

OFFICIAL STATEMENT

NEW ISSUES
Book-Entry Only

Rating: See "Ratings" herein

In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the Authority, interest on the Series 2020 Bonds will be excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Series 2020 Bonds is not treated as an item of tax preference in calculating the alternative minimum tax imposed on individuals under the Code. For an explanation of certain tax consequences under federal law which may result from the ownership of the Series 2020 Bonds, see the discussion under the heading "Tax Matters" herein. Under existing law, the Series 2020 Bonds and the income therefrom will be exempt from all state, county and municipal taxation in the State of Tennessee, except Tennessee franchise and excise taxes. (See "Tax Matters" herein).

BROWNSVILLE ENERGY AUTHORITY (TENNESSEE)

\$2,300,000
Water and Sewer System Revenue Bonds
Series 2020
(Bank Qualified)

\$1,250,000
Electric System Revenue Bonds
Series 2020
(Bank Qualified)

Dated: Date of Delivery

Due: June 1, as shown below

Brownsville Energy Authority (the "Authority") will issue its (i) Water and Sewer System Revenue Bonds, Series 2020 (the "Series 2020 Water and Sewer Bonds") and (ii) Electric System Revenue Bonds, Series 2020 (the "Series 2020 Electric Bonds"; together with the Series 2020 Water and Sewer Bonds, the "Series 2020 Bonds"). The Series 2020 Bonds will be issued as fully registered bonds, without coupons, in denominations of \$5,000 or any integral multiple thereof and will bear interest at the annual rates shown on the inside cover. Interest on the Series 2020 Bonds will be payable semi-annually on June 1 and December 1, commencing December 1, 2020. Principal of and interest on the Series 2020 Bonds will be payable at the corporate trust office of U.S. Bank National Association, Nashville, Tennessee, as Paying Agent and Registration Agent, provided that interest may be paid by check or draft mailed by the Registration Agent to each registered owner as of the record date.

The Series 2020 Water and Sewer Bonds are payable solely from and secured by a first and senior lien upon and pledge of the Net Revenues of the Authority's Water and Sewer System pursuant to the provisions of the Water and Sewer Resolution (capitalized terms having the meanings ascribed herein). The Water and Sewer Resolution does not grant to owners of the Series 2020 Bonds any mortgage on or security interest in any real or personal property of the Authority other than the lien on the Net Revenues of the Water and Sewer System. The Series 2020 Water and Sewer Bonds are not secured by or payable from the revenues of any system of the Authority other than the Water and Sewer System.

The Series 2020 Electric Bonds are payable solely from and secured by a first and senior lien upon and pledge of the Net Revenues of the Authority's Electric System pursuant to the provisions of the Electric Resolution (capitalized terms having the meanings ascribed herein). The Electric Resolution does not grant to owners of the Series 2020 Bonds any mortgage on or security interest in any real or personal property of the Authority other than the lien on the Net Revenues of the Electric System. The Series 2020 Electric Bonds are not secured by or payable from the revenues of any system of the Authority other than the Electric System.

The Series 2020 Bonds are not obligations of the State of Tennessee, or any of its political subdivisions, other than the Authority, nor is the State of Tennessee, or any of its political subdivisions, other than the Authority, liable for the payment of the principal of or interest on the Series 2020 Bonds. The Authority has no taxing power.

The Series 2020 Bonds are payable on June 1 of each year as shown on the inside cover. The Series 2020 Bonds are subject to optional redemption on June 1, 2029 and thereafter at a price of par, as set forth herein.

The Series 2020 Bonds will be "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

The scheduled payment of principal of and interest on the Series 2020 Water and Sewer Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY.



The Series 2020 Electric Bonds are not insured by any bond insurance policy.

The Series 2020 Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of legality by Bass, Berry & Sims PLC, Nashville, Tennessee, Bond Counsel. Certain legal matters will be passed upon for the Authority by Banks Law Firm, P.A., Brownsville, Tennessee, Counsel to the Authority. Stephens Inc. is serving as municipal advisor to the Authority. It is expected that the Series 2020 Bonds in book-entry form will be available for delivery through The Depository Trust Company on or about September 9 2020.

August 25, 2020

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document, as the same may be supplemented or amended (collectively, the “Official Statement”) by the Brownsville Energy Authority (Tennessee) (the “Authority”), is an Official Statement with respect to the Series 2020 Bonds described herein that is deemed final by the Authority as of the date hereof (or of any such supplement or amendment). It is subject to completion with certain information to be established at the time of the sale of the Series 2020 Bonds as permitted by Rule 15c2-12 of the Securities and Exchange Commission.

No dealer, broker, salesman or other person has been authorized by the Authority or by Stephens Inc. (the “Municipal Advisor”) to give any information or make any representations other than those contained in this Official Statement and, if given or made, such information or representations with respect to the Authority or the Series 2020 Bonds must not be relied upon as having been authorized by the Authority or the Municipal Advisor. This Official Statement does not constitute an offer to sell, or solicitation of an offer to buy, any securities other than the securities offered hereby to any person in any jurisdiction where such offer or solicitation of such offer would be unlawful.

This Official Statement should be considered in its entirety and no one factor should be considered more or less important than any other by reason of its position in this Official Statement. Where statutes, reports or other documents are referred to herein, reference should be made to such statutes, reports or other documents for more complete information regarding the rights and obligations of parties thereto, facts and opinions contained therein and the subject matter thereof.

The information and expressions of opinion in this Official Statement are subject to change without notice and neither the delivery of this Official Statement nor any sale made under it shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date as of which information is given in this Official Statement.

In making an investment decision investors must rely on their own examination of the Authority and the terms of the offering, including the merits and risks involved. No registration statement relating to the Series 2020 Bonds has been filed with the Securities and Exchange Commission or with any state securities agency. The Series 2020 Bonds have not been approved or disapproved by the Commission or any state securities agency, nor has the Commission or any state securities agency passed upon the accuracy or adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

Build America Mutual Assurance Company (“BAM”) makes no representation regarding the Series 2020 Bonds or the advisability of investing in the Series 2020 Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM supplied by BAM and presented under the heading “Bond Insurance” and “Appendix F - Specimen Municipal Bond Insurance Policy”.

**Brownsville Energy Authority (Tennessee)
Water and Sewer System Revenue Bonds, Series 2020**

Dated September 9, 2020

<u>Maturity June 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP No.**</u>
2021	\$110,000	2.000%	0.250%	116341 AA6
2022	120,000	2.000%	0.300%	116341 AB4
2023	120,000	2.000%	0.350%	116341 AC2
2024	120,000	2.000%	0.400%	116341 AD0
2025	125,000	2.000%	0.500%	116341 AE8
2026	125,000	2.000%	0.600%	116341 AF5
2027	130,000	2.000%	0.700%	116341 AG3

\$265,000 2.000% Term Bonds due June 1, 2029, Yield 0.900% (CUSIP 116341 AJ7)
 \$280,000 2.000% Term Bonds due June 1, 2031, Yield 1.050%* (CUSIP 116341 AL2)
 \$290,000 2.000% Term Bonds due June 1, 2033, Yield 1.250%* (CUSIP 116341 AN8)
 \$300,000 2.000% Term Bonds due June 1, 2035, Yield 1.400%* (CUSIP 116341 AQ1)
 \$315,000 2.000% Term Bonds due June 1, 2037, Yield 1.550%* (CUSIP 116341 AS7)

**Brownsville Energy Authority (Tennessee)
Electric System Revenue Bonds, Series 2020**

Dated September 9, 2020

<u>Maturity June 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP No.**</u>
2021	\$100,000	2.000%	0.300%	116342 AA4
2022	105,000	2.000%	0.350%	116342 AB2
2023	105,000	2.000%	0.400%	116342 AC0
2024	110,000	2.000%	0.450%	116342 AD8
2025	110,000	2.000%	0.550%	116342 AE6
2026	115,000	2.000%	0.650%	116342 AF3
2027	115,000	2.000%	0.750%	116342 AG1
2028	120,000	2.000%	0.850%	116342 AH9
2029	120,000	2.000%	1.000%	116342 AJ5

\$250,000 2.000% Term Bonds due June 1, 2031, Yield 1.100%* (CUSIP 116342 AL0)

* Yield to call date of June 1, 2029

** 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 Bondholders. Neither the Underwriter nor the Authority is responsible for the selection or use of these CUSIP numbers, nor is any representation made as to their correctness on the Series 2020 Bonds or as indicated herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2020 Bonds as a result of various subsequent actions, including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2020 Bonds.

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OFFICIALS

BROWNSVILLE ENERGY AUTHORITY (TENNESSEE)

BOARD OF DIRECTORS

George Chapman, Chairman

Bill Lea, Director

Carolyn Flagg, Director

ADMINISTRATION

Regie Castellaw, General Manager

AUTHORITY'S COUNSEL

Banks Law Firm, P.A.

Brownsville, Tennessee

AUDITOR

Alexander Thompson Arnold PLLC

Jackson, Tennessee

BOND COUNSEL

Bass, Berry & Sims PLC

Nashville, Tennessee

REGISTRATION AND PAYING AGENT

U.S. Bank National Association

Nashville, Tennessee

MUNICIPAL ADVISOR

Stephens Inc.

Nashville, Tennessee

UNDERWRITER

Robert W. Baird & Co., Inc.

Milwaukee, Wisconsin

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Summary Statement

This Summary is expressly qualified by the entire Official Statement, which should be viewed in its entirety by potential investors.

ISSUER	Brownsville Energy Authority (Tennessee) (the “Authority”).
ISSUES	\$2,300,000 Water and Sewer System Revenue Bonds, Series 2020 (the “Series 2020 Water and Sewer Bonds”) and \$1,250,000 Electric System Revenue Bonds, Series 2020 (the “Series 2020 Electric Bonds”; together with the Series 2020 Water and Sewer Bonds, the “Series 2020 Bonds”)
PURPOSES	<i>Series 2020 Water and Sewer Bonds:</i> Finance the costs of capital improvements (the “Water and Sewer Project”) to the Authority’s water and wastewater system (the “Water and Sewer System”); redemption of the Authority’s outstanding Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2016; prepayment of the Authority’s State Revolving Loan No. SRF 2000-138 and costs incident to the issuance and sale of the Series 2020 Water and Sewer Bonds. <i>Series 2020 Electric Bonds:</i> Finance the costs of capital improvements (the “Electric Project”) to the Authority’s electric system (the “Electric System”) and costs incident to the issuance and sale of the Series 2020 Electric Bonds.
DATED DATE	September 9, 2020.
INTEREST DUE	Each June 1 and December 1, commencing December 1, 2020.
PRINCIPAL DUE	<i>Series 2020 Water and Sewer Bonds:</i> June 1, 2021 through June 1, 2037, as set forth on the inside cover. <i>Series 2020 Electric Bonds:</i> June 1, 2021 through June 1, 2031, as set forth on the inside cover.
OPTIONAL REDEMPTION	<i>Series 2020 Water and Sewer Bonds:</i> The Series 2020 Water and Sewer Bonds maturing on or after June 1, 2031 shall be subject to redemption at the option of the Authority on and after June 1, 2029 at the price of par. <i>Series 2020 Electric Bonds:</i> The Series 2020 Electric Bonds maturing on June 1, 2031 shall be subject to redemption at the option of the Authority on and after June 1, 2029 at the price of par.
SECURITY	<i>Series 2020 Water and Sewer Bonds:</i> The Series 2020 Water and Sewer Bonds are payable solely from and secured by a first and senior lien upon and pledge of the Net Revenues of the Water and Sewer System pursuant to the provisions of the Water and Sewer Resolution (capitalized terms having the meanings ascribed herein). The Series 2020 Water and Sewer Bonds are not secured by or payable from the revenues of any system of the Authority other than the Water and Sewer System.

Series 2020 Electric Bonds: The Series 2020 Electric Bonds are payable solely from and secured by a first and senior lien upon and pledge of the Net Revenues of the Electric System pursuant to the provisions of the Electric Resolution (capitalized terms having the meanings ascribed herein). The Series 2020 Electric Bonds are not secured by or payable from the revenues of any system of the Authority other than the Electric System.

The Series 2020 Bonds are not obligations of the State of Tennessee, or any of its political subdivisions, other than the Authority, nor is the State of Tennessee, or any of its political subdivisions, other than the Authority, liable for the payment of the principal of or interest on the Series 2020 Bonds. Neither the Water and Sewer Resolution nor the Electric Resolution grant to owners of the Series 2020 Bonds any mortgage on or security interest in any real or personal property of the Authority. The Authority has no taxing power.

RATINGS..... *Series 2020 Water and Sewer Bonds:* Standard & Poor's has assigned its municipal bond rating of "AA" to the Series 2020 Water and Sewer Bonds with the understanding that upon delivery of the Series 2020 Water and Sewer Bonds, a bond insurance policy will be issued by Build America Mutual Assurance Company. Such insured rating reflects only the views of Standard & Poor's and explanations of the significance of such rating should be obtained from such agency. Additionally, an underlying rating of "A2" has been assigned by Moody's Investors Service, Inc. ("Moody's") based on documents and other information provided by the Authority. The underlying rating reflects only the view of Moody's and neither the Authority, the Municipal Advisor, BAM nor the Underwriter make any representations as to the appropriateness of such underlying rating.

Series 2020 Electric Bonds: "A1" by Moody's Investors Service, Inc. ("Moody's") based on documents and other information provided by the Authority. The rating reflects only the view of Moody's and neither the Authority, the Municipal Advisor nor the Underwriter make any representations as to the appropriateness of such rating.

There is no assurance that such ratings will continue for any given period of time or that it will not be lowered or withdrawn. Any such downward change in or withdrawal of the rating may have an adverse effect on the secondary market price of the respective Series 2020 Bonds. Any explanation of the significance of the rating may be obtained from S&P or Moody's, as applicable. See "Ratings" herein.

BOND INSURANCE..... Concurrently with the issuance of the Series 2020 Water and Sewer Bonds, Build America Mutual Assurance Company will issue its Municipal Bond Insurance Policy for the Series 2020 Water and Sewer Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Series 2020 Water and Sewer Bonds when due as set forth in the form of the Policy included as Appendix D to this Official Statement.

The Series 2020 Electric Bonds are not insured by any bond insurance policy.

TAX MATTERS	In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the Authority, interest on the Series 2020 Bonds will be excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and interest on the Series 2020 Bonds is not treated as an item of tax preference in calculating the alternative minimum tax imposed on individuals under the Code. For an explanation of certain tax consequences under federal law which may result from the ownership of the Series 2020 Bonds, see the discussion under the heading "Tax Matters" herein. Under existing law, the Series 2020 Bonds and the income therefrom will be exempt from all state, county and municipal taxation in the State of Tennessee, except Tennessee franchise and excise taxes. (See "Tax Matters" herein).
BANK QUALIFICATION	The Series 2020 Bonds will be “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.
REGISTRATION AND PAYING AGENT	U.S. Bank National Association, Nashville, Tennessee.
MUNICIPAL ADVISOR	Stephens Inc., Nashville, Tennessee.
UNDERWRITER	Robert W. Baird & Co., Inc., Milwaukee, Wisconsin

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**BROWNSVILLE ENERGY AUTHORITY
(TENNESSEE)**

\$2,300,000
Water and Sewer System Revenue Bonds
Series 2020
(Bank Qualified)

\$1,250,000
Electric System Revenue Bonds
Series 2020
(Bank Qualified)

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and the Appendices hereto, is to furnish certain information in connection with the sale by Brownsville Energy Authority (the “Authority”) of \$2,300,000 in aggregate principal amount of its Water and Sewer System Revenue Bonds, Series 2020 (the “Series 2020 Water and Sewer Bonds”) and \$1,250,000 in aggregate principal amount of its Electric System Revenue Bonds, Series 2020 (the “Series 2020 Electric Bonds”; together with the Series 2020 Water and Sewer Bonds, the “Series 2020 Bonds”). Capitalized terms used but not defined herein shall have the meanings assigned to them in the Water and Sewer Resolution (hereinafter defined) (See Appendix A-1 - Summary of Certain Provisions of the Water and Sewer Resolution.) or the Electric Resolution (hereinafter defined) (See Appendix A-2 - Summary of Certain Provisions of the Electric Resolution), as applicable.

This introduction is not a summary of this Official Statement and is intended only for quick reference. It is only a brief description of and guide to, and is qualified in its entirety by reference to, more complete and detailed information contained in the entire Official Statement, including the cover page and the Appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement and of the documents summarized or described herein, if necessary. The offering of the Series 2020 Bonds to potential investors is made only by means of the entire Official Statement, including the Appendices hereto. No person is authorized to detach this Introduction from the Official Statement or to otherwise use it without the entire Official Statement, including the Appendices hereto.

The Authority, the issuer of the Series 2020 Bonds, is a political subdivision of the State of Tennessee and a body politic and corporate created by the laws of the State of Tennessee, including Chapter 107 of the 2008 Private Acts of the State of Tennessee, as amended (the “Act”). The Authority owns and operates a water and wastewater system (the “Water and Sewer System”), serving the City of Brownsville, Tennessee, and an electric system (the “Electric System”), serving the City of Brownsville, Tennessee. See Appendix B.

The Series 2020 Water and Sewer Bonds are being issued in accordance with the Constitution of the State of Tennessee and laws of the State of Tennessee, including, but not limited to the Act, and pursuant to a resolution of the Board of Directors (the “Governing Body”) of the Authority adopted on July 7, 2020 (the “Water and Sewer Resolution”). A summary of certain provisions of the Water and Sewer Resolution is attached hereto as Appendix A-1.

The Series 2020 Electric Bonds are being issued in accordance with the Constitution of the State of Tennessee and laws of the State of Tennessee, including, but not limited to the Act, and pursuant to a resolution of the Governing Body of the Authority adopted on July 7, 2020 (the “Electric Resolution”; together with the Water and Sewer Resolution, the “Resolutions”). A summary of certain provisions of the Electric Resolution is attached hereto as Appendix A-2

Audited financial statements for the Authority’s fiscal year ended June 30, 2019 are attached hereto as Appendix C and certain statistical and demographic information regarding the Authority is attached hereto as Appendix B.

This Official Statement and the Appendices hereto contain brief descriptions of, among other matters, the Authority, the Series 2020 Bonds, and the security and sources of payment for the Series 2020 Bonds. Such descriptions and information do not purport to be comprehensive or definitive. The summaries of various constitutional provisions, statutes, the Water and Sewer Resolution, the Electric Resolution, and other documents are

intended as summaries only and are qualified in their entirety by reference to such documents, and references herein to the Series 2020 Bonds are qualified in their entirety to the form thereof included in the Water and Sewer Resolution and the Electric Resolution, as applicable. Copies of the Water and Sewer Resolution and the Electric Resolution and other documents and information are available, upon request and upon payment to the Authority of a charge for copying, mailing and handling, from Regie Castellaw, General Manager, Brownsville Energy Authority, 25 N. Lafayette Ave., Brownsville, Tennessee 38012.

PLAN OF FINANCING

Series 2020 Water and Sewer Bonds

The Series 2020 Water and Sewer Bonds are being issued for the purpose of (i) financing the costs of capital improvements to the System, including (A) painting and maintenance of water tanks, (B) repairs to the water clearwell facility, and (C) general System enhancements and improvements (the “Water and Sewer Projects”); (ii) redeem the Authority’s outstanding Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2016 (the “Series 2016 Water and Sewer Bonds”); (iii) prepay the Authority’s State Revolving Loan No. SRF 2000-138 (the “Refunded SRF Loan”) and (iv) paying the costs of issuing the Series 2020 Water and Sewer Bonds.

The portion of the proceeds of the Series 2020 Water and Sewer Bonds used to redeem the Series 2016 Water and Sewer Bonds will be immediately paid to the holder of the Series 2016 Water and Sewer Bonds to redeem the Series 2016 Water and Sewer Bonds, and the portion of the proceeds of the Series 2020 Water and Sewer Bonds used to prepay the Refunded SRF Loan will be immediately paid to the State of Tennessee to prepay the Refunded SRF Loan. The balance of the proceeds of the Series 2020 Water and Sewer Bonds will be deposited to a Water and Sewer Construction Fund held by the Authority and used to pay costs of the Water and Sewer Projects and costs of issuing the Series 2020 Water and Sewer Bonds.

Series 2020 Electric Bonds

The Series 2020 Electric Bonds are being issued for the purpose of (i) financing the costs of capital improvements to the System, including automated meter installation (the “Electric Projects”) and (ii) paying the costs of issuing the Series 2020 Electric Bonds.

The proceeds of the Series 2020 Electric Bonds will be deposited to an Electric Construction Fund held by the Authority and used to pay costs of the Electric Projects and costs of issuing the Series 2020 Electric Bonds.

Estimated Sources and Uses of Funds

The sources and uses of funds in connection with the issuance of the Series 2020 Bonds are estimated below.

	<u>Series 2020</u> <u>Water and Sewer Bonds</u>	<u>Series 2020</u> <u>Electric Bonds</u>
<u>Sources of Funds:</u>		
Par Amount	\$2,300,000.00	\$1,250,000.00
Original Issue Premium	\$137,777.00	\$79,598.55
Authority Contribution from Released Reserves	\$232,632.00	-
Total Sources of Funds	<u>\$2,670,409.00</u>	<u>\$1,329,598.55</u>
<u>Uses of Funds:</u>		
Redemption of Series 2016 Water and Sewer Bonds	\$1,137,391.69	-
Prepayment of Refunded SRF Loan	\$361,044.00	-
Deposit to Construction Fund	945,312.56	\$1,161,536.05
Deposit to Reserve Fund	\$163,800.00	\$125,000.00
Costs of Issuance ⁽¹⁾	\$62,860.75	\$43,062.50
Total Uses of Funds	<u>\$2,670,409.00</u>	<u>\$1,329,598.55</u>

⁽¹⁾ Includes legal and accounting fees, underwriter's fees, municipal advisory fees, rating agency fees, bond insurance premium, printing, and other costs of issuance.

DESCRIPTION OF THE SERIES 2020 BONDS

General

The Series 2020 Bonds are dated as of the date of their delivery, and bear interest from such date at the rates per annum set forth on the cover page of this Official Statement (computed on the basis of a 360-day year of twelve 30-day months). Interest on the Series 2020 Bonds is payable on each June 1 and December 1, commencing December 1, 2020.

Payment of the principal of and interest on the Series 2020 Bonds will be made by the Registration Agent directly to Cede & Co., as nominee of DTC, and will subsequently be disbursed to DTC Participants and thereafter to Beneficial Owners of the Series 2020 Bonds. See "Book-Entry Only Bonds."

When not in book-entry form, interest on the Series 2020 Bonds will be paid by check or draft on the Registration Agent, and will be mailed on the date due by first class mail to the registered owners of record as of the 15th day of the calendar month (the "Regular Record Date") immediately preceding the applicable Interest Payment Date, at the address shown on the registration books of the Authority maintained by the Registration Agent. When not in book-entry form, the principal of and redemption premium (if any) on the Series 2020 Bonds will be paid upon the presentation and surrender of the Series 2020 Bonds at the principal corporate trust office of the Registration Agent.

Any interest on any Series 2020 Bond that is payable but is not punctually paid or duly provided for on an Interest Payment Date (the "Defaulted Interest") will cease to be payable to the registered owner on the relevant Regular Record Date; and, in lieu thereof, such Defaulted Interest will be paid by the Authority to the persons in whose names the Series 2020 Bonds are registered at the close of business on a date (the "Special Record Date") for the payment of such Defaulted Interest, which date will be fixed in the following manner: the Authority will notify the Registration Agent of the amount of Defaulted Interest proposed to be paid on each Series 2020 Bond and the date of the proposed payment. Thereupon, not less than ten days after the receipt by the Registration Agent of the notice of the proposed payment, the Registration Agent will fix a Special Record Date for the payment of such Defaulted Interest, which date will be not more than 15 nor less than 10 days prior to the date of the proposed

payment to the registered owners. The Registration Agent will promptly notify the Authority of such Special Record Date, and in the manner and at the expense of the Authority, not less than ten days prior to such Special Record Date, will cause notice of the proposed payment of such Defaulted Interest and the Special Record Date to be mailed, first-class postage prepaid, to each registered owner at the address thereof as it appears in the registration records maintained by the Registration Agent as to the date of such notice.

Denominations, Registration, Transfers and Exchanges

The Series 2020 Bonds will be issued in fully registered form in the denomination of \$5,000 each or integral multiples thereof. The Series 2020 Bonds will be registered as to principal and interest on the registration books kept by the Registration Agent. The registered owner thereof shall be treated as the absolute owner thereof for all purposes, including payment, and payment to the registered owner thereof shall satisfy all liability thereon to the extent of sums so paid.

When in book-entry form, Series 2020 Bonds held by DTC or Cede & Co., as its nominee, on behalf of the Beneficial Owners thereof, are transferable upon delivery to DTC or Cede & Co., as its nominee, of an assignment executed by the Beneficial Owner or the Beneficial Owner's duly authorized attorney. See "Book-Entry Only Bonds."

When not in book-entry form, ownership of any Series 2020 Bond will be transferable upon surrender thereof to the Registration Agent, together with an assignment duly executed by the registered owner or his attorney, in such form as shall be satisfactory to the Registration Agent. Upon any such transfer of ownership, the Registration Agent will cause to be authenticated and delivered a new Series 2020 Bond or Series 2020 Bonds registered in the name of the transferee in the authorized denomination in the same aggregate principal amount and interest rate as the Series 2020 Bonds surrendered for such transfer. When not in book-entry form, the Series 2020 Bonds may be exchanged for a like principal amount of Series 2020 Bonds of the same interest rate of other authorized denominations. For every exchange or registration of transfer, the Registration Agent, may charge an amount sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or registration or transfer, but no other charge may be made to the owner for any exchange or registration of transfer of the Series 2020 Bonds.

Optional Redemption

Series 2020 Water and Sewer Bonds

The Series 2020 Water and Sewer Bonds maturing on or after June 1, 2031 are subject to redemption prior to maturity at the option of the Authority on or after June 1, 2029, in whole or in part at any time, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date.

If less than all the Series 2020 Water and Sewer Bonds shall be called for redemption, the maturities to be redeemed shall be selected by the Board of Directors of the Authority in its discretion. If less than all of the Series 2020 Water and Sewer Bonds within a single maturity shall be called for redemption, the interests within the maturity to be redeemed shall be selected as follows:

- (i) if the Series 2020 Water and Sewer Bonds are being held under a Book-Entry System by DTC, or a successor Depository, the Series 2020 Water and Sewer 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 Series 2020 Water and Sewer Bonds are not being held under a Book-Entry System by DTC, or a successor Depository, the Series 2020 Water and Sewer 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.

Series 2020 Electric Bonds

The Series 2020 Electric Bonds maturing on June 1, 2031 are subject to redemption prior to maturity at the option of the Authority on or after June 1, 2029, in whole or in part at any time, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date.

If less than all the Series 2020 Electric Bonds shall be called for redemption, the maturities to be redeemed shall be selected by the Board of Directors of the Authority in its discretion. If less than all of the Series 2020 Electric Bonds within a single maturity shall be called for redemption, the interests within the maturity to be redeemed shall be selected as follows:

- (i) if the Series 2020 Electric Bonds are being held under a Book-Entry System by DTC, or a successor Depository, the Series 2020 Electric 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 Series 2020 Electric Bonds are not being held under a Book-Entry System by DTC, or a successor Depository, the Series 2020 Electric Bonds within the maturity to be redeemed shall be selected by the Registration Agent by lot or such other random manner as the Registration Agent in its discretion shall determine.

Mandatory Sinking Fund Redemption

Series 2020 Water and Sewer Bonds

The Series 2020 Water and Sewer Bonds maturing on June 1, 2029; June 1, 2031; June 1, 2033; June 1, 2035 and June 1, 2037 are subject to scheduled mandatory redemption prior to maturity in part (in the same manner as provided for optional redemption) at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, in the following principal amounts and on the dates set forth below (the June 1, 2029; June 1, 2031; June 1, 2033; June 1, 2035 and June 1, 2037 amounts to be paid rather than redeemed):

Maturity	Redemption Date	Principal Amount of Bonds Redeemed
June 1, 2029	June 1, 2028	\$130,000
	June 1, 2029	\$135,000
June 1, 2031	June 1, 2030	\$140,000
	June 1, 2031	\$140,000
June 1, 2033	June 1, 2032	\$145,000
	June 1, 2033	\$145,000
June 1, 2035	June 1, 2034	\$150,000
	June 1, 2035	\$150,000
June 1, 2037*	June 1, 2036	\$155,000
	June 1, 2037	\$160,000

*Final Maturity

At its option, to be exercised on or before the 45th day next preceding such scheduled mandatory redemption date, the Authority, may (a) receive a credit with respect to its scheduled mandatory redemption obligation for any Series 2020 Water and Sewer Bonds of the same maturity subject to scheduled mandatory redemption which are delivered to the Paying Agent for cancellation and not theretofore applied as a credit against a scheduled mandatory redemption obligation or (b) receive a credit with respect to its scheduled mandatory redemption obligation for any Series 2020 Water and Sewer Bonds of the same maturity which prior to said date have been redeemed (otherwise than through scheduled mandatory redemption) and canceled by the Paying Agent and not theretofore applied as a credit against said scheduled mandatory redemption obligation. Each Series 2020 Bond so delivered or previously redeemed shall be credited by the Registration Agent, at the principal amount thereof to the obligation of the Authority on such scheduled mandatory redemption date and the principal amount of

the Series 2020 Water and Sewer Bonds to be redeemed by operation of such scheduled mandatory redemption on such date shall be accordingly reduced.

Series 2020 Electric Bonds

The Series 2020 Electric Bonds maturing on June 1, 2031 are subject to scheduled mandatory redemption prior to maturity in part (in the same manner as provided for optional redemption) at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, in the following principal amounts and on the dates set forth below (the June 1, 2031 amount to be paid rather than redeemed):

Final Maturity	Redemption Date	Principal Amount of Bonds Redeemed
June 1, 2031	June 1, 2030	\$125,000
	June 1, 2031	\$125,000

At its option, to be exercised on or before the 45th day next preceding such scheduled mandatory redemption date, the Authority, may (a) receive a credit with respect to its scheduled mandatory redemption obligation for any Series 2020 Electric Bonds of the same maturity subject to scheduled mandatory redemption which are delivered to the Paying Agent for cancellation and not theretofore applied as a credit against a scheduled mandatory redemption obligation or (b) receive a credit with respect to its scheduled mandatory redemption obligation for any Series 2020 Electric Bonds of the same maturity which prior to said date have been redeemed (otherwise than through scheduled mandatory redemption) and canceled by the Paying Agent and not theretofore applied as a credit against said scheduled mandatory redemption obligation. Each Series 2020 Bond so delivered or previously redeemed shall be credited by the Registration Agent, at the principal amount thereof to the obligation of the Authority on such scheduled mandatory redemption date and the principal amount of the Series 2020 Electric Bonds to be redeemed by operation of such scheduled mandatory redemption on such date shall be accordingly reduced.

Notice of Redemption

Notice of call for redemption, whether optional or mandatory, shall be given by the Registration Agent not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption by sending an appropriate notice to the registered owners of the Series 2020 Bonds to be redeemed by first-class mail, postage prepaid, at the addresses shown on the 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 Series 2020 Bonds for which proper notice was given. An optional redemption 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 Series 2020 Bonds, all redemption notices shall be mailed by the Registration Agent to DTC, or such successor Depository, as the registered owner of the Series 2020 Bonds, as and when above provided, and neither the Authority 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 Series 2020 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 Water and Sewer Resolution. In the case of a Conditional Redemption, the failure of the Authority 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.

Book-Entry Only System

Except as otherwise provided in the Detailed Notice of Sale, the Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2020 Bonds. The Series 2020 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may

be requested by an authorized representative of DTC. One fully-registered Series 2020 Bond certificate will be issued for each maturity of the Series 2020 Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., 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, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2020 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2020 Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2020 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 Securities, except in the event that use of the book-entry system for the Series 2020 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2020 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 Series 2020 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2020 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2020 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2020 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy

assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2020 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2020 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 Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of County or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2020 Bonds at any time by giving reasonable notice to the Authority or Registration Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2020 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

THE AUTHORITY AND THE REGISTRATION AGENT HAVE NO RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF OR INTEREST ON THE BONDS; (III) THE DELIVERY OR TIMELINESS OF DELIVERY BY ANY PARTICIPANT OR ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO BONDHOLDERS; OR (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR CEDE & CO. AS BONDHOLDER.

SECURITY AND SOURCES OF PAYMENT OF THE SERIES 2020 BONDS

Neither the full faith and credit nor the taxing power of the State of Tennessee or any political subdivision thereof, including the Authority, is pledged to the payment of the Series 2020 Bonds.

The Series 2020 Water and Sewer Bonds are limited obligations of the Authority and are payable solely from the Net Revenues of the Water and Sewer System (as described below and as defined in Appendix A-1 hereto) of the System. The Series 2020 Water and Sewer Bonds do not constitute a charge, lien or encumbrance upon any other property of the Authority. The Series 2020 Water and Sewer Bonds are not secured by or payable from the revenues of any system of the Authority other than the Water and Sewer System.

The Series 2020 Electric Bonds are limited obligations of the Authority and are payable solely from the Net Revenues of the Electric System (as described below and as defined in Appendix A-2 hereto) of the System. The Series 2020 Electric Bonds do not constitute a charge, lien or encumbrance upon any other property of the Authority. The Series 2020 Electric Bonds are not secured by or payable from the revenues of any system of the Authority other than the Electric System.

Pledge of Net Revenues

Series 2020 Water and Sewer Bonds

Under the terms of the Water and Sewer Resolution, the Series 2020 Water and Sewer Bonds are secured by a first and senior pledge of and lien on the Net Revenues of the Water and Sewer System. Generally, Net Revenues means all revenues of the Water and Sewer System, from whatever source, minus Water and Sewer System operating expenses other than depreciation, amortization and interest expense. See Appendix A-1 for a more detailed definition of Net Revenues of the Water and Sewer System. See Appendix B for information regarding the Authority, the Authority's service area, the Water and Sewer System and the Authority's debt service obligations relating to the Water and Sewer System.

Series 2020 Electric Bonds

Under the terms of the Electric Resolution, the Series 2020 Electric Bonds are secured by a first and senior pledge of and lien on the Net Revenues of the Electric System. Generally, Net Revenues means all revenues of the Electric System, from whatever source, minus Electric System operating expenses other than depreciation, amortization and interest expense. See Appendix A-2 for a more detailed definition of Net Revenues of the Electric System. See Appendix B for information regarding the Authority, the Authority's service area, the Electric System and the Authority's debt service obligations relating to the Electric System.

Flow of Funds

Series 2020 Water and Sewer Bonds

Pursuant to the Water and Sewer Resolution, the Authority has agreed to deposit all revenues derived from the operation of the Water and Sewer System into the Revenue Fund of the Water and Sewer System and to apply such moneys as follows:

- First, to pay operating expenses of the Water and Sewer System
- Next, to pay debt service on the Series 2020 Water and Sewer Bonds and any Parity Bonds
- Next, to fund debt service reserves for the Series 2020 Water and Sewer Bonds and any Parity Bonds, if applicable
- Last, to pay debt service on Subordinate Lien Bonds of the Water and Sewer System and to pay any other legal purpose

See Appendix A-1 for a more detailed description of the flow of funds.

Series 2020 Electric Bonds

Pursuant to the Electric Resolution, the Authority has agreed to deposit all revenues derived from the operation of the Electric System into the Revenue Fund of the Electric System and to apply such moneys as follows:

- First, to pay operating expenses of the Electric System
- Next, to pay debt service on the Series 2020 Electric Bonds and any Parity Bonds
- Next, to fund debt service reserves for the Series 2020 Electric Bonds and any Parity Bonds, if applicable
- Last, to pay debt service on Subordinate Lien Bonds of the Electric System and to pay any other legal purpose

See Appendix A-2 for a more detailed description of the flow of funds.

Rate Covenant

Series 2020 Water and Sewer Bonds

Under the terms of the Water and Sewer Resolution, the Authority has agreed to continuously own, control, operate, and maintain the Water and Sewer System in an efficient and economical manner and on a revenue producing basis and shall at all times prescribe, fix, maintain, and collect rates, fees, and other charges for the services and facilities furnished by the Water and Sewer System fully sufficient at all times:

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

2) such that Net Revenues of the Water and Sewer System in each Fiscal Year:

a) will equal at least 120% of the Debt Service Requirement on all Bonds of the Water and Sewer System, and 100% of the debt service requirement on any Subordinate Lien Bonds or other obligations of the Water and Sewer System then outstanding for such Fiscal Year; provided that the Authority may calculate the debt service requirement on Subordinate Lien Bonds of the Water and Sewer System in the manner prescribed for the Bonds of the Water and Sewer System in the definition of "Debt Service Requirement" in Appendix A-1 hereof;

b) will enable the Authority to make all required payments, if any, into the Reserve Fund of the Water and Sewer System and on any Credit Facility Agreement;

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

d) will remedy all deficiencies in required payments into any of the funds and accounts mentioned in this Water and Sewer Resolution from prior Fiscal Years; and

e) will permit the Authority to comply with the terms of any agreement that the Authority has entered into to purchase water.

Pursuant to the Act, no base rate change shall be effective for the Water and Sewer System without the approval of the legislative body of the City of Brownsville (the "City Board"). If the City Board has not approved such rate change within 60 days after such proposed change has been submitted to the City Board by the Authority, a committee consisting of three persons acceptable to a majority of the City Board and to a majority of the Board of Directors of the Authority shall determine whether the rate change should be approved, and unless such a committee is appointed and such committee approves the rate change, such rate change will not become effective. As described in Appendix B – WATER AND SEWER SYSTEM – Projected Debt Service Coverage and Rate Increase, the Board of Directors of the Authority and the City Board approved a 15% increase in Water and Wastewater rates effective February 1, 2020, and a 10% increase in Water and Wastewater rates that will become effective on January 1, 2021.

Notwithstanding the foregoing, pursuant to the Act, the rates, fees, or charges prescribed for the Water and Sewer System are required to be such as will produce revenue at least sufficient: (1) to provide for the payment of all expenses of operation and maintenance of the Water and Sewer System; (2) to pay when due principal of, and interest on, all indebtedness of the Authority payable from the revenues of the Water and Sewer System; (3) to pay any payments in lieu of taxes authorized to be paid pursuant to the Act, and (4) to establish proper reserves for the Water and Sewer System.

Series 2020 Electric Bonds

Under the terms of the Electric Resolution, the Authority has agreed to continuously own, control, operate, and maintain the Electric System in an efficient and economical manner and on a revenue producing basis and shall at all times prescribe, fix, maintain, and collect rates, fees, and other charges for the services and facilities furnished by the Electric System fully sufficient at all times:

- 1) for 100% of the Current Expenses of the Electric System and for the accumulation in the Electric System's Revenue Fund of a reasonable reserve therefor, in an amount, if any, as shall be determined from time to time by the Authority; and
- 2) such that Net Revenues of the Electric System in each Fiscal Year:
 - a) will equal at least 120% of the Debt Service Requirement on all Bonds of the Electric System, and 100% of the debt service requirement on any Subordinate Lien Bonds or other obligations of the Electric System then outstanding for such Fiscal Year; provided that the Authority may calculate the debt service requirement on Subordinate Lien Bonds of the Electric System in the manner prescribed for the Bonds of the Electric System in the definition of "Debt Service Requirement" in Appendix A-2 hereof;
 - b) will enable the Authority to make all required payments, if any, into the Reserve Fund of the Electric System and on any Credit Facility Agreement;
 - c) will enable the Authority to accumulate an amount, which, in the judgment of the Authority, is adequate to meet the costs of major renewals, replacements, repairs, additions, betterments, and improvements to the Electric System, necessary to keep the same in good operating condition or as is required by any governmental agency having jurisdiction over the Electric System;
 - d) will remedy all deficiencies in required payments into any of the funds and accounts mentioned in this Electric Resolution from prior Fiscal Years; and
 - e) will permit the Authority to comply with the terms of any agreement that the Authority has entered into to purchase electricity.

Pursuant to the Act, no base rate change shall be effective for the Electric System without the approval of the legislative body of the City of Brownsville (the "City Board"). If the City Board has not approved such rate change within 60 days after such proposed change has been submitted to the City Board by the Authority, a committee consisting of three persons acceptable to a majority of the City Board and to a majority of the Board of Directors of the Authority shall determine whether the rate change should be approved, and unless such a committee is appointed and such committee approves the rate change, such rate change will not become effective.

Notwithstanding the foregoing, pursuant to the Act, the rates, fees, or charges prescribed for the Electric System are required to be such as will produce revenue at least sufficient: (1) to provide for the payment of all expenses of operation and maintenance of the Electric System; (2) to pay when due principal of, and interest on, all indebtedness of the Authority payable from the revenues of the Electric System; (3) to pay any payments in lieu of taxes authorized to be paid pursuant to the Act, and (4) to establish proper reserves for the Electric System.

Additionally, Electric System rate changes resulting from charges provided for in the Schedule of Rates and Charges of any power contract with the Tennessee Valley Authority and any adjustments to such charges required or approved by the Tennessee Valley Authority shall not be subject to approval of the City Board.

Bond Funds and Reserve Funds

Series 2020 Water and Sewer Bonds

The Water and Sewer Resolution establishes a Bond Fund for the Series 2020 Water and Sewer Bonds and any Parity Bonds. The Water and Sewer Resolution requires the Authority to make monthly deposits to the Bond

Fund sufficient to accumulate funds necessary to pay scheduled debt service on the Series 2020 Water and Sewer Bonds and any Parity Bonds. The money on deposit in the Bond Fund will be used to pay the principal of and interest on the Series 2020 Water and Sewer Bonds and any Parity Bonds as the same become due.

The Authority will establish a Series 2020 Water and Sewer Reserve Fund Account (the “Series 2020 Water and Sewer Reserve Fund Account”) in the Reserve Fund for the Series 2020 Water and Sewer Bonds for the benefit of the Series 2020 Water and Sewer Bonds. The Series 2020 Water and Sewer Reserve Account must be funded with cash or a Reserve Fund Credit Facility in an amount equal to the least of (i) 10% of the initial par amount of the Series 2020 Water and Sewer Bonds, (ii) maximum annual debt service on the Series 2020 Water and Sewer Bonds, as it may change over time, or (iii) 125% of average annual debt service on the Series 2020 Water and Sewer Bonds, as it may change over time (the “Series 2020 Water and Sewer Reserve Fund Requirement”). The Series 2020 Water and Sewer Reserve Account will be funded with cash upon the issuance of the Series 2020 Water and Sewer Bonds in an amount equal to \$163,800. Any future deficiency in the Series 2020 Water and Sewer Reserve Fund Account shall be replenished over a period of not to exceed twenty-four months.

Money in the Series 2020 Water and Sewer Reserve Fund Account shall be used solely for the purpose of paying principal or interest on the Series 2020 Water and Sewer Bonds to the extent funds are not available in the Bond Fund for the Series 2020 Water and Sewer Bonds. No obligations of the Authority, other than the Series 2020 Water and Sewer Bonds, shall have the right to receive any payment from the Series 2020 Water and Sewer Reserve Fund Account.

At the option of the Authority, the Authority may satisfy the Series 2020 Water and Sewer Reserve Fund Requirement by providing a Reserve Fund Credit Facility or Facilities, at any time, in an amount not greater than the Series 2020 Water and Sewer Reserve Fund Requirement and release an equal amount of funds on deposit in the Series 2020 Water and Sewer Reserve Account to be used by the Authority for legally permissible purposes.

Series 2020 Electric Bonds

The Electric Resolution establishes a Bond Fund for the Series 2020 Electric Bonds and any Parity Bonds. The Electric Resolution requires the Authority to make monthly deposits to the Bond Fund sufficient to accumulate funds necessary to pay scheduled debt service on the Series 2020 Electric Bonds and any Parity Bonds. The money on deposit in the Bond Fund will be used to pay the principal of and interest on the Series 2020 Electric Bonds and any Parity Bonds as the same become due.

The Authority will establish a Series 2020 Electric Reserve Fund Account (the “Series 2020 Electric Reserve Fund Account”) in the Reserve Fund for the Series 2020 Electric Bonds for the benefit of the Series 2020 Electric Bonds. The Series 2020 Electric Reserve Account must be funded with cash or a Reserve Fund Credit Facility in an amount equal to the least of (i) 10% of the initial par amount of the Series 2020 Electric Bonds, (ii) maximum annual debt service on the Series 2020 Electric Bonds, as it may change over time, or (iii) 125% of average annual debt service on the Series 2020 Electric Bonds, as it may change over time (the “Series 2020 Electric Reserve Fund Requirement”). The Series 2020 Electric Reserve Account will be funded with cash upon the issuance of the Series 2020 Electric Bonds in an amount equal to \$125,000. Any future deficiency in the Series 2020 Electric Reserve Fund Account shall be replenished over a period of not to exceed twenty-four months.

Money in the Series 2020 Electric Reserve Fund Account shall be used solely for the purpose of paying principal or interest on the Series 2020 Electric Bonds to the extent funds are not available in the Bond Fund for the Series 2020 Electric Bonds. No obligations of the Authority, other than the Series 2020 Electric Bonds, shall have the right to receive any payment from the Series 2020 Electric Reserve Fund Account.

At the option of the Authority, the Authority may satisfy the Series 2020 Electric Reserve Fund Requirement by providing a Reserve Fund Credit Facility or Facilities, at any time, in an amount not greater than the Series 2020 Electric Reserve Fund Requirement and release an equal amount of funds on deposit in the Series 2020 Electric Reserve Account to be used by the Authority for legally permissible purposes.

Parity Bonds

Series 2020 Water and Sewer Bonds

The Authority may, from time to time, issue Parity Bonds with the Series 2020 Water and Sewer Bonds under the terms of the Water and Sewer Resolution. Parity Bonds will have a lien on the Net Revenues of the Water and Sewer System on a parity with the lien on the Net Revenues of the Water and Sewer System securing the Series 2020 Water and Sewer Bonds. See Appendix A-1 for the conditions under which such Parity Bonds may be issued. The Authority may not issue bonds payable from or secured by a lien on the Net Revenues of the Water and Sewer System senior to that securing the payment of the Series 2020 Water and Sewer Bonds.

Series 2020 Electric Bonds

The Authority may, from time to time, issue Parity Bonds with the Series 2020 Electric Bonds under the terms of the Electric Resolution. Parity Bonds will have a lien on the Net Revenues of the Electric System on a parity with the lien on the Net Revenues of the Electric System securing the Series 2020 Electric Bonds. See Appendix A-2 for the conditions under which such Parity Bonds may be issued. The Authority may not issue bonds payable from or secured by a lien on the Net Revenues of the Electric System senior to that securing the payment of the Series 2020 Electric Bonds.

Remedies of Bond Owners

Series 2020 Water and Sewer Bonds

Any registered owner of any of the Series 2020 Water and Sewer Bonds may either at law or in equity, by suit, action, mandamus or other proceedings, in any court of competent jurisdiction enforce and compel performance of all duties imposed upon the Authority by the provisions of the Water and Sewer Resolution, including the making and collecting of sufficient rates, the proper application of and accounting for revenues of the Water and Sewer System, and the performance of all duties imposed by the terms hereof.

If any default be made in the payment of principal of, premium, if any, or interest on the Series 2020 Water and Sewer Bonds, then upon the filing of suit by any registered owner of said Series 2020 Water and Sewer Bonds, any court having jurisdiction of the action may appoint a receiver to administer the Water and Sewer System in behalf of the Authority with power to charge and collect rates sufficient to provide for the payment of all bonds and obligations outstanding against the Water and Sewer System and for the payment of Current Expenses of the Water and Sewer System, and to apply the income and revenues thereof in conformity with the provisions of this Water and Sewer Resolution.

The Authority has from time to time obtained State Revolving Fund Loans from the Tennessee Department of Environment and Conservation (“TDEC”) and the Tennessee Local Development Authority (“TLDA”) pursuant to Loan Agreements (“SRF Loan Agreements”). Following the prepayment of the Refunded SRF Loan with the proceeds of the Series 2020 Water and Sewer Bonds, the Authority will have not any SRF Loan Agreements outstanding; however, as described in Appendix B – WATER AND SEWER SYSTEM – Debt and Additional Borrowing Plans, the Authority anticipates obtaining additional SRF Loans in the future, which may include acceleration rights as a remedy for an event of default by the Authority under the SRF Loan Agreement. In addition the other remedies available to bondholders, whenever the TLDA and/or TDEC has declared (and not subsequently rescinded such declaration) all unpaid principal and interest on any SRF Loan Agreements to be immediately due and payable (an “SRF Acceleration Event”), then all unpaid principal and interest on any outstanding Bonds of the Water and Sewer System shall likewise be immediately due and payable unless and until the registered owners of a majority in aggregate principal amount of the Series 2020 Water and Sewer Bonds and any Parity Bonds then outstanding shall have directed otherwise. Upon an SRF Acceleration Event, the Authority shall cause notice of the SRF Acceleration Event to be mailed by first-class mail, postage prepaid, to the registered holder of each Bond of the Water and Sewer System then outstanding. Such notice shall briefly set forth the nature of the SRF Acceleration Event and describe the rights of Bondholders with respect thereto.

Whenever at any time from the date of mailing of said notice there shall be filed with the General Manager an instrument or instruments executed by the registered owners of at least a majority in aggregate principal amount of the Series 2020 Water and Sewer Bonds and any Parity Bonds then outstanding, which instrument or instruments shall refer to SRF Acceleration Event and specifically direct that acceleration of the Series 2020 Water and Sewer Bonds and any Parity Bonds not occur, then the Series 2020 Water and Sewer Bonds and any Parity Bonds shall immediately cease to be immediately due and payable and shall be payable as to principal and interest as originally issued.

Any direction given by the registered owner of a Bond of the Water and Sewer System pursuant to the provisions of this section shall be irrevocable once given, but solely with respect to the specific SRF Acceleration Event, and shall be conclusive and binding upon all future registered owners of the same Bond of the Water and Sewer System during such period. The fact and date of the execution of any instrument under the provisions of this Section may be proved by the certificate of any officer in any jurisdiction who by the laws thereof is authorized to take acknowledgments of deeds within such jurisdiction, that the person signing such instrument acknowledged before him the execution thereof, or may be proved by an affidavit of a witness to such execution sworn to before such officer.

The amount (number(s)) of the Series 2020 Water and Sewer Bonds and any Parity Bonds owned by any person executing such instrument and the date of the ownership of the same shall be proved by reference to the Bond registration records maintained by the Registration Agent, which records shall constitute conclusive proof of the ownership thereof.

Series 2020 Electric Bonds

Any registered owner of any of the Series 2020 Electric Bonds may either at law or in equity, by suit, action, mandamus or other proceedings, in any court of competent jurisdiction enforce and compel performance of all duties imposed upon the Authority by the provisions of the Electric Resolution, including the making and collecting of sufficient rates, the proper application of and accounting for revenues of the Electric System, and the performance of all duties imposed by the terms hereof.

If any default be made in the payment of principal of, premium, if any, or interest on the Series 2020 Electric Bonds, then upon the filing of suit by any registered owner of said Series 2020 Electric Bonds, any court having jurisdiction of the action may appoint a receiver to administer the Electric System in behalf of the Authority with power to charge and collect rates sufficient to provide for the payment of all bonds and obligations outstanding against the Electric System and for the payment of Current Expenses of the Electric System, and to apply the income and revenues thereof in conformity with the provisions of this Electric Resolution.

The amount (number(s)) of the Series 2020 Electric Bonds and any Parity Bonds owned by any person executing such instrument and the date of the ownership of the same shall be proved by reference to the Bond registration records maintained by the Registration Agent, which records shall constitute conclusive proof of the ownership thereof.

Additional Borrowing Plans

For a discussion of additional borrowing plans of the Authority see Appendix B hereto.

BOND INSURANCE

The information under this heading “Bond Insurance” and in Appendix F to this Official Statement relates only to the Series 2020 Water and Sewer Bonds. The Policy (as defined below) does not insure the Series 2020 Electric Bonds.

Bond Insurance Policy

Concurrently with the issuance of the Series 2020 Water and Sewer Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the Series 2020 Water and Sewer

Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Series 2020 Water and Sewer Bonds when due as set forth in the form of the Policy included as Appendix F to this Official Statement.

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM’s financial strength is rated “AA/Stable” by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P’s current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Series 2020 Water and Sewer Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Series 2020 Water and Sewer Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Series 2020 Water and Sewer Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Series 2020 Water and Sewer Bonds, nor does it guarantee that the rating on the Series 2020 Water and Sewer Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2020 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$488.7 million, \$143.6 million and \$345.1 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM’s most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM’s website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Series 2020 Water and Sewer Bonds or the advisability of investing in the Series 2020 Water and Sewer Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “BOND INSURANCE”.

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM’s analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM’s website at www.buildamerica.com/videos. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM’s website at www.buildamerica.com/credit-profiles. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Series 2020 Water and Sewer Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Series 2020 Water and Sewer Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Series 2020 Water and Sewer Bonds, whether at the initial offering or otherwise.

LEGAL MATTERS

Pending Litigation

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

There is no litigation now pending or, to the knowledge of the Authority, threatened which restrains or enjoins the issuance or delivery of the Series 2020 Bonds, the use of Net Revenues of the Water and Sewer System or the Electric System for the payment of the Series 2020 Water and Sewer Bonds or the Series 2020 Electric Bonds, as applicable, or the use of the proceeds of the Series 2020 Bonds or which questions or contests the validity of the Series 2020 Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization, or existence of the Authority, nor the title of the present members or other officials of the Authority to their respective offices, is being contested or questioned.

Opinions of Bond Counsel

Legal matters incident to the authorization, validity, and issuance of the Series 2020 Bonds are subject to the approving opinions of Bass, Berry & Sims PLC, Nashville, Tennessee, Bond Counsel. The form of opinion of Bond Counsel is attached to this Official Statement as Appendix D-1, as to the Series 2020 Water and Sewer Bonds and Appendix D-2, as to the Series 2020 Electric Bonds. Copies of the opinions will be available at the time of the initial delivery of the Series 2020 Bonds. Certain legal matters will be passed upon for the Authority by Banks Law Firm, P.A., counsel to the Authority.

TAX MATTERS

Federal

General. Bass, Berry & Sims PLC, Nashville, Tennessee, is Bond Counsel for the Series 2020 Bonds. Their opinion under existing law, relying on certain statements by the Authority and assuming compliance by the Authority with certain covenants, is that interest on the Series 2020 Bonds:

- is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and
- is not treated as an item of tax preference in calculating the alternative minimum tax imposed on individuals under the Code.

The Code imposes requirements on the Series 2020 Bonds that the Authority must continue to meet after the Series 2020 Bonds are issued. These requirements generally involve the way that the Series 2020 Bond proceeds must be invested and ultimately used. If the Authority does not meet these requirements, it is possible that a bondholder may have to include interest on the Series 2020 Bonds in its federal gross income on a retroactive basis to the date of issue. The Authority has covenanted to do everything necessary to meet these requirements of the Code.

A bondholder who is a particular kind of taxpayer may also have additional tax consequences from owning the Series 2020 Bonds. This is possible if a bondholder is:

- an S corporation,
- a United States branch of a foreign corporation,
- a financial institution,
- a property and casualty or a life insurance company,
- an individual receiving Social Security or railroad retirement benefits,
- an individual claiming the earned income credit or
- a borrower of money to purchase or carry the Series 2020 Bonds.

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

Bond Counsel is not responsible for updating its opinions in the future. It is possible that future events or changes in applicable law could change the tax treatment of the interest on the Series 2020 Bonds or affect the market price of the Series 2020 Bonds. See also “Changes in Federal and State Tax Law” below in this heading.

Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel on the federal income tax treatment of interest on the Series 2020 Bonds, or under State, local or foreign tax law.

Bond Premium. If a bondholder purchases a Series 2020 Bond for a price that is more than the principal amount, generally the excess is “bond premium” on that Series 2020 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 Series 2020

Bond will be reduced. The holder of a Series 2020 Bond that is callable before its stated maturity date may be required to amortize the premium over a shorter period, resulting in a lower yield on such Series 2020 Bonds. A bondholder in certain circumstances may realize a taxable gain upon the sale of a Series 2020 Bond with bond premium, even though the Series 2020 Bond is sold for an amount less than or equal to the owner's original cost. If a bondholder owns any Series 2020 Bonds with bond premium, it should consult its tax advisor regarding the tax accounting treatment of bond premium.

Original Issue Discount. A Series 2020 Bond will have "original issue discount" if the price paid by the original purchaser of such Series 2020 Bond is less than the principal amount of such Series 2020 Bond. Bond Counsel's opinion is that any original issue discount on these Series 2020 Bonds as it accrues is excluded from a bondholder's federal gross income under the Internal Revenue Code. The tax accounting treatment of original issue discount is complex. It accrues on an actuarial basis and as it accrues a bondholder's tax basis in these Series 2020 Bonds will be increased. If a bondholder owns one of these Series 2020 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 Series 2020 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 Series 2020 Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2020 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 Series 2020 Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) Tennessee excise taxes on interest on the Series 2020 Bonds during the period the Series 2020 Bonds are held or beneficially owned by any organization or entity, or other than a sole proprietorship or general partnership doing business in the State of Tennessee, and (b) Tennessee franchise taxes by reason of the inclusion of the book value of the Series 2020 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.

Qualified Tax-Exempt Obligations

Under the Code, in the case of certain financial institutions, no deduction from income under the federal tax law will be allowed for that portion of such institution's interest expense which is allocable to tax-exempt interest received on account of tax-exempt obligations acquired after August 7, 1986. The Code, however, provides that certain "qualified tax-exempt obligations", as defined in the Code, will be treated as if acquired on August 7, 1986. Based on an examination of the Code and the factual representations and covenants of the Authority as to the Series 2020 Bonds, Bond Counsel has determined that the Series 2020 Bonds upon issuance will be "qualified tax-exempt obligations" within the meaning of the Code.

Changes in Federal and State Tax Law

From time to time, there are presidential proposals, proposals of various federal and Congressional committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Series 2020 Bonds or otherwise prevent holders of the Series 2020 Bonds from realizing the full benefit of the tax exemption of interest on the Series 2020 Bonds. It cannot be predicted whether, or in what form, these proposals might be enacted or if enacted, whether they would apply to Series 2020 Bonds prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Series 2020 Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series 2020 Bonds would be impacted. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series 2020 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 Series 2020 Bonds should consult their own tax advisors regarding the foregoing matters.

CONTINUING DISCLOSURE

The Authority will at the time the Series 2020 Water and Sewer Bonds are delivered execute a Continuing Disclosure Agreement under which it will covenant for the benefit of holders and beneficial owners of the Series 2020 Water and Sewer Bonds to provide certain financial information relating to the Authority and the Water and Sewer System by not later than twelve months after the end of each fiscal year, commencing with the fiscal year ending June 30, 2020 (the “Water and Sewer Annual Report”), and to provide notice of the occurrence of certain enumerated events.

The Authority will at the time the Series 2020 Electric Bonds are delivered execute a Continuing Disclosure Agreement under which it will covenant for the benefit of holders and beneficial owners of the Series 2020 Electric Bonds to provide certain financial information relating to the Authority and the Electric System by not later than twelve months after the end of each fiscal year, commencing with the fiscal year ending June 30, 2020 (the “Electric Annual Report”), and to provide notice of the occurrence of certain enumerated events.

All continuing disclosure filings will be made with the Municipal Securities Rulemaking Board (“MSRB”) at www.emma.msrb.org and any State Information Depository (“SID”). If the Authority is unable to provide the Water and Sewer Annual Report or the Electric Annual Report to the MSRB and the SID, if any, by the date set forth above for the filing of the Water and Sewer Annual Report or the Electric Annual Report, as applicable, notice of such failure shall be sent to the MSRB and the SID, if any, on or before such date. The specific nature of the information to be contained in the Water and Sewer Annual Report and the Electric Annual Report or the notices of enumerated events is set forth in the form of Continuing Disclosure Agreement attached hereto as Appendix E-1, as to the Series 2020 Water and Sewer Bonds, and Appendix E-2, as to the Series 2020 Electric Bonds. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b), as it may be amended from time to time (the “Rule”).

The Authority has not been subject to any continuing disclosure requirements under the Rule in the past 5 years.

RATINGS

Series 2020 Water and Sewer Bonds. S&P Global Ratings (“S&P”) has assigned its municipal bond rating of “AA” to the Series 2020 Water and Sewer Bonds with the understanding that upon delivery of the Series 2020 Water and Sewer Bonds, the Policy will be issued by BAM. Such insured rating reflects only the views of S&P and explanations of the significance of such rating should be obtained from such agency. Additionally, Moody’s

Investors Service, Inc. (“Moody’s”) has assigned the Series 2020 Water and Sewer Bonds an underlying rating of “A2”.

Series 2020 Electric Bonds. Moody’s has assigned the Series 2020 Electric Bonds a rating of “A1”.

An explanation of the significance of such ratings may be obtained from the Moody’s or S&P, as applicable. None of said ratings is a recommendation to buy, sell or hold the Series 2020 Bonds. Generally, rating agencies base their ratings on information and materials furnished to the agencies and on investigations, studies and assumptions by the agencies. There is no assurance that either rating will be maintained for any given period of time or that either rating will not be revised downward or withdrawn entirely by either rating agency if, in such agency’s judgment, circumstances so warrant. Any such downward revision or withdrawal of this rating may have an adverse effect on the market price of the applicable Series 2020 Bonds. Neither the Authority, the Municipal Advisor, BAM nor the Underwriter have undertaken any responsibility to oppose any revision or withdrawal of the rating.

MUNICIPAL ADVISOR

Stephens Inc. is serving as Municipal Advisor to the Authority in connection with the issuance of the Series 2020 Bonds. Stephens Inc., in its capacity as Municipal Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal or state income tax status of the Series 2020 Bonds or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. The information set forth herein has been obtained from the Authority and other sources believed to be reliable, but has not been independently verified by Municipal Advisor.

The Municipal Advisor’s fee for services rendered with respect to the sale of the Series 2020 Bonds is contingent upon the issuance and delivery of the Series 2020 Bonds.

The Municipal Advisor has reviewed the information in this Preliminary Official Statement in accordance with, and as part of, its responsibilities to the Authority and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Municipal Advisor does not guarantee the accuracy or completeness of such information.

UNDERWRITING

Series 2020 Water and Sewer Bonds

Robert W. Baird & Co., Inc., Milwaukee, Wisconsin (the “Underwriter”), acting for and on behalf of itself and such other securities dealers as it may designate, will purchase the Series 2020 Water and Sewer Bonds for an aggregate purchase price of \$2,410,499.50, which is par, less \$27,277.50 underwriter’s discount, plus original issue premium of \$137,777.00. The Underwriter paid the premium for the Policy of bond insurance in the amount of \$11,700.00 from its underwriter’s discount

The Underwriter may offer and sell the Series 2020 Water and Sewer Bonds to certain dealers (including dealer banks and dealers depositing the Series 2020 Water and Sewer Bonds into investment trusts) and others at prices different from the public offering prices stated on the cover page of this Official Statement. Such initial public offering prices may be changed from time to time by the Underwriter.

Series 2020 Electric Bonds

The Underwriter, acting for and on behalf of itself and such other securities dealers as it may designate, will purchase the Series 2020 Electric Bonds for an aggregate purchase price of \$1,314,536.05, which is par, less \$15,062.50 underwriter’s discount, plus original issue premium of \$79,598.55.

The Underwriter may offer and sell the Series 2020 Electric Bonds to certain dealers (including dealer banks and dealers depositing the Series 2020 Electric Bonds into investment trusts) and others at prices different

from the public offering prices stated on the cover page of this Official Statement. Such initial public offering prices may be changed from time to time by the Underwriter.

INDEPENDENT AUDITORS

The financial statements of the Authority as of June 30, 2019 and for the year then ended, attached hereto as Appendix C, have been audited by Alexander Thompson Arnold PLLC, Jackson, Tennessee, independent auditors, as stated in their report thereon and are included in reliance upon the authority of such firm as independent auditors.

MISCELLANEOUS

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

Any statements made in this Official Statement involving estimates or matters of opinion, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or matters of opinion will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of the Series 2020 Bonds.

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AUTHORIZATION OF AND CERTIFICATION CONCERNING OFFICIAL STATEMENT

The Official Statement has been authorized by the Board of Directors of the Authority. Concurrently with the delivery of the Series 2020 Bonds, the undersigned will furnish an Agreement to the effect that nothing has come to the undersigned's attention which would lead the undersigned to believe that this Official Statement contained, as of the date of delivery of the Series 2020 Bonds, any untrue statement of a material fact or omitted to state a material fact which should be included herein for the purposes for which this Official Statement is intended to be used or which is necessary to make the statements contained herein, in light of the circumstances under which they were made, not misleading.

Regie Castellaw, General Manager

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APPENDIX A-1

SUMMARY OF CERTAIN PROVISIONS OF THE WATER AND SEWER RESOLUTION

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SUMMARY OF WATER AND SEWER RESOLUTION

The following information is a brief summary of certain provisions of the Water and Sewer Resolution, as hereinafter defined, copies of which are available at the offices of the Authority. This summary is not to be considered a complete statement of the Water and Sewer Resolution, and, accordingly, is qualified by reference thereto and is subject to the full text thereof.

Definitions of Certain Terms

The following are definitions of certain terms used in the Water and Sewer Resolution and in this Official Statement.

“Acquired System” shall mean any water procurement, treatment, storage or distribution system acquired by the Authority pursuant to the Act, any sewer treatment and/or transmission facilities hereafter constructed, acquired or otherwise established by the Authority pursuant to the Act.

“Act” shall mean Chapter 107 of the 2008 Private Acts of Tennessee, as amended.

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

“Bond Fund” shall mean the Principal and Interest Sinking Fund established by the Water and Sewer Resolution;

“Bonds” as used in this Appendix A-1 means the Series 2020 Water and Sewer Bonds and any Parity Bonds.

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

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

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

“Current Expenses” means expenses incurred by the Authority in the operation of the Water and Sewer System, determined in accordance with generally accepted accounting principles; provided however that depreciation, amortization and interest on any bonds, notes or other obligations of the Authority shall be excluded from the definition of Current Expenses.

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

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

(b) For the purpose of calculating the Debt Service Requirement on Balloon Indebtedness and Short Term Indebtedness, at the option of the Authority, (i) the actual principal and interest on such Balloon Indebtedness and Short Term Indebtedness shall be included in the Debt Service Requirement, subject to the other assumptions contained herein, or (ii) such Balloon Indebtedness and Short Term Indebtedness shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period of 20 years at an assumed interest rate (which shall be the interest rate certified by a Municipal Advisor to be the interest rate at which the Authority could reasonably expect to borrow the same amount by issuing bonds with the same priority of lien as such Balloon Indebtedness and Short Term Indebtedness and with a 20-year term); provided, however, that if the maturity of such Balloon Indebtedness is in excess of 20 years from the date of issuance, then such Balloon Indebtedness shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period of years equal to the number of years from the date of issuance of such Balloon Indebtedness to maturity and at the interest rate applicable to such Balloon Indebtedness; provided further that this paragraph (b) shall not be applicable for purposes of determining the Authority's Debt Service Requirement for purposes of the provisions of this resolution related to the rate covenant unless the Authority has set aside sufficient funds for the retirement of or the Authority's Board of Directors has adopted a resolution directing the refinancing of at least 90% of the principal amount of such Balloon Indebtedness or Short Term Indebtedness coming due in the relevant Fiscal Year.

“Defeasance Obligations” shall mean direct obligations of, or obligations the principal of and interest on which are guaranteed by, the United States of America, which bonds or other obligations shall not be subject to redemption prior to their maturity other than at the option of the registered owner thereof.

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

“Fiscal Year” means the fiscal year adopted by the Authority from time to time;

“General Manager” means the duly appointed and acting General Manager of the Authority, or any other officer of the Authority acting in the capacity of General Manager when the appointed and acting General Manager is unavailable or incapable of acting.

“Governing Body” means the Board of Directors of the Authority.

“Gross Earnings” means all revenues, rentals, earnings and income of the Water and Sewer System from whatever source, determined in accordance with generally accepted accounting principles, including all revenues derived from the operation of the Water and Sewer System and all amounts realized from the investment of funds of the Water and Sewer System (excluding any investment earnings from construction or improvement funds created for the deposit of bond proceeds pending use, to the extent such income is applied to the purposes for which the bonds were issued, and funds created to defease any outstanding obligations of the Authority relating to the Water and Sewer System); provided, however, at the election of the Governing Body, the term “Gross Earnings” as used herein shall not include any revenues, rentals, earnings or other income received by the Authority from the operation of an Acquired System, and any bonds or other obligations issued in connection with such Acquired System shall not be payable from or secured by Net Revenues or be deemed to be Parity Bonds; and “Gross Earnings” as used herein shall not include revenues, rentals, earnings or income of any utility system of the Authority other than the Water and Sewer System.

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

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

“Maximum Annual Debt Service Requirement” means the maximum annual Debt Service Requirement for any Fiscal Year of the Authority.

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

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

“Parity Bonds” means bonds, notes, Loan Agreements, and other debt obligations, including Balloon Indebtedness, Short-Term Indebtedness and Variable Rate Indebtedness, issued or entered into by the Authority on a parity with the Series 2020 Water and Sewer Bonds in accordance with the restrictive provisions of the Water and Sewer Resolution, including any bonds or other obligations secured by a pledge of and/or lien on an Acquired System and the revenues derived from the operation of such Acquired System (provided such pledge and lien are subject only to normal and customary expenses of operating, maintaining, repairing and insuring any such System), so long as the Acquired System is not being operated separately from the Water and Sewer System as is permitted herein or the revenues from such Acquired System are not excluded from Gross Earnings.

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

“Rating Agencies” or “Rating Agency” means Fitch, S&P, and Moody’s or any successors thereto and any other nationally recognized credit rating agency.

“Reserve Fund” shall mean the Debt Service Reserve Fund established in the Water and Sewer Resolution.

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

“Reserve Fund Credit Facility Issuer” means the issuer of a Reserve Fund Credit Facility satisfying the rating qualifications specified by the supplemental resolution authorizing the Bonds to be secured by the applicable Reserve Fund Credit Facility. With respect to the Series 2020 Water and Sewer Bonds and any other series of Bond with respect to which such rating qualifications are not otherwise specified, the issuer of a Reserve Fund Credit Facility shall be rated, at the time at which such Reserve Fund Credit Facility is purchased, in not less than the second highest rating category (without regard to gradations within such category) by at least one Rating Agency.

“Reserve Fund Requirement” means an amount determined from time to time by the Authority as a reasonable reserve, if any, for the payment of principal of and interest on a series of Bonds pursuant to the resolution authorizing such Bonds. With respect to the Series 2020 Water and Sewer Bonds, the Reserve Fund Requirement shall be the least of (a) 10% of the original stated principal amount of the Series 2020 Water and Sewer Bonds; (b) the Maximum Annual Debt Service Requirement on the Series 2020 Water and Sewer Bonds, on a Fiscal Year basis; or (c) 125% of the average annual principal and interest requirement, on a Fiscal Year basis, including principal payable by reason of the mandatory redemption provisions of any Series 2020 Water and Sewer Bonds.

“Revenue Fund” shall have the Revenue Fund established in the Water and Sewer Resolution;

“Series 2020 Water and Sewer Bonds” means the Authority's \$2,300,000 Water and Sewer System Revenue Bonds, Series 2020.

“Short Term Indebtedness” means bonds, notes, Loan Agreements or other debt obligations maturing five years or less from their date of issuance, issued by the Authority as Parity Bonds pursuant to the terms hereof.

“SRF Loan Agreements” shall mean any State Revolving Fund Loan Agreements, entered into by the Authority with the TLDA and/or TDEC relating to the Water and Sewer System.

“State” means the State of Tennessee.

“Subordinate Lien Bonds” means bonds, notes, Loan Agreement or other debt obligations issued by the Authority with a lien subordinate to the Bonds.

“TDEC” means the Tennessee Department of Environment and Conservation.

“TLDA” means the Tennessee Local Development Authority.

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

“Water and Sewer System” shall mean the Authority's Water and Sewer System, and shall include all facilities hereafter acquired, constructed or otherwise established, together with and including all properties of every nature hereafter owned by the Authority, including all improvements and extensions made by the Authority while the Bonds remain outstanding, and including all real and personal property of every nature comprising part of or used or useful in connection with the foregoing, and including all appurtenances, contracts, leases, franchises, and other intangibles; provided, however, at the election of the Governing Body, an Acquired System may be included within the Water and Sewer System as defined herein and become a part thereof or, at the election of the Governing Body, not become a part of the Water and Sewer System but be operated as a separate and independent system by the Governing Body with the continuing right, upon the election of the Governing Body, to incorporate such separately Acquired System within the Water and Sewer System.

Application of Revenues

The following funds, accounts and subaccounts are established by the Water and Sewer Resolution, and the money deposited in such funds, accounts and subaccounts shall be held in trust for the purposes set forth in the Water and Sewer Resolution:

- 1) Revenue Fund (the “Revenue Fund”) to be held by the Authority.
- 2) Principal and Interest Sinking Fund (the “Bond Fund”) to be held by the Authority.
- 3) Debt Service Reserve Fund (the “Reserve Fund”), with an account for each series of Bonds which has a Reserve Fund Requirement; provided an account therein may be utilized for more than one series of Bonds if all such series of Bonds are specified in the resolution authorizing such Bonds to share a pledge of such account and have a combined Reserve Fund Requirement. Nothing herein shall prohibit the Authority from issuing one or more series of Bonds without a Reserve Fund Requirement and no deposit to the Reserve Fund and no Reserve Fund Credit Facility shall be required in connection therewith.

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

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

2) The money thereafter remaining in the Revenue Fund shall next be used to make deposits into the Sinking Fund and used to pay principal of and interest on the Bonds as the same become due, either by maturity or mandatory redemption. Such deposits shall be made monthly until the Bonds are paid in full or discharged and satisfied pursuant to the defeasance provisions of the Water and Sewer Resolution. Each monthly deposit as to interest for the Bonds shall be an equal to not less than one-sixth (1/6th) of the interest coming due on the Bonds on the next interest payment date net of any interest earnings on such amounts; provided that proportionately greater monthly amounts shall be deposited to account for any initial period of less than six months following the issuance of Bonds. Each monthly deposit as to principal for the Bonds shall be an amount equal to not less than one-twelfth (1/12th) of the principal amount and/or Maturity Amount coming due on the Bonds, whether by maturity or mandatory redemption, on the next principal payment date net of any interest earnings on such amounts; provided that proportionately greater monthly amounts shall be deposited to account for any initial period of less than 12 months following the issuance of Bonds. No further deposit shall be required as to any Bonds when the Sinking Fund balance is equal to or greater than the amount needed to pay interest on the next interest payment date and the total of the principal amounts payable, either by maturity or mandatory redemption, during the applicable twelve-month period. Notwithstanding the foregoing, deposits for payment of interest and principal on Variable Rate Indebtedness shall be made as set forth in the resolution authorizing such Variable Rate Indebtedness, and if interest is not paid semi-annually and/or principal is not paid annually with respect to any Bonds, the deposits may be adjusted by the Authority as provided in the resolution authorizing the issuance of such Bonds. Money in the Bond Fund shall be used and is expressly pledged for the purpose of paying principal of and interest on the Bonds.

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

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

At the option of the Authority, the Authority may satisfy the Reserve Fund Requirement applicable to a series of Bonds, or a portion thereof, by providing for the benefit of owners of such series of Bonds a Reserve Fund Credit Facility or Facilities, at any time, in an amount not greater than the Reserve Fund Requirement applicable to

such series of Bonds and release an equal amount of funds on deposit in the corresponding subaccount of the Reserve Fund to be used by the Authority for legally permissible purposes. At any time during the term hereof, the Authority shall have the right and option to substitute a new Reserve Fund Credit Facility or Facilities for any Reserve Fund Credit Facility or Facilities previously delivered, upon notice to the Registration Agent and the Reserve Fund Credit Facility Issuer or Issuers and delivery of a Reserve Fund Credit Facility or Facilities in substitution therefor. In the event of the issuance of Parity Bonds pursuant to the restrictive provisions hereof with a Reserve Fund Requirement or the substitution of a Reserve Fund Credit Facility or Facilities for less than the full amount of the Reserve Fund Requirement, the Authority shall satisfy the applicable Reserve Fund Requirement by depositing funds to the Reserve Fund or obtaining a Reserve Fund Credit Facility or Facilities, or any combination thereof, in an aggregate amount equal to the applicable Reserve Fund Requirement for the series of Bonds taking into account any funds then held therein or the amount of any Reserve Fund Credit Facility or Facilities then in effect.

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

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

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

Parity Bonds pursuant to the restrictive provisions of the Water and Sewer Resolution with a Reserve Fund Requirement or the substitution of a Reserve Fund Credit Facility or Facilities for less than the full amount of the Reserve Fund Requirement, the Authority shall satisfy the applicable Reserve Fund Requirement by depositing funds to the Reserve Fund or obtaining a Reserve Fund Credit Facility or Facilities, or any combination thereof, in an aggregate amount equal to the applicable Reserve Fund Requirement for the series of Bonds taking into account any funds then held therein or the amount of any Reserve Fund Credit Facility or Facilities then in effect.

In the event of the necessity of a withdrawal of funds from the Reserve Fund during a time when the Reserve Fund Requirement is being satisfied by a Reserve Fund Credit Facility or Facilities and funds of the Authority, the funds shall be disbursed completely before any demand is made on the Reserve Fund Credit Facility. In the event all or a portion of the Reserve Fund Requirement is satisfied by more than one Reserve Fund Credit Facility, any demand for payment shall be pro rata between or among the Reserve Fund Credit Facilities. If a disbursement is made by demand on a Reserve Fund Credit Facility, the Authority, from Revenues after payment of Current Expenses, satisfaction of the contractual obligations set forth in the Prior Bond Resolution and required

deposits to the Bond Fund, shall reimburse the Reserve Fund Credit Facility Issuer for all amounts advanced under the Reserve Fund Credit Facility (pro rata, if more than one Reserve Fund Credit Facility), including all amounts payable under any Financial Guaranty Agreement or Agreements, and then replenish the Reserve Fund as provided herein.

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

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

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

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

Money on deposit in the Funds described in this section may be invested by the Authority in such investments as shall be permitted by applicable law, as determined by an authorized representative of the Authority, 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 Water and Sewer System and shall be deposited in the Revenue Fund. Such investments shall at any time necessary be liquidated and the proceeds thereof applied to the purpose for which the respective Fund was created; provided, however, that in no event shall moneys in the Reserve Fund be invested in instruments that mature more than two years from the date the money is so invested. The Authority is authorized to enter into contracts with third parties for the investment of funds in any of the Funds described in this section.

The Revenue Fund, the Bond Fund, and the Reserve Fund (except to the extent funded with a Reserve Fund Credit Facility or Facilities) shall be held and maintained by the Authority 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.

Covenants Regarding the Operation of System

The Authority covenants and agrees with the owners of the Bonds so long as any of the Bonds shall remain outstanding:

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

b. The Authority shall maintain insurance on the properties of the Water and Sewer System of a kind and in an amount which would normally be carried by private companies engaged in a similar type and size of

business, provided, the Authority shall not be required to insure beyond the limits of immunity provided by Sections 29-20-101 et seq., Tennessee Code Annotated, or other applicable law. The proceeds of any such insurance, except public liability insurance, shall be used to replace the part or parts of the Water and Sewer System damaged or destroyed, or, if not so used, shall be placed in the Revenue Fund.

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

- 1) A statement in detail of the revenues and expenditures of the Water and Sewer System and the excess of revenues over expenditures for the Fiscal Year;
- 2) A statement showing beginning and ending balances of each Fund described herein;
- 3) A balance sheet as of the end of the Fiscal Year;
- 4) The accountant's comments regarding the manner in which the Authority has carried out the requirements of the Water and Sewer Resolution and the accountant's recommendations with respect to any change or improvement in the operation of the Water and Sewer System;
- 5) A list of insurance policies in force at the end of the Fiscal Year, setting out as to each policy the amount of the policy, the risks covered, the name of the insurer and the expiration date of the policy;
- 6) The number and classifications of customer service connections to the Water and Sewer System as of the end of the Fiscal Year;
- 7) The disposition of any Bond proceeds during the Fiscal Year;
- 8) A statement as to all breaches or defaults hereunder by the Authority of which the accountant or accountants have knowledge or, in the alternative, a statement that they have no knowledge of any such breach or default.

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

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

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

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

2) such that Net Revenues in each Fiscal Year:

a) will equal at least 120% of the Debt Service Requirement on all Series 2020 Water and Sewer Bonds and any Parity Bonds, and 100% of the debt service requirement on any Subordinate Lien Bonds or other obligations then outstanding for such Fiscal Year; provided that the Authority may calculate the debt service requirement on Subordinate Lien Bonds in the manner prescribed for the Bonds in the definition of "Debt Service Requirement";

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

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

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

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

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

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

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

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

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

g. Prior to the beginning of each Fiscal Year, the Governing Body shall prepare, or cause to be prepared, and adopted an annual budget of estimated revenues, Current Expenses, and capital expenditures for the

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

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

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

Prohibition of Prior Lien; Parity Bonds; Subordinate Lien Bonds

The Authority will issue no other bonds or obligations of any kind or nature payable from or enjoying a lien on the revenues of the Water and Sewer System having priority over the Series 2020 Water and Sewer Bonds. Additional bonds, notes, Loan Agreements or obligations may hereafter be issued on parity with the Series 2020 Water and Sewer Bonds under the following conditions but not otherwise:

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

1) the Authority shall have obtained a report from a Municipal Advisor demonstrating that the refunding is expected to reduce the total debt service payments on the Bonds, as applicable; and

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

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

1) There shall have been procured and filed with the Authority a report by a Municipal Advisor or a certificate by the General Manager of the Authority, or his or her designee, to the effect that the historical Net Revenues for either (i) a period of 12 consecutive months of the most recent 18 consecutive months prior to the issuance of the proposed Parity Bonds or (ii) the most recent audited Fiscal Year, were equal to at least 120% of Maximum Annual Debt Service Requirement on all Bonds which will be outstanding immediately after the issuance of the proposed Parity Bonds, in the then current and each succeeding Fiscal Year, provided, however, the report or certificate may contain pro forma adjustments to historical related Net Revenues equal to 100% of the increased annual amount attributable to any revision in the schedule of rates, fees, and charges for the services and facilities furnished by the Water and Sewer System, imposed prior to the date of delivery of the proposed Parity

Bonds and not fully reflected in the historical related Net Revenues actually received during such historical period used.

2) The Authority shall have received, at or before issuance of the Parity Bonds, a report from a Municipal Advisor or a certificate of the General Manager of the Authority, or his or her designee, to the effect that (x) the payments required to be made into the Bond Fund have been made and the balance in the Bond Fund is not less than the balance required hereby as of the date of issuance of the proposed Parity Bonds; and (y) the Reserve Fund is funded to the extent required under the resolutions authorizing Bonds with a Reserve Fund Requirement, if any, and any Reserve Fund Requirement applicable to the Parity Bonds will be funded to the extent required under the applicable resolution immediately following the issuance of the proposed Parity Bonds.

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

4) The General Manager, the Chairman or the Secretary shall have certified, by written certificate dated as of the date of issuance of the Parity Bonds that the Authority is in compliance with all requirements of the Water and Sewer Resolution.

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

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

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

f. The punctual payment of principal of, premium, if any, and interest on the Series 2020 Water and Sewer Bonds and any Parity Bonds shall be secured equally and ratably by the Net Revenues, without priority by reason of number or time of sale or execution or delivery.

Amendment of Resolution

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

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

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

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

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

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

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

The fact and date of the execution of any instrument under the provisions of this section may be proved by the certificate of any officer in any jurisdiction who by the laws thereof is authorized to take acknowledgments of

deeds within such jurisdiction, that the person signing such instrument acknowledged before him or her the execution thereof, or may be proved by an affidavit of a witness to such execution sworn to before such officer.

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

Discharge and Satisfaction of Bonds

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

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

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

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

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

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

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

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

Provisions Regarding Municipal Bond Insurance Policy

Build America Mutual Assurance Company's ("BAM's") prior written consent is required for all amendments and supplements to the Resolution, with the exceptions of amendments or supplements:

- i. To cure any ambiguity or formal defect or omissions or to correct any inconsistent provisions in the transaction documents or in any supplement thereto, or
- ii. To grant or confer upon the holders of the Series 2020 Water and Sewer Bonds any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the holders of the Series 2020 Water and Sewer Bonds, or
- iii. To add to the conditions, limitations and restrictions on the issuance of bonds or other obligations under the provisions of the Resolution other conditions, limitations and restrictions thereafter to be observed, or
- iv. To add to the covenants and agreements of the Authority in the Resolution other covenants and agreements thereafter to be observed by the Authority or to surrender any right or power therein reserved to or conferred upon the Authority.
- v. To issue additional parity debt in accordance with the requirements set forth in the resolution.

Any amendment, supplement, modification to, or waiver of, any of the Resolution that requires the consent of holders of the Series 2020 Water and Sewer Bonds or adversely affects the rights or interests of BAM shall be subject to the prior written consent of BAM.

Any reorganization or liquidation plan with respect to the Authority or the System must be acceptable to BAM. Each owner of the Series 2020 Water and Sewer Bonds appoints BAM as their agent and attorney-in-fact with respect to the Series 2020 Water and Sewer Bonds and agrees that BAM may at any time during the continuation of any proceeding by or against the Authority or the System under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding (a "Claim"), (B) the direction of any appeal of any order relating to any Claim, (C) the posting of any surety, supersedeas or performance bond pending any such appeal, and (D) the right to vote to accept or reject any plan of adjustment. In addition, each owner of the Series 2020 Water and Sewer Bonds delegates and assigns to BAM, to the fullest extent permitted by law, the rights of such owner of the Series 2020 Water and Sewer Bonds with respect to the Series 2020 Water and Sewer Bonds in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding.

Anything in the Resolution to the contrary notwithstanding, upon the occurrence and continuance of a default or an event of default, BAM shall be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Series 2020 Water and Sewer Bonds or the Paying Agent for the benefit of the holders of the Series 2020 Water and Sewer Bonds under the Resolution. No default or event of default may be waived without BAM's written consent.

Upon the occurrence and continuance of a default or an event of default, BAM shall be deemed to be the sole owner of the Series 2020 Water and Sewer Bonds for all purposes under the Resolution, including, without limitations, for purposes of exercising remedies and approving amendments.

APPENDIX A-2

SUMMARY OF CERTAIN PROVISIONS OF THE ELECTRIC RESOLUTION

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SUMMARY OF ELECTRIC RESOLUTION

The following information is a brief summary of certain provisions of the Electric Resolution, as hereinafter defined, copies of which are available at the offices of the Authority. This summary is not to be considered a complete statement of the Electric Resolution, and, accordingly, is qualified by reference thereto and is subject to the full text thereof.

Definitions of Certain Terms

The following are definitions of certain terms used in the Electric Resolution and in this Official Statement.

“Acquired System” shall mean any electric system acquired by the Authority pursuant to the Act, any electric system facilities hereafter constructed, acquired or otherwise established by the Authority pursuant to the Act.

“Act” shall mean Chapter 107 of the 2008 Private Acts of Tennessee, as amended.

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

“Bond Fund” shall mean the Principal and Interest Sinking Fund established by the Electric Resolution;

“Bonds” as used in this Appendix A-2 means the Series 2020 Electric Bonds and any Parity Bonds.

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

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

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

“Current Expenses” means expenses incurred by the Authority in the operation of the Electric System, determined in accordance with generally accepted accounting principles; provided however that depreciation, amortization and interest on any bonds, notes or other obligations of the Authority shall be excluded from the definition of Current Expenses.

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

(a) The Debt Service Requirement with respect to Variable Rate Indebtedness shall be determined as if the variable rate in effect at all times during future periods equaled, at the option of the Authority, either (A) the average of the actual variable rate which was in effect (weighted according to the length of the period during which each such variable rate was in effect) for the most recent 12-month period immediately preceding the

date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period), or (B) the current average annual fixed rate of interest on securities of similar quality having a similar maturity date, as certified by a Municipal Advisor.

(b) For the purpose of calculating the Debt Service Requirement on Balloon Indebtedness and Short Term Indebtedness, at the option of the Authority, (i) the actual principal and interest on such Balloon Indebtedness and Short Term Indebtedness shall be included in the Debt Service Requirement, subject to the other assumptions contained herein, or (ii) such Balloon Indebtedness and Short Term Indebtedness shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period of 20 years at an assumed interest rate (which shall be the interest rate certified by a Municipal Advisor to be the interest rate at which the Authority could reasonably expect to borrow the same amount by issuing bonds with the same priority of lien as such Balloon Indebtedness and Short Term Indebtedness and with a 20-year term); provided, however, that if the maturity of such Balloon Indebtedness is in excess of 20 years from the date of issuance, then such Balloon Indebtedness shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period of years equal to the number of years from the date of issuance of such Balloon Indebtedness to maturity and at the interest rate applicable to such Balloon Indebtedness; provided further that this paragraph (b) shall not be applicable for purposes of determining the Authority's Debt Service Requirement for purposes of the provisions of this resolution related to the rate covenant unless the Authority has set aside sufficient funds for the retirement of or the Authority's Board of Directors has adopted a resolution directing the refinancing of at least 90% of the principal amount of such Balloon Indebtedness or Short Term Indebtedness coming due in the relevant Fiscal Year.

“Defeasance Obligations” shall mean direct obligations of, or obligations the principal of and interest on which are guaranteed by, the United States of America, which bonds or other obligations shall not be subject to redemption prior to their maturity other than at the option of the registered owner thereof.

“Electric System” shall mean the Authority's Electric System, and shall include all facilities hereafter acquired, constructed or otherwise established, together with and including all properties of every nature hereafter owned by the Authority, including all improvements and extensions made by the Authority while the Bonds remain outstanding, and including all real and personal property of every nature comprising part of or used or useful in connection with the foregoing, and including all appurtenances, contracts, leases, franchises, and other intangibles; provided, however, at the election of the Governing Body, an Acquired System may be included within the Electric System as defined herein and become a part thereof or, at the election of the Governing Body, not become a part of the Electric System but be operated as a separate and independent system by the Governing Body with the continuing right, upon the election of the Governing Body, to incorporate such separately Acquired System within the Electric System.

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

“Fiscal Year” means the fiscal year adopted by the Authority from time to time;

“General Manager” means the duly appointed and acting General Manager of the Authority, or any other officer of the Authority acting in the capacity of General Manager when the appointed and acting General Manager is unavailable or incapable of acting.

“Governing Body” means the Board of Directors of the Authority.

“Gross Earnings” means all revenues, rentals, earnings and income of the Electric System from whatever source, determined in accordance with generally accepted accounting principles, including all revenues derived from the operation of the Electric System and all amounts realized from the investment of funds of the Electric System (excluding any investment earnings from construction or improvement funds created for the deposit of bond proceeds pending use, to the extent such income is applied to the purposes for which the bonds were issued, and funds created to defease any outstanding obligations of the Authority relating to the Electric System); provided, however, at the election of the Governing Body, the term “Gross Earnings” as used herein shall not include any revenues, rentals, earnings or other income received by the Authority from the operation of an Acquired System, and

any bonds or other obligations issued in connection with such Acquired System shall not be payable from or secured by Net Revenues or be deemed to be Parity Bonds; and "Gross Earnings" as used herein shall not include revenues, rentals, earnings or income of any utility system of the Authority other than the Electric System.

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

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

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

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

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

"Parity Bonds" means bonds, notes, Loan Agreements, and other debt obligations, including Balloon Indebtedness, Short-Term Indebtedness and Variable Rate Indebtedness, issued or entered into by the Authority on a parity with the Series 2020 Electric Bonds in accordance with the restrictive provisions of the Electric Resolution, including any bonds or other obligations secured by a pledge of and/or lien on an Acquired System and the revenues derived from the operation of such Acquired System (provided such pledge and lien are subject only to normal and customary expenses of operating, maintaining, repairing and insuring any such System), so long as the Acquired System is not being operated separately from the Electric System as is permitted herein or the revenues from such Acquired System are not excluded from Gross Earnings.

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

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

"Reserve Fund" shall mean the Debt Service Reserve Fund established in the Electric Resolution.

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

"Reserve Fund Credit Facility Issuer" means the issuer of a Reserve Fund Credit Facility satisfying the rating qualifications specified by the supplemental resolution authorizing the Bonds to be secured by the applicable Reserve Fund Credit Facility. With respect to the Series 2020 Electric Bonds and any other series of Bond with respect to which such rating qualifications are not otherwise specified, the issuer of a Reserve Fund Credit Facility shall be rated, at the time at which such Reserve Fund Credit Facility is purchased, in not less than the second highest rating category (without regard to gradations within such category) by at least one Rating Agency.

"Reserve Fund Requirement" means an amount determined from time to time by the Authority as a reasonable reserve, if any, for the payment of principal of and interest on a series of Bonds pursuant to the resolution authorizing such Bonds. With respect to the Series 2020 Electric Bonds, the Reserve Fund Requirement shall be the least of (a) 10% of the original stated principal amount of the Series 2020 Electric Bonds; (b) the Maximum Annual

Debt Service Requirement on the Series 2020 Electric Bonds, on a Fiscal Year basis; or (c) 125% of the average annual principal and interest requirement, on a Fiscal Year basis, including principal payable by reason of the mandatory redemption provisions of any Series 2020 Electric Bond

“Revenue Fund” shall have the Revenue Fund established in the Electric Resolution;

“Series 2020 Electric Bonds” means the Authority's \$1,250,000 Electric System Revenue Bonds, Series 2020.

“Short Term Indebtedness” means bonds, notes, Loan Agreements or other debt obligations maturing five years or less from their date of issuance, issued by the Authority as Parity Bonds pursuant to the terms hereof.

“State” means the State of Tennessee.

“Subordinate Lien Bonds” means bonds, notes, Loan Agreement or other debt obligations issued by the Authority with a lien subordinate to the Bonds.

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

Application of Revenues

The following funds, accounts and subaccounts are established by the Electric Resolution, and the money deposited in such funds, accounts and subaccounts shall be held in trust for the purposes set forth in the Electric Resolution:

- 1) Revenue Fund (the “Revenue Fund”) to be held by the Authority.
- 2) Principal and Interest Sinking Fund (the “Bond Fund”) to be held by the Authority.
- 3) Debt Service Reserve Fund (the “Reserve Fund”), with an account for each series of Bonds which has a Reserve Fund Requirement; provided an account therein may be utilized for more than one series of Bonds if all such series of Bonds are specified in the resolution authorizing such Bonds to share a pledge of such account and have a combined Reserve Fund Requirement. Nothing herein shall prohibit the Authority from issuing one or more series of Bonds without a Reserve Fund Requirement and no deposit to the Reserve Fund and no Reserve Fund Credit Facility shall be required in connection therewith.

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

- 1) The money in the Revenue Fund shall be used first from month to month for the payment of Current Expenses.
- 2) The money thereafter remaining in the Revenue Fund shall next be used to make deposits into the Sinking Fund and used to pay principal of and interest on the Bonds as the same become due, either by maturity or mandatory redemption. Such deposits shall be made monthly until the Bonds are paid in full or discharged and satisfied pursuant to the defeasance provisions of the Electric Resolution. Each monthly deposit as to interest for the Bonds shall be an equal to not less than one-sixth (1/6th) of the interest coming due on the Bonds on the next interest payment date net of any interest earnings on such amounts; provided that proportionately greater monthly amounts shall be deposited to account for any initial period of less than six months following the issuance of Bonds. Each monthly deposit as to principal for the Bonds shall be an amount equal to not less than one-twelfth (1/12th) of

the principal amount and/or Maturity Amount coming due on the Bonds, whether by maturity or mandatory redemption, on the next principal payment date net of any interest earnings on such amounts; provided that proportionately greater monthly amounts shall be deposited to account for any initial period of less than 12 months following the issuance of Bonds. No further deposit shall be required as to any Bonds when the Sinking Fund balance is equal to or greater than the amount needed to pay interest on the next interest payment date and the total of the principal amounts payable, either by maturity or mandatory redemption, during the applicable twelve-month period. Notwithstanding the foregoing, deposits for payment of interest and principal on Variable Rate Indebtedness shall be made as set forth in the resolution authorizing such Variable Rate Indebtedness, and if interest is not paid semi-annually and/or principal is not paid annually with respect to any Bonds, the deposits may be adjusted by the Authority as provided in the resolution authorizing the issuance of such Bonds. Money in the Bond Fund shall be used and is expressly pledged for the purpose of paying principal of and interest on the Bonds.

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

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

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

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

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

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

Parity Bonds pursuant to the restrictive provisions of the Electric Resolution with a Reserve Fund Requirement or the substitution of a Reserve Fund Credit Facility or Facilities for less than the full amount of the Reserve Fund Requirement, the Authority shall satisfy the applicable Reserve Fund Requirement by depositing funds to the Reserve Fund or obtaining a Reserve Fund Credit Facility or Facilities, or any combination thereof, in an aggregate amount equal to the applicable Reserve Fund Requirement for the series of Bonds taking into account any funds then held therein or the amount of any Reserve Fund Credit Facility or Facilities then in effect.

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

In the event the Reserve Fund Requirement, or any part thereof, shall be satisfied with a Reserve Fund Credit Facility or Facilities, notwithstanding the terms of defeasance provisions of the Electric Resolution, the terms, covenants, liability and liens provided or created herein or in any resolution supplemental hereto shall remain in full force and effect and said terms, covenants, liability and liens shall not terminate until all amounts payable under any Financial Guaranty Agreement have been paid in full and all obligations thereunder performed in full. If the Authority shall fail to pay when due all amounts payable under any Financial Guaranty Agreement, the Reserve

Fund Credit Facility Issuer shall be entitled to exercise any and all remedies available at law or under this Resolution other than remedies that would adversely affect owners of Bonds.

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

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

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

Money on deposit in the Funds described in this section may be invested by the Authority in such investments as shall be permitted by applicable law, as determined by an authorized representative of the Authority, 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 Electric System and shall be deposited in the Revenue Fund. Such investments shall at any time necessary be liquidated and the proceeds thereof applied to the purpose for which the respective Fund was created; provided, however, that in no event shall moneys in the Reserve Fund be invested in instruments that mature more than two years from the date the money is so invested. The Authority is authorized to enter into contracts with third parties for the investment of funds in any of the Funds described in this section.

The Revenue Fund, the Bond Fund, and the Reserve Fund (except to the extent funded with a Reserve Fund Credit Facility or Facilities) shall be held and maintained by the Authority 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.

Covenants Regarding the Operation of System

The Authority covenants and agrees with the owners of the Bonds so long as any of the Bonds shall remain outstanding:

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

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

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

- 1) A statement in detail of the revenues and expenditures of the Electric System and the excess of revenues over expenditures for the Fiscal Year;
- 2) A statement showing beginning and ending balances of each Fund described herein;
- 3) A balance sheet as of the end of the Fiscal Year;
- 4) The accountant's comments regarding the manner in which the Authority has carried out the requirements of the Electric Resolution and the accountant's recommendations with respect to any change or improvement in the operation of the Electric System;
- 5) A list of insurance policies in force at the end of the Fiscal Year, setting out as to each policy the amount of the policy, the risks covered, the name of the insurer and the expiration date of the policy;
- 6) The number and classifications of customer service connections to the Electric System as of the end of the Fiscal Year;
- 7) The disposition of any Bond proceeds during the Fiscal Year;
- 8) A statement as to all breaches or defaults hereunder by the Authority of which the accountant or accountants have knowledge or, in the alternative, a statement that they have no knowledge of any such breach or default.

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

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

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

- 1) for 100% of the Current Expenses and for the accumulation in the Revenue Fund of a reasonable reserve therefor, in an amount, if any, as shall be determined from time to time by the Authority; and
- 2) such that Net Revenues in each Fiscal Year:
 - a) will equal at least 120% of the Debt Service Requirement on all Series 2020 Electric Bonds and any Parity Bonds, and 100% of the debt service requirement on any Subordinate Lien Bonds or other obligations then outstanding for such Fiscal Year; provided that the Authority may calculate the debt service requirement on Subordinate Lien Bonds in the manner prescribed for the Bonds in the definition of "Debt Service Requirement";
 - b) will enable the Authority to make all required payments, if any, into the Reserve Fund and on any Credit Facility Agreement;

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

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

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

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

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

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

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

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

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

h. The Authority will not construct, finance or grant a franchise for the development or operation of facilities that compete for service with the services to be provided by the Electric System or consent to the provision of any such services in the area currently served by the Authority by any other public or private entity and will take all steps necessary and proper, including appropriate legal action to prevent any such entity from providing such service; provided, nothing herein contained shall prohibit the transfer or exchange of service areas to provide for

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

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

Prohibition of Prior Lien; Parity Bonds; Subordinate Lien Bonds

The Authority will issue no other bonds or obligations of any kind or nature payable from or enjoying a lien on the revenues of the Electric System having priority over the Series 2020 Electric Bonds. Additional bonds, notes, Loan Agreements or obligations may hereafter be issued on parity with the Series 2020 Electric Bonds under the following conditions but not otherwise:

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

1) the Authority shall have obtained a report from a Municipal Advisor demonstrating that the refunding is expected to reduce the total debt service payments on the Bonds, as applicable; and

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

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

1) There shall have been procured and filed with the Authority a report by a Municipal Advisor or a certificate by the General Manager of the Authority, or his or her designee, to the effect that the historical Net Revenues for either (i) a period of 12 consecutive months of the most recent 18 consecutive months prior to the issuance of the proposed Parity Bonds or (ii) the most recent audited Fiscal Year, were equal to at least 120% of Maximum Annual Debt Service Requirement on all Bonds which will be outstanding immediately after the issuance of the proposed Parity Bonds, in the then current and each succeeding Fiscal Year, provided, however, the report or certificate may contain pro forma adjustments to historical related Net Revenues equal to 100% of the increased annual amount attributable to any revision in the schedule of rates, fees, and charges for the services and facilities furnished by the Electric System, imposed prior to the date of delivery of the proposed Parity Bonds and not fully reflected in the historical related Net Revenues actually received during such historical period used.

2) The Authority shall have received, at or before issuance of the Parity Bonds, a report from a Municipal Advisor or a certificate of the General Manager of the Authority, or his or her designee, to the effect that (x) the payments required to be made into the Bond Fund have been made and the balance in the Bond Fund is not less than the balance required hereby as of the date of issuance of the proposed Parity Bonds; and (y) the Reserve Fund is funded to the extent required under the resolutions authorizing Bonds with a Reserve Fund Requirement, if any, and any Reserve Fund Requirement applicable to the Parity Bonds will be funded to the extent required under the applicable resolution immediately following the issuance of the proposed Parity Bonds.

3) The resolution authorizing the proposed Parity Bonds must require the proceeds of such proposed Parity Bonds to be used to make capital improvements to or capital acquisitions for the Electric System, to fund interest on the proposed Parity Bonds, to refund other obligations issued for such purposes (whether or not such

refunding Parity Bonds satisfy the requirements of (a)), for any other legal purpose under applicable law as evidenced by an opinion of nationally recognized bond counsel, and/or to pay expenses incidental thereto and to the issuance of the proposed Parity Bonds.

4) The General Manager, the Chairman or the Secretary shall have certified, by written certificate dated as of the date of issuance of the Parity Bonds that the Authority is in compliance with all requirements of the Electric Resolution.

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

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

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

f. The punctual payment of principal of, premium, if any, and interest on the Series 2020 Electric Bonds and any Parity Bonds shall be secured equally and ratably by the Net Revenues, without priority by reason of number or time of sale or execution or delivery.

Amendment of Resolution

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

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

- 1) Make any change in the maturities or redemption dates of the Bonds;
- 2) Make any change in the rates of interest borne by the Bonds;
- 3) Reduce the amount of the principal payments or redemption premiums payable on the Bonds;

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

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

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

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

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

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

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

Discharge and Satisfaction of Bonds

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

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

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

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

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

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

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

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

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APPENDIX B

STATISTICAL AND DEMOGRAPHIC INFORMATION REGARDING THE AUTHORITY

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THE AUTHORITY

For over sixty years, Brownsville Energy Authority (the “Authority”), or its predecessor, the City of Brownsville Utilities Board, has served the people of Brownsville and parts of Haywood County with electricity, water, wastewater, natural gas and propane. The Authority was formed July 1, 2008 pursuant to Chapter No. 107 of the Private Acts, 2008 cited as the Brownsville Energy Authority Act and is a political subdivision of the State of Tennessee. The legislation creating the Authority amended the acts that established the City of Brownsville Utilities Board. The Authority was created as a separate legal entity for the purpose of planning, acquiring, constructing, improving, furnishing, equipping, financing, owning, operating, and maintaining electric, gas, water, and wastewater utilities systems within or outside the corporate limits of the City of Brownsville, Tennessee and other such utility systems as a municipal water, wastewater, and gas or electric utility is authorized by the general laws of the State of Tennessee to own or operate. Upon creation of the Authority, the City of Brownsville was authorized to transfer to the Authority all its rights, title and interest in and to all assets operated for the City by the City of Brownsville Utilities Board. The City was relieved from all legal obligation and debt from the Authority. The City board retains the right to approve the board of directors for the Authority as well as the right to approve or protest certain rate changes.

The three-member Board has general supervision and control of the Authority. Each member is appointed by the Authority’s Board and confirmed by the City Board to staggered four-year terms of office. The Board appoints a General Manager of the Authority. Set forth below are the members of the board and the expiration of their terms of office.

Member	Expiration of Term
George Chapman – Chairman	December 2021
Bill Lea	December 2023
Carolyn Flagg	December 2022

The General Manager of the Authority is Mr. Regie Castellaw. Mr. Castellaw has been employed with the Brownsville Energy Authority for almost 40 years. He has served as General Manager for approximately 10 years. Mr. Castellaw has a Civil Engineering degree from Tennessee Technological University and is a licensed engineer in the State of Tennessee.

Service Area

The Authority serves over 5,000 customers located in Brownsville and parts of Haywood County with electricity, water, wastewater, natural gas and propane. The Electric System serves customers within the territorial boundaries of the City of Brownsville. The Water and Sewer System provides water to customers both inside and outside of Brownsville and sewer services inside of Brownsville. The City of Brownsville is located in West Tennessee approximately 60 miles northeast of Memphis, Tennessee. The service area within the city limits of Brownsville covers approximately 10 square miles.

Covid-19

The worldwide spread of COVID-19, a respiratory disease caused by a novel strain of coronavirus, has reached several areas in Tennessee, including Haywood County, and is considered a Public Health Emergency of International Concern by the World Health Organization. As of August 13, 2020, there have been 547 cases of Covid-19 reported in the County. Of this amount, 298 cases are considered active as of that date. The spread of COVID-19 has led to quarantine and other “social distancing” measures in affected regions, including the State and the County, undertaken by government agencies, businesses, schools and other entities.

Given the evolving nature of the spread of the disease and the behavior of governments, businesses, and individuals in response thereto, the Authority is unable to predict (i) the extent or duration of the COVID-19 outbreak or other epidemic or pandemic, (ii) the extent or duration of existing and additional quarantines, business-closures, travel restrictions and other measures relating to COVID-19 or other epidemic or pandemic, (iii) whether and to what extent the COVID-19 outbreak or other epidemic or pandemic may adversely affect the operations of the Authority, or (iv) the impact of COVID-19 on the financial condition of the Authority. The Authority is proactively taking steps to preserve effective staffing for all essential operations.

The Authority anticipates decreased revenues while any social distancing measures and reduced economic activity remain in place. The Authority estimates that power demand was relatively stable in March 2020 but decreased approximately 17% in April 2020 and May 2020. The decline in revenue associated with this reduction in demand was mostly offset by lower expenses associated with the cost of purchased power. The Authority did not see similar declines in the demand for water and sewer services in the three month period from March to May of 2020 when compared to the same three month period in 2019.

While some declines in demand might be attributable to other factors, such as weather and conservation efforts, the Authority believes the social distancing measures and economic conditions were a significant factor in the decline.

The Authority has also approved policies that provide a limited payment deferral period for customers who could not pay their utility bills due to the impact of COVID-19, and the Authority expects some deferral of revenue during this period. The Authority has a policy for handling accounts in a non-payment status. The customer has approximately 10 business days after their due date to make a payment. As a result of the COVID-19 pandemic, the Authority temporarily discontinued disconnections. The Authority resumed disconnections of past due accounts on June 8, 2020.

Retirement Commitments

See Page 28, Note 4A of Audited Financial Statements for Fiscal Year Ended June 30, 2019

Other Post-employment Benefits (“OPEB”) Disclosure Statement

See Page 33, Note 4B of Audited Financial Statements for Fiscal Year Ended June 30, 2019

Cybersecurity

The Authority utilizes various computer information systems, software, and networking technology to perform its vital day-to-day operations. Day to day operations include the storage and transmission of sensitive personal data, and as a result, the Authority could be a targeted entity for a cyberattack. In addition to cyberattacks, the Authority employees have access to personal customer data and could be exploited to gain access to the information. It is also possible for unintentional breaches to occur due to employee error. The Authority has no knowledge of, nor historical record of any successful cybersecurity breach or attack. Cybersecurity attacks, whether anonymous or targeted, are not uncommon to organizations or agencies with similar characteristics. Therefore, the Authority must take the precautions necessary to safeguard its information systems.

In an effort to mitigate the risk of a successful cybersecurity attack or data breach, the Authority engages a third party consultant to monitor and enhance cybersecurity. This engagement includes annual security audits. The Authority also utilizes filtering and firewall procedures. In addition, the Authority engages in

security awareness training. Lastly, the Authority maintains a level of cybersecurity insurance against cybersecurity incidents. Despite the measures taken to safeguard its network infrastructure, there are no guarantees that such measures will be 100% successful.

THE ELECTRIC SYSTEM

Introduction

The Brownsville Energy Authority Electric System serves approximately 4,500 customers within the city limits of Brownsville, Tennessee. The System has approximately 102 miles of 13Kv distribution lines and approximately 8 miles of 161/13 Kv transmission lines. Customers are served through three 161/13 Kv substations.

Tennessee law (TCA Section 7-34-104) authorizes municipalities to operate electric systems within and outside the municipality's corporate boundaries. Tennessee municipalities may operate electric systems within the corporate boundaries of other municipalities, with those municipalities' consent. If another municipality annexes a previously unincorporated area in which a municipality provides electric service, Tennessee law provides that the annexing municipality has the right to acquire the local assets of the municipal electric provider at a price agreed upon by the parties or if the parties are unable to agree, the fair market value (TCA Section 6-51-111).

Source of Electric Power

The Authority does not generate any electric power but purchases its entire supply from the Tennessee Valley Authority ("TVA") pursuant to a power contract (the "Power Contract"). Under the Power Contract, the City agrees to purchase all of its electric power from TVA.

In September 2019, the Authority signed a long-term supply agreement with TVA. The initial term of this agreement was for 20 years. The term is automatically extended for one year at the end of each year unless either party provides notice that they will not be extending the contract. The primary benefit to the local power company is a 3.1% credit on the distributor's monthly power invoice.

The cost and availability of power to the Authority may be affected by, among other things, factors relating to TVA's nuclear program, fuel supply, environmental considerations such as future legislation regulating the mining of coal, the construction and financing of future generating and transmission facilities and other factors relating to TVA's ability to supply the power demands of its customers, including the Authority. The power sold to the Authority is supplied from the entire TVA system and not one specific generating facility.

The Power Contract provides that TVA shall make every reasonable effort to increase the generating capacity of its system and to provide the transmission facilities required to deliver the output thereof so as to be in a position to supply additional power when and to the extent needed by the Authority. Neither TVA nor the Authority 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 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.

The Power Contract specifies the wholesale purchase rates and monthly resale rates to be adhered to by the Authority, which may be revised periodically by TVA, through the publication of an Adjustment Addendum, to cover increased costs to TVA. See “Electric Rates”.

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) ample supply of power within an area of 80,000 square miles; (4) development and introduction of more efficient soil fertilizers; and (5) greater agricultural and industrial development and improved forestry in the region. All powers of TVA are vested in its nine-member board appointed by the President of the United States and confirmed by the United States Senate for five-year terms.

Electric Rates

The Private Act creating the Authority authorizes the Board of the Authority to fix, levy and collect fees and charges consistent with the provision of services at a reasonable cost based on sound economy, public good and prudent business operations. Pursuant to the Act, the rates, fees or charges shall be such as will produce revenue at least sufficient to provide for the payment of all expenses of operation and maintenance of the system, pay principal of, and interest on, all bonds of the Authority payable from revenues of the system, pay any payments of in-lieu-of-taxes and establish or maintain proper reserves. Notwithstanding the above, certain rate changes of the system are subject to review and approval of the City Board.

The Authority obtains power for the System through the Power Contract. Pursuant to the Power Contract, the Authority has agreed to adhere to the resale rates set forth in certain schedules established by TVA. The schedules include the provision that the customer billings will be adjusted in accordance with the Adjustment Addenda published by TVA. The Authority is not otherwise subject to rate regulation under existing law, and the Authority is not aware of any pending legislation to make its electric rates subject to regulation. The Power Contract provides further that if the resale rates set forth therein do not provide sufficient revenues for the operation and maintenance of the system on a self-supporting, financially sound basis, including debt service, the Authority and TVA shall agree to changes in rates to provide increased revenues. In like manner, if the rates and charges produce excess revenues, the parties shall agree to rate reductions. Since the dates of the Power Contract, the wholesale and resale rates have been adjusted from time to time through TVA’s publication of Adjustment Addenda.

The Authority routinely passes along any increases in the TVA wholesale rates to the customers of the Authority. The last local rate adjustment was implemented in October 2017. Changes in the charges provided for in the Schedule of Rates and Charges of the Power Contract with TVA and any adjustments to such charges required or approved by TVA do not require the approval of the City Board.

The residential, commercial and industrial rates for the fiscal year ended June 30, 2019 are as follows:

BROWNSVILLE ENERGY AUTHORITY
ELECTRIC RATES IN FORCE
June 30, 2019

Residential rate schedule	
Customer charge - per delivery point per month	\$ 11.64
Energy charge - cents per kWh	0.09236
General power schedule	
Class 40, 49	
Customer charge - per delivery point per month	\$ 13.24
Energy charge - cents per kWh	0.10531
Class 50, 57	
Customer charge - per delivery point per month	\$ 15.36
Demand charges - per kW per month	
First 50 Kw	No Charge
Excess over 50 kW	14.40
Energy charge - cents per kWh	
First 15,000 kWh per month	0.10771
Additional kWh per month	0.06390
Class 54, 55, 59	
Customer charge - per delivery point per month	\$ 153.61
Demand charges - per kW per month	
First 1,000 kW	14.72
Excess over 1,000 kW	15.31
Energy charge - cents per kWh	0.06413
Outdoor Lighting Service	
Customer charge - per delivery point per month	\$ 2.50
Energy charge - cents per kWh	0.06826
Class 02	
Customer charge - per delivery point per month	\$ 1,500.00
Administrative charge	350.00
Demand charges - per kW per month onpeak	16.71
Demand charges - per kW per month offpeak	4.03
Energy charge - onpeak - cents per kWh	0.04855
Energy charge - offpeak - cents per kWh - first 425 HUD	0.04249
Energy charge - offpeak - cents per kWh - next 195 HUD	0.03376
Energy charge - offpeak - cents per kWh - next 620 HUD	0.00973

Source: Annual Financial Report prepared by Alexander Thompson Arnold, PLLC, for fiscal year ending June 30, 2019.

Customers and Usage

Set forth below are the number of customers for the last ten years and the power usage for the last ten years. On the following page are the top ten customers for Fiscal Year 2019.

Number of Customers

Fiscal Year	Residential	Small Lighting	Large Lighting	Street, Athletic and Outdoor Lighting	Total
2010	4,190	994	97	31	5,312
2011	4,223	948	94	30	5,295
2012	4,198	944	100	65	5,307
2013	4,239	974	93	69	5,375
2014	4,208	1,003	94	67	5,372
2015	4,197	1,048	88	65	5,398
2016	4,241	992	89	85	5,407
2017	4,218	1,002	98	83	5,401
2018	4,164	1,004	96	85	5,349
2019	4,116	1,043	88	85	5,332

Source: Annual Financial Reports prepared by Alexander Thompson Arnold, PLLC, for fiscal years ending

Power Usage kWh

Fiscal Year	Residential	Small Lighting	Large Lighting	Street, Athletic and Outdoor Lighting	For Own Use	Total
2010	59,546,336	14,540,000	133,550,528	3,100,893	111,412	210,849,169
2011	62,753,540	15,740,302	140,667,676	3,069,936	110,772	222,342,226
2012	58,279,836	14,416,162	140,827,287	3,086,594	108,132	216,718,011
2013	58,059,952	14,207,632	141,843,534	3,071,857	101,492	217,284,467
2014	58,303,148	15,031,763	141,813,836	3,063,574	98,452	218,310,773
2015	56,257,672	15,072,107	138,543,627	3,107,032	94,212	213,074,650
2016	54,939,995	14,904,325	138,181,649	3,199,055	82,052	211,307,076
2017	55,627,488	14,869,575	139,804,139	3,259,057	79,972	213,640,231
2018	55,716,910	14,479,612	139,307,691	3,279,142	72,692	212,856,047
2019	54,948,998	14,551,119	137,953,765	3,306,603	74,200	210,834,685

Source: Annual Financial Reports prepared by Alexander Thompson Arnold, PLLC, for fiscal years ending June 30, 2010 to 2019.

Top Electric Customers

2019 Top Electric Customers

Customer Name	Annual Usage (kWh)	Annual Sales	% of Total Revenues
Teknor Apex Tennessee Company	52,079,318	\$3,047,833	17.22%
LASCO Fittings, Inc.	30,689,233	1,666,587	9.42%
Dynametal Technologies	8,545,939	553,055	3.13%
The Pictsweet Company	6,780,666	456,977	2.58%
Domtar Paper Co., LLC	4,661,927	404,119	2.28%
Plastic Container Corp.	4,099,560	388,799	2.20%
Wal-Mart Stores Inc	3,911,616	335,182	1.89%
Matthew Simmons	1,326,444	226,000	1.28%
Two Way Gin Co.	1,568,330	199,271	1.13%
Precision Coils	1,661,892	159,893	0.90%
Total			42.03%

Source: Brownsville Energy Authority officials.

Management Discussion

Through the first eleven months of Fiscal Year 2020, management estimates that total operating revenues were approximately \$15.324 million compared to \$16.133 million in Fiscal Year 2019. Total operating expenses were approximately \$14.404 million compared to \$15.238 million in Fiscal Year 2019. The lower expenses were primarily attributable to lower purchased power expenses. Net operating income for the first eleven months of Fiscal Year 2020 was approximately \$920 thousand compared to \$895 thousand for the same period in 2019. Through the first eleven months of Fiscal Year 2020, operating revenues and expenses were each down approximately 5% and 5.4%, respectively. Net income was up approximately 2.8%.

The long-term impact of the outbreak of Covid-19 is very difficult to project. Management believes the reduction in economic activity associated with this viral outbreak has had some impact on April 2020 and May 2020 demand. See “General Information – Covid-19” below.

Summary of Operations and Debt Service Coverage
Electric Fund
Fiscal Year ended June 30

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues					
Services	\$17,222,783	\$17,094,457	\$17,029,435	\$16,821,896	\$17,097,218
Other	472,740	475,841	460,210	455,774	410,873
Total Operating Revenues	<u>\$17,695,523</u>	<u>\$17,570,298</u>	<u>\$17,489,645</u>	<u>\$17,277,670</u>	<u>\$17,508,091</u>
Operating Expenses:					
Cost of Sales and Services	\$14,291,149	\$14,319,239	\$14,362,206	\$14,298,914	\$14,612,557
Distribution	277,884	314,805	301,560	315,577	249,384
Customer Accounts Expenses	262,051	259,890	253,029	241,672	230,920
Customer Service and Information Expenses	31,525	25,589	25,576	25,726	26,169
Administrative, Sales and General	580,321	547,865	638,181	575,970	489,401
Maintenance and Repair	254,083	318,613	335,193	314,338	317,934
Depreciation and Amortization	562,914	559,405	511,522	498,672	488,808
Payments in Lieu of Taxes	436,181	441,516	414,927	412,265	400,683
Total Operating Expenses	<u>\$16,696,108</u>	<u>\$16,786,922</u>	<u>\$16,842,194</u>	<u>\$16,683,134</u>	<u>\$16,815,856</u>
Operating Income/ (Loss)	<u>\$999,415</u>	<u>\$783,376</u>	<u>\$647,451</u>	<u>\$594,536</u>	<u>\$692,235</u>
Nonoperating Revenues/(Expenses)					
Interest and Other Income	\$19,989	\$10,315	\$8,987	\$6,102	\$6,415
Net increase (decrease) in fair value of investments		\$0	(\$5,140)	(\$43,849)	(\$36,890)
Interest Expense	(3,898)	(16,094)	(27,689)	(38,906)	(49,488)
Amortization Expense	(22,860)	(33,876)	(33,876)	(33,876)	(33,876)
Total Nonoperating Revenues/(Expenses)	<u>(\$6,769)</u>	<u>(\$39,655)</u>	<u>(\$57,718)</u>	<u>(\$110,529)</u>	<u>(\$113,839)</u>
Income (Loss) before Transfers	\$992,646	\$743,721	\$589,733	\$484,007	\$578,396
Transfers and Contributions:					
Transfer to (from) General Fund	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total (Transfers) Contributions	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Net Income (Loss)	\$992,646	\$743,721	\$589,733	\$484,007	\$578,396
Net Assets, July 1	\$13,530,178	\$12,786,457	\$12,259,710	\$11,775,703	\$11,921,380
Restatement	0	0	(62,986)	0	(724,073)
Net Assets, June 30	<u>\$14,522,824</u>	<u>\$13,530,178</u>	<u>\$12,786,457</u>	<u>\$12,259,710</u>	<u>\$11,775,703</u>
Net Income (Loss)	\$992,646	\$743,721	\$589,733	\$484,007	\$578,396
Plus Depreciation and Amortization	562,914	559,405	511,522	498,672	488,808
Plus Interest Expense	3,898	16,094	27,689	38,906	49,488
Plus Payments in Lieu of Taxes ⁽¹⁾	436,181	441,516	414,927	412,265	400,683
Income Available for Debt Service	<u>\$1,995,639</u>	<u>\$1,760,736</u>	<u>\$1,543,871</u>	<u>\$1,433,850</u>	<u>\$1,517,375</u>
Debt Service	\$309,853	\$323,799	\$318,201	\$318,719	\$318,936
Debt Service Coverage	<u>6.44</u> x	<u>5.44</u> x	<u>4.85</u> x	<u>4.50</u> x	<u>4.76</u> x

Sources: Annual Financial Reports prepared by Alexander Thompson Arnold, PLLC, for fiscal years ending June 30, 2015 to 2019.

1 - Payments of Lieu of Taxes are subordinate to debt payments.

Debt and Additional Borrowing Plans

The Series 2020 Bonds are secured by a senior lien on the net revenues of the Electric System. The Authority currently anticipates funding future capital improvements with internal operating funds and does not currently have plans to incur additional debt secured by the revenues of the Electric System.

The existing debt of the Electric System was paid off in the 2019 fiscal year. The following table illustrates the future debt service obligations of the Electric System upon the issuance of the 2020 Bonds.

Brownsville Energy Authority Electric System Debt Service

Fiscal Year (6/30)	Series 2020 Bonds		
	Principal	Interest	Total
2021	\$100,000	\$18,194	\$118,194
2022	105,000	23,000	128,000
2023	105,000	20,900	125,900
2024	110,000	18,800	128,800
2025	110,000	16,600	126,600
2026	115,000	14,400	129,400
2027	115,000	12,100	127,100
2028	120,000	9,800	129,800
2029	120,000	7,400	127,400
2030	125,000	5,000	130,000
2031	125,000	2,500	127,500
	<u>\$1,250,000</u>	<u>\$148,694</u>	<u>\$1,398,694</u>

WATER AND WASTEWATER SYSTEM

The Water and Sewer System serves customers both inside and outside of the city limits of Brownsville, Tennessee. Specifically, the Water System provides water to approximately 4,900 customers inside the city limits and approximately 450 customers outside of the city limits. The Water System also operates the Haywood County Utility District water distribution system and sells water to this system. The Water System also operates the Town of Stanton’s water system. Water service is provided through approximately 112 miles of pipes. The Water System’s source of water comes from six wells that pump water into two interconnected water treatment plants. They system also has five elevated storage tanks with a storage capacity of 2.1 million gallons.

The Sewer System serves approximately 4,800 customers within the city limits of Brownsville. The system includes over 75 miles of pipes, twelve pump stations and two wastewater treatment plants. Brownsville Energy Authority also operates the Town of Stanton’s wastewater system.

Environmental Regulation

The operations of the District are subject to the Federal Clean Water Act, as amended, and regulations of the Tennessee Department of Health and Environment, Bureau of Environment, Division of C-3 Water Management, Division of Construction Grants and Loans, Environmental Protection Agency, Division of Water Pollution Control, Water Quality Control Act of 1977 and Regulations of the Water Quality Control Board.

Water Sales by Customer Category

Year	Haywood County Utility District			Total
	Residential	Commercial	Customers	
2015	\$737,244	\$422,864	\$48,914	\$1,209,022
2016	806,468	484,616	40,112	\$1,331,196
2017	844,946	509,119	42,111	\$1,396,176
2018	852,167	520,743	57,965	\$1,430,875
2019	829,695	500,475	50,506	\$1,380,676

Source: Brownsville Energy Authority Water and Wasterwater Rate Study prepared by RateStudies.

Number of Water Customers by Category

Year	Haywood County Utility District				Total
	Residential (Inside)	Residential (Outside)	Commercial (Inside)	Commercial (Outside)	
2015	4,082	384	870	55	5,395
2016	4,132	380	824	65	5,405
2017	4,120	373	839	65	5,401
2018	4,065	377	844	66	5,356
2019	4,027	377	869	62	5,339

Source: Brownsville Energy Authority Water and Wasterwater Rate Study prepared by RateStudies.

Water Pumped, Sold and Consumed

<u>Fiscal Year</u>	<u>Gallons of Water</u>			
	<u>Water Supplied</u>	<u>Sold & Consumed</u>	<u>Water Lost</u>	<u>% Lost</u>
2015	554,952,000	444,794,000	110,158,000	19.85%
2016	574,548,000	462,495,000	112,053,000	19.50%
2017	578,491,000	452,992,000	125,499,000	21.69%
2018	547,003,000	449,027,000	97,976,000	17.91%
2019	571,874,000	432,636,000	139,238,000	24.35%

Note - All amounts in gallons

Sources: Brownsville Energy Authority Financial Statements and Independent Auditors' Reports
Years Ended June 30, 2019 through 2015, prepared by Alexander Thompson Arnold PLLC, and
District Officials.

Wastewater Sales by Customer Category

<u>Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Well</u>		<u>Total</u>
	<u>(Inside)</u>	<u>(Inside)</u>	<u>Customers</u>	<u>Pretreatment</u>	
2015	\$703,807	\$507,887	\$1,856	\$9,270	\$1,222,820
2016	792,492	597,896	2,074	4,028	\$1,396,490
2017	858,681	650,202	2,281	3,525	\$1,514,689
2018	871,881	665,364	2,335	3,021	\$1,542,601
2019	860,526	631,031	2,256	24,483	\$1,518,296

Source: Brownsville Energy Authority Water and Wasterwater Rate Study perpared by RateStudies.

Number of Wastewater Customers by Category

<u>Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Well</u>	<u>Total</u>
	<u>(Inside)</u>	<u>(Inside)</u>	<u>Customers</u>	
2015	4,032	760	11	4,803
2016	4,086	750	11	4,847
2017	4,075	765	11	4,851
2018	4,023	771	11	4,805
2019	3,979	790	10	4,779

Source: Brownsville Energy Authority Water and Wasterwater Rate Study perpared by RateStudies.

Top 10 Water/Sewer Customers

2019 Top Water and Sewer Customers

Customer Name	Annual Usage (100's of Gallons)	Annual Sales	% of Total Revenues
Teknor Apex Tennessee Company	1,530,228	\$328,790	10.76%
Haywood County Utility District	371,370	\$81,547	2.67%
TVA	70,454	\$49,906	1.63%
Crestview Health and Rehab	171,678	\$37,285	1.22%
T-Three Investors, LLC.	58,440	\$32,448	1.06%
Bud	125,542	27,412	0.90%
Haywood County Justice Project	105,922	23,213	0.76%
LASCO Fittings, Inc.	101,040	23,176	0.76%
The Pictsweet Company	70,710	15,731	0.51%
Haywood County Board of Education	45,814	12,234	0.40%
Total			20.67%

Source: Brownsville Energy Authority officials.

Water and Sewer Rates

The Private Act creating the Authority authorizes the Board of the Authority to fix, levy and collect fees and charges consistent with the provision of services at a reasonable cost based on sound economy, public good and prudent business operations. The rates, fees or charges shall be such as will produce revenue at least sufficient to provide for the payment of all expenses of operation and maintenance of the system, pay principal of, and interest on, all bonds of the Authority payable from revenues of the system, pay any payments of in-lieu-of-taxes and establish or maintain proper reserves. Notwithstanding the above, additional rate changes of the system are subject to review and approval of the City Board.

The following table reflects rates and charges in effect during the 2019 fiscal year.

**BROWNSVILLE ENERGY AUTHORITY
WATER AND SEWER RATES IN FORCE
June 30, 2019**

(Based on monthly consumption)

Quantity	Water			
	(per 100 gallons)			
	Residential Inside	Residential Outside	Commercial Inside	Commercial Outside
First 2,000 gallons	\$ 0.4340	\$ 0.6840	\$ 0.7200	\$ 1.1520
Next 3,000 gallons	0.2800	0.4480	0.3200	0.5090
Next 5,000 gallons	0.2280	0.3650	0.2580	0.4130
Next 10,000 gallons	0.1530	0.2470	0.1750	0.2790
Next 30,000 gallons	0.1340	0.2140	0.1530	0.2470
Next 50,000 gallons	0.1220	0.1960	0.1380	0.2230

The minimum monthly bills shall be determined by the size of the meter in service as follows:

	Residential Inside	Residential Outside	Commercial Inside	Commercial Outside
5/8" Meter	\$ 8.68	\$ 13.68	\$ 14.40	\$ 23.04
1" Meter	18.55	27.83	19.26	28.91
2" Meter	66.28	99.39	68.82	103.22
4" Meter	-	-	152.91	229.38
6" Meter	-	-	305.82	458.73

	Sewer		
	(per 100 gallons)		
	Class 22 Residential Inside	Residential Outside	Class 35 Commercial Inside
First 2,000 gallons	\$ 0.5500	\$ -	\$ 1.0000
All over 2,000 gallons	0.2900	-	0.2900
All	-	-	-
Minimum charges	\$ 11.00	\$ 17.69	\$ 20.00

As discussed below, the Authority recently approved a 15% increase in water and sewer rates that went into effect on February 1, 2020. Additionally, they approved another 10% increase that will go into effect on January 1, 2021. Even with these rate increases, the Authority’s rate consultant, RateStudies LLC, projects that average bills will be near or below the average bills for other utility districts in the area. The following table is an illustration of average water and sewer bills for Brownsville Energy Authority customers and a number of surrounding western Tennessee utility districts.

Monthly Bill Comparison for 5,000 Gallons

Water		Sewer		Combined Water and Sewer	
Utility System	Average Bill	Utility System	Average Bill	Utility System	Average Bill
Alamo	\$34.80	Ripley	\$37.22	Alamo	\$69.60
Bolivar	\$27.83	Paris	\$37.00	Paris	\$64.75
Paris	\$27.75	Alamo	\$34.80	Ripley	\$59.49
Jackson	\$25.54	Jackson	\$32.74	Jackson	\$58.28
Dyersburg	\$25.39	Somerville	\$31.75	Bolivar	\$55.66
Humboldt	\$24.25	Bolivar	\$27.83	Somerville	\$53.77
Ripley	\$22.27	Humboldt	\$27.25	Dyersburg	\$51.67
Somerville	\$22.02	Dyersburg	\$26.28	Humboldt	\$51.50
Brownsville ⁽¹⁾	\$21.98	Brownsville ⁽¹⁾	\$24.92	Brownsville ⁽¹⁾	\$46.90
Covington	\$18.52	Covington	\$22.15	Covington	\$40.67

⁽¹⁾ Estimates shown for Brownsville are after two new rate increases approved for 2021 and beyond

Source: RateStudies LLC

Management Discussion

Through the first eleven months of Fiscal Year 2020, management estimates that total operating revenues were approximately \$2.923 million compared to \$2.781 million in Fiscal Year 2019. Total expenses were approximately \$2.95 million compared to \$2.822 million in Fiscal Year 2019. Net income for the first eleven months of Fiscal Year 2020 was approximately negative \$27,189 compared to negative \$40,553 for the same period in 2019. Through the first eleven months of Fiscal Year 2020, operating revenues were up approximately 5.1% and expenses were up approximately 4.5%. As discussed below (see “Projected Debt Service Coverage and Rate Increases”), the Authority has approved two rate increases to improve future operating revenues and net income.

The long-term impact of the outbreak of Covid-19 is very difficult to project. While there is a risk that a reduction in economic activity associated with this viral outbreak may impact financial operations, Management did not see a reduction for overall demand for water and sewer services in the months of March through May of 2020 compared to the same period in 2019. For further discussion, see “General Information – Covid-19” below.

Summary of Operations and Debt Service Coverage
Water and Sewer Fund
Fiscal Year ended June 30

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues					
Services	\$2,898,971	\$2,973,481	\$2,910,857	\$2,727,689	\$2,431,848
Other	156,876	175,831	172,162	156,308	145,237
Total Operating Revenues	<u>\$3,055,847</u>	<u>\$3,149,312</u>	<u>\$3,083,019</u>	<u>\$2,883,997</u>	<u>\$2,577,085</u>
Operating Expenses:					
Total System Operations	\$1,307,260	\$1,264,877	\$1,161,799	\$1,171,970	\$1,220,888
Consumer Accounting and Collecting	185,842	184,878	181,329	176,461	167,108
Administrative	939,318	883,961	916,256	897,131	826,291
Depreciation and Amortization	539,127	526,476	508,168	578,490	566,313
Payments in Lieu of Taxes	46,368	41,435	42,363	43,121	40,329
Total Operating Expenses	<u>\$3,017,915</u>	<u>\$2,901,627</u>	<u>\$2,809,915</u>	<u>\$2,867,173</u>	<u>\$2,820,929</u>
Operating Income/ (Loss)	<u>\$37,932</u>	<u>\$247,685</u>	<u>\$273,104</u>	<u>\$16,824</u>	<u>(\$243,844)</u>
Nonoperating Revenues/(Expenses)					
Interest and Other Income	\$5,733	\$1,520	\$1,212	\$740	\$723
Interest Expense	(52,198)	(58,608)	(64,650)	(49,616)	(54,920)
Amortization Expense	(1,576)	(1,576)	(1,576)	(6,450)	(1,290)
Total Nonoperating Revenues/(Expenses)	<u>(\$48,041)</u>	<u>(\$58,664)</u>	<u>(\$65,014)</u>	<u>(\$55,326)</u>	<u>(\$55,487)</u>
Income (Loss) before Transfers	<u>(\$10,109)</u>	<u>\$189,021</u>	<u>\$208,090</u>	<u>(\$38,502)</u>	<u>(\$299,331)</u>
Transfers and Contributions:					
Capital Contributed by Customers and Grants	\$16,561	\$5,208	\$1,001,407	\$44,052	\$499,979
Total (Transfers) Contributions	<u>\$16,561</u>	<u>\$5,208</u>	<u>\$1,001,407</u>	<u>\$44,052</u>	<u>\$499,979</u>
Net Income (Loss)	<u>\$6,452</u>	<u>\$194,229</u>	<u>\$1,209,497</u>	<u>\$5,550</u>	<u>\$200,648</u>
Net Assets, July 1	<u>\$11,674,744</u>	<u>\$11,480,515</u>	<u>\$10,341,185</u>	<u>\$10,335,635</u>	<u>\$11,000,913</u>
Restatement	0	0	(70,167)	0	(865,926)
Net Assets, June 30	<u>\$11,681,196</u>	<u>\$11,674,744</u>	<u>\$11,480,515</u>	<u>\$10,341,185</u>	<u>\$10,335,635</u>
Net Income (Loss)	<u>\$6,452</u>	<u>\$194,229</u>	<u>\$1,209,497</u>	<u>\$5,550</u>	<u>\$200,648</u>
Less Capital Contributed by Customers and Grants	(\$16,561)	(\$5,208)	(\$1,001,407)	(\$44,052)	(\$499,979)
Plus Depreciation and Amortization	539,127	526,476	508,168	578,490	566,313
Plus Interest Expense	52,198	58,608	64,650	49,616	54,920
Plus Payments in Lieu of Taxes ⁽¹⁾	46,368	41,435	42,363	43,121	40,329
Income Available for Debt Service	<u>\$581,216</u>	<u>\$774,105</u>	<u>\$780,908</u>	<u>\$589,604</u>	<u>\$321,902</u>
Debt Service	<u>\$321,609</u>	<u>\$321,610</u>	<u>\$321,609</u>	<u>\$326,156</u>	<u>\$323,954</u>
Debt Service Coverage	<u>1.81 x</u>	<u>2.41 x</u>	<u>2.43 x</u>	<u>1.81 x</u>	<u>0.99 x</u>

Sources: Annual Financial Reports prepared by Alexander Thompson Arnold, PLLC, for fiscal years ending June 30, 2015 to 2019.

1 - Payments of Lieu of Taxes are subordinate to debt payments.

Debt and Additional Borrowing Plans

The Series 2020 Bonds are secured by a senior lien on the net revenues of the Water and Wastewater System. The Capital Improvement Plan for the System anticipates approximately \$2.475 million for water system projects, \$3.9 million for wastewater system projects and \$495,000 for other capital projects. Over \$850,000 in water projects are being financed with the Series 2020 Bonds. The Authority anticipates financing the additional \$5.575 million in projects from Tennessee State Revolving Fund

loans and \$445,000 from operating funds. Although the Authority expects to finalize financing arrangements with the State, the State has not formally approved the funding as of this date.

The following table illustrates the projected debt service obligations of the Water and Wastewater System after issuance of the 2020 Bonds and future State Revolving Fund loans.

Brownsville Energy Authority
Existing and Proposed Debt Service

Fiscal Year (6/30)	Series 2020 Bonds ¹			Projected Future State Loans ²			Projected Total Water and Sewer Debt		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2021	\$110,000	\$33,478	\$143,478	\$0	\$41,813	\$41,813	\$110,000	\$75,290	\$185,290
2022	120,000	43,800	163,800	70,000	55,750	125,750	190,000	99,550	289,550
2023	120,000	41,400	161,400	280,000	54,000	334,000	400,000	95,400	495,400
2024	120,000	39,000	159,000	280,000	51,200	331,200	400,000	90,200	490,200
2025	125,000	36,600	161,600	280,000	48,400	328,400	405,000	85,000	490,000
2026	125,000	34,100	159,100	285,000	45,600	330,600	410,000	79,700	489,700
2027	130,000	31,600	161,600	300,000	42,675	342,675	430,000	74,275	504,275
2028	130,000	29,000	159,000	300,000	39,675	339,675	430,000	68,675	498,675
2029	135,000	26,400	161,400	300,000	36,675	336,675	435,000	63,075	498,075
2030	140,000	23,700	163,700	300,000	33,675	333,675	440,000	57,375	497,375
2031	140,000	20,900	160,900	300,000	30,675	330,675	440,000	51,575	491,575
2032	145,000	18,100	163,100	300,000	27,675	327,675	445,000	45,775	490,775
2033	145,000	15,200	160,200	315,000	24,638	339,638	460,000	39,838	499,838
2034	150,000	12,300	162,300	320,000	21,450	341,450	470,000	33,750	503,750
2035	150,000	9,300	159,300	320,000	18,250	338,250	470,000	27,550	497,550
2036	155,000	6,300	161,300	320,000	15,050	335,050	475,000	21,350	496,350
2037	160,000	3,200	163,200	320,000	11,850	331,850	480,000	15,050	495,050
2038	-	-	-	320,000	8,650	328,650	320,000	8,650	328,650
2039	-	-	-	325,000	5,450	330,450	325,000	5,450	330,450
2040	-	-	-	340,000	2,125	342,125	340,000	2,125	342,125
	<u>\$2,300,000</u>	<u>\$424,378</u>	<u>\$2,724,378</u>	<u>\$5,575,000</u>	<u>\$615,275</u>	<u>\$6,190,275</u>	<u>\$7,875,000</u>	<u>\$1,039,653</u>	<u>\$8,914,653</u>

¹Excludes bonds being refunded by Series 2020 Bonds

² State Loans have not been officially approved. The Authority estimates a 20-Year Term at 1.00%.

Projected Debt Service Coverage and Rate Increase

The Authority previously determined that the historical water and sewer revenues would not be sufficient to support the planned capital improvements and adequately maintain the System. This finding was consistent with correspondence received from the State Comptroller's Office which noted that the fiscal year 2019 audit showed a deficit in the unrestricted net position balance. The Authority subsequently engaged a rate consultant, Ratestudies LLC, to conduct a Water and Wastewater Rate Study for the Board. The methodology used by RateStudies LLC was based on the American Water Works Association M54 Manual – Developing Rate Studies for Small Systems. The Board has accepted the consultant's findings and recommendations and approved a 15% increase in Water and Wastewater rates effective February 1, 2020. Additionally, the Board also approved a second 10% increase in Water and Wastewater rates that will become effective on January 1, 2021.

The following debt service coverage projection table was prepared by the rate consultant.

Projected Debt Service Coverage

	2021	2022	2023	2024	2025
Total Income	\$3,853,634	\$4,034,303	\$4,030,404	\$4,026,504	\$4,025,120
Total Expenses	\$3,298,967	\$3,558,023	\$3,655,909	\$3,758,356	\$3,862,473
Net Income	\$554,667	\$476,280	\$374,494	\$268,149	\$162,648
Plus: Interest Expenses	\$82,126	\$97,063	\$92,313	\$87,213	\$82,013
Plus: Depreciation	\$681,703	\$830,417	\$833,667	\$837,667	\$839,091
Income Available for Debt Service	\$1,318,496	\$1,403,760	\$1,300,475	\$1,193,029	\$1,083,752
Projected Debt Service	\$185,290	\$289,550	\$495,400	\$490,200	\$490,000
Projected Debt Service Coverage Ratio	7.12	4.85	2.63	2.43	2.21
Debt Service Coverage Requirement	1.20	1.20	1.20	1.20	1.20

Assumptions:

Customer growth(loss) will follow recent historical trends

Operating and Administrative expenses will grow 4% per year

Approved rate increases are included

Capital Improvement Plan and State funding will proceed as anticipated

Source: RateStudies LLC

CITY OF BROWNSVILLE AND HAYWOOD COUNTY

The information contained in this section is included only for purposes of supplying general information regarding the City of Brownsville (the “City”) and Haywood County, Tennessee (the “County”). The Series 2020 bonds are payable solely from the sources described in this Official Statement under the heading “Security and Sources of Payment”. Neither the full faith and credit nor the taxing power of the State of Tennessee or any political subdivision thereof, including the City, is pledged to the payment of the Series 2020 Bonds. The Series 2020 Bonds are limited obligations of the Issuer and are payable solely from and secured by a pledge of revenues of the Issuer’s electric transmission and distribution system and water and sewer, subject to the payment of the costs of operating the System.

The City of Brownsville is located in West Tennessee approximately 60 miles northeast of Memphis, Tennessee. It is in the center of Haywood County. The City was founded in 1812, is comprised of 9.86 square miles and is governed by a Board Mayor and Alderman elected to serve four-year terms. Brownsville is the County Seat with a population of approximately 9,435 according to the 2019 U.S. Census Estimate.

DEMOGRAPHIC DATA

Basic Demographics

	Population		
	City of	Haywood	Tennessee
	Brownsville	County	
1990 U.S. Census	10,443	19,424	4,890,626
2000 U.S. Census	10,770	19,797	5,703,719
2010 U.S. Census	10,292	18,812	6,355,311
2011 U.S. Census Estimate	10,195	18,546	6,399,291
2012 U.S. Census Estimate	10,038	18,276	6,453,898
2013 U.S. Census Estimate	10,036	18,234	6,494,340
2014 U.S. Census Estimate	10,028	18,235	6,541,223
2015 U.S. Census Estimate	9,901	18,036	6,591,170
2016 U.S. Census Estimate	9,766	17,822	6,646,010
2017 U.S. Census Estimate	9,637	17,607	6,708,799
2018 U.S. Census Estimate	9,474	17,347	6,771,631
2019 U.S. Census Estimate	9,435	17,304	6,829,174

Source: U. S. Census Bureau

Income and Housing

	Haywood		
	County	Tennessee	% of State
2009 Per Capita Personal Income	\$26,997	\$34,260	78.8%
2010 Per Capita Personal Income	\$26,648	\$35,653	74.7%
2011 Per Capita Personal Income	\$31,170	\$37,616	82.9%
2012 Per Capita Personal Income	\$30,246	\$39,296	77.0%
2013 Per Capita Personal Income	\$33,717	\$39,421	85.5%
2014 Per Capita Personal Income	\$28,901	\$40,799	70.8%
2015 Per Capita Personal Income	\$29,584	\$42,590	69.5%
2016 Per Capita Personal Income	\$30,605	\$43,720	70.0%
2017 Per Capita Personal Income	\$30,348	\$44,950	67.5%
2018 Per Capita Personal Income	\$32,023	\$46,889	68.3%

Source: Bureau of Economic Analysis, CA1-3 Personal Income Summary

	Haywood		
	County	Tennessee	% of State
2009 Median Housing Value	\$88,000	\$148,000	59.5%
2010 Median Housing Value	88,000	149,900	58.7%
2011 Median Housing Value	80,000	150,925	53.0%
2012 Median Housing Value	93,000	160,000	58.1%
2013 Median Housing Value	102,057	165,000	61.9%
2014 Median Housing Value	87,500	166,000	52.7%
2015 Median Housing Value	97,500	175,000	55.7%
2016 Median Housing Value	101,500	185,000	54.9%
2017 Median Housing Value	116,900	196,500	59.5%
2018 Median Housing Value	98,250	210,000	46.8%

Source: Tennessee Housing Development Agency - This data reflects only the sales prices of new and existing homes that were sold in the respective years. This data may not be representative of the median value of all homes in the County or State.

ECONOMIC DATA

Economic Base

Haywood County benefits from its central location in "the heart of the Tennessee Delta." This location not only provides easy access to and from major roadways but allows employers to draw from a large labor market which spans seven counties.

The Haywood County Industrial Park offers infrastructure and over 150 acres for the needs of industry. The Brownsville Utility Department provides full utilities at competitive rates. Electricity, natural gas, water and wastewater services are available.

Memphis Regional Megasite - The Memphis Regional Megasite is a 4,100-acre site in Haywood County, near Brownsville, TN, that has been certified as a megasite suitable for a major automotive manufacturing facility or related industry. The Memphis Regional Megasite is owned by the State of Tennessee which has authorized already authorized the investment of \$175 million in the site. The location is just north of Interstate 40, 20 minutes east of the Memphis, Tennessee, suburbs. This large industrial site is easily accessible via I-40 from Memphis, Bartlett, Collierville, Germantown, Jackson, and other West Tennessee cities. The site is also connected to Nashville via I-40, which runs nearly the entire East/West span of the United States, connecting California to North Carolina. It is adjacent to U.S. Highway 70/79 and the CSX Railroad on the north.

Public Education

The Haywood County School System funds and operates all the schools in Brownsville. During the 2018-2019 school year, the Haywood County School System had a K-12th grade average daily membership of 2,701 across its five schools.

School Year	Average Daily Membership
2009-2010	3,265
2010-2011	3,310
2011-2012	3,225
2012-2013	3,156
2013-2014	3,112
2014-2015	2,970
2015-2016	2,909
2016-2017	2,811
2017-2018	2,763
2018-2019	2,701

Source: Tennessee Department of Education.

Higher Education

The Tennessee College of Applied Technology at Whiteville (the "TCAT-W") is part of a statewide system of 26 vocational-technical schools. The TCAT-W meets a Tennessee mandate that no resident is more than 50 miles from a vocational-technical shop. The institution's primary purpose is to meet the occupational and technical training needs of the citizens including employees of existing and prospective businesses and industries in the region. The TCAT-W serves the southwest region of the state including Hardeman, Haywood and Fayette Counties. The TCAT-W began operations in 1976, and the main campus is located in Hardeman County.

Within a one-hour drive of Haywood County, the University of Memphis, Christian Brothers University, Rhodes College, State Technical Institute, LeMoyne Owen College and Shelby State Community College are located in Memphis. Union University, Lambuth University, Lane College and Jackson State Community College are located in Jackson, Tennessee.

Medical Services

Haywood Park Community Hospital closed in 2014 due to low inpatient admissions and lower Medicare payments. However, the two hospitals in nearby Jackson, TN (about 40 miles away) serve as the region's center for healthcare.

Jackson-Madison Co. General Hospital (the "General Hospital") is the flagship of West Tennessee Healthcare. The facility is a 642-bed tertiary care center that is the only tertiary care hospital between Memphis and Nashville. The hospital serves a 17-county area of rural West Tennessee. Approximately 400,000 persons reside within the service area. General Hospital offers the West Tennessee Heart and Vascular Center, Kirkland Cancer Center, West Tennessee Women's Center, West Tennessee Rehabilitation Center, West Tennessee Neuroscience and Spine Center, and Emergency Services. General Hospital offers the only open-heart surgery program in rural West Tennessee. Jackson-Madison County General Hospital is fully accredited by The Joint Commission.

West Tennessee Healthcare North Hospital (the "North Hospital"). Formerly Regional Jackson Hospital, the North Hospital is a 166-bed satellite facility of Jackson-Madison County General Hospital located in Lexington. In 2018 West Tennessee Healthcare purchased the hospital from Tennova Healthcare, along with two other Tennova hospitals in Dyersburg and Martin, for \$67 million.

West Tennessee Healthcare is a not-for-profit organization. Totally self-supporting, without need for local tax support, all revenues generated provide for overhead costs including employee expense, debt service, purchase of technology, renovation, expansion, creation of new service, and, most importantly, maintaining the low-cost structure. West Tennessee Healthcare operates seven hospitals. Approximately 7,000 employees make up West Tennessee Healthcare, the majority of whom staff Jackson-Madison County General Hospital.

Major Employers

The following table lists the top employers in Haywood County. The data in this table was compiled prior to the outbreak of the COVID-19 virus. The table does not reflect any changes that have occurred as a result of the economic slowdown associated with the outbreak.

Employer	Estimated Employees	Product or Service
Teknor Apex Tennessee Company	600	Plastics and Chemicals
Haywood County School District	450	Public Education
Lasco Fitting, Inc.	440	Pipe Fittings
Domtar Paper Company	350	Paper Products
Walmart Inc.	225	Retail Store
Dynametal Technologies	120	Powder Metal Parts
Precision Coils	100	HVAC Coils
Pictsweet	100	Frozen Vegetables

Source: Tennessee Department of Economic and Community Development & the Brownville Haywood Chamber of Commerce

The largest employer in the City of Brownsville is Teknor Apex Tennessee Company. Teknor Apex is one of the world's leading custom producers of compounds, composites and plastics. It currently manufactures products for its four divisions at its 1 million square foot Brownsville facility: nylon, vinyl, chemical and garden hose. The company first established operations in Brownsville in 1971. In 2017, the company announced plans to build a 200,000 square foot distribution facility in the Brownsville-Haywood County Industrial Park to allow Teknor Apex to grow its manufacturing units within the existing plant. This project represented an approximately \$32 million investment and the creation of an estimated 50 new jobs.

Labor Force, Employment, and Unemployment

The labor force within Haywood County was 7,513 as of June 2020. The unemployment rate in the County was 11.8%. It is anticipated that the outbreak of the COVID-19 virus will have a material impact on employment in the State and the County. Given all of the uncertainties surrounding the virus, the full impact and duration on employment is unknown at this time.

Employment Data of Haywood County

Year	Employment	Unemployment	Total Labor Force	Unemployment Percent		
				County	State	U.S.
2010	7,562	1,398	8,960	15.6%	9.6%	9.6%
2011	7,330	1,173	8,503	13.8%	9.0%	8.9%
2012	7,283	946	8,229	11.5%	7.8%	8.1%
2013	7,142	956	8,098	11.8%	7.7%	7.4%
2014	6,968	757	7,725	9.8%	6.6%	6.2%
2015	6,964	639	7,603	8.4%	5.6%	5.3%
2016	7,152	497	7,649	6.5%	4.7%	4.9%
2017	7,372	404	7,776	5.2%	3.8%	4.3%
2018	7,312	417	7,729	5.4%	3.5%	3.9%
2019	7,370	380	7,750	4.9%	3.4%	3.7%
Jun-20	6,626	887	7,513	11.8%	9.7%	11.1%

Source: Bureau of Labor Statistics

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APPENDIX C

AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2019

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**BROWNSVILLE ENERGY AUTHORITY
BROWNSVILLE, TENNESSEE**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2019 AND 2018**

**BROWNSVILLE ENERGY AUTHORITY
BROWNSVILLE, TENNESSEE
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INTRODUCTORY SECTION

**BROWNSVILLE ENERGY AUTHORITY
BROWNSVILLE, TENNESSEE
DIRECTORY
June 30, 2019**

BROWNSVILLE ENERGY AUTHORITY

George Chapman, Chairman
Bill Lea, Vice Chair
Carolyn Flagg, Board Member

MANAGEMENT TEAM

Regie Castellaw, General Manager
Stephen Carlton, Accountant

COUNSEL

Larry Banks
Pat Banks
Brownsville, Tennessee

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION



Independent Auditor's Report

Board of Directors
Brownsville Energy Authority
Brownsville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements the business-type activities and each major fund of Brownsville Energy Authority (the Authority), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Brownsville Energy Authority, as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows thereof 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 schedules related to pension and other postemployment benefits as listed in the table of contents, respectively, 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 audits 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Brownsville Energy Authority's basic financial statements. The introductory section and financial information listed as supplementary and other information in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary and other information which has not been marked unaudited is the responsibility of management and was derived from and relate 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 audits 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 supplementary and other information which has not been marked unaudited is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2019 on our consideration of the Brownsville Energy Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Brownsville Energy Authority's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
December 12, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Brownsville Energy Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2019 and 2018. All amounts, unless otherwise indicated, are expressed in actual dollars. As described in Note 1A to the financial statements, the Authority was created on July 1, 2008, through legislation amending the acts that established the City of Brownsville Utilities Board.

FINANCIAL HIGHLIGHTS

Management believes the Authority's financial condition is strong. The Authority is well within its debt covenants, and more stringent financial policies and guidelines have been set by the Board and management. The following are key financial highlights.

- Total assets and deferred outflows of resources at year-end were \$48.66 million and exceeded liabilities and deferred inflows of resources in the amount of \$39.54 million (i.e. net position). Total assets increased by \$818 thousand, due primarily to an increase in capital assets.
- Net position increased by \$1.28 million during the current year due to increases in operating revenues in the gas fund.
- During fiscal year 2019, the Authority delivered 210.83 million kWh, 461.56 million gallons of water, and 892 thousand MCF of gas compared to 212.86 million kWh, 483.59 million gallons of water, and 863 thousand MCF of gas during the fiscal year 2018.
- Operating revenues were \$26.59 million, an increase from year 2018 in the amount of \$630 thousand or 2.43%.
- Operating expenses were \$25.37 million, an increase from year 2018 in the amount of \$274 thousand or 1.09%.
- The operating profit for the year was \$1.22 million as compared to a \$866 thousand operating profit during the 2018 fiscal year.
- Ratios of operating profit to total operating revenue were 1.09, 3.33, and 2.29 for 2019, 2018 and 2017, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

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

REQUIRED FINANCIAL STATEMENTS

The financial statements report information about the Authority, using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The *Statement of Net Position* presents the financial position of the

MANAGEMENT'S DISCUSSION AND ANALYSIS

Authority on a full accrual historical cost basis. The statement of net position includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Authority's creditors (liabilities). The Authority presently has items meeting the definition of deferred inflows/outflows under GASB Statement No. 63 or No. 65. It also provides the basis for computing rate of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.

The *Statement of Revenues, Expenses and Changes in Net Position* presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the Authority's operations and can be used to determine whether the Authority has successfully recovered all of its costs. This statement also measures the Authority's profitability and credit worthiness.

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

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

FINANCIAL ANALYSIS

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

The Authority's total net position increased by \$1.28 million and \$825 thousand for the fiscal years ended June 30, 2019 and 2018, respectively. The analysis below focuses on the Authority's net position (Table 1) and changes in net position (Table 2) during the years.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 1A
CONDENSED STATEMENT OF NET POSITION

	June 30, 2019	June 30, 2018	Increase (Decrease)	
			Amount	%
Current and other assets	\$ 13,524,975	\$ 12,962,523	\$ 562,452	4.34%
Capital assets	34,177,778	33,922,293	255,485	0.75%
Total assets	<u>47,702,753</u>	<u>46,884,816</u>	<u>817,937</u>	1.74%
Deferred outflows of resources	<u>956,825</u>	<u>1,007,868</u>	<u>(51,043)</u>	-5.06%
Long-term liabilities	5,380,000	5,824,495	(444,495)	-7.63%
Other liabilities	3,492,867	3,696,058	(203,191)	-5.50%
Total liabilities	<u>8,872,867</u>	<u>9,520,553</u>	<u>(647,686)</u>	-6.80%
Deferred inflows of resources	<u>251,473</u>	<u>120,236</u>	<u>131,237</u>	109.15%
Net investment in capital assets	32,328,263	31,497,412	830,851	2.64%
Restricted	236,232	236,225	7	0.00%
Unrestricted	6,970,743	6,518,258	452,485	6.94%
Total net position	<u>\$ 39,535,238</u>	<u>\$ 38,251,895</u>	<u>\$ 1,283,343</u>	3.35%

Table 1B
CONDENSED STATEMENT OF NET POSITION

	June 30, 2018	June 30, 2017	Increase (Decrease)	
			Amount	%
Current and other assets	\$ 12,962,523	\$ 14,354,715	\$ (1,392,192)	-9.70%
Capital assets	33,922,293	31,948,151	1,974,142	6.18%
Total assets	<u>46,884,816</u>	<u>46,302,866</u>	<u>581,950</u>	1.26%
Deferred outflows of resources	<u>1,007,868</u>	<u>1,122,628</u>	<u>(114,760)</u>	-10.22%
Long-term liabilities	5,824,495	6,697,071	(872,576)	-13.03%
Other liabilities	3,696,058	3,301,482	394,576	11.95%
Total liabilities	<u>9,520,553</u>	<u>9,998,553</u>	<u>(478,000)</u>	-4.78%
Deferred inflows of resources	<u>120,236</u>	<u>-</u>	<u>120,236</u>	100.00%
Net investment in capital assets	31,497,412	28,952,563	2,544,849	8.79%
Restricted	236,225	318,497	(82,272)	-25.83%
Unrestricted	6,518,258	8,155,881	(1,637,623)	-20.08%
Total net position	<u>\$ 38,251,895</u>	<u>\$ 37,426,941</u>	<u>\$ 824,954</u>	2.20%

The increase in capital assets during the year ended June 30, 2019 was primarily due to new additions during the year. The decrease in long-term liabilities during the year ended June 30, 2019 was due to the payments made on long term debt in the current year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in the Authority's net position can be determined by reviewing the following condensed Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2019 and 2018.

Table 2A

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	June 30, 2019	June 30, 2018	Increase (Decrease)	
			Amount	%
Operating revenues	\$ 26,591,065	\$ 25,960,882	\$ 630,183	2.43%
Non-operating revenues	98,835	39,598	59,237	149.60%
Total revenues	<u>26,689,900</u>	<u>26,000,480</u>	<u>689,420</u>	<u>2.65%</u>
Cost of sales and service	18,071,482	17,901,248	170,234	0.95%
Operations and maintenance expenses	5,184,334	5,157,028	27,306	0.53%
Depreciation expense	1,441,094	1,370,815	70,279	5.13%
In lieu of taxes	672,127	666,246	5,881	0.88%
Non-operating expenses	80,532	110,154	(29,622)	-26.89%
Total expenses	<u>25,449,569</u>	<u>25,205,491</u>	<u>244,078</u>	<u>0.97%</u>
Capital contributions	<u>43,012</u>	<u>29,965</u>	<u>13,047</u>	<u>43.54%</u>
Change in net position	1,283,343	824,954	458,389	55.57%
Beginning net position	<u>38,251,895</u>	<u>37,426,941</u>	<u>824,954</u>	<u>2.20%</u>
Ending net position	<u>\$ 39,535,238</u>	<u>\$ 38,251,895</u>	<u>\$ 1,283,343</u>	<u>3.35%</u>

Table 2B

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	June 30, 2018	June 30, 2017	Increase (Decrease)	
			Amount	%
Operating revenues	\$ 25,960,882	\$ 25,000,804	\$ 960,078	3.84%
Non-operating revenues	39,598	84,100	(44,502)	-52.92%
Total revenues	<u>26,000,480</u>	<u>25,084,904</u>	<u>915,576</u>	<u>3.65%</u>
Cost of sales and service	17,901,248	17,298,890	602,358	3.48%
Operations and maintenance expenses	5,157,028	5,199,066	(42,038)	-0.81%
Depreciation expense	1,370,815	1,340,951	29,864	2.23%
In lieu of taxes	666,246	589,976	76,270	12.93%
Non-operating expenses	110,154	132,931	(22,777)	-17.13%
Total expenses	<u>25,205,491</u>	<u>24,561,814</u>	<u>643,677</u>	<u>2.62%</u>
Capital contributions	<u>29,965</u>	<u>1,032,740</u>	<u>(1,002,775)</u>	<u>-97.10%</u>
Change in net position	824,954	1,555,830	(730,876)	-46.98%
Beginning net position	<u>37,426,941</u>	<u>36,051,586</u>	<u>1,375,355</u>	<u>3.81%</u>
Restatement of beginning net position	-	(180,475)	180,475	100.00%
Ending net position	<u>\$ 38,251,895</u>	<u>\$ 37,426,941</u>	<u>\$ 824,954</u>	<u>2.20%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating revenues increased due to higher customer demand and prices in 2019 as compared to 2018. Operating expenses increased \$274 thousand as compared to 2018 due primarily due to costs of sales and service. Ending net position showed a 3.35% increase because of the above-mentioned facts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

At the end of fiscal year 2019, the Authority had \$34.18 million (net of accumulated depreciation) invested in a broad range of Authority capital assets. This investment includes land; distribution, transmission, and treatment systems and their related equipment; and various types of equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as treatment plant, distribution plant, transmission plant, other plant, and general plant. This investment represents an overall increase (net of increases and decreases) of \$255 thousand or 0.75% over the fiscal year 2018.

The following tables summarize the Authority's capital assets, net of accumulated depreciation, and changes therein, for the years ended June 30, 2019 and 2018. These changes are presented in detail in Note 3D to the financial statements.

Table 3A

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION				
	June 30, 2019	June 30, 2018	Increase (Decrease)	
			Amount	%
Transmission plant	\$ 1,773,086	\$ 1,837,704	\$ (64,618)	-3.52%
Treatment plant	5,707,878	5,469,715	238,163	4.35%
Distribution plant	22,207,640	22,146,693	60,947	0.28%
General plant	4,021,444	3,815,757	205,687	5.39%
Other plant	431,031	597,375	(166,344)	-27.85%
Subtotal	34,141,079	33,867,244	273,835	0.81%
Acquisition adjustment	36,699	55,049	(18,350)	-33.33%
Total capital assets	<u>\$ 34,177,778</u>	<u>\$ 33,922,293</u>	<u>\$ 255,485</u>	0.75%

Table 3B

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION				
	June 30, 2018	June 30, 2017	Increase (Decrease)	
			Amount	%
Transmission plant	\$ 1,837,704	\$ 1,834,566	\$ 3,138	0.17%
Treatment plant	5,469,715	5,774,548	(304,833)	-5.28%
Distribution plant	22,146,693	19,909,690	2,237,003	11.24%
General plant	3,815,757	2,974,379	841,378	28.29%
Other plant	597,375	162,130	435,245	268.45%
Subtotal	33,867,244	30,655,313	3,211,931	10.48%
Acquisition adjustment	55,049	95,739	(40,690)	-42.50%
Total capital assets	<u>\$ 33,922,293</u>	<u>\$ 30,751,052</u>	<u>\$ 3,171,241</u>	10.31%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital assets showed a \$255 thousand increase from year 2018 or 0.75%. Many of the additions are from the rehabilitation of gas lines, so the impact on operating and maintenance costs should increase, but the impact on revenues will be favorable. The Authority intends to use existing financial resources to keep upgrading existing systems and adding new systems where it sees fit.

B. Debt Administration

The Authority has outstanding bonds of \$1.19 million and outstanding notes of \$656 thousand as of June 30, 2019. Principal payments are due in the upcoming fiscal year in the amount of \$456 thousand with interest payments totaling approximately \$46 thousand also due. Details relating to the outstanding debt can be found in Note 3F. The Authority is well within its debt covenants and foresees no problems in the future relating to outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The fiscal year 2020 budget was discussed and approved at the June 2019 board meeting. The rates set for the fiscal year ended June 30, 2020 are expected to cover expenditures. In the upcoming fiscal year the utility plans to update a large part of existing infrastructure in the gas fund.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the General Manager of the Brownsville Energy Authority, P.O. Box 424, Brownsville, Tennessee 38012.

BROWNSVILLE ENERGY AUTHORITY
STATEMENTS OF NET POSITION

As of June 30,

	Electric Fund		Gas Fund		Water and Sewer Fund		Totals
	2019	2018	2019	2018	2019	2018	
Assets							
Current assets:							
Cash on hand	\$ 926	\$ 840	\$ -	\$ -	\$ -	\$ -	\$ 926
Cash and cash equivalents on deposit	2,683,778	2,464,884	3,750,011	3,486,460	671,936	508,268	7,105,725
Cash investments	-	-	1,942,979	1,905,756	-	-	1,942,979
Investment in related companies	-	-	1,083,088	1,064,550	-	-	1,083,088
Accounts and other receivables (net of allowance for uncollectibles)	1,921,979	2,086,646	89,367	102,448	7,419	9,581	2,018,765
Due from other funds	247,890	-	1	148,787	141,962	117,465	389,853
Inventories	440,928	452,328	71,756	92,487	-	-	512,684
Prepayments and other current assets	204,130	243,372	9,784	16,408	9,784	8,908	223,698
Total current assets	<u>5,499,631</u>	<u>5,248,070</u>	<u>6,946,986</u>	<u>6,816,896</u>	<u>831,101</u>	<u>644,222</u>	<u>13,277,718</u>
Noncurrent assets:							
Restricted cash, cash equivalents, and investments:							
Cash and cash equivalents on deposit	3,600	3,593	-	-	232,632	232,632	236,232
Other assets:							
Bond issue costs	-	4,510	-	-	11,025	12,600	11,025
Capital assets:							
Transmission plant	2,518,034	2,518,034	-	-	-	-	2,518,034
Treatment plant	-	-	-	-	11,153,195	11,153,195	11,153,195
Distribution plant	15,800,898	15,076,382	11,111,525	10,896,927	15,190,130	15,122,557	42,102,553
General plant	2,916,408	2,900,505	4,330,402	3,910,757	979,353	976,560	8,226,163
Other plant	301,655	510,701	-	-	129,376	86,673	431,031
Less: Accumulated depreciation	(8,799,545)	(8,569,622)	(7,495,644)	(7,259,843)	(13,994,708)	(13,455,582)	(30,289,897)
Total net capital assets before Electric plant acquisition adjustment	<u>12,737,450</u>	<u>12,436,000</u>	<u>7,946,283</u>	<u>7,547,841</u>	<u>13,457,346</u>	<u>13,883,403</u>	<u>34,141,079</u>
Electric plant acquisition adjustment (Net of accumulated depreciation)	36,699	55,049	-	-	-	-	36,699
Total net capital assets	<u>12,774,149</u>	<u>12,491,049</u>	<u>7,946,283</u>	<u>7,547,841</u>	<u>13,457,346</u>	<u>13,883,403</u>	<u>34,177,778</u>
Total noncurrent assets	<u>12,777,749</u>	<u>12,499,152</u>	<u>7,946,283</u>	<u>7,547,841</u>	<u>13,701,003</u>	<u>14,128,635</u>	<u>34,425,035</u>
Total assets	<u>18,277,380</u>	<u>17,747,222</u>	<u>14,893,269</u>	<u>14,364,737</u>	<u>14,532,104</u>	<u>14,772,857</u>	<u>47,702,753</u>
Deferred outflows of resources:							
Deferred outflows related to pensions	313,968	333,380	271,073	285,278	367,969	389,210	953,010
Deferred outflows related to OPEB	1,350	-	988	-	1,477	-	3,815
Total deferred outflows of resources	<u>315,318</u>	<u>333,380</u>	<u>272,061</u>	<u>285,278</u>	<u>369,446</u>	<u>389,210</u>	<u>956,825</u>

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

**BROWNSVILLE ENERGY AUTHORITY
STATEMENTS OF NET POSITION**

As of June 30,

	Electric Fund		Gas Fund		Water and Sewer Fund		Totals
	2019	2018	2019	2018	2019	2018	
Liabilities							
Current liabilities:							
Accounts payable	\$ 1,830,487	\$ 1,872,692	\$ 12,516	\$ 16,292	\$ (2)	\$ -	\$ 1,843,001
Due to other funds	141,962	266,252	295,864	122,844	-	-	437,826
Accrued expenses	42,119	44,955	481,904	419,020	-	-	524,023
Current maturities of long-term debt	18,350	18,350	-	-	220,752	215,760	239,102
Total current liabilities	<u>2,032,918</u>	<u>2,202,249</u>	<u>790,284</u>	<u>558,156</u>	<u>220,750</u>	<u>215,760</u>	<u>3,043,952</u>
Current liabilities payable from restricted assets:							
Accrued interest payable	-	-	-	-	-	-	-
Current maturities of long-term debt	-	287,605	-	-	55,113	53,635	55,113
Total current liabilities payable from restricted assets	<u>-</u>	<u>287,605</u>	<u>-</u>	<u>-</u>	<u>55,113</u>	<u>53,635</u>	<u>55,113</u>
Noncurrent liabilities:							
Customer deposits	840,500	847,984	-	-	-	-	840,500
Net pension liability	880,156	930,952	804,007	841,179	1,053,139	1,108,722	2,737,302
Net OPEB liability	87,377	85,495	63,922	66,003	95,598	94,629	246,897
Accrued leave	122,078	117,383	109,477	105,266	162,247	156,004	393,802
Bonds payable, net of current maturities	-	-	-	-	1,138,263	1,193,392	1,138,263
Notes payable, net of current maturities	18,349	36,699	-	-	398,688	619,440	417,037
Total noncurrent liabilities	<u>1,948,460</u>	<u>2,018,513</u>	<u>977,406</u>	<u>1,012,448</u>	<u>2,847,935</u>	<u>3,172,187</u>	<u>5,773,801</u>
Total liabilities	<u>3,981,378</u>	<u>4,508,367</u>	<u>1,767,690</u>	<u>1,570,604</u>	<u>3,123,798</u>	<u>3,441,582</u>	<u>8,872,866</u>
Deferred inflows of resources:							
Deferred inflows related to pensions	82,484	42,057	62,023	32,438	89,978	45,741	234,485
Deferred inflows related to OPEB	6,012	-	4,398	-	6,578	-	16,988
Total deferred inflows of resources	<u>88,496</u>	<u>42,057</u>	<u>66,421</u>	<u>32,438</u>	<u>96,556</u>	<u>45,741</u>	<u>251,473</u>
Net position							
Net investment in capital assets	12,737,450	12,148,395	7,946,283	7,547,841	11,644,530	11,801,176	32,328,263
Restricted for debt service	3,600	3,593	-	-	232,632	232,632	236,232
Unrestricted	1,781,774	1,378,190	5,384,936	5,499,132	(195,966)	(359,064)	6,970,744
Total net position	<u>\$ 14,522,824</u>	<u>\$ 13,530,178</u>	<u>\$ 13,331,219</u>	<u>\$ 13,046,973</u>	<u>\$ 11,681,196</u>	<u>\$ 11,674,744</u>	<u>\$ 39,535,239</u>

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

BROWNSVILLE ENERGY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For The Years Ended June 30,

	Electric Fund		Gas Fund		Water and Sewer Fund		Totals
	2019	2018	2019	2018	2019	2018	
Operating revenues:							
Charges for sales and services	\$ 17,222,783	17,094,457	\$ 5,759,245	\$ 5,396,255	\$ 2,898,971	\$ 2,973,481	\$ 25,880,999
Other revenue	472,740	475,841	80,450	(154,983)	156,876	175,831	710,066
Total operating revenues	<u>17,695,523</u>	<u>17,570,298</u>	<u>5,839,695</u>	<u>5,241,272</u>	<u>3,055,847</u>	<u>3,149,312</u>	<u>26,591,065</u>
Operating expenses:							
Cost of sales and services	14,291,149	14,319,239	3,780,333	3,582,009	-	-	18,071,482
Operations and maintenance expense	1,405,864	1,466,762	1,346,049	1,356,550	2,432,420	2,333,716	5,184,333
In lieu of taxes	436,181	441,516	189,578	183,295	46,368	41,435	672,127
Depreciation	562,914	559,405	339,053	284,934	539,127	526,476	1,441,094
Total operating expenses	<u>16,696,108</u>	<u>16,786,922</u>	<u>5,655,013</u>	<u>5,406,788</u>	<u>3,017,915</u>	<u>2,901,627</u>	<u>25,369,036</u>
Operating income (loss)	<u>999,415</u>	<u>783,376</u>	<u>184,682</u>	<u>(165,516)</u>	<u>37,932</u>	<u>247,685</u>	<u>1,222,029</u>
Nonoperating revenues (expenses):							
Interest income	19,989	10,315	54,575	27,763	5,733	1,520	80,297
Net increase (decrease) in the fair value of investments	-	-	18,538	-	-	-	18,538
Interest expense	(3,898)	(16,094)	-	-	(52,198)	(58,608)	(56,096)
Amortization of acquisition adjustment	(18,350)	(20,345)	-	-	-	-	(18,350)
Amortization of bond issue costs	(4,510)	(13,531)	-	-	(1,576)	(1,576)	(6,086)
Total nonoperating revenues (expenses)	<u>(6,769)</u>	<u>(39,655)</u>	<u>73,113</u>	<u>27,763</u>	<u>(48,041)</u>	<u>(58,664)</u>	<u>18,303</u>
Change in net position before capital contributions	992,646	743,721	257,795	(137,753)	(10,109)	189,021	1,240,332
Capital contributions	<u>-</u>	<u>-</u>	<u>26,451</u>	<u>24,757</u>	<u>16,561</u>	<u>5,208</u>	<u>43,012</u>
Change in net position	<u>992,646</u>	<u>743,721</u>	<u>284,246</u>	<u>(112,996)</u>	<u>6,452</u>	<u>194,229</u>	<u>1,283,344</u>
Total net position - beginning	<u>13,530,178</u>	<u>12,786,457</u>	<u>13,046,973</u>	<u>13,159,969</u>	<u>11,674,744</u>	<u>11,480,515</u>	<u>38,251,895</u>
Total net position - ending	<u>\$ 14,522,824</u>	<u>\$ 13,530,178</u>	<u>\$ 13,331,219</u>	<u>\$ 13,046,973</u>	<u>\$ 11,681,196</u>	<u>\$ 11,674,744</u>	<u>\$ 39,535,239</u>

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

BROWNSVILLE ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS
For The Years Ended June 30,

	Electric Fund		Gas Fund		Water and Sewer Fund		Totals
	2019	2018	2019	2018	2019	2018	
Cash flows from operating activities:							
Cash received from consumers	\$ 17,860,190	\$ 17,253,115	\$ 5,852,776	\$ 5,195,148	\$ 3,058,009	\$ 3,258,500	\$ 26,770,975
Cash paid to suppliers for goods and services	(15,292,096)	(15,389,595)	(4,673,816)	(4,418,192)	(1,961,252)	(1,920,296)	(21,927,164)
Cash paid to employees for services	(386,518)	(382,961)	(353,945)	(344,688)	(449,838)	(433,056)	(1,190,301)
Payments in lieu of taxes	(436,181)	(441,516)	(189,578)	(183,295)	(46,368)	(41,435)	(672,127)
Cash from (to) other funds - net	(372,180)	278,609	321,806	(175,816)	(24,497)	(22,546)	(74,871)
Net cash provided (used) by operating activities	<u>1,373,215</u>	<u>1,317,652</u>	<u>957,243</u>	<u>73,157</u>	<u>576,054</u>	<u>841,167</u>	<u>2,906,512</u>
Cash flows from capital and related financing activities:							
Capital contributed by customers and grants	-	-	26,451	24,757	16,561	5,208	43,012
Principal paid on bonds payable	(287,605)	(289,355)	-	-	(53,651)	(52,126)	(341,256)
Principal paid on notes payable	(18,350)	(18,350)	-	-	(215,760)	(210,876)	(234,110)
Interest paid on bonds, notes and leases	(3,898)	(20,112)	-	-	(52,198)	(58,608)	(56,096)
Refunds (costs) related to bond issuance	-	1	-	-	(1)	(1)	(1)
Construction and acquisition of plant	(788,403)	(780,050)	(737,495)	(2,427,918)	(113,070)	(120,031)	(1,638,968)
Plant removal cost	(99,255)	(61,824)	-	-	-	-	(99,255)
Materials salvaged from retirements and reclassifications	23,294	24,521	-	-	-	-	23,294
Net cash provided (used) by capital and related financing activities	<u>(1,174,217)</u>	<u>(1,145,169)</u>	<u>(711,044)</u>	<u>(2,403,161)</u>	<u>(418,119)</u>	<u>(436,434)</u>	<u>(2,303,380)</u>
Cash flows from investing activities:							
Purchase of cash investments	-	-	(37,223)	(16,186)	-	-	(37,223)
Proceeds from maturity of cash investments	-	-	-	2,242,885	-	-	-
Interest and dividends paid on investments	19,989	10,315	54,575	27,763	5,733	1,520	80,297
Net cash provided (used) by investing activities	<u>19,989</u>	<u>10,315</u>	<u>17,352</u>	<u>2,254,462</u>	<u>5,733</u>	<u>1,520</u>	<u>43,074</u>
Net increase (decrease) in cash and cash equivalents	218,987	182,798	263,551	(75,542)	163,668	406,253	646,206
Cash and cash equivalents - beginning of year	<u>2,469,317</u>	<u>2,286,519</u>	<u>3,486,460</u>	<u>3,562,002</u>	<u>740,900</u>	<u>334,647</u>	<u>6,696,677</u>
Cash and cash equivalents - end of year	<u>\$ 2,688,304</u>	<u>\$ 2,469,317</u>	<u>\$ 3,750,011</u>	<u>\$ 3,486,460</u>	<u>\$ 904,568</u>	<u>\$ 740,900</u>	<u>\$ 7,342,883</u>
Cash and cash equivalents							
Unrestricted cash on hand	\$ 926	\$ 840	\$ -	\$ -	\$ -	\$ -	\$ 926
Unrestricted cash and cash equivalents on deposit	2,683,778	2,464,884	3,750,011	3,486,460	671,936	508,268	7,105,725
Restricted cash and cash equivalents on deposit	3,600	3,593	-	-	232,632	232,632	236,232
Total cash and cash equivalents	<u>\$ 2,688,304</u>	<u>\$ 2,469,317</u>	<u>\$ 3,750,011</u>	<u>\$ 3,486,460</u>	<u>\$ 904,568</u>	<u>\$ 740,900</u>	<u>\$ 7,342,883</u>

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

BROWNSVILLE ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS
For The Years Ended June 30,

	Electric Fund		Gas Fund		Water and Sewer Fund		Totals
	2019	2018	2019	2018	2019	2018	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss)	\$ 999,415	\$ 783,376	\$ 184,682	\$ (165,516)	\$ 37,932	\$ 247,685	\$ 1,222,029
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	562,914	559,405	339,053	284,934	539,127	526,476	1,441,094
Bad debt expense	39,282	49,206	8,637	8,691	6,569	8,539	54,488
Changes in operating assets and liabilities:							
Accounts receivable	125,385	(366,389)	4,444	(54,815)	(4,407)	100,649	125,422
Net pension deferred inflows/outflows and liability	9,043	(26,109)	6,618	(19,615)	9,895	(29,085)	25,556
Net OPEB deferred inflows/outflows and liability	6,544	(1,704)	1,329	(1,280)	6,070	(1,897)	13,943
Inventories	11,400	23,196	20,731	(19,325)	-	-	32,131
Prepayments and other current assets	39,242	(20,234)	6,624	(786)	(876)	(780)	44,990
Due to (from) other funds	(372,180)	278,609	321,806	(175,816)	(24,497)	(22,546)	(74,871)
Accounts payable and accrued expenses	(40,346)	14,963	63,319	216,685	6,241	12,126	29,214
Customer deposits	(7,484)	23,333	-	-	-	-	(7,484)
Net cash provided (used) by operating activities	\$ 1,373,215	\$ 1,317,652	\$ 957,243	\$ 73,157	\$ 576,054	\$ 841,167	\$ 2,906,512

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

BROWNSVILLE ENERGY AUTHORITY
BROWNSVILLE, TENNESSEE
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June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Brownsville Energy Authority (the Authority) was formed July 1, 2008 pursuant to Chapter No. 107 of the Private Acts, 2008 cited as the Brownsville Energy Authority Act and is a political subdivision of the State of Tennessee. The legislation creating the Authority amended the acts that established the City of Brownsville Utilities Board. The Authority was created as a separate legal entity for the purpose of planning, acquiring, constructing, improving, furnishing, equipping, financing, owning, operating, and maintaining electric, gas, water, and wastewater utilities systems within or outside the corporate limits of the City of Brownsville, Tennessee and other such utility systems as a municipal water, wastewater, and gas or electric utility as authorized by the general laws of the State of Tennessee to own or operate. Upon creation of the Authority, the City of Brownsville was authorized to transfer to the Authority all its rights, title and interest in and to all assets operated for the City by City of Brownsville Utilities Board. The City will be relieved from all legal obligation and debt from the Authority. The City board retains the right to approve the board of directors for the Authority as well as the right to protest rates. The accompanying financial statements present the financial position, results of operations and cash flows of Brownsville Energy Authority as of and for the periods ended June 30, 2019 and 2018.

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

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

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounting policies of the Authority conform to applicable accounting principles generally accepted in the United States of America as defined by the *Governmental Accounting Standards Board*.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the enterprise funds principal ongoing operations. The principal operating revenues of the Authority are charges for sales and services to customers. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The Authority reports the electric, gas, and water and wastewater funds as major proprietary funds. Each fund provides distribution services for their respective operations as described below:

Electric Systems Fund

The Electric Systems Fund was created to acquire, construct, improve, furnish, equip, finance, own, operate and maintain within or outside the corporate limits of the City of Brownsville, a system for the furnishing of electrical service and to provide electric service to any person, governmental entity, or other user or consumer of electrical services.

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Gas System Fund

The Gas Systems Fund was created to acquire, construct, improve, furnish, equip, finance, own, operate and maintain within or outside the corporate limits of the City of Brownsville, a system for the furnishing of gas and related products and to provide gas service to any person, governmental entity, or other user or consumer of gas services.

Water and Wastewater Systems Fund

The Water and Wastewater Systems Fund was created to acquire, construct, improve, furnish, equip, finance, own, operate and maintain within or outside the corporate limits of the City of Brownsville, a system for the furnishing of water and sewer service and to provide water and sewer service to any person, governmental entity, or other user or consumer of water or sewer services.

C. Assets, Liabilities and Net Position

Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The Authority restricts its investments to the types of investments authorized by the State of Tennessee.

The Public Act creating the Authority authorizes the following investments:

- (1) Direct obligations of the United States government or any of its agencies;
- (2) Obligations guaranteed as a principal and interest by the United States government or any of its agencies;
- (3) Certificates of deposit and other devices of deposit at state and federally chartered banks, savings and loan institutions or savings banks deposited and collateralized;
- (4) Repurchase agreements entered into with the United States or its agencies or with any bank, broker-dealer or other such entity so long as the obligation of the obligated party is secured by perfected pledge of full faith and credit obligations of the United States or its agencies;
- (5) Guaranteed investment contracts or similar agreements providing for a specified rate of return over a specified period of time with entities rated in one (1) of the two (2) highest rating categories of a nationally recognized rating agency;
- (6) The local government investment pool;
- (7) Direct general obligations of a state of the United States, or a political subdivision or instrumentality thereof, having general taxing powers and rated in either of the two (2) highest rating categories by a nationally recognized rating agency of such obligations; or
- (8) Obligations of any state of the United States, or a political subdivision or instrumentality thereof, secured solely by revenues received by, or on behalf of, the state, or political subdivision or instrumentality thereof irrevocably pledged to the payment of the principal and interest of such obligations, rated in the two (2) highest rating categories by a nationally recognized rating agency of such obligations.

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Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Trade receivables result from unpaid billings for service to customers and from unpaid billings related to work performed for or materials sold to certain entities. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible customer accounts recorded by the Authority is based on past history of uncollectible accounts and management's analysis of current accounts.

Interfund Transfers

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

Inventories and Prepaid Items

All inventories are valued at the lower of average cost or market, using the first-in/first-out (FIFO) method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Restricted Assets

Certain proceeds of the bond issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The Authority elects to use restricted assets before unrestricted assets when the situation arises where either can be used.

Capital Assets

Capital assets, which include property, plant, equipment and construction in progress, are recorded at historical cost or estimated historical cost if purchased or constructed. Capital assets are defined by the Authority as assets with an estimated useful life of at least 5 years and a cost of more than \$1,000. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the Authority are depreciated using the straight line method over the following useful lives:

General plant	5 - 50 years
Treatment plant	10 - 40 years
Transmission plant	33 years
Distribution plant	23.5 - 50 years
Other plant	0 Years - construction in progress

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Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation benefits. All vacation pay has been accrued and is reflected as a noncurrent liability on the financial statements. The Authority accrues sick leave at 30% of the value outstanding because it is only paid upon retirement. Management believes that this is the portion that will be paid out in the future.

Long-term Obligations

Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as other assets and amortized over the term of the related debt. The Authority will continue to report bond cost as an asset and amortize those over the life of the bonds instead of expensing those costs in the current year in accordance with certain provisions included in GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements*. This option as part of GASB Statement No. 65 is available due to the above mentioned cost being used for rate setting by the Authority.

Impact of recently issued accounting pronouncements

In March 2018, the GASB issued Statement No. 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, effective for financial statements beginning after June 15, 2018. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Management has implemented this statement in the current financial statements.

Net Position Flow Assumption

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

Net Position

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

Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or notes payable that are attributable to the acquisition, construction or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.

Restricted for debt service - Consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities.

Unrestricted - All other net position that does not meet the description of the above categories.

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Deferred Outflows/Inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The Authority has items related to pensions that qualify for reporting in this category.

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

Use of Estimates

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of Brownsville Energy Authority's participation in the Governmental Pension Plan for the Central Service Association, and additions to / deductions from the Authority's fiduciary net position have been determined on the same basis as they are reported by the Governmental Pension Plan for the Central Service Association. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Governmental Pension Plan for the Central Service Association. Investments are reported at fair value.

Other Post-Employment Benefits

Information about the Utility's participation in their single employer post-employment benefits plan have been determined on the same basis as they are reported by the other post-employment benefits plan. For this purpose, benefits are recognized when due and payable in accordance with the benefit terms of the other post-employment benefits plan.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

All unexpended appropriations in the operating budget remaining at the end of the fiscal year lapse.

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Management submits a proposed budget to the Authority's Board. A budget is then adopted for the next fiscal year. During the year, management is authorized to transfer budgeted amounts between line items.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of June 30, 2019, the Authority had the following investments.

	Cost	Fair Value
The Tennergy Corporation	52,000	1,083,088
	\$ 52,000	\$ 1,083,088

As of June 30, 2018, the Authority had the following investments.

	Cost	Fair Value
The Tennergy Corporation	52,000	1,064,550
	\$ 52,000	\$ 1,064,550

Custodial Risk

The Authority's policies limit deposits and investments to those instruments allowed by applicable state laws and described below. State statute required that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Authority's agent in the Authority's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the Authority to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities and the state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2019 and 2018, all bank deposits were fully collateralized or insured.

Cash Investments,

As of June 30, 2019, the Authority owned a twelve month certificate of deposit totaling \$517,366 including accrued interest at 2.6% and maturing in December 2019, a six month certificate of deposit totaling \$516,903 including accrued interest at 2.60% and maturing in June 2020-, and a twelve month certificate of deposit totaling \$908,710 including accrued interest at 2.60% and maturing in November 2019.

As of June 30, 2018, the Authority owned a six month certificate of deposit totaling \$508,681 including accrued interest at 0.80% and maturing in June 2019, a twelve month certificate of deposit totaling \$505,428 including accrued interest at 0.80% and maturing in December 2018, and a twelve month certificate of deposit totaling \$891,647 including accrued interest at 0.80% and maturing in November 2018.

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Investment in Related Company

During the year ended June 30, 2019, the Authority purchased \$0 of natural gas from the Tennergy Corporation. As of June 30, 2019, the Tennergy Corporation had total assets, deferred outflows of resources, liabilities and deferred inflows of resources of \$12,391,607, \$0, \$618,523,743, and \$0 respectively.

During the year ended June 30, 2018, the Authority purchased \$0 of natural gas from the Tennergy Corporation. As of June 30, 2018, the Tennergy Corporation had total assets, deferred outflows of resources, liabilities and deferred inflows of resources of \$7,264,758, \$0, \$79,043, and \$0 respectively.

B. Receivables

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

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Billed services for utility customers	\$ 2,010,012	\$ 2,176,262
Other utility districts	46,440	47,928
Miscellaneous other receivables	89,362	112,750
Allowance for doubtful accounts	<u>(127,049)</u>	<u>(138,265)</u>
	<u>\$ 2,018,765</u>	<u>\$ 2,198,675</u>

C. Restricted Assets

All deposits required by the 2009 and 2017 Revenue Bonds Series have been made. Transactions in funds, other than the 2009 and 2017 Revenue Bond Funds are at the discretion of the Board of Directors and there are no applicable legal requirements or restrictions on these funds.

	<u>Electric Division</u>		<u>Water and Sewer Division</u>		<u>Total</u>
	2019	2018	2019	2018	2019
Sinking Funds	\$ 3,600	\$ 3,593	\$ -	\$ -	\$ 3,600
Reserve Funds	-	-	<u>232,632</u>	<u>232,632</u>	<u>232,632</u>
	<u>\$ 3,600</u>	<u>\$ 3,593</u>	<u>\$ 232,632</u>	<u>\$ 232,632</u>	<u>\$ 236,232</u>

D. Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows:

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Description	Balance at June 30, 2018	Additions	Disposals	Reclassifications	Balance June 30, 2019
Capital assets, not being depreciated					
Transmission plant	\$ 364,185	\$ -	\$ -	\$ -	\$ 364,185
Distribution plant	124,645	-	-	-	124,645
General plant	291,802	-	-	-	291,802
Other plant	597,375	52,703	219,047	-	431,031
Total capital assets not being depreciated	<u>1,378,007</u>	<u>52,703</u>	<u>219,047</u>	<u>-</u>	<u>1,211,663</u>
Capital assets, being depreciated:					
Transmission plant	2,153,851	-	2	-	2,153,849
Treatment plant	10,680,429	-	-	472,766	11,153,195
Distribution plant	41,298,949	1,289,225	282,536	(327,730)	41,977,908
General plant	7,641,050	590,348	152,001	(145,036)	7,934,361
Total capital assets, being depreciated	<u>61,774,279</u>	<u>1,879,573</u>	<u>434,539</u>	<u>-</u>	<u>63,219,313</u>
Less accumulated depreciation for:					
Transmission plant	680,332	64,616	-	-	744,948
Treatment plant	5,210,714	234,603	-	-	5,445,317
Distribution plant	19,276,901	986,384	368,372	-	19,894,913
General plant	4,117,095	201,906	114,282	-	4,204,719
Total accumulated depreciation	<u>29,285,042</u>	<u>1,487,509</u>	<u>482,654</u>	<u>-</u>	<u>30,289,897</u>
Total capital assets, being depreciated, net	<u>32,489,237</u>	<u>392,064</u>	<u>(48,115)</u>	<u>-</u>	<u>32,929,416</u>
Total capital assets before electric plant acquisition adjustment, net	33,867,244	444,767	170,932	-	34,141,079
Electric plant acquisition adjustment	55,049	-	18,350	-	36,699
Total capital assets, net	<u>\$ 33,922,293</u>	<u>\$ 444,767</u>	<u>\$ 189,282</u>	<u>\$ -</u>	<u>\$ 34,177,778</u>

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Capital asset activity for the year ended June 30, 2018 was as follows:

Description	Balance at June 30, 2017	Additions	Disposals	Reclassifications	Balance June 30, 2018
Capital assets, not being depreciated					
Transmission plant	\$ 364,185	\$ -	\$ -	\$ -	\$ 364,185
Distribution plant	124,645	-	-	-	124,645
General plant	291,802	-	-	-	291,802
Other plant	1,131,846	69,528	-	(603,999)	597,375
Total capital assets not being depreciated	<u>1,912,478</u>	<u>69,528</u>	<u>-</u>	<u>(603,999)</u>	<u>1,378,007</u>
Capital assets, being depreciated:					
Transmission plant	2,074,572	106,388	27,109	-	2,153,851
Treatment plant	10,680,429	-	-	-	10,680,429
Distribution plant	38,572,877	730,128	163,295	2,159,239	41,298,949
General plant	6,879,626	2,386,318	69,654	(1,555,240)	7,641,050
Total capital assets, being depreciated	<u>58,207,504</u>	<u>3,222,834</u>	<u>260,058</u>	<u>603,999</u>	<u>61,774,279</u>
Less accumulated depreciation for:					
Transmission plant	666,429	62,237	48,334	-	680,332
Treatment plant	4,976,114	234,600	-	-	5,210,714
Distribution plant	18,643,014	923,572	289,685	-	19,276,901
General plant	3,961,668	206,997	51,570	-	4,117,095
Total accumulated depreciation	<u>28,247,225</u>	<u>1,427,406</u>	<u>389,589</u>	<u>-</u>	<u>29,285,042</u>
Total capital assets, being depreciated, net	<u>29,960,279</u>	<u>1,795,428</u>	<u>(129,531)</u>	<u>603,999</u>	<u>32,489,237</u>
Total capital assets before electric plant acquisition adjustment, net	31,872,757	1,864,956	(129,531)	-	33,867,244
Electric plant acquisition adjustment	<u>75,394</u>	<u>-</u>	<u>20,345</u>	<u>-</u>	<u>55,049</u>
Total capital assets, net	<u>\$ 31,948,151</u>	<u>\$ 1,864,956</u>	<u>\$ (109,186)</u>	<u>\$ -</u>	<u>\$ 33,922,293</u>

Depreciation expense for the years ended June 30 was charged to departments as follows:

	2019	2018
Electric	\$ 609,329	\$ 623,133
Gas	339,053	284,934
Water and sewer	539,127	526,476
Total depreciation	1,487,509	1,434,543
Less: Charges to transportation clearing and other	46,415	63,728
Total depreciation expense	<u>\$ 1,441,094</u>	<u>\$ 1,370,815</u>

E. Interfund Receivables and Payables

The interfund balances presented in the statement of net position represents the amount of these interfund balances as show below. The outstanding balances between funds result mainly from the time lag between that dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between the funds are made.

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The composition of interfund balances as of June 30, 2019 are related to accounts receivable collections made by one for on behalf of another and is as follows:

	Due from			
	Electric	Water	Gas	Total
Due to				
Electric	\$ -	\$ -	\$ 247,890	\$ 247,890
Gas	-	-	-	-
Water	141,962	-	-	141,962
City Hall	-	-	47,974	47,974
	\$ 141,962	\$ -	\$ 295,864	\$ 437,826

The composition of interfund balances as of June 30, 2018 are related to accounts receivable collections made by one for on behalf of another and is as follows:

	Due from			
	Electric	Water	Gas	Total
Due to				
Electric	\$ -	\$ -	\$ -	\$ -
Gas	148,787	-	-	148,787
Water	117,465	-	-	117,465
City Hall	-	-	122,844	122,844
	\$ 266,252	\$ -	\$ 122,844	\$ 389,096

F. Long-term Debt

Notes Payable

During the year ended June 30, 2002, the Authority was issued a loan from the State of Tennessee, Public Health Loan Program totaling \$3,729,992 for the purpose of constructing a wastewater facility. Additionally, during the year ended June 30, 2012, the Authority acquired facilities with an annexation in Brownsville, Tennessee. In connection with that annexation, the Authority acquired electric utilities from Southwest Tennessee Electric Membership Corporation and a corresponding note payable to them totaling \$183,497.

The notes are to be repaid from users' fees and charges and other additional sources of revenues as needed.

Notes payable at June 30, 2019, are as follows:

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Electric Fund:

Notes payable due Southwest Tennessee Electric Membership Corporation, payable in annual installments of \$18,350 through October 2020 and \$1,751, through December 2018, non-interest bearing	\$ 36,699
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Water and Sewer Fund:

State of Tennessee Public Health Loan Program, monthly payments totaling \$19,386 including interest at 2.29% per annum through March 20, 2022	619,440
Total all funds	656,139
Total current portion notes payable	(239,102)
Total long-term portion notes payable	\$ 417,037

Bonds Payable

On December 15, 2009, the Authority issued \$2,265,920 in Electric System Revenue Bonds, Series 2009 to refinance the outstanding Electric System Revenue Refunding and Improvement Bonds, Series 2003. The net proceeds of \$2,236,825 (after issuance costs of \$29,095) were used to advance refund the Series 2003 Bonds, which had an average yield of 4.42%. As a result of the advanced refunding, the refunded bonds are considered to be defeased and the liability has been removed from the Authority's liabilities. The difference of \$86,825 between the reacquisition price and the net carrying amount of the old debt is being deferred, along with other issue costs, and amortized over the life of the bonds.

On June 25, 2010, the Authority issued \$740,936 in Water and Sewer Revenue Bonds, Series 2010 with an interest rate of 4.1% for the purpose of capital improvements and funding the new water and wastewater installation south of the interstate. Also, on December 15, 2009, the Authority issued \$371,065 in Water and Sewer Revenue Bonds, Series 2009 to refinance the outstanding Water and Sewer Revenue and Tax Refunding Bonds, Series 1998 by which the Authority will also purchase the City's water and sewer system through this repayment of the outstanding Water System through the repayment of the City's outstanding Water System Revenue and Tax Bonds, Series 1998. The net proceeds of \$345,400 (after issuance costs of \$25,665) were used to advance refund the Series 1998 Bonds, which had an average yield of 4.75%. As a result of the advanced refunding, the refunded bonds are considered to be defeased and the liability has been removed from the Authority's liabilities. The difference of \$30,400 between the reacquisition price and the net carrying amount of the old debt is being deferred, along with other issues costs, and amortized over the life of the bonds.

On June 30, 2016, the Authority issued \$1,350,000 in Water and Sewer Revenue Bonds, Series 2016 with an interest rate of 2.85% for the purpose of paying the amount that was due to the Electric Fund.

The bonds payable for all systems contain provisions that in the event of default, the lender can exercise one or more of the following options: (1) Make all or any of the outstanding bonds payable balance immediately due and accrued interest at highest post maturity interest rate, (2) Use any remedy allowed by state or federal law.

There are no unused lines of credits for any of the systems at June 30, 2019.

These bonds shall be payable solely from and secured by a pledge of net revenues of the issuing funds.

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Bonds payable at June 30, 2019 are as follows:

Electric Fund:

Electric System Revenue Bonds, Series 2009, interest
at 4.1% due through 2018, semi-annual payments \$ -

Water and Sewer Fund:

Water and Sewer Revenue Bonds, Series 2016, interest
at 2.85% due through 2027, monthly payments 1,193,376

Total all funds 1,193,376

Total current portion bonds payable (55,113)

Total long-term portion bonds payable \$ 1,138,263

The annual requirements to amortize all debt outstanding at June 30, 2019, are as follows:

<u>Year ending June 30,</u>	<u>Notes</u>	<u>Bonds</u>	<u>Interest</u>	<u>Total</u>
2020	239,102	55,113	45,745	339,960
2021	244,213	56,819	38,926	339,958
2022	172,824	58,483	32,150	263,457
2023	-	60,196	28,782	88,978
2024-2027	-	962,765	75,640	1,038,405
	<u>\$ 656,139</u>	<u>\$1,193,376</u>	<u>\$ 221,243</u>	<u>\$ 2,070,758</u>

The following is a summary of long-term debt transactions for the year ended June 30, 2019:

	<u>Balance at</u> <u>June 30, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at</u> <u>June 30, 2019</u>	<u>Due Within</u> <u>One Year</u>
Electric fund:					
Notes payable	\$ 55,049	\$ -	\$ 18,350	\$ 36,699	\$ 18,350
Bonds payable	287,605	-	287,605	-	-
Compensated absences	117,383	4,695	-	122,078	-
Total Electric fund	<u>460,037</u>	<u>4,695</u>	<u>305,955</u>	<u>158,777</u>	<u>18,350</u>
Gas fund:					
Compensated absences	<u>105,266</u>	<u>4,211</u>	<u>-</u>	<u>109,477</u>	<u>-</u>
Water and Sewer fund					
Notes payable	835,200	-	215,760	619,440	220,752
Bonds payable	1,247,027	-	53,651	1,193,376	55,113
Compensated absences	156,004	6,243	-	162,247	-
Total Water and Sewer fund	<u>2,238,231</u>	<u>6,243</u>	<u>269,411</u>	<u>1,975,063</u>	<u>275,865</u>
Total all funds	<u>\$ 2,803,534</u>	<u>\$ 15,149</u>	<u>\$ 575,366</u>	<u>\$ 2,243,317</u>	<u>\$ 294,215</u>

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The following is a summary of long-term debt transactions for the year ended June 30, 2018:

	Balance at June 30, 2017	Additions	Retirements	Balance at June 30, 2018	Due Within One Year
Electric fund:					
Notes payable	\$ 75,150	\$ -	\$ 20,101	\$ 55,049	\$ 18,350
Bonds payable	575,209	-	287,604	287,605	287,605
Compensated absences	108,258	9,125	-	117,383	-
Total Electric fund	<u>758,617</u>	<u>9,125</u>	<u>307,705</u>	<u>460,037</u>	<u>423,338</u>
Gas fund:					
Compensated absences	97,083	8,183	-	105,266	-
Water and Sewer fund					
Notes payable	1,046,076	-	210,876	835,200	215,760
Bonds payable	1,299,153	-	52,126	1,247,027	53,635
Compensated absences	143,878	12,126	-	156,004	-
Total Water and Sewer fund	<u>2,489,107</u>	<u>12,126</u>	<u>263,002</u>	<u>2,238,231</u>	<u>425,399</u>
Total all funds	<u>\$ 3,344,807</u>	<u>\$ 29,434</u>	<u>\$ 570,707</u>	<u>\$ 2,803,534</u>	<u>\$ 848,737</u>

G. Net Position

Net position represents the difference between assets and liabilities. The restricted net positions as of June 30, 2019 and 2018 were as follows:

	2019	2018
Net investment in capital assets		
Net property, plant and equipment in service	\$ 34,141,079	\$ 33,867,244
Electric plant acquisition adjustment	36,699	55,049
Less: Debt as disclosed in Note 3F	<u>(1,849,515)</u>	<u>(2,424,881)</u>
Net investment in capital assets	<u>32,328,263</u>	<u>31,497,412</u>
Restricted for debt service:		
Restricted cash and cash equivalents	236,232	236,225
Unrestricted	6,970,743	6,518,258
Total net position	<u>\$ 39,535,238</u>	<u>\$ 38,251,895</u>

NOTE 4 - OTHER INFORMATION

A. Pension Plan

Prior to October 1, 2005, the Authority participated in a multi-employer pension plan sponsored by Central Service Association (the Plan). Effective October 1, 2005, the Plan converted to a new plan entitled Governmental Plan of Central Service Association, which is sponsored by each participating governmental employer in relation to their employees. Substantially all employees are covered by this contributory pension plan.

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Plan Description

The following description of the Plan is provided for the Central Service Association Employee Retirement Plan in total. Plan net assets and accumulated plan benefit information relative to the Authority's portion of the multi-employer plan are not determinable.

The Plan is a multi-employer defined benefit plan with employees eligible to participate on the date of employment. The participant contribution is currently 3.0% of earnings. The employers contribute amounts sufficient to meet the actuarially determined funding requirements of the Plan in order to provide for anticipated benefits. The employers have a right to discontinue contributions at any time and terminate the Plan. In the event of termination of the Plan, the net assets of the Plan are to be used to purchase annuities for the participants in a specified manner. However, the Pension Benefit Guaranty Authority guarantees the payments of all nonforfeitable basic benefits, subject to certain limitations prescribed by the Employee Retirement Income Security Act of 1974 (ERISA).

The Plan issues a publically available report that includes financial statements and required supplementary information for the pension plan. That report can be obtained by contacting Central Service Association at P. O. Box 3480, Tupelo, Mississippi 38803-3480.

Benefits Provided

Benefits provided by the plan include retirement, disability and death benefits provided to members and beneficiaries. Members of the plan are eligibility to participate after completing the probationary period of their employment.

Employees Covered by Benefit Terms

At the measurement date of October 1, 2018 and 2017 the following employees were covered by the benefit terms:

	2018	2017
Inactive plan members currently receiving benefits	24	24
Inactive plan members entitled to but not yet receiving benefits	24	24
Active plan members	41	42
Total	89	90

Schedule of Employer Contributions

Year	Minimum Contribution	Actual Contribution
2015	\$ 445,984	\$ 423,737
2016	\$ 423,737	\$ 435,692
2017	\$ 435,692	\$ 479,216
2018	\$ 448,294	\$ 479,563

Net Pension Liability

The Authority's net pension liability was measured as of October 1, 2018 and 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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Actuarial Assumptions

The total pension liability as of the October 1, 2018 and 2017 actuarial valuation was determined using the following actuarial assumptions applied to all periods in the measurement:

Measurement date	October 1, 2018
Discount rate	7.00%
Mortality	RP-2000 Fully Generational with Scale AA
Incidence of Disability	50% 1952 Disability Table, Period 2 Benefit 5, with a 6 month waiting period
Termination	Males: Termination Table T-5 from Actuaries Handbook Females: Termination Table T-5 from Actuaries Handbook with a five year setback
Salary scale	3.00%
Assumed retirement age	Earlier of age 62 with 30 years or age 65 with 5 years service
Marriage	It is assumed that 80% of participants are married and that a male is 3 years older than his female spouse.
Cost of living increase	1.50%
Date of participation freeze	N/A

Discount Rate

The discount used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and the employer will continue to contribute the actuarially determined contribution in accordance with the plan's current funding policy on an annual basis. Based on that assumption, the pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at October 1, 2017	\$ 14,024,624	\$ 11,143,770	\$ 2,880,854
Changes for the year:			
Service cost	141,078	-	\$ 141,078
Interest cost	972,283	-	972,283
Difference between expected and actual experience	(176,522)	-	(176,522)
Assumption changes	101,050	-	101,050
Employer contributions	-	479,563	(479,563)
Employee contributions	-	58,420	(58,420)
Net investment income	-	724,206	(724,206)
Benefit payments	(551,927)	(551,927)	-
Administrative expense	-	-	-
Changes in benefit terms	80,748	-	80,748
Other Changes	-	-	-
Net changes	<u>566,710</u>	<u>710,262</u>	<u>(143,552)</u>
Balance at October 1, 2018	<u>\$ 14,591,334</u>	<u>\$ 11,854,032</u>	<u>\$ 2,737,302</u>

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	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at October 1, 2016	\$ 13,351,440	\$ 10,160,782	\$ 3,190,658
Changes for the year:			
Service cost	134,565	-	134,565
Interest cost	921,756	-	921,756
Difference between expected and actual experience	171,496	-	171,496
Employer contributions	-	519,200	(519,200)
Employee contributions	-	60,900	(60,900)
Net investment income	-	1,039,010	(1,039,010)
Benefit payments	(636,122)	(636,122)	-
Administrative expense	-	-	-
Other Changes	81,488	-	81,488
Net changes	<u>673,183</u>	<u>982,988</u>	<u>(309,805)</u>
Balance at October 1, 2017	<u>\$ 14,024,623</u>	<u>\$ 11,143,770</u>	<u>\$ 2,880,853</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of Brownsville Energy Authority calculated using the discount rate of 7.0 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

	10/1/2018	10/1/2017
Net pension liability with a 1% decrease in discount rate: 6.00%	\$ 4,664,093	\$ 4,617,102
Net pension liability at current discount rate: 7.00%	\$ 2,737,302	\$ 2,880,854
Net pension liability with a 1% increase in discount rate: 8.00%	\$ 1,139,154	\$ 1,336,175

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

Under GASB 68, the annual pension expense is intended to recognize certain changes in the net pension liability compared to the previous measurement date. Changes not recorded as a pension expense will be recorded and tracked separately as deferred inflows and outflows to be recognized in a future period's pension expense. Changes in the Total Pension Liability due to differences between actual experience and assumptions are recognized over a closed period equal to the future remaining service of plan participants. Differences between actual and expected investment performance are recognized over a five year period. Any changes due to plan amendment or other benefit changes will be recognized in the year of adoption.

Pension expense

For the years ended June 30, 2018 and 2017, Brownsville Energy Authority recognized pension expense of \$510,433 and \$444,466 determined as follows:

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	2019	2018
Service cost	\$ 141,078	\$ 134,565
Interest on the total pension liability	972,282	921,756
Differences in the expected and actual experience	75,455	110,759
Changes in assumptions	50,465	30,255
Employee contributions	(58,420)	(60,900)
Projected earnings on pension plan investments	(779,576)	(709,294)
Differences between projected and actual earnings on plan investments	28,401	17,325
Pension plan administrative expense	-	-
Changes in benefit terms	80,748	-
Total pension expense	\$ 510,433	\$ 444,466

Deferred Outflows and Inflows of Resources

For the years ended June 30, 2019 and 2018, the Authority reported deferred outflows and inflows of resources related to pensions from the following sources:

<u>June 30, 2019</u>	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	\$ 430,526	\$ 141,218
Change of assumptions	157,647	-
Net difference between projected and actual earnings in pension plan investments	-	93,267
Contributions subsequent to measurement date of October 1, 2018	364,837	-
	\$ 953,010	\$ 234,485
<u>June 30, 2018</u>	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	\$ 541,285	\$ -
Change of assumptions	107,062	-
Net difference between projected and actual earnings in pension plan investments	-	120,236
Contributions subsequent to measurement date of October 1, 2017	359,521	-
	\$ 1,007,868	\$ 120,236

The amount shown above for “contributions subsequent to the measurement date of October 1, 2018 and 2017” will be recognized as a reduction to net pension liability in the following measurement period. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended <u>June 30,</u>	
2019	\$ 158,649
2020	43,718
2021	30,594
2022	45,940
2023	49,960
Thereafter	24,827

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

B. Other Postemployment Benefits (OPEB)

The Authority sponsors a single-employer defined benefit health and death benefit plan, the Brownsville Energy Authority's defined benefit post-retirement medical plan.

Plan Description

The Board of Directors has the authority to establish the benefit provisions and may amend them as necessary. Coverage under the plan includes health benefits and death benefits. The plan provides medical, prescription and death benefits to eligible retirees and their spouses.

Any employee retiring after age 62 with at least 15 years of service has the option to maintain health insurance after they retire (including subsidized beneficial coverage), until they reach age 65. For anyone retiring at age 62, the Authority pays 100% of individual coverage and 0% of dependent coverage before age 65. In addition, the plan provides \$25,000 in post-retirement death benefits to retirees until they reach age 65.

Annual OPEB Cost and Net OPEB Obligation

Changes in System's Net OPEB Liability. Changes in the System's net OPEB liability measured at June 30, 2019 and June 30, 2018 are detailed in the following tables. Table 1A shows the net OPEB liability as of June 30, 2019 and Table 2A as of June 30, 2018, which is what is reported in the financial statements in accordance with GASB Statement No. 75. Total OPEB Liability was rolled forward to June 30, 2019 in order to be in compliance with GASB Statement No. 75.

Annual OPEB Cost and Net OPEB Obligation

Table 1A

	<u>(a) Total OPEB Liability (TOL)</u>	<u>(b) Plan Fiduciary Net Position</u>	<u>(a) - (b) Net OPEB Liability</u>
Total OPEB Liability (TOL) June 30, 2018	\$ 246,127	\$ -	\$ 246,127
Service Cost	20,422	-	20,422
Interest	9,284	-	9,284
Difference Between Actual and Expected Assumption changes	(21,052)	-	(21,052)
Net Investment Income	-	-	-
Actual System Contributions	-	12,612	(12,612)
Benefit Payments	(12,612)	(12,612)	-
Administrative Expense	-	-	-
Net Changes	<u>770</u>	<u>-</u>	<u>770</u>
Total OPEB Liability(TOL) June 30, 2019	<u>\$ 246,897</u>	<u>\$ -</u>	<u>\$ 246,897</u>

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Table 2A

	<u>(a) Total OPEB Liability (TOL)</u>	<u>(b) Plan Fiduciary Net Position</u>	<u>(a) - (b) Net OPEB Liability</u>
Total OPEB Liability (TOL) June 30, 2017	\$ 251,008	\$ -	\$ 251,008
Service Cost	14,486	-	14,486
Interest	9,167	-	9,167
Difference Between Actual and Expected	-	-	-
Assumption changes	-	-	-
Net Investment Income	-	28,534	(28,534)
Actual System Contributions	-	-	-
Benefit Payments	(28,534)	(28,534)	-
Administrative Expense	-	-	-
Net Changes	(4,881)	-	(4,881)
Total OPEB Liability(TOL) June 30, 2018	<u>\$ 246,127</u>	<u>\$ -</u>	<u>\$ 246,127</u>

Actuarial Methods and Assumptions

The valuation was based on information provided by the Utility as of July 1, 2019 and only those not frozen in the defined benefit plan.

Plan Membership

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Number of Participants		
Actives (with medical coverage)	40	42
Retirees (with medical coverage)	3	5
Total Participants	<u>43</u>	<u>47</u>
Annual Projected Payroll	\$ 44,059	\$ 41,140
Average Projected Earnings	\$ 1,762,342	\$ 1,727,898

Benefits Provided

Employees retiring after age 62 with at least 15 years of service has the option to maintain health insurance after they retire (including subsidized beneficial coverage), until they reach age 65. For anyone retiring at age 62, the Authority pays 100% of individual coverage and 0% of dependent coverage before age 65. In addition, the plan provides \$25,000 in post-retirement death benefits to retirees until they reach age 65.

Actuarial assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

BROWNSVILLE ENERGY AUTHORITY
BROWNSVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

Salary increases	3.00%
Health Trend	Per-Capita claims cost are projected to increase at an initial rate of 8.0% with annual decline until an ultimate rate of 5.0% is achieved in 2024.
Actuarial Cost Method	Entry age normal

Mortality rates were based on the RP-2014 annuity for healthy males and RP-2014 annuity for healthy females.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period ending July 1, 2019.

Discount rate

The discount rate used to measure the total OPEB liability was 3.50 percent. The projection of cash flows used to determine the discount rate assumed that the Authority's contributions will be made at rates equal to the actuarially determined contribution rates.

Sensitivity of Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following represents the Net OPEB Liability calculated using the stated health care cost trend assumption, as well as what the OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage-point lower or 1-percentage point higher than the assumed trend rate:

	1% Decrease 7.0% decreasing to 4%	Current 8.0% decreasing to 5%	1% Increase 9.0% decreasing to 6%
June 30, 2019			
Total OPEB Liability	\$ 217,053	\$ 246,897	\$ 282,963
Plan Fiduciary Net Position	-	-	-
Net OPEB Liability	217,053	246,897	282,963

	1% Decrease 7.0% decreasing to 4%	Current 8.0% decreasing to 5%	1% Increase 9.0% decreasing to 6%
June 30, 2018			
Total OPEB Liability	\$ 222,297	\$ 246,127	\$ 274,502
Plan Fiduciary Net Position	-	-	-
Net OPEB Liability	222,297	246,127	274,502

Sensitivity of Net OPEB Liability to Changes in the Discount Rate

The following represents the Net OPEB Liability calculated using the stated discount rate, as well as what the Net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1-percentage point higher than the current rate:

BROWNSVILLE ENERGY AUTHORITY
BROWNSVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

June 30, 2019	1% Decrease 2.50%	Current 3.50%	1% increase 4.50%
Net OPEB Liability	\$ 265,514	\$ 246,897	\$ 228,879
Plan Fiduciary Net Position	-	-	-
Net OPEB Liability	<u>265,514</u>	<u>246,897</u>	<u>228,879</u>

June 30, 2018	1% Decrease 2.87%	Current 3.87%	1% increase 4.87%
Net OPEB Liability	\$ 261,450	\$ 246,127	\$ 231,243
Plan Fiduciary Net Position	-	-	-
Net OPEB Liability	<u>261,450</u>	<u>246,127</u>	<u>231,243</u>

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended June 30, 2019 and 2018, the System recognized OPEB expense of \$26,554 and \$23,653. At June 30, 2019 and 2018, the System reported deferred outflows of resources related to OPEB liability from the following sources:

	<u>June 30, 2019</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 16,988
Change of assumptions	3,815	-
Total	<u>\$ 3,815</u>	<u>\$ 16,988</u>

	<u>June 30, 2018</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Change of assumptions	-	-
Total	<u>\$ -</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows as of the fiscal year ending June 30, 2019 and 2018

BROWNSVILLE ENERGY AUTHORITY
BROWNSVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

Year ending June 30,	Amortized
2020	(3,151)
2021	(3,151)
2022	(3,151)
2023	(3,151)
2024	(569)
Thereafter	-

Year ending June 30,	Amortized
2019	-
2020	-
2021	-
2022	-
2023	-
Thereafter	-

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to discount, trend rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

Payment of Benefits. Benefits are recorded when the participant has met all of the Plan requirements to receive a benefit. At June 30, 2019 no benefits were payable and not paid.

Administrative Expenses. Qualified Plan administrative expenses are paid by the Plan. During the year ended June 30, 2019 administrative expenses paid were \$0.

C. Concentration and Credit Risk

The Authority had one customer for the years ended June 30, 2019 and 2018 that accounted for 32.39% and 30.74%, respectively, of the total operating revenues within the Gas Department.

D. Power Contract

The Authority has a power contract with the Tennessee Valley Authority (TVA) whereby the Authority purchases all its electric power from TVA and is subject to certain restrictions and conditions as provided for in the power contract. Such restrictions include, but are not limited to, prohibitions against furnishing, advancing, lending, pledging or otherwise diverting Authority funds, revenues or property to other operations of the municipality and the purchase or payment of, or providing security for indebtedness on other obligations applicable to such other operations.

E. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended June 30, 2019 and 2018, the Authority purchased commercial insurance for all of the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in the amount of coverage.

REQUIRED SUPPLEMENTARY INFORMATION

BROWNSVILLE ENERGY AUTHORITY
SCHEDULE OF CHANGES IN NET POSITION LIABILITY AND RELATED
RATIOS BASED UPON PARTICIPATION IN THE GOVERNMENTAL PLAN OF
CENTRAL SERVICE ASSOCIATION
Plan Years Ending October 1,

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability				
Service cost	\$ 141,078	\$ 134,565	\$ 146,181	\$ 137,728
Interest	972,282	921,757	877,884	828,891
Changes in benefit terms	80,748	-	-	-
Differences between actual and expected experience	(176,522)	171,496	132,501	248,295
Benefit payments, including refunds of employee contributions	(551,927)	(636,122)	(539,859)	(507,087)
Other Charges	101,051	81,488	69,785	-
Net change in total pension liability	566,710	673,184	686,492	707,827
Total pension liability - beginning	<u>14,024,624</u>	<u>13,351,440</u>	<u>12,664,948</u>	<u>11,957,121</u>
Total pension liability - ending (a)	<u>14,591,334</u>	<u>14,024,624</u>	<u>13,351,440</u>	<u>12,664,948</u>
 Plan fiduciary net position				
Contributions - employer	479,563	519,200	430,555	467,559
Contributions - employee	58,420	60,900	52,387	53,583
Net investment income	724,206	1,039,010	794,310	78,962
Benefit payments, including refunds of employee contributions	(551,927)	(636,122)	(539,859)	(507,087)
Administrative expense	-	-	-	(41)
Net change in plan fiduciary net position	710,262	982,988	737,393	92,976
Plan fiduciary net position - beginning	<u>11,143,770</u>	<u>10,160,782</u>	<u>9,423,389</u>	<u>9,330,413</u>
Plan fiduciary net position - ending (b)	<u>11,854,032</u>	<u>11,143,770</u>	<u>10,160,782</u>	<u>9,423,389</u>
 Net pension liability ending (a) - (b)	\$ 2,737,302	\$ 2,880,854	\$ 3,190,658	\$ 3,241,559
 Plan fiduciary net position as a percentage of total pension liability	81.24%	79.46%	76.10%	74.41%
 Covered employee payroll	\$ 2,038,865	\$ 1,954,132	\$ 1,931,822	\$ 1,935,648
 Net pension liability as a percentage of covered employee payroll	134.26%	147.42%	165.16%	167.47%

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

BROWNSVILLE ENERGY AUTHORITY
SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION IN THE
GOVERNMENTAL PLAN OF CENTRAL SERVICE ASSOCIATION
For the Years Ended June 30,

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 479,563	\$ 479,336	\$ 479,216	\$ 435,692	\$ 423,737
Contributions in relation to the actuarially determined contribution	<u>448,294</u>	<u>435,692</u>	<u>435,692</u>	<u>430,555</u>	<u>467,559</u>
Contribution deficiency (excess)	<u>\$ 31,269</u>	<u>\$ 43,644</u>	<u>\$ 43,524</u>	<u>\$ 5,137</u>	<u>\$ (43,822)</u>
Covered employee payroll	\$ 2,038,627	\$ 2,019,901	\$ 1,931,830	\$ 1,931,822	\$ 1,935,648
Contributions as a percentage of covered employee payroll	21.99%	21.57%	22.55%	22.29%	24.16%

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

BROWNSVILLE ENERGY AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE
GOVERNMENTAL PLAN OF CENTRAL SERVICE ASSOCIATION
For the Year Ended June 30, 2019

Valuation date: Actuarially determined contribution rates for the year ended June 30, 2019, were calculated based on the October 1, 2018 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Individual Entry Age Normal Cost Method
Amortization method	Level dollar, closed
Remaining amortization period	5 years
Salary increases	3.0 percent
Investment rate of return	7.0 percent
Assumed Retirement age	Earlier of age 62 with 30 years or age 65 with 5 years of service
Mortality	RP-2000 Fully Generational with Scale AA
Cost of living adjustments	1.5 percent
Asset Valuation	5-year smoothed within 90% to 110% of market value

See independent auditor's report.

BROWNSVILLE ENERGY AUTHORITY
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
For the Years Ended June 30,

Total OPEB Liability	2019
Service cost	\$ 20,423
Interest	9,283
Changes of benefit terms	-
Differences between expected and actual experience	(21,052)
Changes of assumptions	4,728
Benefits Payments and Refunds	(12,612)
Net Change in Total OPEB Liability	770
Total OPEB Liability - beginning	246,127
Total OPEB Liability - ending (a)	\$ 246,897
Covered Employee Payroll	\$ 1,762,342
Net OPEB Liability as a % of covered-employee payroll	14.0%

These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years which information is available.

See independent auditor's report.

**BROWNSVILLE ENERGY AUTHORITY
SCHEDULE OF NOTES TO OPEB REQUIRED SUPPLEMENTARY
INFORMATION**

For the Year Ended June 30, 2019

Notes to OPEB Required Supplementary Information

Valuation Date : Actuarially determined contribution rates for 2019 were calculated based on the June 30, 2019 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actual cost method:	Entry age normal - level percent of pay	
Mortality:	RP-2014 Adjusted to 2006 total dataset headcount-weighted mortality with MP 2018.	
Turnover:	None	
Retirement rates:	<u>Age</u>	<u>Rate of retirement</u>
	62 & 15 Years of service	50%
	63-64 & 15 Years of service	5%
	65+	100%
Salary Increases	3.0%	
Utilization:	100.0%	
Discount rate:	The discount rate used to measure the total OPEB liability was 3.50 percent. Because the plan is unfunded, the plan's projected benefits are discounted back using rates equivalent to Aa 20-year municipal bonds. The GO Bond Buyer index was used to approximate those yields as of June 30, 2019.	
Valuation of assets:	N/A	
Per Capita Claims:	Claims were developed by adjusting the underlying medical premiums for the ages of retirees compared to the underlying active populations. The adjustment was done using the morbidity adjustments in Chart 5 from the 2013 Society of Actuaries Study. " Health Care Costs from Birth to Death".	
Health Care Cost Trend Rate:	Per-capita claims cost are projected to increase at an initial rate of 8.0% with annual decline until an ultimate rate of 5.0% is achieved in 2024.	
Marriage:	50% of active participants are assumed to be married and wives are assumed to be 3 years younger than husbands.	
Death Benefits:	The employer provides \$25,000 in post-retirement death benefits to retirees until age 65.	
Health Benefits:		
Eligibility:	Any employee retiring after age 62 with at least 15 years of service with Brownsville Energy Authority, currently has the option to maintain health insurance after they retire (including subsidized beneficial coverage), until they reach age 65.	
Benefits:	For anyone retiring at age 62, Authority pays 100% of individual coverage and 0% of dependent coverage before age 65.	

SUPPLEMENTARY AND OTHER INFORMATION SECTION

BROWNSVILLE ENERGY AUTHORITY
ELECTRIC FUND
SCHEDULE OF OPERATING REVENUES AND EXPENSES
For The Years Ended June 30,

	2019		2018	
	Actual	Percent	Actual	Percent
Operating revenues:				
Charges for sales and services:				
Residential sales	\$ 5,532,831	31.27	\$ 5,517,636	31.40
Small lighting and power sales	1,649,844	9.32	1,617,047	9.20
Large lighting and power sales	9,719,230	54.92	9,655,149	54.95
Street and athletic lighting sales	117,183	0.66	116,602	0.66
Outdoor lighting	242,977	1.38	237,229	1.35
Uncollectible accounts	(39,282)	(0.21)	(49,206)	(0.29)
Total charges for sales and services	<u>17,222,783</u>	<u>97.34</u>	<u>17,094,457</u>	<u>97.27</u>
Other revenues:				
Forfeited discounts	123,248	0.72	123,069	0.73
Miscellaneous service revenue	15,069	-	8,132	-
Rent from electric property	131,494	0.76	123,103	0.72
Other electric revenue	<u>202,929</u>	<u>1.18</u>	<u>221,537</u>	<u>1.28</u>
Total other revenues	<u>472,740</u>	<u>2.66</u>	<u>475,841</u>	<u>2.73</u>
Total operating revenues	<u>\$ 17,695,523</u>	<u>100.00</u>	<u>\$ 17,570,298</u>	<u>100.00</u>
Operating expenses:				
Cost of sales and services:				
Purchased power	<u>\$ 14,291,149</u>	<u>80.76</u>	<u>\$ 14,319,239</u>	<u>81.50</u>
Operations expenses:				
Distribution expenses:				
Supervision and engineering	79,951	0.45	74,398	0.42
Station expense	11,333	0.06	16,663	0.09
Overhead line expense	40,795	0.23	46,913	0.27
Underground line expense	149	-	1,715	0.01
Street lighting and signal system	12,724	0.07	44,144	0.25
Meter expense	48,022	0.27	54,854	0.31
Customer installations expense	-	-	207	-
Miscellaneous	75,857	0.43	66,641	0.38
Rents	<u>9,053</u>	<u>0.05</u>	<u>9,270</u>	<u>0.05</u>
Total distribution expenses	<u>277,884</u>	<u>1.56</u>	<u>314,805</u>	<u>1.78</u>

See independent auditor's report.

BROWNSVILLE ENERGY AUTHORITY
ELECTRIC FUND
SCHEDULE OF OPERATING REVENUES AND EXPENSES
For The Years Ended June 30,

	2019		2018	
	Actual	Percent	Actual	Percent
Operating expenses				
Customer accounts expenses:				
Meter reading expense	\$ 71,260	0.40	\$ 72,888	0.41
Customer records and collection	190,791	1.08	187,002	1.06
Total customer accounts expenses	<u>262,051</u>	<u>1.48</u>	<u>259,890</u>	<u>1.47</u>
Customer service and information expenses:				
Promotional and selling expense	12,818	0.07	6,802	0.04
Informational instructions	18,707	0.11	18,787	0.11
Total customer service and information expenses	<u>31,525</u>	<u>0.18</u>	<u>25,589</u>	<u>0.15</u>
Sales expenses:				
Miscellaneous	33	-	(220)	-
Total sales expenses	<u>33</u>	<u>-</u>	<u>(220)</u>	<u>-</u>
Administrative expenses:				
Salaries	43,467	0.25	43,576	0.25
Office supplies and expense	42,225	0.24	37,581	0.21
Outside services employed	29,374	0.17	31,912	0.18
Insurance	65,154	0.37	59,721	0.34
Employee pension and benefits	352,094	1.99	313,276	1.78
Miscellaneous	47,974	0.27	62,019	0.35
Total administrative expenses	<u>580,288</u>	<u>3.29</u>	<u>548,085</u>	<u>3.11</u>
Total operations expenses	<u>1,151,781</u>	<u>6.51</u>	<u>1,148,149</u>	<u>6.51</u>
Maintenance expenses:				
Distribution expenses:				
Supervision and engineering	66,155	0.37	66,938	0.38
Substation	14,983	0.08	13,721	0.08
Overhead lines	54,675	0.31	55,052	0.31
Tree trimming	90,321	0.51	124,069	0.71
Underground lines	4,170	-	69	-
Line transformers	8,028	-	6,876	0.04
Outdoor lighting	7,822	-	36,432	0.21
General plant	7,929	0.04	15,456	0.09
Meters	-	-	-	-
Total distribution expenses	<u>254,083</u>	<u>1.31</u>	<u>\$ 318,613</u>	<u>1.82</u>
Total operations and maintenance	<u>1,405,864</u>	<u>7.94</u>	<u>1,466,762</u>	<u>8.35</u>
In lieu of taxes	436,181	2.46	441,516	2.51
Depreciation	562,914	3.18	559,405	3.18
Total operating expenses	<u>\$ 16,696,108</u>	<u>94.34</u>	<u>\$ 16,786,922</u>	<u>95.54</u>

See independent auditor's report.

BROWNSVILLE ENERGY AUTHORITY
GAS FUND
SCHEDULE OF OPERATING REVENUES AND EXPENSES
For The Years Ended June 30,

	2019		2018	
	Actual	Percent	Actual	Percent
Operating revenues:				
Charges for sales and services:				
Natural gas:				
Residential sales	\$ 1,731,441	29.65	\$ 1,759,471	33.57
Commercial sales	2,995,339	51.29	2,757,400	52.61
Propane:				
Residential sales	727,338	12.46	608,920	11.62
Commercial sales	313,764	5.37	278,782	5.32
Vehicle and direct	-	-	373	0.01
Uncollectible accounts	<u>(8,637)</u>	<u>(0.15)</u>	<u>(8,691)</u>	<u>(0.17)</u>
Total charges for sales and services	<u>5,759,245</u>	<u>98.62</u>	<u>5,396,255</u>	<u>102.96</u>
Other revenue:				
Natural gas:				
Forfeited discounts	26,977	0.46	28,278	0.54
Miscellaneous	2,207	0.04	(234,230)	(4.47)
Propane:				
Forfeited discounts	4,610	0.08	4,705	0.09
Rental - propane tanks	46,137	0.79	46,010	0.88
Miscellaneous	<u>519</u>	<u>0.01</u>	<u>254</u>	<u>-</u>
Total other revenue	<u>80,450</u>	<u>1.38</u>	<u>(154,983)</u>	<u>(2.96)</u>
Total operating revenues	<u>\$ 5,839,695</u>	<u>100.00</u>	<u>\$ 5,241,272</u>	<u>100.00</u>
Operating expenses:				
Cost of sales and services:				
Purchased gas - natural	\$ 3,117,850	53.39	\$ 2,967,330	56.61
Purchased gas - propane	<u>662,483</u>	<u>11.34</u>	<u>614,679</u>	<u>11.73</u>
Total cost of sales and services	<u>3,780,333</u>	<u>64.73</u>	<u>3,582,009</u>	<u>68.34</u>
Operations expenses:				
System operations:				
Natural gas:				
Distribution systems labor	200,290	3.43	198,092	3.78
Operations standby	12,847	0.22	12,564	0.24
Mapping salaries	13,094	0.22	12,664	0.24
Meter testing	2,279	0.04	16,400	0.31
Materials and supplies	65,295	1.12	77,838	1.49
Equipment operation	36,770	0.63	37,750	0.72

See independent auditor's report.

BROWNSVILLE ENERGY AUTHORITY
GAS FUND
SCHEDULE OF OPERATING REVENUES AND EXPENSES
For The Years Ended June 30,

	2019		2018	
	Actual	Percent	Actual	Percent
Operating expenses:				
Propane:				
Distribution systems labor	\$ 75,914	1.30	\$ 79,478	1.52
Mapping salaries	6,972	0.12	7,882	0.15
Materials and supplies	14,942	0.26	25,484	0.49
Telemetry	5,167	0.09	1,824	0.03
Equipment operation	<u>20,209</u>	<u>0.35</u>	<u>26,437</u>	<u>0.50</u>
Total system operations	<u>453,779</u>	<u>7.78</u>	<u>496,413</u>	<u>9.47</u>
Consumers' accounting and collecting:				
Natural gas:				
Meter reading, resetting and collecting	<u>182,375</u>	<u>3.12</u>	<u>187,340</u>	<u>3.57</u>
Administrative expenses:				
Natural gas:				
Salaries	132,699	2.27	127,514	2.43
Office expense	40,918	0.70	37,646	0.72
Professional fees	41,146	0.70	49,340	0.94
Insurance	205,921	3.53	205,304	3.92
Rent	28,517	0.49	28,517	0.54
Employee benefits	177,547	3.04	147,552	2.82
General expense	16,177	0.28	10,366	0.20
Propane:				
Salaries	22,778	0.39	21,795	0.42
Office expense	4,938	-	4,554	0.09
Professional fees	2,736	0.05	2,816	0.05
Insurance	22,412	0.38	22,519	0.43
Employee benefits	7,473	0.13	7,666	0.15
General expense	297	0.01	867	0.02
Rent	<u>6,336</u>	<u>0.11</u>	<u>6,341</u>	<u>0.12</u>
Total administrative expense	<u>709,895</u>	<u>12.08</u>	<u>672,797</u>	<u>12.85</u>
Total operations expenses	<u>1,346,049</u>	<u>22.98</u>	<u>1,356,550</u>	<u>25.89</u>
In lieu of taxes	<u>189,578</u>	<u>3.25</u>	<u>183,295</u>	<u>3.50</u>
Depreciation	<u>339,053</u>	<u>5.81</u>	<u>284,934</u>	<u>5.44</u>
Total operating expenses	<u>\$ 5,655,013</u>	<u>96.77</u>	<u>\$ 5,406,788</u>	<u>103.17</u>

See independent auditor's report.

BROWNSVILLE ENERGY AUTHORITY
WATER AND SEWER FUND
SCHEDULE OF OPERATING REVENUES AND EXPENSES
For The Years Ended June 30,

	2019		2018	
	Actual	Percent		Percent
Operating revenues:				
Charges for sales and services:				
Water department:				
Residential sales	\$ 836,262	27.37	\$ 856,438	27.18
Commercial sales	500,477	16.38	520,745	16.54
Resale water	50,506	1.65	57,966	1.84
Sewer department:				
Residential sales	887,260	29.03	881,506	27.99
Commercial sales	631,035	20.65	665,365	21.13
Uncollectible accounts	(6,569)	(0.21)	(8,539)	(0.27)
Total charges for sales and services	2,898,971	94.87	2,973,481	94.41
Other revenue:				
Water department:				
Forfeited discounts	17,971	0.59	18,285	0.58
Miscellaneous	48,511	1.59	51,013	1.62
Sewer department:				
Forfeited discounts	20,164	0.66	20,528	0.65
Miscellaneous	70,230	2.30	86,005	2.73
Total other revenue	156,876	5.14	175,831	5.58
Total operating revenues	\$ 3,055,847	100.01	\$ 3,149,312	99.99
Operating expenses:				
Operations expenses:				
System operations:				
Water department:				
Power for pumping	\$ 194,088	6.35	\$ 201,200	6.39
Treatment plant expense	104,187	3.41	84,648	2.69
Analysis and testing	12,910	0.42	19,276	0.61
Distribution systems labor	196,893	6.44	183,353	5.82
Operations standby	15,628	0.51	15,660	0.50
Mapping salaries	7,899	0.26	7,639	0.24
Materials and supplies	72,488	2.37	95,484	3.03
Telemetry	3,882	0.13	200	0.01
Mapping	5,725	0.19	5,857	0.19
Equipment operation	12,922	0.42	13,149	0.42
Sewer department:				
Power for pumping	209,293	6.85	182,013	5.78

See independent auditor's report.

BROWNSVILLE ENERGY AUTHORITY
WATER AND SEWER FUND
SCHEDULE OF OPERATING REVENUES AND EXPENSES
For The Years Ended June 30,

	2019		2018	
	Actual	Percent	Actual	Percent
Operating expenses:				
Treatment plant expense	\$ 116,159	3.80	\$ 115,739	3.68
Analysis and testing	8,958	0.29	15,285	0.49
Lagoon expense	52,614	1.72	42,456	1.35
Distribution systems labor	159,200	5.21	147,011	4.67
Operations standby	11,779	0.39	11,107	0.35
Mapping salaries	2,949	0.10	2,852	0.09
Materials and supplies	85,718	2.81	91,674	2.91
Telemetry	3,941	0.13	165	0.01
Mapping	4,372	0.14	4,473	0.14
Equipment operation	<u>25,655</u>	<u>0.84</u>	<u>25,636</u>	<u>0.81</u>
Total system operations	<u>1,307,260</u>	<u>42.78</u>	<u>1,264,877</u>	<u>40.18</u>
 Consumers' accounting and collecting:				
Water department:				
Meter reading, resetting and collecting	130,302	4.26	129,333	4.11
Sewer department:				
Meter reading, resetting and collecting	<u>55,540</u>	<u>1.82</u>	<u>55,545</u>	<u>1.76</u>
Total consumers' accounting and collecting	<u>185,842</u>	<u>6.08</u>	<u>184,878</u>	<u>5.87</u>
 Administrative expenses:				
Water department:				
Salaries	93,226	3.05	90,113	2.86
Office expense	38,147	1.25	35,322	1.12
Professional fees	20,444	0.67	21,404	0.68
Insurance	182,847	5.98	179,210	5.69
Rent	14,258	0.47	14,258	0.45
Employee benefits	157,291	5.15	129,810	4.12
General expense	7,629	0.25	7,596	0.24
Sewer department:				
Salaries	84,631	2.77	82,487	2.62
Office expense	29,204	0.96	26,988	0.86
Professional fees	26,306	0.86	34,520	1.10
Insurance	144,761	4.74	144,465	4.59
Rent	14,258	0.47	14,258	0.45
Employee benefits	\$ 121,636	3.98	\$ 98,709	3.13
General expense	<u>4,680</u>	<u>0.15</u>	<u>4,821</u>	<u>0.15</u>
Total administrative expenses	<u>939,318</u>	<u>30.75</u>	<u>883,961</u>	<u>28.06</u>
 Total operations expenses	<u>2,432,420</u>	<u>79.61</u>	<u>2,333,716</u>	<u>74.11</u>
 In lieu of taxes	<u>46,368</u>	<u>1.52</u>	<u>41,435</u>	<u>1.32</u>
Depreciation	<u>539,127</u>	<u>17.64</u>	<u>526,476</u>	<u>16.72</u>
 Total operating expenses	<u>\$ 3,017,915</u>	<u>98.77</u>	<u>\$ 2,901,627</u>	<u>92.15</u>

See independent auditor's report.

BROWNSVILLE ENERGY AUTHORITY
SCHEDULE OF LONG-TERM DEBT
June 30, 2019

Year Ended June 30,	Electric Division				Water and Sewer Division				Total Requirements		
	Revenue Bonds, Series 2009		Notes Payable STEMC		State Revolving Loan		Revenue Bonds, Series 2016		Principal	Interest	Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest			
2020	-	-	18,350	-	220,752	11,880	55,113	33,865	294,215	45,745	339,960
2021	-	-	18,349	-	225,864	6,768	56,819	32,158	301,032	38,926	339,958
2022	-	-	-	-	172,824	1,656	58,483	30,494	231,307	32,150	263,457
2023	-	-	-	-	-	-	60,196	28,782	60,196	28,782	88,978
2024	-	-	-	-	-	-	61,884	27,093	61,884	27,093	88,977
2025	-	-	-	-	-	-	63,770	25,207	63,770	25,207	88,977
2026	-	-	-	-	-	-	837,111	23,340	837,111	23,340	860,451
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,699</u>	<u>\$ -</u>	<u>\$ 619,440</u>	<u>\$ 20,304</u>	<u>\$ 1,193,376</u>	<u>\$ 200,939</u>	<u>\$ 1,849,515</u>	<u>\$ 221,243</u>	<u>\$ 2,070,758</u>

See independent auditor's report.

BROWNSVILLE ENERGY AUTHORITY
SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE

June 30, 2019

Description of Indebtness	Original amount of issue	Interest rate	Date of issue	Last maturity date	Outstanding 7/1/2018	Issued during period	Paid and/or matured during period	Refunded during period	Outstanding 6/30/2019
Bonds Payable									
Water & Sewer Revenue Bonds - Series 2016	\$ 1,350,000	2.850%	June 30, 2016	June 1, 2026	\$ 1,247,371	\$ -	\$ 53,635	\$ -	\$ 1,193,736
Total Bonds Payable	\$ 1,350,000				\$ 1,247,371	\$ -	\$ 53,635	\$ -	\$ 1,193,736
Notes Payable									
State Revolving Fund - 2011	\$ 3,730,000	2.290%	December 8, 1999	March 1, 2022	\$ 835,198	-	\$ 215,758	-	\$ 619,440
Southwest Tennessee Electric Membership Corporation	\$ 183,497	0.000%	December 1, 2012	December 1, 2021	\$ 55,049	\$ -	\$ 18,350	\$ -	\$ 36,699
Total Notes Payable	\$ 3,913,497				\$ 890,247	\$ -	\$ 234,108	\$ -	\$ 656,139

See independent auditor's report

**BROWNSVILLE ENERGY AUTHORITY
SCHEDULE OF INVESTMENTS**

June 30, 2019

<u>Description</u>	<u>Percentage of Ownership</u>	<u>Cost</u>	<u>Fair Value</u>
Gas division:			
Investment in gas operations of The Tennergy Corporation	14.8%	<u>\$ 52,000</u>	<u>\$ 1,083,088</u>

See independent auditor's report.

BROWNSVILLE ENERGY AUTHORITY
ELECTRIC RATES IN FORCE
June 30, 2019

Residential rate schedule

Customer charge - per delivery point per month	\$	11.64
Energy charge - cents per kWh		0.09236

General power schedule

Class 40, 49

Customer charge - per delivery point per month	\$	13.24
Energy charge - cents per kWh		0.10531

Class 50, 57

Customer charge - per delivery point per month	\$	15.36
Demand charges - per kW per month		
First 50 Kw		No Charge
Excess over 50 kW		14.40
Energy charge - cents per kWh		
First 15,000 kWh per month		0.10771
Additional kWh per month		0.06390

Class 54, 55, 59

Customer charge - per delivery point per month	\$	153.61
Demand charges - per kW per month		
First 1,000 kW		14.72
Excess over 1,000 kW		15.31
Energy charge - cents per kWh		0.06413

Outdoor Lighting Service

Customer charge - per delivery point per month	\$	2.50
Energy charge - cents per kWh		0.06826

Class 02

Customer charge - per delivery point per month	\$	1,500.00
Administrative charge		350.00
Demand charges - per kW per month onpeak		16.71
Demand charges - per kW per month offpeak		4.03
Energy charge - onpeak - cents per kWh		0.04855
Energy charge - offpeak - cents per kWh - first 425 HUD		0.04249
Energy charge - offpeak - cents per kWh - next 195 HUD		0.03376
Energy charge - offpeak - cents per kWh - next 620 HUD		0.00973

See independent auditor's report.

BROWNSVILLE ENERGY AUTHORITY
GAS RATES IN FORCE
June 30, 2019

(Based on monthly consumption)

<u>Quantity</u>	<u>Gas</u> (per 100 cubic feet)	
	<u>Residential Inside</u>	<u>Residential Outside</u>
First 100 cubic feet	\$ 0.07966	\$ 1.78150
Next 500 cubic feet	\$ 0.07966	\$ 0.92150
Next 2,400 cubic feet	0.66080	0.70430
Over 3,000 cubic feet	0.62470	0.64650
Minimum charge per month October - April	4.78	6.39
	<u>Commercial Inside</u>	<u>Commercial Outside</u>
First 1,000 cubic feet	\$ 0.79660	\$ 0.87750
Next 4,000 cubic feet	0.66960	0.71830
Next 35,000 cubic feet	0.63340	0.61650
Next 60,000 cubic feet	0.60500	0.54150
Next 900,000 cubic feet	0.60170	0.54040
Over 1,000,000 cubic feet	0.59510	0.53960
Minimum charge per month October - April	7.97	10.08
	<u>Propane</u>	
Rate per gallon	\$ 1.92	

See independent auditor's report.

**BROWNSVILLE ENERGY AUTHORITY
WATER AND SEWER RATES IN FORCE**

June 30, 2019

(Based on monthly consumption)

Quantity	Water			
	(per 100 gallons)			
	Residential Inside	Residential Outside	Commercial Inside	Commercial Outside
First 2,000 gallons	\$ 0.4340	\$ 0.6840	\$ 0.7200	\$ 1.1520
Next 3,000 gallons	0.2800	0.4480	0.3200	0.5090
Next 5,000 gallons	0.2280	0.3650	0.2580	0.4130
Next 10,000 gallons	0.1530	0.2470	0.1750	0.2790
Next 30,000 gallons	0.1340	0.2140	0.1530	0.2470
Next 50,000 gallons	0.1220	0.1960	0.1380	0.2230

The minimum monthly bills shall be determined by the size of the meter in service as follows:

	Residential Inside	Residential Outside	Commercial Inside	Commercial Outside
5/8" Meter	\$ 8.68	\$ 13.68	\$ 14.40	\$ 23.04
1" Meter	18.55	27.83	19.26	28.91
2" Meter	66.28	99.39	68.82	103.22
4" Meter	-	-	152.91	229.38
6" Meter	-	-	305.82	458.73

	Sewer		
	(per 100 gallons)		
	Class 22 Residential Inside	Residential Outside	Class 35 Commercial Inside
First 2,000 gallons	\$ 0.5500	\$ -	\$ 1.0000
All over 2,000 gallons	0.2900	-	0.2900
All	-	-	-
	Class 22 Residential Inside	Residential Outside	Class 35 Commercial Inside
Minimum charges	\$ 11.00	\$ 17.69	\$ 20.00

See independent auditor's report.

BROWNSVILLE ENERGY AUTHORITY
ELECTRIC FUND
PRIOR YEARS' COMPARISON - UNAUDITED
For The Year Ended June 30,

Revenue	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Residential sales	\$ 5,532,831	\$ 5,517,636	\$ 5,451,181	\$ 5,195,511	\$ 5,349,682
Small lighting and power sales	1,649,844	1,617,047	1,630,651	1,581,938	1,610,271
Large lighting and power sales	9,719,230	9,655,149	9,623,926	9,707,164	9,876,755
Street and athletic lighting sales	117,183	116,602	116,461	111,434	103,731
Outdoor lighting	242,977	237,229	235,943	226,869	225,431
Other operating	472,740	475,841	460,210	455,774	410,873
Net increase (decrease) in the fair value of investments	-	-	(5,140)	(43,849)	(36,890)
Interest income	19,989	10,315	8,987	6,102	6,415
	<u>17,754,794</u>	<u>17,629,819</u>	<u>17,522,219</u>	<u>17,240,943</u>	<u>17,546,268</u>
Expense					
Electric power costs	14,291,149	14,319,239	14,362,206	14,298,914	14,612,557
Other operating expenses	1,445,146	1,515,968	1,582,266	1,474,303	1,382,460
Provision for depreciation	562,914	559,405	511,522	498,672	488,808
Taxes and tax equivalent	436,181	441,516	414,927	412,265	400,683
Amortization of bond issue costs	4,510	13,531	13,531	13,531	13,531
Interest expense	3,898	16,094	27,689	38,906	49,488
Amount of acquisition cost	18,350	20,345	20,345	20,345	20,345
	<u>16,762,148</u>	<u>16,886,098</u>	<u>16,932,486</u>	<u>16,756,936</u>	<u>16,967,872</u>
Change in net position	<u>\$ 992,646</u>	<u>\$ 743,721</u>	<u>\$ 589,733</u>	<u>\$ 484,007</u>	<u>\$ 578,396</u>
Financial					
Plant in service (at original cost)	<u>\$ 21,573,694</u>	<u>\$ 21,060,671</u>	<u>\$ 20,549,878</u>	<u>\$ 19,418,830</u>	<u>\$ 19,418,830</u>
Bonds and notes outstanding	<u>\$ 36,699</u>	<u>\$ 342,654</u>	<u>\$ 650,359</u>	<u>\$ 940,871</u>	<u>\$ 1,220,684</u>
Power in use - KWH					
Residential	54,948,998	55,716,910	55,627,488	54,939,995	56,257,672
Small lighting	14,551,119	14,479,612	14,869,575	14,904,325	15,072,107
Large lighting	137,953,765	139,307,691	139,804,139	138,181,649	138,543,627
Street and athletic lighting	1,149,331	1,172,482	1,170,746	1,149,279	1,113,450
Outdoor lighting	2,157,272	2,106,660	2,088,311	2,049,776	1,993,582
Total for own use	<u>74,200</u>	<u>72,692</u>	<u>79,972</u>	<u>82,052</u>	<u>94,212</u>
Total	<u>210,834,685</u>	<u>212,856,047</u>	<u>213,640,231</u>	<u>211,307,076</u>	<u>213,074,650</u>
Number of customers					
Residential	4,116	4,164	4,218	4,241	4,197
Small lighting	1,043	1,004	1,002	992	1,048
Large lighting	88	96	98	89	88
Street and athletic lighting	26	26	25	25	8
Outdoor lighting	59	59	58	60	57
	<u>5,332</u>	<u>5,349</u>	<u>5,401</u>	<u>5,407</u>	<u>5,398</u>
Line Loss	<u>1.97%</u>	<u>2.67%</u>	<u>2.15%</u>	<u>2.53%</u>	<u>2.53%</u>

See independent auditor's report.

BROWNSVILLE ENERGY AUTHORITY
GAS FUND
PRIOR YEARS' COMPARISON - UNAUDITED
For The Year Ended June 30,

Revenue	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Residential	\$ 2,450,142	\$ 2,359,700	\$ 1,638,192	\$ 1,881,570	\$ 2,830,932
Commercial	3,309,103	3,036,182	2,716,886	2,473,011	3,461,989
Vehicle and direct	-	373	886	1,006	36
Other operating	80,450	(154,983)	72,176	77,833	91,774
Net increase (decrease) in the fair value of investments	18,538	-	52,226	1,709	(184,851)
Dividend and interest income	54,575	27,763	21,675	224,073	97,495
Capital contributions	<u>26,451</u>	<u>24,757</u>	<u>31,333</u>	<u>42,218</u>	<u>30,064</u>
	<u>5,939,259</u>	<u>5,293,792</u>	<u>4,533,374</u>	<u>4,701,420</u>	<u>6,327,439</u>
Expense					
Gas costs	3,780,333	3,582,009	2,936,684	2,515,645	4,401,073
Operating expenses	1,346,049	1,356,550	1,386,143	1,320,255	1,321,488
Provision for depreciation	339,053	284,934	321,261	318,272	310,870
Taxes and tax equivalent	<u>189,578</u>	<u>183,295</u>	<u>132,686</u>	<u>146,356</u>	<u>199,590</u>
	<u>5,655,013</u>	<u>5,406,788</u>	<u>4,776,774</u>	<u>4,300,528</u>	<u>6,233,021</u>
 Change in net position	 <u>\$ 284,246</u>	 <u>\$ (112,996)</u>	 <u>\$ (243,400)</u>	 <u>\$ 400,892</u>	 <u>\$ 94,418</u>
Financial					
Plant in service (at original cost)	<u>\$ 15,441,927</u>	<u>\$ 14,807,684</u>	<u>\$ 12,409,864</u>	<u>\$ 12,132,659</u>	<u>\$ 11,809,737</u>
 Usage - MCF	 <u>892,016</u>	 <u>863,065</u>	 <u>734,000</u>	 <u>752,696</u>	 <u>887,393</u>
 Number of gas customers as of February 28,	 <u>5,394</u>	 <u>5,419</u>	 <u>5,406</u>	 <u>5,421</u>	 <u>5,395</u>
 Line loss	 <u>0.63%</u>	 <u>2.62%</u>	 <u>0.68%</u>	 <u>1.05%</u>	 <u>1.12%</u>

See independent auditor's report.

BROWNSVILLE ENERGY AUTHORITY
WATER AND SEWER FUND
PRIOR YEARS' COMPARISON - UNAUDITED
For The Year Ended June 30,

Revenue	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Residential	\$ 1,716,953	\$ 1,729,405	\$ 1,709,425	\$ 1,605,064	\$ 1,452,179
Commercial	1,131,512	1,186,110	1,159,321	1,082,512	930,754
Resale	50,506	57,966	42,111	40,113	48,915
Other operating	156,876	175,831	172,162	156,308	145,237
Interest income	5,733	1,520	1,212	740	723
Capital contributions	16,561	5,208	1,001,407	44,052	499,979
	<u>3,078,141</u>	<u>3,156,040</u>	<u>4,085,638</u>	<u>2,928,789</u>	<u>3,077,787</u>
Expense					
Operating expenses	2,432,420	2,333,716	2,259,384	2,245,562	2,214,287
Provision for depreciation	539,127	526,476	508,168	578,490	566,313
Taxes and tax equivalent	46,368	41,435	42,363	43,121	40,329
Amortization of bond issue costs	1,576	1,576	1,576	6,450	1,290
Interest expense	52,198	58,608	64,650	49,616	54,920
	<u>3,071,689</u>	<u>2,961,811</u>	<u>2,876,141</u>	<u>2,923,239</u>	<u>2,877,139</u>
 Change in net position	 <u>\$ 6,452</u>	 <u>\$ 194,229</u>	 <u>\$ 1,209,497</u>	 <u>\$ 5,550</u>	 <u>\$ 200,648</u>
Financial					
Plant in service (at original cost)	<u>\$ 27,452,054</u>	<u>\$ 27,338,985</u>	<u>\$ 27,235,640</u>	<u>\$ 25,875,731</u>	<u>\$ 25,632,279</u>
 Bonds and notes outstanding	 <u>\$ 1,812,816</u>	 <u>\$ 2,238,231</u>	 <u>\$ 2,345,229</u>	 <u>\$ 2,602,188</u>	 <u>\$ 1,861,191</u>
Usage - Gallons (000)					
Water	<u>461,564</u>	<u>483,593</u>	<u>487,480</u>	<u>483,965</u>	<u>472,797</u>
Number of customers					
Water	<u>5,339</u>	<u>5,356</u>	<u>5,401</u>	<u>5,405</u>	<u>5,395</u>
Sewer	<u>4,779</u>	<u>4,805</u>	<u>4,851</u>	<u>4,847</u>	<u>4,803</u>
 Line loss - Water	 <u>24.35%</u>	 <u>17.91%</u>	 <u>21.69%</u>	 <u>18.04%</u>	 <u>16.89%</u>

See independent auditor's report.

**BROWNSVILLE ENERGY AUTHORITY
WATER LOSS SCHEDULE - UNAUDITED
For the Year Ended June 30, 2019**



**AWWA Free Water Audit Software:
Reporting Worksheet**

WAS v5.0
American Water Works Association.
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? Click to access definition
+ Click to add a comment

Water Audit Report for: **Brownsville Energy Authority (0000080)**
Reporting Year: **2019** **7/2018 - 6/2019**

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below

Master Meter and Supply Error Adjustments

WATER SUPPLIED

----- Enter grading in column 'E' and 'J' ----->

Volume from own sources: + ? 9 595.178 MG/Yr
Water imported: + ? n/a 0.000 MG/Yr
Water exported: + ? 9 36.076 MG/Yr

Pcnt: Value:
-2.13% MG/Yr
MG/Yr
-0.50% MG/Yr

Enter negative % or value for under-registration
Enter positive % or value for over-registration

WATER SUPPLIED: 571.874 MG/Yr

AUTHORIZED CONSUMPTION

Billed metered: + ? 9 425.488 MG/Yr
Billed unmetered: + ? n/a 0.000 MG/Yr
Unbilled metered: + ? n/a 0.000 MG/Yr
Unbilled unmetered: + ? 7.148 MG/Yr

Click here: ?
for help using option
buttons below

Pcnt: Value:
1.25% MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION: 432.636 MG/Yr

Use buttons to select
percentage of water
supplied
OR
value

WATER LOSSES (Water Supplied - Authorized Consumption)

139.237 MG/Yr

Apparent Losses

Unauthorized consumption: + ? 1.430 MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies: + ? 7 8.683 MG/Yr
Systematic data handling errors: + ? 1.064 MG/Yr

Pcnt: Value:
0.25% MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: 11.177 MG/Yr

2.00% MG/Yr
0.25% MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: ? **128.061 MG/Yr**

WATER LOSSES: 139.237 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 146.386 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains: + ? 9 144.0 miles
Number of active AND inactive service connections: + ? 9 5,500
Service connection density: ? 38 conn./mile main

Are customer meters typically located at the curbside or property line? Yes

Average length of customer service line: + ? (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure: + ? 9 65.0 psi

COST DATA

Total annual cost of operating water system: + ? 9 \$1,423,095 \$/Year
Customer retail unit cost (applied to Apparent Losses): + ? 9 \$6.65 \$/1000 gallons (US)
Variable production cost (applied to Real Losses): + ? 9 \$315.54 \$/Million gallons Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 83 out of 100 *****

See independent auditor's report.

BROWNSVILLE ENERGY AUTHORITY
 WATER LOSS SCHEDULE - UNAUDITED
 For the Year Ended June 30, 2019



AWWA Free Water Audit Software:
System Attributes and Performance Indicators

WAS v5.0

American Water Works Association.
 Copyright © 2014, All Rights Reserved.

Water Audit Report for: **Brownsville Energy Authority (0000080)**
 Reporting Year: **2019** **7/2018 - 6/2019**

***** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 83 out of 100 *****

System Attributes:

	Apparent Losses:	11.177	MG/Yr
+	Real Losses:	128.061	MG/Yr
=	Water Losses:	139.237	MG/Yr

? Unavoidable Annual Real Losses (UARL): 38.06 MG/Yr

Annual cost of Apparent Losses: \$74,326

Annual cost of Real Losses: \$40,408 Valued at **Variable Production Cost**

Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial:	{	Non-revenue water as percent by volume of Water Supplied:	25.6%	
		Non-revenue water as percent by cost of operating system:	8.2%	Real Losses valued at Variable Production Cost

Operational Efficiency:	{	Apparent Losses per service connection per day:	5.57	gallons/connection/day
		Real Losses per service connection per day:	63.79	gallons/connection/day
		Real Losses per length of main per day*:	N/A	
		Real Losses per service connection per day per psi pressure:	0.98	gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): 128.06 million gallons/year

? Infrastructure Leakage Index (ILI) [CARL/UARL]: 3.37

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

BROWNSVILLE ENERGY AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
For the Year Ended June 30, 2019

<u>Federal Grantor/ Pass-Through Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
State Financial Assistance:			
State of Tennessee			
Department of Economic and Community Development			
Site Development Grant		58565	\$ <u>52,397</u>
Total State Financial Assistance			\$ <u>52,397</u>

Basis of Presentation:

Note 1: The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of Brownsville Energy Authority under programs of the federal and state governments for the year ended June 30, 2019. The schedule is presented using the accrual basis of accounting.

Note 2: Indirect Cost Rate: Brownsville Energy Authority has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION



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

Board of Directors
Brownsville Energy Authority

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 Brownsville Energy Authority (the Authority), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents, and have issued our report thereon dated December 12, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Brownsville Energy Authority'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 Brownsville Energy Authority'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
December 12, 2019

**BROWNSVILLE ENERGY AUTHORITY
BROWNSVILLE, TENNESSEE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS – CURRENT AND PRIOR YEARS
June 30, 2019 and 2018**

FINANCIAL STATEMENT FINDINGS – CURRENT YEAR

None reported.

FINANCIAL STATEMENT FINDINGS – PRIOR YEAR

None reported.

APPENDIX D-1

**SERIES 2020 WATER AND SEWER BONDS
BOND COUNSEL OPINION**

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(Proposed Form of Bond Counsel Opinion)

(Closing Date)

Brownsville Energy Authority
Brownsville, Tennessee

Robert W. Baird & Co., Inc.
Milwaukee, Wisconsin

Re: Brownsville Energy Authority (Tennessee) Water and Sewer System Revenue Bonds, Series 2020

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by Brownsville Energy Authority (the "Issuer") of \$2,300,000 Water and Sewer System Revenue Bonds, Series 2020, dated the date hereof (the "Bonds"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

1. The Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and constitute valid and binding obligations of the Issuer.
2. The resolution of the Board of Directors of the Issuer authorizing the Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with its terms.
3. The principal of and interest on the Bonds are payable solely from and secured by a pledge of revenues to be derived from the operation of the natural Water and Sewer System of the Issuer, subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring said system. We express no opinion as to the sufficiency of such revenues for the payment of principal of and interest on the Bonds.
4. Interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals under the Code. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The Issuer has covenanted to comply with all such requirements. Except as set forth in this Paragraph 4 and Paragraph 6 below, we express no opinion regarding other federal tax consequences arising with respect to the Bonds.
5. Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) Tennessee excise taxes on all or a portion of the interest on any of the Bonds during the period such Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (b) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership doing business in the State of Tennessee.

6. The Bonds are “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code.

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

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

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

Yours truly,

APPENDIX D-2

**SERIES 2020 ELECTRIC BONDS
BOND COUNSEL OPINION**

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(Proposed Form of Bond Counsel Opinion)

(Closing Date)

Brownsville Energy Authority
Brownsville, Tennessee

Robert W. Baird & Co., Inc.
Milwaukee, Wisconsin

Re: Brownsville Energy Authority (Tennessee) Electric System Revenue Bonds, Series 2020

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by Brownsville Energy Authority (the “Issuer”) of \$1,250,000 Electric System Revenue Bonds, Series 2020, dated the date hereof (the “Bonds”). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

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

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

3. The principal of and interest on the Bonds are payable solely from and secured by a pledge of revenues to be derived from the operation of the natural Electric System of the Issuer, subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring said system. We express no opinion as to the sufficiency of such revenues for the payment of principal of and interest on the Bonds.

4. Interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals under the Code. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The Issuer has covenanted to comply with all such requirements. Except as set forth in this Paragraph 4 and Paragraph 6 below, we express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

6. The Bonds are “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code.

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

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

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

APPENDIX E-1

**SERIES 2020 WATER AND SEWER BONDS
FORM OF CONTINUING DISCLOSURE AGREEMENT**

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BROWNSVILLE ENERGY AUTHORITY

\$2,300,000 WATER AND SEWER SYSTEM REVENUE BONDS, SERIES 2020

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “Disclosure Agreement”) is executed and delivered this 9th day of September, 2020 by the Brownsville Energy Authority (the “Issuer”) in connection with the issuance of its \$2,300,000 Water and Sewer System Revenue Bonds, Series 2020 (the “Bonds”). The Issuer hereby covenants and agrees as follows:

SECTION 1. Purpose of and Authority for the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Registered Owners and the Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Rule 15c2-12(b)(5) (the “Rule”) of the Securities and Exchange Commission (the “SEC”). This Disclosure Agreement is being executed and delivered by the Issuer under the authority of the Water and Sewer Resolution.

SECTION 2. Definitions. In addition to the terms otherwise defined herein, the following capitalized terms shall have the following meanings:

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

“Fiscal Year” shall mean any period of twelve consecutive months adopted by the Issuer as its fiscal year for financial reporting purposes, and shall initially mean the period beginning on July 1 of each calendar year and ending June 30 of the following calendar year.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Official Statement” shall mean the Official Statement of the Issuer, dated August 25, 2020, relating to the Bonds.

“Participating Underwriters” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Registered Owner” means any person who is identified as a holder of Bonds on the registration records maintained by or on behalf of the Issuer with respect to the Bonds.

“Resolution” shall mean the bond resolution authorizing the Bonds adopted by the Board of Directors of the Issuer on July 7, 2020.

“State” shall mean the State of Tennessee.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository to which continuing disclosure information shall be sent pursuant to State law. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Continuing Disclosure. The Issuer hereby agrees to provide or cause to be provided the information set forth below:

(a) *Annual Financial Information.* For Fiscal Years ending on or after June 30, 2020, the Issuer shall provide annual financial information within 12 months after the end of the Fiscal Year. The annual financial information shall consist of the Issuer’s audited financial statements, prepared in accordance with generally accepted

accounting principles, or, if the Issuer's audited financial statements are not available, then the Issuer's unaudited financial statements.

(b) *Event Notices.* The Issuer will provide notice of the following events relating to the Bonds in a timely manner, not in excess of ten business days after the occurrence of the event:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
- (vii) Modifications to rights of Bondholders, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) Defeasances (including disclosure as to whether the Bonds have been defeased to their maturity or to a preceding call date);
- (x) Release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (xiii) The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (xv) Incurrence of a financial obligation* of the Issuer, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Issuer, any of which affect security holders, if material; and
- (xvi) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Issuer, any of which reflect financial difficulties.

* As used in subsections (xv) and (xvi), the term "financial obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term

“financial obligation” does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

(c) *Notice of Failure to File Annual Financial Information.* The Issuer will provide timely notice of its failure to provide the annual financial information described in subsection (a) above within the time frame prescribed by subsection (a).

(d) *Notice of Amendment of Disclosure Agreement.* The Issuer will provide timely notice of an amendment to this Disclosure Agreement pursuant to the terms of Section 5(a) below.

SECTION 4. Methods of Providing Information.

(a) All disclosures required by Section 3 shall be transmitted to the MSRB using the MSRB's Electronic Municipal Market Access System ("EMMA") or by such other method as may be subsequently determined by the MSRB.

(b) Information shall be provided to the MSRB in an electronic format as prescribed by the MSRB, either directly, or indirectly through an indenture trustee or a designated dissemination agent.

(c) All transmissions to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

(d) Any required disclosure may be incorporated by reference to other documents filed with the MSRB in the manner required by subsection (a) above. The Issuer shall clearly identify each such other document so incorporated by reference.

(e) All disclosures transmitted to the MSRB hereunder shall be simultaneously transmitted to any State Repository.

SECTION 5. Amendment.

This Disclosure Agreement may be amended or modified so long as: (i) any such amendments are not violative of any rule or regulation of the SEC or MSRB, or other federal or state regulatory body; (ii) the amendment 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 the obligated person, or type of business conducted; (iii) this Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (iv) the amendment does not materially impair the interests of Beneficial Owners or Registered Owners, as determined either by parties unaffiliated with the Issuer (such as bond counsel), or by approving vote of the Beneficial Owners and Registered Owners pursuant to the terms of the Water and Sewer Resolution at the time of the amendment.

(b) In the event of any amendment or modification to the financial information required to be filed pursuant to Section 3(a) above, the Issuer shall describe such amendment in the next filing pursuant to Section 3(a), 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 being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, the next filing pursuant to Section 3(a) or 3(b), as applicable, shall 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.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 7. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any disclosure required hereunder, in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future disclosure.

SECTION 8. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Registered Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 9. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, any Registered Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed a default under the Water and Sewer Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of any party to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 10. Governing Law. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State.

SECTION 11. Severability. In case any one or more of the provisions of this Disclosure Agreement shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Disclosure Agreement, but this Disclosure Agreement shall be construed and enforced as if such illegal or invalid provision had not been contained herein.

BROWNSVILLE ENERGY AUTHORITY

By: _____
General Manager

APPENDIX E-2

**SERIES 2020 ELECTRIC BONDS
FORM OF CONTINUING DISCLOSURE AGREEMENT**

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BROWNSVILLE ENERGY AUTHORITY

\$1,250,000 ELECTRIC SYSTEM REVENUE BONDS, SERIES 2020

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “Disclosure Agreement”) is executed and delivered this 9th day of September, 2020 by the Brownsville Energy Authority (the “Issuer”) in connection with the issuance of its \$1,250,000 Electric System Revenue Bonds, Series 2020 (the “Bonds”). The Issuer hereby covenants and agrees as follows:

SECTION 1. Purpose of and Authority for the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Registered Owners and the Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Rule 15c2-12(b)(5) (the “Rule”) of the Securities and Exchange Commission (the “SEC”). This Disclosure Agreement is being executed and delivered by the Issuer under the authority of the Electric Resolution.

SECTION 2. Definitions. In addition to the terms otherwise defined herein, the following capitalized terms shall have the following meanings:

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

“Fiscal Year” shall mean any period of twelve consecutive months adopted by the Issuer as its fiscal year for financial reporting purposes, and shall initially mean the period beginning on July 1 of each calendar year and ending June 30 of the following calendar year.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Official Statement” shall mean the Official Statement of the Issuer, dated August 25, 2020, relating to the Bonds.

“Participating Underwriters” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Registered Owner” means any person who is identified as a holder of Bonds on the registration records maintained by or on behalf of the Issuer with respect to the Bonds.

“Resolution” shall mean the bond resolution authorizing the Bonds adopted by the Board of Directors of the Issuer on July 7, 2020.

“State” shall mean the State of Tennessee.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository to which continuing disclosure information shall be sent pursuant to State law. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Continuing Disclosure. The Issuer hereby agrees to provide or cause to be provided the information set forth below:

(a) *Annual Financial Information.* For Fiscal Years ending on or after June 30, 2020, the Issuer shall provide annual financial information within 12 months after the end of the Fiscal Year. The annual financial information shall consist of the Issuer’s audited financial statements, prepared in accordance with generally accepted

accounting principles, or, if the Issuer's audited financial statements are not available, then the Issuer's unaudited financial statements.

(b) *Event Notices.* The Issuer will provide notice of the following events relating to the Bonds in a timely manner, not in excess of ten business days after the occurrence of the event:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
- (vii) Modifications to rights of Bondholders, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) Defeasances (including disclosure as to whether the Bonds have been defeased to their maturity or to a preceding call date);
- (x) Release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (xiii) The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (xv) Incurrence of a financial obligation* of the Issuer, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Issuer, any of which affect security holders, if material; and
- (xvi) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Issuer, any of which reflect financial difficulties.

* As used in subsections (xv) and (xvi), the term "financial obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term

“financial obligation” does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

(c) *Notice of Failure to File Annual Financial Information.* The Issuer will provide timely notice of its failure to provide the annual financial information described in subsection (a) above within the time frame prescribed by subsection (a).

(d) *Notice of Amendment of Disclosure Agreement.* The Issuer will provide timely notice of an amendment to this Disclosure Agreement pursuant to the terms of Section 5(a) below.

SECTION 4. Methods of Providing Information.

(a) All disclosures required by Section 3 shall be transmitted to the MSRB using the MSRB's Electronic Municipal Market Access System ("EMMA") or by such other method as may be subsequently determined by the MSRB.

(b) Information shall be provided to the MSRB in an electronic format as prescribed by the MSRB, either directly, or indirectly through an indenture trustee or a designated dissemination agent.

(c) All transmissions to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

(d) Any required disclosure may be incorporated by reference to other documents filed with the MSRB in the manner required by subsection (a) above. The Issuer shall clearly identify each such other document so incorporated by reference.

(e) All disclosures transmitted to the MSRB hereunder shall be simultaneously transmitted to any State Repository.

SECTION 5. Amendment.

This Disclosure Agreement may be amended or modified so long as: (i) any such amendments are not violative of any rule or regulation of the SEC or MSRB, or other federal or state regulatory body; (ii) the amendment 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 the obligated person, or type of business conducted; (iii) this Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (iv) the amendment does not materially impair the interests of Beneficial Owners or Registered Owners, as determined either by parties unaffiliated with the Issuer (such as bond counsel), or by approving vote of the Beneficial Owners and Registered Owners pursuant to the terms of the Electric Resolution at the time of the amendment.

(b) In the event of any amendment or modification to the financial information required to be filed pursuant to Section 3(a) above, the Issuer shall describe such amendment in the next filing pursuant to Section 3(a), 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 being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, the next filing pursuant to Section 3(a) or 3(b), as applicable, shall 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.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 7. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any disclosure required hereunder, in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future disclosure.

SECTION 8. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Registered Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 9. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, any Registered Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed a default under the Electric Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of any party to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 10. Governing Law. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State.

SECTION 11. Severability. In case any one or more of the provisions of this Disclosure Agreement shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Disclosure Agreement, but this Disclosure Agreement shall be construed and enforced as if such illegal or invalid provision had not been contained herein.

BROWNSVILLE ENERGY AUTHORITY

By: _____
General Manager

APPENDIX F
SPECIMEN MUNICIPAL BOND INSURANCE POLICY
(Series 2020 Water and Sewer Bonds)

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

