interest income was $0.1 million less than the prior fiscal year. Interest expense decreased $0.6 million or 2.9 percent, the net effect of a March 2013 revenue bond refunding and a $65 million revenue bond issuance in the prior fiscal year. Other income (net) was $0.5 million lower reflecting a loss on disposition of property.

Capital contributions increased $0.1 million, the result of an increase in donated assets from developers compared to the previous fiscal year.

Total plant assets (net) increased $24.2 million or 3.9 percent since the end of last fiscal year.

Long-term debt represented 63.9 percent of the Division's capital structure as of June 30, 2014, as compared to 64.9 percent last year. The decrease is attributable to the scheduled repayment of debt during the fiscal year. Capital structure equals long-term debt (which includes the current portion of revenue bonds and notes, as applicable, due to be retired the next fiscal year) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Current year debt coverage for the fiscal year was 1.61. Maximum debt service coverage was 1.59.

Fiscal Year 2013 Compared to Fiscal Year 2012

The Division's net position increased $8.8 million or 3.7 percent, compared to a $12 million increase last fiscal year.

Operating revenue increased $4.1 million or 5.8 percent, the result of additional revenue from the 12 percent rate increase effective on October 2012 customer bills. Wastewater billed sales were consistently below prior years' levels for the majority of fiscal year 2013.

Operating expenses increased $4.7 million or 11.3 percent. Operating and maintenance (O&M) expenditures increased $2.9 million or 11.6 percent. Depreciation expense rose $1.5 million or 12 percent. Taxes and tax equivalents increased $0.2 million or 6.4 percent.

Non-operating revenues decreased $0.9 million from the prior year. Lower interest rates on longer-term investments resulted in a $0.2 million decrease in interest income. Interest expense increased $0.5 million or 2.7 percent, due to interest costs associated with the issuance of $65 million in bonds in December 2012.

Capital contributions decreased $1.7 million, the result of a decline in donated assets from developers compared to the previous fiscal year.

Total plant assets (net) increased $43.8 million or 7.6 percent since the end of last fiscal year.

Long-term debt represented 64.9 percent of the Division's capital structure as of June 30, 2013, as compared to 62 percent last year. The increase is the net result of the $65 million bond issue in December 2012, a portion of refunding bonds sold in March 2013 to cover interest expense on the bonds prior to the call date, and the scheduled repayment of debt during the fiscal year. Capital structure equals long-term debt (which includes the current portion of revenue bonds and notes, as applicable, due to be retired the next fiscal year) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Current year debt coverage for the fiscal year was 1.75. Maximum debt service coverage was 1.64.

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Division Cash Budget Appropriations

KUB's Board of Commissioners adopted a Wastewater Division budget of $113.7 million for fiscal year 2014. At year end, the Division was $4.9 million under budget. Capital spending was $2.6 million less than planned due to timing and cost of projects. O&M spending was $2.2 million under budget primarily due to labor related costs. Cash operating receipts were $2.7 million lower than projected due to lower than projected sales revenue. The Division's general fund balance was $2.4 million higher in fiscal year 2014 than budgeted. The numbers below are presented on a cash basis.

Wastewater Division Cash Report
As of June 30, 2014

(in thousands of dollars)	**FY 2014 Budget**	**FY 2014 Actual FYTD**	**Dollar Variance***	**Percent Variance**
Beginning Balance General Fund	$ 47,911	$ 47,911		
Operating Receipts	79,738	77,043	(2,695)	-3.4%
Disbursements				
Operation & Maintenance Expense	32,041	29,803	2,238	7.0%
Capital Expenditures	49,603	46,988	2,615	5.3%
Debt Service & Taxes	32,042	32,036	6	-
Total Disbursements	113,686	108,827	4,859	4.3%
Net Flow throughs and Transfers	(976)	(713)	263	26.9%
Ending General Fund Balance	$ 12,987	$ 15,414	$ 2,427	18.7%

**Impact to Cash; (-) indicates a decrease or negative impact to cash*

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Knoxville Utilities Board Wastewater Division - Financial Statements

The Division's financial performance is reported under three basic financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows.

Statement of Net Position

The Division reports its assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position in the Statement of Net Position. Assets are classified as current, restricted, wastewater plant in service, or other assets.

Liabilities are classified as current, other, or long-term debt. Net position is classified as net investment in capital assets; restricted; or unrestricted. Net position tells the user what the Division has done with its accumulated earnings, not just the balance.

Net investment in capital assets, reflects the book value of all capital assets less the outstanding balances of debt used to acquire, construct, or improve those assets.

Restricted net position are assets that have been limited to specific uses by the Division's bond covenants or through resolutions passed by the KUB Board of Commissioners.

Unrestricted net position is a residual classification; the amount remaining after reporting net position is either invested in capital or restricted is reported there.

Statement of Revenues, Expenses and Changes in Net Position

The Division reports its revenues and expenses (both operating and non-operating) on the Statement of Revenues, Expenses and Changes in Net Position. In addition, any capital contributions or assets donated by developers are reported on this statement.

Total revenue less total expense equals the change in net position for the reporting period. Net position at the beginning of the period is increased or decreased, as applicable, by the change in net position for the reporting period.

The change in net position for the reporting period is added to the net position segment of the Statement of Net Position.

Statement of Cash Flows

The Division reports cash flows from operating activities, capital and related-financing activities, and investing activities on the Statement of Cash Flows. This statement tells the user the Division's sources and uses of cash during the reporting period.

The statement indicates the Division's beginning cash balance and ending cash balance and how it was either increased or decreased during the reporting period.

The statement also reconciles cash flow to operating income as it appears on the Statement of Revenues, Expenses and Changes in Net Position.

Condensed Financial Statements

Statement of Net Position

The following table reflects the condensed Statement of Net Position for the Wastewater Division compared to the prior year and the year preceding the prior year.

Statements of Net Position
As of June 30

(in thousands of dollars)	2014	2013	2012
Current and other assets	$ 62,704	$ 94,800	$ 67,629
Capital assets, net	642,302	618,134	574,384
Deferred outflows of resources	10,064	10,533	666
Total assets and deferred outflows of resources	715,070	723,467	642,679
Current and other liabilities	19,979	24,967	19,419
Long-term debt outstanding	441,035	450,050	383,705
Deferred inflows of resources	57	125	-
Total liabilities and deferred inflows of resources	461,071	475,142	403,124
Net position			
Net investment in capital assets	201,947	169,625	183,964
Restricted	2,263	2,148	1,756
Unrestricted	49,789	76,552	53,835
Total net position	$ 253,999	$ 248,325	$ 239,555

Normal Impacts on Statement of Net Position

The following is a description of activities which will normally impact the comparability of the Statement of Net Position presentation.

- Change in net position (from Statement of Revenues, Expenses and Changes in Net Position): impacts (increase/decrease) current and other assets and/or capital assets and unrestricted net position.

- Issuing debt for capital: increases deferred outflows and inflows of resources and long-term debt.

- Spending debt proceeds on new capital: reduces current assets and increases capital assets.

- Spending of non-debt related current assets on new capital: (a) reduces current assets and increases capital assets and (b) reduces unrestricted net position and increases net investment in capital assets.

- Principal payment on debt: (a) reduces current and other assets and reduces long-term debt and (b) reduces unrestricted net position and increases net investment in capital assets.

- Reduction of capital assets through depreciation: reduces capital assets and net investment in capital assets.

Impacts and Analysis

Current and Other Assets

Fiscal Year 2014 Compared to Fiscal Year 2013

Current and other assets decreased $32.1 million or 33.9 percent. General fund cash decreased $32.5 million, due to the use of general fund cash to fund capital expenditures during the year. Accounts receivable decreased $0.8 million and operating contingency reserves increased $1.1 million.

Fiscal Year 2013 Compared to Fiscal Year 2012

Current and other assets increased $27.2 million or 40.2 percent. General fund cash increased $22.9 million, due to the use of bond proceeds to fund capital expenditures during the year. In addition, operating contingency reserves increased 3.1 million.

Capital Assets

Fiscal Year 2014 Compared to Fiscal Year 2013

Capital assets increased $24.2 million or 3.9 percent, the result of capital expenditures, net of depreciation. Major capital expenditures during the year included $34 million for major system improvements related to PACE 10 and $3 million for Composite Correction Plan projects, both of which were required under the Consent Decree.

Fiscal Year 2013 Compared to Fiscal Year 2012

Capital assets increased $43.8 million or 7.6 percent, the result of capital expenditures, net of depreciation. Major capital expenditures during the year included $38.4 million for major system improvements related to PACE 10 and $16 million for Composite Correction Plan projects, both of which were required under the Consent Decree.

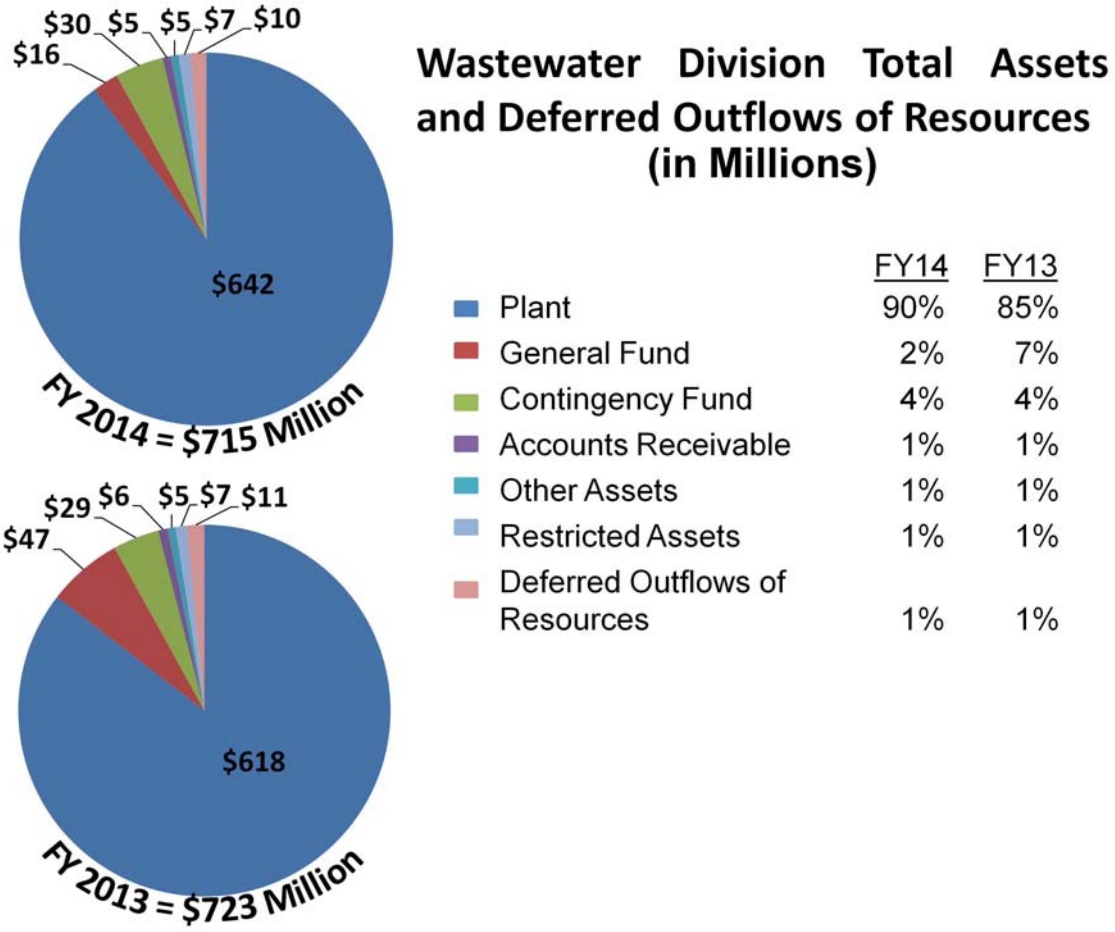
Deferred Outflows of Resources

Fiscal Year 2014 Compared to Fiscal Year 2013

Deferred outflows of resources total $10 million, which was a decline of $0.5 million or 4.5 percent compared to the prior year. This reflects the amortization of deferred losses on bonds refunded in prior periods.

Fiscal Year 2013 Compared to Fiscal Year 2012

Deferred outflows of resources total $10.5 million, which was up $9.9 million compared to the prior year, reflecting $10.1 million of unamortized costs related to additional principal from the March 2013 advance refunding bonds to cover debt service on the bonds to be refunded prior to the call date on the bonds.



Current and Other Liabilities

Fiscal Year 2014 Compared to Fiscal Year 2013

Current and other liabilities decreased $5 million, which was the net result of a $5.6 million decline in accounts payable and a $0.5 million increase in the current portion of revenue bonds.

Fiscal Year 2013 Compared to Fiscal Year 2012

Current and other liabilities increased $5.5 million, which was the combined result of a $3.3 million rise in accounts payable, a $1.5 million increase in the current portion of bond debt and a $0.4 million increase in the Division's share of liability for pension benefits based on the actuarially determined contribution.

Long-Term Debt

Fiscal Year 2014 Compared to Fiscal Year 2013

The Division's outstanding long-term debt decreased $9 million or 2 percent due to scheduled debt repayments.

Fiscal Year 2013 Compared to Fiscal Year 2012

The Division's outstanding long-term debt increased $66.3 million or 17.3 percent. A $65 million bond issue in December 2012 added to KUB's outstanding debt, while scheduled debt repayments throughout the year reduced the amount outstanding. Refunding bonds issued in March 2013 included additional principal amounts of $9.9 million necessary to cover scheduled interest payments to be made prior to the call date on the bonds.

Deferred Inflows of Resources

Fiscal Year 2014 Compared to Fiscal Year 2013

Deferred inflows of resources were consistent with the prior fiscal year.

Fiscal Year 2013 Compared to Fiscal Year 2012

Deferred inflows of resources were $0.1 million as of June 30, 2013, which reflects premiums incurred as part of the March 2013 debt refunding.

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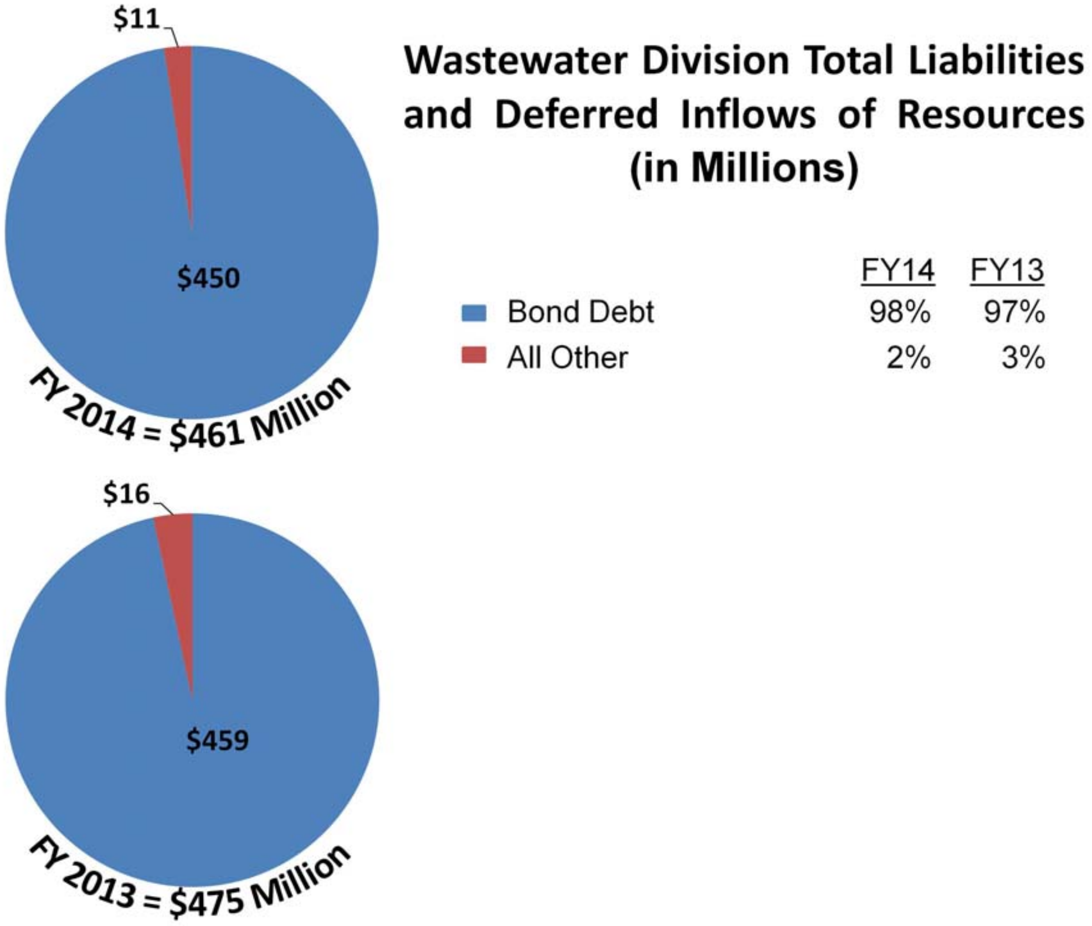


Net Position

Fiscal Year 2014 Compared to Fiscal Year 2013

Net investment in capital assets increased $32.3 million or 19.1 percent. The increase was the result of $24.2 million of net plant additions and a decrease in current and long term debt of $8.5 million. Unrestricted assets decreased $26.8 million primarily due to a $32.5 million decrease in general fund cash compared with the prior year. Restricted net position was $0.1 million higher than the previous fiscal year, based on increases in debt service.

Fiscal Year 2013 Compared to Fiscal Year 2012

Net investment in capital assets decreased by $14.3 million or 7.8 percent. The decrease was the result of $43.7 million of net plant additions offset by an increase in current and long term debt of $58 million. Unrestricted assets increased $22.7 million due to a $22.9 million increase in general fund cash compared with the prior year. Restricted net position was $0.4 million higher than the previous fiscal year, based on increases in the bond fund.

Statement of Revenues, Expenses and Changes in Net Position

The following table reflects the condensed Statement of Revenues, Expenses and Changes in Net Position for the Wastewater Division compared to the prior year and the year preceding the prior year.

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30

(in thousands of dollars)	**2014**	**2013**	**2012**
Operating revenues	$ 75,042	$ 74,579	$ 70,502
Operating expenses			
Treatment	10,769	10,402	9,256
Collection	7,795	7,266	7,441
Customer service	2,605	2,458	1,945
Administrative and general	8,484	7,697	6,278
Depreciation and amortization	16,086	14,455	12,911
Taxes and tax equivalents	4,092	3,856	3,625
Total operating expenses	49,831	46,134	41,456
Operating income	25,211	28,445	29,046
Interest income	292	373	562
Interest expense	(19,264)	(19,841)	(19,314)
Other income/(expense)	(837)	(351)	(202)
Change in net position before capital contributions	5,402	8,626	10,092
Capital contributions	272	144	1,867
Change in net position	$ 5,674	$ 8,770	$ 11,959

Normal Impacts on Statement of Revenues, Expenses and Changes in Net Position

The following is a description of activities which will normally impact the comparability of the Statement of Revenues, Expenses and Changes in Net Position presentation.

- Operating revenue is primarily determined by the amount of water usage billed during the fiscal year. The Division has certain commercial and industrial customers whose wastewater usage is metered separately from their water usage. Any change (increase/decrease) in wastewater rates would also cause a change in operating revenue.

- Operating expenses (treatment, collection system expense, customer service, administrative and general) are normally impacted by changes in areas including, but not limited to, labor cost (staffing, wage rates), active employee and retiree health insurance costs, chemicals, and wastewater system maintenance.

- Depreciation expense is impacted by plant additions and retirements during the fiscal year.

- Taxes & tax equivalents are impacted by plant additions/retirements and changes in property tax rates.

- Interest income is impacted by the level of interest rates and investments.

- Interest expense is impacted by the level of outstanding debt and interest rates on the outstanding debt.

- Other income/(expense) is impacted by miscellaneous non-operating revenues and expenses.

- Capital contributions are impacted by a donation of facilities/infrastructure to KUB by developers and governmental agencies. The contributions are recognized as revenue and recorded as plant in service based on the fair market value of the asset(s).

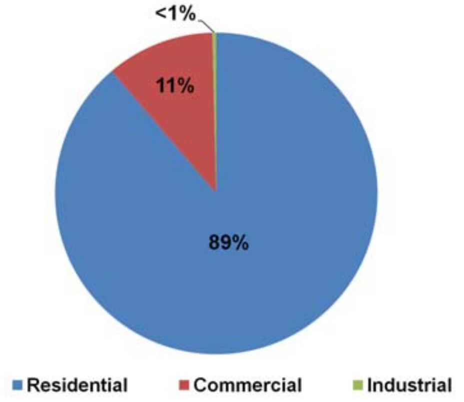
Impacts and Analysis

Margin from Sales

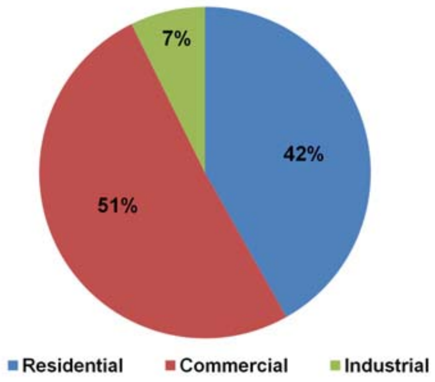
Fiscal Year 2014 Compared to Fiscal Year 2013

The Division's net position increased $5.7 million this fiscal year compared to earnings of $8.8 million in fiscal year 2013.

Operating revenue increased $0.5 million or 0.6 percent for the fiscal year ending June 30, 2014, the net result of additional revenue generated during the fiscal year from the 12 percent rate increase effective on October 2012 customer bills and a 1.9 percent decline in wastewater billed sales volumes. Rebates on bond interest payments from the federal government for federally taxable Build America Bonds (BABs) are reported as revenue in accordance with GASB. KUB recognized $1.8 million in revenue for BABs rebates in fiscal year 2014.



FY 2014 Total Wastewater Customers = 69,613



FY 2014 Wastewater Sales = 6.4 Billion Gallons

Residential customers accounted for 89 percent of wastewater customers and 42 percent of total billed sales for the year. Commercial customers accounted for the largest portion of total sales for the year.

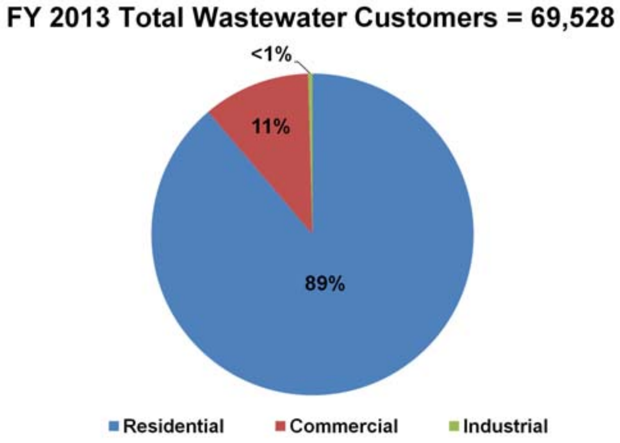
KUB's ten largest wastewater customers accounted for 8.9 percent of KUB's billed wastewater volumes. Those ten customers represent five industrial and five commercial customers, including four governmental customers.

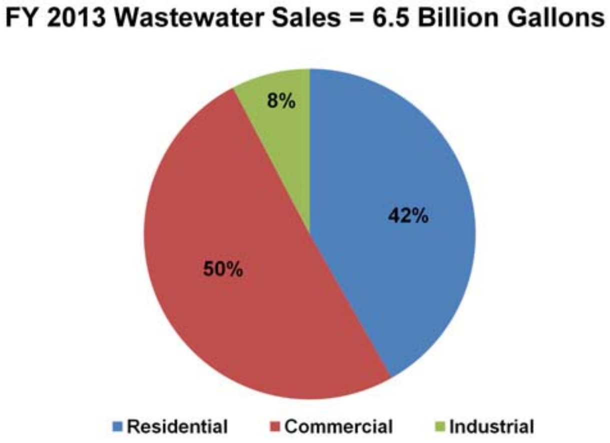
The Division has added 875 customers over the past three years, representing annual growth of less than 1 percent. Billed wastewater sales have declined steadily over the past three years, reflecting declining water usage due to more efficient appliances and conservation efforts.

Fiscal Year 2013 Compared to Fiscal Year 2012

The Division's net position increased $8.8 million this fiscal year compared to earnings of $12 million in fiscal year 2012.

Operating revenue increased $4.1 million or 5.8 percent for the fiscal year ending June 30, 2013, reflecting additional revenue from the 12 percent October 2012 rate increase.





Residential customers accounted for 89 percent of wastewater customers and 42 percent of total billed sales for the year. Commercial customers accounted for the largest portion of total sales for the year.

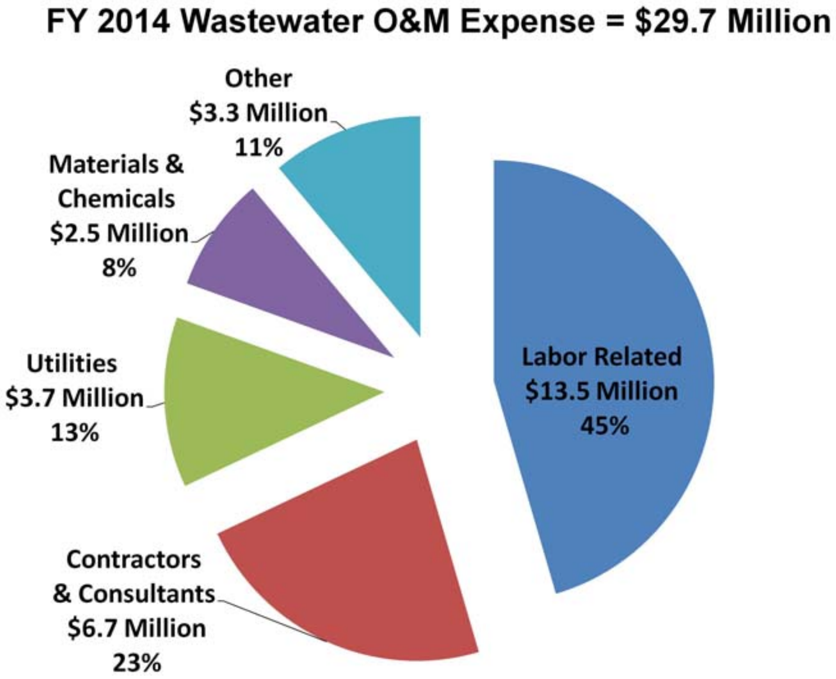
KUB's ten largest wastewater customers accounted for 6.2 percent of KUB's billed wastewater volumes. Those ten customers represent nine industrial customers and one governmental customer.

Operating Expenses

Fiscal Year 2014 Compared to Fiscal Year 2013

Operating expenses increased $3.7 million or 8 percent compared to fiscal year 2013. Operating expenses are categorized as treatment (O&M), collection (O&M), customer service (O&M), administrative and general (O&M), depreciation or taxes and tax equivalents:

- Treatment expenses were up $0.4 million, the result of higher labor-related expenses.
- Collection system expenses increased $0.5 million, driven by outside contractor expense and utility service.
- Customer service expenses increased $0.1 million, reflecting the Division's share of meter reading, telephone, software, and labor-related expenses.
- Administrative and general expenses were up $0.8 million, due to the allocation of shared costs.



- Depreciation expense increased $1.6 million or 11.3 percent, the result of a full year of depreciation on $61 million of wastewater system assets placed in service during fiscal year 2013, and a partial year of depreciation on $72.3 million placed in service during fiscal year 2014. The Division also retired $14.3 million of assets during the fiscal year.

- Taxes and tax equivalents increased $0.2 million, due to increased plant values.

Fiscal Year 2013 Compared to Fiscal Year 2012

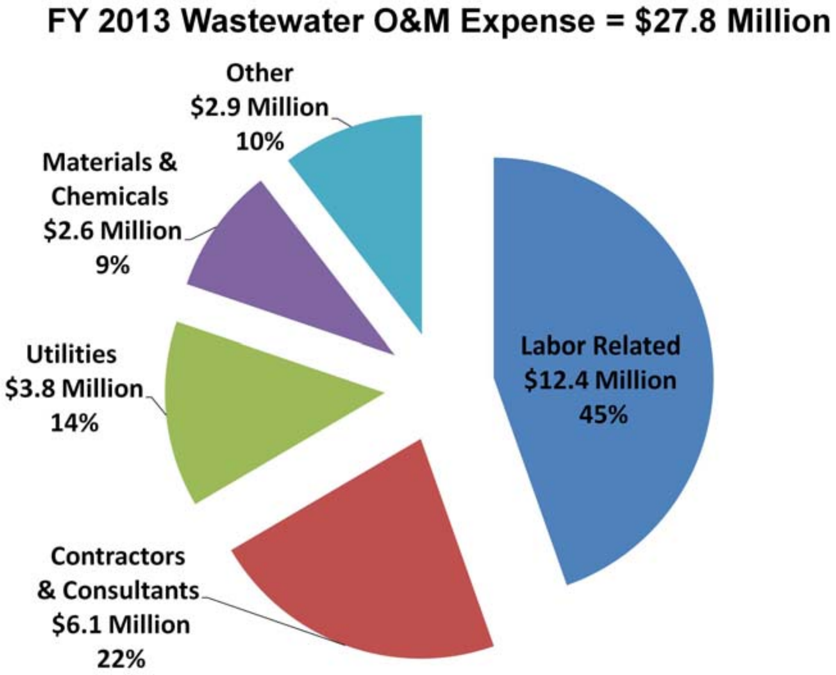
Operating expenses increased $4.7 million or 11.3 percent compared to fiscal year 2012. Operating expenses are categorized as treatment (O&M), collection (O&M), customer service (O&M), administrative and general (O&M), depreciation or taxes and tax equivalents:

- Treatment expenses were up $1.1 million, the result of higher labor related expenses and utility expenses.

- Collection system expenses decreased $0.2 million, driven by a $0.1 million reduction in labor related expenses.

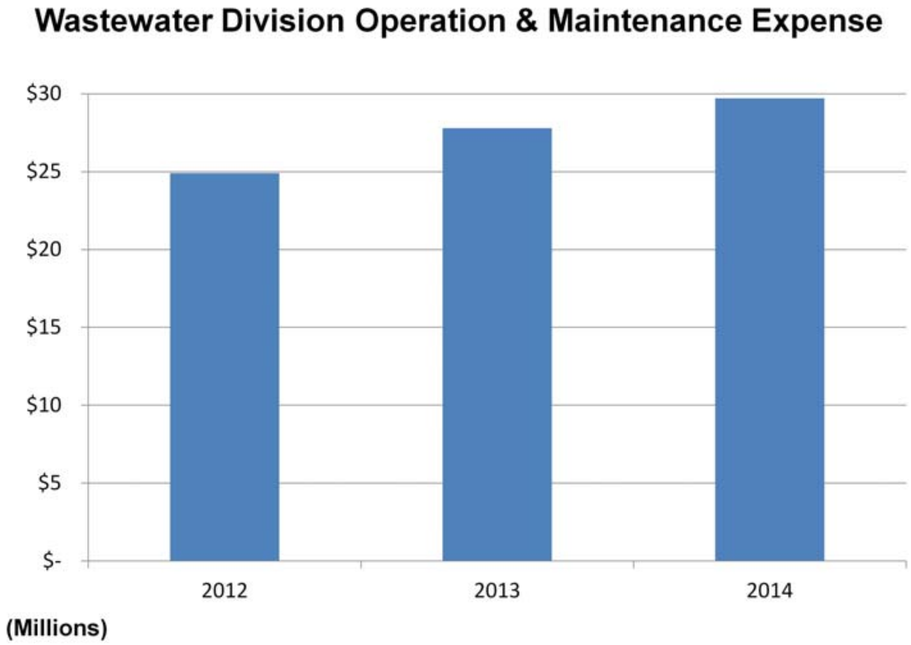
- Customer service expenses increased $0.5 million, reflecting the Division's share of meter reading, telephone, software, and labor related expenses.

- Administrative and general expenses were up $1.4 million, due to approximately $1.4 million of additional expense resulting from a four percent increase to the Division's allocation of shared costs effective July 1, 2012.



- Depreciation expense increased $1.5 million or 12 percent, the result of a full year of depreciation on $62 million of wastewater system assets placed in service during fiscal year 2012, and a partial year of depreciation on $61 million placed in service during fiscal year 2013. The Division also retired $8.2 million of assets during the fiscal year.

- Taxes and tax equivalents increased $0.2 million, due to increased plant values.



Other Income and Expense

Fiscal Year 2014 Compared to Fiscal Year 2013

Interest income was $0.1 million less than the prior fiscal year.

Interest expense decreased $0.6 million or 2.9 percent, the net effect of the March 2013 revenue bond refunding and a $65 million revenue bond issuance in the prior fiscal year.

Other income (net) was $0.5 million lower primarily due to a $0.3 million increase in loss on disposition of property and $0.3 million increase in amortization of debt.

Capital contributions increased $0.1 million compared to last fiscal year as a result of additional assets received from developers and other governmental entities.

Fiscal Year 2013 Compared to Fiscal Year 2012

Interest income decreased $0.2 million, the result of lower long-term interest rates.

Interest expense increased $0.5 million or 2.7 percent, the net result of additional interest on $65 million of bonds issued during the fiscal year and debt service savings results from the refunding of outstanding bonds in 2012 and 2013.

Other income (net) was $0.1 million lower than the prior year.

Capital contributions decreased $1.7 million compared to last fiscal year as a result of fewer assets received from developers and other governmental entities.

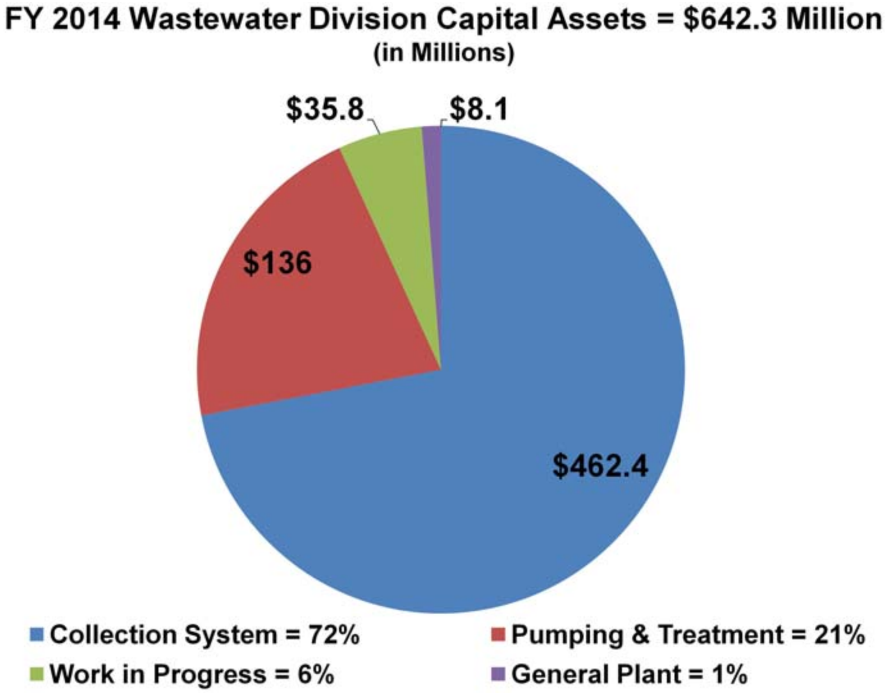
Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

(in thousands of dollars)	**2014**	**2013**	**2012**
Pumping and treatment plant	$ 136,055	$ 112,438	$ 104,955
Collection plant:			
Mains	389,515	359,166	328,495
Others	72,884	70,857	67,000
Total collection plant	462,399	430,023	395,495
General plant	8,070	7,853	7,619
Total plant	606,524	550,314	508,069
Work in progress	35,778	67,820	66,315
Total net plant	$ 642,302	$ 618,134	$ 574,384

Fiscal Year 2014 Compared to Fiscal Year 2013

As of June 30, 2014, the Division had $642.3 million invested in a variety of capital assets, as reflected in the schedule of Capital Assets, which represents a net increase (including additions, retirements, and depreciation) of $24.2 million or 3.9 percent over the end of the last fiscal year.



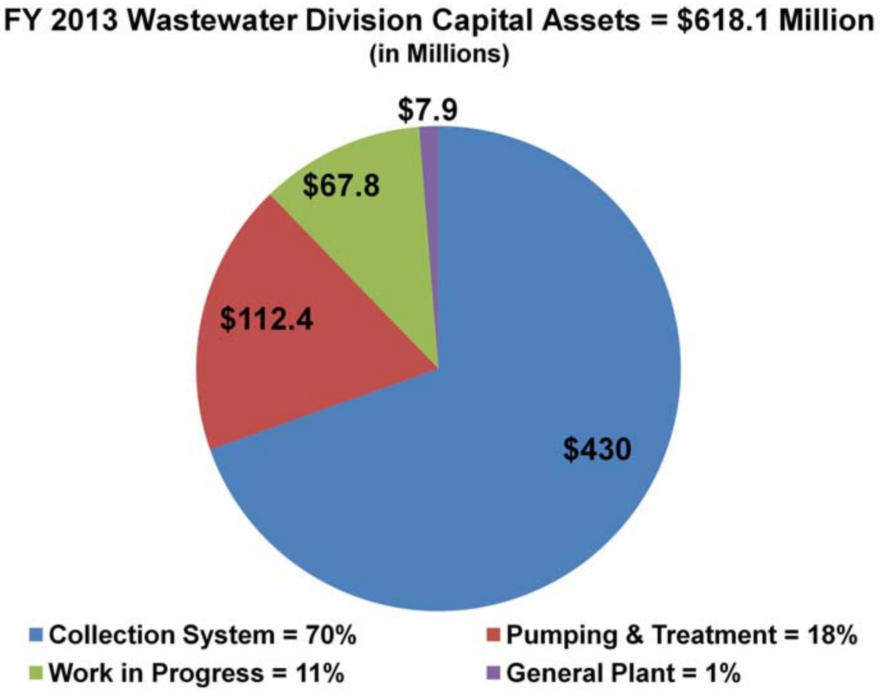
FY 2014 Wastewater Division Capital Assets = $642.3 Million
(in Millions)

Major capital asset expenditures during the year were as follows:

- $34 million related to PACE 10 projects.
    - $26 million for sewer mini-basin rehabilitation and replacement
    - $3.7 million for pump station design and construction
    - $2.2 million for sewer trunk line replacement and rehabilitation
- $3 million for Composite Correction Plan projects.

Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, the Division had $618.1 million invested in a variety of capital assets, as reflected in the schedule of Capital Assets, which represents a net increase (including additions, retirements, and depreciation) of $43.8 million or 7.6 percent over the end of the last fiscal year.



Major capital asset expenditures during the year were as follows:

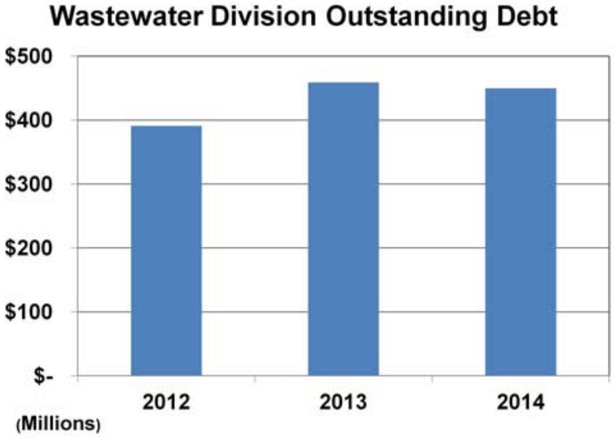
- $38.4 million related to PACE 10 projects.
    - $15.1 million for sewer mini-basin rehabilitation and replacement
    - $11.8 million for sewer trunk line replacement and rehabilitation
    - $5.6 million for pump station design and construction
    - $5.5 million for collection system improvements
- $16 million for Composite Correction Plan projects.
    - $3.1 million for upgrades to the Kuwahee Wastewater Treatment Plant
    - $12.9 million for upgrades at the Fourth Creek Wastewater Treatment Plant

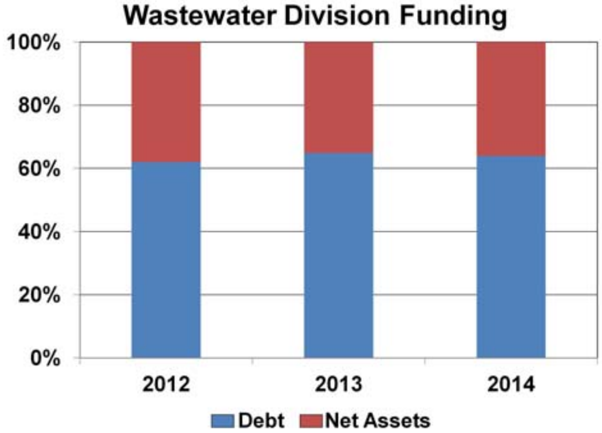
Debt Administration

The Division's outstanding debt peaked in fiscal year 2013 at $458.6 million. Scheduled repayments of debt decreased the amount outstanding as of June 30, 2014 to $450.1 million. The majority of the bond proceeds have been used to fund capital requirements under the Consent Decree. Debt as a percentage of capitalization represented 63.9 percent in 2014, 64.9 percent in 2013 and 62 percent at the end of fiscal year 2012.

Outstanding Debt
As of June 30

(in thousands of dollars)	**2014**	**2013**	**2012**
Revenue bonds	$ 450,050	$ 458,595	$ 390,745
Total outstanding debt	$ 450,050	$ 458,595	$ 390,745





The Division will pay $110.3 million in principal payments over the next ten years, representing 24.5 percent of the outstanding bonds. KUB's Debt Management Policy requires a minimum of 20 percent of wastewater debt principal be repaid over the next ten years.

Fiscal Year 2014 Compared to Fiscal Year 2013

As of June 30, 2014, the Division had $450.1 million in outstanding debt (including the current portion of revenue bonds), compared to $458.6 million last year, representing a decrease of $8.5 million or 1.9 percent. The Division's weighted average cost of debt as of June 30, 2014 was 4.23 percent.

The decrease in debt was attributable to the scheduled repayment of bond debt during the fiscal year.

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2014, the Division's revenue bonds were rated AA+ by Standard & Poor's and Aa2 by Moody's Investors Service.

Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, the Division had $458.6 million in outstanding debt (including the current portion of revenue bonds), compared to $390.7 million last year, representing an increase of $67.9 million or 17.4 percent. The Division's weighted average cost of debt as of June 30, 2013 was 4.22 percent.

The increase in debt is attributable to the scheduled repayment of bond debt during the fiscal year, a $65 million December 2012 bond issue to fund wastewater system capital improvements, and the March 2013 refunding of outstanding bonds.

KUB sold $113.3 million in revenue refunding bonds to retire bonds issued in 2005 at lower interest rates. The proceeds of the bonds were placed in an irrevocable escrow and will be used to refund $103.5 million in outstanding bonds in 2015 and pay debt service on the outstanding bonds prior to the 2015 call date.

The Division will realize a total debt service savings of $20.5 million over the life of the bonds ($14.4 million on a net present value basis).

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2013, the Division's revenue bonds were rated AA+ by Standard & Poor's and Aa2 by Moody's Investors Service.

Impacts on Future Financial Position

KUB anticipates adding 325 wastewater customers in fiscal year 2015.

In June 2014, the KUB Board adopted three years of rate increases for all four systems to help fund the ongoing Century II infrastructure programs for each system. The wastewater rate increases will be effective October 2014, October 2015, and October 2016, respectively. Annually, the wastewater rate increases will provide additional revenue of $4.7 million, on average.

KUB sold $30 million in wastewater system revenue bonds in August 2014 for the purpose of funding wastewater system capital improvements in fiscal year 2015. The true interest cost of the bonds, which were sold through a competitive bidding process was 3.604 percent.

KUB debt portfolio includes $96.9 million of Wastewater Division 2010 Build America Bonds (BABs) in which the U.S. Treasury provides a rebate to KUB for a portion of the interest. The interest rebates were subject to federal sequestration during the fiscal year and were reduced by 7.2 percent. Any future actions by Congress may also affect the anticipated rebates for future fiscal years.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, is effective for periods beginning after June 15, 2013. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* are effective for periods beginning after June 15, 2014. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Division's financial position or results of operations during fiscal year 2014.

Financial Contact

The Division's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of the Division's financial position and results of operations for the fiscal years ending June 30, 2014 and 2013. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

Knoxville Utilities Board Wastewater Division
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 15,413,919	$ 32,911,366
Short-term investments	-	15,000,000
Short-term contingency fund investments	13,875,114	12,955,337
Other current assets	61,432	7,405
Accrued interest receivable	2,866	22,592
Accounts receivable, less allowance of uncollectible accounts of $89,248 in 2014 and $113,372 in 2013	8,200,763	8,977,425
Inventories	200,763	174,479
Prepaid expenses	75,673	74,415
Total current assets	37,830,530	70,123,019
Restricted assets:		
Wastewater bond fund	7,014,496	7,130,242
Other funds	9,213	11,302
Unused bond proceeds	-	206
Total restricted assets	7,023,709	7,141,750
Wastewater plant in service	758,132,261	700,133,805
Less accumulated depreciation	(151,608,595)	(149,819,959)
	606,523,666	550,313,846
Retirement in progress	194,255	122,152
Construction in progress	35,583,696	67,697,621
Net plant in service	642,301,617	618,133,619
Other assets:		
Long-term contingency fund investments	16,523,370	16,380,326
Other	1,326,201	1,155,509
Total other assets	17,849,571	17,535,835
Total assets	705,005,427	712,934,223
Deferred outflows of resources:		
Unamortized bond refunding costs	10,064,386	10,532,610
Total deferred outflows of resources	10,064,386	10,532,610
Total assets and deferred outflows of resources	$ 715,069,813	$ 723,466,833

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

Knoxville Utilities Board Wastewater Division
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Liabilities, Deferred Inflows, and Capitalization		
Current liabilities:		
Current portion of revenue bonds	$ 9,015,000	$ 8,545,000
Accounts payable	1,303,779	6,898,846
Accrued expenses	1,842,381	1,829,334
Customer deposits plus accrued interest	1,018,250	967,329
Accrued interest on revenue bonds	4,760,646	4,993,892
Total current liabilities	17,940,056	23,234,401
Other liabilities:		
Accrued compensated absences	1,643,542	1,385,951
Customer advances for construction	312,000	321,000
Other	83,376	25,331
Total other liabilities	2,038,918	1,732,282
Long-term debt:		
Wastewater revenue bonds	441,035,000	450,050,000
Total long-term debt	441,035,000	450,050,000
Total liabilities	461,013,974	475,016,683
Deferred inflows of resources:		
Unamortized costs	56,509	124,830
Total deferred inflows of resources	56,509	124,830
Total liabilities and deferred inflows of resources	461,070,483	475,141,513
Net position		
Net investment in capital assets	201,947,494	169,625,399
Restricted for:		
Debt service	2,253,850	2,136,350
Other	9,213	11,302
Unrestricted	49,788,773	76,552,269
Total net position	253,999,330	248,325,320
Total liabilities, deferred inflows, and net position	$ 715,069,813	$ 723,466,833

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

Knoxville Utilities Board Wastewater Division
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues	$ 75,041,645	$ 74,579,313
Operating expenses		
Treatment	10,768,467	10,402,381
Collection	7,794,582	7,265,544
Customer service	2,605,271	2,457,565
Administrative and general	8,483,808	7,697,218
Provision for depreciation and amortization	16,086,344	14,454,762
Taxes and tax equivalents	4,092,366	3,856,206
Total operating expenses	49,830,838	46,133,676
Operating income	25,210,807	28,445,637
Non-operating revenues (expenses)		
Contributions in aid of construction	916,996	225,764
Interest and dividend income	291,711	372,644
Interest expense	(19,263,722)	(19,841,107)
Write-down of plant for costs recovered through contributions	(916,996)	(225,764)
Other	(836,436)	(350,663)
Total non-operating revenues (expenses)	(19,808,447)	(19,819,126)
Change in net position before capital contributions	5,402,360	8,626,511
Capital contributions	271,650	143,980
Change in net position	5,674,010	8,770,491
Net position, beginning of year	248,325,320	239,554,829
Net position, end of year	$ 253,999,330	$ 248,325,320

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

Knoxville Utilities Board Wastewater Division
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash receipts from customers	$ 73,613,445	$ 71,576,107
Cash (payments to) receipts from other operations	1,500,788	2,408,922
Cash payments to suppliers of goods or services	(24,746,416)	(15,430,777)
Cash payments to employees for services	(10,158,275)	(9,080,474)
Payment in lieu of taxes	(3,373,076)	(3,182,147)
Net cash provided by operating activities	36,836,466	46,291,631
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	-	65,053,835
Principal paid on revenue bonds and notes payable	(8,545,000)	(7,040,000)
(Increase) decrease in unused bond proceeds	206	(206)
Interest paid on revenue bonds and notes payable	(19,496,968)	(19,576,517)
Acquisition and construction of wastewater plant	(41,385,195)	(58,642,874)
Changes in wastewater bond fund, restricted	115,746	(645,613)
Customer advances for construction	(9,000)	(21,000)
Proceeds received on disposal of plant	4,848	4,502
Cash received from developers and individuals for capital purposes	916,996	225,764
Net cash used in capital and related financing activities	(68,398,367)	(20,642,109)
Cash flows from investing activities:		
Purchase of investment securities	(1,294,156)	(8,262,656)
Maturities of investment securities	15,231,335	305,788
Interest received	311,437	380,969
Other property and investments	(184,162)	(159,448)
Net cash provided by (used in) investing activities	14,064,454	(7,735,347)
Net (decrease) increase in cash and cash equivalents	(17,497,447)	17,914,175
Cash and cash equivalents, beginning of year	32,911,366	14,997,191
Cash and cash equivalents, end of year	$ 15,413,919	$ 32,911,366
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 25,210,807	$ 28,445,637
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expenses	16,314,629	14,710,927
Changes in operating assets and liabilities:		
Accounts receivable	776,663	(382,717)
Inventories	(26,285)	(53,471)
Prepaid expenses	(1,257)	(31,141)
Other assets	(222,628)	(196,396)
Accounts payable and accrued expenses	(5,324,427)	3,615,032
Customer deposits plus accrued interest	50,920	233,746
Other liabilities	58,044	(49,986)
Net cash provided by operating activities	$ 36,836,466	$ 46,291,631
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ 271,650	$ 143,980

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

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners governs KUB. The Board has all powers to construct, acquire, expand, or operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions including setting rates. The Wastewater Division (Division) provides services to certain customers in Knox County and in two surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Wastewater Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2014 and 2013, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

2. Significant Accounting Policies

Basis of Accounting

KUB follows the provisions of GASB Statement No. 34 (Statement No. 34), *Financial Statements − and Management's Discussion and Analysis − for State and Local Governments.* Statement No. 34 established standards for external financial reporting for all state and local governmental entities.

The financial statements are prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred. The accounting and financial reporting treatment applied to the Division is determined by measurement focus. The transactions of the Division are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets and deferred outflows of resources net of total liabilities and deferred inflows of resources) are segregated into net investment in capital assets; restricted for capital activity and debt service; and unrestricted components.

Recently Adopted New Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62 (Statement No. 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for KUB's fiscal year beginning July 1, 2012. The objective of this Statement is to incorporate into the GASB's authoritative literature certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants' (AICPA) accounting and financial reporting guidance issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

Statement No. 62 supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election to apply FASB statements, related interpretations, Accounting Principles Board opinions and accounting research bulletins issued post-November 30, 1989 that do not conflict with Governmental Accounting Standards. However, FASB pronouncements issued post-November 30, 1989 that do not conflict with or contradict Governmental Accounting Standards can continue to apply as other accounting literature.

In June 2011, the GASB issued Statement No. 63 (Statement No. 63), (*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,* effective for KUB's fiscal year beginning July 1, 2012. Statement No. 63 amends the net asset reporting requirements in Statement No. 34 and other pronouncements. Under these new standards, financial statements include deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities, and will report *net position* instead of net assets. Statement No. 63 requires the classification of net position into three components – net investment in capital assets; net position-restricted; and net position-unrestricted.

These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Implementation of Statement No. 63 had no effect on KUB's net position or changes in net position.

In March 2012, the GASB issued Statement No. 65 (Statement No. 65), *Items Previously Reported as Assets and Liabilities*, effective for KUB's fiscal year beginning July 1, 2013; however, KUB early adopted Statement No. 65 effective for the fiscal year beginning July 1, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities. Implementation of Statement No. 65 had no effect on KUB's net position or changes in net position.

Wastewater Plant

Wastewater plant and other property are stated on the basis of original cost. The cost of current repairs and minor replacements is charged to operating expense. The cost of renewals and improvements is capitalized. The original cost of utility plant assets retired or otherwise disposed of and the cost of removal less salvage value is charged to accumulated depreciation. When other property is retired, the related asset and accumulated depreciation are removed from the accounts, and the gain or loss is included in the results of operations.

The provision for depreciation of wastewater plant in service is based on the estimated useful lives of the assets, which range from three to fifty years, and is computed using the straight-line method. Pursuant to NARUC, the caption "Provision for depreciation" in the statements of revenue, expenses and change in net position does not include depreciation for transportation equipment of $228,285 in fiscal year 2014 and $256,165 in fiscal year 2013. Interest costs are expensed as incurred.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of the KUB Wastewater Division. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unbilled revenue. Revenues are reported net of bad debt expense of $209,288 in fiscal year 2014 and $235,922 in fiscal year 2013.

Non-operating Revenue

Non-operating revenue consists of revenues that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Expense

When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is KUB’s policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

Contributions in Aid of Construction and Capital Contributions

Contributions in aid of construction are cash collections from customers or others for a particular purpose, generally the construction of new facilities to serve new customers in excess of the investment KUB is willing to make for a particular incremental revenue source. KUB reduces the plant account balances to which contributions relate by the actual amount of the contribution and recognizes the contributions as non-operating revenue in accordance with Statement No. 62.

Capital contributions represent contributions of utility plant infrastructure constructed by developers and others in industrial parks and other developments, and transferred to KUB upon completion of construction and the initiation of utility service. In accordance with GASB Statement No. 33, *“Accounting and Financial Reporting for Nonexchange Transactions”*, such contributions are recognized as revenues and capital assets upon receipt.

Inventories

Inventories, consisting of plant materials and operating supplies, are valued at the lower of average cost or replacement value.

Pension Plan

The Division’s employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). The Division’s policy is to fund pension cost accrued. As required by GASB Statement No. 27, KUB measures and discloses the annual pension cost on the accrual basis of accounting. At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

Investments

Investments are carried at fair value as determined by quoted market prices at the reporting date.

Self-Insurance

KUB has established self-insurance programs covering portions of workers' compensation, employee health, environmental liability, general liability, property and casualty liability, and automobile liability claims. A liability is accrued for claims as they are incurred. When applicable, claims in excess of the self-insured risk are covered by KUB's insurance carrier. Additionally, KUB provides certain lifetime health benefits to eligible retired employees under a self-insurance plan administered by a third party.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and various other assumptions that KUB believes are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. Estimates are used for, but not limited to, inventory valuation, provision for doubtful accounts, depreciable lives of plant assets, unbilled revenue volumes, pension trust valuations, OPEB trust valuations, insurance liability reserves, and potential losses from contingencies and litigation. Actual results could differ from those estimates.

Restricted and Designated Assets

Certain assets are restricted by bond resolutions for utility plant construction and debt repayment. Certain additional assets are designated by management for contingency purposes and economic development.

Cash Equivalents

For purposes of the statements of cash flows, KUB considers all unrestricted and undesignated highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are items previously reported as assets related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. Deferred inflows of resources are items previously reported as liabilities related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. In accordance with Statement No. 62, KUB records debt issuance costs, including discounts and premiums as a deferred outflow or inflow. Likewise, KUB records costs associated with the gain or loss on refunding of debt as either a deferred outflow or inflow based on the parameters of Statement No. 65.

Compensated Absences

KUB accrues a liability for earned but unpaid paid-time off (PTO) days.

Subsequent Events

KUB has evaluated events and transactions through October 24, 2014, the date these financial statements were issued, for items that should potentially be recognized or disclosed.

Reclassifications

Certain reclassifications have been made to fiscal year 2013 balances to conform to fiscal year 2014 presentation.

Recently Issued Accounting Pronouncements

In June 2012, the GASB issued two related Statements that affect accounting and financial reporting of pensions by state and local governments. GASB Statement No. 67 (Statement No. 67), *Financial Reporting for Pension Plans*, is intended to improve financial reporting for state and local government pension plans. GASB Statement No. 68 (Statement No. 68), *Accounting and*

Financial Reporting for Pensions, establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. Statements No. 67 and 68 supersede existing guidance on financial reporting for defined pension plans found in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The objective of this statement is to clarify accounting and financial reporting for pensions. This statement requires governments to recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date of the beginning net pension liability calculated under Statement No. 68.

Statement No. 67 is effective for periods beginning after June 15, 2013 and Statements No. 68 and 71 are effective for periods beginning after June 15, 2014. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

3. Deposits and Investments

KUB follows the provisions of Statement No. 40 of the Governmental Accounting Standards Board *Deposit and Investment Risk Disclosures an amendment of GASB Statement No. 3*. This Statement establishes and modifies disclosure requirements for state and local governments related to deposit and investment risks.

KUB's investment policy provides the framework for the administration and investment of cash deposits. The investment policy follows State law and defines the parameters under which KUB funds should be invested. State law authorizes KUB to invest in obligations of the United States Treasury, its agencies and instrumentalities; certificates of deposit; repurchase agreements; money market funds; and the State Treasurer's Investment Pool.

Interest Rate Risk. KUB's primary investment objectives are to place investments in a manner to ensure the preservation of capital, remain sufficiently liquid to meet all operating requirements, and maximize yield of return. KUB minimizes its exposure to interest rate risk by adhering to Tennessee state law requirements for the investment of public funds. This includes limiting investments to those types described above and limiting maturity horizons. The maximum maturity is four years from the date of investment. KUB also limits its exposure by holding investments to maturity unless cash flow requirements dictate otherwise.

Credit Risk. KUB's investment policy, as required by state law, is to apply the prudent-person rule: Investments are made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable income to be derived, as well as the probable safety of their capital. KUB's Agency Bond investments are rated Aaa by Moody's Investors Service.

Custodial Credit Risk. KUB's investment policy limits exposure to custodial credit risk by restricting investments to a standard set forth by State law. All deposits in excess of federal depository insurance limits are collateralized with government securities held in KUB's name by a third-party custodian bank(s) acting as KUB's agent(s), or through the state of Tennessee's collateral pool. Financial institutions that participate in the collateral pool are subject to special assessment; therefore, the deposits are considered insured. A portion of KUB's investments are generally held in the State of Tennessee Local Government Investment Pool (LGIP). The LGIP is a part of the State Pooled Investment Fund and is sponsored by the State of Tennessee Treasury Department. Tennessee Code Annotated ¶9-4-701 *et seq*. authorizes local governments to invest in the LGIP. None of KUB's investments are exposed to custodial credit risk.

Classification of deposits and investments per statement of net position:

	2014	**2013**
Current assets		
Cash and cash equivalents	$ 15,413,919	$ 32,911,366
Short-term investments	-	15,000,000
Short-term contingency fund investments	13,875,114	12,955,337
Other assets		
Long-term contingency fund investments	16,432,478	16,307,425
Restricted assets		
Unused bond proceeds	-	206
Wastewater bond fund	7,014,496	7,130,242
Other funds	9,213	11,302
	$ 52,745,220	$ 84,315,878

The above amounts do not include accrued interest of $90,892 in fiscal year 2014 and $72,901 in fiscal year 2013. Interest income is recorded on an accrual basis.

Investments and maturities of KUB's deposits and investments:

	Deposit and Investment Maturities (in Years)		
	Fair Value	**Less Than 1**	**1-5**
Supersweep NOW and Other Deposits	$ 18,394,803	$ 18,394,803	$ -
State Treasurer's Investment Pool	4,945	4,945	-
Agency Bonds	23,149,419	6,721,885	16,427,534
Certificates of Deposits	14,167,724	14,167,724	-
	$ 55,716,891	$ 39,289,357	$ 16,427,534

4. Accounts Receivable

Accounts receivable consists of the following:

	2014	**2013**
Wholesale and retail customers		
Billed services	$ 4,383,501	$ 5,061,661
Unbilled services	3,166,391	3,311,565
Other	740,119	717,571
Allowance for uncollectible accounts	(89,248)	(113,372)
	$ 8,200,763	$ 8,977,425

5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2014	**2013**
Trade accounts	$ 1,303,779	$ 6,898,846
Salaries and wages	186,069	160,257
Self-insurance liabilities	330,289	360,281
Other current liabilities	1,326,023	1,308,796
	$ 3,146,160	$ 8,728,180

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2013	**Additions**	**Payments**	**Balance June 30, 2014**	**Amounts Due Within One Year**
2005 A - 4.0 - 5.0%	$ 36,550,000	$ -	$ -	$ 36,550,000	$ -
2005 B - 3.0 - 5.0%	18,680,000	-	1,285,000	17,395,000	1,350,000
2007 - 4.0 - 5.0%	75,000,000	-	-	75,000,000	-
2008 - 4.0 - 6.0%	35,100,000	-	4,125,000	30,975,000	4,300,000
2010 - 6.3 - 6.5%	30,000,000	-	-	30,000,000	-
2010C - 1.18 - 6.1%	67,925,000	-	1,075,000	66,850,000	1,100,000
2012A - 2.0 - 4.0%	17,000,000	-	785,000	16,215,000	800,000
2012B - 1.25 - 5.0%	65,000,000	-	850,000	64,150,000	875,000
2013A - 2.0 - 4.0%	113,340,000	-	425,000	112,915,000	590,000
Total debt	$ 458,595,000	$ -	$ 8,545,000	$ 450,050,000	$ 9,015,000

Other liabilities consist of the following:

	Balance June 30, 2013	**Increase**	**Decrease**	**Balance June 30, 2014**	**Amounts Due Within One Year**
Accrued compensated absences	$ 1,385,951	$ 3,038,346	$ (2,780,755)	$ 1,643,542	$ 500,000
Customer advances for construction	321,000	-	(9,000)	312,000	-
Other	25,331	282,512	(224,467)	83,376	15,000
	$ 1,732,282	$ 3,320,858	$ (3,014,222)	$ 2,038,918	$ 515,000

Debt service over remaining term of the debt is as follows:

Fiscal Year	**Principal**	**Total Interest**	**Grand Total**
2015	$ 9,015,000	$ 19,042,584	$ 28,057,584
2016	9,465,000	18,635,744	28,100,744
2017	9,905,000	18,266,269	28,171,269
2018	10,320,000	17,879,661	28,199,661
2019	10,750,000	17,484,385	28,234,385
2020-2024	60,835,000	80,238,372	141,073,372
2025-2029	64,795,000	66,779,665	131,574,665
2030-2034	76,190,000	53,623,366	129,813,366
2035-2039	93,725,000	37,473,419	131,198,419
2040-2044	84,700,000	16,456,525	101,156,525
2045-2047	20,350,000	1,260,000	21,610,000
Total	$ 450,050,000	$ 347,139,990	$ 797,189,990

The Division has pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments when due. The bond covenants relating to the Wastewater Revenue Bonds require the establishment of a Wastewater Bond Fund for the payment of principal and interest requirements. As of June 30, 2014, those bond covenants had been satisfied.

During fiscal year 2006, KUB's Wastewater Division issued Series 2005A bonds for the purpose of funding wastewater system capital improvements and to pay off a previously issued revenue anticipation note (line of credit), which was used to fund capital improvements to the wastewater system. KUB's Wastewater Division also issued Series 2005B bonds in part to retire certain existing debt and fund wastewater system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series 1998 bonds and Series 2001A bonds, as such amounts mature.

During fiscal year 2008, KUB's Wastewater Division issued Series 2007 bonds in part to pay off the outstanding balance on a previously issued revenue anticipation note (line of credit), and to fund wastewater system capital improvements.

During fiscal year 2009, KUB's Wastewater Division issued Series 2008 bonds to fund wastewater system capital improvements.

During fiscal year 2010, KUB's Wastewater Division issued Series 2010 bonds to fund capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change. KUB's Wastewater Division also issued Series 2010B bonds to retire Series 2001 bonds.

During fiscal year 2011, KUB's Wastewater Division issued Series 2010C bonds to fund wastewater system capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration.

The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change.

During fiscal year 2012, KUB's Wastewater Division issued Series 2012A bonds to retire Series 2004A bonds.

During fiscal year 2013, KUB's Wastewater Division issued Series 2012B bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2013A bonds to retire a portion of outstanding Series 2005A bonds.

In prior years, certain wastewater revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $120.8 million at June 30, 2014, and the trust account assets are not included in the financial statements.

7. Lease Commitments

KUB has non-cancelable operating lease commitments for office equipment and vehicles, summarized for the following fiscal years:

2015	$	11,961
2016		4,314
2017		450
Total operating minimum lease payments	$	16,725

8. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

		Beginning 6/30/2013		Increase		Decrease		Ending 06/30/2014
Pumping & Treatment Plant	$	176,026,267	$	28,044,422	$	(1,192,936)	$	202,877,753
Collection Plant								
Mains and Metering		424,450,701		38,900,383		(12,812,176)		450,538,908
Other Accounts		77,035,027		3,397,197		(20,500)		80,411,724
Total Collection Plant	$	501,485,728	$	42,297,580	$	(12,832,676)	$	530,950,632
Total General Plant		22,621,810		1,986,923		(304,857)		24,303,876
Total Wastewater Plant	$	700,133,805	$	72,328,925	$	(14,330,469)	$	758,132,261
Less accumulated depreciation		(149,819,959)		(15,995,754)		14,207,118		(151,608,595)
Net Plant Assets	$	550,313,846	$	56,333,171	$	(123,351)	$	606,523,666
Work In Progress		67,819,773		40,309,184		(72,351,006)		35,777,951
Total Net Plant	$	618,133,619	$	96,642,355	$	(72,474,357)	$	642,301,617

9. Risk Management

KUB is exposed to various risks of loss related to active and retiree medical claims; injuries to workers; theft of, damage to, and destruction of assets; environmental damages; and natural disasters. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2014, the amount of these liabilities was $330,289 resulting from the following changes:

	2014	2013
Balance, beginning of year	$ 360,281	$ 341,126
Current year claims and changes in estimates	2,524,750	2,612,176
Claims payments	(2,554,742)	(2,593,021)
Balance, end of year	$ 330,289	$ 360,281

10. Pension Plan

Description of Plan

The Plan is a single-employer contributory, defined benefit pension plan established by Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville § 1107(J). The Plan is designed to provide retirement, disability and death benefits. The Plan is a governmental plan as defined by the Employee Retirement Income Security Act of 1974, is not subject to any of the provisions of the Act, and was revised January 1, 2014 to include all prior approved amendments.

At December 31, 2013, the Plan had approximately 639 retirees and beneficiaries currently receiving benefits and 49 terminated employees entitled to benefits but not yet receiving them. Of the approximately 778 current employees in the Plan, 743 were fully vested at December 31, 2013. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

Effective January 1, 2011, KUB froze the Plan such that persons employed or re-employed by KUB on or after January 1, 2011, shall not be eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the Plan.

The Plan provides three different benefit arrangements for KUB participants, retirees, and beneficiaries, as follows:

Career Equity Program (CEP)

CEP is for eligible employees hired on or after January 1, 1999, and for eligible former City Division Plan A members who elected CEP coverage as of July 1, 1999. CEP is a closed plan.

All eligible employees became participants on the date of his/her KUB employment. Participants are covered by Social Security. Participation in CEP does not require or permit employee contributions.

Plan A

Plan A benefits are for former City Division Plan A active employees, vested terminated employees, retirees, and beneficiaries. Plan A is a closed plan.

All employees participating in the City Division Plan A as of June 30, 1999 were eligible to participate in KUB's Plan A or the CEP program. Participants of Plan A are covered by Social Security. Plan A is a closed plan and is not available to KUB employees hired after July 1999. Participation in Plan A requires employee contributions of 3 percent of the first $4,800 of annual earnings and 5 percent of annual earnings in excess of $4,800. Plan A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or older.

Plan B

Plan B benefits are for former City Division Plan B active employees, vested terminated employees, retirees, and beneficiaries. Plan B is a closed plan.

All employees participating in the City Division Plan B as of June 30, 1999, are eligible to participate in KUB's Plan B. Plan B is now a closed plan and no participants can be added. Participants of Plan B are not covered by Social Security. Participation in Plan B requires employee contributions of 4 percent of annual earnings. Plan B provides for retirement benefits after 25 years of service and the attainment of age 50.

Funding Policy

For the Plan year ended December 31, 2013, a contribution of $6,314,399 will be made in the Plan sponsor's fiscal year ending June 30, 2015. The Wastewater Division's portion of this contribution is $1,326,024. The contribution was determined as part of the January 1, 2013 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death. For the Plan year ended December 31, 2013, the Plan's actuarial funded ratio was 89.3 percent.

At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund, is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

Significant actuarial assumptions used in the valuation include (a) rate of return of investments of 8 percent, (b) the RP2000 Mortality Table, (c) annual projected salary increases based on participants' ages ranging from age 25 to age 65 with salary increases from 2.58 percent to 7.92 percent, and (d) cost of living adjustment of 2.8 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period.

As of the actuarial report for the Plan year ended December 31, 2013, contributions of $6,314,399 and $5,502,677 for 2013 and 2012, respectively, will be made during the Plan sponsor's fiscal years ending June 30, 2015 and 2014, respectively. Of these amounts, $1,326,024 and $1,155,562 are attributable to the Wastewater Division.

Subsequent to June 30, 2014, the actuarial valuation for the Plan year ending December 31, 2014 was completed. The actuarial valuation resulted in an actuarially determined contribution of $5,669,380 for the fiscal year ending June 30, 2016, based on the Plan's current funding policy. The Wastewater Division's portion of this contribution is $1,190,570. For the Plan year ending

December 31, 2014, the Plan's actuarial funded ratio was 94.6 percent. See Required Supplementary Information for Pension Schedule of Funding Progress.

11. Defined Contribution Plan

KUB has a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees. Employees hired prior to January 1, 2011 may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. Employees hired on or after January 1, 2011 have an enhanced 401(k) Plan due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. They also receive a nonelective KUB contribution of from 3 percent to 6 percent, depending on years of service, whether they contribute or not.

Since July 1, 2000, 401(k) matching contributions for employees eligible to participate in the KUB Pension Plan have been funded by the Pension Plan. These funds are held by the Pension trustee until eligible for distribution. IRS rules permit the funding of 401(k) matching contributions from excess pension assets for employees covered under the Pension Plan. Given the current funding level of the Pension Plan, effective July 1, 2011, KUB began to reimburse the Pension Plan for the current matching contributions. The match and nonelective contributions for employees hired on or after January 1, 2011 are paid directly by KUB.

12. Other Post-Employment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) established new standards for the measurement, recognition, and reporting of other post-employment benefits (OPEB). OPEB includes post-employment benefits other than pension, which, for KUB, is presently limited to post-employment health care. GASB Statement No. 45 (Statement No. 45) requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the total unfunded liability. Statement No. 45 was effective for KUB for the fiscal year beginning July 1, 2007.

KUB currently provides post-employment health care benefits to 604 former employees and 619 covered dependents. The cost of coverage is shared with retirees and beneficiaries. KUB recognizes its share of the cost of post-employment health care benefits as an expense as claims are paid.

In anticipation of Statement No. 45, KUB amended its Group Health Plan in 1999, eliminating post-employment health care benefits for all employees hired on or after July 1, 1999. As of June 30, 2014, 399 active employees were eligible for individual and dependent coverage at separation. To qualify, the employee must meet the Rule of 80 (age plus years of service) with a minimum of 20 years of service, and be enrolled in medical coverage on their last day.

In May 2006, the state of Tennessee adopted Tennessee Code Annotated, Title 8, Chapter 50, Part 12 authorizing governmental entities to establish Trusts for the purpose of pre-funding their respective OPEB liabilities.

Although Statement No. 45 does not require pre-funding of the liability, KUB has determined that it is in the long-term economic interest of KUB and its ratepayers to establish a Trust to pre-fund KUB's OPEB liability.

In October 2007, the KUB Board authorized the establishment of an OPEB Trust. The applicable documentation was submitted to the State Funding Board and, in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008.

The Trust issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

The general administration and responsibility for the proper operation of the Trust is governed by a Board of Trustees, appointed by KUB's President & CEO. The investment of all deposits to the Trust is governed by an Investment Policy, which was adopted by the KUB Board and approved by the State Funding Board.

Total contributions to the OPEB Trust for the fiscal year ended June 30, 2014 were $4,057,091 (Division's share $851,989). The contribution to the Trust exceeded the annual actuarially determined contribution, as determined by the Postretirement Benefit Plan's actuarial valuation for the year ended December 31, 2012, which was $3,327,412 (Division's share $698,756). As of June 30, 2014, the employer's OPEB obligation has been exceeded by $177,322 (Division's share $37,238).

The actuarially determined contribution for the fiscal year ending June 30, 2015, as determined by the Plan's actuarial valuation for the year ended December 31, 2013 is $3,497,372 (Division's share $734,448).

The actuarial valuation for the Plan for the year ending December 31, 2014 has been completed. The valuation determined that the Plan's actuarial accrued liability was $46,889,808 (Division's share $9,846,860). The actuarial value of the Plan's assets was $43,409,955 (Division's share $9,116,091). As a result, the Plan's unfunded actuarial accrued liability was $3,479,853 (Division's share $730,769). The Plan's actuarial funded ratio was 93 percent. The valuation also determined that the employer's actuarially determined contribution is $953,221 for the fiscal year ending June 30, 2016 (Division's share $200,176). See Required Supplementary Information for OPEB Schedule of Funding Progress.

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13. Related Party Transactions

The Division, in the normal course of operations, is involved in transactions with the City of Knoxville and with other divisions of KUB. Such transactions for the years ended June 30, 2014 and 2013 are summarized as follows:

	2014	**2013**
City of Knoxville		
Amounts billed by the Division for utilities and related services	$ 816,084	$ 799,852
Payments by the Division in lieu of property tax	3,373,076	3,182,147
Payments by the Division for services provided	1,024,176	216,857
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	365,806	318,800
Interdivisional rental expense	283,101	166,589
Interdivisional rental income	86,602	110,666
Amounts billed to the Division by other divisions for utilities services provided	3,125,483	3,173,199

With respect to these transactions, accounts receivable from and accounts payable to the City of Knoxville and the other divisions included in the balance sheet at year end were:

	2014	**2013**
Accounts receivable	$ 40,190	$ 64,001

14. Other Commitments and Contingencies

In the normal course of business, there are various lawsuits pending against KUB. Management has reviewed these lawsuits with counsel, who is vigorously defending KUB's position and is of the opinion that the ultimate disposition of these matters will not have a material adverse effect on KUB's financial position, results of operations or cash flows.

In February 2005, a Consent Decree was entered into federal court regarding the operation of KUB's wastewater system. Under the terms of the Consent Decree, the remediation of identified sanitary sewer overflows ("SSOs") on KUB's wastewater system must be completed by June 30, 2016. Through its PACE 10 program, KUB is addressing the terms of the Consent Decree. PACE 10 is an accelerated ten-year program to help improve Knoxville's waterways, the quality of life, and the economic well being of the community. The Consent Decree also required KUB to perform an evaluation of the wet-weather performance and capacity of its wastewater treatment plants.

In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB's Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent

Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the “BEHRC”) secondary treatment system to be installed at the Fourth Creek treatment plant by June 30, 2018, and at the Kuwahee treatment plant by June 30, 2021. The total cost of such improvements is estimated to be approximately $120 million.

KUB’s funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2014, the Wastewater Division had issued $425 million in bonds to fund system capital improvements since the inception of the Consent Decree. The KUB Board of Commissioners approved two 50 percent rate increases, which went into effect in April 2005 and January 2007, respectively. The Board also approved an 8 percent rate increase, which was effective in September 2008, and two 12 percent rate increases, which were effective in April 2011 and October 2012, respectively. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB completed its tenth full year of wastewater operations under the requirements of the federal Consent Decree. All collection system projects required under the federal Consent Decree were completed as of June 30, 2014.

Knoxville Utilities Board Wastewater Division
Required Supplementary Information – Schedule of Funding Progress
June 30, 2014
(Unaudited)

Pension Plan

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2010	$ 203,704,898	$ 190,679,453	$ (13,025,445)	106.8%	$ 48,228,428	(27.01%)
January 1, 2011	195,692,781	187,257,434	(8,435,347)	104.5%	47,405,874	(17.79%)
January 1, 2012	183,980,665	195,536,152	11,555,487	94.1%	48,836,721	23.66%
January 1, 2013	175,936,548	197,049,614	21,113,066	89.3%	47,553,598	44.40%
January 1, 2014	188,770,336	199,515,466	10,745,130	94.6%	47,107,350	22.81%

Other Post-Employment Benefits (OPEB)

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2008	$ -	$ 108,329,141	$ 108,329,141	0%	$ 31,234,509	346.8%
January 1, 2009	14,593,487	100,726,738	86,133,251	14%	31,846,091	270.5%
January 1, 2010	21,275,643	58,475,364	37,199,721	36%	30,069,028	123.7%
January 1, 2011	40,749,815	64,289,254	23,539,439	63%	28,878,791	81.5%
January 1, 2012	37,907,357	61,603,466	23,696,109	62%	28,269,123	83.8%
January 1, 2013	38,571,803	63,341,531	24,769,728	61%	27,566,340	89.9%
January 1, 2014	43,409,955	46,889,808	3,479,853	93%	26,724,154	13.0%

Knoxville Utilities Board Wastewater Division
Supplemental Information –
Schedule of Expenditures of Federal Awards by Grant
June 30, 2014 Schedule 1

KUB was awarded two grants from Tennessee Emergency Management Agency (as a flow through from FEMA) for reimbursement for costs related to storms in 2011. The schedule below shows the activities for the current fiscal year.

Program Name	Federal/State Agency	CFDA Number	Contract Number	Beginning Receivable	Cash Receipts	Expenditures	Adjustments	Ending Receivable
U.S. Department of Homeland Security	Tennessee Emergency Management	97.036	34101-0000009205	$ 71,278	$ -	$ -	$ -	$ 71,278
U.S. Department of Homeland Security	Tennessee Emergency Management	97.036	34101-0000009832	$ 2,167	$ -	$ -	$ -	$ 2,167
		Total Program 97.036		$ 73,445	$ -	$ -	$ -	$ 73,445
		Total Federal Awards		$ 73,445	$ -	$ -	$ -	$ 73,445

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Knoxville Utilities Board and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Knoxville Utilities Board Wastewater Division

Supplemental Information - Schedule of Insurance in Force

June 30, 2014

(Unaudited) Schedule 2

Insurance coverage is for KUB as a consolidated entity.

Crime

Covers losses resulting from employee dishonesty, robbery, burglary, and computer fraud. Limits of coverage - $5,000,000; $250,000 retention.

Directors' and Officers' Liability Insurance

Covers KUB personnel appropriately authorized to make decisions on behalf of KUB (including but not limited to Commissioners, President and CEO, Senior Vice Presidents, Vice Presidents, and Directors) for wrongful acts. Limits of coverage - $20,000,000; $1,000,000 corporate deductible, $0 individual deductible.

Employment Practices Liability

Coverage for costs related to actual or alleged employment practices violations for amounts exceeding specified amount ($500,000). Limits of coverage - $10,000,000.

Fiduciary

Covers losses resulting from wrongful acts related to KUB's Pension, 401(k), and OPEB Trust funds. Limits of coverage - $10,000,000; $150,000 deductible.

Pollution Legal Liability

New conditions coverage for losses exceeding specified amount per occurrence ($1,000,000). Limits of coverage - $20,000,000.

Property Insurance

This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - $250,000,000 per occurrence (subject to certain sublimits); $2,500,000 deductible per occurrence.

Travel Accident

Covers losses related to employees' business travel. Limits of coverage - $1,500,000 aggregate.

Excess Insurance for General Liability

As a government entity, KUB's liability is limited under the Tennessee Governmental Tort Liability Act (TCA §29-20-403). KUB is self-insured for up to the first $700,000 of any accident and has insurance of $1,000,000 above this retention.

Excess Insurance for Workers' Compensation

Covers all losses exceeding specified amount per occurrence ($1,000,000). Limits of coverage - Statutory; stop loss coverage applies for aggregate losses over $5,000,000.

Employee Health Plan Stop Loss Coverage

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of $400,000 per individual participant.

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Debt Maturities by Fiscal Year
June 30, 2014
Schedule 3

Continued on Next Page

	2005A		2005B		2007		2008		2010		
FY	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Rebate***
14-15	$	$ 1,462,000	$ 1,350,000	$ 744,085	$	$ 3,463,013	$ 4,300,000	$ 1,637,938	$	$ 1,910,000	$ 668,500
15-16		1,462,000	1,410,000	676,585		3,463,013	4,450,000	1,379,938		1,910,000	668,500
16-17		1,462,000	1,470,000	620,185		3,463,013	4,600,000	1,157,438		1,910,000	668,500
17-18		1,462,000	1,525,000	561,385	2,725,000	3,463,013	1,950,000	927,438		1,910,000	668,500
18-19		1,462,000	1,595,000	498,860	2,900,000	3,354,012	2,025,000	829,938		1,910,000	668,500
19-20		1,462,000	1,655,000	433,066	3,125,000	3,234,387	2,075,000	723,625		1,910,000	668,500
20-21		1,462,000	1,725,000	363,556	3,175,000	3,101,575	2,150,000	619,875		1,910,000	668,500
21-22		1,462,000	1,800,000	290,244	3,300,000	2,962,669	2,225,000	507,000		1,910,000	668,500
22-23		1,462,000	1,880,000	212,844	3,525,000	2,817,469	2,300,000	395,750		1,910,000	668,500
23-24		1,462,000	695,000	130,594	1,125,000	2,658,843	2,400,000	269,250		1,910,000	668,500
24-25		1,462,000	730,000	100,188	1,175,000	2,608,219	2,500,000	131,250		1,910,000	668,500
25-26		1,462,000	765,000	68,250	1,225,000	2,555,344				1,910,000	668,500
26-27		1,462,000	795,000	34,781	1,300,000	2,498,688				1,910,000	668,500
27-28		1,462,000			1,225,000	2,438,562				1,910,000	668,500
28-29		1,462,000			1,275,000	2,381,906				1,910,000	668,500
29-30		1,462,000			1,300,000	2,322,938				1,910,000	668,500
30-31		1,462,000			1,375,000	2,262,812				1,910,000	668,500
31-32		1,462,000			1,400,000	2,200,938				1,910,000	668,500
32-33		1,462,000			1,475,000	2,137,938				1,910,000	668,500
33-34		1,462,000			1,550,000	2,067,875				1,910,000	668,500
34-35		1,462,000			1,625,000	1,998,125				1,910,000	668,500
35-36		1,462,000			1,700,000	1,925,000				1,910,000	668,500
36-37		1,462,000			1,800,000	1,848,500				1,910,000	668,500
37-38	11,600,000	1,462,000			1,850,000	1,767,500				1,910,000	668,500
38-39	12,175,000	998,000			1,825,000	1,684,250				1,910,000	668,500
39-40	12,775,000	511,000			1,825,000	1,602,125				1,910,000	668,500
40-41					15,200,000	1,520,000				1,910,000	668,500
41-42					16,000,000	760,000				1,910,000	668,500
42-43									10,000,000	1,910,000	668,500
43-44									10,000,000	1,260,000	441,000
44-45									10,000,000	630,000	220,500
45-46											
46-47											
Total	$ 36,550,000	$ 36,597,000	$ 17,395,000	$ 4,734,623	$ 75,000,000	$ 68,561,727	$ 30,975,000	$ 8,579,440	$ 30,000,000	$ 57,280,000	$ 20,048,000

*Series 2010 and 2010c bonds were issued as federally taxable Build America Bonds. KUB will receive a 35 percent interest rebate payment from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change.

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Debt Maturities by Fiscal Year
June 30, 2014 Schedule 3

Continued from Previous Page

	2010C			2012A		2012B		2013A		TOTALS		Grand Total (P + I)	Grand Total (Less Rebates)
FY	Principal	Interest	Rebate*	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
14-15	$ 1,100,000	$ 3,704,060	$ 1,296,422	$ 800,000	$ 587,925	$ 875,000	$ 1,952,563	$ 590,000	$ 3,581,000	$ 9,015,000	$ 19,042,584	$ 28,057,584	$ 26,092,662
15-16	1,250,000	3,673,920	1,285,872	820,000	571,925	925,000	1,935,063	610,000	3,563,300	9,465,000	18,635,744	28,100,744	26,146,372
16-17	1,400,000	3,634,545	1,272,090	840,000	551,425	975,000	1,916,563	620,000	3,551,100	9,905,000	18,266,269	28,171,269	26,230,679
17-18	1,500,000	3,584,425	1,254,548	985,000	528,325	1,000,000	1,904,375	635,000	3,538,700	10,320,000	17,879,661	28,199,661	26,276,613
18-19	1,550,000	3,525,625	1,233,968	970,000	498,775	1,050,000	1,891,875	660,000	3,513,300	10,750,000	17,484,385	28,234,385	26,331,917
19-20	1,600,000	3,460,990	1,211,346	950,000	467,250	1,100,000	1,878,750	685,000	3,486,900	11,190,000	17,056,968	28,246,968	26,367,122
20-21	1,650,000	3,394,270	1,187,994	1,085,000	434,000	1,150,000	1,862,250	710,000	3,459,500	11,645,000	16,607,026	28,252,026	26,395,532
21-22	1,700,000	3,325,465	1,163,912	1,175,000	390,600	1,200,000	1,804,750	740,000	3,431,100	12,140,000	16,083,828	28,223,828	26,391,416
22-23	1,750,000	3,246,925	1,136,424	1,165,000	343,600	1,250,000	1,744,750	770,000	3,401,500	12,640,000	15,534,838	28,174,838	26,369,914
23-24	1,850,000	3,162,575	1,106,902	1,250,000	297,000	1,300,000	1,694,750	4,600,000	3,370,700	13,220,000	14,955,712	28,175,712	26,400,310
24-25	1,950,000	3,065,450	1,072,908	1,140,000	247,000	1,375,000	1,642,750	4,900,000	3,232,700	13,770,000	14,399,557	28,169,557	26,428,149
25-26	2,375,000	2,961,125	1,036,394	1,190,000	201,400	1,425,000	1,587,750	5,040,000	3,085,700	12,020,000	13,831,569	25,851,569	24,146,675
26-27	2,500,000	2,830,738	990,758	1,235,000	153,800	1,500,000	1,530,750	5,200,000	2,934,500	12,530,000	13,355,257	25,885,257	24,225,999
27-28	2,600,000	2,688,488	940,970	1,280,000	104,400	1,575,000	1,470,750	6,305,000	2,778,500	12,985,000	12,852,700	25,837,700	24,228,230
28-29	2,725,000	2,536,388	887,736	1,330,000	53,200	1,625,000	1,423,500	6,535,000	2,573,588	13,490,000	12,340,582	25,830,582	24,274,346
29-30	2,850,000	2,376,975	831,942			1,700,000	1,374,750	8,315,000	2,377,538	14,165,000	11,824,201	25,989,201	24,488,759
30-31	2,975,000	2,210,250	773,588			1,775,000	1,323,750	8,550,000	2,128,088	14,675,000	11,296,900	25,971,900	24,529,812
31-32	3,100,000	2,031,750	711,112			1,875,000	1,270,500	8,840,000	1,871,588	15,215,000	10,746,776	25,961,776	24,582,164
32-33	3,250,000	1,845,750	646,012			1,950,000	1,214,250	9,120,000	1,606,388	15,795,000	10,176,326	25,971,326	24,656,814
33-34	3,375,000	1,650,750	577,762			2,025,000	1,155,750	9,390,000	1,332,788	16,340,000	9,579,163	25,919,163	24,672,901
34-35	3,550,000	1,448,250	506,882			2,125,000	1,095,000	9,705,000	1,015,875	17,005,000	8,929,250	25,934,250	24,758,868
35-36	3,700,000	1,235,250	432,338			2,225,000	1,031,250	10,025,000	688,331	17,650,000	8,251,831	25,901,831	24,800,993
36-37	3,875,000	1,009,550	353,342			2,325,000	964,500	10,370,000	349,988	18,370,000	7,544,538	25,914,538	24,892,696
37-38	4,050,000	773,175	270,612			2,425,000	894,750			19,925,000	6,807,425	26,732,425	25,793,313
38-39	4,225,000	526,125	184,144			2,550,000	822,000			20,775,000	5,940,375	26,715,375	25,862,731
39-40	4,400,000	268,400	93,940			2,650,000	745,500			21,650,000	5,037,025	26,687,025	25,924,585
40-41						2,775,000	666,000			17,975,000	4,096,000	22,071,000	21,402,500
41-42						2,900,000	582,750			18,900,000	3,252,750	22,152,750	21,484,250
42-43						3,025,000	495,750			13,025,000	2,405,750	15,430,750	14,762,250
43-44						3,150,000	405,000			13,150,000	1,665,000	14,815,000	14,374,000
44-45						3,300,000	310,500			13,300,000	940,500	14,240,500	14,020,000
45-46						3,450,000	211,500			3,450,000	211,500	3,661,500	3,661,500
46-47						3,600,000	108,000			3,600,000	108,000	3,708,000	3,708,000
Total	$ 66,850,000	$ 64,171,214	$ 22,459,918	$ 16,215,000	$ 5,430,625	$ 64,150,000	$ 40,912,689	$ 112,915,000	$ 60,872,672	$ 450,050,000	$ 347,139,990	$ 797,189,990	$ 754,682,072

*Series 2010 and 2010c bonds were issued as federally taxable Build America Bonds. KUB will receive a 35 percent interest rebate payment from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change.

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Current Rates in Force
June 30, 2014
(Unaudited)
Schedule 4

Rate Class	Base Charge	Number of Customers
Residential Inside City rate	For wastewater service furnished to premises entirely within the corporate limits of the City of Knoxville:	54,366

Commodity Charge

First	0 to 2	100 Cubic Feet Per Month at $0.70 Per 100 Cubic Feet
Over	2	100 Cubic Feet Per Month at $8.70 Per 100 Cubic Feet

Additional Monthly Customer Charge

5/8" meter	$ 20.00
1" meter	35.00
1 1/2" meter	47.00
2" meter	67.00

Rate Class	Base Charge	Number of Customers
Non-Residential Inside City rate	For wastewater service furnished to premises entirely within the corporate limits of the City of Knoxville:	8,768

Commodity Charge

First	0 to 2	100 Cubic Feet Per Month at $0.70 Per 100 Cubic Feet
Next	8	100 Cubic Feet Per Month at $9.30 Per 100 Cubic Feet
Next	90	100 Cubic Feet Per Month at $8.30 Per 100 Cubic Feet
Next	300	100 Cubic Feet Per Month at $7.10 Per 100 Cubic Feet
Next	4,600	100 Cubic Feet Per Month at $5.80 Per 100 Cubic Feet
Next	5,000	100 Cubic Feet Per Month at $4.30 Per 100 Cubic Feet

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Current Rates in Force
June 30, 2014
(Unaudited)

Schedule 4

Additional Monthly Customer Charge

5/8" meter	$ 20.00
1" meter	35.00
1 1/2" meter	47.00
2" meter	67.00
3" meter	116.00
4" meter	189.00
6" meter	403.00
8" meter	700.00
10" meter	1,061.00
12" meter	1,564.00

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Current Rates in Force
June 30, 2014
(Unaudited)

Schedule 4

Rate Class	Base Charge	Number of Customers
Residential Outside City rate	For wastewater service furnished to premises entirely or partly outside the corporate limits of the City of Knoxville:	7,432

Commodity Charge

First	0 to 2	100 Cubic Feet Per Month at $0.85 Per 100 Cubic Feet
Over	2	100 Cubic Feet Per Month at $9.30 Per 100 Cubic Feet

Additional Monthly Customer Charge

5/8" meter	$ 24.00
1" meter	38.00
1 1/2" meter	55.00
2" meter	75.00

Rate Class	Base Charge	Number of Customers
Non-Residential Outside City rate	For wastewater service furnished to premises entirely or partly outside the corporate limits of the City of Knoxville:	517

Commodity Charge

First	0 to 2	100 Cubic Feet Per Month at $0.85 Per 100 Cubic Feet
Next	8	100 Cubic Feet Per Month at $10.30 Per 100 Cubic Feet
Next	90	100 Cubic Feet Per Month at $9.10 Per 100 Cubic Feet
Next	300	100 Cubic Feet Per Month at $7.80 Per 100 Cubic Feet
Next	4,600	100 Cubic Feet Per Month at $6.50 Per 100 Cubic Feet
Next	5,000	100 Cubic Feet Per Month at $4.80 Per 100 Cubic Feet

Knoxville Utilities Board Wastewater Division

Supplemental Information – Schedule of Current Rates in Force

June 30, 2014

(Unaudited)

Schedule 4

Additional Monthly Customer Charge

5/8" meter	$ 24.00
1" meter	38.00
1 1/2" meter	55.00
2" meter	75.00
3" meter	131.00
4" meter	209.00
6" meter	442.00
8" meter	771.00
10" meter	1,164.00
12" meter	1,718.00

• Certified Public Accountants
• Business Advisors

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RM
RODEFER MOSS & CO, PLLC

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*

To the Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Knoxville Utilities Board ("KUB", (an independent agency reported as a component unit for financial purposes only) of Knoxville, Tennessee, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements, and have issued our report thereon dated October 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered KUB'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KUB's internal control. Accordingly, we do not express an opinion on the effectiveness of KUB's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KUB'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*.

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 KUB's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KUB's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2014

APPENDIX E-1

GENERAL INFORMATION

THE CITY OF KNOXVILLE

THE CITY

The City of Knoxville (the “City”) was founded in 1791 and incorporated in 1815. It is governed by a Mayor-Council form of government. The Mayor is the chief executive and administrative officer and is elected by direct vote of the people to a four year term. The Mayor is responsible for the day-to-day operations of the City and appoints and supervises the heads of all major City departments. The City Council is composed of six district and three at-large members, each elected for a four year overlapping term. As the City's legislative body, the Council is responsible for acting on ordinances and resolutions which govern the City as well as for the confirmation of members to most boards and commissions. A municipal judge is elected by direct vote to a four year term and is responsible for the enforcement of certain City ordinances and the administration of the City court system.

On a continuing basis, the City provides a full range of municipal services contemplated by its Charter and various state statutes. Governmental functions include police and fire protection, sanitation services, inspections, engineering, street maintenance, parks and recreation, economic development, and general administrative support systems. The City is also engaged in several proprietary activities and owns and operates (under a separate authority) two municipal airports, utility systems (electric, gas, water and wastewater), an auditorium / coliseum, a convention center, an exhibition center, a public transportation system and several parking facilities.

Knoxville, the county seat, is the largest incorporated municipality in Knox County (the “County”). The City is located on the Tennessee River near the geographic center of East Tennessee, and has a land area of approximately 98 square miles within its corporate limits. The 2010 U.S. Census figures show the population of Knox County as being 432,226.

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KNOXVILLE UTILITIES BOARD

HISTORY AND ORGANIZATION

The Knoxville Utilities Board (the "Board" or "KUB") (under its then name of Knoxville Electric Power and Water Board) was organized on March 14, 1939. The present name of Knoxville Utilities Board was adopted in 1947. As originally established, the Board consisted of five members, with terms of ten years. A Charter amendment, adopted in compliance with the home rule provisions of the Tennessee Constitution, including approval in a city-wide referendum held November 5, 1974, changed some of the provisions concerning the membership of the Board. The Board was enlarged to seven members. The term for each member was reduced to seven years with the terms being so arranged that the appointment of one member will be made each year. Members of the Board are limited to two seven-year terms.

The selection procedure for a member is initiated by the Board submitting to the Mayor a list of at least five nominees from which list the Mayor selects one nominee to present to the City Council for confirmation or rejection. In case the City Council rejects a nominee, the nominating procedure is repeated until an appointment is made.

The Board operates the City's Water Division (purchased in 1909), the City's Electric Division (purchased in 1939), the City's Gas Division (purchased in 1945), and the City's Wastewater Division (transferred to the Board by referendum in 1987). The joint operation of these four city-owned utilities provides cost savings to each system by reason of joint billing and other operating economies.

KUB's organizational structure has three major functional areas including an Engineering and Operations Division, Finance Division and Administrative Division.

Except as specifically limited by the provisions of the City Charter relating to the Board, the Board is authorized to exercise all powers of the City to construct, acquire, expand, operate, manage, and control the City's electric, gas, water and wastewater systems free from the jurisdiction, direction and control of the Mayor, City Council and its officers.

THE BOARD OF COMMISSIONERS

Members of the Board of Commissioners are:

NIKITIA THOMPSON, Chair. Realtor, Realty Executives Associates.

KATHY HAMILTON, CPA, Vice Chair. Vice President of Finance, Shelton Group.

BRUCE A. ANDERSON, Commissioner. Vice President, Legal Services and General Counsel, East Tennessee Children's Hospital.

CELESTE HERBERT, Commissioner. Attorney/Partner, Jones, Meadows and Wall, PLLC.

SARA HEDSTROM PINNELL, Commissioner. Owner & President, Hedstrom Design.

ESTON WILLIAMS, Commissioner. Resource Conservation and Development Coordinator, Natural Resources Conservation Service.

JOHN WORDEN, Commissioner. Partner, Worden, Rechenbach & Brooke.

OFFICERS

MINTHA E. ROACH, President and CEO since 2004. Ms. Roach has been with KUB since 1992 and is the sixth CEO for KUB since its formation in 1939. She holds a B.S. in Business Administration from the University of Tennessee.

BILL R. ELMORE, Executive Vice President and Chief Operating Officer, was appointed to this position in 2000. Mr. Elmore has been with KUB since 1987. Mr. Elmore is a licensed professional engineer; he is a graduate of Tennessee Technological University and received his Master's Degree in Engineering from the University of Tennessee.

MARK A. WALKER, Senior Vice President and Chief Financial Officer, was appointed to this position in 2011 and serves as the fifth CFO since KUB was formed. Mr. Walker currently serves as Secretary of the Board of Commissioners. He has been with KUB since 1993. Mr. Walker received a B.S. in Finance from the University of Tennessee's College of Business and also received a M.B.A. in Economics from the University of Tennessee.

SUSAN F. EDWARDS, Senior Vice President and Chief Administrative Officer, was appointed to the position in 2013. She has been with KUB since 1997. She has a B.S. in Business Administration from the University of Tennessee.

H. EDWARD BLACK, Senior Vice President, was appointed to this position in 2003. Mr. Black has been with KUB since 1979. He holds a B.S. in Agriculture and B.A. in Microbiology, as well as a M.B.A. in Management from the University of Tennessee.

INSURANCE

Crime Liability. Coverage for losses resulting from employee dishonesty, robbery, burglary and computer fraud. Limits of coverage - $5,000,000; $250,000 retention.

Director's and Officers' Liability. Covers KUB personnel appropriately authorized to make decisions on behalf of KUB (including but not limited to Commissioners, President & CEO, Senior Vice Presidents, and Vice Presidents) for wrongful acts. Limits of coverage - $20,000,000; $1,000,000 corporate deductible, $0 individual deductible.

Employee Health Plan Stop Loss Coverage. KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of $400,000 per individual participant.

Employment Practices Liability. Coverage for costs related to actual or alleged employment practices violations for amounts exceeding specified amount ($500,000). Limits of coverage - $10,000,000.

Excess Insurance for General Liability. As a governmental entity, KUB's liability is limited under the Tennessee Governmental Tort Liability Act (TCA §29-20-403). KUB is self-insured for the first $700,000 of any accident and has insurance of $1,000,000 above this retention.

Excess Insurance for Workers' Compensation. Covers all losses exceeding specified amount per occurrence ($1,000,000). Limits of coverage - Statutory; stop loss coverage applies for aggregate losses over $5,000,000.

Fiduciary Liability. Coverage for losses resulting from wrongful acts related to KUB's Pension, 401(k), and OPEB Trust funds. Limits of coverage - $10,000,000; $150,000 deductible.

Pollution Legal Liability. New conditions coverage for losses exceeding specified amount per occurrence ($1,000,000). Limits of coverage - $20,000,000.

Property Insurance. This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage -- $250,000,000 per occurrence (subject to certain sublimits); $2,500,000 deductible per occurrence.

Travel Accident Liability. Coverage for losses related to employee's business travel. Limits of coverage - $1,500,000 aggregate.

RETIREMENT PLAN

For more information concerning KUB's retirement and disability plans, please refer to the "Notes to the Financial Statements" attached hereto.

SERVICE AREA

KUB provides electric, water, gas and wastewater services for all of Knoxville, and certain utilities in most of Knox County, a substantial area of Union County and a limited area of Grainger, Jefferson, Blount, Anderson, Loudon and Sevier Counties. Knox County has an area of about 508 square miles of which approximately 98 square miles are within the corporate limits of Knoxville. KUB is the distributor of electric power supplied by the Tennessee Valley Authority (the "TVA"), for natural gas energy purchased from various suppliers, and for water which is taken from the Tennessee River.

ELECTRIC DIVISION

The Electric Division, which was established in 1939, is owned by the City and operated by KUB. KUB purchases all of its electric power requirements from TVA. During year ended June 30, 2014, the operating revenues of the Electric Division totaled $527,832,791, of which $419,557,996, or 79%, was paid to TVA for the purchase of power.

The electric system includes of over 5,265 miles of service lines, serving a portion of seven different counties. As of June 30, 2014, KUB had 199,382 electric system customers. The Division's outstanding long-term debt including the current portion, as of June 30, 2014, totaled $178,940,000.

GAS DIVISION

The Gas Division has been owned by the City and operated by KUB since 1945 when it was purchased from City Service Company for $450,000. KUB purchases natural gas from multiple suppliers. During year ended June 30, 2014, the operating revenues of the Gas Division totaled $117,145,734, of which $69,351,087, or 59%, was paid to natural gas suppliers and pipelines.

KUB's gas system has 2,298 miles of services mains and has a peak day capacity of 157,381 dekatherms (dth). As of June 30, 2014, KUB had 97,930 gas system customers. The Division's outstanding long-term debt, as of June 30, 2014 including the current portion, totaled $112,365,000.

WATER DIVISION

In 1939, the City's Electric Power and Water Board, now KUB, was established and granted responsibility for the operation of the city-owned Water and Electric Divisions. The Water Division consists of facilities for the treatment, storage and distribution of water obtained from the Tennessee River. The Water Division distributes water throughout the City of Knoxville, a portion of East Knox County, and other small portions of Knox, Jefferson and Sevier Counties.

During year ended June 30, 2014, the operating revenues of the Water Division totaled $39,373,714. As of June 30, 2014, KUB had 78,336 water system customers. The Division's outstanding long-term debt, as of June 30, 2014 including the current portion, totaled $123,385,000.

WASTEWATER DIVISION

On November 4, 1986, voters in the City elected to transfer operation of the City's Wastewater Division to KUB, effective July 1, 1987. While the Wastewater Division is a self-sustained financial entity, the operations of both the Water and Wastewater Divisions have been merged to achieve operating efficiencies. The Wastewater Division provides collection and treatment throughout the City and portions of East Knox County.

For the fiscal year ended June 30, 2014, operating revenues for the Wastewater Division totaled $75,041,645. As of June 30, 2014, KUB served 69,613 wastewater system customers. As of June 30, 2014 including the current portion, the outstanding long-term debt of the Wastewater Division totaled $450,050,000.

FEDERAL CONSENT DECREE

In February 2005, a Consent Decree was entered into federal court regarding the operation of KUB's wastewater system. Under the terms of the Consent Decree, the remediation of identified sanitary sewer overflows ("SSOs") on KUB's wastewater system must be completed by June 30, 2016. Through its PACE 10 Program, KUB is addressing the terms of the Consent Decree. PACE

10 is an accelerated ten-year program to help improve Knoxville's waterways, the quality of life, and the economic well-being of the community. The Consent Decree also required KUB to perform an evaluation of the wet-weather performance and capacity of its wastewater treatment plants.

In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB's Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the "BEHRC") secondary treatment system to be installed at the Fourth Creek treatment plant by June 30, 2018 and at the Kuwahee treatment plant by June 30, 2021. The total cost of such improvements is estimated to be approximately $120 million.

KUB's total estimated capital investment to comply with the terms of the Consent Decree is $650 million.

During fiscal year 2006, KUB launched the Private Lateral Program (PLP), as required by the Consent Decree, under which KUB tests private collection system laterals on its wastewater system over a ten-year period. Defective laterals and improper connections can introduce rainwater overloading the wastewater system and add pollution to area waterways. If a private lateral fails the respective inspection test, then the customer is required to have the lateral repaired/replaced within a specified time period. The $2 million SEP provided funding for lateral repairs/replacements for eligible low-income customers. All of the SEP funds were disbursed as of April 2012.

KUB's funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all wastewater capital projects. As of June 30, 2014, the Wastewater Division had issued $425 million in bonds to fund system capital improvements since the inception of the Consent Decree. The KUB Board of Commissioners approved two 50 percent rate increases, which went into effect in April 2005 and January 2007, respectively. The Board also approved an 8 percent rate increase, which was effective in September 2008, and two 12 percent rate increases, which were effective in April 2011 and October 2012, respectively. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB continues to be in compliance with Consent Decree requirements. As part of the PACE 10 program, KUB has installed storage tanks providing 34 million gallons of wastewater storage to control wet-weather overflows and rehabilitated or replaced approximately 276 miles of collection system pipe. KUB also continues to maintain a proactive operations and maintenance plan for the wastewater collection system including inspection, cleaning, grease control, and private lateral enforcement. The result of the PACE 10 program is a substantial reduction in sanitary sewer overflows.

During fiscal year 2014, the Wastewater Division incurred $42.3 million in total expenditures related to Consent Decree requirements, including $4.3 million for operating costs and $38 million in capital improvements which included the rehabilitation or replacement of 46 miles of wastewater main. During the fiscal year, $26 million was spent on sewer mini-basin rehab and replacement. Trunk line replacement and rehabilitation accounted for $2.2 million of capital expenditures during the fiscal year. Also, pump station improvements accounted for $3.7 million of annual capital expenditures. Upgrades at the Fourth Creek treatment facility accounted for $3.7 million of fiscal year 2014 capital expenditures.

As of June 30, 2014, the Wastewater Division had expended $467.5 million on capital investments to meet Consent Decree requirements. KUB remains on time and on budget in meeting the requirements of the Consent Decree.

In December 2013 the KUB Board adopted a resolution endorsing a ten-year funding plan for the wastewater system similar to the long-term funding plans the Board endorsed for the electric and water systems in 2011. The ten-year plan includes a combination of annual rate increases and periodic debt issues, which will help ensure KUB remains on track in fulfilling its requirements under the federal Consent Decree and on-going replacement programs for wastewater system assets.

The ten-year funding program will provide for the completion of all required collection system and plant upgrades under the federal Consent Decree by 2021. All required collection system projects were completed by June 2014. The collection system replacement program will transition into a regular infrastructure replacement program of 25 miles of pipe per year, which is equivalent to two percent of the wastewater system. Prior to the Consent Decree, older pipe types made up approximately 75 percent of the wastewater system; in ten years, older pipe will only make up 33 percent of the system.

In June 2014, the Board approved the first three rate increases in the ten-year funding plan. The rate increases, which will provide an additional $4.7 million in annual revenue to help fund infrastructure replacement and maintenance, will be effective October 2014, October 2015, and October 2016, respectively. $30 million in wastewater system revenue bonds were issued in September 2014 to fund wastewater system capital improvements in fiscal year 2015.

CENTURY II INFRASTRUCTURE PROGRAM

In 2007 KUB launched Century II, a new infrastructure management program, which includes life cycle replacement programs for all major assets for KUB’s utility systems. KUB placed the accelerated portions of the electric and water programs on hold in 2009 in response to the economic recession in an effort to help customers struggling in the difficult economy, but maintained historic levels of capital investment in the electric, water, and natural gas systems. Capital investment in the wastewater system continued at the level required to fulfill the requirements of the Consent Decree. The recession response plan implemented by KUB in 2009 also included several cost saving initiatives, including, among other things, reductions in full-time staffing through attrition, the closure of KUB’s defined benefit pension plan to new entrants, and the transition of prescription drug coverage to Medicare Part D for qualified retirees.

In April 2011, given the critical infrastructure needs of its systems, the KUB Board endorsed a plan to resume Century II in the fall of 2011. The Board endorsed ten-year funding plans to support the implementation of the electric and water system programs, which included a combination of rate increases and debt issues to fully fund the programs over the next ten years. In September 2011 the Board adopted the first three rate increases of the ten-year funding plans for the electric and water systems, which went into effect in Fiscal Years 2012 through 2014, respectively.

Over the past three fiscal years, KUB has remained on track in achieving its various replacement system metrics for all four utility systems, including pole replacement, underground electric cable replacement, and substation transformer replacement for the electric system. Various main replacement programs are on track for the water, natural gas, and wastewater systems.

In December 2013, the Board formally endorsed ten-year funding plans for the natural gas and wastewater systems, similar to the funding plans endorsed by the Board for the electric and water systems in 2011. The ten-year funding plans for natural gas and wastewater include a combination of periodic debt issues and annual rate increases to help fund each system's respective infrastructure management program over the next ten years. In June 2014, the Board approved on second and final reading annual rate increases for the electric, water, natural gas, and wastewater systems for the next three fiscal years.

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KNOX COUNTY AND CITY OF KNOXVILLE

LOCATION

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

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

GENERAL

In 2004 Knoxville was designated a Metropolitan Statistical Area (the “MSA”) that had a population of 837,571 according to the 2010 US Census. The MSA includes Knox (Knoxville and Farragut), Anderson (Oak Ridge and Clinton), Blount (Maryville and Alcoa), Campbell (LaFollette), Grainger (Rutledge), Loudon (Loudon), Morgan (Wartburg), Roane (Harriman) and Union (Maynardville) Counties.

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

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

Population Growth

	1970	1980	1990	2000	2010	2013*
Knoxville	174,687	175,045	165,121	173,890	185,100	183,270
Knox County	276,293	319,694	335,749	382,032	432,226	444,622

The only other municipality within the County, Farragut, has an estimated 2013 population of approximately 21,390 persons.

* 2013 Estimates from U.S. Census Bureau
Source: U.S. Census Bureau.

SOCIOECONOMIC DATA

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

Social and Economic Characteristics

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

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

TRANSPORTATION

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

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

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

The Metropolitan Knoxville Airport Authority (MKAA) was established in 1978 as an independent nonprofit agency to own and operate McGhee Tyson Airport and Downtown Island Airport. The Authority's nine-member Board of Commissioners is appointed by the Mayor of Knoxville and confirmed by City Council. This board determines the policies for the current Airport Authority staff of 150 employees in six departments. The board appoints a President who serves as the chief administrator and executive officer. All of the revenues are generated by user fees and rental income so no taxpayer dollars are used to support airport operations.

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

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

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

McGhee Tyson is served by major and regional carriers including:

Major Airlines:

Allegiant Air
Frontier Airlines
Delta Airlines

Regional Carriers:

American Eagle
United Express
USAirways Express

Source: Metropolitan Knoxville Airport Authority.

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

McGhee Tyson Airport

Total Year	**Commercial Passengers**	**Total Air Cargo in Pounds**
2004	1,607,077	78,691,534
2005	1,846,794	84,346,541
2006	1,674,877	92,219,596
2007	1,821,581	100,286,989
2008	1,742,579	97,366,366
2009	1,680,716	82,304,377
2010	1,688,882	93,393,658
2011	1,773,671	92,390,849
2012	1,747,145	91,514,071
2013	1,676,374	84,029,942

Source: Metropolitan Knoxville Airport Authority.

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

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

Source: Metropolitan Knoxville Airport Authority.

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

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

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

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

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

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

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

EDUCATION

Knox County School System. The County operates 89 schools: 50 elementary (including primary and intermediate), 14 middle, 15 high schools, and 10 non-traditional/adult education centers. Included are five magnet schools offering enhanced arts and science curriculum and a new Science, Technology, Engineering, and Mathematics (STEM) Academy. In fall 2014, total public school enrollment was 59,516, while the system employed 3,927 teachers. In addition to public education, there are 52 private and parochial schools offering elementary and secondary instruction in Knox County.

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

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

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

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

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

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

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

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

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

Source: Johnson University.

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

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

Pellissippi State Technical Community College. Since its founding in 1974 as State Technical Institute at Knoxville, Pellissippi State has expanded the teaching of technology, the use of technology in instruction, and the transfer of technology to local business and industry in support of regional economic development. Enrollment for fall 2014 was listed as 10,099. The Community College continues to support and develop career/technical associate's degrees and institutional certificates, university parallel associate's degree programs, and continuing education opportunities for the citizens of Knox, Blount, and surrounding counties. Pellissippi State Technical Community College (PSTCC) has been named one of the 200 fastest-growing community colleges in the nation, according to Community College Week. The College has released a 2014 report showing the school has pumped more than $341 million annually into the Knoxville-area economy over the last 5 years.

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

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

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

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

Source: Roane State Community College.

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

Source: South College.

The Tennessee Technology Center at Knoxville. The Tennessee Technology Center at Knoxville is part of a statewide system of 26 vocational-technical schools. The Tennessee Technology Center meets a Tennessee mandate that no resident is more than 50 miles from a vocational-technical shop. The institution's primary purpose is to meet the occupational and technical training needs of the citizens including employees of existing and prospective businesses and industries in the region. The Technology Center at Knoxville serves the central east region of the state including Knox and Blount Counties. The Technology Center at Knoxville began operations in 1966, and the main campus is located in Knox County. Fall 2014 enrollment was 1,055 students.

Source: Tennessee Technology Center at Knoxville.

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

Source: Tusculum College.

HEALTHCARE

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

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

Source: Knox Metropolitan Planning Commission and the News Sentinel.

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

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

Over the last few years, the largest hospital operator in the area has built new or expanded facilities in Sevier, Loudon, Anderson, Cumberland and Knox counties. It recently finished construction for a $75 million expansion project at Fort Sanders Regional Medical Center in Knoxville as well as finished a new $50 million hospital in Roane County.

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

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

<u>Tennova Healthcare</u>. Tennova Healthcare is a profit based healthcare system and has seven acute care hospitals in Knoxville and the surrounding area. Health Management Associates Inc. bought Mercy Health Partners in 2011 and changed the name to Tennova Healthcare.

The hospitals are as follows: Physicians Regional Medical Center (Knox County), Turkey Creek Medical Center (Knox County), North Knoxville Medical Center (Knox County), Jefferson Memorial Hospital (Jefferson County), Newport Medical Center (Cocke County), and LaFollette Medical Center (Campbell County). The seventh hospital, Lakeway Regional Hospital in Morristown, was acquired by Tennova in the summer of 2014.

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

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

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

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

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

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

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

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

SCIENCE AND ENERGY

History

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

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

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

Research

The extensive energy research and development conducted by private and public agencies make the city one of the world’s great research centers. The presence of the University of Tennessee, the ORNL, Oak Ridge Associated Universities and the Tennessee Valley Authority (the “TVA”) makes Oak Ridge a prime location for research facilities, as well as technology-based and conventional manufacturing industries. Science is a worldwide business, and the facilities at the DOE in the City have attracted a large number of technical people and their families. The City is well prepared to accommodate families from abroad and the school system is equipped to ease language and cultural differences.

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

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

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

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

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

ORNL's *Supercomputers* are housed in a recently constructed 170,000-square-foot facility that includes 449 staff and 40,000 square feet of space for computer systems and data storage. The National Oceanic and Atmospheric Administration's (the "NOAA") sponsor the newest supercomputer funded with Recovery Act money. The DOE and the National Science Foundation (the "NSF") sponsors the original two supercomputers, one of which is now replaced.

NOAA awarded Cray and ORNL a $47 million contract to provide a third supercomputer, the "Titan", to work on climate research. The NSF awarded the University of Tennessee, ORNL and other institutions a $65 million grant in 2007 to build "Kraken". The DOE awarded ORNL and its development partners – Cray Inc., IBM Corp. and Silicon Graphics Inc. - $25 million in funding to build both "Jaguars", which are now obsolete and replaced as of 2012.

The newest Cray supercomputer, the "Titan", was online in late 2012 after several years of development to replace the two "Jaguar" supercomputers at ORNL. The "Titan" was listed as the world's fastest computer in late 2012 (the fourth time a computer from ORNL has achieved that distinction since 1953). Its purpose is to support research in energy, climate change, efficient engines and materials science. "Titan" has been billed as a 17.5-petaflops machine, which means it is capable of a peak performance of about 17,500 trillion (or 17.5 quadrillion) mathematical calculations per second. That speed is about 10 times the capability of the first "Jaguar", which at one time was the world's fastest computer. The total cost of the "Titan" is estimated to be about $100 million, but about $20 million was saved by reusing much of the “Jaguar” structure. Another petaflops machine, known as the “Kraken”, came online in early 2009 to work on a range of scientific challenges, such as climate change and new medicines. UT’s “Kraken” is housed with the ORNL’s “Titan”.

The new machines will work on breakthrough discoveries in biology, fusion energy, climate prediction, nanoscience and many other fields that will fundamentally change both science and its impact across society.

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

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

BioEnergy Sciences Center (the “BESC”) is one of only three sites in the country operated by one of the DOE’s new bioenergy research centers. It opened in ORNL in 2007. BESC works to accelerate research in the development of cellulosic ethanol and other biofuels, and make biofuel production cost competitive on a national scale. The new site received $135 million in federal funding. The University of Tennessee serves as one of the academic partners, providing specialized instrumentation, plant breeding technologies and new microbe discovery. Energy crops like switchgrass, which can be grown on marginal crop land, can produce affordable, domestic renewable fuel without raising food or feed costs. The BESC is dedicated to studying how to economically break down the cellulose in those sources to convert it into usable sugars for ethanol production.

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

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

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

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

National Institute for Mathematical and Biological Synthesis (NIMBioS) is a first-of-its-kind institute dedicated to combining mathematics and biology to solve problems in both scientific fields. The center is funded by a $16 million award from the National Science Foundation and is located at the University of Tennessee. A unique aspect of NIMBioS will be its partnership with the Great Smoky Mountains National Park. The park and its Twin Creeks Science Center play a key role in the institute's work, with the park serving as a testing ground for many of the ideas that come from NIMBioS. Partners in NIMBioS include the US Department of Agriculture and the US Department of Homeland Security, IBM and ESRI, a developer of software and technology related to geographic information systems. It draws over 600 researchers each year to Knoxville.

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

Nuclear

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

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

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

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

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

The *Uranium Processing Facility* (the "UPF") Project, cornerstone of Y-12's new modernization strategy, will replace current enriched uranium and other processing operations. It will replace Y-12's main production center and cost billions of dollars. The design phase began in 2006, construction began in 2009, and should be operation by 2015. Construction of the UPF will accelerate consolidation of aging facilities, bringing production operations currently housed in multiple buildings together, reducing the size of the plant's highest security area by 90 percent, improving the overall security posture, making the plant more secure and saving millions of dollars in annual operating costs.

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

Solar

Tennessee has seen unprecedented growth in the solar business with the introduction of state and federal incentives for solar power generation (the *Volunteer State Solar Initiative*) and an expansion of the TVA's buy-back program for the power generated by solar and other renewable technologies. The nationwide solar industry grew 69 percent during 2011. In Tennessee the amount of solar energy being generated went from about one megawatt in 2009 to over 77 megawatts in 2013.

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

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

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

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

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

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

MANUFACTURING AND COMMERCE

Because of its central location in the eastern United States, the Knoxville area serves thousands of industrial and commercial customers in a concentrated eight-state area. It is within 500 miles of approximately one-third of the population of the United States. The City for many years has been known as one of the south's leading wholesale markets. Located within the County and City are approximately 885 wholesale and distribution houses and more than 1,630 retail establishments and more than 5,400 service industries.

As published in the 2014 Forbes magazine listed Knoxville as the fifth most affordable city in America based on housing prices, living costs and the consumer price index. In 2012 Knoxville was ranked tenth in economic-growth potential and eighth on the nation's fastest-growing cities in the Business Facilities publication.

These recognitions are characteristic of a diverse market. Commerce and industry vary from the media success of Scripps Television Networks (HGTV, DIY, Food Network, GAC, Cooking, and Travel), to Sysco Corporation's (largest food service marketer and distributor in North America) regional warehouse and distribution center.

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

The 44-acre I-275 Business Park was sold to Sysco Corp.

The County had about 11,702 businesses and the MSA had 17,786 businesses operating in 2013. In 2013, 1,982 building permits totaled $566.4 million. There were 614 industrial buildings totaling over 32.9 million in square feet in 2014. The vacancy rate for these buildings was 16.4%. The County had 386 manufacturing facilities in 2013 and the MSA had 767 for the same period.

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

Source: Knox News Sentinel and Knox County Metro Planning Commission 2014.

LARGEST EMPLOYERS

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

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

Ten Largest Employers in Knox County

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

[1] Includes Ft. Sanders Reg Med Center, Parkwest, Methodist Med Center & all other Covenant Hospitals in the area.
[2] Includes all Tennova Health System hospitals in the area.
Source: Greater Knoxville Chamber of Commerce and the News Sentinel – 2014.

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Major Employers in the Knoxville MSA

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

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

[1] Includes Ft. Sanders Reg Med Center, Parkwest, Methodist Med Center & all other Covenant Hospitals in the area.
[2] Joint venture of University of Tennessee and Battelle
[3] Includes all Tennova Health System hospitals in the area.
[4] Headquarters based in Blount Co., but employment excludes some 874 employees working in McMinn Co.
[5] Employment figure is based on Operating season, it drops to around 300 during the off-season.
[6] Includes Corporate headquarters in Knoxville, Bull Run Steam Plant, Norris and Corryton.
[7] Includes some employees working in Knox Co.

Source: Dept. of Economic & Community Development, the News Sentinel & Anderson County Audit - 2014.

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EMPLOYMENT INFORMATION

For the month of February 2015, the unemployment rate for Knoxville stood at 5.8% with 86,950 persons employed out of a labor force of 92,290. For the month of February 2015, the unemployment rate for Knox County stood at 5.1% with 214,100 persons employed out of a labor force of 225,730.

The Knoxville MSA's unemployment for February 2015 was at 5.8% with 378,360 persons employed out of a labor force of 401,870. As of February 2015, the unemployment rate in the Knoxville-Sevierville-Harriman-LaFollette CSA stood at 6.5%, representing 480,370 persons employed out of a workforce of 513,690.

Unemployment

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

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

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A diversified economy is credited for the stability of local employment and wages. Employment by industry (excluding self-employed) for the Knoxville MSA in 2013:

Industry	Employment Number	Percentage
Goods Producing	**54,129**	**15.4%**
Agriculture/Forestry/Fishing/Hunting	996	0.3%
Construction	15,791	4.5%
Manufacturing	37,108	10.6%
Natural Resources/Mining	234	0.1%
Service Providing	**297,599**	**84.6%**
Accommodation /Food Services	33,977	9.7%
Administrative/Support/Waste Management	26,100	7.4%
Arts/Entertainment/Recreation	3,035	0.9%
Educational Services	34,639	9.8%
Finance/Insurance	13,490	3.8%
Health Care/Social Assistance	50,502	14.4%
Information	5,907	1.7%
Management of Companies/Enterprises	5,233	1.5%
Other Services (excludes Public Administration)	10,093	2.9%
Professional/Scientific/Technical Services	23,244	6.6%
Public Administration	10,013	2.8%
Real Estate/Rental/Leasing	3,914	1.1%
Retail Trade	46,340	13.2%
Transportation/Warehousing	11,504	3.3%
Utilities	2,312	0.7%
Wholesale Trade	17,296	4.9%
TOTAL	**351,728**	**100.0%**

Source: Knoxville-Knox County Metropolitan Planning Commission.

ECONOMIC DATA

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

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

The Yamaha jet boat plant located in Monroe County is expanding. In December 2014, a $17.7 million expansion was announced which will add 150 new jobs to the current work force of 335 employees.

Source: News Sentinel.

Boat manufactures in the area listed by county are below:

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

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

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

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

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

Per Capita Personal Income

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

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

RECREATION AND TOURISM

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

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

Sports. Knox County has over 6,000 acres of park and recreation space, including 25 recreation centers, six senior citizen centers, three skateparks, 10 public golf courses, and approximately 180 miles of greenway and walking trails. Two big attractions for both young and old are the Knoxville Zoological Gardens and Ijams Nature Center. The Tennessee Smokies provide AA minor league baseball in neighboring Sevier County. The Knoxville Ice Bears provide professional hockey at the Coliseum October through March. National championship UT sports teams, including the 2007 and 2008 NCAA National Champions Lady Vols, draw thousands of enthusiasts to games each year. The city is also home to the Women's Basketball Hall of Fame.

State and National Parks. The County is the principal gateway area to the Great Smoky Mountains National Park (GSMNP), located 40 miles to the southeast. The beauty of the Great Smoky Mountains has always attracted visitors to this region. There are over 500,000 acres that make up the nation's most visited National Park, extending over the States of Tennessee and North Carolina. The GSMNP received over 9.3 million visitors in 2013, more than twice the number of any other national park in the country. Major attractions in the Smokies are Gatlinburg (40 miles southeast of the City), a tourist town in the mountains with overnight accommodations for 60,000 people, and Pigeon Forge (20 miles southeast of the City), and a tourist town at the foothills of the mountain with overnight accommodations for 40,000 people. Numerous restaurants, gift and craft shops, along with ski lodge, ski lifts and tramway, make Gatlinburg a year-round resort town. Pigeon Forge is known for being home to hundreds of retail outlets and Dollywood, a theme park named for the country music singer, Dolly Parton.

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

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

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

Conventions, Events and Festivals. Special seasonal events include the Dogwood Arts Festival in the spring, Sundown in the City during summer months, Boomsday in the fall, and December's celebration, Christmas in the City. Knoxville supports an active tourism and convention trade with a 500,000-square foot convention center located downtown at World's Fair Park. Other local facilities are a large civic coliseum/auditorium, two exhibition halls, and a 25,000-seat arena.

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

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

The Knoxville Museum of Art features changing exhibits throughout the year. Many libraries, historic sites, and museums, such as the Museum of Appalachia, add to the cultural value of the Knoxville area

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

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

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

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

RECENT DEVELOPMENTS

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

EAST KNOX COUNTY

Brunswick Boat Group. The Brunswick Boat Group closed the Sea Ray production plant in the Forks of the River Industrial Park in 2012. Production was moved to other Brunswick plants in nearby Monroe County, TN and Florida. About 225 jobs at the plant were lost due to the closing. However, the company will keep the Sea Ray Boat's headquarters at the Forks of the River Park, and the Brunswick Boat Group's headquarters will remain in downtown Knoxville. A decline in boat sales led to the layoffs at many East Tennessee plants, totaling 1,000 employees within the company to be let go. Sea Ray Boats moved to the Forks of the River Park in 1978 and in Monroe County in

1983. At one point the company had as many as 2,000 workers in Knox County.

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

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

Efficient Energy of Tennessee. Efficient Energy, in partnership with Natural Energy Group, built a solar panel site in East Knoxville in 2010. The site has more than one megawatt worth of solar panels on a five-acre lot. The 4.608 solar panels can produce nearly 1.2 megawatts of electricity, enough to power about 125 homes. The site will also be a resource for local research and educational organizations, such as the Oak Ridge National Lab, Cleveland State Community College and Pellissippii State community College.

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

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

Knox County Detention Center. The Detention Center in east Knoxville installed over 300 solar panels, five solar storage tanks, 65 concrete pads and more than 6,000 feet of copper piping to make it one of the largest solar thermal systems for domestic use in the nation. Trane, Knox County and FLS Energy partnered to save Knox County $60,000 annually in switching from natural gas to solar power as the primary way to heat water for the detention center’s 1,036 inmates. The project was funded by a $1.88 million grant from the U.S. Department of Energy Efficiency. The County also plans to renovate and upgrade 40 facilities, 24 parks and 37 traffic intersections with the grant money, all completed in January 2011. The total project is expected to save the County about $6 million annually.

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

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

WEST KNOX COUNTY

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

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

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

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

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

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

Scripps Networks. Scripps Network announced in 2010 that it was relocating its corporate headquarters to Knoxville from Cincinnati. The company's technical center - which includes satellite uplink operations, a control center for all its television networks and a wide range of other administrative, business and creative functions- is based in Knoxville. In 2007 the facilities in Knoxville underwent a $30 million, 150,000-square-foot expansion on 11 acres. The expansion nearly doubled the company's office space and brought all of its Knoxville divisions into one campus. Scripps Network is the home of Home and Garden TV network and had revenues totaling $2.5 billion in 2013.

NORTH KNOX COUNTY

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

SOUTH KNOX COUNTY

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

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

DOWNTOWN BUSINESS DISTRICT

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

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

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

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

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

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

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

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

The Unit 2 reactor at Watts Bar Nuclear Plant in Rhea County, TN has been approved for completion. It is estimated to take $2.5 billion dollars and should be operational in 2015. In 2007 TVA restarted a nuclear reactor at Browns Ferry in North Alabama. It was the first time the reactor had been at full power in 22 years. TVA, a federal utility, spent five years and about $2 billion revamping the reactor. It was the first increase in the United States' nuclear generating capacity since 1996.

UNIVERSITY OF TENNESSEE

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

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

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

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

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

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

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

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

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

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

CONSOLIDATED SYSTEMS
REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS

Knoxville Utilities Board

Consolidated Financial Statements and Supplemental Information

June 30, 2014 and 2013

Knoxville Utilities Board
Index
June 30, 2014 and 2013

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RODEFER MOSS & CO, PLLC

Independent Auditors' Report

To the Board of Commissioners
Knoxville Utilities Board - Consolidated
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Knoxville Utilities Board ("KUB"), an independent agency reported as a component unit for financial reporting purposes only, of Knoxville, Tennessee, as of and for the years ended June 30, 2014 and 2013, and the related notes to the consolidated financial statements, which collectively comprise the KUB's basic consolidated 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 consolidated 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 opinions on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to KUB's preparation and fair presentation of the consolidated 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 KUB'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 consolidated financial statements.

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

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of KUB of Knoxville, Tennessee, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedule of Funding Progress on pages 3-26 and 51 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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 opinions on the financial statements that collectively comprise KUB's basic consolidated financial statements. The supplemental schedules on pages 52-53 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic consolidated financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014, on our consideration of KUB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KUB's internal control over financial reporting and compliance.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2014

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners governs KUB. The Board has all powers to construct, acquire, expand, or operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions including setting rates. KUB's accounts are maintained in conformity with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC), the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC), and the Governmental Accounting Standards Board (GASB), as applicable.

This discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of KUB's financial activity, (c) identify major changes in KUB's financial position, and (d) identify any financial concerns.

The Management Discussion and Analysis ("MD&A") focuses on the fiscal year ending June 30, 2014 activities, resulting changes and current known facts, and should be read in conjunction with KUB's consolidated financial statements.

Consolidated Highlights

System Highlights

As of June 30, 2014, KUB served 445,261 customers. 887 new customers were added in fiscal year 2014, representing growth of less than 1 percent.

Cold weather events resulted in new system peaks for the electric and natural gas systems. The natural gas system set a new daily peak in January 2014 at 133,366 dekatherms. The previous gas system peak was 119,282 dekatherms in January 2010. In January 2014, KUB's electric system also set a new hourly peak at 1,313 megawatt hours. The previous hourly peak was 1,246 megawatt hours, which occurred in January 2009.

The final in a series of three annual electric and water rate increases previously adopted by the KUB Board of Commissioners went into effect in fiscal year 2014. The one percent electric rate increase, effective October 2013, and a five percent water rate increase, effective January 2014, will provide additional revenue to help fund each system's respective Century II infrastructure program. In June 2013, the Board of Commissioners approved a five percent gas rate increase, effective on October 2013 bills, to fund capital system improvements.

In spite of several cold weather events and a heavy wet snow in February, electric system outages were minimal.

In October 2013, KUB sold $50 million of new revenue bonds to fund capital system improvements, including $25 million for the gas system and $25 million for the water system.

Two historic storm events, with a combined cost of $8.4 million, impacted the electric, water and wastewater system during fiscal year 2011. To date, KUB has received $4.4 million in reimbursements from the Federal Emergency Management Agency (FEMA), including $0.1 million during fiscal year 2014. KUB anticipates an additional $1.5 million in reimbursements from FEMA in fiscal year 2015.

KUB was awarded a grant from the Department of Energy in October 2009 under DOE's Smart Grid Investment Grant Program. The grant, which totals $3.58 million, was used to help fund a smart grid pilot project in the University of Tennessee and surrounding areas. The pilot project includes the installation of over 6,000 digital electronic smart meters and an advanced metering infrastructure (AMI) communications backbone, which will provide coverage for KUB's entire service territory. The communications infrastructure will enable KUB to remotely read the meters, and also provide remote service connection/disconnection capabilities. The term of the pilot is approximately four years. During fiscal year 2014, KUB developed a customer e-portal to provide detailed utility consumption information. The deployment strategy of the customer e-portal to customers is underway. Successful completion of the integration of polyphase meter data into KUB's customer billing system for commercial and industrial customers was also achieved during fiscal year 2014. The grant funded $0.3 million of the communications infrastructure installed this fiscal year. KUB is in the process with DOE to close out this phase of the project, as all requirements of this grant have been completed during fiscal year 2014.

KUB completed its tenth full year of wastewater operations under the requirements of the federal Consent Decree. All collection system projects required under the federal Consent Decree were completed as of June 30, 2014.

During fiscal year 2014, KUB continued to construct upgrades to its Kuwahee and Fourth Creek wastewater treatment facilities in order to comply with the requirements of the Federal Consent Decree in the wastewater system. KUB's treatment plants continue to meet high standards of operation. KUB's Eastbridge wastewater treatment plant won an Operational Excellence award from the Tennessee Kentucky Water Environment Association. The Kuwahee and Eastbridge wastewater plants were awarded the National Association of Clean Water Agencies Peak Performance award for outstanding compliance within the permitted limits. KUB's Biosolids Program won Tennessee's award from the Tennessee Kentucky Water Environment Association for Beneficial Use of Biosolids Award.

KUB continued to maintain certification with the National Biosolids Partnership following a rigorous review process and independent audit that was conducted in December 2013. (Biosolids are nutrient-rich organic matter produced by wastewater treatment that can be recycled as fertilizer).

Century II Infrastructure Program

Century II is KUB's proactive long-range program to improve and maintain the electric, natural gas, water and wastewater systems for its customers. It includes the maintenance and replacement strategies for each system and establishes sustainable replacement cycles. Century II moves KUB into its second century of service by improving each system through sound planning, resource allocation, and continued, but accelerated, investment.

KUB's Century II programs were resumed in 2011, after a break due to the economic recession. At that time, the KUB Board of Commissioners endorsed ten year funding plans for the electric and water systems through a formal resolution. The Board adopted three years of electric and water rate increases to help fund those plans. All three of those rate increases, adopted in 2011, have gone into effect.

In 2013, the Board extended the funding approach for Century II to include the natural gas and wastewater systems. The Board formally endorsed and adopted by resolution, ten year funding plans for the natural gas and wastewater systems.

In May 2014, KUB management provided an updated assessment of the overall condition of each utility and the progress made during the resumption of the Century II program. At that time the Board endorsed long range ten year funding plans for the continuation of Century II programs for each of the division, including a combination of rate increases and debt issues to fully fund the programs for the next ten years.

In June 2014, the Board approved a series of three annual rate increases for all KUB systems. The electric rate increase will generate an additional $5 million, while the gas rate increase will generate an additional $1.8 million, water will produce an additional $2 million and wastewater will produce $4.7 million of annual sales revenues.

For the fiscal year, KUB maintained its overall Century II capital budget. The electric system replaced 2,674 poles, exceeding the target level of 2,600 and 14.7 miles of underground electric cable, exceeding the target level of 14 miles. The natural gas system had 6.6 miles of cast iron/ductile iron gas main replaced. 10.2 miles of galvanized water main and 7.1 miles of cast iron water main were replaced in the water system. The wastewater system rehabilitated or replaced 46.2 miles of wastewater system main, exceeding the target level of 25 miles. All systems remain on track to achieve long term infrastructure goals.

Consent Decree

In February 2005, a Consent Decree was entered into federal court regarding the operation of KUB's wastewater system. Under the terms of the Consent Decree, the remediation of identified sanitary sewer overflows ("SSOs") on KUB's wastewater system must be completed by June 30, 2016. Through its PACE 10 program, KUB is addressing the terms of the Consent Decree. PACE 10 is an accelerated ten-year program to help improve Knoxville's waterways, the quality of life, and the economic well being of the community. The Consent Decree also required KUB to perform an evaluation of the wet-weather performance and capacity of its wastewater treatment plants.

In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB's Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the "BEHRC") secondary treatment system to be installed at the Fourth Creek treatment plant by June 30, 2018 and at the Kuwahee treatment plant by June 30, 2021. The total cost of such improvements is estimated to be approximately $120 million.

KUB's funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2014, the Wastewater Division had issued $425 million in bonds to fund system capital improvements since the inception of the Consent Decree. The KUB Board of Commissioners approved two 50 percent rate increases, which went into effect in April 2005 and January 2007, respectively. The Board also approved an 8 percent rate increase, which was effective in September 2008, and two 12 percent rate increases, which were effective in April 2011 and October 2012, respectively. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB continues to be in compliance with Consent Decree requirements. As part of the PACE 10 program, KUB has installed storage tanks providing 34 million gallons of wastewater storage to control wet-weather overflows and rehabilitated or replaced approximately 276.5 miles of collection system pipe. KUB also continues to maintain a proactive operations and maintenance plan for the wastewater collection system including inspection, cleaning, grease control, and private lateral enforcement. The result of the PACE 10 program is a substantial reduction in sanitary sewer overflows.

During fiscal year 2014, the Wastewater Division incurred $42.3 million in total expenditures related to Consent Decree requirements, including $4.3 million for operating costs and $38 million in capital improvements which included the rehabilitation or replacement of 46.2 miles of wastewater main. During the fiscal year, $26 million was spent on sewer mini-basin rehab and replacement. Upgrades completed at the Fourth Creek treatment facility accounted for $3.7 million of fiscal year 2014 capital expenditures. Trunk line replacement and rehabilitation accounted for $2.2 million of capital expenditures during the fiscal year, while pump station improvements accounted for $3.7 million.

As of June 30, 2014, the Wastewater Division had completed its tenth full year under the Consent Decree, spending $467.5 million on capital investments to meet Consent Decree requirements. All collection system projects required under the federal Consent Decree were completed as of June 30, 2014.

Financial Highlights

Fiscal Year 2014 Compared to Fiscal Year 2013

KUB's consolidated net position increased $29.8 million in fiscal year 2014, compared to a $28.3 million increase last fiscal year.

Operating revenue increased $8.5 million or 1.1 percent, the result of higher electric and natural gas sales volumes and additional revenue from electric, gas, and water rate increases. Purchased energy expense (power and natural gas) decreased $5.2 million or 1.1 percent, the net effect of $12.1 million decline in purchased power and an increase of $6.9 million in purchased gas. Margin from sales (operating revenue less purchased energy expense) was up $13.7 million or 5.4 percent compared with the prior fiscal year.

Operating expenses (excluding purchased power and purchased gas expense) increased $10.4 million, or 5.4 percent. Operating and maintenance (O&M) expenses were $5.8 million or 5.1 percent higher than the previous year. Depreciation and amortization expense increased $3.5 million or 6.7 percent. Taxes and tax equivalents increased $1.1 million or 4.1 percent.

Lower interest rates on investments resulted in a $0.2 million decrease in interest income. Interest expense increased $1.8 million or 5 percent, reflecting interest costs on $50 million in gas and water revenue bonds sold during the fiscal year and a full year of interest on $110 million of electric, gas and wastewater system bonds sold the previous fiscal year. Interest expense was reduced by lower interest rates from debt refunding in the previous fiscal years. These items contributed to a net decrease in non-operating revenues (expenses) of $2.3 million compared to the prior year.

Capital contributions increased $0.4 million, the result of an increase in contributed assets from developers.

Total plant assets (net) increased $83.2 million or 6 percent over the last fiscal year.

Long-term debt represented 49.2 percent of KUB's capital structure, compared to 49.3 percent last year. Capital structure equals long-term debt (including the current portion of revenue bonds and notes, as applicable, due to be retired next fiscal year), plus net position.

Fiscal Year 2013 Compared to Fiscal Year 2012

KUB's consolidated net position increased $28.3 million in fiscal year 2013, compared to a $26.3 million increase in fiscal year 2012.

Operating revenue increased $49.7 million or 7.2 percent, the result of higher electric and natural gas sales volumes and additional revenue from electric, water, and wastewater rate increases. Purchased energy expense (power and natural gas) increased $33.3 million or 7.3 percent, reflecting increased customer demand in fiscal year 2013. Margin from sales (operating revenue less purchased energy expense) was up $16.4 million or 6.9 percent compared with the prior fiscal year.

Operating expenses (excluding purchased power and purchased gas expense) increased $10.2 million, or 5.7 percent. Operating and maintenance (O&M) expenses was $4 million or 3.7 percent higher than the previous year. Depreciation and amortization expense increased $4.8 million or 10 percent. Taxes and tax equivalents increased $1.5 million or 6 percent.

Lower interest rates on investments resulted in a $0.5 million decrease in interest income. Interest expense increased $1.2 million or 3.5 percent, reflecting interest cost on $110 million in electric, gas, and wastewater revenue bonds sold during the fiscal year and a full year of interest on $25 million of water system bonds issued the previous year. Interest expense was reduced by lower interest rates from debt refunding in the current and previous fiscal years. These items contributed to a net decrease in non-operating revenues (expenses) of $1.5 million compared to the prior year.

Capital contributions decreased $2.7 million, the result of a decline in contributed assets from developers.

Total plant assets (net) increased $98.2 million or 7.2 percent over the last fiscal year.

Long-term debt represented 49.3 percent of KUB's capital structure, compared to 47 percent last year. Capital structure equals long-term debt (including the current portion of revenue bonds and notes, as applicable, due to be retired next fiscal year), plus net position.

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Cash Budget Appropriations

KUB's Board of Commissioners adopted a total cash budget of $851.8 million for fiscal year 2014. In April 2014, additional appropriations were approved by the Board in the amount of $21 million to cover higher than anticipated wholesale energy costs and debt service expenses. Actual disbursements exceeded the original budget by $0.4 million, with Purchased Energy exceeding the original budget by $15.2 million and O&M and Capital expenses lagging the budget by a total of $15.1 million. KUB's general fund balance was $17.2 million higher than originally budgeted as a result of higher than anticipated revenues from operations, driven primarily by the colder than normal winter. The chart below depicts KUB's original budget compared to actual results.

KUB Consolidated Cash Report
As of June 30, 2014

(in thousands of dollars)	**FY 2014 Budget****	**FY 2014 Actual FYTD**	**Dollar Variance***	**Percent Variance**
Beginning Balance General Fund	$153,223	$153,223		
Operating Receipts	749,622	766,486	16,864	2.2%
Disbursements				
Purchased Energy Expense	470,316	485,597	(15,281)	-3.2%
Operation & Maintenance Expense	127,109	121,762	5,347	4.2%
Capital Expenditures	166,173	156,440	9,733	5.9%
Debt Service & Taxes	88,250	88,496	(246)	0.3%
Total Disbursements	851,848	852,295	(447)	0.5%
Bond Proceeds	49,500	48,536	(964)	-1.9%
Net Flow throughs and Transfers	(4,617)	(2,871)	1,746	37.8%
Ending General Fund Balance	$ 95,880	113,079	$ 17,199	17.9%

* *Impact to Cash; (-) indicates a decrease or negative impact to cash*
** *Excludes additional appropriations of $21 million*

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Knoxville Utilities Board Consolidated Financial Statements

KUB's financial performance is reported under three basic consolidated financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows.

Statement of Net Position

KUB reports its assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position in the Statement of Net Position. Assets are classified as current, restricted, plant in service, or other assets.

Liabilities are classified as current, other, or long-term debt. Net position is classified as net investment in capital assets; restricted; or unrestricted. Net position tells the user what KUB has done with its accumulated earnings, not just the balance.
Net investment in capital assets, reflects the book value of all capital assets less the outstanding balances of debt used to acquire, construct, or improve those assets.

Restricted net position includes assets that have been limited to specific uses by KUB's bond covenants or through resolutions passed by the KUB Board of Commissioners.

Unrestricted net position is a residual classification; the amount remaining after reporting net position as either invested in capital or restricted is reported there.

Statement of Revenues, Expenses and Changes in Net Position

KUB reports its revenues and expenses (both operating and non-operating) on the Statement of Revenues, Expenses and Changes in Net Position. In addition, any capital contributions or assets donated by developers are reported on this statement.

Total revenue less total expense equals the change in net position for the reporting period. Net position at the beginning of the period is increased or decreased, as applicable, by the change in net position for the reporting period.

The change in net position for the reporting period is added to the net position segment of the Statement of Net Position.

Statement of Cash Flows

KUB reports cash flows from operating activities, capital and related-financing activities, and investing activities on the Statement of Cash Flows. This statement tells the user the sources and uses of cash during the reporting period.

The statement indicates the beginning cash balance and ending cash balance and how it was either increased or decreased during the reporting period.

The statement also reconciles cash flow to operating income as it appears on the Statement of Revenues, Expenses and Changes in Net Position.

Condensed Financial Statements

Statement of Net Position

The following table reflects the condensed consolidated Statement of Net Position for KUB compared to the prior year and the year preceding the prior year.

Statements of Net Position
As of June 30

(in thousands of dollars)	**2014**	**2013**	**2012**
Current and other assets	$ 339,215	$ 370,932	$ 334,984
Capital assets, net	1,548,874	1,465,671	1,367,479
Deferred outflows of resources	12,252	13,002	3,647
Total assets and deferred outflows of resources	1,900,341	1,849,605	1,706,110
Current and other liabilities	161,522	163,262	144,589
Long-term debt outstanding	839,000	815,340	720,575
Deferred inflows of resources	6,405	7,358	5,639
Total liabilities and deferred inflows of resources	1,006,927	985,960	870,803
Net position			
Net investment in capital assets	688,374	630,793	621,993
Restricted	13,163	12,372	11,228
Unrestricted	191,877	220,480	202,086
Total net position	$ 893,414	$ 863,645	$ 835,307

Normal Impacts on Statement of Net Position

The following is a description of activities which will normally impact the comparability of the Statement of Net Position presentation.

- Change in net position (from Statement of Revenues, Expenses and Changes in Net Position): impacts (increase/decrease) current and other assets and/or capital assets and unrestricted net position.
- Issuing debt for capital: increases deferred inflows/outflows of resources and long-term debt.
- Spending debt proceeds on new capital: reduces current assets and increases capital assets.
- Spending of non-debt related current assets on new capital: (a) reduces current assets and increases capital assets and (b) reduces unrestricted net position and increases net investment in capital assets.
- Principal payment on debt: (a) reduces current and other assets and reduces long-term debt and (b) reduces unrestricted net position and increases net investment in capital assets.
- Reduction of capital assets through depreciation: reduces capital assets and net investment in capital assets.

Impacts and Analysis

Current and Other Assets

Fiscal Year 2014 Compared to Fiscal Year 2013

Current and other assets decreased $31.7 million or 8.6 percent. The decrease was primarily attributable to the use of general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) to fund a portion of capital expenditures in fiscal year 2014. This was reflected by the $40.1 million decrease in general fund cash. The decrease in general fund cash was offset by a $4.3 million increase in operating contingency reserves, $1.1 million increase in inventories, a $0.9 million increase in gas in storage, and an increase in accounts receivable of $0.5 million.

Fiscal Year 2013 Compared to Fiscal Year 2012

Current and other assets increased $35.9 million or 10.7 percent. General fund cash (including cash and cash equivalents, short-term investments, and long-term investments) increased $55.9 million as KUB used bond proceeds to fund a large portion of capital expenditures in fiscal year 2013 rather than cash generated from operations. Accounts receivable was $8.7 million or 12.6 percent higher than last year, partially due to strong natural gas and electric sales during the winter.

KUB over recovered $4.9 million in wholesale power costs in fiscal year 2013, compared to an under recovery of $17.7 million in fiscal year 2012. Any under or over recovery of wholesale power costs is flowed through to KUB's electric customers during the following fiscal year through adjustments to electric rates through the Purchased Power Adjustment.

KUB under recovered $0.8 million in wholesale gas costs from its customers through its gas rates in fiscal year 2013, as compared to a $2.8 million under recovery in fiscal year 2012. Any under or over recovery of the wholesale gas costs is flowed through to KUB's gas customers the following fiscal year. The net effect was a $2 million reduction in assets. Gas in storage decreased $4.5 million due to a 30.3 percent decrease in storage volumes compared to last June, reflecting a greater usage of natural gas in storage to meet the increased customer demand in fiscal year 2013.

KUB contributed $6.2 million to operating contingency reserves from the general fund in fiscal year 2013.

Capital Assets

Fiscal Year 2014 Compared to Fiscal Year 2013

Capital assets (net) increased $83.2 million or 5.7 percent. Major plant expenditures (reflected in both plant additions and work in progress) during fiscal year 2014 included $34 million for PACE 10 projects for the wastewater collection system, $31.8 million for electric distribution system improvements, $9.8 million for gas main replacement, $9.2 million for water plant and system improvements, $8.7 million for pole replacements for the electric system and $7.7 million for water main replacement.

Fiscal Year 2013 Compared to Fiscal Year 2012

Capital assets (net) increased $98.2 million or 7.2 percent. Major plant expenditures (reflected in both plant additions and work in progress) during fiscal year 2013 included $38.4 million for PACE 10 projects for the wastewater collection system, $16 million for Composite Correction Plan projects for the wastewater system, $23.6 million for electric distribution system improvements, $12.8 million for gas main replacement and construction of new gas mains, $11.5 million for water main replacement, $10.1 million for water plant and system improvements, and $8.9 million for pole replacements for the electric system.

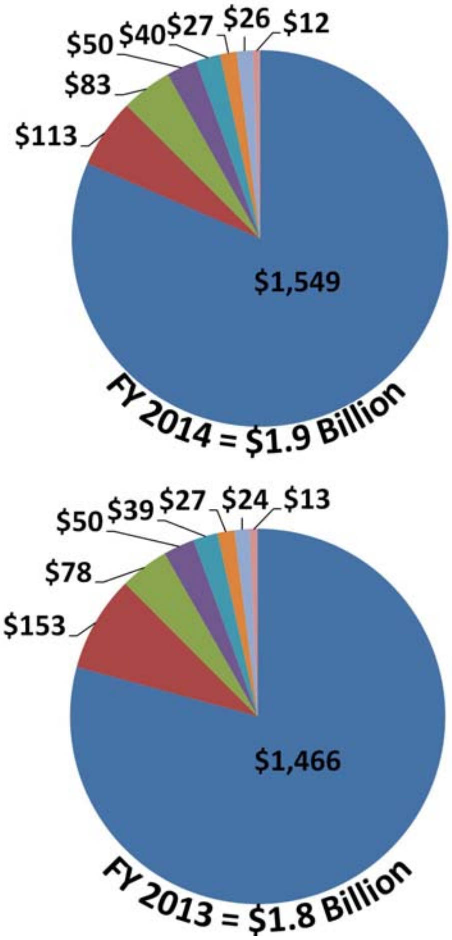
Deferred Outflows of Resources

Fiscal Year 2014 Compared to Fiscal Year 2013

Deferred outflows of resources decreased $0.8 million compared to the prior year, reflecting amortization of deferred losses on bonds refunded in prior periods.

Fiscal Year 2013 Compared to Fiscal Year 2012

Deferred outflows of resources increased $9.4 million compared to the prior year, reflecting unamortized bond refunding costs from the refunding of long term debt in March 2013.



Consolidated Total Assets and Deferred Outflows of Resources (in Millions)

	FY14	FY13
Plant	82%	79%
General Fund	6%	8%
Contingency Fund	4%	4%
Accounts Receivable	3%	3%
Other Assets	2%	2%
Unbilled Revenue	1%	2%
Restricted Assets	1%	1%
Deferred Outflows of Resources	1%	1%

Current and Other Liabilities

Fiscal Year 2014 Compared to Fiscal Year 2013

Current and other liabilities decreased $1.7 million or 1.1 percent. KUB over recovered $1.3 million in wholesale gas costs from its customers in fiscal year 2014, as compared to a $0.8 million under recovery in fiscal year 2013. Over recovery of purchased power expenses decreased $0.5 million in fiscal year 2014. The over recovery of purchased power and gas costs will be refunded to KUB's electric and gas customers through future adjustments to electric and gas rates via the Purchased Power Adjustment and Purchased Gas Adjustment, respectively. In addition, the liability for the current portion of debt related to bonds increased $1.8 million compared to the prior year. Accounts payable decreased $6.4 million, primarily due to less contractor costs from Century II projects for June 2014 compared to the same month last year.

Fiscal Year 2013 Compared to Fiscal Year 2012

Current and other liabilities increased $18.7 million or 12.9 percent, partially due to a $4.9 million over recovery of purchased power expenses from KUB's electric customers in fiscal year 2013. This over recovery of purchased power costs will be refunded to KUB's electric customers through future adjustments to electric rates via the Purchased Power Adjustment. Accounts payable rose $8.4 million due to higher contractor costs from Century II projects for June 2013 compared to the same month last year. In addition, the liability for the current portion of debt related to bonds rose $2.3 million compared to the prior year.

Long-term Debt

Fiscal Year 2014 Compared to Fiscal Year 2013

Long-term debt increased $23.7 million or 2.9 percent. During the fiscal year, $24.6 million of bond debt was repaid. In October 2014, KUB sold $50 million in revenue bonds to fund capital improvements for the gas and water systems.

Fiscal Year 2013 Compared to Fiscal Year 2012

Long-term debt increased $94.8 million or 13.2 percent. During the fiscal year, $21.6 million of bond debt was repaid. In December 2012, KUB sold $110 million in revenue bonds to fund capital improvements for the electric, gas, and wastewater systems. In March 2013, KUB sold $143.9 million of refunding bonds for the purpose of refinancing existing debt at lower interest rates.

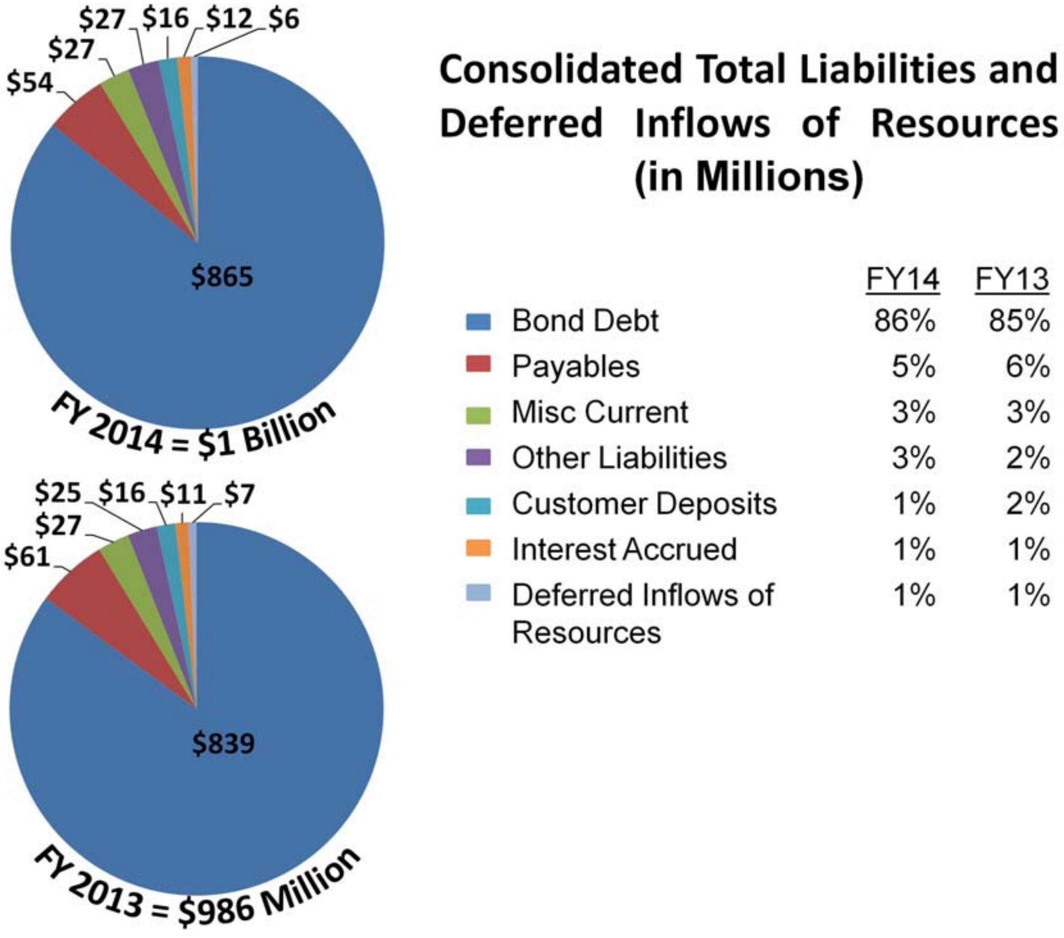
Deferred Inflows of Resources

Fiscal Year 2014 Compared to Fiscal Year 2013

The net unamortized cost of debt decreased $1 million, reflecting amortization of bond premiums and discounts.

Fiscal Year 2013 Compared to Fiscal Year 2012

The net unamortized cost of debt increased $1.7 million reflecting premiums received in the refunding of long term debt in March 2013.



Consolidated Total Liabilities and Deferred Inflows of Resources (in Millions)

	FY14	FY13
Bond Debt	86%	85%
Payables	5%	6%
Misc Current	3%	3%
Other Liabilities	3%	2%
Customer Deposits	1%	2%
Interest Accrued	1%	1%
Deferred Inflows of Resources	1%	1%

Net Position

Fiscal Year 2014 Compared to Fiscal Year 2013

Net position increased by $29.8 million in fiscal year 2014. Net investment in capital assets increased $57.6 million or 9.1 percent. Restricted net position increased $0.8 million compared to the prior year. Unrestricted net position decreased $28.6 million or 13 percent compared to the previous fiscal year, reflecting the spending of general fund cash on capital assets.

Fiscal Year 2013 Compared to Fiscal Year 2012

Net position increased by $28.3 million in fiscal year 2013. Net investment in capital assets increased $8.8 million or 1.4 percent. Restricted net position increased $1.1 million compared to the prior year. Unrestricted net position increased $18.4 million or 9.1 percent, reflecting the increase in general fund cash compared to the previous fiscal year end.

Statement of Revenues, Expenses and Changes in Net Position

The following table reflects the condensed consolidated Statement of Revenues, Expenses and Changes in Net Position for KUB compared to the prior year and the year preceding the prior year.

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30

(in thousands of dollars)	**2014**	**2013**	**2012**
Operating revenues	$ 751,710	$ 743,249	$ 693,531
Less: Purchased energy expense	484,074	489,322	456,038
Margin from sales	267,636	253,927	237,493
Operating expenses			
Treatment	14,038	13,280	12,624
Distribution and collection	60,100	57,052	53,940
Customer service	12,607	11,991	11,100
Administrative and general	31,747	30,402	31,066
Depreciation and amortization	55,885	52,364	47,613
Taxes and tax equivalents	27,097	26,032	24,552
Total operating expenses	201,474	191,121	180,895
Operating income	66,162	62,806	56,598
Interest income	852	1,032	1,504
Interest expense	(37,033)	(35,266)	(34,077)
Other income/(expense)	(948)	(612)	(767)
Change in net position before capital contributions	29,033	27,960	23,258
Capital contributions	736	378	3,081
Change in net position	$ 29,769	$ 28,338	$ 26,339

Normal Impacts on Statement of Revenues, Expenses and Changes in Net Position

The following is a description of activities which will normally impact the comparability of the Statement of Revenues, Expenses and Changes in Net Position presentation.

- Operating revenue is largely determined by volume of sales for the fiscal year. Any change (increase/decrease) in retail rates would also be a cause of change in operating revenue.

- Purchased energy expense is determined by volume of power purchases from TVA and volume of natural gas purchases for the fiscal year. Also, any change (increase/decrease) in wholesale power and/or gas rates would result in a change in purchased energy expense.

- Operating expenses (distribution, customer service, administrative and general) are normally impacted by changes in areas including, but not limited to, labor cost (staffing, wage rates), active employee and retiree medical expenses, and system maintenance.

- Depreciation expense is impacted by plant additions and retirements during the fiscal year.

- Taxes and equivalents are impacted by plant additions/retirements, changes in property tax rates, and gross margin levels.

- Interest income is impacted by level of interest rates and investments.

- Interest expense on debt is impacted by level of outstanding debt and the interest rate(s) on the outstanding debt.

- Other income/(expenses) is impacted by miscellaneous non-operating revenues and expenses.

- Capital contributions are impacted by a donation of facilities/infrastructure to KUB by developers and governmental agencies. The contributions are recognized as revenue and recorded as plant in service based on the fair market value of the asset(s).

Impacts and Analysis

Margin from Sales

Fiscal Year 2014 Compared to Fiscal Year 2013

KUB's consolidated net position increased $29.8 million, compared to a $28.3 million increase last fiscal year.

Operating revenue was $8.5 million or 1.1 percent higher than the previous fiscal year. Electric Division operating revenue decreased $6.8 million, the net effect of the flow through of over recovered purchased power costs from the prior fiscal year, a 1.4 percent increase in billed sales volumes and additional revenue from electric rate increases effective October 2012 and 2013. Gas Division revenue increased $13.5 million or 13.1 percent for the fiscal year, the result of a 4.2 percent rise in natural gas billed sales volumes. Water Division revenue increased $1.3 million or 3.5 percent, the net result of additional revenue from water rate increases and a 2.3 percent decline in water sales volumes. Wastewater Division revenue was $0.5 million higher than the previous year, the net effect of a full year of revenue from a rate increase effective October 2012 and a 1.9 percent decline in wastewater billed sales volumes.

Wholesale energy expense decreased $5.2 million or 1.1 percent. Purchased power expense decreased $12.1 million compared to last year, the net result of higher sales volumes, and lower wholesale power rates from TVA. Purchased gas costs were $6.9 million higher, due to the impact of higher customer demand from cold winter weather.

Margin from sales (operating revenue less purchased energy expense) increased $13.7 million compared to the previous year. The increase reflects a higher level of energy sales volumes, a full year of margin from the electric, water, and wastewater rate increases, as well as a partial year's revenue from the gas rate increase.

Fiscal Year 2013 Compared to Fiscal Year 2012

KUB's consolidated net position increased $28.3 million, compared to a $26.3 million increase last fiscal year.

Operating revenue was $49.7 million or 7.2 percent higher than the previous fiscal year. Electric Division operating revenue increased $27.4 million, primarily due to a 1.1 percent increase in sales volumes and additional revenue from electric rate increases. Gas Division revenue increased $17.7 million or 20.1 percent for the fiscal year, the result of a 13.7 percent rise in natural gas sales volumes. Water Division revenue increased $0.5 million or 1.4 percent, the result of additional revenue from water rate increases. Wastewater Division revenue was $4.1 million higher than the previous year, reflecting a partial year of revenue from a twelve percent rate increase effective October 2012.

Wholesale energy expense increased $33.3 million or 7.3 percent. Purchased power expense increased $21.3 million compared to last year, the result of a higher level of wholesale power purchases. Purchased gas costs were $12 million higher, due to the impact of higher customer demand.

Margin from sales (operating revenue less purchased energy expense) increased $16.4 million compared to the previous year, reflecting a higher level of energy sales volumes, a full year of margin from the electric and water rate increases, and a partial year's revenue from the wastewater rate increase.

Operating Expenses

Fiscal Year 2014 Compared to Fiscal Year 2013

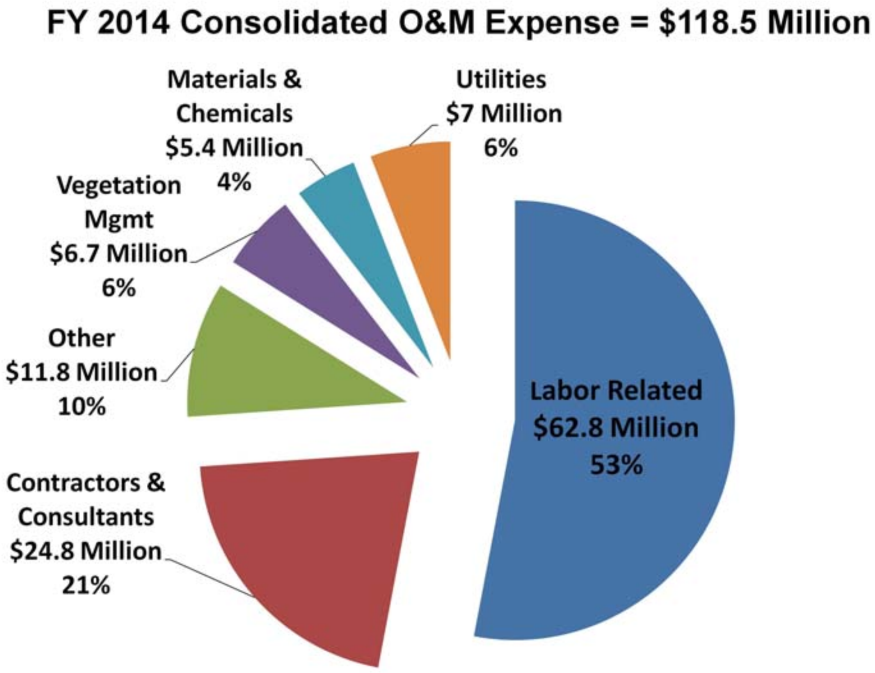
Operating expenses (excluding wholesale purchased energy expense) increased $10.4 million or 5.4 percent compared to fiscal year 2013. Operating expenses are categorized as treatment (O&M), distribution (O&M), customer service (O&M), administrative and general (O&M), depreciation or taxes and tax equivalents:

- Treatment expenses were $0.8 million or 5.7 percent higher than the prior year, reflecting an increase in labor related expenses for the water and wastewater system.

- Distribution and collection expenses increased $3 million or 5.3 percent, primarily the result of higher outside contractor expenses for electric substation breaker replacements and transformer testing, as well as higher labor related expenses.

- Customer service expenses rose $0.6 million or 5.1 percent, partially due to a $0.4 million increase in meter reading expenses related to a new meter reading contractor this fiscal year.

- Administrative and general expenses increased $1.3 million or 4.4 percent, partially reflecting labor related expenses.



- Depreciation and amortization expense increased $3.5 million or 6.7 percent. KUB added $146.1 million in assets during fiscal year 2013. A full year of depreciation expense was recorded on these capital investments during fiscal year 2014 and a partial year of depreciation expense was incurred on $174 million in assets placed in service during fiscal year 2014.

- Taxes and tax equivalents increased $1.1 million or 4.1 percent. Tax equivalent payments to taxing jurisdictions in which KUB's utility systems are located are based on a combination of net plant values and margin from sales. This increase was primarily due to the rise in KUB's plant values in fiscal year 2013.

Fiscal Year 2013 Compared to Fiscal Year 2012

Operating expenses (excluding wholesale purchased energy expense) increased $10.2 million or 5.7 percent compared to fiscal year 2012. Operating expenses are categorized as treatment (O&M), distribution (O&M), customer service (O&M), administrative and general (O&M), depreciation or taxes and tax equivalents:

- Treatment expenses were $0.7 million or 5.2 percent higher than the prior year, reflecting an increase in electric power usage by water and wastewater treatment plants.

- Distribution and collection expenses increased $3.1 million or 5.8 percent, the result of higher outside contractor and consultant expenses related to electric substation maintenance, transformer testing and risk assessment of the gas distribution system.

- Customer service expenses rose $0.9 million or 8 percent, partially due to a $0.4 million increase in meter reading expenses compared with the prior year.

- Administrative and general expenses decreased $0.7 million or 2.1 percent, reflecting a $0.4 million decline in labor-related expenses compared with the prior year.

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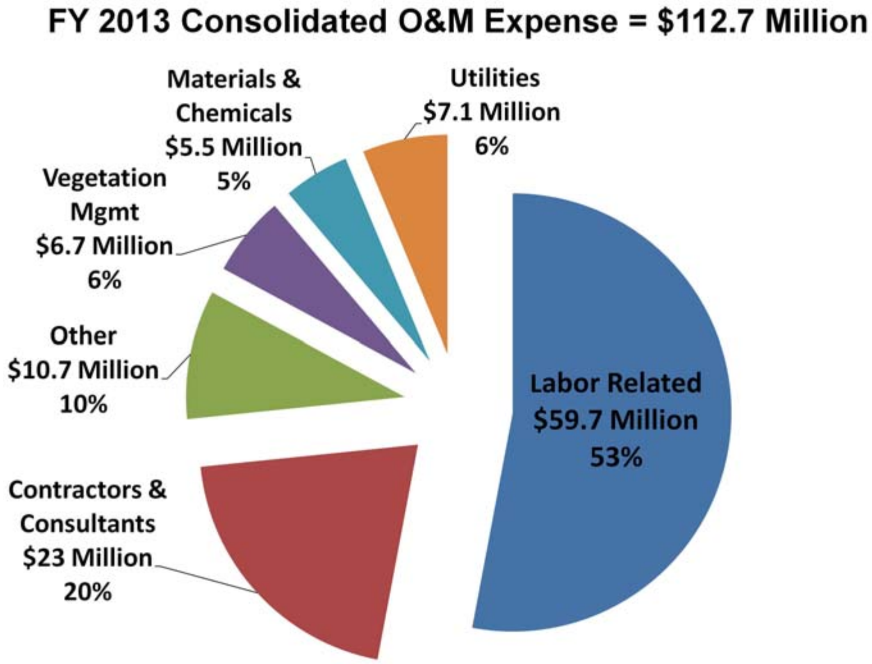

- Depreciation and amortization expense increased $4.8 million or 10 percent. KUB added $104.9 million in assets during fiscal year 2012. A full year of depreciation expense was recorded on these capital investments during fiscal year 2013 and a partial year of depreciation expense was incurred on $146.1 million in assets placed in service during fiscal year 2013.

- Taxes and tax equivalents increased $1.5 million or 6 percent. Tax equivalent payments to taxing jurisdictions in which KUB's utility systems are located are based on a combination of net plant values and margin from sales. This increase was primarily due to the rise in KUB's plant values in fiscal year 2012.

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Other Income and Expense

Fiscal Year 2014 Compared to Fiscal Year 2013

Contributions in aid of construction increased $1.1 million compared to the prior fiscal year. This was primarily due to a $3.9 million contribution from the University of Tennessee, representing a portion of the University's contribution for the South Loop project, a new gas transmission main. The South Loop project will provide additional capacity to meet the University's increased natural gas demand in the future.

Interest income decreased $0.2 million or 17.4 percent due to less interest earned on investments, the result of lower interest rates.

Interest expense increased $1.8 million or 5 percent, reflecting interest expense on $50 million in bonds sold in September 2013 and a full year of interest on bonds sold in December 2012.

Other income (net) decreased $0.3 million. The market value of contingency fund investments decreased $0.2 million compared to the prior fiscal year.

Capital contributions by developers were $0.4 million higher than last fiscal year. Capital contributions for electric, water, and wastewater systems increased as a result of additional assets received from developers and other governmental entities.

Fiscal Year 2013 Compared to Fiscal Year 2012

Interest income decreased $0.5 million or 31.4 percent due to less interest earned on investments, the result of lower interest rates.

Interest expense increased $1.2 million or 3.5 percent, reflecting interest expense on $110 million in bonds sold in December 2012 and $25 million in bonds sold in December 2011.

Other income (net) increased $0.2 million. The market value of contingency fund investments increased $0.1 million.

Capital contributions were $2.7 million lower than last fiscal year. Capital contributions for the electric, water, and wastewater systems declined.

Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

(in thousands of dollars)	**2014**	**2013**	**2012**
Production plant	$ 76	$ 90	$ 103
Pumping & treatment plant	177,256	154,157	145,983
Distribution & collection plant:			
Mains	670,953	612,433	563,475
Services and meters	85,654	83,278	81,478
Electric station equipment	32,797	30,227	25,181
Poles, towers and fixtures	84,332	72,274	63,621
Overhead conductors	73,663	67,449	69,161
Line transformers	55,600	52,503	48,486
Others	191,564	182,765	172,735
Total distribution & collection plant	1,194,563	1,100,929	1,024,137
General plant	52,149	50,398	49,208
Total plant	1,424,044	1,305,574	1,219,431
Work in progress	124,830	160,098	148,048
Total net plant	$ 1,548,874	$ 1,465,672	$ 1,367,479

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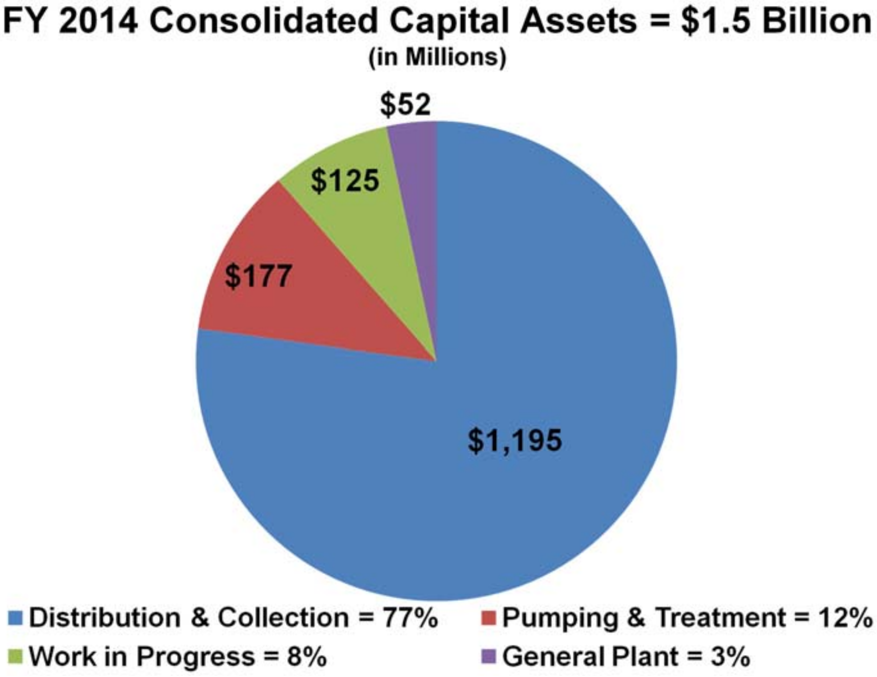
Fiscal Year 2014 Compared to Fiscal Year 2013

As of June 30, 2014, KUB had $1.5 billion invested in capital assets, as reflected in the schedule of Capital Assets, which represents a net increase (including additions, retirements, and depreciation) of $83.2 million or 5.7 percent over the end of the last fiscal year.

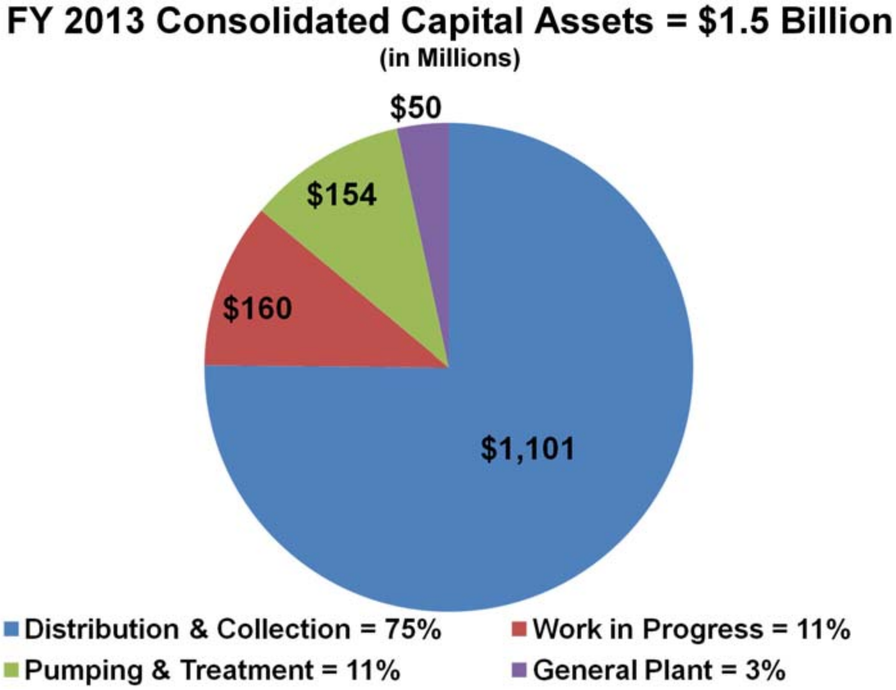


Major capital asset additions during the year were as follows:

- $34 million related to PACE 10 projects.
  - $26 million for sewer mini-basin rehab and replacement
  - $3.7 million for pump station design and construction
  - $2.2 million for sewer trunk line replacement and rehabilitation
- $31.8 million for various electric distribution system improvements.
- $9.8 million for gas main replacement.
- $9.2 million for water plant and system improvements.
- $8.7 million for pole replacements for the electric system.
- $7.7 million for main replacement for the water system.

Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, KUB had $1.5 billion invested in capital assets, as reflected in the schedule of Capital Assets, which represents a net increase (including additions, retirements, and depreciation) of $98.2 million or 7.2 percent over the end of the last fiscal year.



Major capital asset additions during the year were as follows:

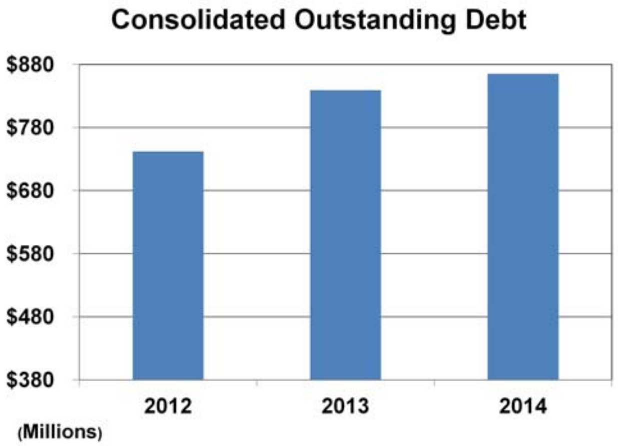
- $38.4 million related to PACE 10 projects.
    - $15.1 million for sewer mini-basin rehab and replacement
    - $11.8 million for sewer trunk line replacement and rehabilitation
    - $5.6 million for pump station design and construction
    - $5.5 million for collection system improvements
- $16 million for Composite Correction Plan projects.
    - $3.1 million for upgrades to the Kuwahee Wastewater Treatment Plant
    - $12.9 million for upgrades at the Fourth Creek Wastewater Treatment Plant
- $23.6 million for various electric distribution system improvements.
- $12.8 million for gas main replacement and construction of new mains for the gas system.
- $11.5 million for pipe replacement for the water system.
- $10.1 million for water plant and system improvements.
- $8.9 million for pole replacements for the electric system.

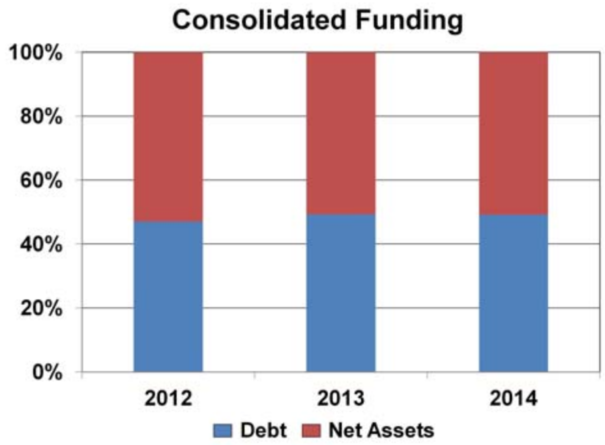
Debt Administration

KUB’s outstanding debt has increased during the past three years from $742.2 million to its current level of $864.7 million. The majority of the growth is attributed to new debt in the Wastewater Division to fund capital projects to meet the capital requirements of the Consent Decree. Debt as a percentage of capitalization represented 49.2 percent in 2014, 49.3 percent in 2013 and 47 percent at the end of fiscal year 2012.

Outstanding Debt
As of June 30

(in thousands of dollars)	**2014**	**2013**	**2012**
Revenue bonds	$ 864,740	$ 839,305	$ 742,210
Total outstanding debt	$ 864,740	$ 839,305	$ 742,210





KUB will pay $309.2 million in principal payments over the next ten years, representing 35.8 percent of outstanding bonds.

Fiscal Year 2014 Compared to Fiscal Year 2013

As of June 30, 2014, KUB had $864.7 million in outstanding debt (including the current portion of revenue bonds) compared to $839.3 million last year, an increase of $25.4 million. KUB’s weighted average cost of debt as of June 30, 2014 was 4.13 percent.

During fiscal year 2014, $24.6 million in bonds were repaid.

During the fiscal year, $50 million in long-term bonds were issued to finance capital improvements for the gas and water systems.

KUB’s outstanding debt is rated by Standard & Poor’s and Moody’s Investors Service. As of June 30, 2014, Standard & Poor’s rated the revenue bonds of the Electric, Water, and Wastewater Divisions AA+ and the revenue bonds of the Gas Division AA. Moody’s Investors Service rated the bonds of all four divisions Aa2.

Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, KUB had $839.3 million in outstanding debt (including the current portion of revenue bonds) compared to $742.2 million last year, an increase of $97.1 million. KUB's weighted average cost of debt as of June 30, 2014 was 4.11 percent.

During fiscal year 2013, $21.6 million in bonds were repaid.

During the fiscal year, $110 million in long-term bonds were issued to finance capital improvements for the electric, gas, and wastewater systems.

KUB issued $143.9 million in refunding bonds for the purpose of refunding outstanding bonds for all four divisions at lower interest rates. The bonds refunded were issued in 2005 and 2006. KUB will realize a total debt service savings of $24.6 million over the life of the bonds ($16.9 million on a net present value basis).

As of June 30, 2013, Standard & Poor's rated the revenue bonds of the Electric, Water, and Wastewater Divisions AA+ and the revenue bonds of the Gas Division AA. Moody's Investors Service rated the bonds of all four divisions Aa2.

Impacts on Future Financial Position

KUB anticipates net customer growth of 2,375 customers during fiscal year 2015.

KUB sold $78 million in revenue bonds in August 2014 for the purpose of funding capital improvements for the electric, water and wastewater systems.

The Water Division's revenue bonds were upgraded with the bond sale in August 2014 to the rating of AAA, the highest rating provided by Standard & Poor's. The Aa2 bond rating from Moody's Investors Service was reaffirmed.

In June 2014, the KUB Board adopted three years of rate increases for all four systems to help fund the ongoing Century II infrastructure programs for each system.

The electric rate increases will be effective July 2014, July 2015, and July 2016, respectively. Each rate increase will provide approximately $5 million in additional electric system revenue.

The natural gas rate increases will be effective October 2014, October 2015, and October 2016, respectively. Each rate increase will result in an additional $1.8 million in gas system revenue.

The water rate increases will be effective July 2014, July 2015, and July 2016, respectively. The July 2014 increase will provide $3.6 million in additional water system revenue, while the July 2015 and July 2016 rate increases will result in annual water system revenue of $2 million.

The wastewater rate increases will be effective October 2014, October 2015, and October 2016, respectively. Annually, the wastewater rate increases will provide additional revenue of $4.7 million, on average.

The TVA Board approved a 1.5 percent October 2014 wholesale base rate increase which will be flowed through to KUB's electric retail rates via its Purchased Power Adjustment. The flow through of this wholesale rate increase will raise the typical residential electric customer's monthly bill $1.70.

KUB debt portfolio includes $135.4 million of Build America Bond (BABs) in which the U.S. Treasury provides a rebate to KUB for a portion of the interest. The interest rebates were subject to federal sequestration during the fiscal year and were reduced by 7.2 percent. Any future actions by Congress may also affect the anticipated rebates for future fiscal years.

KUB will continue work on the installation of a new gas transmission main extending from South Knoxville to the University of Tennessee, providing increased capacity to meet future natural gas requirements for the university. The $23 million project is scheduled to be completed in November 2015.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, is effective for periods beginning after June 15, 2013. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* are effective for periods beginning after June 15, 2014. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on KUB's financial position or results of operations during fiscal year 2014.

Financial Contact

KUB's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of KUB's financial position and results of operations for the fiscal years ending June 30, 2014 and 2013. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

Knoxville Utilities Board
Consolidated Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 106,078,842	$ 125,723,586
Short-term investments	7,000,000	27,500,000
Short-term contingency fund investments	38,076,885	31,322,858
Other current assets	1,478,181	1,464,300
Accrued interest receivable	29,754	52,927
Accounts receivable, less allowance of uncollectible accounts of $715,050 in 2014 and $948,358 in 2013	77,679,318	77,154,986
Inventories	9,090,412	8,038,772
Prepaid expenses	1,931,869	2,256,827
Gas storage	10,281,088	9,333,190
Total current assets	251,646,349	282,847,446
Restricted assets:		
Bond funds	24,662,255	23,580,016
Other funds	43,872	53,820
Unused bond proceeds	1,055,410	206
Total restricted assets	25,761,537	23,634,042
Plant in service	2,130,908,796	1,987,349,747
Less accumulated depreciation	(706,864,663)	(681,775,954)
	1,424,044,133	1,305,573,793
Retirement in progress	1,247,876	1,731,738
Construction in progress	123,581,867	158,365,607
Net plant in service	1,548,873,876	1,465,671,138
Other assets:		
Long-term contingency fund investments	44,464,588	46,980,060
TVA conservation program receivable	11,093,821	10,189,286
Under recovered purchased gas cost	-	841,779
Other	6,248,799	6,439,241
Total other assets	61,807,208	64,450,366
Total assets	1,888,088,970	1,836,602,992
Deferred outflows of resources:		
Unamortized bond refunding costs	12,251,803	13,002,043
Total deferred outflows of resources	12,251,803	13,002,043
Total assets and deferred outflows of resources	$ 1,900,340,773	$ 1,849,605,035

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

Knoxville Utilities Board
Consolidated Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Liabilities, Deferred Inflows, and Capitalization		
Current liabilities:		
Current portion of revenue bonds	$ 25,740,000	$ 23,965,000
Sales tax collections payable	1,199,124	1,181,170
Accounts payable	53,144,305	59,560,896
Accrued expenses	27,247,849	26,917,368
Customer deposits plus accrued interest	15,732,652	15,451,660
Accrued interest on revenue bonds	11,543,105	11,261,245
Total current liabilities	134,607,035	138,337,339
Other liabilities:		
TVA conservation program	10,885,245	10,005,739
Accrued compensated absences	8,475,812	8,267,550
Customer advances for construction	1,607,364	1,217,528
Over recovered purchased power cost	4,412,769	4,927,581
Over recovered purchased gas cost	1,278,144	-
Other	256,124	506,818
Total other liabilities	26,915,458	24,925,216
Long-term debt:		
Revenue bonds	839,000,000	815,340,000
Total long-term debt	839,000,000	815,340,000
Total liabilities	1,000,522,493	978,602,555
Deferred inflows of resources:		
Unamortized costs	6,404,477	7,357,600
Total deferred inflows of resources	6,404,477	7,357,600
Total liabilities and deferred inflows of resources	1,006,926,970	985,960,155
Net position		
Net investment in capital assets	688,373,838	630,793,054
Restricted for:		
Debt service	13,119,150	12,318,771
Other	43,872	53,820
Unrestricted	191,876,943	220,479,235
Total net position	893,413,803	863,644,880
Total liabilities, deferred inflows, and net position	$ 1,900,340,773	$ 1,849,605,035

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

Knoxville Utilities Board
Consolidated Statements of Revenues, Expenses and Changes in Net Position
June 30, 2014 and 2013

	2014	2013
Operating revenues		
Electric	$ 521,382,442	$ 528,220,515
Gas	116,803,437	103,280,814
Water	38,934,984	37,618,140
Wastewater	74,589,237	74,129,548
Total operating revenues	751,710,100	743,249,017
Operating expenses		
Purchased power	414,928,209	427,099,886
Purchased gas	69,146,120	62,222,336
Treatment	14,038,067	13,280,091
Distribution and collection	60,099,715	57,051,845
Customer service	12,607,020	11,990,979
Administrative and general	31,746,959	30,402,021
Provision for depreciation and amortization	55,885,311	52,363,765
Taxes and tax equivalents	27,097,311	26,031,585
Total operating expenses	685,548,712	680,442,508
Operating income	66,161,388	62,806,509
Non-operating revenues (expenses)		
Contributions in aid of construction	7,489,259	6,411,589
Interest and dividend income	850,769	1,031,771
Interest expense	(37,032,613)	(35,265,771)
Write-down of plant for costs recovered through contributions	(7,489,259)	(6,411,589)
Other	(946,380)	(612,200)
Total non-operating revenues (expenses)	(37,128,224)	(34,846,200)
Change in net position before capital contributions	29,033,164	27,960,309
Capital contributions	735,759	378,196
Change in net position	29,768,923	28,338,505
Net position, beginning of year	863,644,880	835,306,375
Net position, end of year	$ 893,413,803	$ 863,644,880

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

Knoxville Utilities Board
Consolidated Statements of Cash Flows
June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash receipts from customers	$ 748,864,302	$ 732,089,984
Cash receipts from other operations	10,319,308	13,193,284
Cash payments to suppliers of goods or services	(569,365,252)	(532,005,075)
Cash payments to employees for services	(50,171,061)	(47,326,006)
Payment in lieu of taxes	(23,417,319)	(22,555,022)
Cash receipts from collections of TVA conservation loan program participants	2,803,444	2,825,755
Cash payments for TVA Conservation loan program	(2,811,356)	(2,757,835)
Net cash provided by operating activities	116,222,066	143,465,085
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	49,578,316	111,031,459
Principal paid on revenue bonds and notes payable	(24,565,000)	(21,635,000)
(Increase) decrease in unused bond proceeds	(1,055,204)	13,803,520
Interest paid on revenue bonds and notes payable	(35,346,487)	(34,155,202)
Acquisition and construction of plant	(148,917,816)	(158,749,321)
Changes in bond funds, restricted	(1,082,240)	(2,225,380)
Customer advances for construction	389,836	(66,099)
Proceeds received on disposal of plant	759,631	58,144
Cash received from developers and individuals for capital purposes	7,489,259	6,411,588
Net cash used in capital and related financing activities	(152,749,705)	(85,526,291)
Cash flows from investing activities:		
Purchase of investment securities	(8,308,246)	(3,621,062)
Maturities of investment securities	24,569,690	716,112
Interest received	873,941	1,093,924
Other property and investments	(252,490)	(262,294)
Net cash provided by (used in) investing activities	16,882,895	(2,073,320)
Net (decrease) increase in cash and cash equivalents	(19,644,744)	55,865,474
Cash and cash equivalents, beginning of year	125,723,586	69,858,112
Cash and cash equivalents, end of year	$ 106,078,842	$ 125,723,586
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 66,161,388	$ 62,806,509
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expenses	57,726,856	54,177,358
Changes in operating assets and liabilities:		
Accounts receivable	(524,331)	(8,663,354)
Inventories	(1,051,641)	(396,540)
Prepaid expenses	(952,607)	2,944,614
TVA conservation program receivable	(904,534)	(637,077)
Other assets	(888,086)	(1,703,536)
Sales tax collections payable	17,955	35,582
Accounts payable and accrued expenses	(5,877,846)	8,638,999
TVA conservation program payable	879,506	670,330
Unrecovered purchased power cost	(514,812)	22,582,300
Underrecovered gas costs	2,119,923	1,983,384
Customer deposits plus accrued interest	280,991	731,264
Other liabilities	(250,696)	295,252
Net cash provided by operating activities	$ 116,222,066	$ 143,465,085
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ 735,759	$ 378,196

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

1. Description of Business:

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners governs KUB. The Board has all powers to construct, acquire, expand, or operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions including setting rates. KUB's accounts are maintained in conformity with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC), the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC), and the Governmental Accounting Standards Board (GASB), as applicable.

2. Significant Accounting Policies:

Basis of Accounting

KUB follows the provisions of GASB Statement No. 34 (Statement No. 34), *Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.* Statement No. 34 established standards for external financial reporting for all state and local governmental entities.

The consolidated financial statements are prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred. The accounting and financial reporting treatment applied is determined by measurement focus. The transactions are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets and deferred outflows of resources net of total liabilities and deferred inflows of resources) are segregated into net investment in capital assets; restricted for capital activity and debt service; and unrestricted components.

Recently Adopted New Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62 (Statement No. 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for KUB’s fiscal year beginning July 1, 2012. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants’ (AICPA) accounting and financial reporting guidance issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

Statement No. 62 supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election to apply FASB statements, related interpretations, Accounting Principles Board opinions and accounting research bulletins issued post-November 30, 1989 that do not conflict with Governmental Accounting Standards. However, FASB pronouncements issued post-November 30, 1989 that do not conflict with or contradict Governmental Accounting Standards can continue to apply as other accounting literature.

In June 2011, the GASB issued Statement No. 63 (Statement No. 63), (*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,* effective for KUB’s fiscal year beginning July 1, 2012. Statement No. 63 amends the net asset reporting requirements in Statement No. 34 and other pronouncements. Under these new standards, financial statements include deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities, and will report *net position* instead of net assets. Statement No. 63 requires the classification of net position into three components – net investment in capital assets; net position-restricted; and net position-unrestricted.

These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Implementation of Statement No. 63 had no effect on KUB’s net position or changes in net position.

In March 2012, the GASB issued Statement No. 65 (Statement No. 65), *Items Previously Reported as Assets and Liabilities*, effective for KUB’s fiscal year beginning July 1, 2013; however, KUB early adopted Statement No. 65 effective for the fiscal year beginning July 1, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities. Implementation of Statement No. 65 had no effect on KUB’s net position or changes in net position.

Principles of Consolidation

The consolidated financial statements include the accounts of the Electric, Gas, Water and Wastewater Divisions. All significant intercompany balances and transactions have been eliminated in consolidation.

KUB issues separate financial reports, which include financial statements and required supplementary information, for the Electric, Gas, Water, and Wastewater Divisions. These reports may be obtained by writing Knoxville Utilities Board, P.O. Box 59017, Knoxville, TN 37950-9017.

Plant

Plant and other property are stated on the basis of original cost. The costs of current repairs and minor replacements are charged to operating expense. The costs of renewals and improvements are capitalized. The original cost of utility plant assets retired or otherwise disposed of and the cost of removal less salvage value is charged to accumulated depreciation. When other property is retired, the related asset and accumulated depreciation are removed from the accounts, and the gain or loss is included in the results of operations.

The provision for depreciation of plants in service is based on the estimated useful lives of the assets, which range from three to sixty-seven years, and is computed using the straight-line method. Pursuant to FERC/NARUC, the caption "Provision for depreciation" in the consolidated statements of revenues, expenses and changes in net position does not include depreciation for transportation equipment of $1,841,544 in fiscal year 2014 and $1,813,593 in fiscal year 2013. Interest costs are expensed as incurred.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of KUB. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unbilled revenue. Revenues are reported net of bad debt expense of $1,572,059 in fiscal year 2014 and $1,962,060 in fiscal year 2013.

Non-operating Revenue

Non-operating revenue consists of revenues that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Expense

When an expense is incurred for purposes for which there are both restricted and unrestricted assets available, it is KUB's policy to apply those expenses to restricted assets to the extent such are available and then to unrestricted assets.

Contributions in Aid of Construction and Capital Contributions

Contributions in aid of construction are cash collections from customers or others for a particular purpose, generally the construction of new facilities to serve new customers in excess of the investment KUB is willing to make for a particular incremental revenue source. KUB reduces the plant account balances to which contributions relate by the actual amount of the contribution and recognizes the contributions as non-operating revenue in accordance with Statement No. 62.

Capital contributions represent contributions of utility plant infrastructure constructed by developers and others in industrial parks and other developments, and transferred to KUB upon completion of construction and the initiation of utility service. In accordance with GASB Statement No. 33, *"Accounting and Financial Reporting for Nonexchange Transactions"*, such contributions are recognized as revenues and capital assets upon receipt.

Inventories

Inventories, consisting of plant materials and operating supplies, are valued at the lower of average cost or replacement value.

Pension Plan

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). KUB's policy is to fund pension cost accrued. As required by GASB Statement No. 27, KUB measures and discloses the annual pension cost on the accrual basis of accounting. At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

Investments

Investments are carried at fair value as determined by quoted market prices at the reporting date.

Self-Insurance

KUB has established self-insurance programs covering portions of workers' compensation, employee health, environmental liability, general liability, property and casualty liability, and automobile liability claims. A liability is accrued for claims as they are incurred. When applicable, claims in excess of the self-insured risk are covered by KUB's insurance carrier. Additionally, KUB provides certain lifetime health benefits to eligible retired employees under a self-insurance plan administered by a third party.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and various other assumptions that KUB believes are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. Estimates are used for, but not limited to, inventory valuation, provision for doubtful accounts, depreciable lives of plant assets, unbilled revenue volumes, pension trust valuations, OPEB trust valuations, insurance liability reserves, and potential losses from contingencies and litigation. Actual results could differ from those estimates.

Restricted and Designated Assets

Certain assets are restricted by bond resolutions for the construction of utility plant and debt repayment. Certain additional assets are designated by management for contingency purposes and economic development.

Cash Equivalents

For purposes of the statements of cash flows, KUB considers all unrestricted and undesignated highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are items previously reported as assets related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. Deferred inflows of resources are items previously reported as liabilities related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. In accordance with Statement No. 62, KUB records debt issuance costs, including discounts and premiums as a deferred outflow or inflow. Likewise, KUB records costs associated with the gain or loss on refunding of debt as either a deferred outflow or inflow based on the parameters of Statement No. 65.

Compensated Absences

KUB accrues a liability for earned but unpaid paid-time off (PTO) days.

Subsequent Events

KUB has evaluated events and transactions through October 24, 2014, the date these financial statements were issued, for items that should potentially be recognized or disclosed.

Reclassifications

Certain reclassifications have been made to the fiscal year 2013 balances to conform to fiscal year 2014 presentation.

Purchased Power Adjustment

In October 2002, the Board adopted a Purchased Power Adjustment (PPA) to address changes in wholesale power costs. The PPA was established in response to an amendment to KUB’s power supply contract under which, among other things, TVA relinquished its regulatory authority over KUB retail electric rates. The PPA allows KUB to promptly adjust retail electric rates in response to wholesale rate changes or adjustments, thus ensuring that KUB will recover the costs incurred for purchased power. These changes in electric costs are reflected as adjustments to the base electric rates established by KUB's Board of Commissioners. The rate-setting authority vested in the KUB Board by the City Charter meets the “self-regulated” provisions of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and KUB meets the remaining criteria of Statement No. 62.

TVA implemented a fuel cost adjustment in October 2006 applied on a quarterly basis to wholesale power rates. TVA's quarterly fuel cost adjustment became a monthly fuel cost adjustment effective October 2009. KUB flows changes to wholesale power rates, from TVA's fuel cost adjustment mechanism, directly through to its retail electric rates via the PPA.

In April 2011, TVA modified its wholesale rate structure to demand and energy billing for its distributors. In response, KUB revised its PPA to include a deferred accounting component to ensure appropriate matching of revenue and expense and cost recovery. KUB will adjust its retail rates on an annual basis to flow any over or under recovery of wholesale power costs through to its customers via the PPA.

Under the PPA mechanism, the Division tracks the actual (under)/over recovered amount in the (Under)/Over recovered Purchased Power Costs accounts. These accounts are rolled into the PPA rate adjustments thereby assuring that any (under)/over recovered amounts are promptly passed on to the Division's customers. The amount of over recovered cost was $4,412,769 at June 30, 2014 and 4,927,581 at June 30, 2013.

Purchased Gas Adjustment

In November 1990, the Division implemented a deferred Purchased Gas (Cost) Adjustment (PGA) mechanism, which allows the Division to flow changes in purchased gas costs through to its customers. These changes in gas costs are reflected as adjustments to the base gas rates established by KUB's Board of Commissioners. The rate-setting authority vested in the KUB Board by the City Charter meets the "self-regulated" provisions of GASB Statement No. 62 (Statement No. 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The PGA is intended to assure that KUB recovers the total cost of natural gas purchased, transported and/or reserved for delivery to its sales and transportation customers on an equitable basis. The PGA is also intended to assure that no excess or deficient cost recovery from KUB's customers occurs.

Under the PGA mechanism, the Division tracks the actual (under)/over recovered amount in the (Under)/Over recovered Purchased Gas Costs accounts. These accounts are rolled into the PGA rate adjustment on June 30 of each year thereby assuring that any (under)/over recovered amounts are passed on to the Division's customers. The amount of (under)/over recovered cost was $1,278,144 at June 30, 2014 and ($841,779) at June 30, 2013.

Recently Issued Accounting Pronouncements

In June 2012, the GASB issued two related Statements that affect accounting and financial reporting of pensions by state and local governments. GASB Statement No. 67 (Statement No. 67), *Financial Reporting for Pension Plans*, is intended to improve financial reporting for state and local government pension plans. GASB Statement No. 68 (Statement No. 68), *Accounting and Financial Reporting for Pensions,* establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. Statements No. 67 and 68 supersede existing guidance on financial reporting for defined pension plans found in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The objective of this statement is to clarify accounting and financial reporting for pensions. This statement requires governments to recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date of the beginning net pension liability calculated under Statement No. 68.

Statement No. 67 is effective for periods beginning after June 15, 2013 and Statements No. 68 and 71 are effective for periods beginning after June 15, 2014. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

3. Deposits and Investments

KUB follows the provisions of Statement No. 40 of the Governmental Accounting Standards Board *Deposit and Investment Risk Disclosures an amendment of GASB Statement No. 3*. This Statement establishes and modifies disclosure requirements for state and local governments related to deposit and investment risks.

KUB's investment policy provides the framework for the administration and investment of cash deposits. The investment policy follows State law and defines the parameters under which KUB funds should be invested. State law authorizes KUB to invest in obligations of the United States Treasury, its agencies and instrumentalities; certificates of deposit; repurchase agreements; money market funds; and the State Treasurer's Investment Pool.

Interest Rate Risk. KUB's primary investment objectives are to place investments in a manner to ensure the preservation of capital, remain sufficiently liquid to meet all operating requirements, and maximize yield of return. KUB minimizes its exposure to interest rate risk by adhering to Tennessee state law requirements for the investment of public funds. This includes limiting investments to those types described above and limiting maturity horizons. The maximum maturity is four years from the date of investment. KUB also limits its exposure by holding investments to maturity unless cash flow requirements dictate otherwise.

Credit Risk. KUB's investment policy, as required by state law, is to apply the prudent-person rule: Investments are made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable income to be derived, as well as the probable safety of their capital. KUB's Agency Bond investments are rated Aaa by Moody's Investors Service.

Custodial Credit Risk. KUB's investment policy limits exposure to custodial credit risk by restricting investments to a standard set forth by State law. All deposits in excess of federal depository insurance limits are collateralized with government securities held in KUB's name by a third-party custodian bank(s) acting as KUB's agent(s), or through the state of Tennessee's collateral pool. Financial institutions that participate in the collateral pool are subject to special assessment; therefore, the deposits are considered insured. A portion of KUB's investments are generally held in the State of Tennessee Local Government Investment Pool (LGIP). The LGIP is a part of the State Pooled Investment Fund and is sponsored by the State of Tennessee Treasury Department. Tennessee Code Annotated ¶9-4-701 *et seq*. authorizes local governments to invest in the LGIP. None of KUB's investments are exposed to custodial credit risk.

Classification of deposits and investments per statement of net position:

	2014	**2013**
Current assets		
Cash and cash equivalents	$ 106,078,842	$ 125,723,586
Short-term investments	7,000,000	27,500,000
Short-term contingency fund investments	38,076,885	31,322,858
Other assets		
Long-term contingency fund investments	44,206,946	46,753,948
Restricted assets		
Unused bond proceeds	1,055,410	206
Bond fund	24,662,255	23,580,016
Other funds	43,872	53,820
	$ 221,124,210	$ 254,934,434

The above amounts do not include accrued interest of $257,642 in fiscal year 2014 and $226,112 in fiscal year 2013. Interest income is recorded on an accrual basis.

Investments and maturities of KUB's deposits and investments:

	Deposit and Investment Maturities (in Years)		
	Fair Value	**Less Than 1**	**1-5**
Supersweep NOW and Other Deposits	$ 126,647,593	$ 126,647,593	$ -
State Treasurer's Investment Pool	1,066,682	1,066,682	-
Agency Bonds	60,132,560	15,936,885	44,195,675
Certificates of Deposits	53,802,255	53,802,255	-
	$ 241,649,090	$ 197,453,415	$ 44,195,675

4. Accounts Receivable

Accounts receivable consists of the following:

	2014	**2013**
Wholesale and retail customers		
Billed services	$ 47,052,722	$ 47,675,837
Unbilled services	27,270,345	26,686,419
Other	4,071,301	3,741,088
Allowance for uncollectible accounts	(715,050)	(948,358)
	$ 77,679,318	$ 77,154,986

5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	2014	2013
Trade accounts	$ 53,144,305	$ 59,560,896
Salaries and wages	1,278,290	1,093,893
Advances on pole rental	1,156,634	1,142,702
Self-insurance liabilities	1,572,570	1,733,984
Other current liabilities	23,240,355	22,946,789
	$ 80,392,154	$ 86,478,264

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6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2013	Additions	Payments	Balance June 30, 2014	Amounts Due Within One Year
Electric					
W-2005 - 3.0 - 4.5%	$ 34,860,000	$ -	$ 1,720,000	$ 33,140,000	$ 1,790,000
X-2006 - 4.0 - 5.0%	5,200,000	-	1,650,000	3,550,000	1,725,000
Y-2009 - 2.5 - 5.0%	37,350,000	-	1,450,000	35,900,000	1,525,000
Z-2010 - 1.45 - 6.35%	27,725,000	-	1,255,000	26,470,000	1,265,000
AA-2012 - 3.0 - 5.0%	36,715,000	-	920,000	35,795,000	955,000
BB-2012 - 3.0 - 4.0%	35,000,000	-	500,000	34,500,000	625,000
CC-2013 - 3.0 - 4.0%	9,660,000	-	75,000	9,585,000	50,000
Total debt	$ 186,510,000	$ -	$ 7,570,000	$ 178,940,000	$ 7,935,000
Gas					
L-2005 - 3.0 - 4.75%	$ 12,025,000	$ -	$ 645,000	$ 11,380,000	$ 665,000
N-2007 - 4.0 - 5.0%	12,000,000	-	-	12,000,000	-
O-2010 - 2.0 - 3.0%	10,050,000	-	3,225,000	6,825,000	3,350,000
P-2010 - 3.3 - 6.2%	12,000,000	-	-	12,000,000	-
Q-2012 - 2.0 - 4.0%	24,695,000	-	665,000	24,030,000	685,000
R-2012 - 2.0 - 4.0%	10,000,000	-	200,000	9,800,000	200,000
S-2013 - 2.0 - 4.0%	11,580,000	-	50,000	11,530,000	50,000
T-2013 - 2.0 - 4.6%	-	25,000,000	200,000	24,800,000	200,000
Total debt	$ 92,350,000	$ 25,000,000	$ 4,985,000	$ 112,365,000	$ 5,150,000
Water					
R-2005 - 3.5 - 5.0%	$ 490,000	$ -	$ 235,000	$ 255,000	$ 255,000
S-2005 - 3.5 - 5.0%	7,575,000	-	415,000	7,160,000	425,000
T-2007 - 4.0 - 5.5%	25,000,000	-	650,000	24,350,000	675,000
U-2009 - 3.0 - 4.5%	25,000,000	-	750,000	24,250,000	800,000
W-2011 - 2.0 - 4.0%	24,450,000	-	550,000	23,900,000	550,000
X-2012 - 3.0 - 5.0%	10,050,000	-	440,000	9,610,000	460,000
Y-2013 - 3.0 - 4.0%	9,285,000	-	25,000	9,260,000	25,000
Z-2013 - 2.0 - 5.0%	-	25,000,000	400,000	24,600,000	450,000
Total debt	$ 101,850,000	$ 25,000,000	$ 3,465,000	$ 123,385,000	$ 3,640,000
Wastewater					
2005 A - 4.0 - 5.0%	$ 36,550,000	$ -	$ -	$ 36,550,000	-
2005 B - 3.0 - 5.0%	18,680,000	-	1,285,000	17,395,000	1,350,000
2007 - 4.0 - 5.0%	75,000,000	-	-	75,000,000	-
2008 - 4.0 - 6.0%	35,100,000	-	4,125,000	30,975,000	4,300,000
2010 - 6.3 - 6.5%	30,000,000	-	-	30,000,000	-
2010C - 1.18 - 6.1%	67,925,000	-	1,075,000	66,850,000	1,100,000
2012A - 2.0 - 4.0%	17,000,000	-	785,000	16,215,000	800,000
2012B - 1.25 - 5.0%	65,000,000	-	850,000	64,150,000	875,000
2013A - 2.0 - 4.0%	113,340,000	-	425,000	112,915,000	590,000
Total debt	$ 458,595,000	$ -	$ 8,545,000	$ 450,050,000	$ 9,015,000
Consolidated					
Total Bonds	839,305,000	50,000,000	24,565,000	864,740,000	25,740,000
Total debt	$ 839,305,000	$ 50,000,000	$ 24,565,000	$ 864,740,000	$ 25,740,000

Other liabilities consist of the following:

	Balance June 30, 2013	Increase	Decrease	Balance June 30, 2014	Amounts Due Within One Year
TVA conservation program	$ 10,005,739	$ 3,734,967	$ (2,855,461)	$ 10,885,245	$ 1,500,000
Accrued compensated absences	8,267,550	14,261,664	(14,053,402)	8,475,812	3,000,000
Customer advances for construction	1,217,528	886,510	(496,674)	1,607,364	17,000
Other	506,818	475,259	(725,953)	256,124	35,000
	$ 19,997,635	$ 19,358,400	$ (18,131,490)	$ 21,224,545	$ 4,552,000

Debt service over remaining term of the debt is as follows:

Fiscal Year	Principal	Interest	Total
2015	$ 25,740,000	$ 35,589,223	$ 61,329,223
2016	26,795,000	34,614,256	61,409,256
2017	27,775,000	33,604,801	61,379,801
2018	28,905,000	32,505,207	61,410,207
2019	30,035,000	31,367,085	61,402,085
2020-2024	169,975,000	136,696,546	306,671,546
2025-2029	175,430,000	100,674,422	276,104,422
2030-2034	140,435,000	67,966,648	208,401,648
2035-2039	118,825,000	43,212,613	162,037,613
2040-2044	100,475,000	17,952,775	118,427,775
2045-2047	20,350,000	1,260,000	21,610,000
Total	$ 864,740,000	$ 535,443,576	$ 1,400,183,576

The Divisions have pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments of revenue bonds when due. Such bond requirements are being met through monthly deposits to the bond funds as required by the bond covenants. As of June 30, 2014 these requirements had been satisfied.

During fiscal year 2006, KUB's Electric Division issued Series W 2005 bonds in part to retire certain existing debt and fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series U 2001 bonds, as such amounts mature. KUB's Electric Division also issued Series X 2006 bonds in part to retire certain existing debt and to fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the Series S 1998 revenue bonds. During fiscal year 2009, KUB's Electric Division issued Series Y 2009 bonds to fund electric system capital improvements. During fiscal year 2011, KUB's Electric Division issued series Z 2010 bonds to fund electric system capital improvements. The bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change. During fiscal year 2012, KUB's Electric Division issued Series AA 2012 bonds to retire a portion of outstanding Series V 2004 bonds. During fiscal year 2013, KUB's Electric Division issued

Series BB 2012 bonds to fund electric system capital improvements. KUB's Electric Division also issued Series CC 2013 bonds to retire a portion of outstanding Series X 2006 bonds. In prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $68 million at June 30, 2014, and the trust account assets are not included in the financial statements.

During fiscal year 2006, KUB's Gas Division issued Series L 2005 bonds in part to retire certain existing debt and fund gas system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series J 2001 bonds, as such amounts mature. During fiscal year 2008, KUB's Gas Division issued Series N 2007 to fund gas system capital improvements. During fiscal year 2010, KUB's Gas Division issued Series O 2010 bonds to retire Series I 2001 bonds. During fiscal year 2011, KUB's Gas Division issued Series P 2010 bonds to fund gas system capital improvements. The bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change. During fiscal year 2012, KUB's Gas Division issued Series Q 2012 bonds to retire Series K 2004 bonds. During fiscal year 2013, KUB's Gas Division issued Series R 2012 bonds to fund gas system capital improvements. KUB's Gas Division also issued Series S 2013 bonds to retire Series M 2006 outstanding bonds. During fiscal year 2014, KUB's Gas Division issued Series T 2013 to fund gas system capital improvements. In prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $43.5 million at June 30, 2014, and the trust account assets are not included in the financial statements.

During fiscal year 2006, KUB's Water Division issued Series R 2005 bonds for the purpose of funding water system capital improvements. KUB's Water Division also issued Series S 2005 bonds to retire certain existing debt and fund water system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series P 2001 bonds, as such amounts mature. During fiscal year 2008, KUB's Water Division issued Series T 2007 bonds to fund water system capital improvements. During fiscal year 2010, KUB's Water Division issued Series U 2009 bonds to fund water system capital improvements. During fiscal year 2012, KUB's Water Division issued Series W 2011 bonds to fund water system capital improvements. KUB's Water Division also issued Series X 2012 bonds to retire Series Q 2004 bonds. During fiscal year 2013, KUB's Water Division issued Series Y 2013 bonds to retire a portion of outstanding Series R 2005 bonds. During fiscal year 2014, KUB's Water Division issued Series Z 2013 bonds to fund water system capital improvements. In prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $16.6 million at June 30, 2014, and the trust account assets are not included in the financial statements.

During fiscal year 2006, KUB's Wastewater Division issued Series 2005A bonds for the purpose of funding wastewater system capital improvements and to pay off a previously issued $30 million revenue anticipation note (line of credit), which was used to fund capital improvements to the wastewater system. KUB's Wastewater Division also issued Series 2005B bonds in part to retire certain existing debt and fund wastewater system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series 1998 bonds and Series 2001A bonds, as such amounts mature. During fiscal year 2008, KUB's Wastewater Division issued Series 2007 bonds in part to pay off the outstanding balance on a previously issued revenue anticipation note (line of credit), and to fund wastewater system capital improvements. During fiscal year 2009, KUB's Wastewater Division issued Series 2008 bonds to fund wastewater system capital improvements. During fiscal year 2010, KUB's Wastewater

Division issued Series 2010 bonds to fund capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change. KUB's Wastewater Division also issued Series 2010B bonds to retire Series 2001 bonds. During fiscal year 2011, KUB's Wastewater Division issued Series 2010C bonds to fund capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change. During fiscal year 2012, KUB's Wastewater Division issued Series 2012A bonds to retire Series 2004A bonds. During fiscal year 2013, KUB's Wastewater Division issued Series 2012B bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2013A bonds to retire a portion of outstanding Series 2005A bonds. In prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $120.8 million at June 30, 2014, and the trust account assets are not included in the financial statements.

7. Lease Commitments

KUB has non-cancelable operating lease commitments for office equipment and vehicles, summarized for the following fiscal years:

2015	$	56,954
2016		20,544
2017		2,142
Total operating minimum lease payments	$	79,640

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8. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning 6/30/2013	Increase	Decrease	Ending 06/30/2014
Production Plant (Intakes)	$ 742,503	$ -	$ -	$ 742,503
Pumping and Treatment Plant	240,400,730	29,498,352	(1,483,039)	268,416,043
Distribution and Collection Plant				
Mains and metering	767,483,370	74,884,846	(14,882,511)	827,485,705
Services and meters	145,143,930	6,505,287	(1,442,417)	150,206,800
Electric station equipment	114,555,002	6,885,926	(476,777)	120,964,151
Poles, towers and fixtures	114,380,474	14,300,504	(4,352,351)	124,328,627
Overhead conductors	112,732,790	9,216,310	(1,781,000)	120,168,100
Line transformers	86,755,917	5,304,894	(1,957,010)	90,103,801
Other accounts	267,823,038	16,146,654	(1,649,477)	282,320,215
Total Distribution & Collection Plant	$ 1,608,874,521	$ 133,244,421	$ (26,541,543)	$ 1,715,577,399
General Plant	137,331,993	11,294,651	(2,453,793)	146,172,851
Total Plant Assets	$ 1,987,349,747	$ 174,037,424	$ (30,478,375)	$ 2,130,908,796
Less Accumulated Depreciation	(681,775,954)	(55,192,036)	30,103,327	(706,864,663)
Net Plant Assets	$ 1,305,573,793	$ 118,845,388	$ (375,048)	$ 1,424,044,133
Work In Progress	160,097,345	135,673,684	(170,941,286)	124,829,743
Total Net Plant	$ 1,465,671,138	$ 254,519,072	$ (171,316,334)	$ 1,548,873,876

9. Risk Management

KUB is exposed to various risks of loss related to active and retiree medical claims; injuries to workers; theft of, damage to, and destruction of assets; environmental damages; and natural disasters. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2014, the amount of these liabilities was $1,572,570 resulting from the following changes:

	2014	2013
Balance, beginning of year	$ 1,733,984	$ 1,827,920
Current year claims and changes in estimates	12,105,053	12,256,762
Claims payments	(12,266,467)	(12,350,698)
Balance, end of year	$ 1,572,570	$ 1,733,984

10. Pension Plan

Description of Plan

The Plan is a single-employer contributory, defined benefit pension plan established by Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville § 1107(J). The Plan is designed to provide retirement, disability and death benefits. The Plan is a governmental plan as defined by the Employee Retirement Income Security Act of 1974, is not subject to any of the provisions of the Act, and was revised January 1, 2014 to include all prior approved amendments.

At December 31, 2013, the Plan had approximately 639 retirees and beneficiaries currently receiving benefits and 49 terminated employees entitled to benefits but not yet receiving them. Of the approximately 778 current employees in the Plan, 743 were fully vested at December 31, 2013. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

Effective January 1, 2011, KUB froze the Plan such that persons employed or re-employed by KUB on or after January 1, 2011, shall not be eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the Plan.

The Plan provides three different benefit arrangements for KUB participants, retirees, and beneficiaries, as follows:

Career Equity Program (CEP)
CEP is for eligible employees hired on or after January 1, 1999, and for eligible former City System Plan A members who elected CEP coverage as of July 1, 1999. CEP is a closed plan.

All eligible employees became participants on the date of his/her KUB employment. Participants are covered by Social Security. Participation in CEP does not require or permit employee contributions.

Plan A
Plan A benefits are for former City System Plan A active employees, vested terminated employees, retirees, and beneficiaries. Plan A is a closed plan.

All employees participating in the City System Plan A as of June 30, 1999 were eligible to participate in KUB's Plan A or the CEP program. Participants of Plan A are covered by Social Security. Plan A is a closed plan and is not available to KUB employees hired after July 1, 1999. Participation in Plan A requires employee contributions of 3 percent of the first $4,800 of annual earnings and 5 percent of annual earnings in excess of $4,800. Plan A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or older.

Plan B
Plan B benefits are for former City System Plan B active employees, vested terminated employees, retirees, and beneficiaries. Plan B is a closed plan.

All employees participating in the City System Plan B as of June 30, 1999 are eligible to participate in KUB's Plan B. Plan B is now a closed plan and no participants can be added. Participants of Plan B are not covered by Social Security. Participation in Plan B requires employee contributions of 4 percent of annual earnings. Plan B provides for retirement benefits after 25 years of service and the attainment of age 50.

Funding Policy

For the Plan year ended December 31, 2013, a contribution of $6,314,399 will be made in the Plan sponsor's fiscal year ending June 30, 2015. The contribution was determined as part of the January 1, 2013 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death. For the Plan year ended December 31, 2013, the Plan's actuarial funded ratio was 89.3 percent.

At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund, is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

Significant actuarial assumptions used in the valuation include (a) rate of return of investments of 8 percent, (b) the RP2000 Mortality Table, (c) annual projected salary increases based on participants' ages ranging from age 25 to age 65 with salary increases from 2.58 percent to 7.92 percent, and (d) cost of living adjustment of 2.8 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period.

As of the actuarial report for the Plan year ended December 31, 2013, contributions of $6,314,399 and $5,502,677 for 2013 and 2012, respectively, will be made during the Plan sponsor's fiscal years ending June 30, 2015 and 2014, respectively.

Subsequent to June 30, 2014, the actuarial valuation for the Plan year ending December 31, 2014 was completed. The actuarial valuation resulted in an actuarially determined contribution of $5,669,380 for the fiscal year ending June 30, 2016, based on the Plan's current funding policy. For the Plan year ending December 31, 2014, the Plan's actuarial funded ratio was 94.6 percent. See Required Supplementary Information for Pension Schedule of Funding Progress.

11. Defined Contribution Plan

KUB has a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees. Employees hired prior to January 1, 2011 may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. Employees hired on or after January 1, 2011 have an enhanced 401(k) Plan due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. They also receive a nonelective KUB contribution of from 3 percent to 6 percent, depending on years of service, whether they contribute or not.

Since July 1, 2000, 401(k) matching contributions for employees eligible to participate in the KUB Pension Plan have been funded by the Pension Plan. These funds are held by the Pension trustee until eligible for distribution. IRS rules permit the funding of 401(k) matching contributions from excess pension assets for employees covered under the Pension Plan. Given the current funding level of the Pension Plan, effective July 1, 2011, KUB began to reimburse the Pension Plan for the current matching contributions. The match and nonelective contributions for employees hired on or after January 1, 2011 are paid directly by KUB.

12. Other Post-Employment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) established new standards for the measurement, recognition, and reporting of other post-employment benefits (OPEB). OPEB includes post-employment benefits other than pension, which, for KUB, is presently limited to post-employment health care. GASB Statement No. 45 (Statement No. 45) requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the total unfunded liability. Statement No. 45 was effective for KUB for the fiscal year beginning July 1, 2007.

KUB currently provides post-employment health care benefits to 604 former employees and 619 covered dependents. The cost of coverage is shared with retirees and beneficiaries. KUB recognizes its share of the cost of post-employment health care benefits as an expense as claims are paid.

In anticipation of Statement No. 45, KUB amended its Group Health Plan in 1999, eliminating post-employment health care benefits for all employees hired on or after July 1, 1999. As of June 30, 2014, 399 active employees were eligible for individual and dependent coverage at separation. To qualify, the employee must meet the Rule of 80 (age plus years of service) with a minimum of 20 years of service, and be enrolled in medical coverage on their last day.

In May 2006, the state of Tennessee adopted Tennessee Code Annotated, Title 8, Chapter 50, Part 12 authorizing governmental entities to establish Trusts for the purpose of pre-funding their respective OPEB liabilities.

Although Statement No. 45 does not require pre-funding of the liability, KUB has determined that it is in the long-term economic interest of KUB and its ratepayers to establish a Trust to pre-fund KUB’s OPEB liability.

In October 2007, the KUB Board authorized the establishment of an OPEB Trust. The applicable documentation was submitted to the State Funding Board and, in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008.

The Trust issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

The general administration and responsibility for the proper operation of the Trust is governed by a Board of Trustees, appointed by KUB’s President & CEO. The investment of all deposits to the Trust is governed by an Investment Policy, which was adopted by the KUB Board and approved by the State Funding Board.

Total contributions to the OPEB Trust for the fiscal year ended June 30, 2014 were $4,057,091. The contribution to the Trust exceeded the annual actuarially determined contribution, as determined by the Postretirement Benefit Plan’s actuarial valuation for the year ended December 31, 2012, which was $3,327,412. As of June 30, 2014, the employer’s OPEB obligation has been exceeded by $177,322.

The actuarially determined contribution for the fiscal year ending June 30, 2015, as determined by the Plan’s actuarial valuation for the year ended December 31, 2013 is $3,497,372.

The actuarial valuation for the Plan for the year ending December 31, 2014 has been completed. The valuation determined that the Plan’s actuarial accrued liability was $46,889,808. The actuarial value of the Plan’s assets was $43,409,955. As a result, the Plan’s unfunded actuarial accrued liability was $3,479,853. The Plan’s actuarial funded ratio was 93 percent. The valuation also determined that the employer’s actuarially determined contribution is $953,221 for the fiscal year ending June 30, 2016. See Required Supplementary Information for OPEB Schedule of Funding Progress.

13. Related Party Transactions

KUB, in the normal course of operations, is involved in transactions with the City of Knoxville. Such transactions for the years ended June 30, 2014 and 2013 are summarized as follows:

	2014	2013
City of Knoxville		
Amounts billed by KUB for utilities and related services	$ 11,887,645	$ 12,126,434
Payments by KUB in lieu of property tax	14,646,323	14,172,900
Payments by KUB for services provided	2,255,362	776,724

With respect to these transactions, accounts receivable from and accounts payable to the City of Knoxville included in the balance sheet at year end were:

	2014	2013
Accounts receivable	$ 632,000	$ 935,773

14. Natural Gas Supply Contract Commitments

For fiscal year 2014, the Gas Division hedged 50 percent of its total gas purchases via gas supply contracts. As of June 30, 2014, the Gas Division had hedged the price on approximately 11 percent of its anticipated gas purchases for fiscal year 2015.

KUB contracts separately for the purchase, transportation and storage of natural gas. Purchase commitments for the next five years are as follows:

Firm obligations related to purchased gas – demand

	2015	2016	2017	2018	2019
Transportation					
Tennessee Gas Pipeline	$ 7,228,236	$ 2,409,412	$ -	$ -	$ -
East Tennessee Natural Gas	10,066,388	3,355,463	-	-	-
Storage					
Tennessee Gas Pipeline	2,076,288	692,096	-	-	-
East Tennessee Natural Gas	757,460	252,487	-	-	-
Saltville Natural Gas	1,854,180	1,854,180	1,531,650	564,060	423,045
Demand Total	$ 21,982,552	$ 8,563,638	$ 1,531,650	$ 564,060	$ 423,045

Firm obligations related to purchased gas – commodity

	2015	**2016**	**2017**	**2018**	**2019**
Baseload					
Conoco	$ 2,267,815	$ -	$ -	$ -	$ -
Equitable	3,552,262	-	-	-	-
Shell Energy	1,960,660				
CNX	3,519,055	3,519,055	-	-	-
Commodity Total	$ 11,299,792	$ 3,519,055	$ -	$ -	$ -

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for Conoco and Shell Energy are based upon firm supply obligations at locked prices with those suppliers. The firm obligations value for the CNX and Equitable contracts are based upon firm supply obligations and the applicable four month NYMEX strip prices on June 30, 2014.

15. Other Commitments and Contingencies

In the normal course of business, there are various lawsuits pending against KUB. Management has reviewed these lawsuits with counsel, who is vigorously defending KUB's position and is of the opinion that the ultimate disposition of these matters will not have a material adverse effect on KUB's financial position, results of operations or cash flows.

In February 2005, a Consent Decree was entered into federal court regarding the operation of KUB’s wastewater system. Under the terms of the Consent Decree, the remediation of identified sanitary sewer overflows (“SSOs”) on KUB’s wastewater system must be completed by June 30, 2016. Through its PACE 10 program, KUB is addressing the terms of the Consent Decree. PACE 10 is an accelerated ten-year program to help improve Knoxville’s waterways, the quality of life, and the economic well being of the community. The Consent Decree also required KUB to perform an evaluation of the wet-weather performance and capacity of its wastewater treatment plants.

In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB’s Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the “BEHRC”) secondary treatment system to be installed at the Fourth Creek treatment plant by June 30, 2018, and at the Kuwahee treatment plant by June 30, 2021. The total cost of such improvements is estimated to be approximately $120 million.

KUB’s funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2014, the Wastewater Division had issued $425 million in bonds to fund system capital improvements since the inception of the Consent Decree. The KUB Board of Commissioners approved two 50 percent rate increases, which went into effect in April 2005 and January 2007, respectively. The Board also approved an 8 percent rate increase, which was effective in September 2008, and two 12 percent rate increases, which were effective in April 2011 and October 2012, respectively. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB completed its tenth full year of wastewater operations under the requirements of the federal Consent Decree. All collection system projects required under the federal Consent Decree were completed as of June 30, 2014.

16. Segment Information

The following financial information represents identifiable activities for which the revenue bonds and other revenue backed debt are outstanding for the respective divisions:

Condensed Statement of Net Position

	2014			
	Electric	**Gas**	**Water**	**Wastewater**
Assets and Deferred Outflows of Resources				
Current assets	$ 109,653,604	$ 70,780,746	$ 33,381,469	$ 37,830,530
Restricted assets	11,604,449	4,244,640	2,888,739	7,023,709
Net capital assets	445,495,022	221,371,550	239,705,687	642,301,617
Other assets	28,818,241	8,549,839	6,589,557	17,849,571
Total assets	$ 595,571,316	$ 304,946,775	$ 282,565,452	$ 705,005,427
Deferred outflows of resources	1,415,368	511,898	$ 260,151	$ 10,064,386
Total assets and deferred outflows of resources	$ 596,986,684	$ 305,458,673	$ 282,825,603	$ 715,069,813
Liabilities and Deferred Inflows of Resources				
Current liabilities	$ 88,779,761	$ 18,827,048	$ 9,060,170	$ 17,940,056
Other liabilities	19,997,416	3,354,987	1,524,137	2,038,918
Long-term debt	171,005,000	107,215,000	119,745,000	441,035,000
Total liabilities	$ 279,782,177	$ 129,397,035	$ 130,329,307	$ 461,013,974
Deferred inflows of resources	4,220,243	1,744,056	$ 383,669	$ 56,509
Total liabilities and deferred inflows of resources	$ 284,002,420	$ 131,141,091	$ 130,712,976	$ 461,070,483
Net position				
Invested in capital assets, net of related debt	$ 262,994,767	$ 107,234,408	$ 116,197,169	$ 201,947,494
Restricted	7,955,720	1,725,103	1,219,136	2,263,063
Unrestricted	42,033,777	65,358,071	34,696,322	49,788,773
Total net position	$ 312,984,264	$ 174,317,582	$ 152,112,627	$ 253,999,330

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Condensed Statement of Revenues, Expenses and Changes in Net Position

	2014			
	Electric	**Gas**	**Water**	**Wastewater**
Operating revenues	$ 527,832,791	$ 117,145,734	$ 39,373,714	$ 75,041,645
Operating expenses	485,298,618	92,390,649	25,913,424	33,744,494
Provision for depreciation & amortization	23,190,530	9,674,685	6,933,752	16,086,344
Total operating expenses	508,489,148	102,065,334	32,847,176	49,830,838
Operating income	19,343,643	15,080,400	6,526,538	25,210,807
Non-operating expense	(7,662,103)	(4,452,600)	(5,205,074)	(19,808,447)
Change in net position before capital contributions	11,681,540	10,627,800	1,321,464	5,402,360
Capital contributions	306,250	-	157,859	271,650
Change in net position	11,987,790	10,627,800	1,479,323	5,674,010
Net position				
Beginning of year	300,996,474	163,689,782	150,633,304	248,325,320
End of year	$ 312,984,264	$ 174,317,582	$ 152,112,627	$ 253,999,330

Condensed Statement of Cash Flows

	2014			
	Electric	**Gas**	**Water**	**Wastewater**
Net cash provided by operating activities	$ 42,266,527	$ 26,236,760	$ 10,882,313	$ 36,836,466
Net cash used in capital and related financing activities	(78,746,408)	(1,141,280)	(4,463,650)	(68,398,367)
Net cash provided by (used in) investing activities	7,366,073	(1,184,190)	(3,363,442)	14,064,454
Net increase (decrease) in cash and cash equivalents	(29,113,808)	23,911,290	3,055,221	(17,497,447)
Cash and cash equivalents, beginning of year	60,586,059	20,102,921	12,123,240	32,911,366
Cash and cash equivalents, end of year	$ 31,472,251	$ 44,014,211	$ 15,178,461	$ 15,413,919

Knoxville Utilities Board
Required Supplementary Information - Schedule of Funding Progress
June 30, 2014
(Unaudited)

Pension Plan

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2010	$ 203,704,898	$ 190,679,453	$ (13,025,445)	106.8%	$ 48,228,428	(27.01%)
January 1, 2011	195,692,781	187,257,434	(8,435,347)	104.5%	47,405,874	(17.79%)
January 1, 2012	183,980,665	195,536,152	11,555,487	94.1%	48,836,721	23.66%
January 1, 2013	175,936,548	197,049,614	21,113,066	89.3%	47,553,598	44.40%
January 1, 2014	188,770,336	199,515,466	10,745,130	94.6%	47,107,350	22.81%

Other Post-Employment Benefits (OPEB)

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2008	$ -	$ 108,329,141	$ 108,329,141	0%	$ 31,234,509	346.8%
January 1, 2009	14,593,487	100,726,738	86,133,251	14%	31,846,091	270.5%
January 1, 2010	21,275,643	58,475,364	37,199,721	36%	30,069,028	123.7%
January 1, 2011	40,749,815	64,289,254	23,539,439	63%	28,878,791	81.5%
January 1, 2012	37,907,357	61,603,466	23,696,109	62%	28,269,123	83.8%
January 1, 2013	38,571,803	63,341,531	24,769,728	61%	27,566,340	89.9%
January 1, 2014	43,409,955	46,889,808	3,479,853	93%	26,724,154	13.0%

Knoxville Utilities Board
Supplemental Information –
Schedule of Expenditures of Federal Awards by Grant
June 30, 2014

Schedule 1

KUB was awarded a grant from the Department of Energy in October 2009, under DOE's Smart Grid Investment Grant Program. The grant, which totals $3.58 million, will be used to help fund a smart grid pilot project in the University of Tennessee and surrounding areas. This grant was fully expended as of June 30, 2014. KUB was also awarded two grants from Tennessee Emergency Management Agency (as a flow through from FEMA) for reimbursement for costs related to storms in 2011. The schedule below shows the activities for the current fiscal year.

Program Name	Federal/State Agency	CFDA Number	Contract Number	Beginning Receivable	Cash Receipts	Expenditures	Adjustments	Ending Receivable
ARRA-Electricity Delivery and Energy Reliability, Research, Development and Analysis	Department of Energy	81.122	DE-OE0000405	$ -	$ 271,271	$ 271,271	$ -	$ -
		Total Program 81.122		$ -	$ 271,271	$ 271,271	$ -	$ -
U.S. Department of Homeland Security	Tennessee Emergency Management	97.036	34101-0000009205	$ 613,213	$ 83,212	$ -	$ -	$ 530,001
U.S. Department of Homeland Security	Tennessee Emergency Management	97.036	34101-0000009832	$ 983,465	$ -	$ -	$ -	$ 983,465
		Total Program 97.036		$ 1,596,678	$ 83,212	$ -	$ -	$ 1,513,466
		Total Federal Awards		$ 1,596,678	$ 354,483	$ 271,271	$ -	$ 1,513,466

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Knoxville Utilities Board and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Crime
Covers losses resulting from employee dishonesty, robbery, burglary, and computer fraud. Limits of coverage - $5,000,000; $250,000 retention.

Directors' and Officers' Liability Insurance
Covers KUB personnel appropriately authorized to make decisions on behalf of KUB (including but not limited to Commissioners, President and CEO, Senior Vice Presidents, Vice Presidents, and Directors) for wrongful acts. Limits of coverage - $20,000,000; $1,000,000 corporate deductible, $0 individual deductible.

Employment Practices Liability
Coverage for costs related to actual or alleged employment practices violations for amounts exceeding specified amount ($500,000). Limits of coverage - $10,000,000.

Fiduciary
Covers losses resulting from wrongful acts related to KUB's Pension, 401(k), and OPEB Trust funds. Limits of coverage - $10,000,000; $150,000 deductible.

Pollution Legal Liability
New conditions coverage for losses exceeding specified amount per occurrence ($1,000,000). Limits of coverage - $20,000,000.

Property Insurance
This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - $250,000,000 per occurrence (subject to certain sublimits); $2,500,000 deductible per occurrence.

Travel Accident
Covers losses related to employees' business travel. Limits of coverage - $1,500,000 aggregate.

Excess Insurance for General Liability
As a government entity, KUB's liability is limited under the Tennessee Governmental Tort Liability Act (TCA §29-20-403). KUB is self-insured for up to the first $700,000 of any accident and has insurance of $1,000,000 above this retention.

Excess Insurance for Workers' Compensation
Covers all losses exceeding specified amount per occurrence ($1,000,000). Limits of coverage - Statutory; stop loss coverage applies for aggregate losses over $5,000,000.

Employee Health Plan Stop Loss Coverage
KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of $400,000 per individual participant.

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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*

To the Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Knoxville Utilities Board ("KUB", (an independent agency reported as a component unit for financial purposes only) of Knoxville, Tennessee, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements, and have issued our report thereon dated October 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered KUB'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KUB's internal control. Accordingly, we do not express an opinion on the effectiveness of KUB's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KUB'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*.

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 KUB's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KUB's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2014

SUMMARY OF CERTAIN PROVISIONS
OF
ELECTRIC BOND RESOLUTION

SUMMARY OF CERTAIN PROVISIONS OF THE ELECTRIC BOND RESOLUTIONS

The following statements are brief summaries of certain provisions of the Electric Bond Resolutions, copies of which are available for examination at the offices of the Board. Terms defined in the Electric Bond Resolutions and not defined below or elsewhere in this Official Statement shall have the meaning set forth in the Electric Bond Resolutions. Section numbers refer to sections of Resolution No. 1644 as supplemented by Resolution No. 2171, Resolution No. 3491, Resolution No. R-317-90, Resolution No. R-469-92, Resolution No. R-472-93, Resolution No. R-95-95, Resolution No. R-422-98, Resolution No. R-64-01, Resolution No. R-148-01, Resolution No. R-480-01, Resolution No. R-59-04, Resolution No. R-261-05, Resolution No. R-78-06, Resolution No. R-251-08, Resolution No. R-332-2010, Resolution No. R-335-2011, Resolution No. R-289-2012, Resolution No. R-321-2012, Resolution No. R-213-2014, Resolution No. R-81-2015 and Resolution No. R-129-2015 (collectively, the "Resolution").

Security

The Series FF-2015 Bonds constitute and, when issued will be Bonds under the Resolution. All Series FF-2015 Bonds are limited obligations of the City, payable solely and ratably from the net revenues of the Electric System of the City and are on parity with each other in all respects.

The Series FF-2015 Bonds will be issued pursuant to the Resolution which sets forth in detail covenants of the City with respect to the Series FF-2015 Bonds. The following summary is a brief outline of certain provisions contained in the Resolution and is not to be considered as a full statement thereof. This summary is qualified by reference to and is subject to the Resolution, copies of which may be examined at the office of the Board.

Certain Definitions

"Accreted Value" shall mean, with respect to any Capital Appreciation Debt, an amount equal to the principal amount of such Capital Appreciation Debt (determined on the basis of the principal amount per $5,000 at maturity thereof) plus the amount assuming semi-annual compounding of earnings which would be produced on the investment of such principal amount, beginning on the dated date of such Capital Appreciation Debt and ending at the date such Accreted Value is calculated, at a yield which, if produced until maturity, will produce $5,000 at maturity. As of any Valuation Date, the Accreted Value of any Capital Appreciation Debt shall mean the amount set forth for such date in the resolution authorizing such Capital Appreciation Debt, which amount shall be required to be determined in the manner described above, and as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date and (2) the difference between the Accreted Values for such Valuation Dates.

"Aggregate Debt Service" for any period shall mean, as of any date of calculation, the sum of the amounts of Debt Service for such period with respect to all indebtedness with respect to which such calculation is required to be made for such period.

"Balloon Date" shall mean any maturity date for Balloon Indebtedness in a Balloon Year.

"Balloon Indebtedness" shall mean any bonds, notes or other indebtedness of the Board or the City, on behalf of the Board, other than Short-Term Indebtedness, twenty-five percent 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 twenty-five percent or more is not to be amortized to below twenty-five percent by mandatory redemption prior to the beginning of such twelve month period.

"Balloon Year" shall mean any 12-month period in which more than 25% of the original principal amount of related Balloon Indebtedness matures or is subject to mandatory redemption by the Authority.

"Capital Appreciation Debt" shall mean any bonds, notes or other indebtedness of the Board or of the City on behalf of the Board as to which interest is payable only at the maturity or prior redemption of such bonds.

"Commitment," when used with respect to Balloon Indebtedness, shall mean a binding written commitment from a financial institution, surety, or insurance company to refinance such Balloon Indebtedness on or prior to any Balloon Date thereof.

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

"Current Operating Expenses" 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 indebtedness), insurance expenses, taxes and other governmental charges, the imposition or amount of which is not subject to control of the Board or the City, any payments made by the Board during any fiscal year to purchase electrical power for delivery during or after the end of that fiscal year, and other payments made under any electrical power supply contract, and any principal or interest payments made by the 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. Current Operating Expenses do not include depreciation or obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, interest charges and charges for the payment of principal or amortization of bonded or other indebtedness of the Board or the City, on behalf of the Board, payable from 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 Board or expenses of a system that is merged into the System, as permitted hereunder, if revenues of the merged system are not included in Revenues at the election of the Board. If the Board operates its utilities as a Combined System, as defined herein, Current Operating Expenses shall be deemed to refer to the Current Operating Expenses of the Combined System.

"Debt Service" for any period shall mean, as of any date of calculation and with respect to the indebtedness with respect to which such calculation is being made, an amount equal to (i) the interest accruing during such period on such indebtedness plus (ii) the portion of each Principal Installment which would accrue during such period if such Principal Installment were deemed to accrue periodically in equal amounts from the next preceding Principal Installment due date for such indebtedness (or, if there shall be no such preceding Principal Installment due date, from a date of issuance of the indebtedness). For purposes of this definition:

(a) The principal and interest portions of the Accreted Value of Capital Appreciation Debt becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of accrued and unpaid and accruing interest or Principal Installments in such manner and during such period of time as is specified in the resolution authorizing such Capital Appreciation Debt.

(b) The annual principal and interest requirement on Short-Term Indebtedness shall be calculated as that amount necessary to amortize the Short-Term Indebtedness from the date it was issued over twenty (20) years in twenty (20) approximately equal annual payments of principal and interest using an assumed interest rate (which shall be the interest rate as of the date of issuance or the date of calculation, whichever is less, certified by a Financial Advisor to be the interest rate at which the City on behalf of the Board could reasonably expect to borrow the same amount by issuing indebtedness with the same priority of lien as such Balloon Indebtedness and with a 20-year term).

(c) With respect to any Variable Rate Indebtedness, including Hedged Indebtedness if the interest thereon calculated as set forth below is expected to vary, the interest coming due in any specified future period shall be determined as if the interest rate in effect at all times during such future period was, at the option of the Board, either (1) the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period), or (2) the current average annual fixed rate of interest on securities of similar quality having a similar maturity date as certified by a Financial Advisor.

(d) With respect to any Hedged Indebtedness, the interest on such Hedged Indebtedness during any Hedge Period and for so long as the provider of the related Hedge Agreement has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by the City or the Board on such Hedged Indebtedness pursuant to its terms and (y) the amount of Hedge Payments payable by the City or the Board under the related Hedge Agreement and subtracting (z) the amount of Hedge Receipts payable by the provider of the related Hedge Agreement at the rate specified in the related Hedge Agreement; provided, however, that to the extent that the provider of any Hedge Agreement is in default thereunder, the amount of interest payable by the City or the Board on the related Hedged Indebtedness shall be the interest calculated as if such Hedge Agreement had not been executed. In determining the amount of Hedge Payments or Hedge Receipts that are not fixed throughout the Hedge Period (i.e., which are variable), payable or receivable for any future period, such Hedge Payments or Receipts for any period of calculation (the "Determination Period") shall be computed by assuming that the variables comprising the calculation (e.g., indices) applicable to the Determination Period are equal to the average of the actual variables which were in effect (weighted according to the length of the period during which each such variable was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period).

(e) With respect to Balloon Indebtedness (1) which is subject to a Commitment or (2) which does not have a Balloon Year commencing within 12 months from the date of calculation, 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 20 years from the date of issuance at an assumed interest rate (which shall be the interest rate as of the date of issuance or the date of calculation, whichever is less, certified by a Financial Advisor to be the interest rate at which the City on behalf of the Board could reasonably expect to borrow the same amount by issuing indebtedness with the same priority of lien as such Balloon Indebtedness and with a 20-year term); provided, however, that if the maturity of such Balloon Indebtedness (taking into account the term of any Commitment) 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 (including the Commitment) and at the interest rate provided above. For the purpose of calculating the Debt Service Requirement on Balloon Indebtedness (a) which are not subject to a Commitment and (b) which have a Balloon Year commencing within 12 months from the date of calculation, the principal payable on such Balloon Indebtedness during the Balloon Year shall be calculated as if paid on the Balloon Date.

(f) The principal of and interest on Parity Indebtedness and Hedge Payments shall be excluded from the determination of Debt Service to the extent that the same were or are expected to be paid with amounts on deposit on the date of calculation (or proceeds of indebtedness to be deposited on the date of issuance of any proposed Parity Indebtedness) in a fund established for such purpose.

"Financial Advisor" shall mean an investment banking or financial advisory firm or commercial bank who or which is retained by the Board for the purpose of passing on questions relating to the availability and terms of specified types of indebtedness and is actively engaged in and, in the good faith opinion of the Board, has a favorable reputation for skill and experience in underwriting or providing financial advisory services in respect of similar types of securities.

"Fiscal Year" shall mean the twelve month period beginning July 1 of each year and ending June 30 of the following year.

"Hedge Agreement" shall mean, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement, or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors, collars, or caps, options, puts, or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate, or other financial risk; and (v) any other type of contract or arrangement that the Board determines is to be used, or is intended to be used, to manage or reduce the cost of any indebtedness or other obligations, to convert any element of any indebtedness or other obligations from one form to another, to maximize or increase investment return, to minimize investment return risk, or to protect against any type of financial risk or uncertainty. A Hedge Agreement shall not include any commodity hedge agreement or similar arrangement. For purposes of Resolution No. 1644, as amended, a Hedge Agreement shall be deemed not to have any principal amount for purposes of obtaining consents or approvals of holders of Parity Indebtedness or for otherwise determining the amount of Outstanding Parity Indebtedness.

"Hedged Indebtedness" shall mean any indebtedness or other obligation for which the Board or the City, on behalf of the Board, shall have entered into a Qualified Hedge Agreement.

"Hedge Payments" shall mean amounts payable by the Board or the City, on behalf of the Board, pursuant to any Hedge Agreement, other than termination payments, fees, expenses, and indemnity payments.

"Hedge Period" shall mean the period during which a Hedged Agreement is in effect.

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

"Maximum Annual Aggregate Debt Service" shall mean the maximum Aggregate Debt Service in the Fiscal Year during which such calculation is made or any future Fiscal Year.

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

"Outstanding Parity Indebtedness" shall mean any Parity Indebtedness that is outstanding under the Resolution or other document under which such Parity Indebtedness is issued.

"Parity Indebtedness" shall mean bonds, notes, loan agreements, and other debt obligations, including Balloon Indebtedness, Short-Term Indebtedness, Variable Rate Indebtedness and Hedge Agreements (but only to the extent of Hedge Payments), issued by or entered into by the Board or by the City on behalf of the Board on a parity of lien under the Resolution 1644 in accordance with the restrictive provisions of the Resolution described herein, including any bonds, notes, loan agreements or other obligations secured by a pledge of and/or lien on a Merged System and the revenues derived from the operation of such Merged System, as defined herein, (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 Merged System is not being operated separately from the System as is permitted herein.

"Principal Installment" shall mean, as of the date of calculation and with respect to the indebtedness with respect to which the calculation is being made, (i) the principal amount of the indebtedness due on a certain future date for which no Sinking Fund Installments have been established, (ii) Sinking Fund Installment due on a certain future date for such indebtedness and (iii) if such future dates coincide, the sum of such principal amount and any such Sinking Fund Installment.

"Qualified Hedge Provider" shall mean an entity whose senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, or whose payment obligations under the related Hedge Agreement are absolutely and unconditionally guaranteed or insured or collateralized by an entity whose senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, are rated either (i) at least as high as "A" or better by Standard & Poors' Rating Group (or any successor thereto) ("S&P") or "A2" or better by Moody's Investors Services, Inc. (or any successor thereto) ("Moody's") (the "Initial Rating Requirement") and such entity maintains a rating on its debt or claims paying ability of not less than "A-" from S&P or "A3" from Moody's (the "Minimum Rating Requirement"); provided that this requirement shall be deemed to have been met, even if the rating of such entity is reduced below the Minimum Rating Requirement, if such entity is replaced with an entity meeting the Initial Rating Requirement within twenty business days from when the Board receives notice that the Minimum Rating Requirement has not been met. An entity's status as a Qualified Hedge Provider is made as of the time the applicable calculation is made.

"Revenues" shall mean all revenues, rentals, earnings and income of the System from whatever source, determined in accordance with generally accepted accounting principles, including all revenues derived from the operation of the System; proceeds from the sale of property; proceeds of insurance and condemnation awards and compensation for damages, to the extent not applied to the payment of the cost of repairs, replacements and improvements; and all amounts realized from the investment of money in the accounts and funds of the System (excluding any investment earnings from construction or improvement funds created for the deposit of bond, note, or loan agreement proceeds pending use, to the extent such income is applied to the purposes for which the bonds, notes or loan agreement were issued, and funds created to refund any outstanding obligations payable from Revenues of the System) and at the election of the Board, shall not include any rates, fees, rentals or other charges or other income received by the Board from the operation of a Merged System.

"Short-Term Indebtedness" shall mean bonds, notes or other obligations, including Variable Rate Indebtedness, maturing five (5) years or less from their date of issuance which are issued in anticipation of the issuance of revenue bonds the proceeds of which will be used to pay the Short-Term Indebtedness.

"Sinking Fund Installment" shall mean, as of any particular date of calculation, the amount required to be paid on a certain future date for the retirement of Outstanding Parity Indebtedness which mature after said future date, but does not include any amount payable by reason of the maturity of an Outstanding Parity Indebtedness or by call for redemption at the election of the Board or the City on behalf of the Board.

"Valuation Date" shall mean with respect to any Capital Appreciation Indebtedness, the date or dates set forth in the resolution authorizing such Capital Appreciation Bonds on which specific Accreted Values are assigned to the Capital Appreciation Bonds.

"Variable Rate Indebtedness" shall mean any bonds, notes or other obligations of the Board or the City, on behalf of the Board, the interest rate on which is subject to periodic adjustment, at intervals, at such times and in such manner as shall be determined by the resolution authorizing such indebtedness, provided that if the interest rate shall have been fixed for the remainder of the term thereof (including a fixed rate pursuant to a Hedge Agreement with a Qualified Hedge Provider), it shall no longer be Variable Rate Indebtedness.

The term "Bonds" in Resolution No. 1644 shall for all purposes have the same meaning as "Parity Indebtedness" described above unless the context clearly requires otherwise, and notwithstanding any provision of Resolution No. 1644 to the contrary, any Parity Indebtedness issued on a parity of lien under the Resolution, as amended, may be in such form, may be executed in such manner, may be payable upon such terms and upon such dates, may be subject to such registration provisions, may be designated in such manner, may be issued for such purpose and may be issued pursuant to such applicable laws as is provided in the resolution authorizing such Parity Indebtedness.

Pledge of Revenues

The punctual payment of principal and premium, if any, and interest on all Parity Indebtedness and Hedge Payments with respect to Parity Indebtedness shall be payable from and secured equally and ratably by the Net Revenues of the System, without priority by reason of number or time of sale or execution or delivery and such Net Revenues are irrevocably pledged to the punctual payment of such principal, premium, interest and Hedge Payments as the same become due.

Disposition of Revenues

As long as any Parity Indebtedness shall be outstanding and unpaid either as to principal or as to interest, or until the discharge and satisfaction of the Parity Indebtedness as provided in the resolution authorizing said Parity Indebtedness, the entire income and revenues of the System shall be deposited as collected in the Revenue Fund established by the Resolution (the "Revenue Fund"), to be administered and controlled by the Board. The income and revenues deposited therein shall be used only as follows:

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

(b) The money remaining in the Revenue Fund, after payment of Current Operating Expenses, shall next be used to make deposits into a separate and special fund, to be known as the Debt Service Fund (the "Debt Service Fund"), to be kept separate and apart from all other funds of the Board and used to pay principal of and interest on Parity Indebtedness and Hedge Payments (net of Hedge Receipts) with respect thereto as the same become due, either by maturity or mandatory redemption. Such deposits shall be made monthly, or as otherwise set forth herein or in the resolution authorizing such Parity Indebtedness or Hedged Payments, until all Parity Indebtedness is paid in full or discharged and satisfied. Unless otherwise authorized in the resolution authorizing any Parity Indebtedness, for the period commencing with the month next following the delivery of the Parity Indebtedness, each monthly deposit shall be an amount that, together with all other monthly deposits of approximately equal amounts during such period and amounts otherwise in said Fund, will be equal to principal due on the Parity Indebtedness on the next principal payment date, divided by the number of months from and including the month of the first such deposit to and including the months preceding the next principal payment date; provided that, if the next principal payment date is more than 13 months following the month next following the delivery of the Parity Indebtedness, such monthly deposits to the Debt Service Fund shall commence in the month that is 13 months prior to the month of the next principal payment date. Furthermore, during such period, there shall be deposited to the Debt Service Fund monthly an amount equal to one-sixth (1/6) of the interest coming due on the next interest payment date for Parity Indebtedness (unless otherwise specified in the resolution authorizing such Parity Indebtedness).

In each month thereafter, each monthly deposit shall consist of an interest component and a principal component except as provided above. If interest is payable semi-annually, then the interest component shall be an amount equal to not less than one-sixth (1/6th) of the interest coming due on any Parity Indebtedness on the next succeeding interest payment date, unless otherwise specified in the resolution authorizing such Parity Indebtedness. Unless otherwise specified in the resolution authorizing Parity Indebtedness, the principal component shall be an amount which shall be established annually on each July 1 for all payments to be made during the ensuing twelve-month period commencing in July of each calendar year and ending in June of the following calendar year and shall be not less than one-twelfth (1/12) of the principal amounts, as the case may be, coming due, whether by maturity or mandatory redemption, on the Parity Indebtedness then outstanding during such twelve-month period. No further deposit shall be required when the Debt Service Fund balance is equal to or greater than the amount needed to pay interest coming due on the next interest payment date and the total of the principal amounts payable, either by maturity or mandatory redemption, during the applicable twelve-month period. Money in the Debt Service Fund shall be used solely and is expressly and exclusively pledged for the purpose of paying principal of and interest on Parity Indebtedness. Notwithstanding the foregoing, deposits for the payment of principal and interest on Variable Rate Indebtedness or Hedge Payments shall be made as set forth in the resolution authorizing such Variable Rate Indebtedness or Hedge Payments.

(c) The next available money in the Revenue Fund shall be paid to any issuer of an insurance policy, surety bond, letter of credit or similar instrument (a

"Reserve Fund Credit Facility") (pro rata, if more than one) to the extent needed to reimburse the issuer for any amounts advanced under the Reserve Fund Credit Facility, including any amounts payable under any guaranty agreement relating to such amounts, together with reasonable related expenses incurred by the issuer of such Reserve Fund Credit Facility and any interest relating to such amounts.

(d) The next available money in the Revenue Fund shall be deposited to any reserve fund created pursuant to any resolution authorizing Parity Indebtedness in the manner provided in such resolution.

(e) The next available money in the Revenue Fund shall be used to pay liquidity fees, remarketing agent fees and similar fees that are payable in connection with the issuance of Parity Indebtedness.

(f) The next available money in the Revenue Fund shall be used for the payment of all other payments to be made under the Parity Indebtedness not provided for in the preceding subsections including payments in connection with Hedge Agreements that are not Hedge Payments, including termination payments.

(g) The next available money in the Revenue Fund shall be used for the purpose of making payments in lieu of taxes and, to the extent not so used, may be used for any lawful purpose, including such reserve funds and other funds as the Board deems necessary and appropriate.

(h) Money on deposit in the Funds described above may be invested by the Board in such investments as shall be permitted by applicable law, as determined by an authorized representative of the Board, 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. The Board is authorized to enter into contracts with third parties for the investment of funds in any of the Funds described herein.

(i) The Revenue Fund and the Debt Service Fund shall be held and maintained by the Board 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.

Additional Indebtedness

The Series FF-2015 Bonds issued pursuant to the Resolution shall be on a parity with the Outstanding Parity Indebtedness, and with all Parity Indebtedness hereafter issued within the terms, limitations and restrictions of the Resolution, as amended.

The City has covenanted that it will incur no indebtedness payable from the revenues of the Electric System and having priority over the Series FF-2015 Bonds.

The following shall apply to the incurrence of additional Parity Indebtedness:

(a) All payments required to be made to the Debt Service Fund and into any reserve fund which may be required under resolutions authorizing Parity Indebtedness are current as of the date of issuance of the additional bonds, notes or other obligations, additional bonds, notes or other obligations may be issued or entered into by the City or the Board on a parity and equality of lien with the Outstanding Parity Indebtedness with respect to the lien and claim of such additional bonds, notes or other obligations to the net revenues of the System and the money on deposit in the Debt Service Fund for the following purposes and under the following conditions, but not otherwise:

> (i) For the purpose of refunding any Outstanding Parity Indebtedness, subordinate bonds, notes, loan agreements or other obligations, provided that after the issuance of such additional Parity Indebtedness, the Aggregate Debt Service on all Outstanding Parity Indebtedness, including the additional Parity Indebtedness to be issued, in any Fiscal Year shall not increase by more than ten percent (10%) after the issuance of such additional Parity Indebtedness.
>
> (ii) For the purpose of financing the completion or equipping of improvements to the System for which Outstanding Parity Indebtedness have previously been issued but only to the extent necessary to complete such improvements in the manner contemplated at the time of the issuance of the Outstanding Parity Indebtedness that financed such improvements.
>
> (iii) For the purposes of refunding any Outstanding Parity Indebtedness or any Prior Lien Bonds, subordinated bonds, notes or other obligations or extending, improving or replacing the System or for any other lawful purposes under applicable law, if one of the following conditions shall have been met: (A) the Net Revenues for any twelve-month period selected by the Board ending within the twelve months prior to the date of the issuance of the additional Parity Indebtedness must have been equal to at least 120% of the Maximum Annual Aggregate Debt Service on Outstanding Parity Indebtedness plus the Debt Service on the additional Parity Indebtedness proposed to be issued or (B) the estimated Net Revenues of the System for each of the three Fiscal Years next succeeding the issuance of the additional Parity Indebtedness, must be equal at least to 120% of Maximum Annual Aggregate Debt Service on the Notes, any other Outstanding Parity Indebtedness and all outstanding Prior Lien Bonds plus the Debt Service on the additional Parity Indebtedness proposed to be issued; provided, however, that if the additional Parity Indebtedness is to be issued for the acquisition or construction of any extension, improvement or replacement to the System, then the estimate of Net Revenues may be for the three Fiscal Years ensuing after the time that such improvement, extension or replacement is expected to be placed in service.
>
> (iv) For the purpose of entering into a Hedge Agreement with a Qualified Hedge Provider with respect to Outstanding Parity Indebtedness but only to the extent of Hedge Payments.

(b) In calculating Net Revenues, Debt Service and Maximum Annual Aggregate Debt Service for all purposes under the Resolution, the following adjustments and assumptions shall be made:

(i) In calculating Net Revenues on a historical basis, the amount of such Net Revenues may be adjusted to take into account any rate increase adopted by the Board that is effective prior to the date of such calculation.

(ii) In calculating projected Net Revenues for any period in the future, the amount of such Net Revenues may be adjusted to take into account any rate increase adopted by the Board that is to be effective within one year of the date of such calculation, and if such calculation is being made in connection with the issuance of Parity Indebtedness, the Net Revenues may be calculated based upon the assumption that any improvements financed with proceeds of the Parity Indebtedness will be completed within a time period established in a report of a Consulting Engineer.

(c) Any calculation or projection of Net Revenues described above, whether for a historical period or for a future period, shall be set forth in a certificate of the President and Chief Executive Officer and Chief Financial Officer of the Board and shall be delivered to the purchaser of the Parity Indebtedness. If the calculation is made as to a future period, a Consulting Engineer shall state in a report that the assumptions underlying any projections of the Board as to Net Revenues are reasonable. Any calculation of the Maximum Annual Aggregate Debt Service shall also be set forth in a certificate of the President and Chief Executive Officer and Chief Financial Officer of the Board, which certificate shall be accompanied by a certificate of a financial advisory firm to the effect that the calculation of Maximum Annual Aggregate Debt Service is correct and is in compliance with the terms of the Resolution, but such certificate of the financial advisory firm shall only be required if Variable Rate Indebtedness, Balloon Indebtedness or Short-Term Indebtedness must be taken into account in the calculation of Maximum Annual Aggregate Debt Service.

(d) Any obligation of the Board to pay amounts under a Hedge Agreement other than Hedge Payments, including a termination payment upon the termination of a Hedge Agreement, shall be a subordinate obligation to the obligations with respect to Parity Indebtedness.

Collection of Revenues

All revenues which will be received by the City from the System shall be deposited in a separate fund, which shall be kept separate and distinct from all other funds of the City, and is designated as the "Electric Fund."

Rate Covenant

The City will fix rates and collect charges for electric energy and the services, facilities and commodities furnished by the System of the City so as to provide revenues sufficient to pay, as the same shall become due, the principal of and interest on the bonds, in addition to pay, as the same shall become due, the necessary expenses or operating and maintaining the System and all other obligations and indebtedness payable out of the Electric Fund, and that such rates and charges shall not be reduced so as to be insufficient to provide revenues for such purposes.

Operating and Maintenance

The City will maintain the System in good condition, and will operate the System in an efficient and economical manner, making such expenditures for equipment and for renewals and replacement as may be proper for the economical operation and maintenance thereof.

Discharge and Satisfaction of Bonds

If the Board, on behalf of the City, shall pay and discharge the indebtedness evidenced by any of the Series FF-2015 Bonds or Parity Bonds (referred to hereinafter, collectively, in this Section as 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 financial institution which has trust powers and which is regulated by and the deposits of which are insured by the Federal Deposit Insurance Corporation or similar federal agency ("as 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); or

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

and if the Board, on behalf of the City, shall also pay or cause to be paid all other sums payable under the Resolution by the Board or the City with respect to such Bonds, or make adequate provision therefor, and by resolution of the Board instruct any such 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, liens, pledges, agreements and obligations entered into, created or imposed under the Resolution, including the pledge of and lien on the net revenues of the System set forth herein, shall be fully discharged and satisfied with respect to such Bonds and the owners thereof and shall thereupon cease, terminate and become void.

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

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

Nothing described above shall be construed to alter or change the redemption provisions relating to the Series FF-2015 Bonds. No redemption privilege shall be exercised with respect to the Series FF-2015 Bonds or any Parity Bonds except at the option and election of the Board. The right to redemption set forth in the Resolution shall not be exercised by any Registration Agent or Agent unless expressly directed in writing by an authorized representative of the Board.

Sale of Electric System

The System may be sold, mortgaged, leased or otherwise disposed of only as a whole, or substantially as a whole, and only if the proceeds to be realized shall be sufficient to fully retire all obligations of the System and upon consent by the holders of sixty-five percent (65%) in the aggregate principal amount of the outstanding Bonds (exclusive of issuer-owned Bonds) to be obtained in the manner provided in the Resolution; provided, however, that the City shall have, and reserves the right to sell, lease, or otherwise dispose of any of the property comprising a part of the System determined to be no longer necessary and useful in the operation thereof, which is found, by the Board, or such other body as may be authorized to manage and operate the System, not to be both useful and necessary for the continued operation of the System substantially as it now exists; and, prior to any such sale, lease or other disposition of said property, the Board, or such other body as may be authorized to manage and operate the System shall, by resolution duly adopted, have made said finding and authorized such sale, lease or other disposition of the property. The proceeds from any such property shall be paid into the Renewal and Replacement Fund, but shall not reduce the amount otherwise required to be paid into said fund. Disbursement of such additional payments shall be made in the same manner and for the same purposes as other disbursements from the Renewal and Replacement Fund.

Notwithstanding anything elsewhere provided in the Resolution, and without being subject to any of the foregoing restrictions, the City 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 City will assume the performance of and be bound by all of the City's obligations to the holders of the Bonds under the covenants and provisions of the Resolution, as amended.

Insurance

The City will carry adequate fire and windstorm insurance on buildings and contents of buildings of the System and provide for adequate public liability insurance, and the City will also carry such other insurance as is ordinarily carried by utility companies privately or municipally owned and doing a similar business in territory contiguous to the City. Proceeds from any insurance policies, except public liability, shall be paid into the Renewal and Replacement Fund which payments shall not reduce the amount otherwise required to be paid into said fund. Disbursements of such proceeds of insurance shall be made in the same manner and for the same purposes as other disbursements from the Renewal and Replacement Fund.

Audits

The City will cause proper books and accounts adapted to the System to be kept and will cause the books and accounts with respect to the System to be audited annually by an independent firm of certified public accountants, and will make generally available to security holders the balance sheet and the profit and loss statement of the System as certified by such accountants.

Appointment of Receiver

Any holder of the Bonds, including a trustee or trustees for such holders shall, in addition to all other remedies and rights of holders of any of the Bonds, have the right, by appropriate proceedings in any court of competent jurisdiction, in the event of default in the payment of the principal of or interest on the Bonds, to obtain the appointment of a receiver for the System, which receiver may enter upon and take possession of the System, operate and maintain the System, fix rates and collect all revenues arising therefrom in as full a manner and to the same extent as the City itself might do. The receiver shall deposit all moneys collected by him in a separate account or accounts and shall dispose of such revenues in accordance with the terms and conditions of the Resolution and as the court shall direct.

Amendment of Resolution

The Resolution may be amended without the consent of or notice to the holders of the Parity Indebtedness for the purposes of (i) curing any ambiguity or formal defect or omission in the Resolution; (ii) making such amendments as are necessary to prevent interest on any Parity Indebtedness from being included in gross income of the holders thereof for federal income tax purposes; (iii) adding to the covenants and agreements of the City or the Board or surrendering or limiting any right or power of the City or the Board; or (iv) making such amendments as are necessary for any Parity Indebtedness to be held or continue to be held in book-entry form.

In addition to the amendments to the Resolution without the consent of the holders as referred to above, the Resolution may be amended from time to time if such amendment shall have been consented to by the holders of not less than a majority in principal amount of Outstanding Parity Indebtedness (not including in any case any Bonds or Parity Indebtedness which may then be held or owned by or for the account of the City or Board); but the Resolution may not be so amended (without the consent of all affected holders of Outstanding Parity Indebtedness) in such manner as to:

> (a) make any change in the maturity or interest rate (other than in accordance with its terms) of the Parity Indebtedness, or modify the terms of payment of principal of or interest on Parity Indebtedness or impose any conditions with respect to such payment; or
>
> (b) to make any Parity Indebtedness redeemable other than in accordance with its terms; or
>
> (c) to create a preference or priority of any Parity Indebtedness over any other Parity Indebtedness; or
>
> (d) reduce the percentage of the principal amount of Parity Indebtedness the consent of the holders of which is required to effect a further amendment.

Whenever the City shall propose to amend the Resolution as described above, the Board shall cause notice of the proposed amendment to the holders of the Parity Indebtedness by sending a summary of such proposed amendment to such holders and shall state that a copy of the proposed amendatory resolution is on file in the office of the Secretary of the Board. The holders of Parity Indebtedness shall be determined by the registration records of the City or the Board or any registration agent therefor or in such other manner as is commercially reasonable.

Whenever at any time within one year from the date of the mailing of such notice there shall be filed with the Secretary an instrument or instruments executed by the holders of at least a majority aggregate principal amount of the Outstanding Parity Indebtedness, which instrument or instruments shall refer to the proposed amendatory resolution described in such notice and shall specifically consent to and approve the adoption thereof, then the Board and/or the City may adopt such amendatory resolution and such resolution shall become effective and binding upon the holders of all Parity Indebtedness.

Any consent given by the holder of Parity Indebtedness as described above shall be irrevocable for a period for one year from the date of the instrument evidencing such consent and shall be conclusive and binding upon all future holders of the same Parity Indebtedness during such period. Such consent may be revoked at any time after one year from the date of such instrument by the holder who gave such consent or by a successor in title by filing notice of such revocation with the Secretary.

For purposes of determining the aggregate principal amount of Parity Indebtedness outstanding for purposes of amendments, and whether the holders of a sufficient percentage in aggregate principal amount of Bonds and Parity Indebtedness have consented to any amendment, the Board may make such determination at any time while a request for consents to such amendment is outstanding and may include any Parity Indebtedness issued during such period in making such determination. The Accreted Value of any Capital Appreciation Debt as of the time of any such determination shall be used in making any such determination.

The fact and date of the execution of any instrument relative to amendments 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. In the event that any Parity Indebtedness is held in book-entry form, any consent to an amendment may be executed by any beneficial owner of such Parity Indebtedness, which beneficial ownership may be proved by an affidavit of the beneficial owner.

Notwithstanding anything in the Resolution to the contrary, the Board and/or the City may adopt amendments to the Resolution that do not become effective until the payment or defeasance of any Parity Indebtedness outstanding on the date such amendments are adopted.

Interest Rate Hedging

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

(i) The swap provider must be rated least A-/A3 or better by Standard & Poor's and Moody's (the "Initial Rating Requirement") or is guaranteed or insured by an entity whose debt is rated "A" or better by Standard & Poor's and "A" or better by Moody's on the date a Swap Agreement is executed.

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

(iii) Failure to maintain a swap provider holding the Minimum Rating Requirement or, if the issuer elects, failure to replace any such swap provider by another swap provider which holds the Initial Rating Requirement within ten business days, will have the following effects: (1) compliance with any required rate covenant for the preceding Fiscal Year will be based on the actual interest paid on the Variable Rate Indebtedness during such Fiscal Year without regard to the swap; and (2) any "forward-looking" financial covenant based upon debt service will be based upon the variable rate.

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

Separate Systems

Nothing contained in the Resolution shall prevent the Board from acquiring a separate electric transmission or distribution system or any combination thereof, or any other system, facilities or equipment which municipalities in Tennessee operating electric distribution systems are authorized to own, operate or finance, and nothing herein shall prevent the issuance of bonds, notes, warrants, certificates or other obligations or evidences of indebtedness, to acquire any such system or facilities. Any facilities or system acquired by the Board, at the election of the Board, may be operated as a separate and independent system or be merged into the System and operated as a single unified system with the System (the "Merged Systems"). Revenues of the Merged Systems may be commingled without keeping separate accounts of the funds of each of the systems, provided all Revenues of the Merged Systems are applied in accordance with the Resolution, including the payment of principal of and interest on all bonds, notes or other obligations of the acquired system. All Outstanding Parity Indebtedness and any bonds, notes and other obligations of the acquired system outstanding upon the merger of the systems designated by the Board may be payable from revenues of the Merged Systems on a parity and equality of lien with each other, provided the Net Revenues of the Merged Systems, for a period of twelve consecutive months (hereinafter sometimes called the "Twelve-Month Period") out of the eighteen months immediately preceding the merger of the systems shall be equal to at least 1.2 times the Maximum Annual Aggregate Debt Service on all Outstanding Parity Indebtedness, all bonds, notes and obligations of the acquired system then outstanding and any additional indebtedness to be then issued; or if within twelve months prior to any such calculation, the Board shall have put into effect a revised schedule of rates for the Merged Systems or any part thereof, then the Net Revenues of the Merged Systems, as certified by a

Consulting Engineer or Financial Adviser, that would have resulted from such revised rates had they been in effect for the Twelve-Month Period, may be used in lieu of the actual Net Revenues for such Twelve-Month Period.

Combined Systems

Notwithstanding anything provided in the Resolution, nothing contained in the Resolution shall prevent the Board from combining any or all of the Board's utility systems into a single unified operation (the "Combined System") and commingling the revenues of the systems so combined in the Combined System without keeping separate accounts of the funds of each of such systems, provided payments from the funds of the Combined System are required to be made into the Debt Service Fund created hereunder from time to time in amounts sufficient to comply with provisions thereof and in amounts sufficient to pay the principal of and interest on the Outstanding Parity Indebtedness as such principal and interest becomes due. Bonds, notes and other obligations ("Parity Combined System Obligations") payable from revenues of the Combined System may be issued on a parity with Outstanding Parity Indebtedness provided at the time of the issuance of any such Parity Combined System Obligations, the following conditions have been complied with. The Net Revenues of the Combined System, for a period of twelve consecutive months (hereinafter sometimes called the "Combined Twelve-Month Period") out of the eighteen months immediately preceding the issuance of such Parity Combined System Obligations shall be equal to at least 1.2 times the Maximum Annual Aggregate Debt Service on all Outstanding Parity Indebtedness and the obligations proposed to be issued; or if within twelve months prior to the issuance of the Parity Combined System Obligations a revised schedule of rates for the Combined System or any part thereof shall have been put into effect, then the Net Revenues of the Combined System for the Twelve-Month Period, as certified by a Consulting Engineer or Financial Adviser, that would have resulted from such revised rates had they been in effect for the Twelve-Month Period, may be used in lieu of the actual Net Revenues for such Twelve-Month Period.

Amendments to Resolution No. 1644 Not Yet Effective

The following amendments will become effective only upon the defeasance or payment in full of principal of and interest on the Outstanding Bonds (other than the Series Z-2010 Bonds, Series AA-2012 Bonds, Series BB-2012 Bonds, Series CC-2013 Bonds, Series DD-2014 Bonds, Series EE-2015 Bonds and Series FF-2015 Bonds) or upon receipt of the necessary consents of holders of outstanding Bonds under Resolution No. 1644, which may include the holders of the Series FF-2015 Bonds. Certain of the amendments described below amend and replace the corresponding provisions summarized above.

(a) The following subparagraph shall be added to the definition of "Debt Service" at the end of such definition:

> (G) In calculating the Debt Service on any Parity Indebtedness or proposed Parity Indebtedness with respect to which the federal government or any agency thereof is or is expected to be obligated to make tax refunds or other payments to the City or the Board for the purpose of reducing the interest costs associated therewith, the Board may offset any stated interest payment on such Parity Indebtedness or proposed Parity Indebtedness by the amount of the scheduled tax refund or other payment corresponding thereto.

(b) The following sentence shall be added to the definition of "Revenues" at the end of such definition:

"Revenues" shall also not include any payments to the Board with respect to which an adjustment to Debt Service has been made pursuant to the subparagraph (G) of the definition of Debt Service.

(c) The following subsection shall be added to Section of the Resolution summarized under the heading "Application of Revenues":

> (k) Notwithstanding the foregoing, the Board may deposit any amounts described in the subparagraph (G) of the definition of Debt Service directly into the Debt Service Fund at the Board's option.

SUMMARY OF CERTAIN PROVISIONS
OF
WATER BOND RESOLUTION

SUMMARY OF CERTAIN PROVISIONS OF THE WATER BOND RESOLUTIONS

The following statements are brief summaries of certain provisions of the Water Bond Resolutions, copies of which are available for examination at the offices of the Board. Terms defined in the Water Bond Resolutions and not defined elsewhere in this Official Statement shall have the meaning set forth in the Water Bond Resolutions. Section numbers refer to sections of Resolution No. 2075 as supplemented by Resolution No. 3633, Resolution No. R-26-88, Resolution No. R-318-90, Resolution No. R-470-92, Resolution No. R-474-93, Resolution No. R-8-98, Resolution No. R-65-01, Resolution No. R-151-01, Resolution No. R-482-01, Resolution No. R-57-04, Resolution No. R-263-05, Resolution No. R-346-07, Resolution No. R-211-09, Resolution No. R-133-10, Resolution No. R-285-2011, Resolution No. R-337-2011, Resolution No. R-323-2012, Resolution No. R-243-2013, Resolution No. R-214-2014, Resolution No. R-83-2015 and Resolution No. R-127-2015 (collectively, the "Resolution").

Security

The Series CC-2015 Bonds constitute and, when issued, will be Bonds under the Resolution. All Series CC-2015 Bonds are limited obligations of the City, payable solely and ratably from the Net Revenues of the Water System of the City and are on parity with each other in all respects.

The Series CC-2015 Bonds will be issued pursuant to the provision of the Resolution which sets forth in detail covenants of the City with respect to the Series CC-2015 Bonds. The following summary is a brief outline of certain provisions contained in the Resolution and is not to be considered as a full statement thereof. This summary is qualified by reference to and is subject to the Resolution, copies of which may be examined at the office of the Board.

Pledge of Revenues

The Bonds issued under and pursuant to the Resolution shall not be general obligations of the City, and no holder of any Bond issued under the Resolution shall ever have the right to compel any exercise of taxing power of the City to pay said Bonds or the interest thereon. The punctual payment of principal and premium, if any, and interest on all Parity Indebtedness and Hedge Payments with respect to Parity Indebtedness shall be payable from and secured equally and ratably by the Net Revenues of the System, without priority by reason of number or time of sale or execution or delivery and such Net Revenues are irrevocably pledged to the punctual payment of such principal, premium, interest and Hedge Payments as the same become due.

Certain Definitions

"Accreted Value" shall mean, with respect to any Capital Appreciation Debt, an amount equal to the principal amount of such Capital Appreciation Debt (determined on the basis of the principal amount per $5,000 at maturity thereof) plus the amount assuming semi-annual compounding of earnings which would be produced on the investment of such principal amount, beginning on the dated date of such Capital Appreciation Debt and ending at the date such Accreted Value is calculated, at a yield which, if produced until maturity, will produce $5,000 at maturity. As of any Valuation Date, the Accreted Value of any Capital Appreciation Debt shall mean the amount set forth for such date in the resolution authorizing such Capital Appreciation Debt, which amount shall be required to be determined in the manner described above, and as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date and (2) the difference between the Accreted Values for such Valuation Dates.

"Aggregate Debt Service" for any period shall mean, as of any date of calculation, the sum of the amounts of Debt Service for such period with respect to all indebtedness with respect to which such calculation is required to be made for such period.

"Balloon Date" shall mean any maturity date for Balloon Indebtedness in a Balloon Year.

"Balloon Indebtedness" shall mean any bonds, notes or other indebtedness of the Board or the City, on behalf of the Board, other than Short-Term Indebtedness, twenty-five percent 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 twenty-five percent or more is not to be amortized to below twenty-five percent by mandatory redemption prior to the beginning of such twelve month period.

"Balloon Year" shall mean any 12-month period in which more than 25% of the original principal amount of related Balloon Indebtedness matures or is subject to mandatory redemption by the Authority.

"Capital Appreciation Debt" shall mean any bonds, notes or other indebtedness of the Board or of the City on behalf of the Board as to which interest is payable only at the maturity or prior redemption of such bonds.

"Commitment," when used with respect to Balloon Indebtedness, shall mean a binding written commitment from a financial institution, surety, or insurance company to refinance such Balloon Indebtedness on or prior to any Balloon Date thereof.

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

"Current Operating Expenses" 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 indebtedness), insurance expenses, taxes and other governmental charges, the imposition or amount of which is not subject to control of the Board or the City, any payments made by the Board during any fiscal year to purchase water for delivery during or after the end of that fiscal year, and other payments made under any water supply contract, and any principal or interest payments made by the 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 water, and to the extent so provided by the resolution authorizing such bonds, notes or obligations and to the extent not inconsistent with generally accepted accounting principles. Current Operating Expenses do not include depreciation or obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, interest charges and charges for the payment of principal or amortization of bonded or other indebtedness of the Board or the City, on behalf of the Board, payable from 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 Board or expenses of a system that is merged into the System, as permitted hereunder, if revenues of the merged system are not included in Revenues at the election of the Board. If the Board operates its utilities as a Combined System, as defined herein, Current Operating Expenses shall be deemed to refer to the Current Operating Expenses of the Combined System.

"Debt Service" for any period shall mean, as of any date of calculation and with respect to the indebtedness with respect to which such calculation is being made, an amount equal to (i) the interest accruing during such period on such indebtedness plus (ii) the portion of each Principal Installment which would accrue during such period if such Principal Installment were deemed to accrue periodically in equal amounts from the next preceding Principal Installment due date for such indebtedness (or, if there shall be no such preceding Principal Installment due date, from a date of issuance of the indebtedness). For purposes of this definition:

(a) The principal and interest portions of the Accreted Value of Capital Appreciation Debt becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of accrued and unpaid and accruing interest or Principal Installments in such manner and during such period of time as is specified in the resolution authorizing such Capital Appreciation Debt.

(b) The annual principal and interest requirement on Short-Term Indebtedness shall be calculated as that amount necessary to amortize the Short-Term Indebtedness from the date it was issued over twenty (20) years in twenty (20) approximately equal annual payments of principal and interest using an assumed interest rate (which shall be the interest rate as of the date of issuance or the date of calculation, whichever is less, certified by a Financial Advisor to be the interest rate at which the City on behalf of the Board could reasonably expect to borrow the same amount by issuing indebtedness with the same priority of lien as such Balloon Indebtedness and with a 20-year term).

(c) With respect to any Variable Rate Indebtedness, including Hedged Indebtedness if the interest thereon calculated as set forth below is expected to vary, the interest coming due in any specified future period shall be determined as if the interest rate in effect at all times during such future period was, at the option of the Board, either (1) the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period), or (2) the current average annual fixed rate of interest on securities of similar quality having a similar maturity date as certified by a Financial Advisor.

(d) With respect to any Hedged Indebtedness, the interest on such Hedged Indebtedness during any Hedge Period and for so long as the provider of the related Hedge Agreement has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by the City or the Board on such Hedged Indebtedness pursuant to its terms and (y) the amount of Hedge Payments payable by the City or the Board under the related Hedge Agreement and subtracting (z) the amount of Hedge Receipts payable by the provider of the related Hedge Agreement at the rate specified in the related Hedge Agreement; provided, however, that to the extent that the provider of any Hedge Agreement is in default thereunder, the amount of interest payable by the City or the Board on the related Hedged Indebtedness shall be the interest calculated as if such Hedge Agreement had not been executed. In determining the amount of Hedge Payments or Hedge Receipts that are not fixed throughout the Hedge Period (i.e., which are variable), payable or receivable for any future period, such Hedge Payments or Receipts for any period of calculation (the "Determination Period") shall be computed by assuming that the variables comprising the calculation (e.g., indices) applicable to the Determination Period are equal to the average of the actual variables which were in effect (weighted according to the length of the period during which each such variable was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period).

(e) With respect to Balloon Indebtedness (1) which is subject to a Commitment or (2) which does not have a Balloon Year commencing within 12 months from the date of calculation, 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 20 years from the date of issuance at an assumed interest rate (which shall be the interest rate as of the date of issuance or the date of calculation, whichever is less, certified by a Financial Advisor to be the interest rate at which the City on behalf of the Board could reasonably expect to borrow the same amount by issuing indebtedness with the same priority of lien as such Balloon Indebtedness and with a 20-year term); provided, however, that if the maturity of such Balloon Indebtedness (taking into account the term of any Commitment) 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 (including the Commitment) and at the interest rate provided above. For the purpose of calculating the Debt Service Requirement on Balloon Indebtedness (a) which are not subject to a Commitment and (b) which have a Balloon Year commencing within 12 months from the date of calculation, the principal payable on such Balloon Indebtedness during the Balloon Year shall be calculated as if paid on the Balloon Date.

(f) The principal of and interest on Parity Indebtedness and Hedge Payments shall be excluded from the determination of Debt Service to the extent that the same were or are expected to be paid with amounts on deposit on the date of calculation (or proceeds of indebtedness to be deposited on the date of issuance of any proposed Parity Indebtedness) in a fund established for such purpose.

"Financial Advisor" shall mean an investment banking or financial advisory firm or commercial bank who or which is retained by the Board for the purpose of passing on questions relating to the availability and terms of specified types of indebtedness and is actively engaged in and, in the good faith opinion of the Board, has a favorable reputation for skill and experience in underwriting or providing financial advisory services in respect of similar types of securities.

"Fiscal Year" shall mean the twelve month period beginning July 1 of each year and ending June 30 of the following year.

"Hedge Agreement" shall mean, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement, or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors, collars, or caps, options, puts, or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate, or other financial risk; and (v) any other type of contract or arrangement that the Board determines is to be used, or is intended to be used, to manage or reduce the cost of any indebtedness or other obligations, to convert any element of any indebtedness or other obligations from one form to another, to maximize or increase investment return, to minimize investment return risk, or to protect against any type of financial risk or uncertainty. A Hedge Agreement shall not include any commodity hedge agreement or similar arrangement. For purposes of Resolution No. 2075, as amended, a Hedge Agreement shall be deemed not to have any principal amount for purposes of obtaining consents or approvals of holders of Parity Indebtedness or for otherwise determining the amount of Outstanding Parity Indebtedness.

"Hedged Indebtedness" shall mean any indebtedness or other obligation for which the Board or the City, on behalf of the Board, shall have entered into a Hedge Agreement.

"Hedge Payments" shall mean amounts payable by the Board or the City, on behalf of the Board, pursuant to any Hedge Agreement, other than termination payments, fees, expenses, and indemnity payments.

"Hedge Period" shall mean the period during which a Hedged Agreement is in effect.

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

"Maximum Annual Aggregate Debt Service" shall mean the maximum Aggregate Debt Service in the Fiscal Year during which such calculation is made or any future Fiscal Year.

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

"Outstanding Parity Indebtedness" shall mean any Parity Indebtedness that is outstanding under the resolution or other document under which such Parity Indebtedness is issued.

"Parity Indebtedness" shall mean bonds, notes, loan agreements, and other debt obligations, including Balloon Indebtedness, Short-Term Indebtedness, Variable Rate Indebtedness and Hedge Agreements (but only to the extent of Hedge Payments), issued by or entered into by the Board or by the City on behalf of the Board on a parity of lien under the Resolution in accordance with the restrictive provisions of the Resolution described herein, including any bonds, notes, loan agreements or other obligations secured by a pledge of and/or lien on a Merged System and the revenues derived from the operation of such Merged System, as defined herein, (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 Merged System is not being operated separately from the System as is permitted herein.

"Principal Installment" shall mean, as of the date of calculation and with respect to the indebtedness with respect to which the calculation is being made, (i) the principal amount of the indebtedness due on a certain future date for which no Sinking Fund Installments have been established, (ii) Sinking Fund Installment due on a certain future date for such indebtedness and (iii) if such future dates coincide, the sum of such principal amount and any such Sinking Fund Installment.

"Qualified Hedge Provider" shall mean an entity whose senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, or whose payment obligations under the related Hedge Agreement are absolutely and unconditionally guaranteed or insured or collateralized by an entity whose senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, are rated either (i) at least as high as "A" or better by Standard & Poor's' Rating Group (or any successor thereto) ("S&P") or "A2" or better by Moody's Investors Services, Inc. (or any successor thereto) ("Moody's") (the "Initial Rating Requirement") and such entity maintains a rating on its debt or claims paying ability of not less than "A-" from S&P or "A3" from Moody's (the "Minimum Rating Requirement"); provided that this requirement shall be deemed to have been met, even if the rating of such entity is reduced below the Minimum Rating Requirement, if such entity is replaced with an entity meeting the Initial Rating Requirement within twenty business days from when the Board receives notice that the Minimum Rating Requirement has not been met. An entity's status as a Qualified Hedge Provider is made as of the time the applicable calculation is made.

"Revenues" shall mean all revenues, rentals, earnings and income of the System from whatever source, determined in accordance with generally accepted accounting principles, including all revenues derived from the operation of the System; proceeds from the sale of property; proceeds of insurance and condemnation awards and compensation for damages, to the extent not applied to the payment of the cost of repairs, replacements and improvements; and all amounts realized from the investment of money in the accounts and funds of the System (excluding any investment earnings from construction or improvement funds created for the deposit of bond, note, or loan agreement proceeds pending use, to the extent such income is applied to the purposes for which the bonds, notes or loan agreement were issued, and funds created to refund any outstanding obligations payable from Revenues of the System) and at the election of the Board, shall not include any rates, fees, rentals or other charges or other income received by the Board from the operation of a Merged System.

"Short-Term Indebtedness" shall mean bonds, notes or other obligations, including Variable Rate Indebtedness, maturing five (5) years or less from their date of issuance which are issued in anticipation of the issuance of revenue bonds the proceeds of which will be used to pay the Short-Term Indebtedness.

"Sinking Fund Installment" shall mean, as of any particular date of calculation, the amount required to be paid on a certain future date for the retirement of Outstanding Parity Indebtedness which mature after said future date, but does not include any amount payable by reason of the maturity of an Outstanding Parity Indebtedness or by call for redemption at the election of the Board or the City on behalf of the Board.

"Valuation Date" shall mean with respect to any Capital Appreciation Indebtedness, the date or dates set forth in the resolution authorizing such Capital Appreciation Bonds on which specific Accreted Values are assigned to the Capital Appreciation Bonds.

"Variable Rate Indebtedness" shall mean any bonds, notes or other obligations of the Board or the City, on behalf of the Board, the interest rate on which is subject to periodic adjustment, at intervals, at such times and in such manner as shall be determined by the resolution authorizing such indebtedness, provided that if the interest rate shall have been fixed for the remainder of the term thereof (including a fixed rate pursuant to a Hedge Agreement with a Qualified Hedge Provider), it shall no longer be Variable Rate Indebtedness.

The term "Bonds" in Resolution No. 2075 shall for all purposes have the same meaning as "Parity Indebtedness" described above unless the context clearly requires otherwise, and notwithstanding any provision of Resolution No. 2075 to the contrary, any Parity Indebtedness issued on a parity of lien under Resolution No. 2075, as amended, may be in such form, may be executed in such manner, may be payable upon such terms and upon such dates, may be subject to such registration provisions, may be designated in such manner, may be issued for such purpose and may be issued pursuant to such applicable laws as is provided in the resolution authorizing such Parity Indebtedness.

Additional Indebtedness

The Series CC-2015 Bonds issued pursuant to the Resolution shall be on a parity with the Outstanding Parity Indebtedness, and with all Parity Indebtedness hereafter issued within the terms, limitations and restrictions of the Resolution, as amended.

The City has covenanted that it will not incur any other obligations or indebtedness payable from the revenues of the System which will have priority, with respect to the payment of principal or interest out of the Water Fund, over the Series CC-2015 Bonds.

The following shall apply to the incurrence of additional Parity Indebtedness:

(a) Provided that all payments required to be made to the Debt Service Fund and into any reserve fund which may be required under resolutions authorizing Parity Indebtedness are current as of the date of issuance of the additional bonds, notes or other obligations, additional bonds, notes or other obligations may be issued or entered into by the City or the Board on a parity and equality of lien with the Outstanding Parity Indebtedness with respect to the lien and claim of such additional bonds, notes or other obligations to the net revenues of the System and the money on deposit in the Debt Service Fund for the following purposes and under the following conditions, but not otherwise:

> (i) For the purpose of refunding any Outstanding Parity Indebtedness, subordinate bonds, notes, loan agreements or other obligations, provided that after the issuance of such additional Parity Indebtedness, the Aggregate Debt Service on all Outstanding Parity Indebtedness, including the additional Parity Indebtedness to be issued, in any Fiscal Year shall not increase by more than ten percent (10%) after the issuance of such additional Parity Indebtedness.
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> (ii) For the purpose of financing the completion or equipping of improvements to the System for which Outstanding Parity Indebtedness have previously been issued but only to the extent necessary to complete such improvements in the manner contemplated at the time of the issuance of the Outstanding Parity Indebtedness that financed such improvements.
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> (iii) For the purposes of refunding any Outstanding Parity Indebtedness or any Prior Lien Bonds, subordinated bonds, notes or other obligations or extending, improving or replacing the System or for any other lawful purpose under applicable law, if one of the following conditions shall have been met: (A) the Net Revenues for any twelve-month period selected by the Board ending within the twelve months prior to the date of the issuance of the additional Parity Indebtedness must have been equal to at least 120% of the Maximum Annual Aggregate Debt Service on Outstanding Parity Indebtedness plus the Debt Service on the additional Parity Indebtedness proposed to be issued or (B) the estimated Net Revenues of the System for each of the three Fiscal Years next succeeding the issuance of the additional Parity Indebtedness, must be equal at least to 120% of Maximum Annual Aggregate Debt Service on the Notes, any other Outstanding Parity Indebtedness and all outstanding Prior Lien Bonds plus the Debt Service on the additional Parity Indebtedness proposed to be issued; provided, however, that if the additional Parity Indebtedness is to be issued for the acquisition or construction of any extension, improvement or replacement to the System, then the estimate of Net Revenues may be for the three Fiscal Years ensuing after the time that such improvement, extension or replacement is expected to be placed in service.
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> (iv) For the purpose of entering into a Hedge Agreement with a Qualified Hedge Provider with respect to Outstanding Parity Indebtedness but only to the extent of Hedge Payments.

(b) In calculating Net Revenues, Debt Service and Maximum Annual Aggregate Debt Service for all purposes under the Resolution, the following adjustments and assumptions shall be made:

(i) In calculating Net Revenues on a historical basis, the amount of such Net Revenues may be adjusted to take into account any rate increase adopted by the Board that is effective prior to the date of such calculation.

(ii) In calculating projected Net Revenues for any period in the future, the amount of such Net Revenues may be adjusted to take into account any rate increase adopted by the Board that is to be effective within one year of the date of such calculation, and if such calculation is being made in connection with the issuance of Parity Indebtedness, the Net Revenues may be calculated based upon the assumption that any improvements financed with proceeds of the Parity Indebtedness will be completed within a time period established in a report of a Consulting Engineer.

(c) Any calculation or projection of Net Revenues described above, whether for a historical period or for a future period, shall be set forth in a certificate of the President and Chief Executive Officer and Chief Financial Officer of the Board. If the calculation is made as to a future period, a Consulting Engineer shall state in a report that the assumptions underlying any projections of the Board as to Net Revenues are reasonable. Any calculation of the Maximum Annual Aggregate Debt Service shall also be set forth in a certificate of the President and Chief Executive Officer and Chief Financial Officer of the Board, which certificate shall be accompanied by a certificate of a financial advisory firm to the effect that the calculation of Maximum Annual Aggregate Debt Service is correct and is in compliance with the terms of the Resolution, but such certificate of the financial advisory firm shall only be required if Variable Rate Indebtedness, Balloon Indebtedness or Short-Term Indebtedness must be taken into account in the calculation of Maximum Annual Aggregate Debt Service.

(d) Any obligation of the Board to pay amounts under a Hedge Agreement other than Hedge Payments, including a termination payment upon the termination of a Hedge Agreement, shall be a subordinate obligation to the obligations with respect to Parity Indebtedness.

Collection of Revenues and Disposition of Revenues

As long as any Parity Indebtedness shall be outstanding and unpaid either as to principal or as to interest, or until the discharge and satisfaction of the Parity Indebtedness as provided in the resolution authorizing said Parity Indebtedness, the entire income and revenues of the System shall be deposited as collected in the Revenue Fund established by the Resolution (the "Revenue Fund"), to be administered and controlled by the Board. The income and revenues deposited therein shall be used only as follows:

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

(b) The money remaining in the Revenue Fund, after payment of Current Operating Expenses, shall next be used to make deposits into a separate and special fund, to be known as the Debt Service Fund (the "Debt Service Fund"), to be kept separate and apart from all other funds of the Board and used to pay principal of and interest on Parity Indebtedness and Hedge Payments (net of Hedge Receipts) with respect thereto as the same become due, either by maturity or mandatory redemption. Such deposits shall be made monthly, or as otherwise set forth herein or in the resolution authorizing such Parity Indebtedness or Hedged Payments, until all Parity Indebtedness is paid in full or discharged and satisfied. Unless otherwise authorized in the resolution authorizing any Parity Indebtedness, for the period commencing with the month next following the delivery of the Parity Indebtedness, each monthly deposit shall be an amount that, together with all other monthly deposits of approximately equal amounts during such period and amounts otherwise in said Fund, will be equal to principal due on the Parity Indebtedness on the next principal payment date, divided by the number of months from and including the month of the first such deposit to and including the months preceding the next principal payment date; provided that, if the next principal payment date is more than 13 months following the month next following the delivery of the Parity Indebtedness, such monthly deposits to the Debt Service Fund shall commence in the month that is 13 months prior to the month of the next principal payment date. Furthermore, during such period, there shall be deposited to the Debt Service Fund monthly an amount equal to one-sixth (1/6) of the interest coming due on the next interest payment date for Parity Indebtedness (unless otherwise specified in the resolution authorizing such Parity Indebtedness).

In each month thereafter, each monthly deposit shall consist of an interest component and a principal component except as provided in the Resolution. If interest is payable semi-annually, then the interest component shall be an amount equal to not less than one-sixth (1/6th) of the interest coming due on any Parity Indebtedness on the next succeeding interest payment date, unless otherwise specified in the resolution authorizing such Parity Indebtedness. Unless otherwise specified in the resolution authorize Parity Indebtedness, the principal component shall be an amount which shall be established annually on each July 1 for all payments to be made during the ensuing twelve-month period commencing in July of each calendar year and ending in June of the following calendar year and shall be not less than one-twelfth (1/12) of the principal amounts, as the case may be, coming due, whether by maturity or mandatory redemption, on the Parity Indebtedness then outstanding during such twelve-month period. No further deposit shall be required when the Debt Service Fund balance is equal to or greater than the amount needed to pay interest coming due on the next interest payment date and the total of the principal amounts payable, either by maturity or mandatory redemption, during the applicable twelve-month period. Money in the Debt Service Fund shall be used solely and is expressly and exclusively pledged for the purpose of paying principal of and interest on Parity Indebtedness. Notwithstanding the foregoing, deposits for the payment of principal and interest on Variable Rate Indebtedness or Hedge Payments shall be made as set forth in the resolution authorizing such Variable Rate Indebtedness or Hedge Payments.

(c) The next available money in the Revenue Fund shall be paid to any issuer of an insurance policy, surety bond, letter of credit or similar instrument (a "Reserve Fund Credit Facility") (pro rata, if more than one) to the extent needed to reimburse the issuer for any amounts advanced under the Reserve Fund Credit Facility, including any amounts payable under any guaranty agreement relating to such amounts, together with reasonable related expenses incurred by the issuer of such Reserve Fund Credit Facility and any interest relating to such amounts.

(d) The next available money in the Revenue Fund shall be deposited to any reserve fund created pursuant to any resolution authorizing Parity Indebtedness in the manner provided in such resolution.

(e) The next available money in the Revenue Fund shall be used to pay liquidity fees, remarketing agent fees and similar fees that are payable in connection with the issuance of Parity Indebtedness.

(f) The next available money in the Revenue Fund shall be used for the payment of all other payments to be made under the Parity Indebtedness not provided for in the preceding subsections including payments in connection with Hedge Agreements that are not Hedge Payments, including termination payments.

(g) The next available money in the Revenue Fund shall be used to pay principal of and interest on (including reasonable reserves therefor) any bonds, notes or obligations payable from the Revenues of the System, but junior and subordinate to the Parity Indebtedness and then for the purpose of the payment of liquidity fees, credit enhancement fees, remarketing agent fees and similar fees that are payable in connection with bonds, notes or other obligations payable from the Revenues of the System, but junior and subordinate to the Parity Indebtedness.

(h) The next available money in the Revenue Fund shall be used for the purpose of making payments in lieu of taxes and, to the extent not so used, may be used for any lawful purpose, including such reserve funds and other funds as the Board deems necessary and appropriate.

(i) Money on deposit in the Funds described above may be invested by the Board in such investments as shall be permitted by applicable law, as determined by an authorized representative of the Board, 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. The Board is authorized to enter into contracts with third parties for the investment of funds in any of the Funds described herein.

(j) The Revenue Fund and the Debt Service Fund shall be held and maintained by the Board 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.

Rate Covenant

The City shall maintain the System in good condition and will operate the System in an efficient and economical manner, and the City will fix rates and collect charges for water and for the services, facilities and commodities furnished by the System so as to provide revenues sufficient to pay, as the same shall become due, the principal of and interest on the Bonds, in addition to paying as the same shall become due the necessary expenses of operating and maintaining the System and all other obligations and indebtedness that are payable out of the revenues of the System, which obligations and indebtedness are a charge against said revenues equally and ratably with the charge of the Bonds.

Discharge and Satisfaction of Bonds

If the Board, on behalf of the City, shall pay and discharge the indebtedness evidenced by any of the Series CC-2015 Bonds (referred to hereinafter, collectively, as 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 financial institution which has trust powers and which is regulated by and the deposits of which are insured by the Federal Deposit Insurance Corporation or similar federal agency ("an Agent"; which 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); or

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

and if the Board, on behalf of the City, shall also pay or cause to be paid all other sums payable under the Resolution by the Board or the City with respect to such Bonds or make adequate provision therefor, and by resolution of the Board instruct any such 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, liens, pledges, agreements and obligations entered into, created, or imposed under the Resolution, including the pledge of and lien on the net earnings of the System set forth in the Resolution, shall be fully discharged and satisfied with respect to such Bonds and the owners thereof and shall thereupon cease, terminate and become void.

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

Nothing described above shall be construed to alter or change the redemption provisions relating to the Series CC-2015 Bonds. No redemption privilege shall be exercised with respect to the Series CC-2015 Bonds or any Parity Bonds except at the option and election of the Board. The right of redemption set forth in the Resolution shall not be exercised by any Registration Agent or Agent unless expressly so directed in writing by an authorized representative of the Board.

Insurance

The City will carry adequate fire and windstorm insurance on buildings and contents of buildings of the System and provide for adequate public liability insurance, and the City will also carry such other insurance as is ordinarily carried by utility companies privately owned or municipally owned and doing a similar business in territory contiguous to the City.

Audits

The City will cause proper books and accounts adapted to the System to be kept and will cause the books and accounts with respect to the System to be audited annually by an independent firm of certified public accountants, and will make generally available to security holders the balance sheet and the profit and loss statement of the System as certified by such accountants

Appointment of Receiver

The holder or holders of not less than twenty-five percent (25%) of the Bonds then outstanding, including a trustee or trustees for such holders, shall, in addition to all other remedies and rights of holders of any of the Bonds, have the right, by appropriate proceedings in any court of competent jurisdiction, in the event of default in the payment of the principal of or interest on the Bonds which default shall continue for a period of thirty days, to obtain the appointment of a receiver for the System, which receiver may enter upon and take possession of the System, operate and maintain the System, fix rates and collect all revenues arising therefrom in as full a manner and to the same extent as the City itself might do. The receiver shall deposit all moneys collected by him in a separate account or accounts and shall dispose of such revenues in accordance with the terms and conditions of this resolution and as the court shall direct.

Combined Systems

Notwithstanding anything provided in the Resolution, nothing contained in the Resolution shall prevent the Board from combining any or all of the Board's utility systems into a single unified operation (the "Combined System") and commingling the revenues of the systems so combined in the Combined System without keeping separate accounts of the funds of each of such systems, provided payments from the funds of the Combined System are required to be made into the Debt Service Fund created under the Resolution from time to time in amounts sufficient to comply with provisions thereof and in amounts sufficient to pay the principal of and interest on the Outstanding Parity Indebtedness as such principal and interest becomes due. Bonds, notes and other obligations ("Parity Combined System Obligations") payable from revenues of the Combined System may be issued on a parity with Outstanding Parity Indebtedness provided at the time of the issuance of any such Parity Combined System Obligations, the following conditions have been complied with. The Net Revenues of the Combined System, for a period of twelve consecutive months (hereinafter sometimes called the "Combined Twelve-Month Period") out of the eighteen months immediately preceding the issuance of such Parity Combined System Obligations shall be equal to at least 1.2 times the Maximum Annual Aggregate Debt Service on all Outstanding Parity Indebtedness and the obligations proposed to be issued; or if within twelve months prior to the issuance of the Parity Combined System Obligations a revised schedule of rates for the Combined System or any part thereof shall have been put into effect, then the Net Revenues of the Combined System for the Twelve-Month Period, as certified by a Consulting Engineer or Financial Adviser, that would have resulted from such revised rates had they been in effect for the Twelve-Month Period, may be used in lieu of the actual Net Revenues for such Twelve-Month Period.

Separate or Merged Systems

Nothing contained in the Resolution shall prevent the Board from acquiring a separate water transmission or distribution system or any combination thereof, or any other system, facilities or equipment which municipalities in Tennessee operating water distribution systems are authorized to own, operate or finance, and nothing herein shall prevent the issuance of bonds, notes, warrants, certificates or other obligations or evidences of indebtedness, to acquire any such system or facilities. Any facilities or system acquired by the Board, at the election of the Board, may be operated as a separate and independent system or be merged into the System and operated as a single unified system with the System (the "Merged Systems"). Revenues of the Merged Systems may be commingled without keeping separate accounts of the funds of each of the systems, provided all Revenues of the Merged Systems are applied in accordance with the Resolution, including the payment of principal of and interest on all bonds, notes or other obligations of the acquired system. All Outstanding Parity Indebtedness and any bonds, notes and other obligations of the acquired system outstanding upon the merger of the systems designated by the Board may be payable from revenues of the Merged Systems on a parity and equality of lien with each other, provided the Net Revenues of the Merged Systems, for a period of twelve consecutive months (hereinafter sometimes called the "Twelve-Month Period") out of the eighteen months immediately preceding the merger of the systems shall be equal to at least 1.2 times the Maximum Annual Aggregate Debt Service on all Outstanding Parity Indebtedness, all bonds, notes and obligations of the acquired system then outstanding and any additional indebtedness to be then issued; or if within twelve months prior to any such calculation, the Board shall have put into effect a revised schedule of rates for the Merged Systems or any part thereof, then the Net Revenues of the Merged Systems, as certified by a Consulting Engineer or Financial Adviser, that would have resulted from such revised rates had they been in effect for the Twelve-Month Period, may be used in lieu of the actual Net Revenues for such Twelve-Month Period.

Amendment of Resolution

The Resolution may be amended without the consent of or notice to the holders of the Parity Indebtedness for the purposes of (i) curing any ambiguity or formal defect or omission in the Resolution; (ii) making such amendments as are necessary to prevent interest on any Parity Indebtedness from being included in gross income of the holders thereof for federal income tax purposes; (iii) adding to the covenants and agreements of the City or the Board or surrendering or limiting any right or power of the City or the Board; or (iv) making such amendments as are necessary for any Parity Indebtedness to be held or continue to be held in book-entry form.

In addition to the amendments to the Resolution without the consent of the holders as referred to above, the Resolution may be amended from time to time if such amendment shall have been consented to by the holders of not less than a majority in principal amount of Outstanding Parity Indebtedness (not including in any case any Bonds or Parity Indebtedness which may then be held or owned by or for the account of the City or Board); but the Resolution may not be so amended (without the consent of all affected holders of Outstanding Parity Indebtedness) in such manner as to:

(a) make any change in the maturity or interest rate (other than in accordance with its terms) of the Parity Indebtedness, or modify the terms of payment of principal of or interest on Parity Indebtedness or impose any conditions with respect to such payment; or

(b) to make any Parity Indebtedness redeemable other than in accordance with its terms; or

(c) to create a preference or priority of any Parity Indebtedness over any other Parity Indebtedness; or

(d) reduce the percentage of the principal amount of Parity Indebtedness the consent of the holders of which is required to effect a further amendment.

Whenever the City shall propose to amend the Resolution under the provisions described above, the Board shall cause notice of the proposed amendment to the holders of the Parity Indebtedness by sending a summary of such proposed amendment to such holders and shall state that a copy of the proposed amendatory resolution is on file in the office of the Secretary of the Board. The holders of

Parity Indebtedness shall be determined by the registration records of the City or the Board or any registration agent therefor or in such other manner as is commercially reasonable.

Whenever at any time within one year from the date of the mailing of such notice there shall be filed with the Secretary an instrument or instruments executed by the holders of at least a majority aggregate principal amount of the Outstanding Parity Indebtedness, which instrument or instruments shall refer to the proposed amendatory resolution described in such notice and shall specifically consent to and approve the adoption thereof, then the Board and/or the City may adopt such amendatory resolution and such resolution shall become effective and binding upon the holders of all Parity Indebtedness.

Any consent given by the holder of Parity Indebtedness pursuant to the provisions described above, shall be irrevocable for a period for one year from the date of the instrument evidencing such consent and shall be conclusive and binding upon all future holders of the same Parity Indebtedness during such period. Such consent may be revoked at any time after one year from the date of such instrument by the holder who gave such consent or by a successor in title by filing notice of such revocation with the Secretary.

For purposes of determining the aggregate principal amount of Parity Indebtedness outstanding for purposes of amendments, and whether the holders of a sufficient percentage in aggregate principal amount of Bonds and Parity Indebtedness have consented to any amendment, the Board may make such determination at any time while a request for consents to such amendment is outstanding and may include any Parity Indebtedness issued during such period in making such determination. The Accreted Value of any Capital Appreciation Debt as of the time of any such determination shall be used in making any such determination.

The fact and date of the execution of any instrument relative to amendments 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. In the event that any Parity Indebtedness is held in book-entry form, any consent to an amendment may be executed by any beneficial owner of such Parity Indebtedness, which beneficial ownership may be proved by an affidavit of the beneficial owner.

Notwithstanding anything in the Resolution to the contrary, the Board and/or the City may adopt amendments to the Resolution that do not become effective until the payment or defeasance of any Parity Indebtedness outstanding on the date such amendments are adopted.

SUMMARY OF CERTAIN PROVISIONS OF WASTEWATER BOND RESOLUTION

SUMMARY OF CERTAIN PROVISIONS OF THE WASTEWATER SYSTEM BOND RESOLUTIONS

The following statements are brief summaries of certain provisions of the Wastewater Bond Resolutions, copies of which are available for examination at the offices of the Board. Terms defined in the Wastewater Bond Resolutions and not defined elsewhere in this Official Statement shall have the meaning set forth in the Wastewater Bond Resolutions. Section numbers refer to sections of Resolution No. R- 129-90 as supplemented by Resolution No. R-130-90, Resolution No. R-473-93, Resolution No. R-5-98, Resolution No. R-67-01, Resolution No. R-148-01, Resolution No. R-481-01, Resolution No. R-56-04, Resolution No. R-264-05, Resolution No. R-347-07, Resolution No. R-252-08, Resolution No. 11-S, Resolution No. R-134-10, Resolution No. 334-2010, Resolution No. R-338-2011, Resolution No. R-291-2012, Resolution No. R-324-2012, Resolution No. R-212-2014, Resolution No. R-84-2015 and Resolution No. R-128-2015 (collectively, the "Resolution").

Security

The Series 2015B Bonds constitute and, when issued, will be Bonds under the Resolution. All Series 2015B Bonds are limited obligations of the City, payable solely and ratably from the net revenues of the Wastewater System of the City and are on parity with each other in all respects.

The Series 2015B Bonds will be issued pursuant to the Resolution, which sets forth in detail the terms and covenants of the City with respect to the Series 2015B Bonds. The following summary is a brief outline of certain provisions contained in the Resolution and is not to be considered as a full statement thereof. This summary is qualified by reference to and is subject to said resolution, copies of which may be examined at the office of the Board.

Certain Definitions

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

"Accreted Value" shall mean, with respect to any Capital Appreciation Debt, an amount equal to the principal amount of such Capital Appreciation Debt (determined on the basis of the principal amount per $5,000 at maturity thereof) plus the amount assuming semi-annual compounding of earnings which would be produced on the investment of such principal amount, beginning on the dated date of such Capital Appreciation Debt and ending at the date such Accreted Value is calculated, at a yield which, if produced until maturity, will produce $5,000 at maturity. As of any Valuation Date, the Accreted Value of any Capital Appreciation Debt shall mean the amount set forth for such date in the resolution authorizing such Capital Appreciation Debt, which amount shall be required to be determined in the manner described above, and as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date and (2) the difference between the Accreted Values for such Valuation Dates.

"Aggregate Debt Service" for any period shall mean, as of any date of calculation, the sum of the amounts of Debt Service for such period with respect to all indebtedness with respect to which such calculation is required to be made for such period.

"Balloon Date" shall mean any maturity date for Balloon Indebtedness in a Balloon Year.

"Balloon Indebtedness" shall mean any bonds, notes or other indebtedness of the Board or the City, on behalf of the Board, other than Short-Term Indebtedness, twenty-five percent 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 twenty-five percent or more is not to be amortized to below twenty-five percent by mandatory redemption prior to the beginning of such twelve month period.

"Balloon Year" shall mean any 12-month period in which more than 25% of the original principal amount of related Balloon Indebtedness matures or is subject to mandatory redemption by the Authority.

"Bonds" means Wastewater System Revenue Bonds issued from time to time pursuant to and under the authority of the Resolution and shall for all purposes have the same meaning as "Parity Indebtedness" unless the context clearly requires otherwise.

"Capital Appreciation Debt" shall mean any bonds, notes or other indebtedness of the Board or of the City on behalf of the Board as to which interest is payable only at the maturity or prior redemption of such bonds.

"Commitment," when used with respect to Balloon Indebtedness, shall mean a binding written commitment from a financial institution, surety, or insurance company to refinance such Balloon Indebtedness on or prior to any Balloon Date thereof.

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

"Debt Service Fund" shall mean the Debt Service Fund created as described herein.

"Debt Service" for any period shall mean, as of any date of calculation and with respect to the indebtedness with respect to which such calculation is being made, an amount equal to (i) the interest accruing during such period on such indebtedness plus (ii) the portion of each Principal Installment which would accrue during such period if such Principal Installment were deemed to accrue periodically in equal amounts from the next preceding Principal Installment due date for such indebtedness (or, if there shall be no such preceding Principal Installment due date, from a date of issuance of the indebtedness). For purposes of this definition:

(A) The principal and interest portions of the Accreted Value of Capital Appreciation Debt becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of accrued and unpaid and accruing interest or Principal Installments in such manner and during such period of time as is specified in the resolution authorizing such Capital Appreciation Debt.

(B) The annual principal and interest requirement on Short-Term Indebtedness shall be calculated as that amount necessary to amortize the Short-Term Indebtedness from the date it was issued over twenty (20) years in twenty (20) approximately equal annual payments of principal and interest using an assumed interest rate (which shall be the interest rate as of the date of issuance or the date of calculation, whichever is less, certified by a Financial Advisor to be the interest rate at which the City on behalf of the Board could reasonably expect to borrow the same amount by issuing indebtedness with the same priority of lien as such Balloon Indebtedness and with a 20-year term).

(C) With respect to any Variable Rate Indebtedness, including Hedged Indebtedness if the interest thereon calculated as set forth below is expected to vary, the interest coming due in any specified future period shall be determined as if the interest rate in effect at all times during such future period was, at the option of the Board, either (1) the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period), or (2) the current average annual fixed rate of interest on securities of similar quality having a similar maturity date as certified by a Financial Advisor.

(D) With respect to any Hedged Indebtedness, the interest on such Hedged Indebtedness during any Hedge Period and for so long as the provider of the related Hedge Agreement has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by the City or the Board on such Hedged Indebtedness pursuant to its terms and (y) the amount of Hedge Payments payable by the City or the Board under the related Hedge Agreement and subtracting (z) the amount of Hedge Receipts payable by the provider of the related Hedge Agreement at the rate specified in the related Hedge Agreement; provided, however, that to the extent that the provider of any Hedge Agreement is in default thereunder, the amount of interest payable by the City or the Board on the related Hedged Indebtedness shall be the interest calculated as if such Hedge Agreement had not been executed. In determining the amount of Hedge Payments or Hedge Receipts that are not fixed throughout the Hedge Period (i.e., which are variable), payable or receivable for any future period, such Hedge Payments or Receipts for any period of calculation (the "Determination Period") shall be computed by assuming that the variables comprising the calculation (e.g., indices) applicable to the Determination Period are equal to the average of the actual variables which were in effect (weighted according to the length of the period during which each such variable was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period).

(E) With respect to Balloon Indebtedness (1) which is subject to a Commitment or (2) which does not have a Balloon Year commencing within 12 months from the date of calculation, 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 20 years from the date of issuance at an assumed interest rate (which shall be the interest rate as of the date of issuance or the date of calculation, whichever is less, certified by a Financial Advisor to be the interest rate at which the City on behalf of the Board could reasonably expect to borrow the same amount by issuing indebtedness with the same priority of lien as such Balloon Indebtedness and with a 20-year term); provided, however, that if the maturity of such Balloon Indebtedness (taking into account the term of any Commitment) 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 (including the Commitment) and at the interest rate provided above. For the purpose of calculating the Debt Service Requirement on Balloon Indebtedness (a) which are not subject to a Commitment and (b) which have a Balloon Year commencing within 12 months from the date of calculation, the principal payable on such Balloon Indebtedness during the Balloon Year shall be calculated as if paid on the Balloon Date.

(F) The principal of and interest on Parity Indebtedness and Hedge Payments shall be excluded from the determination of Debt Service to the extent that the same were or are expected to be paid with amounts on deposit on the date of calculation (or proceeds of indebtedness to be deposited on the date of issuance of any proposed Parity Indebtedness) in a fund established for such purpose.

"Financial Advisor" shall mean an investment banking or financial advisory firm or commercial bank who or which is retained by the Board for the purpose of passing on questions relating to the availability and terms of specified types of indebtedness and is actively engaged in and, in the good faith opinion of the Board, has a favorable reputation for skill and experience in underwriting or providing financial advisory services in respect of similar types of securities.

"Fiscal Year" means the twelve month period established by the Board as its fiscal year, and which, as of the date of the adoption of the Resolution, is the twelve month period commencing on July 1 of any calendar year and ending on June 30 of such calendar year.

"Hedge Agreement" shall mean, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement, or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors, collars, or caps, options, puts, or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate, or other financial risk; and (v) any other type of contract or arrangement that the Board determines is to be used, or is intended to be used, to manage or reduce the cost of any indebtedness or other obligations, to convert any element of any indebtedness or other obligations from one form to another, to maximize or increase investment return, to minimize investment return risk, or to protect against any type of financial risk or uncertainty. A Hedge Agreement shall not include any commodity hedge agreement or similar arrangement. For purposes of Resolution No. R-129-90, as amended, a Hedge Agreement shall be deemed not to have any principal amount for purposes of obtaining consents or approvals of holders of Parity Indebtedness or for otherwise determining the amount of Outstanding Parity Indebtedness.

"Hedged Indebtedness" shall mean any indebtedness or other obligation for which the Board or the City, on behalf of the Board, shall have entered into a Hedge Agreement.

"Hedge Payments" shall mean amounts payable by the Board or the City, on behalf of the Board, pursuant to any Hedge Agreement, other than termination payments, fees, expenses, and indemnity payments.

"Hedge Period" shall mean the period during which a Hedged Agreement is in effect.

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

"Investment Securities" means any of the following, if and to the extent that the same are legal for the investment of funds of the City and the Board:

(i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America;

(ii) bonds, debentures, notes, participation certificates or other evidences of indebtedness issued or guaranteed by Bank for Cooperatives; Federal Intermediate Credit Bank; Federal Home Loan Bank System; Export-Import Bank of the United States Federal Land Banks; Federal National Mortgage Association; United States Postal Service; Government National Mortgage Association; Federal Financing Bank; Farmers Home Administration; Federal Home Loan Mortgage Association or any agency or instrumentality of the United States of America or any other corporation wholly-owned by the United States of America;

(iii) Public Housing Bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America or any agency thereof; or Project Notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America or any agency thereof;

(iv) direct and general obligations, to the payment of the principal of and interest on which the full faith and credit of the issuer is pledged, of any of the following: any state of the United States, or any political subdivision of any such state; provided that (a) as to such obligations of a political subdivision, all the taxable real property within such political subdivision shall be subject to taxation thereby to pay such obligations and the interest thereon, without limitation as to rate or amount, and (b) at the time of their purchase under the Resolution, such obligations of any such state or political subdivision are rated in either of the two highest rating categories by two nationally recognized bond rating agencies;

(v) bank time deposits evidenced by certificates of deposit and banker's acceptances issued by any bank, trust company or savings and loan association which is a member of the Federal Deposit Insurance Corporation, provided that such time deposits and bankers' acceptances (a) do not exceed at any one time in the aggregate five percent (5 %) of the total of the capital and surplus of such bank or trust company, or (b) are secured by obligations described in items (i) or (ii) of the definition of Investment Securities, which such obligations at all times have a market value (exclusive of accrued interest) at least equal to such time deposits so secured and, which are free and clear of any claims by third parties and are segregated in a custodial or trust account held by a third party as the agent solely of, or in trust solely for the benefit of, the Board;

(vi) repurchase agreements with any bank or trust company or savings and loan association which is a member of the Federal Deposit Insurance Corporation, which such agreements are secured by securities which are obligations described in items (i) or (ii) of this definition of Investment Securities provided that each such repurchase agreement (A) is in commercially reasonable form and is for a commercially reasonable period, and (B) results in transfer to the Board of legal title to, or the grant to the Board of a prior perfected security interest in, identified securities referred to in items (i) or (ii) above which are free and clear of any claims by third parties and are segregated in a custodial or trust account held by a third party (other than the repurchaser) as the agent solely of, or in trust solely for the benefit of, the Board; provided that such securities acquired pursuant to such repurchase agreements shall be valued at the lower of the then current market value of such securities of the repurchase price thereof set forth in the applicable repurchase agreement; and

(vi) deposits in the State of Tennessee Local Government Investment Pool created under Chapter 4, Title 9, Tennessee Code Annotated.

"Maximum Annual Aggregate Debt Service" shall mean the maximum Aggregate Debt Service in the Fiscal Year during which such calculation is made or any future Fiscal Year.

"Net Revenues" means the Revenues after deducting the Operation and Maintenance Expenses.

"Operation and Maintenance Expenses" means the costs and expenses of operating and maintaining the Wastewater System, including, without limiting the generality of the foregoing, (i) all expenses includable in the operation and maintenance expenses accounts of the Board relating to the Wastewater System according to generally accepted accounting principles, exclusive of depreciation and amortization of property values or losses, and excluding any payments in-lieu-of taxes to the City or other taxing jurisdictions in the State of Tennessee and (ii) to the extent not included in the preceding clause (i) or paid from bond proceeds or otherwise, the Board's share of the costs and expenses of operating and maintaining any plants and properties jointly owned with others.

"Original Bonds" means the outstanding bonds, as referred to in the definition of Original Resolution.

"Original Resolution" means the resolutions authorizing the issuance of the City's Sewer Revenue - General Obligation Bonds, Series M, dated April 1, 1977, as amended, and the resolutions supplemental thereto.

"Outstanding Parity Indebtedness" shall mean any Parity Indebtedness that is outstanding under the resolution or other document under which such Parity Indebtedness is issued.

"Parity Indebtedness" shall mean bonds, notes, loan agreements, and other debt obligations, including Balloon Indebtedness, Short-Term Indebtedness, Variable Rate Indebtedness and Hedge Agreements (but only to the extent of Hedge Payments), issued by or entered into by the Board or by the City on behalf of the Board on a parity of lien under the Resolution in accordance with the restrictive provisions of the Resolution described herein, including any bonds, notes, loan agreements or other obligations secured by a pledge of and/or lien on a Merged System (as defined herein) and the revenues derived from the operation of such Merged System, as defined herein, (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 Merged System is not being operated separately from the System as is permitted herein.

"Principal Installment" shall mean, as of the date of calculation and with respect to the indebtedness with respect to which the calculation is being made, (i) the principal amount of the indebtedness due on a certain future date for which no Sinking Fund Installments have been established, (ii) Sinking Fund Installment due on a certain future date for such indebtedness and (iii) if such future dates coincide, the sum of such principal amount and any such Sinking Fund Installment.

"Qualified Hedge Provider" shall mean an entity whose senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, or whose payment obligations under the related Hedge Agreement are absolutely and unconditionally guaranteed or insured or collateralized by an entity whose senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, are rated either (i) at least as high as "A" or better by Standard & Poor's Rating Group (or any successor thereto) ("S&P") or "A2" or better by Moody's Investors Services, Inc. (or any successor thereto) ("Moody's") (the "Initial Rating Requirement") and such entity maintains a rating on its debt or claims paying ability of not less than "A-" from S&P or "A3" from Moody's (the "Minimum Rating Requirement"); provided that this requirement shall be deemed to have been met, even if the rating of such entity is reduced below the Minimum Rating Requirement, if such entity is replaced with an entity meeting the Initial Rating Requirement within twenty business days from when the Board receives notice that the Minimum Rating Requirement has not been met. An entity's status as a Qualified Hedge Provider is made as of the time the applicable calculation is made.

"Refunded Municipal Obligations" means obligations of any state, the District of Columbia or possession of the United States or any political subdivision thereof which obligations are rated in the highest rating category by Moody's Investors Service and Standard & Poor's Corporation and provision for the payment of the principal of and interest on which shall have been made by deposit with a trustee or escrow agent of direct obligations of the United States of America, which are held by a bank or trust company organized and existing under the laws of the United States of America or any state, the District of Columbia or possession thereof in the capacity as custodian, the maturing principal of and interest on which direct obligations of the United States of America when due and payable shall be sufficient to pay when due the principal of and interest on such obligations of such state, the District of Columbia, possession, or political subdivision.

"Revenues" shall mean and include all income, fees, charges, receipts, profits and other moneys derived by the Board from its ownership or operation of the Wastewater System, including, without limiting the generality of the foregoing, (i) all income, fees, charges, receipts, profits and other moneys derived from the furnishing or supplying of the services, facilities and commodities through the Wastewater System; and (ii) all income from investments of moneys held under the Resolution other than investment income on any Construction Fund but not including any earnings on moneys set aside for rebate to the United States under the provisions of Section 148(f) of the Internal Revenue Code of 1986, as amended. "Revenues" shall not include deposits subject to refund until such deposits have become the property of the Board; and income, fees, charges, receipts, profits or other moneys derived by the Board from its ownership or operation of any separate utility system or any gifts, grants, donations or other moneys received by the Board from any State or Federal agency or other person if such gifts, grants, donations or other moneys are the subject of any limitation or reservation (i) imposed by the donor or grantor or (ii) imposed by law or administrative regulation to which the donor or grantor is subject, limiting the application of such funds.

"Short-Term Indebtedness" shall mean bonds, notes or other obligations, including Variable Rate . Indebtedness, maturing five (5) years or less from their date of issuance which are issued in anticipation of the issuance of revenue bonds the proceeds of which will be used to pay the Short-Term Indebtedness.

"Sinking Fund Installment" shall mean, as of any particular date of calculation, the amount required to be paid on a certain future date for the retirement of Outstanding Parity Indebtedness which mature after said future date, but does not include any amount payable by reason of the maturity of an Outstanding Parity Indebtedness or by call for redemption at the election of the Board or the City on behalf of the Board.

"Valuation Date" shall mean with respect to any Capital Appreciation Indebtedness, the date or dates set forth in the resolution authorizing such Capital Appreciation Bonds on which specific Accreted Values are assigned to the Capital Appreciation Bonds.

"Variable Rate Indebtedness" shall mean any bonds, notes or other obligations of the Board or the City, on behalf of the Board, the interest rate on which is subject to periodic adjustment, at intervals, at such times and in such manner as shall be determined by the resolution authorizing such indebtedness, provided that if the interest rate shall have been fixed for the remainder of the term thereof (including a fixed rate pursuant to a Hedge Agreement with a Qualified Hedge Provider), it shall no longer be Variable Rate Indebtedness.

"Wastewater System" or "Wastewater Control System" means all plants and properties, both real and personal and tangible and intangible, now or hereafter existing, of the City, both within and without the City, used for or pertaining to the collection, treatment and disposal of sewerage and wastewater, including industrial waste. Without limiting the generality of the foregoing, said term shall include: (1) the existing plants and properties comprising the Wastewater System of the City, as of the date of adoption of the Resolution; and (2) all additions, improvements, enlargements, extensions, expansions, and betterments to the Wastewater System of the City hereafter constructed or otherwise acquired, including, without limitation, properties acquired by purchase or annexations or properties acquired through the Board's participation in any regional wastewater system.

Authorization of Bonds

Bonds, notes and other obligations of the City or the Board may be issued that will have a parity of lien on the Net Revenues of the Wastewater System. Such Parity Indebtedness may be issued under the Resolution from time to time pursuant to the terms, conditions and limitations of the Resolution, in such amounts as may be determined by the Board, for any purpose authorized therein. The principal amount of Parity Indebtedness which may be issued thereunder and secured thereby shall not be limited, except as may be provided by law.

General Provisions for Issuance of Parity Indebtedness

Parity Indebtedness shall be issued by means of a Supplemental Resolution adopted by the City or the Board in accordance with applicable law.

Requirements for Issuing Additional Indebtedness

Additional Parity Indebtedness may be incurred provided the following requirements are met:

(a) Provided that all payments required to be made to the Debt Service Fund and into any reserve fund which may be required under resolutions authorizing Parity Indebtedness are current as of the date of issuance of the additional bonds, notes or other obligations, additional bonds, notes or other obligations may be issued or entered into by the City or the Board on a parity and equality of lien with the Outstanding Parity Indebtedness with respect to the lien and claim of such additional bonds, notes or other obligations to the net revenues of the System and the money on deposit in the Debt Service Fund for the following purposes and under the following conditions, but not otherwise:

> (i) For the purpose of refunding any Outstanding Parity Indebtedness, subordinate bonds, notes, loan agreements or other obligations, provided that after the issuance of such additional Parity Indebtedness, the Aggregate Debt Service on all Outstanding Parity Indebtedness, including the additional Parity Indebtedness to be issued, in any Fiscal Year shall not increase by more than ten percent (10%) after the issuance of such additional Parity Indebtedness.
>
> (ii) For the purpose of financing the completion or equipping of improvements to the System for which Outstanding Parity Indebtedness have previously been issued but only to the extent necessary to complete such improvements in the manner contemplated at the time of the issuance of the Outstanding Parity Indebtedness that financed such improvements.
>
> (iii) For the purposes of refunding any Outstanding Parity Indebtedness or any Prior Lien Bonds, subordinated bonds, notes or other obligations or extending, improving or replacing the System or for any other lawful purpose under applicable law, if one of the following conditions shall have been met: (A) the Net Revenues for any twelve-month period selected by the Board ending within the twelve months prior to the date of the issuance of the additional Parity Indebtedness must have been equal to at least 120% of the Maximum Annual Aggregate Debt Service on Outstanding Parity Indebtedness plus the Debt Service on the additional Parity Indebtedness proposed to be issued or (B) the estimated Net Revenues of the System for each of the three Fiscal Years next succeeding the issuance of the additional Parity Indebtedness, must be equal at least to 120% of Maximum Annual Aggregate Debt Service on the Notes, any other Outstanding Parity Indebtedness and all outstanding Prior Lien Bonds plus the Debt Service on the additional Parity Indebtedness proposed to be issued; provided, however, that if the additional Parity Indebtedness is to be issued for the acquisition or construction of any extension,

improvement or replacement to the System, then the estimate of Net Revenues may be for the three Fiscal Years ensuing after the time that such improvement, extension or replacement is expected to be placed in service.

(iv) For the purpose of entering into a Hedge Agreement with a Qualified Hedge Provider with respect to Outstanding Parity Indebtedness but only to the extent of Hedge Payments.

(b) In calculating Net Revenues, Debt Service and Maximum Annual Aggregate Debt Service for all purposes under the Resolution, the following adjustments and assumptions shall be made:

(i) In calculating the Net Revenues on a historical basis, the amount of such Net Revenues may be adjusted to take into account any rate increase adopted by the Board that is effective prior to the date of such calculation.

(ii) In calculating the Net Revenues for a period in the future, the amount of such Net Revenues may be adjusted to take into account any rate increase adopted by the Board that is to be effective within one year of the date of such calculation, and if such calculation is being made in connection with the issuance of Parity Indebtedness, the Net Revenues may be calculated based upon the assumption that any improvements financed with proceeds of the Parity Indebtedness will be completed within a time period established in a report of a Consulting Engineer.

(c) Any calculation or projection of Net Revenues described above, whether for a historical period or for a future period, shall be set forth in a certificate of the President and Chief Executive Officer and Chief Financial Officer of the Board. If the calculation is made as to a future period, a Consulting Engineer shall state in a report that the assumptions underlying any projections of the Board as to Net Revenues are reasonable. Any calculation of the Maximum Annual Aggregate Debt Service shall also be set forth in a certificate of the President and Chief Executive Officer and Chief Financial Officer of the Board, which certificate shall be accompanied by a certificate of a financial advisory firm to the effect that the calculation of Maximum Annual Aggregate Debt Service is correct and is in compliance with the terms of the Resolution, but such certificate of the financial advisory firm shall only be required if Variable Rate Indebtedness, Balloon Indebtedness or Short-Term Indebtedness must be taken into account in the calculation of Maximum Annual Aggregate Debt Service.

(d) Any obligation of the Board to pay amounts under a Hedge Agreement other than Hedge Payments, including a termination payment upon the termination of a Hedge Agreement, shall be a subordinate obligation to the obligations with respect to Parity Indebtedness.

Application of Revenues

As long as any Parity Indebtedness shall be outstanding and unpaid either as to principal or as to interest, or until the discharge and satisfaction of the Parity Indebtedness as provided in the resolution authorizing said Parity Indebtedness, the entire income and revenues of the System shall be deposited as collected in the Revenue Fund established by the Resolution (the "Revenue Fund"), to be administered and controlled by the Board. The income and revenues deposited therein shall be used only as follows:

(a) The money in the Revenue Fund shall be disbursed first from month to month for the payment of Operation and Maintenance Expenses.

(b) The money remaining in the Revenue Fund, after payment of Operation and Maintenance Expenses, shall next be used to make deposits into a separate and special fund, to be known as the Debt Service Fund (the "Debt Service Fund"), to be kept separate and apart from all other funds of the Board and used to pay principal of and interest on Parity Indebtedness and Hedge Payments (net of Hedge Receipts) with respect thereto as the same become due, either by maturity or mandatory redemption. Such deposits shall be made monthly, or as otherwise set forth in the Resolution or in the resolution authorizing such Parity Indebtedness or Hedged Payments, until all Parity Indebtedness is paid in full or discharged and satisfied. Unless otherwise authorized in the resolution authorizing any Parity Indebtedness, for the period commencing with the month next following the delivery of the Parity Indebtedness, each monthly deposit shall be an amount that, together with all other monthly deposits of approximately equal amounts during such period and amounts otherwise in said Fund, will be equal to principal due on the Parity Indebtedness on the next principal payment date, divided by the number of months from and including the month of the first such deposit to and including the months preceding the next principal payment date; provided that, if the next principal payment date is more than 13 months following the month next following the delivery of the Parity Indebtedness, such monthly deposits to the Debt Service Fund shall commence in the month that is 13 months prior to the month of the next principal payment date. Furthermore, during such period, there shall be deposited to the Debt Service Fund monthly an amount equal to one-sixth (1/6) of the interest coming due on the next interest payment date for Parity Indebtedness (unless otherwise specified in the resolution authorizing such Parity Indebtedness).

In each month thereafter, each monthly deposit shall consist of an interest component and a principal component except as provided in the Resolution. If interest is payable semi-annually, then the interest component shall be an amount equal to not less than one-sixth (1/6th) of the interest coming due on any Parity Indebtedness on the next succeeding interest payment date, unless otherwise specified in the resolution authorizing such Parity Indebtedness. Unless otherwise specified in the resolution authorizing Parity Indebtedness, the principal component shall be an amount which shall be established annually on each July I for all payments to be made during the ensuing twelve-month period commencing in July of each calendar year and ending in June of the following calendar year and shall be not less than one-twelfth (1/12) of the principal amounts, as the case may be, coming due, whether by maturity or mandatory redemption, on the Parity Indebtedness then outstanding during such twelve-month period. No further deposit shall be required when the Debt Service Fund balance is equal to or greater than the amount needed to pay interest coming due on the next interest payment date and the total of the principal amounts payable, either by maturity or mandatory redemption, during the applicable twelve-month period. Money in the Debt Service Fund shall be used solely and is expressly and exclusively pledged for the purpose of paying principal of and interest on Parity Indebtedness. Notwithstanding the foregoing, deposits for the payment of principal and interest on Variable Rate Indebtedness or Hedge Payments shall be made as set forth in the resolution authorizing such Variable Rate Indebtedness or Hedge Payments.

(c) The next available money in the Revenue Fund shall be paid to any issuer of an insurance policy, surety bond, letter of credit or similar instrument (a "Reserve Fund Credit Facility") (pro rata, if more than one) to the extent needed to reimburse the issuer for any amounts advanced under the Reserve Fund Credit Facility, including any amounts payable under any guaranty agreement relating to such amounts, together with reasonable related expenses incurred by the issuer of such Reserve Fund Credit Facility and any interest relating to such amounts.

(d) The next available money in the Revenue Fund shall be deposited to any reserve fund created pursuant to any resolution authorizing Parity Indebtedness in the manner provided in such resolution.

(e) The next available money in the Revenue Fund shall be used to pay liquidity fees, credit enhancement fees, remarketing agent fees and similar fees that are payable in connection with the issuance of Parity Indebtedness.

(f) The next available money in the Revenue Fund shall be used for the payment of all other payments to be made under the Parity Indebtedness not provided for in the preceding subsections including payments in connection with Hedge Agreements that are not Hedge Payments, including termination payments.

(g) The next available money in the Revenue Fund shall be used to pay principal of and interest on (including reasonable reserves therefor) any bonds, notes or obligations payable from the Revenues of the System, but junior and subordinate to the Parity Indebtedness and then for the purpose of the payment of liquidity fees, credit enhancement fees, remarketing agent fees and similar fees that are payable in connection with bonds, notes or other obligations payable from the Revenues of the System, but junior and subordinate to the Parity Indebtedness.

(h) The next available money in the Revenue Fund shall be used for the purpose of making payments in lieu of taxes and, to the extent not so used, may be used for any lawful purpose, including such reserve funds and other funds as the Board deems necessary and appropriate.

(i) Money on deposit in the Funds described above may be invested by the Board in such investments as shall be permitted by applicable law, as determined by an authorized representative of the Board, 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. The Board is authorized to enter into contracts with third parties for the investment of funds in any of the Funds described herein.

(j) The Revenue Fund and the Debt Service Fund shall be held and maintained by the Board 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.

Investment of Funds

Moneys in the Debt Service Fund shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Board solely in, and obligations credited to such Accounts shall be, investments specified in item (i), (ii), (iii), (iv), (v)(b), (vi) and (vii) of the definition of Investment Securities which shall mature or be subject to redemption at the option of the holder thereof on or prior to the respective dates when the moneys in such accounts will be required for the purposes intended.

Moneys in the Revenue Fund not required for immediate disbursement for the purpose for which said Fund is created shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Board, to the extent allowed by law, solely in, and obligations deposited in said Fund shall be, Investment Securities which shall mature or be subject to redemption at the option of the holder thereof, not later than such times as shall be necessary to provide moneys when needed to provide payments from such Fund.

Combined Systems

Notwithstanding anything elsewhere provided in the Resolution, nothing contained in the Resolution shall prevent the Board from combining any or all of the Board's utility systems into a single unified operation (the "Combined System") and commingling the revenues of the systems so combined in the Combined System without keeping separate accounts of the funds of each of such systems, provided payments from the funds of the Combined System are required to be made into the Debt Service Fund created under the Resolution from time to time in amounts sufficient to comply with provisions thereof and in amounts sufficient to pay the principal of and interest on the Outstanding Parity Indebtedness as such principal and interest becomes due. Bonds, notes and other obligations ("Parity Combined System Obligations") payable from revenues of the Combined System may be issued on a parity with Outstanding Parity Indebtedness provided at the time of the issuance of any such Parity Combined System Obligations, the following conditions have been complied with. The Net Revenues of the Combined System, for a period of twelve consecutive months (hereinafter sometimes called the "Combined Twelve-Month Period") out of the eighteen months immediately preceding the issuance of such Parity Combined System Obligations shall be equal to at least 1.2 times the Maximum Annual Aggregate Debt Service on all Outstanding Parity Indebtedness and the obligations proposed to be issued; or if within twelve months prior to the issuance of the Parity Combined System Obligations a revised schedule of rates for the Combined System or any part thereof shall have been put into effect, then the Net Revenues of the Combined System for the Twelve-Month Period, as certified by a Consulting Engineer or Financial Adviser, that would have resulted from such revised rates had they been in effect for the Twelve-Month Period, may be used in lieu of the actual Net Revenues for such Twelve-Month Period.

Separate System

Nothing contained in the Resolution shall prevent the Board from acquiring a separate water transmission or distribution system or any combination thereof, or any other system, facilities or equipment which municipalities in Tennessee operating water distribution systems are authorized to own, operate or finance, and nothing therein shall prevent the issuance of bonds, notes, warrants, certificates or other obligations or evidences of indebtedness, to acquire any such system or facilities. Any facilities or system acquired by the Board, at the election of the Board, may be operated as a separate and independent system or be merged into the System and operated as a single unified system with the System (the "Merged Systems"). Revenues of the Merged Systems may be commingled without keeping separate accounts of the funds of each of the systems, provided all Revenues of the Merged Systems are applied in accordance with the Resolution, including the payment of principal of and interest on all bonds, notes or other obligations of the acquired system. All Outstanding Parity Indebtedness and any bonds, notes and other obligations of the acquired system outstanding upon the merger of the systems designated by the Board may be payable from revenues of the Merged Systems on a parity and equality of lien with each other, provided the Net Revenues of the Merged Systems, for a period of twelve consecutive months (hereinafter sometimes called the "Twelve-Month Period") out of the eighteen months immediately preceding the merger of the systems shall be equal to at least 1.2 times the Maximum Annual Aggregate Debt Service on all Outstanding Parity Indebtedness, all bonds, notes and obligations of the acquired system then outstanding and any additional indebtedness to be then issued; or if within twelve months prior to any such calculation, the Board shall have put into effect a revised schedule of rates for the Merged Systems or any part thereof, then the Net Revenues of the Merged Systems, as certified by a Consulting Engineer or Financial Adviser, that would have resulted from such revised rates had they been in effect for the Twelve-Month Period, may be used in lieu of the actual Net Revenues for such Twelve-Month Period.

Rate Covenant

The Board covenants and agrees that it shall fix, establish, maintain and collect rates and charges for the services or facilities furnished or supplied by the Wastewater System or which shall be any part thereof, which rates, tolls, rents and charges shall be sufficient in each Fiscal Year to produce Revenues in such Fiscal Year which together with other moneys which lawfully may be applied to the purpose, will be equal to at least the sum of (A) Debt Service on all Bonds and Original Bonds in such Fiscal Year, (B) the necessary expenses of operating, maintaining, renewing and replacing the Wastewater System and (C) the additional amounts, if any, required to pay all other charges or liens whatsoever payable from the Revenues in such Fiscal Year; provided, however, that such rates, tolls, rents, and other charges shall be sufficient to produce in any Fiscal Year Net Revenues at least equal to one and twenty-hundredths (1.20) times Debt Service on all Bonds and Original Bonds in such Fiscal Year.

Additional Covenants

To Maintain the Properties of the Wastewater System in Good Repair. The City shall (i) maintain, preserve, and keep, or cause to be maintained, preserved and kept, the properties of the Wastewater system and all additions and betterments thereto and extensions thereof, and every part and parcel thereof in good repair, working order and condition, (ii) from time to time make, or cause to be made, all necessary and proper repairs, renewals, replacements, additions, extensions and betterments thereto, so that at all times the business carried on in connection therewith shall be properly and advantageously conducted, and (iii) comply, or cause to be complied with the terms and conditions of any permit or license for the Wastewater System or any part thereof issued by any federal or state governmental agency or body and with any federal or state law or regulation applicable to the construction, operation, maintenance and repair of the Wastewater System or requiring a license, permit or approval therefore.

Sale, Lease or Other Disposition of Properties of the Wastewater System. The City shall not sell, mortgage, lease or otherwise dispose of the properties of the Wastewater System except as provided below.

(1) The City may sell, lease, or otherwise dispose of the properties comprising the Wastewater System upon compliance with the provisions of the Original Resolution so long as Original Bonds are outstanding and if simultaneously with such sale or other disposition thereof provision is made for the payment of all Bonds then outstanding and such Bonds are no longer deemed outstanding within the meaning of the Resolution.

(2) The City may sell, lease or otherwise dispose of any part of the properties comprising the Wastewater system if an Authorized Officer of the Board shall certify in writing that such terms and conditions of the proposed sale, lease or other disposition of any such properties are fair and reasonable, and that the estimated Revenues to be derived from the remaining properties of the Wastewater System, after taking into consideration the use by the Board of the proceeds of such proposed sale, lease or other disposition of such properties, will be sufficient to' enable the City to comply with all covenants and conditions of the Resolution Proceeds of any sale, lease or other disposition of any portion of the properties of the Wastewater System shall be paid: (i) if such proceeds are not in excess of $100,000, into the Wastewater Fund, or (ii) if such proceeds are in excess of $100,000, (A) into the Bond Retirement Account in the Bond Fund and applied to the purchase or redemption of Bonds or (B) into the Wastewater Fund and applied by the Board for the purpose of constructing extensions, betterments or improvements to the Wastewater System, as the Board shall determine.

(3) The City may sell, lease, or otherwise dispose of surplus lands, crops, timber, buildings and any other portion of the works, plant and facilities of the Wastewater System and real and personal property comprising a part thereof, which, in the opinion of the Board, shall have become unserviceable, inadequate, obsolete, worn out, or unfit to be used in the operation of the Wastewater System, or no longer necessary material to, or useful in such operation. Proceeds of any such sale, lease or other disposition of any portion of the properties of the Wastewater System shall be paid into the Wastewater Fund.

(4) If permitted by the laws of the State of Tennessee, the City may transfer without consideration the properties comprising the Wastewater System to a public corporation or political subdivision of the State of Tennessee, provided such corporation or subdivision assumes all of the City s obligations and duties under the Resolution.

(5) In the event that any part of the properties comprising the Wastewater System shall be transferred from the City through the operation of law (including condemnation), any moneys received by the City as a result thereof shall be paid (i) if such proceeds are not in excess of $100,000, into the Wastewater Fund, or (ii) if such proceeds are in excess of $100,000, (A) into the Bond Retirement Account in the Bond Fund and applied to the purchase or redemption of Bonds or (B) into the Wastewater Fund and applied by the Board for the purpose of constructing extensions, betterments or improvements to the Wastewater System, as the Board shall determine.

Insurance. (A) Except as provided in paragraph (B) below, the City shall keep, or cause to be kept, the works, plants, and facilities comprising the properties of the Wastewater System and the operations thereof insured to the extent available at reasonable cost with responsible insurers, with policies payable to the Board, against risks of direct physical loss, damage to or destruction of the Wastewater System, or any part thereof, at least to the extent that similar insurance is usually carried by utilities operating like properties against accidents, casualties or negligence, including liability insurance and employer's liability; provided, however, that any time while any contractor engaged in constructing any part of the Wastewater System shall be fully responsible therefore, the City shall not be required to keep such part of the System insured. All policies of insurance shall be for the benefit of the holders of the Bonds and the Board as their respective interests may appear.

In the event of any loss or damage to the properties of the Wastewater System covered by insurance, the Board will (1) with respect to each such loss, promptly repair and reconstruct to the extent necessary to the proper conduct of the operations of the Wastewater System the lost or damaged portion thereof and shall apply the proceeds of any insurance policy or policies covering such loss or damage for that purpose to the extent required therefore, unless, in case of loss or damage involving $100,000 or more the Board shall determine that such repair and reconstruction not be undertaken, and (2) if the Board shall not use the entire proceeds of such insurance to repair or reconstruct such lost or damaged property, the proceeds of such insurance policy or policies or any portion thereof not used for such repair or reconstruction, as the case may be, shall be paid into the Wastewater Fund.

(B) If the Board elects to self-insure or fails to carry insurance against any of the risks normally insured against by operators of facilities similar to the Wastewater System, it must secure the concurrence of the Consulting Engineer or independent consultant having an expertise in the insurance of utilities. In making its decision whether to concur in such self insurance, the Consulting Engineer or independent consultant shall (i) make an estimate of the added financial risks, if any, assumed by the City as a result of the self-insurance, (ii) consider the availability of commercial insurance, the terms upon which such insurance is available and the costs of such available insurance, and the effect of such terms and costs upon the City's costs and charges for its services, (iii) determine whether the added financial risk, if any, being assumed by the City is prudent in light of the savings to be realized from such self-insurance or in light of the general availability of insurance.

Consulting Engineer. In the event that the City has not complied with its rate covenant, the Board shall retain and appoint, as Consulting Engineer, an independent consulting engineer or engineering firm or corporation having special skill knowledge and experience in analyzing the operations of wastewater systems, preparing rate analyses, forecasting the loads and revenues of wastewater systems, preparing feasibility reports respecting the financing of wastewater systems and advising on the operation of wastewater facilities. Such Consulting Engineer shall no later than 90 days following its retention make an examination of and report on the properties and operations of the Wastewater System. Each such report shall be in sufficient detail to show whether the City has satisfactorily performed and complied with the covenants, agreements and conditions set forth in the Resolution with respect to the management of the business of the Wastewater System, the sufficiency of the amount being charged and collected for services under the requirements of the Resolution, the proper maintenance of the Wastewater System, and the making of repairs, renewals, replacements, modifications, additions and betterments necessary or desirable to improve operating reliability or reduce costs and recommendations thereof. A copy of each such report shall be filed with the Board and sent to any Bondholder filing with the Board a written request for a copy thereof. On the filing of such report, the Board shall undertake a review of the management of the business of the Wastewater System and shall cause the prompt taking of such action as shall be necessary to fully perform and comply with the covenants, agreements and conditions as to which the report specified such failure of performance or compliance.

Books of Account; Annual Audit. The Board shall maintain and keep proper books of account relating to the Wastewater System and in accordance with generally accepted accounting principles. Within one hundred twenty (120) days after the end of each Fiscal Year, the Board shall cause such books of account to be audited by an independent certified public accountant. A copy of each audit report and financial statements prepared in conformity with generally accepted accounting principles shall be filed promptly with the Board and sent to any Bondholder filing with the Board a written request for a copy thereof.

Not to Furnish Free Service; Enforcement of Accounts Due. So long as any Bonds issued pursuant to the Resolution are outstanding and unpaid, the Board will not furnish or supply any service or facility furnished by it or in connection with the operation of the Wastewater System, free of charge to any person, firm or corporation, public or private, and the Board will promptly enforce the payment of any and all accounts owing to the Board by reason of the ownership and operation of the Wastewater System.

Not to Issue Additional Bonds Under the Original Resolution. The City shall not issue any additional Bonds under the Original Resolution except bonds issued to refund Original Bond.

Amendment of Original Resolution. The City will not hereafter consent to or agree to any supplement, change, amendment or modification of the Original Resolution which would materially prejudice or adversely affect the rights or interests of the holders of the Bonds except as otherwise expressly provided in the Resolution.

Tax Covenant

The City has covenanted that throughout the term of the Bonds and through the date that the final rebate, if any, must be made to the United States in accordance with Section 148 of the Internal Revenue code of 1986, as amended (the "Code") it will comply with the provisions of Sections 103 and 141 through 150 of the Code, and the regulations adopted or promulgated under said Section that must be satisfied in order that interest on the Bonds shall be, and continue to be, excluded from gross income for federal income tax purposes under said Section 103.

Amendment of Resolution

The Resolution may be amended without the consent of or notice to the holders of the Parity Indebtedness for the purposes of (i) curing any ambiguity or formal defect or omission in the Resolution; (ii) making such amendments as are necessary to prevent interest on any Parity Indebtedness from being included in gross income of the holders thereof for federal income tax purposes; (iii) adding to the covenants and agreements of the City or the Board or surrendering or limiting any right or power of the City or the Board; or (iv) making such amendments as are necessary for any Parity Indebtedness to be held or continue to be held in book-entry form.

In addition to the amendments to the Resolution without the consent of the holders as referred to above, the Resolution may be amended from time to time if such amendment shall have been consented to by the holders of not less than a majority in principal amount of Outstanding Parity Indebtedness (not including in any case any Bonds or Parity Indebtedness which may then be held or owned by or for the account of the City or Board); but the Resolution may not be so amended (without the consent of all affected holders of Outstanding Parity Indebtedness) in such manner as to:

> (i) make any change in the maturity or interest rate (other than in accordance with its terms) of the Parity Indebtedness, or modify the terms of payment of principal of or interest on Parity Indebtedness or impose any conditions with respect to such payment; or
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> (ii) to make any Parity Indebtedness redeemable other than in accordance with its terms; or
>
> (iii) to create a preference or priority of any Parity Indebtedness over, any other Parity Indebtedness; or
>
> (iv) reduce the percentage of the principal amount of Parity Indebtedness the consent of the holders of which is required to effect a further amendment.

Whenever the City shall propose to amend the Resolution under the provisions of the Resolution, the Board shall cause notice of the proposed amendment to the holders of the Parity Indebtedness by sending a summary of such proposed amendment to such holders and shall state that a copy of the proposed amendatory resolution is on file in the office of the Secretary of the Board. The holders of Parity Indebtedness shall be determined by the registration records of the City or the Board or any registration agent therefor or in such other manner as is commercially reasonable.

Whenever at any time within one year from the date of the mailing of such notice there shall be filed with the Secretary an instrument or instruments executed by the holders of at least a majority aggregate principal amount of the Outstanding Parity Indebtedness, which instrument or instruments shall refer to the proposed amendatory resolution described in such notice and shall specifically consent to and approve the adoption thereof, then the Board and/or the City may adopt such amendatory resolution and such resolution shall become effective and binding upon the holders of all Parity Indebtedness.

Any consent given by the holder of Parity Indebtedness shall be irrevocable for a period for one year from the date of the instrument evidencing such consent and shall be conclusive and binding upon all future holders of the same Parity Indebtedness during such period. Such consent may be revoked at any time after one year from the date of such instrument by the holder who gave such consent or by a successor in title by filing notice of such revocation with the Secretary.

For purposes of determining the aggregate principal amount of Parity Indebtedness outstanding for purposes of amendments, whether the holders of a sufficient percentage in aggregate principal amount of Bonds and Parity Indebtedness have consented to any amendment, the Board may make such determination at any time while a request for consents to such amendment is outstanding and may include any Parity Indebtedness issued during such period in making such determination. The Accreted Value of any Capital Appreciation Debt as of the time of any such determination shall be used in making any such determination.

The fact and date of the execution of any instrument relative to amendments 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. In the event that any Parity Indebtedness is held in book-entry form, any consent to an amendment may be executed by any beneficial owner of such Parity Indebtedness, which beneficial ownership may be proved by an affidavit of the beneficial owner.

Notwithstanding anything in the Resolution to the contrary, the Board and/or the City may adopt amendments to the Resolution that do not become effective until the payment or defeasance of any Parity Indebtedness outstanding on the date such amendments are adopted.

Defaults and Remedies

A Bondholders' Committee or any Bondholder shall have authority to exercise each right and remedy granted in the Resolution only to the extent that the exercise of such right or remedy will not impair the rights of the holders of the Original Bonds.

The following events shall be Events of Default under the Resolution:

(1) Default shall be made in the due and punctual payment of the principal of and premium, if any, on any of the Bonds or Original Bonds when the same shall become due and payable; either at maturity or by proceedings for redemption or otherwise;

(2) Default shall be made in the due and punctual payment of any installment of interest on any Bond or Original Bond, or any sinking fund installment for Bonds when and as such installment of interest or sinking fund installment shall become due and payable;

(3) The City shall default in the observance and performance of any other of the covenants, conditions and agreements on the part of the City contained in the Resolution and such default or defaults shall have continued for a period of ninety (90) days, after written notice thereof to the City from the holders of not less than twenty-five percent (25%) in principal amount of the bonds then Outstanding; provided, however, that if such failure shall be such that it cannot be, corrected within such ninety day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected;

(4) An order, judgment or decree shall be entered by any court of competent jurisdiction with the consent or acquiescence of the City, or if such order, judgment or decree, having been entered without the consent or acquiescence of the City, shall not be vacated, set aside, discharged or stayed (or in case

custody or control is assumed by said order, such custody or control shall not otherwise be terminated) within ninety days after the entry thereof, and if appealed,' shall not thereafter be vacated or discharged: (a) appointing a receiver, trustee or liquidator for the City under the provisions of Chapter IX of an Act to establish a Uniform Law on the Subject of Bankruptcies, II U.S.C. 901-946, (c) granting relief to, the City under any amendment to said Bankruptcy Act or under any other applicable bankruptcy act which shall give relief substantially similar to that afforded by said Chapter IX, or (d) assuming custody or control of the Wastewater System or any part thereof under the provisions of any other law for the relief or aid of debtors.

(5) The City shall (a) admit in writing its inability to pay its debts generally as they become due, (b) file a petition in bankruptcy or seeking a composition of indebtedness, (c) make an assignment for the benefit of its creditors, (d) consent to the appointment of a receiver of the whole or any substantial part of the Wastewater System, (e) file a petition or as answer seeking relief under said Bankruptcy Act as the same may be amended or any other applicable bankruptcy act which shall give relief substantially the same as that afforded by said chapter, or (f) consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the City or of the whole or any substantial part of the Wastewater System.

If an event of Default shall have happened and shall not have been remedied, the books of record and account of the Board relating to the Wastewater System and all other records relating thereto shall at all times be subject to the inspection and use of any persons holding at least twenty-five percent (25%) of the principal amount of Bonds outstanding and of their respective agents and attorneys or of any committee thereof.

If an Event of Default shall have happened and shall not have been remedied, upon demand of a Bondholders' Committee, the Board shall pay over to the Bondholders' Committee and cause any construction fund trustee to pay over to the Bondholders Committee (i) forthwith, all moneys, securities and funds then held by the Board and pledged under the Resolution, and moneys, securities and funds then held by any construction fund trustee, and (ii) as promptly as practicable after receipt thereof, all Revenues.

During the continuance of an Event of Default as defined in items I and 2 above or of any other Event of Default resulting in an Event of Default as defined in items I and 2, the Revenues received by a Bondholders' Committee as the result of the taking of possession of the business and properties of the Wastewater System, shall be applied by the Bondholder Committee, subject to the provisions of the Original Resolution so long as the Original Bonds are outstanding thereunder, firstly to the payment of all necessary and proper Operation and Maintenance Expenses of the Wastewater System and all other proper disbursements or liabilities made or incurred by the Bondholders' Committee, secondly, to the then due and overdue payments to the Bond Fund including the making up of deficiencies therein; and lastly, for any lawful purpose in connection with the Wastewater System.

In the event that at any time the funds held by the Bondholders' Committee shall be insufficient for the payment of the principal of and premium, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds or coupons which have theretofore become due at maturity or by call for redemption) and all Revenues and other moneys received or collected for the benefit or for the account of Holders of the Bonds, subject to the provisions of the Original Resolution so long as the Original Bonds are outstanding thereunder, shall be applied as follows:

(1) Unless the principal of all of the Bonds shall have become due and payable,

FIRST, to the payment of all necessary and proper operating expenses of the Wastewater System and all other proper disbursements or liabilities made or incurred by the Bondholders' Committee;

SECOND, to the payment to the persons entitled thereto of all installments of interest (including any interest on overdue principal) then due in the order of the maturity of such installments, earliest maturities first, and, if the amount available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratable, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

THIRD, to the payment to the persons entitled thereto of the unpaid principal and premium, if any, due and unpaid upon the Bonds at the time of such payment, ratably, according to the amounts of principal and premium, if any, due on such date to the persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Bonds shall have become due and payable,

FIRST, to the payment of all necessary and proper operating expenses of the Wastewater System and all other proper disbursements or liabilities made or incurred by the Bondholders' Committee;

SECOND, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Upon the occurrence of an Event of Default and while such Event of Default shall be continuing, a Bondholders' Committee representing the holders of not less than a majority of the Bonds at the time outstanding, as a matter of right against the City, without the notice or demand, and without regard to the adequacy of the security for the Bonds, shall, but only if and to the extent then permitted by law and the Original Resolution be entitled to take possession and control of the business and properties of the Wastewater System and upon taking such possession, such Bondholders' Committee shall operate and maintain the Wastewater System, make any necessary repairs, renewals and replacements in respect thereof, prescribe rates and charges for services furnished through the facilities of the Wastewater System and collect the Revenues of the Wastewater System.

Upon the occurrence of an Event of Default and at any time while an Event of Default shall be continuing, the holders of twenty-five percent (25%) or more in principal amount of the Bonds then outstanding or any committee therefore shall, but only if and to the extent then permitted by law and the Original Resolution, be entitled to the appointment of a receiver to take possession of the Wastewater System, to manage, and receive and apply the Revenues.

If an Event of Default shall happen and shall not have been remedied, a Bondholders' Committee is empowered to proceed forthwith to institute such suits, actions and proceedings to protect and enforce its rights and the rights of the holders of the Bonds under the Resolution or, to file such proof of debt, amendment of proof of debt, claim, petition or other document as may be necessary or advisable in order to have the claims of the holders of the Bonds allowed in any equity receivership, insolvency, bankruptcy, liquidation, readjustment, reorganization or other similar proceedings.

The holders of not less than a majority in principal amount of the Bonds at the time outstanding shall be authorized and empowered (1) to direct the time, method, and place of conducting any proceeding for any remedy available to the holders of the Bonds; or (2) on behalf of the holders of the Bonds then outstanding, to consent to the waiver of any Event of Default or its consequences.

Any holder of any of the Bonds shall have the right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution.

Defeasance

The obligations of the City under the Resolution and the liens, pledges, charges, trusts, covenants and agreements of the City therein made or provided for, shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be outstanding thereunder, (i) when such Bond shall have been canceled, or shall have been surrendered for cancellation or is subject to cancellation, or shall have been purchased from moneys held under the Resolution; or (ii) when payment of the principal of and premium, if any, on such Bond, plus interest on such principal to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment, or otherwise) either (a) shall have been made or caused to be made in accordance with the terms thereof, or (b) shall have been provided for by irrevocably depositing with a Trustee, in trust, and irrevocably appropriating and setting aside exclusively for such payment, either (1) moneys sufficient to make such payment or (2) Refunded Municipal Obligations or Investment Securities which shall include only those obligations described in items (i) and (ii) of the definition of Investment Securities above maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment, whichever the City deems to be in its best interest, and all necessary and proper fees, compensation and expenses of such Trustee with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of said Trustee and proper notice of such redemption or prepayment shall have been previously published in accordance with the Resolution or provision shall have been irrevocably made for the giving of such notice.

Swap Contracts

If the City enters into an interest rate swap or other interest rate hedging transaction with respect to the payment of interest with respect to the Bonds, the amounts that the City pays or receives under such interest rate swap or other hedging transaction shall be taken into account in determining interest or the interest requirements on such Bonds for all purposes under the Resolution. Such payments shall be made or such funds received at such times and in such amounts as shall be established by a Supplemental Resolution authorizing the interest rate swap or other hedging transaction. In the case of variable rate issues in which financial covenants are based on the synthetic fixed rate under a swap, utilization of the synthetic fixed rate under a swap for purposes of performing any required calculations under the applicable legal documentation shall be permitted only if such documentation and the applicable swap satisfy the following requirements:

(i) The swap provider must be rated least A-/A3 or better by Standard & Poor's and Moody's (the "Initial Rating Requirement").

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

(iii) Failure to maintain a swap provider holding the Minimum Rating Requirement or, if the issuer elects, failure to replace any such swap provider by another swap provider which holds the Initial Rating Requirement within ten business days, will have the following effects: (1) compliance with any required rate covenant for the preceding Fiscal Year will be based on the actual interest paid on the Variable Rate Indebtedness during such Fiscal Year without regard to the swap; and (2) any "forward-looking" financial covenant based upon debt service will be based upon the variable rate.

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

Amendments to Resolution No. R-129-90 Not Yet Effective

The following amendments will become effective only upon the defeasance or payment in full of principal of and interest on the Outstanding Bonds (other than the Series 2010 Bonds, Series 2010C Bonds, Series 2012A Bonds, Series 2012B Bonds, Series 2013A Bonds, Series 2014A Bonds, Series 2015A Bonds and Series 2015B Bonds) or upon receipt of the necessary consents of holders of outstanding Bonds under Resolution No. 1644, which may include the holders of the Series 2015B Bonds. Certain of the amendments described below amend and replace the corresponding provisions summarized above.

(a) The following subparagraph shall be added to the definition of "Debt Service" at the end of such definition:

> (G) In calculating the Debt Service on any Parity Indebtedness or proposed Parity Indebtedness with respect to which the federal government or any agency thereof is or is expected to be obligated to make tax refunds or other payments to the City or the Board for the purpose of reducing the interest costs associated therewith, the Board may offset any stated interest payment on such Parity Indebtedness or proposed Parity Indebtedness by the amount of the scheduled tax refund or other payment corresponding thereto.

(b) The following sentence shall be added to the definition of "Revenues" at the end of such definition:

"Revenues" shall also not include any payments to the Board with respect to which an adjustment to Debt Service has been made pursuant to the subparagraph (G) of the definition of Debt Service.

(c) The following subsection shall be added to Section of the Resolution summarized under the heading "Application of Revenues":

> (k) Notwithstanding the foregoing, the Board may deposit any amounts described in the subparagraph (G) of the definition of Debt Service directly into the Debt Service Fund at the Board's option.

determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. Except as set forth in this Paragraph 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 taxation in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on all or a portion of the interest on any of the Bonds during the period such Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base or any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee.

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

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

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

Very truly yours,