

PRELIMINARY OFFICIAL STATEMENT

\$2,100,000*

BOLIVAR ENERGY AUTHORITY

Electric System Revenue Bonds, Series 2017

OFFERED FOR SALE NOT SOONER THAN

Wednesday, March 1, 2017 at 10:15 A.M. E.S.T
Through the Facilities of *PARITY*[®]
and at the offices of
Cumberland Securities Company, Inc.
Knoxville, Tennessee

Cumberland Securities Company, Inc.
Financial Advisor

February 22, 2017

* Preliminary, subject to change.

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 22, 2017

NEW ISSUE
Book-Entry-Only

Rating: Moody's: "A1"
(See "MISCELLANEOUS-Rating")

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

\$2,100,000*
BOLIVAR ENERGY AUTHORITY
Electric System Revenue Bonds, Series 2017

Dated: Date of Issuance (assume March 20, 2017).

Due: May 1 (as shown below)

The \$2,100,000* Electric System Revenue Bonds, Series 2017 (the "Bonds") of the Bolivar Energy Authority (the "Authority") will be issued as fully registered Bonds in denominations of \$5,000 and authorized integral multiples thereof. The Bonds will be issued in book-entry-only form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as the nominee for DTC, principal and interest with respect to the Bonds shall be payable to Cede & Co., as nominee for DTC, which will, in turn, remit such principal and interest to the DTC participants for subsequent disbursements to the beneficial owners of the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of \$5,000 or integral multiples thereof and will bear interest at the annual rates as shown below. Interest on the Bonds is payable semi-annually from the date thereof commencing on November 1, 2017 and thereafter on each May 1 and November 1 by check or draft mailed to the owners thereof as shown on the books and records of Regions Bank, Nashville, Tennessee, the registration and paying agent (the "Registration Agent"). In the event of discontinuation of the book-entry system, principal of and interest on the Bonds are payable at the designated corporate trust office of the Registration Agent.

The Bonds are payable from and secured by a pledge of revenues to be derived from the operation of the Authority's Electric System (the "System"), on a parity and equality of lien with the Outstanding Parity Bonds (as defined herein), subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System.

Bonds maturing May 1, 2022 and thereafter are subject to redemption prior to maturity on or after May 1, 2021.

Due		Interest			Due		Interest		
(May 1)	Amount*	Rate	Yield	CUSIPs**	(May 1)	Amount*	Rate	Yield	CUSIPs**
2018	\$ 100,000				2028	\$ 100,000			
2019	100,000				2029	100,000			
2020	100,000				2030	100,000			
2021	100,000				2031	105,000			
2022	100,000				2032	105,000			
2023	100,000				2033	110,000			
2024	100,000				2034	115,000			
2025	100,000				2035	115,000			
2026	100,000				2036	120,000			
2027	100,000				2037	130,000			

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

The Bonds are offered when, as and if issued by the Authority, subject to the approval of the legality thereof by Glankler Brown, PLLC, Memphis, Tennessee, bond counsel, whose opinion will be delivered with the Bonds. Certain legal matters in connection with the Bonds are subject to the approval of W. Boyette Denton, Esq., Bolivar, Tennessee, as counsel to the Authority. It is expected that the Bonds will be available for delivery through the facilities of DTC, New York, New York, on or about March __, 2017.

Cumberland Securities Company, Inc.
Financial Advisor

March __, 2017

* Preliminary, subject to change.

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

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

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

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

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

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

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

BOLIVAR ENERGY AUTHORITY
PRESIDENT AND CHIEF EXECUTIVE OFFICER

John Fortune

BOARD OF DIRECTORS

Helen Johnson - Chairperson
Todd Lowe - Director
Earnest Jones – Director
Margaret Whinton – Vice Chairperson
Frank Wilhite - Director

Tammy Foote - Recording Secretary

COUNSEL TO THE AUTHORITY

W. Boyette Denton, Esq.
Bolivar, Tennessee

REGISTRATION AND PAYING AGENT

Regions Bank
Nashville, Tennessee

BOND COUNSEL

Glankler Brown, PLLC
Memphis, Tennessee

FINANCIAL ADVISOR

Cumberland Securities Company, Inc.
Knoxville, Tennessee

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SUMMARY STATEMENT

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

The Issuer	Bolivar Energy Authority (the "Authority" or "Issuer"). See APPENDIX B contained herein.
Securities Offered.....	\$2,100,000* Electric System Revenue Bonds, Series 2017 (the "Bonds") of the Authority will be dated the date of issuance (assume March 20, 2017) and maturing May 1, 2018 through May 1, 2037, inclusive. See the section entitled "SECURITIES OFFERED" for additional information.
Security	The Bonds shall be payable solely from and secured by a pledge of the Net Available Revenues on a parity and equality of lien with the Outstanding Parity Bonds and any Parity Bonds hereafter issued. The punctual payment of principal of and premium, if any, and interest on the Bonds, the Outstanding Parity Bonds and any Parity Bonds hereafter issued shall be secured equally and ratably by the Net Available Revenues without priority by reason of series, number or time of sale or delivery. The Bonds do not constitute a debt of the City of Bolivar, Tennessee, the State of Tennessee, or any political subdivision, agency or instrumentality thereof, or municipal corporation therein, other than the Authority, and no holder of the Bonds shall have recourse to the taxing power of any such entities. The Authority has no taxing power.
Purpose	The Bonds are being issued for the purpose of providing funds (i) to pay certain costs of acquiring, constructing and equipping additions and improvements to the System, (ii) to fund a debt service reserve fund and/or debt service reserve fund surety, if required, for the Bonds, and (iii) to pay the costs associated with the sale and issuance of the Bonds.
Optional Redemption	The Bonds are subject to redemption, in whole or in part, at a price of par plus accrued interest on May 1, 2021, in whole or in part, and at anytime thereafter at the price of par plus accrued interest to the redemption date. See the section entitled "SECURITIES OFFERED-Optional Redemption."
Tax Matters.....	In the opinion of bond counsel, interest on the Bonds will be excluded from gross income for federal income tax purposes and will not be an item of tax preference for purposes of the alternative minimum tax on individuals and corporations and will be exempt from certain taxation in Tennessee, all as more fully described in the section entitled "LEGAL MATTERS - Tax Matters" and APPENDIX A (form of legal opinion) included herein.
Bank Qualification	The Bonds have been designated as "qualified tax-exempt obligations" within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended. See the section entitled "LEGAL MATTERS - Tax Matters" for additional information.
Rating.....	Moody's: "A1". See the section entitled "MISCELLANEOUS-Ratings" for more information.
Registration and Paying Agent	Regions Bank, Nashville, Tennessee (the "Registration Agent").
Bond Counsel	Glankler Brown, PLLC, Memphis, Tennessee.

* Preliminary, subject to change.

Financial AdvisorCumberland Securities Company, Inc., Knoxville, Tennessee. See the section entitled “MISCELLANEOUS - Financial Advisor; Related Parties; Others” herein.

Underwriter.....

Book-Entry-Only System.....The Bonds will be issued under the Book-Entry System. For additional information, see the section entitled “BASIC DOCUMENTATION – Book-Entry-Only System.”

General.....The Bonds are being issued in full compliance with applicable provisions of the Bolivar Energy Authority Act, Chapter 130 of the 2006 Private Acts of the State of Tennessee (the “Act”). See “SECURITIES OFFERED” herein. The Bonds will be issued with CUSIP numbers and delivered through the facilities of The Depository Trust Company, New York, New York.

DisclosureIn accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as amended, the Authority will provide the Municipal Securities Rulemaking Board (“MSRB”) through the operation of the Electronic Municipal Market Access system (“EMMA”) and the State Information Depository (“SID”) established in Tennessee, if any, annual financial statements and other pertinent credit information, including the Comprehensive Annual Financial Reports. For additional information, see the section entitled “MISCELLANEOUS - Continuing Disclosure” for additional information.

Other Information.....The information in the *Preliminary Official Statement* is deemed “final” within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as of the date which appears on the cover hereof except for the omission of certain pricing and other information allowed to be omitted pursuant to Rule 15c2-12. For more information concerning the Authority or the *Preliminary Official Statement*, contact Mr. John Fortune, President and Chief Executive Officer, 815 Tennessee Street, Bolivar, Tennessee 38008, Telephone: 731-658-5257 or the Authority's Financial Advisor, Cumberland Securities Company, Inc., Telephone: 865-988-2663. Additional information regarding BiDCOMP™/PARITY® may be obtained from PARITY®, 1359 Broadway - 2nd Floor, New York, NY 10018, Telephone: (800) 850.7422.

NET ASSETS
Summary of Changes In Net Assets
(In Thousands)
For the Fiscal Year Ended June 30

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Beginning Net Assets	\$14,215,116	\$13,661,046	\$14,029,858	\$15,062,723	\$13,775,510
Revenues	26,913,754	27,147,530	28,645,824	28,205,019	26,950,953
Expenditures	26,492,523	27,227,887	27,177,670	26,501,190	26,145,688
Non-Operating Revenue (Expense)	(676,578)	826,155	-	-	-
Change in Net Assets	122,508	(446,043)	1,032,865	2,224,203	472,351
Prior Period Adjustments	-	(152,495)	-	(3,373,271)	946,784
Ending Net Assets	<u>\$13,661,046</u>	<u>\$13,888,663</u>	<u>\$15,062,723</u>	<u>\$13,913,655</u>	<u>\$15,194,645</u>

Source: Financial Statements with Report of Certified Public Accountants.

SUMMARY NOTICE OF SALE
\$2,100,000*

BOLIVAR ENERGY AUTHORITY
Electric System Revenue Bonds, Series 2017

NOTICE IS HEREBY GIVEN that the President of the Bolivar Energy Authority (the “Authority”) will receive electronic or written bids until **10:15 a.m. E.S.T. on Wednesday, March 1, 2017** for the purchase of all, but not less than all, of the Authority's \$2,100,000* Electric System Revenue Bonds, Series 2017 (the “Bonds”). Electronic bids must be submitted through **PARITY®** as described in the “Detailed Notice of Sale”. In case of written bids, bids will be received by the Authority’s Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the Authority reserves the right to adjust the principal amount and maturity amounts of the Bonds being offered as set forth in the Detailed Notice of Sale, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the **PARITY®** System not later than 9:00 a.m., Eastern Standard Time, on the day of the bid opening. Such notice will specify the revised principal amounts, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated upon at least forty-eight hours notice via Bloomberg News Service and/or the **PARITY®** System.

Electronic bids must be submitted through **PARITY®** via the BiDComp Competitive Bidding Service as described in the Detailed Notice of Sale and no other provider of electronic bidding services will be accepted. For the purposes of the bidding process, both written and electronic, the time maintained by **PARITY®** shall constitute the official time with respect to all bids. To the extent any instructions or directions set forth in **PARITY®** conflict with the terms of the Detailed Notice of Sale and this Summary Notice of Sale, the Detailed Notice of Sale and this Summary Notice of Sale shall prevail.

The Bonds will be issued in book-entry form (except as otherwise described in the Detailed Notice of Sale) and dated the date of issuance (assume March 20, 2017). The Bonds will mature on May 1 in the years 2018 through 2037, inclusive, with term bonds optional, with interest payable on May 1 and November 1 of each year, commencing November 1, 2017, and will be subject to redemption prior to maturity on or after May 1, 2021. Bidders must bid not less than ninety-nine percent (99.00%) of par or more than one hundred and twenty-five percent (125%) of par for the Bonds. The approving opinion for the Bonds will be furnished at the expense of the Authority by Glankler Brown, PLLC, Bond Counsel, Memphis, Tennessee. No rate or rates bid for the Bonds shall exceed five percent (5.00%) per annum. Unless bids are rejected, the Bonds will be awarded by the President of the Authority on the sale date to the bidder whose bid results in the lowest true interest rate on the Bonds.

Additional information, including the PRELIMINARY OFFICIAL STATEMENT in near final form and the Detailed Notice of Sale, may be obtained through www.prospectushub.com or from the Authority’s Financial Advisor, Cumberland Securities Company, Inc., Telephone: 865-988-2663. Further information regarding **PARITY®** may be obtained from i-Deal LLC, 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone: 212-849-5000.

BOLIVAR ENERGY AUTHORITY
By: John Fortune
President & Chief Executive Officer

* Preliminary, subject to change.

DETAILED NOTICE OF SALE

\$2,100,000*

BOLIVAR ENERGY AUTHORITY Electric System Revenue Bonds, Series 2017

NOTICE IS HEREBY GIVEN that the President of the Bolivar Energy Authority (the “Authority”) will receive electronic or written bids until **10:15 a.m. E.S.T. on Wednesday, March 1, 2017** for the purchase of all, but not less than all, of the Authority's \$2,100,000* Electric System Revenue Bonds, Series 2017 (the “Bonds”). Electronic bids must be submitted through **PARITY®** as described in the “Detailed Notice of Sale.” In case of written bids, bids will be received by the Authority’s Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the Authority reserves the right to adjust the principal amount and maturity amounts of the Bonds being offered as set forth herein, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the **PARITY®** System not later than 9:00 a.m., Eastern Standard Time, on the day of the bid opening. Such notice will specify the revised principal amounts, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated upon at least forty-eight hours notice via Bloomberg News Service and/or the **PARITY®** System.

Description of the Bonds. The Bonds will be issued in fully registered book-entry-only form (except as otherwise described herein) without coupons, be dated the date of issuance, bear interest payable each May 1 and November 1, commencing November 1, 2017, be issued, or reissued upon transfer, in \$5,000 denominations or multiples thereof, as shall be requested by the purchaser or registered owner thereof, as applicable, and will mature (subject to the right of redemption as hereinafter set forth) and be payable as follows:

<u>YEAR</u> <u>(MAY 1)</u>	<u>Amount*</u>	<u>YEAR</u> <u>(MAY 1)</u>	<u>Amount*</u>
2018	\$ 100,000	2028	\$ 100,000
2019	100,000	2029	100,000
2020	100,000	2030	100,000
2021	100,000	2031	105,000
2022	100,000	2032	105,000
2023	100,000	2033	110,000
2024	100,000	2034	115,000
2025	100,000	2035	115,000
2026	100,000	2036	120,000
2027	100,000	2037	130,000

Bank Qualification. The Bonds will be designated as “qualified tax-exempt obligations” within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended.

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

* Preliminary, subject to change.

the Bonds in the principal amount of \$5,000 for the Bonds and any integral multiple of \$5,000, with transfers of beneficial ownership interest effected on the records of DTC participants and, if necessary, in turn by DTC pursuant to rules and procedures established by DTC and its participants. The successful bidder, as a condition to delivery of the Bonds, shall be required to deposit the bond certificates with DTC, registered in the name of Cede & Co., nominee of DTC. The Bonds will be payable, at maturity or upon earlier redemption to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC, and transfer of principal and interest payments (as applicable) to beneficial owners of the Bonds by Participants of DTC, will be the responsibility of such participants and of the nominees of beneficial owners. The Authority will not be responsible or liable for such transfer of payments or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. Notwithstanding the foregoing, if the winning bidder certifies that it intends to hold the Bonds for its own account and has no present intent to re-offer the Bonds, the use of the Book-entry system is not required.

In the event that the book-entry only system for the Bonds is discontinued and a successor securities depository is not appointed by the Authority, Bond Certificates in fully registered form will be delivered to, and registered in the names of, the DTC Participants or such other persons as such DTC participants may specify (which may be the indirect participants or beneficial owners), in authorized denominations of \$5,000 for the Bonds or integral multiples thereof. The ownership of Bonds so delivered shall be registered in registration books to be kept by the Registration Agent (named herein) at its principal corporate trust office, and the Authority and the Registration Agent shall be entitled to treat the registered owners of the Bonds, as their names appear in such registration books as of the appropriate dates, as the owners thereof for all purposes described herein and in the Resolution authorizing the Bonds.

Security Pledged. This Bond is payable solely from and secured by a pledge of revenues to be derived from the operation of the Authority's electric system (the "System") on a parity and complete equality of lien with respect to such revenues with the Authority's Electric System Revenue Bonds, Series 2011A, dated November 15, 2011 and the Electric System Revenue Bonds, Series 2011B (Taxable) dated November 15, 2011 and the Electric System Revenue Refunding Bonds, Series 2016, dated April 1, 2016 (the "Outstanding Parity Bonds"), and any bonds issued hereafter on parity with the Outstanding Parity Bonds and/or the Bonds, subject to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System. As provided in the Resolution, the punctual payment of principal of and interest on the Bonds, the Outstanding Parity Bonds and any other bonds hereafter issued on a parity therewith, shall be secured equally and ratably by said revenues without priority by reason of series, number or time of sale or delivery. The revenues of the Authority are required by law and by the proceedings pursuant to which the Bonds are issued to be fully sufficient to pay the cost of operating, maintaining, repairing and insuring the System, including reserves therefor, and to pay principal of and interest on the Outstanding Parity Bonds and the Bonds promptly as each becomes due and payable. The Authority has covenanted and does hereby covenant that it will fix and impose such rates and charges for the services rendered by the System and will collect and account for sufficient revenues to pay promptly the principal of and interest on the Outstanding Parity Bonds and the Bonds as each becomes due. This Bond and the interest hereon are payable solely from the revenues so pledged to the payment hereof, and this Bond does not constitute a debt of the Authority within the meaning of any statutory limitation. For a more complete statement of the revenues from which and conditions under which the Bonds are payable, a statement of the conditions on which obligations may hereafter be issued on a parity with the Bonds, the general covenants and provisions pursuant to which the Bonds are issued and the terms upon which the Resolution may be modified, reference is hereby made to the Resolution.

A statutory mortgage lien, which is hereby recognized as valid and binding, is created and granted by the Act on the System in favor of the owner or owners of the Bonds the Outstanding Parity Bonds and any bonds hereafter issued on a parity therewith, and the System shall remain subject to such statutory mortgage lien until the payment in full of the principal of and interest on said Bonds.

Purpose. The Bonds are being issued for the purpose of providing funds (i) to pay certain costs of acquiring, constructing and equipping additions and improvements to the System, (ii) to fund a debt service reserve fund and/or debt service reserve fund surety, if required, for the Bonds, and (iii) to pay the costs associated with the sale and issuance of the Bonds.

Optional Redemption. The Bonds maturing on May 1, 2022, and thereafter, will be subject to redemption prior to maturity at the option of the Authority on and after May 1, 2021, in whole or in part, at the redemption price of par plus accrued interest as provided herein.

Term Bond Option; Mandatory Redemption. Bidders shall have the option to designate certain consecutive serial maturities of the Bonds as one or more term bonds (“Term Bonds”) bearing a single interest rate. If the successful bidder for the Bonds designates certain consecutive serial maturities of such Bonds to be combined as one or more Term Bonds as allowed herein, then each Term Bond shall be subject to mandatory sinking fund redemption by the Authority at a redemption price equal to one hundred percent (100%) of the principal amount thereof, together with accrued interest to the date fixed for redemption at the rate stated in the Term Bonds to be redeemed. Each such mandatory sinking fund redemption shall be made on the date on which a consecutive maturity included as part of a Term Bond is payable in accordance with the proposal of the successful bidder for the Bonds and in the amount of the maturing principal installment for the Bonds listed herein for such principal payment date. Term Bonds to be redeemed within a single maturity shall be selected in the manner provided above for optional redemption of Bonds within a single maturity.

Bidding Instructions. The Authority will receive electronic or sealed written bids for the purchase of all, but not less than all, of the Bonds. Bidders for the Bonds are requested to name the interest rate or rates the Bonds are to bear in multiples of one-eighth of one percent and/or one-hundredth of one percent (.01%) or one (1) basis point, but no rate specified shall be in excess of five percent (5.00%) per annum. There will be no limitation on the number of rates of interest that may be specified in a single bid for the Bonds but a single rate shall apply to each single maturity of the Bonds. Bidders must bid not less than ninety-nine percent (99.00%) of par or more than one hundred and twenty-five percent (125%) of par.

Electronic bids must be submitted through **PARITY**[®] via BiDCOMP Competitive Bidding System and no other provider of electronic bidding services will be accepted. Subscription to the i-Deal LLC Dalcomp Division’s BiDCOMP Competitive Bidding System is required in order to submit an electronic bid. The Authority will not confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe. For the purposes of the bidding process, the time as maintained by **PARITY**[®] shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in **PARITY**[®] conflict with the terms of the Detailed Notice of Sale, this Notice shall prevail. An electronic bid made through the facilities of **PARITY**[®] shall be deemed an offer to purchase in response to the Detailed Notice of Sale and shall be binding upon the bidder as if made by a signed, written bid delivered to the Authority. The Authority shall not be responsible for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by **PARITY**[®]. The use of **PARITY**[®] facilities are at the sole risk of the prospective bidders.

For further information regarding **PARITY**[®], potential bidders may contact i-Deal LLC at 1359 Broadway, 2nd Floor, New York, NY 10018, Telephone: 212-849-5000.

In the event of a system malfunction in the electronic bidding process only, bidders may submit bid prior to the established date and time by FACSIMILE transmission sent to the Authority’s Financial Advisor, Cumberland Securities Company, Inc. at 865-988-1863. Any facsimile submission is made at the sole risk of the prospective bidder. The Authority and the Financial Advisor shall not be responsible for confirming receipt of any facsimile bid or for any malfunction relating to the transmission and receipt of such bids.

Separate written bids should be submitted by facsimile to the Authority's Financial Advisor, at 865-988-1863. Written bids must be submitted on the Bid Forms included with the PRELIMINARY OFFICIAL STATEMENT.

The Authority reserves the right to reject all bids for the Bonds and to waive any informalities in the bids accepted. Acceptance or rejection of "Bids for Bonds" for the Bonds will not obligate the Authority to accept or reject "Bids for Bonds".

Unless all bids for the Bonds are rejected, the Bonds will be awarded by the President of the Authority to the bidder whose bid complies with this notice and results in the lowest true interest rate on the Bonds to be calculated as that rate that, when used in computing the present worth of all payments of principal and interest on the Bonds (compounded semi-annually from the date of the Bonds), produces an amount equal to the purchase price of the Bonds exclusive of accrued interest. For purposes of calculating the true interest cost, the principal amount of Term Bonds scheduled for mandatory sinking fund redemption as part of the Term Bond shall be treated as a serial maturity in such year. In the event that two or more bidders offer to purchase the Bonds at the same lowest true interest rate, the President shall determine in his sole discretion which of the bidders shall be awarded the Bonds.

After receipt of the bids, the Authority reserves the right to make adjustments and/or revisions to the Bonds, as described below.

Adjustment and/or Revision. While it is the Authority's intention to sell and issue the approximate par amounts of the Bonds as offered herein, there is no guarantee that adjustment and/or revision may not be necessary in order to properly size the Bonds. Accordingly, the President reserves the right, in his sole discretion, to adjust down the original par amount of the Bonds by up to \$500,000. The principal factor to be considered in making any adjustments is the amount of premium bid for particular maturities. Among other factors the President may (but shall be under no obligation to) consider in sizing the par amounts and individual maturities of the Bonds is the size of individual maturities or sinking fund installments and/or other preferences of the Authority. The maximum adjustment will only occur if a bidder bids the maximum price of 125% of par. Additionally, the President reserves the right to change the dated date of the Bonds.

In the event of any such adjustment and/or revision with respect to the Bonds, no rebidding will be permitted, and the portion of such premium or discount (as may have been bid for the Bonds) shall be adjusted in the same proportion as the amount of such revision in par amount of the Bonds bears to the original par amount of such Bonds offered for sale.

The successful bidder for the Bonds will be tentatively notified by not later than 5:00 p.m. (Eastern Standard Time), on the sale date of the exact revisions and/or adjustments required, if any.

Good Faith Deposit. No good faith check will be required to accompany any bid submitted. The successful bidder shall be required to deliver to the Authority's Financial Advisor (wire transfer or certified check) the amount of up to two percent (2%) of the aggregate principal amount of the Bonds offered for sale which will secure the faithful performance of the terms of the bid. A certified check or wire transfer must be received by the Authority's Financial Advisor no later than the close of business on the day following the competitive sale. A wire transfer may be sent to First Tennessee Bank, ABA Number: 084-000-026 First Tenn Mem, FAO Cumberland Securities Company, Inc., Account No. 0010000117382, for further credit to Suspense Account No. 255000-04.

The good faith deposit shall be applied (without interest) to the purchase price of the Bonds. If the successful bidder should fail to accept or pay for the Bonds when tendered for delivery and payment, the good faith deposit will be retained by the Authority as liquidated damages.

In the event of the failure of the Authority to deliver the Bonds to the purchaser in accordance with the terms of this Notice within forty-five (45) days after the date of the sale, the good-faith deposit will be promptly returned to the purchaser unless the purchaser directs otherwise.

Reoffering Prices; Other Information. The successful bidder must furnish the following information to the Authority to complete the *Official Statement* in final form within two (2) hours after receipt and award of the bid for the Bonds:

1. The offering prices or yields for the Bonds (expressed as a price or yield per maturity, exclusive of any accrued interest, if applicable);
2. Selling compensation (aggregate total anticipated compensation to the underwriter expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields as provided above);
3. The identity of the underwriters if the successful bidder is part of a group or syndicate; and
4. Any other material information necessary to complete the *Official Statement* in final form but not known to the Authority.

In addition, within two hours of the award of the Bonds, the successful bidder shall furnish to the Authority a certificate acceptable to Bond Counsel stating: (i) the reoffering prices (as shown in the bidder's winning bid); (ii) that the successful bidder will make a bona fide public offering of the Bonds at such reoffering prices; and (iii) that the successful bidder reasonably expects that the Bonds (or at least 10% of each maturity of the Bonds) will be sold to the public (excluding bond houses, brokers and other intermediaries) at those reoffering prices.

As a condition to the delivery of the Bonds, the successful bidder will be required to deliver a certificate to the Authority confirming that nothing has come to the bidder's attention that would lead it to believe that its certification with respect to the reoffering prices of the Bonds given in connection with the award of the Bonds is inaccurate, and addressing such other matters as to the reoffering prices of the Bonds as bond counsel may request.

Legal Opinion. The approving opinion of Glankler Brown PLLC, Memphis, Tennessee, Bond Counsel along with other certificates including, but not limited to, a tax certificate and a continuing disclosure certificate dated as of the date of delivery of the Bonds will be furnished to the purchaser at the expense of the Authority. As set forth in the *Preliminary Official Statement*, Bond Counsel's opinion with respect to the Bonds will state that interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal law alternative minimum tax imposed on individuals and corporations. As set forth in the *Preliminary Official Statement*, the owners of the Bonds, however, may be subject to certain additional taxes or tax consequences arising with respect to ownership of the Bonds, reference is hereby made to the *Preliminary Official Statement* and the form of the opinion contained in Appendix A.

Continuing Disclosure. At the time the Bonds are delivered, the Authority will execute a Continuing Disclosure Certificate in which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information relating to the Authority by not later than twelve months after each of the Authority's fiscal years, (the "Annual Report"), and to provide notice of the occurrence of certain enumerated events. The Annual Report (and audited financial statements, if filed separately) will be filed with the Municipal

Securities Rulemaking Board (“MSRB”) and any State Information Depository established in the State of Tennessee (the “SID”). If the Authority is unable to provide the Annual Report to the MSRB and the SID by the date required, notice of each failure will be sent to the MSRB and the SID on or before such date. The specific nature of the information to be contained in the Annual Report or the notices of events will be summarized in the Authority's *Official Statement* to be prepared and distributed in connection with the sale of each series of Bonds.

Delivery of Bonds. Delivery of the Bonds is expected within forty-five (45) days. At least five (5) days notice will be given to the successful bidder. Delivery will be made in book-entry form through the facilities of The Depository Trust Company, New York, New York. Payment for the Bonds must be made in *Federal Funds* or other immediately available funds.

CUSIP Numbers. CUSIP numbers will be assigned to the Bonds at the expense of the Authority. The Authority will assume no obligation for assignment of such numbers or the correctness of such numbers and neither failure to record such numbers on Bonds nor any error with respect thereto shall constitute cause for failure or refusal by the purchaser thereof to accept delivery of and make payment for the Bonds.

Official Statements; Other. The Authority has deemed the PRELIMINARY OFFICIAL STATEMENT to be final as of its date within the meaning of Rule 15c2-12 of the U.S. Securities and Exchange Commission (the “SEC”) except for the omission of certain pricing and other information. The Authority will furnish the successful bidder at the expense of the Authority a reasonable number of copies of *Official Statement* in final form, containing the pricing and other information to be supplied by the successful bidder and to be dated the date of the sale, to be delivered by the successful bidder to the persons to whom such bidder and members of its bidding group initially sell the Bonds. Acceptance of the bid will constitute a contract between the Authority and the successful bidder for the provision of such copies within seven business days of the sale date.

Further Information. Additional information, including the *Preliminary Official Statement*, the Detailed Notice of Sale and the Official Bid Form, may be obtained from the Authority’s Financial Advisor, Cumberland Securities Company, Inc., Telephone: 865-988-2663. Further information regarding **PARITY**[®] may be obtained from i-Deal LLC, 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone: 212-849-5000.

BOLIVAR ENERGY AUTHORITY
By: John Fortune
President & Chief Executive Officer

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BID FORM

John Fortune, President & CEO
 815 Tennessee Street
 Bolivar, Tennessee 38008

March 1, 2017

Dear Mr. Fortune:

For your legally issued, properly executed \$2,100,000* Electric System Revenue Bonds, Series 2017 (the "Bonds") of Bolivar Energy Authority, in all respects as more fully outlined in your Notice of Sale, which by reference are made a part hereof, we will pay you a sum of _____ (\$ _____).

The Bonds shall be dated the date of issuance (assume March 20, 2017) and shall be callable in accordance with the DETAILED NOTICE OF SALE. The Bonds shall mature on May 1 and bear interest at the following rates:

<u>Maturity</u> <u>(May 1)</u>	<u>Amount*</u>	<u>Rate</u>	<u>Maturity</u> <u>(May 1)</u>	<u>Amount*</u>	<u>Rate</u>
2018	\$ 100,000	___	2028	100,000	___
2019	100,000	___	2029	100,000	___
2020	100,000	___	2030	100,000	___
2021	100,000	___	2031	105,000	___
2022	100,000	___	2032	105,000	___
2023	100,000	___	2033	110,000	___
2024	100,000	___	2034	115,000	___
2025	100,000	___	2035	115,000	___
2026	100,000	___	2036	120,000	___
2027	100,000	___	2037	130,000	___

We have the option to designate two or more consecutive serial maturities as term bond maturities as indicated:

- Term Bond 1: Maturities from May 1, 20_____ through May 1, 20_____ @ _____ %.
- Term Bond 2: Maturities from May 1, 20_____ through May 1, 20_____ @ _____ %.
- Term Bond 3: Maturities from May 1, 20_____ through May 1, 20_____ @ _____ %.
- Term Bond 4: Maturities from May 1, 20_____ through May 1, 20_____ @ _____ %.
- Term Bond 5: Maturities from May 1, 20_____ through May 1, 20_____ @ _____ %.
- Term Bond 6: Maturities from May 1, 20_____ through May 1, 20_____ @ _____ %.
- Term Bond 7: Maturities from May 1, 20_____ through May 1, 20_____ @ _____ %.

It is our understanding that the Bonds are offered for sale as "qualified tax-exempt obligations" subject to the final approving opinion of Glankler Brown, PLLC, Bond Counsel, Memphis, Tennessee, whose opinion together with the executed Bonds, will be furnished by the Authority without cost to us.

If our bid is accepted, we agree to provide a good faith deposit for up to 2% of the Bonds on which we have bid by the close of business on the date following the competitive public sale as outlined in the *Detailed Notice of Sale*. Should for any reason we fail to comply with the terms of this bid, this good faith deposit shall be forfeited by us as full liquidated damages. Otherwise, this good faith deposit shall be applied to the purchase price of the Bonds on which we have bid.

Accepted for and on behalf of the
 Bolivar Energy Authority
 this 1st day of March, 2017.

Respectfully submitted,

 John Fortune, President & CEO

Total interest cost from
 March 20, 2017 to final maturity \$ _____
 Less: Premium /plus discount, if any \$ _____
 Net Interest Cost \$ _____
 True Interest Rate %

The computations of net interest cost and true interest rate are for comparison purposes only and are not to be considered as part of this proposal.

* Preliminary, subject to change.

\$2,100,000*
BOLIVAR ENERGY AUTHORITY
Electric System Revenue Bonds, Series 2017

SECURITIES OFFERED

AUTHORITY AND PURPOSE

This *Preliminary Official Statement* which includes the “Summary Statement” and appendices is furnished in connection with the offering by Bolivar Energy Authority (the “Authority” or “Issuer”) of its \$2,100,000 Electric System Revenue Bonds, Series 2017 (the “Bonds”).

The Bonds are authorized to be issued pursuant to the provisions of the Bolivar Energy Authority Act, Chapter 130 of the 2006 Private Acts of the State of Tennessee (the “Act”), and other applicable provisions of law and pursuant to (i) a resolution duly adopted by the Board of Directors (the “Governing Body”) of the Authority on July 26, 2011 (the “Series 2011 Master Resolution”), (ii) a resolution duly adopted by the Governing Body on February 29, 2016 (the “Series 2016 Master Resolution” and together with the Series 2011 Master Resolution, the “Master Resolutions”), and (iii) a resolution authorizing Electric System Revenue Bonds duly adopted by the Governing Body on January 30, 2017 (the “Series 2017 Resolution” and together with the Master Resolution, the “Resolution”).

The Bonds are being issued for the purpose of providing funds (i) to pay certain costs of acquiring, constructing and equipping additions and improvements to the System, (ii) to fund a debt service reserve fund and/or debt service reserve fund surety, if required, for the Bonds, and (iii) to pay the costs associated with the sale and issuance of the Bonds.

The Bonds are being issued on a parity with the Authority’s Outstanding Electric System Revenue Bonds, Series 2011A, and Electric System Revenue Bonds, Series 2011B (Taxable) issued November 15, 2011, and its Outstanding Electric System Revenue Refunding Bonds, Series 2016, issued April 1, 2016 (collectively, the “Outstanding Parity Bonds”)

SOURCES AND USES

The sources and uses of funds in connection with the issuance of the Bonds are estimated below:

Sources of Funds:

Par Amount of Bonds
Original Issue Premium (Discount)
Total Sources of Funds

* Preliminary, subject to change.

Uses of Funds:

Deposit to Construction Fund
Costs of Issuance including the Underwriter Discount
Total Uses of Funds

DESCRIPTION OF THE BONDS

The Bonds will be initially dated and bear interest from the date of issuance (assume March 20, 2017). Interest on the Bonds will be payable semi-annually on May 1 and November 1, commencing November 1, 2017. The Bonds are issuable in registered form only and in \$5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

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

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

SECURITY

The Bonds are payable exclusively from and secured by a pledge of the Net Available Revenues (as defined in the Series 2011 Master Resolution and the Series 2016 Master Resolution) of the Authority's electric distribution system, on a parity and equality of lien with respect to such Net Available Revenues with the Parity Bonds, as defined herein. *The Authority has no taxing power.*

"Net Available Revenues" shall mean the Revenues, excluding any profits or losses on the sale or other disposition in the ordinary course of business, of investments or fixed or capital assets, less Current Expenses.

"Revenues" shall mean all revenues, rentals, earnings and income of the System from whatever source, determined in accordance with generally accepted accounting principles, including all revenues derived from the operation of the System; proceeds from the sale of property; proceeds of insurance and condemnation awards and compensation for damages, to the extent not applied to the payment of the cost of repairs, replacements and improvements; and all

amounts realized from the investment of money in the accounts and funds of the System, including money in any accounts and funds created by this resolution, and resolutions authorizing the Bonds, any Parity Bonds or bonds subordinate to the Bonds and Parity Bonds (excluding any investment earnings from construction or improvement funds created for the deposit of bond proceeds pending use, to the extent such income is applied to the purposes for which the bonds were issued, and funds created to refund any outstanding obligations payable from Revenues of the System) and at the election of the Authority, shall not include any rates, fees, rentals or other charges 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.

"Current Expenses" means and shall include but not be limited to, expenses for ordinary repairs, removals and replacements of the System, salaries and wages, employees' health, hospitalization, pension and retirement expenses, fees for services, materials and supplies, rents, administrative and general expenses (including legal, engineering, accounting and financial advisory fees and expenses and costs of other consulting or technical services not funded with proceeds of bonds, notes or other debt obligations), insurance expenses, taxes and other governmental charges, the imposition or amount of which is not subject to control of the Authority, any payments made by the Authority during any Fiscal Year to purchase electrical power for distribution and sale during or after the end of that Fiscal Year, and other payments made under any electrical power supply contract or commodity swap or other hedging mechanism, and any principal or interest payments made by the Authority during any Fiscal Year on bonds, notes or other obligations, including loan agreements, issued or entered into for the purpose of financing the purchase of electrical power, and to the extent so provided by the resolution authorizing such bonds, notes or obligations and to the extent not inconsistent with generally accepted accounting principles. Current Expenses do not include depreciation or obsolescence charges or reserves therefore, amortization of intangibles or other bookkeeping entries of a similar nature, on bonds, notes or other debt obligations of the System payable from Net Available Revenues of the System, costs or charges made therefor, payments in lieu of annual taxes which would have been levied against the properties of the System at prevailing property tax rates if the System were privately owned, capital additions, replacements, betterments, extensions or improvements to or retirement from the System which under generally accepted accounting principles are properly chargeable to the capital account or the reserve for depreciation, and do not include losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of the System, nor such property items, including taxes and fuels, which are capitalized pursuant to the then existing accounting practices of the Authority or expenses of an Acquired System if revenues of the Acquired System are not included in Revenues at the election of the Authority.

"Parity Bonds" shall mean bonds, notes, loan agreements, and other debt obligations, including Balloon Indebtedness, Short-Term Indebtedness and Variable Rate Indebtedness, issued by or entered into by the Authority on a parity with the Bonds herein authorized in accordance with the restrictive provisions of the 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 System as is permitted herein or the revenues from such Acquired System are not excluded from Net Available Revenues. Upon the issuance of the Bonds, the Electric System Revenue Bonds, Series 2011A, dated November 15, 2011, the Electric System Revenue Bonds, Series 2011B, dated November 15, 2011, the Electric System Revenue Refunding Bonds, dated April 1, 2016 and the Bonds will be Parity Bonds.

The Bonds will not be obligations of the State of Tennessee or the City of Bolivar, Tennessee.

OPTIONAL REDEMPTION OF THE BONDS

The Bonds maturing May 1, 2018 through May 1, 2021 are not subject to redemption prior to maturity. The Bonds maturing May 1, 2022 and thereafter shall be subject to redemption, in whole or in part, at a price of par plus accrued interest to the redemption date, on or after May 1, 2021. If less than all of the Bonds within a single maturity shall be called for redemption, the Bonds within the maturity to be redeemed shall be selected as follows:

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

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

NOTICE OF REDEMPTION

Notice of call for redemption, whether optional or mandatory, shall be given by the Registration Agent on behalf of the Authority not less than twenty (20) nor more than sixty (60) days prior to the date fixed for redemption by sending an appropriate notice to the registered owners of the Bonds to be redeemed by first-class mail, postage prepaid, at the addresses shown on the Bond registration records of the Registration Agent as of the date of the notice; but neither failure to mail such notice nor any defect in any such notice so mailed shall affect the sufficiency of the proceedings for redemption of any of the Bonds for which proper notice was given. The notice may state that it is conditioned upon the deposit of moneys in an amount equal to the amount necessary to effect the redemption with the Registration Agent no later than the redemption date ("Conditional Redemption"). As long as DTC, or a successor Depository, is the registered owner of the Bonds, all redemption notices shall be mailed by the Registration Agent to DTC, or such successor Depository, as the registered owner of the Bonds, as and when above provided, and neither the 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 or Beneficial Owner will not affect the validity of such redemption. The Registration Agent shall mail said notices as and when directed by the Authority pursuant to written instructions from an authorized representative of the Authority (other than for a mandatory sinking fund redemption, notices of which shall be

given on the dates provided herein) given at least forty-five (45) days prior to the redemption date (unless a shorter notice period shall be satisfactory to the Registration Agent). From and after the redemption date, all Bonds called for redemption shall cease to bear interest if funds are available at the office of the Registration Agent for the payment thereof and if notice has been duly provided as set forth herein. In the case of a Conditional Redemption, the failure of the 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.

PAYMENT OF BONDS

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

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BASIC DOCUMENTATION

REGISTRATION AGENT

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

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

DISCONTINUANCE OF BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

DISPOSITION OF BOND PROCEEDS

The proceeds of the sale of the Bonds (net of any underwriter's discount and/or bond insurance premiums withheld from such proceeds) shall be used and applied as follows:

- (a) the Authority shall pay the costs of issuance of the Bonds, including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar

expenses, administrative and clerical costs, Registration Agent fees and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds;

- (b) there shall then be deposited to the Reserve Fund Bond proceeds or other funds of the Authority, in an amount sufficient to cause the amount being held therein to be equal to the Reserve Requirement for the Bonds, if required; and
- (c) the remainder of the Bond Proceeds shall be deposited with a financial institution regulated by and the deposits of which are insured by the Federal Deposit Insurance Corporation or similar federal agency, in a special fund known as the “Series 2017 Project Fund” to be kept separate and apart from all other funds of the Authority. Moneys in the Project Fund shall be disbursed solely to pay the costs of the Project and the balance of any costs related to the issuance of the Bonds, including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, administrative and clerical costs, Registration Agent fees and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds and construction of the Project. Money in the Project Fund shall be secured in the manner prescribed by applicable statutes relative to the securing of public or trust funds, if any, or, in the absence of such statute, by a pledge of readily marketable securities having at all times a market value of not less than the amount in the Project Fund. Money in the Project Fund shall be expended only for the purposes authorized by this resolution. Any funds remaining in the Project Fund after completion of the Project and payment of authorized expenses shall be deposited to the Bond Fund. Moneys in the Project Fund shall be invested as directed by an authorized representative of the Authority in such investments as shall be permitted by Tennessee law. All income derived from such investments shall be retained in the Project Fund or deposited in the Bond Fund.

DISCHARGE AND SATISFACTION OF BONDS

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

- (a) by paying or causing to be paid, by deposit of sufficient funds as and when required with the Registration Agent, the principal of and interest on such Bonds as and when the same become due and payable;
- (b) by depositing or causing to be deposited with any trust company or financial institution whose deposits are insured by the Federal Deposit Insurance Corporation or similar federal agency and which has trust powers (“an Agent”; which Agent may be the Registration Agent) in trust or escrow, on or before the date of maturity or redemption, sufficient money or Defeasance Obligations, as hereafter defined, the principal of and interest on which, when due and payable, will provide sufficient moneys to pay or redeem such Bonds and to pay interest thereon when due until the maturity or redemption date (provided, if such Bonds are to be redeemed prior to maturity thereof,

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

(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 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; and 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 (defined herein) deposited as aforesaid.

Except as otherwise provided in this section, neither Defeasance Obligations nor moneys deposited with the Registration Agent nor principal or interest payments on any such Defeasance Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Registration Agent, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the 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. For the purposes hereof, Defeasance Obligations shall mean direct obligations of, or obligations, the principal of and interest on which are guaranteed by, the United States of America, or any agency thereof, obligations of any agency or instrumentality of the United States or any other obligations at the time of the purchase thereof are permitted investments under Tennessee law for the purposes described herein, which bonds or other obligations shall not be subject to redemption prior to their maturity other than at the option of the registered owner thereof.

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LEGAL MATTERS

LITIGATION

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

TAX MATTERS

Federal

General. Glankler Brown, PLLC, is Bond Counsel to the Authority. 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 Bonds:

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

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

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

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

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

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

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

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

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

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

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

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

State Taxes

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

CHANGES IN FEDERAL AND STATE TAX LAW

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

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

CLOSING CERTIFICATES

Upon delivery of the Bonds, the Authority will execute in a form satisfactory to Bond Counsel, certain closing certificates including the following: (i) a certificate as to the *Official Statement*, in final form, signed by the Authority's President and Chief Executive Officer acting in his official capacity to the effect that to the best of his knowledge and belief, and after reasonable investigation, (a) neither the *Official Statement*, in final form, nor any amendment or supplement thereto, contains any untrue statements of material fact or omits to state any material fact necessary to make statements therein, in light of the circumstances in which they are made, misleading, (b) since the date of the *Official Statement*, in final form, no event has occurred which should have

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

APPROVAL OF LEGAL PROCEEDINGS

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

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MISCELLANEOUS

RATING

Moody's Investor Services, Inc. ("Moody's") has given the Bonds the rating of "A1".

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

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

COMPETITIVE PUBLIC SALE

The Bonds were offered for sale at competitive public bidding on March 1, 2017. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated February 22, 2017.

The successful bidder for the Bonds was an account led by _____, _____, _____ (the "Underwriters") who contracted with the Authority, subject to the conditions set forth in the Official Notice of Sale and Bid Form to purchase the Bonds at a purchase price of \$_____ (consisting of the par amount of the Bonds, less an underwriter's discount of \$_____ and less an original issue discount of \$_____) or ____% of par.

FINANCIAL ADVISOR; RELATED PARTIES; OTHER

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

Authority to review or audit any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT in accordance with accounting standards.

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

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

Cumberland Securities Company, Inc. distributed the *Preliminary Official Statement*, in final form, and the *Official Statement*, in final form on behalf of the Authority and will be compensated and/or reimbursed for such distribution and other such services.

Bond Counsel. From time to time, Glankler Brown, PLLC has represented the Bank on legal matters unrelated to the Authority and may do so again in the future.

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

DEBT RECORD

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

ADDITIONAL DEBT

The Authority has not authorized any additional debt. However, the Authority has ongoing capital projects that may or may not require additional debt in the future.

CONTINUING DISCLOSURE

The Authority will at the time the Bonds are delivered execute a Continuing Disclosure Certificate under which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information relating to the Authority by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending June 30, 2017 (the "Annual Report"), and to provide notice of the occurrence of certain significant events not later than ten business days after the occurrence of the events and notice of failure to provide any required financial information of the Authority. The Annual Report (and audited financial statements if filed separately) and notices described above will be filed by the Authority with the Municipal Securities Rulemaking Board ("MSRB") at www.emma.msrb.org and with any State Information Depository which may be established in Tennessee (the "SID"). The specific nature of the information to be contained in the Annual Report or the notices of events is summarized below. These covenants have been made in order to assist the Underwriters in complying with Securities Exchange Act Rule 15c2-12(b), as it may be amended from time to time (the "Rule 15c2-12"). The Authority is in compliance with the undertakings required under the Rule.

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

Content of Annual Report. The Authority's Annual Report shall contain or incorporate by reference the General Purpose Financial Statements of the Authority for the fiscal year, prepared in accordance with generally accepted accounting principles; provided, however, if the Authority's audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed when available.

The Annual Report listed above may be incorporated by reference from other documents, including OFFICIAL STATEMENTS in final form for debt issues of the Authority or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is an OFFICIAL STATEMENT, in final form, it will be available from the MSRB. The Authority shall clearly identify each such other document so incorporated by reference.

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

1. Upon the occurrence of a Listed Event (as defined in (3) below), the Authority shall in a timely manner, but in no event more than ten (10) business days after the occurrence of such event, file a notice of such occurrence with the MSRB and SID, if any.

2. For Listed Events where notice is only required upon a determination that such event would be material under applicable Federal securities laws, the Authority shall determine the materiality of such event as soon as possible after learning of its occurrence.
3. The following are the Listed Events:
 - a. Principal and interest payment delinquencies;
 - b. Non-payment related defaults, if material;
 - c. Unscheduled draws on debt service reserves reflecting financial difficulties;
 - d. Unscheduled draws on credit enhancements reflecting financial difficulties;
 - e. Substitution of credit or liquidity providers, or their failure to perform;
 - f. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
 - g. Modifications to rights of Bondholders, if material;
 - h. Bond calls, if material, and tender offers;
 - i. Defeasances;
 - j. Release, substitution, or sale of property securing repayment of the securities, if material;
 - k. Rating changes;
 - l. Bankruptcy, insolvency, receivership or similar event of the obligated person;
 - m. The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
 - n. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

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

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

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

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or beneficial owners of the Bonds.

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

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

ADDITIONAL INFORMATION

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

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

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

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

The Authority has deemed this PRELIMINARY OFFICIAL STATEMENT as "final" as of its date within the meaning of Rule 15c2-12 except for the omission of certain pricing information allowed to be omitted pursuant to Rule 15c2-12.

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CERTIFICATION

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

BOLIVAR ENERGY AUTHORITY

/s/

President And Chief Executive Officer

APPENDIX A

LEGAL OPINION

(Date of Closing)

Bolivar Energy Authority
815 Tennessee Street
Bolivar, Tennessee 38008

Re: Electric System Revenue Bonds, Series 2017 of the Bolivar Energy Authority

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Bolivar Energy Authority (the "Authority"), of \$_____ aggregate principal amount of its Electric System Revenue Bonds, Series 2017, dated of even date herewith (the "Series 2017 Bonds"). We have examined the law and such certified proceedings and other papers as we deem 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 the same by independent investigation.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material published and distributed in connection with the sale of the Series 2017 Bonds or any other information concerning the financial condition of the Authority which may have been provided to the purchasers of the Series 2017 Bonds, and we express no opinion relating thereto.

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

1. The Series 2017 Bonds have been authorized and issued in accordance with the Constitution and statutes of the State of Tennessee, including but not limited to, Chapter 130 of the Private Acts of 2006 of the State of Tennessee, and constitute the valid and binding limited obligations of the Authority, payable as to both principal and interest exclusively from the net available revenues of the Authority's electric transmission and distribution system (the "System"), after payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System, on a parity with the Authority's outstanding Electric System Revenue Bonds, Series 2011A issued November 15, 2011, its outstanding Electric System Revenue Bonds, Series 2011B (Taxable) issued November 15, 2011, and its outstanding Electric System Revenue Refunding Bonds, Series 2016 issued April 1, 2016. We express no opinion as

(Date of Closing)

Page 2

to the sufficiency of such net available revenues for the payment of principal of, premium, if any, and interest on the Series 2017 Bonds.

2. Interest on the Series 2017 Bonds (including any original issue discount properly allocable to an owner thereof) (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax. The opinion set forth in clause (a) above is subject to the condition that the Authority comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2017 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 the interest on the Series 2017 Bonds to be so included in gross income retroactive to the date of issuance of the Series 2017 Bonds. The Authority has covenanted to comply with all such requirements. Except as set forth in this Paragraph 2 and in Paragraph 4 below, we express no opinion regarding other federal tax consequences arising with respect to the Series 2017 Bonds.

3. The Series 2017 Bonds and the income therefrom are exempt from all present state, county and municipal taxation in the State of Tennessee, except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on all or a portion of the interest on any Series 2017 Bonds during the period such Series 2017 Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of inclusion of the book value of the Series 2017 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.

4. The Authority has designated the Series 2017 Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

To the extent constitutionally applicable, the rights of the holders of the Series 2017 Bonds and the enforceability thereof are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereinafter enacted. Also, the enforcement of bondholder rights may be subject to the exercise of judicial discretion in appropriate cases.

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

Very truly yours,

APPENDIX B

SUPPLEMENTAL INFORMATION STATEMENT

BOLIVAR ENERGY AUTHORITY

HISTORY AND ORGANIZATION

The Bolivar Energy Authority (the "Authority") was formed pursuant to Chapter 130 of the 2006 Private Acts of the State of Tennessee (the "Act"), as ratified by the City of Bolivar on November 14, 2006. The Act provides that upon ratification of the Act by the City, all right, title and interest in, and all assets owned and operated for the City by the Bolivar Electric Utility Board, would be transferred to the Authority. Pursuant to the provisions of the Act, the Authority is created and constituted as a governmental authority that is a political subdivision of the State of Tennessee and a public corporation. The Act provides that the Authority is "created for the purpose of planning, acquiring, constructing, improving, furnishing, equipping, financing, owning, operating, and maintaining electric utility and telecommunications systems within or outside the corporate limits of the city of Bolivar and within or outside the state."

The electric distribution system acquired by the Authority from the City was formed in 1936 and provided electric services to the residents of the City, Hardeman County and surrounding counties in Tennessee and Mississippi - a service area which encompasses ten incorporated towns. Through its acquisition of the assets and liabilities of the System, the Authority will now provide this service through the System to this service area.

The Authority is governed by a Board of Directors consisting of five directors who are appointed by the Mayor of the City, subject to approval by the City Council of the City. The initial Board of Directors was composed of the members of the former Board of Utility Commissioners of the Bolivar Electric Utility Board of the City who served as directors for the Authority for the unexpired terms of their appointment to the Bolivar Electric Utility Board. The Tennessee Valley Authority ("TVA") acts as regulatory agency pursuant to the terms of the Power Purchase Contract described below. Presently, the Authority does not provide telecommunications services within its service area.

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

<u>Members</u>	<u>Term Expiration</u>	<u>Occupation</u>
Frank Wilhite	2018	Veterinarian
Todd Lowe	2021	Teacher
Helen Johnson -Chairman	2019	Retired
Earnest Jones	2020	Asst. Superintendent
Margaret Whitenton	2017	Retired

Tammy Foote serves as Recording Secretary to the Board.

The Authority provides electric service to approximately 11,089 consumers located in Hardeman County, a portion of Fayette and Chester Counties, and a portion of Benton County in Mississippi. As of June 30, 2016, operating revenues were approximately \$26,950,953.

MANAGEMENT

Mr. John Fortune is the President and Chief Executive Officer. Mr. Fortune has been General Manager of the Authority's predecessor, the Bolivar Electric Department, since 1990. He is responsible for the management of the Authority's System. Prior to his current position, Mr. Fortune served as an Engineer with the System from 1979 to 1990. He is a graduate of the University of Tennessee (B.S. and M.S. in Electrical Engineering). He holds Certified and Advanced Certified Power Executive Certificates from the Tennessee Valley Public Power Association, Public Power Executive Certificate from the American Public Power Association.

The Authority employs 48 full-time employees.

SUBSTATIONS AND TRANSMISSION SYSTEM

The Authority currently has seven (7) substations connected to the TVA system at six (6) delivery points as follows: (i) 161 kV point for the West Bolivar 161:13 kV Substation; (ii) 161 kV point for the Hebron 161:13 kV Substation; (iii) 161 kV point at the TVA Hickory Valley 161:46 kV Primary Substation; (iv) 46 kV point for the Powell Chapel 46:13 kV Substation; (v) 161 kV point for the Toone 161:13 kV Substation; and, (vi) 46 kV point for the Union Springs 46:13 kV Substation. The 161 kV point at the TVA Hickory Valley 161:46 kV Substation serves the Grand Junction and Saulsbury 46:13 kV Substations. Nameplate ratings for the seven (7) Authority Substations are noted below:

Hebron 161:13 kV Substation 12/16/20 MVA
Toone 161:13 kV Substation 15/20/25 MVA
West Bolivar 161:13 kV Substation (2) 18/24/30 MVA
Union Springs 46:13 kV Substation 15/20/25 MVA
Powell Chapel 46:13 kV Substation 10/13.3/16.7 MVA
Grand Junction 46:13 kV Substation 12/16/20 MVA
Saulsbury 46:13 kV Substation 10/13.3/16.7 MVA

DISTRIBUTION SYSTEM

All power is distributed by twenty-one (21) distribution feeders exiting the seven (7) substations at a nominal voltage of 12.5/7.2 kV over approximately 1,300 miles of distribution lines. The Authority experienced a peak demand of 53,882 kW in July 2016 and the historical maximum demand of 63,732 kW occurred in August 2007.

SOURCE OF ELECTRIC POWER

The Authority does not generate any electric power but purchases its entire supply from the TVA pursuant to a power contract dated as of April 1, 1988 (the "Power Contract") assigned by the City to the Authority. Under the Power Contract, the Authority agreed to purchase all of its electric power from TVA. The Power Contract is a rolling 5-year contract, but is subject to earlier termination by either party pursuant to an amendment ratified and effective as of October 1, 2005. The Power Contract has not been terminated by either party. Under the terms of the contract, the Authority has the right to terminate the Power Contract on five years' notice.

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

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

The cost and availability of power for 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 and burning of coal), the construction and financing of future generating and transmission facilities and other factors relating to TVA's ability to fulfill the power demands of its customers, including the Authority. The power sold to the Authority is supplied from the entire TVA Department and not one specific generating facility. TVA is the largest public electric power Department in the United States. The TVA Department supplies power to parts of a seven state southern region, encompassing over 80,000 square miles and more than seven million residents.

To date, the deregulation of the electric industry has not directly impacted the Tennessee Valley region. In April 1996 the Federal Energy Regulatory Commission (FERC) issued Order 888 which effectively ordered public interstate transmission companies to provide open access to their transmission Departments. TVA, which is not presently subject to FERC jurisdiction, cannot be ordered by FERC to transmit (wheel) power on behalf of others for use inside its legislatively defined service territory. Consequently, this provision of current federal law combined with the Authority's long-term power contract with TVA precludes the Authority from purchasing power from alternative sources at this time.

In light of recent federal legislative initiatives regarding electric industry restructuring however, TVA and the valley's power distributors have been working together to define a new contractual relationship. Such discussions have centered on partial requirements (distributors purchasing a portion of their power requirements from alternative suppliers), stranded cost recovery, term and structure of the power contract, pricing, the degree of regulatory oversight provided by TVA and a means for resolving disputes with TVA. In 2003, this effort resulted in an agreement to reform the TVA-distributor relationship. The initiative became known as the TVA Consensus. The TVA Consensus would allow distributors more freedom in their contracts with TVA, including the ability to acquire some of their power requirements from suppliers other than TVA. The proposed language of the TVA Consensus would amend the TVA Act, but such an amendment has not moved forward in Congress, but remains the leading model for TVA reform among Valley stakeholders.

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 "TVA Act"). The TVA 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 national defense. Its specific purposes include: (1) flood control on the Tennessee River and its tributaries, and assistance to flood control on the lower Ohio and the Mississippi Rivers; (2) a modern navigable channel for the Tennessee River; (3) an ample supply of power within an area of 80,000 square miles; (4) development and introduction of more efficient soil fertilizers; and (5) greater agricultural and industrial development and improved forestry in the region. All powers of TVA were originally vested in a three member, full-time board appointed by the President of the United States and confirmed by the United States Senate for nine-year terms, with one director's term expiring every three years. In 2005, Congress passed an amendment to the Act which changed TVA in two significant ways. First, the structure of the TVA Board was changed from a three-person, full-time Board to a nine-person, part-time Board which meets at least four times per year. The new Board members, whose appointment terms will be five years, will still be appointed by the President and confirmed by the Senate. The new amendment to the Act also requires TVA to file periodic financial updates with the Securities and Exchange Commission (SEC) and be subject to certain reporting requirements of the SEC.

ELECTRIC RATES

Pursuant to the Power Contract, the Energy Authority has agreed to adhere to the resale rates set forth in certain schedules established by the TVA. The schedules include the provision that customer billings will be adjusted in accordance with the Adjustment Addenda published by the TVA. The Energy Authority is not otherwise subject to rate regulation under existing law and there is no known legislation pending to make its electric rates subject to regulation. The Power Contract provides further that if the resale rates set forth therein do not provide sufficient revenues for the operation and maintenance of the Energy Authority on a self-supporting, financially sound basis, including debt service, the Energy Authority and TVA shall agree to changes in rates to provide increased revenues. In like manner, if the rates and changes produce excess revenues, the parties shall agree to rate reductions. Since the date of the Power Contract, the wholesale and resale rates have been adjusted from time to time through TVA's publication of Adjustment Addenda. Accordingly, the Energy Authority has modified its rates to customers to pass the recent TVA increases on to its customers effective on October 1, 2005. Additionally, the Energy Authority has increased rates to its customers that are projected to generate approximately \$500,000 per year in additional revenue. See the sections entitled "Source of Power" and "Residential and General Power Resale Rates of the Authority" for additional information.

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ENERGY AUTHORITY OPERATING STATISTICS

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

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Residential	8,860	8,859	8,821	8,821	8,784
General Power – 50 kW & Under	2,066	2,107	2,126	2,108	2,209
General Power – Over 50 kW	110	111	107	103	102
Street & Outdoor Lighting ⁽¹⁾	<u>39</u>	<u>35</u>	<u>35</u>	<u>35</u>	<u>33</u>
Total Meters	<u>11,075</u>	<u>11,112</u>	<u>11,089</u>	<u>11,067</u>	<u>11,128</u>

⁽¹⁾ Excludes outdoor lighting in Code 77.

Source: TVA Annual Reports of the Energy Authority.

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

<u>Fiscal Year</u>	<u>Power Purchased (kWh)</u>	<u>Cost</u>	<u>Power Used/Sold (kWh)</u>	<u>Percentage Power Lost</u>	<u>Sales</u>	<u>Wholesale Cost Percentage of Sales</u>
2012	253,352,620	\$19,136,007	229,910,344	9.25%	\$24,902,328	76.84%
2013	254,953,644	\$19,189,859	238,402,831	6.49%	\$26,449,577	72.55%
2014	258,892,696	\$19,540,534	245,225,887	5.28%	\$27,827,017	70.22%
2015	250,929,061	\$19,101,306	235,786,128	6.04%	\$27,503,789	69.45%
2016	238,405,218	\$18,115,161	223,949,102	6.06%	\$26,970,897	67.17%

Source: TVA Annual Reports of the Energy Authority.

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

<u>Fiscal Year</u>	<u>Residential</u>	<u>General Power – 50 kW & Under</u>	<u>General Power – Over 50 kW</u>	<u>Street & Outdoor Lighting ⁽¹⁾</u>	<u>Security Lighting</u>	<u>Total</u>
2012	132,326,543	22,119,513	71,081,730	1,048,045	3,334,513	229,910,344
2013	134,993,604	22,766,188	75,822,023	1,057,894	3,763,122	238,402,831
2014	140,141,655	24,559,580	75,706,618	1,055,337	3,762,697	245,225,887
2015	132,313,484	23,759,196	74,894,255	1,052,093	3,767,100	235,786,128
2016	124,122,424	23,113,347	71,884,614	1,100,474	3,768,778	223,989,637

⁽¹⁾ Excludes outdoor lighting in Code 77.

Source: TVA Annual Reports of the Energy Authority.

TOP TEN ELECTRIC CUSTOMERS

For the twelve months ended June 30, 2016, the largest customers of the Energy Authority in order of total kWh sales are listed below. Also depicted on the following chart are the percentages of total Energy Authority kWh sales and estimated percentage of total Energy Authority revenues for the most recent fiscal year represented by each customer:

<u>Customer</u>	<u>Activity</u>	<u>kWH Usage</u>	<u>Percent Total kWh Usage</u>	<u>Revenues</u>	<u>Est. Percent Total Revenue</u>
1. Kilgore Corp.	Explosives	19,816,800	8.84%	\$1,459,906	5.41%
2. CCA – Hardeman co	Correctional Facility	6,816,000	3.04%	723,503	2.68%
3. CCA - Whiteville.	Correctional Facility	4,934,400	2.20%	549,635	2.03%
4. Western State Hospital	Hospital	4,933,440	2.20%	472,616	1.75%
5. Wal-Mart Stores, Inc.	Retail	2,870,784	1.28%	269,641	0.99%
6. WEDCO, Inc.	Manufacturing	2,022,912	0.96%	311,182	1.15%
7. Kilgore	Explosives	2,008,800	0.90%	195,929	0.73%
8. Western Mental Health	Hospital	1,387,200	0.62%	147,208	0.55%
9. MAXWELL’S	GROCERY	1,255,360	0.56%	119,705	0.44%
10. Bolivar Operators	Nursing Home	<u>1,218,720</u>	<u>0.54%</u>	<u>123,732</u>	<u>0.46%</u>
TOTAL		<u>47,264,416</u>	<u>21.1%</u>	<u>\$3,823,422</u>	<u>14.2%</u>

Source: Bolivar Energy Authority.

RESIDENTIAL AND GENERAL POWER RESALE RATES OF THE AUTHORITY

The resale electric rates that the Energy Authority charges to commercial, industrial, governmental and general residential power customers are determined in accordance with the provisions of the TVA Power Contract. All rates are subject to change. TVA revised the power rates and charges through an amendment to the TVA Power Contract which was effective on October 1, 2005.

After adoption of the Power Contract amendment adjusting rates in October 2005, the Energy Authority will still offer one of the lowest costs of electric power in the TVA distribution Authority. See the sections entitled “Source of Power” and “Residential and General Power Resale Rates of the Authority” for additional information.

The following table outlines the Energy Authority’s current rate schedule, which was effective on June 30, 2016. The Board has not acted on the rate schedule imposed on them by TVA, but they are expected to do so in the near future.

RESIDENTIAL RATE - RS

Customer Charge:	\$23.89 per delivery point per month
Energy Charge:	
First 800 kWh per month	0.11481 cents per kWh
Additional kWh	0.08148 cents per kWh

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

Customer Charge:	\$26.34 per delivery point per month
Energy Charge:	
First 1,500 kWh per month	0.12426 cents per kWh
Additional kWh	0.08905 cents per kWh

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

Customer Charge:	\$263.25 per delivery point per month
Demand Charge:	
First 50 kW -	\$9.58 per kW
Over 50 kW -	\$20.87 per kW
Energy Charge:	
First 15,000 kWh per month	0.06218 cents per kWh
Additional kWh	0.06098 cents per kWh

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

Customer Charge:	\$1,242.05 delivery point per month
Demand Charge:	\$24.04 per kW first 1000
Energy Charge:	\$9.01 over 1000
All kWh	0.06084 cents per kWh

OUTDOOR LIGHTING POWER RATE

Yardlights:	
100 watt HPS	\$7.70 per kWh
250 watt HPS	\$14.11 per kWh
400 Watt MH	\$19.75 per kWh

Source: Bolivar Energy Authority.

PENSION PLANS

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

BOLIVAR ENERGY AUTHORITY
SUMMARY OF BONDED INDEBTEDNESS

Amount Issued - (1)	Purpose	Due Date	Interest Rates	Debt Outstanding
\$ 3,000,000	Electric System Revenue Bonds, Series 2011	May 1, 2026	Fixed	\$ 2,650,000
555,000	Electric System Revenue Bonds, Series 2011B (Taxable)	May 1, 2017	Fixed	100,000
2,840,000	Electric System Revenue Refunding Bonds, Series 2016	May 1, 2030	Fixed	2,840,000
<u>\$ 6,395,000</u>	Total Existing Debt of the Authority as of June 30, 2015			
\$ 2,100,000	Electric System Revenue Bonds, Series 2017	May 1, 2037	Fixed	\$ 2,100,000
<u>\$ 8,495,000</u>	Total Proposed Debt of the Authority			

NOTES:

(1) The above figures do not include capitalized leases or compensated absences or short-term notes outstanding, if any. For more information, see the Notes to the Financial Statements in the CAFR.

BOLIVAR ENERGY AUTHORITY
BONDED DEBT SERVICE REQUIREMENTS - Electric System

F. Y. Ended 6/30	Outstanding Electric System Debt - As of June 30, 2016			Electric System Revenue Bonds, Series 2017			% 2017 Principal Repaid			Total Bonded Debt Service Requirements			% All Principal Repaid
	Principal	Interest	TOTAL	Principal	Interest (2)	TOTAL	Principal	Interest	TOTAL	Principal	Interest	TOTAL	
2017	\$ 360,000	\$ 175,049	\$ 535,049	\$ -	\$ -	\$ -	\$ 360,000	\$ 175,049	\$ 535,049	0.00%	\$ -	\$ 535,049	4.68%
2018	390,000	157,338	547,338	100,000	60,037	160,037	490,000	217,374	707,374			707,374	
2019	405,000	144,963	549,963	100,000	50,460	150,460	505,000	195,423	700,423			700,423	
2020	420,000	132,813	552,813	100,000	49,210	149,210	520,000	182,023	702,023			702,023	
2021	440,000	119,638	559,638	100,000	47,710	147,710	540,000	167,348	707,348			707,348	31.40%
2022	450,000	105,825	555,825	100,000	46,060	146,060	550,000	151,885	701,885	23.81%		701,885	
2023	465,000	93,075	558,075	100,000	44,310	144,310	565,000	137,385	702,385			702,385	
2024	470,000	79,225	549,225	100,000	42,410	142,410	570,000	121,635	691,635			691,635	
2025	485,000	65,188	550,188	100,000	40,410	140,410	585,000	105,598	690,598			690,598	
2026	500,000	49,463	549,463	100,000	38,260	138,260	600,000	87,723	687,723			687,723	68.73%
2027	520,000	33,225	553,225	100,000	36,010	136,010	620,000	69,235	689,235	47.62%		689,235	
2028	225,000	16,275	241,275	100,000	33,610	133,610	325,000	49,885	374,885			374,885	
2029	230,000	11,213	241,213	100,000	31,110	131,110	330,000	42,323	372,323			372,323	
2030	230,000	6,038	236,038	100,000	28,460	128,460	330,000	34,498	364,498	61.90%		364,498	
2031	-	-	-	105,000	25,710	130,710	105,000	25,710	130,710			130,710	90.96%
2032	-	-	-	105,000	22,665	127,665	105,000	22,665	127,665			127,665	
2033	-	-	-	110,000	19,515	129,515	110,000	19,515	129,515			129,515	
2034	-	-	-	115,000	16,105	131,105	115,000	16,105	131,105			131,105	
2035	-	-	-	115,000	12,425	127,425	115,000	12,425	127,425			127,425	
2036	-	-	-	120,000	8,630	128,630	120,000	8,630	128,630			128,630	98.31%
2037	-	-	-	130,000	4,550	134,550	130,000	4,550	134,550			134,550	100.00%
	<u>\$ 5,590,000</u>	<u>\$ 1,189,324</u>	<u>\$ 6,779,324</u>	<u>\$ 2,100,000</u>	<u>\$ 657,657</u>	<u>\$ 2,757,657</u>	<u>\$ 7,690,000</u>	<u>\$ 1,846,981</u>	<u>\$ 9,536,981</u>				

NOTES:

- (1) The above figures do not include capitalized leases or compensated absences or short-term notes outstanding, if any. For more information, see the Notes to the Financial Statements in the CAFR.
- (2) Estimated Interest Rates. Estimated Average Coupon 2.85%.

BOLIVAR ENERGY AUTHORITY
Five Year Summary of Revenues, Expenses and
Changes in Net Assets - Electric Fund

	For the Fiscal Year Ended June 30				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Operating Revenues:					
Electric Sales	\$ 26,185,672	\$ 26,449,577	\$ 27,827,017	\$ 27,503,789	\$ 26,428,144
Revenue from Late Payments	253,664	233,613	236,066	205,523	180,804
Rent from Electric Property	382,174	356,155	468,026	79,903	265,260
Other Revenue	92,244	108,185	114,715	415,804	76,745
Total Operating Revenues	\$ 26,913,754	\$ 27,147,530	\$ 28,645,824	\$ 28,205,019	\$ 26,950,953
Purchases of Power	\$ 19,171,597	\$ 19,189,859	\$ 19,540,534	\$ 19,101,306	\$ 18,115,161
Operating Expenses:					
Distribution Expense	\$ 833,759	\$ 966,600	\$ 1,257,919	\$ 1,416,559	\$ 1,383,967
Customer Accounts Expense	766,648	634,386	768,049	824,032	843,354
Sales Expense	92,120	100,743	110,864	99,186	94,495
Administrative & General Expense	2,123,145	2,599,743	1,734,815	1,171,175	1,762,351
Total Operating Expenses	\$ 3,815,672	\$ 4,301,472	\$ 3,871,647	\$ 3,510,952	\$ 4,084,167
Maintenance Expense:					
Distribution Expense	\$ 1,466,241	\$ 1,742,705	\$ 1,672,597	\$ 1,594,491	\$ 1,649,288
Administrative Expense	30,815	4,949	11,460	4,616	8,300
Total Maintenance Expense	\$ 1,497,056	\$ 1,747,654	\$ 1,684,057	\$ 1,599,107	\$ 1,657,588
Other Operating Expense:					
Depreciation Expense	\$ 1,421,535	\$ 1,462,357	\$ 1,471,524	\$ 1,662,453	\$ 1,659,327
Tax & Tax Equivalents	586,663	526,545	609,908	627,372	629,445
Total Other Operating Expense	\$ 2,008,198	\$ 1,988,902	\$ 2,081,432	\$ 2,289,825	\$ 2,288,772
Total Purchased Power & Operating Expense	\$ 26,492,523	\$ 27,227,887	\$ 27,177,670	\$ 26,501,190	\$ 26,145,688
Operating Income	\$ 421,231	\$ (80,357)	\$ 1,468,154	\$ 1,703,829	\$ 805,265
Other Income (Expense):					
Interest	\$ 48,151	\$ 19,386	\$ 27,390	\$ 18,284	\$ 19,642
Net Increase/Decrease in the Fair Value of Investments	(22,951)	(39,157)	(95,342)	-	(36,722)
Nonoperating Rental Income-Net Expense	68,140	13,284	4,040	-	-
Miscellaneous Expenses	(10,001)	(1,500)	(8,269)	(1,511)	(1,500)
Interest Expense	(382,062)	(357,699)	(363,108)	(354,845)	(282,355)
Miscellaneous Revenues	-	-	-	-	302
Amortization of Debt Expense	-	-	-	-	(32,281)
Gain on Sale of Asset	-	-	-	858,446	-
Total Other Income	\$ (298,723)	\$ (365,686)	\$ (435,289)	\$ 520,374	\$ (332,914)
Net Income Before Nonoperating	\$ 122,508	\$ (446,043)	\$ 1,032,865	\$ 2,224,203	\$ 472,351
Nonoperating Income (Expenses)	\$ (676,578)	\$ 826,155	\$ -	\$ -	\$ -
Net Position - Beginning	\$ 14,215,116	\$ 13,661,046	\$ 14,029,858	\$ 15,062,723	\$ 13,775,510
Prior Period Adjustment	\$ -	\$ (152,495)	\$ -	\$ (3,373,271)	\$ 946,784
Net Position - Ending	\$ 13,661,046	\$ 13,888,663	\$ 15,062,723	\$ 13,913,655	\$ 15,194,645

Source: Comprehensive Annual Financial Reports of the Bolivar Energy Authority

BOLIVAR ENERGY AUTHORITY
HISTORICAL DEBT SERVICE COVERAGES INCLUDING THE BONDS

	For the Fiscal Year Ended June 30				
	2012	2013	2014	2015	2016
Operating Revenues	\$ 26,913,754	\$ 27,147,530	\$ 28,645,824	\$ 28,205,019	\$ 26,950,953
Operating Expenses	26,791,246	27,593,573	27,612,959	25,980,816	26,478,602
Net Income After Depreciation	\$ 122,508	\$ (446,043)	\$ 1,032,865	\$ 2,224,203	\$ 472,351
Plus: Depreciation	1,421,535	1,462,357	1,471,524	1,662,453	1,659,327
Plus: Interest Expense	336,412	293,180	332,800	321,824	282,355
Other Income (Expenses) - Net	-	44,443	-	-	-
Income Available for Debt Service	<u>\$ 1,880,455</u>	<u>\$ 1,353,937</u>	<u>\$ 2,837,189</u>	<u>\$ 4,208,480</u>	<u>\$ 2,414,033</u>
Annual Actual Debt Service	\$ 775,994	\$ 778,259	\$ 833,471	\$ 835,691	\$ 518,223
Historical Coverage Ratio	2.42 x	1.74 x	3.40 x	5.04 x	4.66 x
Estimated Maximum Debt Service -					
Outstanding Bonds and Proposed 2017 Bonds	\$ 707,348	\$ 707,348	\$ 707,348	\$ 707,348	\$ 707,348
- (1)					
Historical Coverage Ratio	2.66 x	1.91 x	4.01 x	5.95 x	3.41 x

Source: Audited Financial Statements.

(1) Maximum debt service requirement occurs in fiscal year 2021 for the bonded debt.

THE CITY OF BOLIVAR AND HARDEMAN COUNTY

INTRODUCTION

The City of Bolivar, Tennessee (the “City”) is the county seat of Hardeman County (the “County”). The City is located in the southwestern portion of the State and is bounded by Fayette, Haywood, Madison, Chester and McNairy counties in Tennessee and the State of Mississippi on the south. The City is approximately 73 miles east of Memphis and 28 miles southeast of Jackson, Tennessee. The population of the City according to the 2010 census is 5,417 and for the County is 27,253.

GENERAL

The City has a Mayor-Council form of government made up of a mayor and seven council members elected for four year terms. The City provides such municipal services as water and sewer, garbage pickup, animal control, police and fire departments. The County operates a landfill in partnership with the city. The Energy Authority distributes electric service to residents and other areas surrounding the City.

The County encompasses approximately 419,000 acres. Over 75% of the land is designated farm land. Cotton is the principle crop.

TRANSPORTATION

The Norfolk Southern Railroad serves the County and runs through the southern border of Middleton. U.S. Highway 64 and State routes 18 and 125 also serve the City and County. Interstate 40 is approximately 28 miles north of the County line in Jackson, Tennessee. McKellar-Sipes Regional Airport, located approximately 22 miles north of the County line also in Jackson, Tennessee, provides commercial, general aviation and air cargo services to the City and County.

Additionally, general aviation service is available through facilities located at the Bolivar/Hardeman County Airport. This airport has a 5,000-foot asphalt runway with \$3.5 million worth of improvements to the Airport completed in 2008.

Source: The Jackson Sun.

EDUCATION

Hardeman County School System is composed of nine schools: six elementary schools, one middle school, and two high schools. The fall 2015 enrollment was 3,785 students with 296 teachers.

Source: Tennessee Department of Education.

The Tennessee Technology Center at Whiteville. The Tennessee Technology Center at Whiteville is part of a statewide system of 26 vocational-technical schools. The Tennessee Technology Center meets a Tennessee mandate that no resident is more than 50 miles from a vocational-technical shop. The institution’s primary purpose is to meet the occupational and technical training needs of the citizens including employees of existing and prospective

businesses and industries in the region. The Technology Center at Whiteville serves the southwest region of the state including Hardeman, Haywood and Fayette Counties. The Technology Center at Whiteville began operations in 1976, and the main campus is located in Hardeman County. Fall 2013 enrollment was 593 students.

Source: Tennessee Technology Center at Whiteville.

MEDICAL

Bolivar General Hospital, a 45 bed facility, is an affiliate of West Tennessee Healthcare (the “WTH”) located in Bolivar. The Hospital is governed by a separate advisory board composed of citizens from Bolivar and Hardeman County. The Hospital provides local primary care in conjunction with the resources available at Jackson-Madison County General Hospital, about 28 miles away from the County.

Jackson-Madison County General Hospital, located about 28 miles away to the north of the County, is the flagship of West Tennessee Healthcare. With 612 licensed beds, Jackson-Madison County General offers comprehensive healthcare. 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.

West Tennessee Healthcare is a public, not-for-profit healthcare system. Modern Healthcare Magazine listed WTH as one of the top ten largest public, not-for-profit healthcare systems in the U.S. With locations throughout 18 counties in West Tennessee, WTH is a family of healthcare services that provides a full compendium of care from six hospitals, home healthcare agency, medical laboratory services, medical products and infusion services, outpatient rehab facilities, early child development intervention services, community support and education, and more. WTH employs approximately 5,000 people and is one of the region's top employers.

Source: West Tennessee Healthcare.

Western Mental Health Institute (WMHI) is a state-run psychiatric hospital that serves 24 counties in West Tennessee. The hospital's doors opened in Bolivar, Tennessee in 1889. The hospital offers 4 long-term care units, 2 short-term care units, forensic services, and therapeutic treatment units for a total of 150 beds. Western also provides long-term and forensic services to Shelby County residents.

WMHI assists patients who are not typically served by the private service sector and have no other inpatient treatment resources available to them. Most patients have a severe and persistent mental illness and are hospitalized on an emergency involuntary basis. WMHI also provides inpatient services for individuals from jails and court-ordered, pre-trial evaluations. The hospital is an authorized provider under TennCare.

Source: Western Mental Health Institute.

MANUFACTURING AND COMMERCE

There are five industrial parks within the County. Two are located in Bolivar: Hardeman County Industrial Park with 113 acres and the City of Bolivar Industrial Park with about 176 acres. Two are in Middleton and are both under 50 acres: Davis Industrial Sites and Middleton Industrial Sites. The Town of Whiteville has one park with 82 acres: Whiteville Industrial Park.

ThyssenKrupp Elevator Americas. ThyssenKrupp Elevator Americas is the largest producer of elevators in the Americas. The company moved to Middleton in 1969, and the facility is just under 700,000 square-feet. In 2009 a \$30 million expansion to increase productivity was finished. ThyssenKrupp Elevator Americas globally has more than 13,500 employees, more than 200 branch and service locations, and sales of more than \$2.7 billion. ThyssenKrupp Elevator Americas oversees all business for operations in the United States, Canada and Central and South America. It is a subsidiary of ThyssenKrupp Elevator AG. ThyssenKrupp companies in North America offer a range of products and services, including premium carbon steel; high-performance alloys; automotive components and systems; elevators, escalators, moving walks and passenger boarding bridges; and material trading, logistical and industrial services.

Chemring Countermeasures USA. Formerly Alloy Surface and Kilgore Flares, Chemring Countermeasures USA manufactures infrared (IR) air countermeasures and is the only manufacturer of Special Material (SM) decoys. Located in Hardeman County, the foremost supplier of airborne expendable IR decoy flares serves as the sole-source IR decoy flare supplier for some of the world's most sophisticated and advanced airborne platforms. Chemring manufactures pyrotechnic flares for Air Force, Navy and Army fixed-wing attack planes and transport planes, as well as flares for rotary-winged helicopters used in attack missions and troop transport.

Kilgore relocated to Toone in 1960 from Ohio, where they became a key Department of Defense Ordnance Manufacturer during World War II. The company currently occupies a 264-acre factory site in Toone, plus another 242-acre testing site on the outskirts of town. The company was purchased in 2001 by the Chemring Group, PLC.

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

<u>Company</u>	<u>Product</u>	<u>Employees</u>
Thyssen-Krupp	Elevators	1,000
Kilgore Corp. (Chemring)	Military Flares	550
Western Mental Health Institute	Hospital	439
Hardeman County Schools*	Education	326
Bolivar General Hospital	Hospital	125
EP Minerals	Litter and Absorbents	100
ICE US Inc.	Industrial Heaters	45

*Employment for teachers and administrators only.

Source: The West Tennessee Industrial Association, the Hardeman County Chamber of Commerce and Western Mental Health Institute website - 2016.

EMPLOYMENT INFORMATION

The unemployment rate for the County as of November 2016 was 5.9% representing 8,940 persons employed with a labor force of 9,500. The following chart shows unemployment trends for the County, State and Country for last five years.

	Unemployment				
	Annual Average	Annual Average	Annual Average	Annual Average	Annual Average
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
National	8.9%	8.1%	7.4%	6.2%	5.3%
Tennessee	9.2%	8.0%	8.2%	6.7%	5.8%
Hardeman County	12.4%	11.0%	11.6%	9.4%	7.8%
Index vs. National	139	136	157	125	147
Index vs. State	135	137	141	140	134

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

ECONOMIC DATA

	Per Capita Personal Income				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
National	\$40,277	\$42,453	\$44,266	\$44,438	\$46,049
Tennessee	\$35,601	\$37,323	\$39,137	\$39,312	\$40,457
Hardeman County	\$23,654	\$24,638	\$25,615	\$26,667	\$27,011
Index vs. National	59	58	58	60	59
Index vs. State	66	66	65	68	67

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

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Social and Economic Characteristics

	<u>National</u>	<u>Tennessee</u>	<u>Hardeman County</u>	<u>Bolivar</u>
Median Value Owner Occupied Housing	\$178,600	\$142,100	\$83,000	\$86,200
% High School Graduates or Higher Persons 25 Years Old and Older	86.70%	85.50%	76.8%	78.1%
% Persons with Income Below Poverty Level	13.50%	16.70%	24.2%	35.0%
Median Household Income	\$53,889	\$45,219	\$31,801	\$31,272

Source: U.S. Census Bureau State & County QuickFacts - 2015.

RECREATION AND TOURISM

Chickasaw State Rustic Park. Chickasaw State Rustic Park is situated on some of the highest terrain in west Tennessee on Lake Placid. The park is located in Chester and Hardeman Counties, 18 miles south of Jackson, Tennessee on State Hwy. 100. Of the area's 14,384 acres of timberland, 1,280 acres are used for recreation. There are hiking, biking and horse riding trails along with cabins for rent. The remainder is state forest managed jointly by the State Forestry Division and the Tennessee Wildlife Resources Agency.

Source: Tennessee State Parks.

Hatchie River. The Hatchie River is located near Bolivar and is the longest unchannelized tributary of the Mississippi River. It provides a wide variety of wetlands, wildlife, and boating opportunities.

Source: City of Bolivar.

Lone Oaks Farm. Lone Oaks Farm is owned by the University of Tennessee Institute of Agriculture and administered by UT Extension. Located in Middleton, TN, the 1,200-acre facility has thirteen residences and many other buildings and event spaces. The venue is for youth and adult education, business retreats, special events, and family travel. It is also a working farm, producing hay, livestock, and fruit and vegetable crops, to promote an appreciation for the land, conservation and agriculture.

Source: Lone Oaks Farm.

RECENT DEVELOPMENTS

Kilgore Flares Company. In 2016 Kilgore was awarded a contract by the US Army Contracting Command at Rock Island Arsenal. The \$24.9M award includes the manufacture and delivery of infrared decoy flares. These flares are a key component of aircraft survivability systems that protect helicopters, fighters and transport aircraft against infrared guided missile threats known as Man Portable Air Defense systems. All work will be performed at Kilgore's facility in Toone, Tennessee.

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APPENDIX C

SUMMARY OF BOND RESOLUTION

SUMMARY OF BOND RESOLUTIONS

The Authority adopted a resolution on July 26, 2011 (the "Series 2011 Master Resolution") authorizing the Authority's Electric System Revenue Bonds, Series 2011A Bonds and its Electric System Revenue Refunding Bonds, Series 2011B Bonds (Taxable). The Authority adopted a resolution on February 29, 2016 (the "Series 2016 Master Resolution") authorizing the Authority's Electric System Revenue Refunding Bonds, Series 2016 Bonds. The Authority adopted a resolution on January 30, 2017 (the "Series 2017 Resolution") authorizing the Authority's Electric System Revenue Bonds, Series 2017. The Series 2011 Master Resolution and the Series 2016 Master Resolution (together the "Master Resolutions") and the Series 2017 Resolution shall govern bondholder rights with respect to the Series 2017 Bonds. The following is a summary of the relevant provisions of the Master Resolutions and the Series 2017 Resolution (together the "Bond Resolution" or the "Resolution") as they pertain to the Series 2017 Bonds:

Definitions. The following terms shall have the following meanings in the Bond Resolution unless the text expressly or by necessary implication requires otherwise:

(a) "Acquired System" shall mean any separate electrical power generation, transmission or distribution system or any combination thereof acquired by the Authority or any other system facilities or equipment which the Authority is authorized to own, operate or finance and acquired by the Authority pursuant to State law.

(b) "Act" means the Bolivar Energy Authority Act, Chapter 130 of the 2006 Private Acts of the State of Tennessee, as amended from time to time.

(c) "Authority" means the Bolivar Energy Authority, created and established pursuant to the Act to own and operate the System.

(d) "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.

(e) "Bolivar Energy Authority Act" means the Act.

(f) "Bonds" shall mean any and all of the Series 2011 Bonds, the Series 2016 Bonds and/or the Series 2017 Bonds as the context may require.

(g) "Bond Fund" shall mean the "Electric System Bond and Interest Fund" established under the Bond Resolution.

(h) "Bond Registrar" shall mean Regions Bank, as the registration and paying agent for the Bonds, or any successor as from time to time designated by the Governing Body.

(i) "Book-Entry Form" or "Book-Entry System" means a form or system, as applicable, under which physical bond certificates in fully registered form are issued to a Depository, or to its nominee as Registered Owner, with the certificate of bonds being held by and "immobilized" in the custody of such Depository, and under which records maintained by persons, other than the City or the Bond Registrar, constitute the written record that identifies, and records the transfer of, the beneficial "book-entry" interests in those bonds.

(j) "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.

(k) "Chief Executive Officer" shall mean the President and Chief Executive Officer of the Authority.

(l) "City" shall mean the City of Bolivar, Tennessee.

(m) "Code" shall mean the Internal Revenue Code of 1986, as amended.

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

(o) "Consulting Engineer" shall mean (i) an engineering firm or individual engineer employed by the Authority with substantial experience in advising utilities similar to the System operated by the Authority as to the construction and maintenance of the System and in the projection of relative costs of expansion in the System or (ii) an engineer or engineers who are employees of the Authority whose reports or projections are reviewed and approved by a Financial Advisor with substantial experience in advising utilities similar to the System.

(p) "Continuing Disclosure Agreement" shall mean the Continuing Disclosure Certificate to be executed into by the Authority at the time of the issuance of the Series 2011 Bonds.

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

(r) "Current Expenses" means and shall include but not be limited to, expenses for ordinary repairs, removals and replacements of the System, salaries and wages, employees' health, hospitalization, pension and retirement expenses, fees for services, materials and supplies, rents, administrative and general expenses (including legal, engineering, accounting and financial advisory fees and expenses and costs of other consulting or technical services not funded with proceeds of bonds, notes or other debt obligations), insurance expenses, taxes and other governmental charges, the imposition or amount of which is not subject to control of the Authority, any payments made by the Authority during any Fiscal Year to purchase electrical power for distribution and sale during or after the end of that Fiscal Year, and other payments made under any electrical power supply contract or commodity swap or other hedging mechanism, and any principal or interest payments made by the Authority during any Fiscal Year on bonds, notes or other obligations, including loan agreements, issued or entered into for the purpose of financing the purchase of electrical power, and to the extent so provided by the resolution authorizing such bonds, notes or obligations and to the extent not inconsistent with generally accepted accounting principles. Current Expenses do not include depreciation or obsolescence charges or reserves therefore, amortization of intangibles or other bookkeeping entries of a similar nature, on bonds, notes or other debt obligations of the System payable from Net Available Revenues of the System, costs or charges made therefor, payments in lieu of annual taxes which would have been levied against the properties of the System

at prevailing property tax rates if the System were privately owned, capital additions, replacements, betterments, extensions or improvements to or retirement from the System which under generally accepted accounting principles are properly chargeable to the capital account or the reserve for depreciation, and do not include losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of the System, nor such property items, including taxes and fuels, which are capitalized pursuant to the then existing accounting practices of the Authority or expenses of an Acquired System if revenues of the Acquired System are not included in Revenues at the election of the Authority.

(s) "Debt Service Requirement" means the total principal, 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 payable from all or some portion of Revenues), for any period of 12 consecutive calendar months for which such a determination is made, provided:

- (i) 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 and tax status and having a similar maturity date, as certified by a Financial Adviser.
- (ii) The Debt Service Requirement with respect to any Hedged Obligations for so long as the provider of the related Hedge Agreement has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by the Authority on such Hedged Obligations pursuant to their terms and (y) the amount of Hedge Payments payable by the Authority under the related Hedge Agreement and subtracting (z) the amount of Hedge Receipts payable by the provider of the related Hedge Agreement at the rate specified in the related Hedge Agreement; provided, however, that to the extent that the provider of any Hedge Agreement is in default thereunder, the amount of interest payable by the Authority on the related Hedged Obligations shall be the interest calculated as if such Hedge Agreement had not been executed. In determining the amount of Hedge Payments or Hedge Receipts that are not fixed throughout the Hedge Period (i.e., which are variable), payable or receivable for any future period, such Hedge Payments or Hedge Receipts for any period of calculation (the "Determination Period") shall be computed (i) by assuming that the variables comprising the calculation (e.g., indices) applicable to the Determination Period are equal to the average of the actual variables which were in effect (weighted according to the length of the period during which each such variable was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period) or (ii) by using the same assumptions with respect to the Hedged Obligations as may be used for determining the assumed interest rate for Variable Rate Indebtedness.

(iii) For the purpose of calculating the Debt Service Requirement on Balloon Indebtedness and Short-Term Indebtedness, at the option of the Authority, (x) the actual principal and interest on such Balloon Indebtedness and Short Term Indebtedness shall be included in the Debt Service Requirement, subject to the other assumptions contained herein, or (y) such Balloon Indebtedness and Short Term Indebtedness shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period of 20 years at an assumed interest rate (which shall be the interest rate certified by a Financial Adviser to be the interest rate at which the 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 shall not be applicable for purposes of determining the Authority's Debt Service Requirement for purposes of Section 10(d) of this resolution unless the Authority has a written commitment from a bank, underwriting firm or other financial institution with a Rating in one of two highest categories of at least one Rating Agency (ignoring any gradations within a Rating Category) to refinance at least 90% of the principal amount of such Balloon Indebtedness or Short-Term Indebtedness coming due in the relevant Fiscal Year.

(t) "Depository" shall mean any securities depository that is a clearing agency under federal laws operating and maintaining, with its participants or otherwise, a Book-Entry System, including, but not limited to, DTC.

(u) "DTC" means the Depository Trust Company, a limited purpose company organized under the laws of the State of New York, and its successors and assigns.

(v) "DTC Participant(s)" means securities brokers and dealers, banks, trust companies and clearing corporations that have access to the DTC System.

(w) "Financial Advisor" shall mean Cumberland Securities Company, Inc., Knoxville, Tennessee, or another 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 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 Financial Adviser has been retained.

(x) "Financial Guaranty Agreement" shall mean any Financial Guaranty Agreement executed in connection with a Reserve Fund Credit Facility.

(y) "Fiscal Year" shall mean the twelve-month period beginning on July 1 of each year and ending on the last day of June of the following year.

(z) "Governing Body" shall mean the Board of Directors of the Authority.

(aa) "Hedge Agreement" means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement,

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

(bb) "Hedged Obligations" means any Bonds or Parity Bonds for which the Authority shall have entered into a Hedge Agreement.

(cc) "Hedge Payments" means amounts payable by the Authority pursuant to any Hedge Agreement, other than Termination Payments, fees, expenses, and indemnity payments.

(dd) "Hedge Period" means the period during which a Hedge Agreement is in effect.

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

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

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

(hh) "Net Available Revenues" shall mean the Revenues, excluding any profits or losses on the sale or other disposition in the ordinary course of business, of investments or fixed or capital assets, less Current Expenses.

(ii) "Obligations of the United States of America" shall mean direct obligations of, or obligations the principal of and interest on which are guaranteed by, the United States government or obligations of any agency or instrumentality of the United States of America which are permitted investments under Tennessee law for the purposes for which they are to be purchased and/or held, which obligations shall not be subject to redemption prior to their maturity other than at the option of the registered owner thereof.

(jj) "Outstanding Parity Bonds" shall mean the Series 2011 Bonds and the Series 2016 Bonds.

(kk) "Parity Bonds" shall mean bonds, notes, loan agreements, and other debt obligations, including Balloon Indebtedness, Short-Term Indebtedness and Variable Rate Indebtedness, issued by or entered into by the Authority on a parity with the Bonds herein authorized in accordance with the restrictive provisions of the Bond 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 System as is permitted herein or the revenues from such Acquired System are not excluded from Net Available Revenues. Upon the issuance of the Series 2017 Bonds, the Series 2011 Bonds, Series 2016 Bonds and Series 2017 Bonds will be Parity Bonds.

(ll) "Project" shall mean additions and improvements to the System; all property real or personal appurtenant thereto; and all legal, fiscal, engineering and similar costs related thereto.

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

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

(oo) "Reserve Fund" (a) with respect to the Series 2011A Bonds and Series 2011B Bonds shall mean the separate Debt Service Reserve Funds established pursuant to the Series 2011 Master Resolution for the benefit of the Series 2011A Bonds and for the benefit of the Series 2011B Bonds, and (b) with respect to the Series 2016 Bonds, Series 2017 Bonds and any Parity Bonds hereafter issued, shall mean the separate Debt Service Reserve Fund established pursuant to the Series 2016 Master Resolution for the benefit of the Series 2016 Bonds, the Series 2017 Bonds and any Parity Bonds hereafter issued as the case may be.

(pp) "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 and any Parity Bonds.

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

(rr) "Reserve Fund Requirement" shall mean the least of (a) the Maximum Annual Debt Service Requirement on the Bonds and Parity Bonds during the term of the Bonds and Parity Bonds; (b) 125% of the average annual principal and interest requirement, when due, on a Fiscal Year basis, including principal payable by reason of the mandatory redemption provisions of any Bonds and Parity Bonds during the term of the Bonds and Parity Bonds, or (c) 10% of the stated principal amount of the Bonds and Parity Bonds during the term of the Bonds and Parity Bonds, as from time to time interpreted under the Code; provided, however, with respect to Variable Rate Indebtedness, it shall be assumed that such Variable Rate Indebtedness bears interest through maturity at that rate which the original purchaser of such Variable Rate Indebtedness or the Financial Advisor certifies as of the date of issuance thereof would have borne had such Variable Rate Indebtedness borne a fixed rate of interest based upon securities of similar quality and tax-status and having a similar maturity date or dates.

(ss) "Revenues" shall mean all revenues, rentals, earnings and income of the System from whatever source, determined in accordance with generally accepted accounting principles, including all revenues derived from the operation of the System; proceeds from the sale of property; proceeds of insurance and condemnation awards and compensation for damages, to the extent not applied to the payment of the cost of repairs, replacements and improvements; and all amounts realized from the investment of money in the accounts and funds of the System, including money in any accounts and funds created by this resolution, and resolutions authorizing the Bonds, any Parity Bonds or bonds subordinate to the Bonds and Parity Bonds (excluding any investment earnings from construction or improvement funds created for the deposit of bond proceeds pending use, to the extent such income is applied to the purposes for which the bonds were issued, and funds created to

refund any outstanding obligations payable from Revenues of the System) and at the election of the Authority, shall not include any rates, fees, rentals or other charges 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.

(tt) "Series 2011 Bonds" shall mean the Series 2011A Bonds and the Series 2011B Bonds issued pursuant to the Series 2011 Master Resolution.

(uu) "Series 2011A Bonds" shall mean the \$3,000,000 Electric System Revenue Bonds, Series 2011A, issued pursuant to the Series 2011 Master Resolution.

(vv) "Series 2011B Bonds" shall mean the \$555,000 Electric System Revenue Bonds, Series 2011B (Taxable), issued pursuant to the Series 2011 Master Resolution.

(ww) "Series 2016 Bonds" shall mean the \$2,840,000 Electric System Revenue Refunding Bonds, Series 2016, issued pursuant to the Series 2011 Master Resolution and the Series 2016 Master Resolution.

(xx) "Series 2017 Bonds" shall mean the not-to-exceed \$2,100,000 Electric System Revenue Bonds, Series 2017, to be issued pursuant to the Series 2011 Master Resolution, Series 2016 Master Resolution and the Series 2017 Resolution.

(yy) "Short-Term Indebtedness" shall mean bonds, notes, loan agreements or other debt obligations, including Variable Rate Indebtedness, maturing five (5) years or less from their date of issuance, issued by the Authority as Parity Bonds in accordance with the restrictive provisions of the Bond Resolution.

(zz) "System" shall mean the complete electrical power system of the Authority, together with all electric system properties of every nature hereafter owned by the Authority, including all improvements and extensions made by the Authority while the Bonds and Parity Bonds remain outstanding, and including all real and personal property of every nature comprising part of or used or useful in connection with the electric system, all administrative and operational support facilities, and including all appurtenances, contracts, leases, franchises and other intangibles; provided, however, at the election of the Authority, an Acquired System may be included within the System as defined herein and become a part thereof or, at the election of the Authority, not become a part of the System but be operated as a separate and independent system by the Authority with the continuing right, upon the election of the Authority to incorporate such separately Acquired System within the System.

(aaa) "Termination Payments" means an amount payable by or to the Authority upon termination of a Hedge Agreement.

(bbb) "the Underwriter" shall mean the purchaser of the Series 2017 Bonds.

(ccc) "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.

Findings of the Governing Body. It is found and determined by the Governing Body as follows: (a) For the purpose of (i) paying certain costs of acquiring, constructing and equipping additions and improvement to the System, (ii) funding a debt service reserve fund and/or debt service reserve fund surety, if required, and (iii) paying costs of issuance and related expenditures,

the Authority authorizes the issuance not-to-exceed \$2,100,000 Electric System Revenue Bonds, Series 2017 of the Authority pursuant to the Act, and other applicable provisions of law.

Pledge of Net Available Revenues. The punctual payment of principal and Compound Accreted Value of, premium, if any, and interest on the Bonds, any Parity Bonds and Hedge Payments, net of Hedge Receipts, shall be payable from and secured equally and ratably by the Net Available Revenues without priority by reason of number or time of sale or execution or delivery. The Net Available Revenues are hereby irrevocably pledged to the punctual payment of such principal, Compound Accreted Value, premium, and interest on the Bonds and any Parity Bonds and Hedge Payments, net of Hedge Receipts, as the same become due.

All other payments payable under the Bond Resolution or under the resolutions authorizing any Parity Bonds shall be payable from the Net Available Revenues of the System subject to the prior pledge of such Net Available Revenues to the principal of, premium, if any, and interest on the Bonds, any Parity Bonds and Hedge Payments, net of Hedge Receipts, and such Net Available Revenues are hereby pledged to such other payments.

Application of Net Available Revenues. From and after the delivery of the Bonds, and as long as any of the Bonds or Parity Bonds shall be outstanding and unpaid either as to principal or as to interest and other amounts thereunder, or until the discharge and satisfaction of all the Bonds as provided in the Bond Resolution and Parity Bonds as provided in the resolution authorizing such Parity Bonds, the entire Net Available Revenues of the System, shall be deposited as collected to the Revenue Fund of the Authority. The money so deposited shall be used only as follows:

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

(b) The money remaining in the Revenue Fund, after payment of Current Expenses, shall next be used to make deposits into a separate and special fund, to be known as the "Electric System Bond and Interest Fund" (the "Bond Fund"), to be kept separate and apart from all other funds of the Authority and used to pay principal of, Maturity Amounts, premium, if any, and interest on the Bonds and Parity Bonds as the same become due, either by maturity or mandatory redemption and to make Hedge Payments net of Hedge Receipts, if any, related to Bonds and Parity Bonds. Such deposits shall be made monthly, or as otherwise set forth herein, until the Bonds and all Parity Bonds are paid in full or discharged and satisfied, beginning in the month next following delivery of the Bonds.

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

With respect to interest on the Bonds and any Parity Bonds, there shall be deposited to the Bond Fund, (i) if interest is payable semi-annually, then monthly an amount equal to one-sixth (1/6) of the interest coming due on the next interest payment date or an amount that together with all other

monthly deposits of approximately equal amounts during such period and amounts otherwise in said Bond Fund will be sufficient for payment of interest next due on the Bonds and Parity Bonds, or (ii) if interest is payable more frequently than semi-annually on any Parity Bonds, then as specified in the resolution authorizing such Parity Bonds. All or a portion of the initial interest payment for the Bonds may be paid from capitalized interest deposited to the Bond Fund.

The principal component shall be an amount not less than one-twelfth (1/12) of the principal amounts coming due, whether by maturity or mandatory redemption, on the Bonds and Parity Bonds then outstanding during such twelve-month period, provided, however, that no further monthly or periodic deposit shall be required with respect to the next principal or interest payment date when the Bond Fund balance is equal to or greater than the amount needed to pay interest coming due on the next interest payment date and the principal amounts payable, either by maturity or mandatory redemption, during the applicable twelve-month period. Money in the Bond Fund shall be used solely and is hereby expressly and exclusively pledged for the purpose of paying principal of, mandatory sinking fund payments, and interest on the Bonds and Parity Bonds.

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

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

(d) The Reserve Fund Requirement for each series of Bonds or Parity Bonds shall be fully satisfied by a Reserve Fund Credit Facility or Facilities, funds of the Authority, or proceeds of such series of Bonds or Parity Bonds or a combination thereof, deposited into a separate and special fund for such series, to be known and designated as the "Series ___ Debt Service Reserve Fund" (the "Reserve Fund"). The Reserve Funds established under the Series 2011 Master Resolution shall be available and secure only the outstanding Series 2011 Bonds and shall hereafter be known as the "Series 2011 Debt Service Reserve Fund"). Separate Reserve Funds for the Series 2016 Bonds (the "Series 2016 Debt Service Reserve Fund") and the Series 2017 Bonds (the "Series 2017 Debt Service Reserve Fund") are hereby created to be kept separate and apart from all other funds of the Authority. No deposit shall be required to be made to the Reserve Fund for any series of Bonds unless the amount in such Reserve Fund, together with the Reserve Fund Credit Facility or Facilities, if any, available for such Reserve Fund becomes less than the Reserve Fund Requirement for the particular series of Bonds or Parity Bonds thereby secured. The Chief Executive Officer shall determine the method of funding the Reserve Fund Requirement for the Bonds and any Parity Bonds hereafter issued. The Reserve Fund Credit Facility, if any, for any series of Bonds or Parity Bonds shall be held by the Bond Registrar. The Chief Executive Officer is authorized to execute all documents necessary or appropriate to obtain a Reserve Fund Credit Facility in connection with the Bonds, including a Financial Guaranty Agreement.

In the event deposits to any Reserve Fund shall be required, the next available money in the Revenue Fund shall be used to make deposits 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 for such Reserve Fund and the amount in said Fund, together with the Reserve Fund Credit Facility

or Facilities, if any, immediately following the occurrence of such deficiency, so that any deficiency in said Fund shall be replenished over a period of not greater than twenty-four (24) consecutive months; provided, any monthly payments in excess of said minimum payments shall be a credit against the next ensuing payment or payments. In addition, if for any reason there is not sufficient money available in the Revenue Fund to make all payments required hereunder for each Reserve Fund relating to the Bonds and any Parity Bonds then Outstanding, then payments as to each such Reserve Fund shall be made on a pro rata and pari passu basis between all such Reserve Funds. 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 each such Reserve Fund, together with the Reserve Fund Credit Facility or Facilities, if any, is less than the Reserve Fund Requirement. All deposits to the Reserve Funds shall be made from the first money in the Revenue Fund thereafter received which shall not then be required to pay Current Expenses, to be transferred into the Bond Fund, or to be paid to the Reserve Fund Credit Facility Issuer or Issuers as above provided. Money in the Reserve Fund for each issue of Bonds or Parity Bonds shall be used solely for the purpose of paying principal of or interest on the particular issue of Bonds for the payment of which funds are not available in the Bond Fund.

At the option of the Authority, the Authority may satisfy the Reserve Fund Requirement as to any issue of Bonds or Parity Bonds, or a portion thereof at any time, by providing for the benefit of owners of the Bonds or Parity Bonds of such issue a Reserve Fund Credit Facility or Facilities in an amount not greater than the Reserve Fund Requirement applicable to such issue of Bonds or Parity Bonds and release funds on deposit in the relevant Reserve Fund to be used for any legally permissible purpose. In the event any Reserve Fund Credit Facility Issuer, or any successor thereto, shall cease to have a Rating required for a Reserve Fund Credit Facility Issuer or any Reserve Fund Credit Facility becomes unenforceable for any reason, within 90 days from the date the Authority receives notice of either of said events, the Authority shall either substitute a new Reserve Fund Credit Facility or Facilities or commence funding the Reserve Fund for such issue of Bonds or Parity Bonds from Net Available Revenues as required by the preceding paragraph hereof, or a combination thereof. 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 Bond Registrar and the Reserve Fund Credit Facility Issuer or Issuers and delivery of a Reserve Fund Credit Facility or Facilities in substitution therefor.

In the event of the issuance of Parity Bonds pursuant to the restrictive provisions of the applicable Master Resolutions or the substitution of a Reserve Fund Credit Facility or Facilities for less than the full amount of the Reserve Fund Requirement as to any issue of Bonds or Parity Bonds, the Authority shall immediately satisfy the Reserve Fund Requirement by depositing funds to the Reserve Fund for such issue of Bonds or Parity Bonds or obtaining a Reserve Fund Credit Facility or Facilities, or any combination thereof, in an aggregate amount equal to the Reserve Fund Requirement for such issue of Bonds or Parity Bonds taking into account any funds then held therein or the amount of any Reserve Fund Credit Facility or Facilities then in effect for the Reserve Fund for such issue.

In the event of the necessity of a withdrawal of funds from the Reserve Fund for any issue of Bonds or Parity Bonds 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 for any issue of Bonds or Parity Bonds 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 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 any other provision to the contrary, 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 which would adversely affect owners or holders of the Bonds.

It shall be the responsibility of the Authority 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.

Notwithstanding the foregoing provisions, so long as the Authority's annual audit shows that Net Revenues of the System are greater than or equal to two (2.0) times the Maximum Annual Debt Service Requirement of all Parity Bonds then Outstanding, the Authority shall not be required to fund the Reserve Fund for the Series 2011 Bonds, the Series 2016 Bonds, the Series 2017 Bonds, or such issue of Parity Bonds hereafter issued. If during the term of the Series 2011 Bonds, the Series 2016 Bonds, the Series 2017 Bonds or any Parity Bonds, the Authority receives an annual audit showing that the Net Revenues of the System are less than two (2.0) times the Maximum Annual Debt Service Requirement of the Bonds and any Parity Bonds, then commencing in the month next following the Authority's receipt of such audit, the Authority shall begin making deposits to the Reserve Funds for the Series 2011 Bonds, the Series 2016 Bonds, the Series 2017 Bonds and any Parity Bonds hereafter issued in accordance with the above paragraphs in order to satisfy the Reserve Fund Requirement for each issue of Series 2011 Bonds, Series 2016 bonds, Series 2017 Bonds and Parity Bonds hereafter issued. If the Authority subsequently receives an annual audit showing that the Net Revenues of the System are greater than or equal to two (2.0) times the Maximum Annual Debt Service Requirement of the Series 2011 Bonds, Series 2016 Bonds, Series 2017 Bonds and any Parity Bonds, then any funds then on deposit in the Reserve Fund for such Series 2011 Bonds, Series 2016 Bonds or Parity Bonds hereafter issued shall be released from the Reserve Fund for such issue of Series 2011 Bonds, Series 2016 Bonds, Series 2017 Bonds or Parity Bonds and deposited to the Revenue Fund to be applied in accordance with the provisions of the Bond Resolution.

(e) The next available money in the Revenue Fund shall be used for the payment of all other payments to be made under the Bond Resolution and the resolutions authorizing any Parity

Bonds.

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

(g) Next moneys in the Revenue Fund may be used to make payments in-lieu-of-taxes and to establish such additional reserves as in the judgment of the Authority are necessary for the sound and prudent operation of the System.

(h) All remaining moneys in the Revenue Fund may be used for any lawful purpose permitted by law.

(i) Money on deposit in the Funds described in the Bond Resolution may be invested by the Authority in such investments as shall be permitted by applicable law, as determined by 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 System and shall be deposited in the Revenue Fund. Such investments shall at any time necessary be liquidated and the proceeds thereof applied to the purpose for which the respective Fund was created; provided, however, that in no event shall moneys in the Reserve Fund be invested in instruments that mature more than two (2) years from the date the money is so invested. The Authority is authorized to enter into contracts with third parties for the investment of funds in any of the Funds described herein.

(j) The Revenue Fund, 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 the System. The Authority hereby covenants and agrees with the owners of the Bonds so long as the Bonds shall remain outstanding:

(a) The Authority shall cause the System to be maintained in good condition and operated in an efficient manner and at reasonable cost.

(b) The Authority shall maintain insurance or a self-insurance fund of a kind and in an amount which in the judgment of the Authority is sufficient to provide coverage against losses equivalent to the coverage normally in effect for similarly situated electrical power systems; provided the Authority shall not be required to insure within the limits of immunity afforded to the Authority by Sections 29-20-101 et seq., Tennessee Code Annotated, or other similar laws providing immunity to or limitation of liability to the Authority. Any amounts paid to the Authority under any such insurance from loss or casualty to property or assets of the System shall be used to replace or repair the part or parts of the System the damage or destruction of which gave rise to the payment under the insurance coverage, or, if not so used, shall be placed in a special fund and shall be used for the retirement of Bonds and Parity Bonds in advance of maturity or purchase of Bonds and Parity Bonds in the open market.

(c) The Authority will cause to be kept proper books and accounts adapted to the System,

will cause the books and accounts to be audited at the end of each Fiscal Year by a recognized independent certified public accountant or firm of such accountants. Each such audit, in addition to whatever matters may be thought proper by the accountants to be included therein, shall include the following:

- (1) A statement in detail of the Revenues and expenditures of the System and the excess of Revenues over expenditures for the Fiscal Year;
- (2) A statement showing beginning and ending balances of each Fund described 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 this resolution and the accountant's recommendations with respect to any change or improvement in the operation of the System;
- (5) The number and classifications of customer service connections to the System as of the end of the Fiscal Year;
- (6) The disposition of any Bond proceeds during the Fiscal Year;
- (7) A statement as to all breaches or defaults hereunder of which the accountants have knowledge or, in the alternative, a statement that they have no knowledge of any such breach or default.

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

(d) Prior to the commencement of each Fiscal Year, the Authority will cause to be prepared an estimate of the revenues and expenditures for the Fiscal Year next succeeding. Based on such estimate, rates shall be adjusted to the extent necessary to produce Net Available Revenues for the next succeeding Fiscal Year (i) equal to not less than 1.20 times the Debt Service Requirement payable during the next succeeding Fiscal Year on the outstanding Bonds and Parity Bonds, if any, and one (1.0) times the Debt Service Requirement on subordinate lien bonds, if any, and (ii) sufficient, in addition, to provide for any required deposits during the succeeding Fiscal Year to the Reserve Fund, and any other funds established pursuant to this resolution or any resolution authorizing Parity Bonds or subordinate lien bonds, and any payments required to be made during such Fiscal Year under any Financial Guaranty Agreements or in connection with any Reserve Fund Credit Facilities then in effect.

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

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

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

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

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

(3) The abandonment, sale or disposition is for the purpose of disposing of facilities which are no longer necessary or no longer useful to the operation of the System and the operation of the System or its revenue producing capacity is not materially impaired by such abandonment, sale or disposition or any facilities acquired in replacement thereof are of equivalent or greater value or it is in the best interests of the Authority to otherwise dispose of all or a part of the System as determined by the Governing Body of the Authority; and

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

(5) If all or substantially all of the assets of the Authority or the electric plant of the Authority is being disposed of, the Authority receives the concurrence and consent of the City Council of the City and such other approvals as are required by the Act.

Nothing herein is intended to prohibit the lease purchase of equipment or facilities of the System hereafter to be put in service or to prohibit the transfer or exchange of service areas to provide for more efficient operation of the System so long as the 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 Authority shall prepare or cause to be prepared and adopted an annual budget of estimated revenues and Current Expenses for the System for the ensuing Fiscal Year and will undertake to operate the System within such budget to the best of its ability. The Current Expenses incurred in any year will not exceed reasonable and necessary amounts therefor and the Authority will not expend any amounts or incur any obligations therefor in excess of the amounts provided for Current Expenses in the budget except upon resolution of the Authority.

(h) Each officer or employee of the Authority or any other person, other than banks or other financial institutions, having custody of funds of the System shall be under fidelity bond at all times in an amount not less than the total funds in the custody of such officer or person at any one time.

(i) The Authority will permit no free electric service and no unmetered electric service to be furnished to any consumer or user whatsoever.

(j) The rates for all services rendered by the System and the charges for all electric service supplied through the medium of the System by the Authority to all consumers shall be reasonable and just, taking into account and consideration the cost and value of the System and the cost of maintaining, repairing, insuring and operating the System, and the proper and necessary allowances for the depreciation thereof, and the amounts necessary for the payment of principal of and interest on all bonds and notes payable from such revenues.

The schedule of rates and charges to be imposed for electric services rendered by the System to users shall be as prescribed by the Authority.

(l) It is agreed with the Owners from time to time of the Bonds and Parity 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 Authority will maintain its existence as separate governmental authority and public corporation, that the complete and independent control and operation of the System will continue to be vested in the Authority, subject to the obligation and duty of the Authority to carry out and perform faithfully all of the covenants and agreements contained in this Resolution, and that, to the extent legally permissible, no law, ordinance, resolution or private act substantially changing the control and operation of the System or the composition, organization, or method of operation of the Authority will be enacted, except as may be in furtherance of such purposes and agreements.

Remedies of Bondholders. Except as expressly limited in the Bond Resolution, the registered owners of the Bonds shall have and possess all the rights of action and remedies afforded by the common law, the Constitution and statutes of the State of Tennessee and of the United States of America for the enforcement of payment of such Bonds and the interest thereon and of the pledge of the revenues made hereunder and of the covenants of the Authority hereunder, including all the benefits and rights granted by the Act.

Prohibition of Prior Lien; Parity Bonds and Notes. The Authority will issue no other notes, bonds or obligations of any kind or nature payable from or enjoying a lien on the revenues of the System having priority over the Bonds authorized by the Bond Resolution.

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

(a) Additional bonds may be issued on a parity with the Bonds and Parity Bonds without regard to the requirements of subsection (c) of this Section, if such bonds shall be issued for the

purpose of refunding any of the Bonds which shall have matured or have become subject to mandatory redemption or which shall mature or become subject to mandatory redemption not later than three months after the date of delivery of such refunding bonds and for the payment of which insufficient money is available in the Bond Fund.

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

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

(1) Either:

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

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

Requirement computed with respect to the additional bonds proposed to be issued, and the Bonds and one times (1.0) times the Maximum Annual Debt Service Requirement on any subordinate lien obligations other than the Bonds intended to be refunded by the proposed additional bonds; provided, however, that if the proposed additional bonds are to be issued for the acquisition or construction of any extension, improvement or replacement to the System, then the estimate of Net Available Revenues may be for the next three Fiscal Years ending after the time that such improvement, extension or replacement is expected to be placed in service;

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

(3) The proceeds of the additional bonds may be used only to (i) make improvements, extensions, renewals or replacements to the System, to refund Bonds, to purchase an Acquired System, or to refund bonds, subordinate lien obligations, or outstanding debt of an Acquired System, (ii) fund necessary reserves related to such additional bonds, (iii) fund capitalized interest related to the additional bonds; or (iv) pay the costs and expenses of issuance and sale of the additional bonds;

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

Application of Bond Proceeds.

(a) The proceeds of the sale of the Series 2017 Bonds shall be applied by the Authority as follows:

- (1) accrued interest, if any, shall be deposited into the Bond Fund of the Authority and used to pay interest on the Series 2017 Bonds on the first interest payment date following delivery of the Bonds;
- (2) next to pay the costs of issuance of the Series 2017 Bonds, including, but not limited to, necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, bond insurance premiums, bond rating fees, Bond Registrar fees, administrative and clerical costs, and other necessary miscellaneous expenses incurred in connection with the authorization, issuance and sale and delivery of the Series 2017 Bonds;
- (3) next, if required, an amount equal to the Reserve Fund Requirement relating to the Series 2017 Bonds shall be deposited in the Series 2017 Debt Service Reserve Fund except to the extent a Reserve Fund Credit Facility has been deposited with the Bond Registrar, in which case the fees for such Reserve Fund Credit Facility may then be paid; and

- (4) the remainder of the proceeds of the sale of the Bonds shall be deposited with a bank or trust company regulated by the Federal Deposit Insurance Corporation in a special fund known and designated as the "Electric System 2017 Project Fund" (the "2017 Project Fund"), to be kept separate and apart from all other funds of the Authority. The funds in the 2017 Project Fund shall be disbursed solely to pay the costs of the Project. Monies in the 2017 Project Fund shall be secured in the manner prescribed by applicable statutes relative to the securing of public or trust funds, if any, or, in the absence of such a statute, by a pledge of readily marketable securities having at all times a market value of not less than the amount in said 2017 Project Fund. Monies in the 2017 Project Fund shall be expended only for the purposes authorized by the Series 2017 Resolution. Any funds remaining in the 2017 Project Fund after completion of the Project authorized and payment of authorized expenses shall be deposited to the Revenue Fund. Monies in the 2017 Project Fund may be invested as directed by the Chief Executive Officer in any investment authorized for municipal funds under the applicable laws of the State of Tennessee, and approved by the issuer of the Credit Facility, if any. All income derived from such investment shall be retained in the 2017 Project Fund.

Tax-Exempt Status. The Authority recognizes that the purchasers and holders of the Series 2017 Bonds will have accepted them on, and paid therefor a price that reflects, the understanding that interest thereon is exempt from federal income taxation under laws in force on the date of delivery of the Series 2017 Bonds. In this connection, the Authority agrees that it shall take no action which may render the interest on any of said Series 2017 Bonds subject to federal income taxation and agrees to take all action as may be necessary to comply with the provisions of the Code and the regulations thereunder in order to maintain or assure the tax-exempt status of the Bonds. It is the reasonable expectation of the Governing Body of the Authority that the proceeds of the 2017 Bonds will not be used in a manner which will cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code, including any lawful regulations promulgated or proposed thereunder (or under corresponding provisions of prior law, if applicable), and to this end the said proceeds of the 2017 Bonds and other related funds established for the purposes herein set out, shall be used and spent expeditiously for the purposes described herein. The Chief Executive Officer is authorized and directed to make such certifications in this regard in connection with the sale of the 2017 Bonds as they shall deem appropriate, and such certification shall constitute a representation and certification of the Authority.

Bank-Qualification. If appropriate and, to the extent it may legally do so, the Authority hereby designates the 2017 Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3)(B) of the Code and covenants that the Bonds do not constitute private activity bonds as defined in Section 141 of the Code, and that not more than \$10,000,000 aggregate principal of obligations the interest on which is excludable (under Section 103(a) of the Code) from gross income for federal income taxes (excluding, however, private activity bonds as defined in Section 141 of the Code, other than qualified 501(c)(3) Bonds as defined in Section 145 of the Code), including the 2017 Bonds, have been or are reasonably expected to be issued by the Authority, including all subordinate entities, during the calendar year 2017.

Defeasance. If the Authority shall pay and discharge the indebtedness evidenced by any of the Bonds in any one or more of the following ways, to wit:

(a) By paying or causing to be paid the principal of and interest on such Bonds as and when the same become due and payable; or

(b) By depositing or causing to be deposited with any trust company or bank whose deposits are insured by the Federal Deposit Insurance Corporation and which has trust powers (the "Trustee"), in trust, on or before the date of maturity or redemption, sufficient money or permitted investments for purposes of defeasance as set forth below ("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) 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 Trustee to pay amounts when and as required to the Bond Registrar for further payment to the registered owners for the payment of principal of and interest and redemption premiums, if any, on such Bonds when due; or

(c) By delivering such Bonds to the Bond Registrar for cancellation; 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 owners 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 clause (b) above, then the registered owners thereof shall thereafter be entitled only to payment out of the money or Defeasance Obligations deposited as aforesaid.

Except as otherwise provided in the Bond Resolution, neither the Defeasance Obligations nor moneys deposited with the Trustee 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 premium, if any, and interest on said Bonds; provided, that any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Trustee, (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 Trustee and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Obligations maturing at times and in amounts sufficient to pay when due the principal and premium, if any, and interest to become due on said Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Authority, as received by the Trustee.

The provisions of subsequent section of the Bond Resolution related to Defeasance Obligations shall apply to this section, regardless of whether the Bonds, or any of them, are then secured by a Credit Facility.

Compliance with Continuing Disclosure Certificate. The Authority hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Resolution, failure of the Authority to comply with the Continuing Disclosure Certificate shall not be considered an event of default; however, any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations under this Section. For purposes of this Section,

“Beneficial Owner” means any person which (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. The Authority may from time to time disclose certain information and data in addition to the provisions of the Continuing Disclosure Certificate. Notwithstanding anything herein to the contrary, the Authority shall not incur any obligation to continue to provide, or to update, such additional information or data.

Further Actions. All other actions of officers of the Authority in conformity with the purposes and intent of this resolution and in furtherance of the issuance and sale of the Bonds are hereby approved and confirmed. The officers of the Authority are hereby authorized and directed to execute and deliver all certificates and instruments and to take all such further action as may be considered necessary or desirable in connection with the issuance, sale and delivery of the Bonds.

Resolution a Contract. The provisions of the Bond Resolution shall constitute a contract between the Authority and the registered owners of the Bonds, and after the issuance of the Bonds, no change, variation or alteration of any kind in the provisions of the Bond Resolution shall be made in any manner until such time as the Bonds and interest due thereon shall have been paid in full except such changes as shall be required or may be appropriate to assure the validity of the Bonds, the tax exempt status of the Series 2011A Bonds, the Series 2016 bonds and the Series 2017 Bonds and/or changes made pursuant to the section below entitled “Modification of Resolution.”

Invalidity. If any section, paragraph, clause or provision of this Resolution shall be held to be invalid or ineffective for any reason, the remainder of this Resolution shall remain in full force and effect, it being expressly hereby found and declared that the remainder of the Resolution would have been adopted by this Governing Body despite the invalidity of such section, paragraph, clause or provision.

No Conflict. All orders or resolutions in conflict herewith be and the same are hereby repealed insofar as such conflict exists, and this Resolution shall become effective immediately upon its passage.

Modification of Resolution.

(a) The Bond 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.

(b) In addition to the amendments to the Bond Resolution without the consent of owner or registered owners as referred to in subsection (a) above, the registered owners of a majority in aggregate principal amount of the Bonds and Parity Bonds at any time outstanding (not including in any case any Bonds and Parity 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 or Parity 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 Bond Resolution; provided, however, that the Bond Resolution may not be so modified or amended in such manner as to:

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

payable on the Bonds or Parity Bonds;

(4) Modify the terms of payment of principal of or interest on the Bonds or Parity 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 or Parity Bonds then outstanding;

(6) Reduce the percentage of the principal amount of the Bonds or Parity 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 Bond Resolution under the provisions of this Section, the Authority shall cause notice of the proposed amendment to be mailed by first-class mail, postage prepaid, to the owner of each Bond or Parity 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 (1) year from the date of mailing of said notice there shall be filed with the Chief Executive Officer an instrument or instruments executed by the registered owners of at least a majority in aggregate principal amount of the Bonds and Parity 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 and Parity Bonds.

If the registered owners of at least a majority in aggregate principal amount of the Bonds and Parity 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 and Parity 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 or Parity Bond pursuant to the provisions of this Section shall be irrevocable for a period of six (6) months from the date of the publication of the notice above provided for and shall be conclusive and binding upon all future registered owners of the same Bond or Parity Bond during such period. Such consent may be revoked at any time after six (6) months from the date of publication of such notice by the registered owner who gave such consent or by a successor in title by filing notice of such revocation at the Authority's office, but such revocation shall not be effective if the registered owners of a majority in aggregate principal amount of the Bonds and Parity Bonds outstanding as in this Section defined shall have, prior to the attempted revocation, consented to and approved the amendatory resolution referred to in such revocation.

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

The amount (number(s)) of the Bonds and 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 Bond Registrar, which records shall constitute conclusive proof of the ownership thereof.

Merged Systems. Nothing contained in the Bond Resolution shall prevent the Authority from acquiring an Acquired System, and nothing herein shall prevent the issuance of bonds, notes, warrants, certificates or other obligations or evidences of indebtedness, to acquire an Acquired System provided that the requirements of the Bond Resolution pertaining to Parity Bonds are met if such indebtedness is to be issued as Parity Bonds. Any Acquired System, at the election of the Authority, may be operated as a separate and independent system or be merged into the System and operated as a single unified system with the System (the "Merged Systems"). Revenues of the Merged Systems may be commingled without keeping separate accounts of the funds of each of the systems, provided all revenues of the Merged Systems are applied in accordance with this Resolution, including the payment of principal of and interest on all bonds, notes or other obligations of the Acquired System. All outstanding parity bonds and any bonds, notes and other obligations of the Acquired System outstanding upon the merger of the systems designated by the Authority may be payable from revenues of the Merged Systems on a parity and equality of lien with each other, provided the Net Available Revenues of the Merged Systems, for a period of twelve consecutive months (hereinafter sometimes called the "Twelve-Month Period") out of the eighteen months immediately preceding the merger of the systems shall be equal to at least 1.20 times the Maximum Annual Aggregate Debt Service on all outstanding Bonds and Parity Bonds, all bonds, notes and obligations of the Acquired System then outstanding and any additional indebtedness to be then issued; or if within twelve months prior to any such calculation, the Authority shall have put into effect a revised schedule of rates for the Merged Systems or any part thereof, then the Net Available Revenues of the Merged Systems, as certified by a Consulting Engineer or Financial Adviser, that would have resulted from such revised rates had they been in effect for the Twelve-Month Period, may be used in lieu of the actual Net Available Revenues for such Twelve-Month Period.

Provisions Related to Provider of Credit Facility. So long as the Bonds are secured by a Credit Facility, the following provisions shall apply:

(a) Notice to Provider of Credit Facility. Any notices required to be given by any party should also be given to the provider of the Credit Facility.

(b) Amendments to Resolution. The Bond Resolution may not be amended without the prior consent of the provider of the Credit Facility. All amendments to the Bond Resolution which are consented to by the provider of the Credit Facility shall be promptly forwarded to the Rating Agencies which have rated the Bonds.

(c) Supplemental Resolution. If a supplemental resolution is adopted for reasons other than (1) a refunding to obtain savings or (2) the issuance of additional bonds pursuant to an additional bonds test, the consent of the provider of the Credit Facility must be obtained prior to the issuance of any additional bonds and/or adoption of such supplemental resolution.

(d) Events of Default. The following shall constitute events of default hereunder:

1. the Authority fails to pay principal on the Bonds when due;
2. the Authority fails to pay interest on the Bonds when due;
3. the Authority fails to observe any other covenant or condition of the Bond Resolution and such failure continues for 30 days; and
4. the Authority declares bankruptcy.

(e) Remedies. The provider of the Credit Facility, acting alone, shall have the right to

direct all remedies upon the occurrence of an event of a default. Any Credit Provider insuring the Bonds shall be recognized as the owner of each Bond which it insures for the purposes of exercising all rights and privileges available to owners. For Bonds which it insures, the provider of the Credit Facility shall have the right to institute any suit, action, or proceeding at law or in equity under the same terms as an owner in accordance with applicable provisions of the governing documents. Other than scheduled sinking fund redemptions, any acceleration of principal payments must be subject to the prior written consent of the provider of the Credit Facility.

(f) Defeasance. The following obligations (“Defeasance Obligations”) will be permitted investments for purposes of defeasance, but only to the extent permitted by the Act and any other applicable provisions of Tennessee law:

1. Cash.
2. U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – (SLGs)).
3. Direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury itself.
4. Resolution Funding Corp. (“REFCORP”). Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.
5. Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody’s rating) then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.
6. Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.:
 - a. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
 - b. Farmers Home Administration (FmHA)
 - c. Federal Financing Bank
 - d. General Services Administration
Participation Certificates
 - e. U.S. Maritime Administration
Guaranteed Title XI financing
 - f. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures – U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds

(g) Provider of Credit Facility as Third Party Beneficiary. The provider of the Credit Facility shall be a third-party beneficiary under the Bond Resolution with the power to enforce any right, remedy or claim conferred, given or granted under the Bond Resolution.

(h) Subrogation. If principal and/or interest due on the Bonds shall be paid by the

provider of the Credit Facility, the Bonds shall remain outstanding under this Resolution for all purposes, and shall not be deemed defeased or otherwise satisfied, or paid by the Authority, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Authority to the owners shall continue to exist and shall run to the benefit of the provider of the Credit Facility, and the provider of the Credit Facility shall be subrogated to the rights of such owners.

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GENERAL PURPOSE FINANCIAL STATEMENTS

OF

BOLIVAR ENERGY AUTHORITY

FOR THE FISCAL YEAR ENDED

June 30, 2016

The General Purpose Financial Statements are extracted from the Financial Statements with Report of Certified Public Accountants of the Authority for the fiscal year ended June 30, 2016, which is available upon request from the Authority.

BOLIVAR ENERGY AUTHORITY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
JUNE 30, 2016**

BOLIVAR ENERGY AUTHORITY
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2016

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INTRODUCTORY SECTION

**BOLIVAR ENERGY AUTHORITY
DIRECTORY**
June 30, 2016

BOARD MEMBERS

Helen Johnson, Chairman
Margaret Whitemon, Vice Chairman
Todd Lowe
Dr. Frank Wilhite
Ernest Jones

MANAGEMENT TEAM

John Fortune, President
Tony Kirk, Chief Financial Officer
Tammy Foote, Administrative Assistant

COUNSEL

Allen, Summers, Simpson, Lillie & Gresham
Memphis, Tennessee
And
Denton and Cary
Bolivar, Tennessee

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION

Members of:

American Institute of Certified Public Accountants
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Independent Auditor's Report

Board of Directors
Bolivar Energy Authority
Bolivar, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities and the aggregate remaining fund information of Bolivar Energy Authority (the Authority), as of and for the year ended June 30, 2016, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 financial position of the business type activities and the aggregate remaining fund information of Bolivar Energy Authority as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in net pension liability and related ratios, schedule of Plan contributions, and the schedule of investment returns as listed on the table of contents, 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 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 responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016 on our consideration of Bolivar Energy Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over

financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bolivar Energy Authority's internal control over financial reporting and compliance.

Alexander Thompson Arnold, PLLC

Jackson, Tennessee
October 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Bolivar 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 year ended June 30, 2016. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

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

- Total assets and deferred outflows of resources at year-end were \$29.04 million and \$1.60 million, respectively, and exceeded liabilities and deferred inflows of resources by \$15.19 million (i.e. net position). Total assets decreased by \$1.76 million due primarily to a decrease in cash and cash equivalents due to the refunding of Revenue Bonds, Series 2006A.
- Net income was \$472 thousand during the current year, which is a significant decrease from the 2015 change in net position of \$2.23 million. This decrease is mainly caused by gain on sale of TVA transmission line reported in 2015 of \$859 thousand, the decrease rental revenues from the transmission line, and by the decreased demand due to mild weather the area experienced in 2016.
- During fiscal year 2016, the Authority delivered 224 million kWh compared to 235 million kWh during the fiscal year 2015. This was due to a decrease in demand as a result of the mild weather as mentioned above.
- Operating revenues were \$26.95 million, a decrease from fiscal year 2015 in the amount of \$1.25 million or 4.45%.
- Operating expenses were \$26.15 million, a decrease from fiscal year 2015 in the amount of \$356 thousand or 1.34%.
- Ratio of operating income to total operating revenue was 0.03 for 2016.

OVERVIEW OF THE FINANCIAL REPORT

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 is made up of four sections: 1) the introductory section, 2) the financial section, 3) 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

A Proprietary Fund is used to account for the operations of the Authority, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of

providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

A Fiduciary Fund is used to account for resources held for the benefit of parties outside of the Authority. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the Authority's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

The *Statement of Net Position* presents the financial position of the Authority on a full accrual historical cost basis. The statement includes all of the Authority's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. It also provides the basis for computing rate of return, evaluating the capital structure of the 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 *Statement of Fiduciary Net Position* includes all accounting assets and liabilities of the plan and provides a picture of the fiduciary net position of the plan as of the end of the current fiscal year compared to the previous fiscal year. Assets less liabilities results in net position restricted for pensions held in trust at year-end.

The *Statement of Changes in Fiduciary Net Position* reports all additions and deductions of the plan for the current fiscal year compared to the previous fiscal year. Additions consist of employer contributions and investment earnings. Deductions include benefits paid to plan participants and administrative expenses. Total additions minus total deductions provide the net increase in net position for the current fiscal year compared to the previous fiscal year. The increase in net position plus the beginning net position restricted for pensions results in the ending net position restricted for pensions for the current year compared to the previous year.

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 reports 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 \$1.42 million for the fiscal year ended June 30, 2016. The analysis below focuses on the Authority's net position (Table 1) and changes in net position (Table 2) during the year. The decrease in both current and other assets and in other liabilities was due to the refunding of the Revenues Bonds, Series 2006A in current year.

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 year.

CONDENSED STATEMENT OF NET POSITION (TABLE 1)

	June 30, 2016	June 30, 2015	Increase (Decrease)	
			\$	%
Current and other assets	\$ 7,948,617	\$ 9,880,138	\$ (1,931,521)	-19.55%
Capital assets	21,092,383	20,915,793	176,590	0.84%
Total assets	<u>29,041,000</u>	<u>30,795,931</u>	<u>(1,754,931)</u>	-5.70%
Deferred outflows of resources	<u>1,598,100</u>	<u>879,783</u>	<u>718,317</u>	81.65%
Current liabilities	4,812,788	4,829,358	(16,570)	-0.34%
Other liabilities	10,467,430	12,790,388	(2,322,958)	-18.16%
Total liabilities	<u>15,280,218</u>	<u>17,619,746</u>	<u>(2,339,528)</u>	-13.28%
Deferred inflows of resources	<u>164,237</u>	<u>280,458</u>	<u>(116,221)</u>	-41.44%
Net investment in capital assets	15,361,817	12,805,793	2,556,024	19.96%
Restricted	1,120,164	313,716	806,448	257.06%
Unrestricted	<u>(1,287,336)</u>	<u>656,001</u>	<u>(1,943,337)</u>	-296.24%
Total net position	<u>\$ 15,194,645</u>	<u>\$ 13,775,510</u>	<u>\$ 1,419,135</u>	10.30%

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (TABLE 2)

	June 30, 2016	June 30, 2015	Increase (Decrease)	
			\$	%
Operating revenues	\$ 26,950,953	\$ 28,205,019	\$ (1,254,066)	-4.45%
Non-operating revenues	19,944	876,730	(856,786)	-97.73%
Total revenues	<u>26,970,897</u>	<u>29,081,749</u>	<u>(2,110,852)</u>	-7.26%
Cost of sales and service	18,115,161	19,101,306	(986,145)	-5.16%
Operations expense	4,084,167	3,510,952	573,215	16.33%
Maintenance expense	1,657,588	1,599,107	58,481	3.66%
Depreciation expense	1,659,327	1,662,453	(3,126)	-0.19%
Tax equivalents	629,445	627,372	2,073	0.33%
Non-operating expenses	352,858	346,720	6,138	1.77%
Total expenses	<u>26,498,546</u>	<u>26,847,910</u>	<u>(349,364)</u>	-1.30%
Change in net position	<u>472,351</u>	<u>2,233,839</u>	<u>(1,761,488)</u>	-78.85%
Beginning net position	13,775,510	14,914,942	(1,139,432)	-7.64%
Prior period adjustment/ restatement	946,784	(3,373,271)	4,320,055	-128.07%
Beginning net position- restated	<u>14,722,294</u>	<u>11,541,671</u>	<u>3,180,623</u>	27.56%
Ending net position	<u>\$ 15,194,645</u>	<u>\$ 13,775,510</u>	<u>\$ 1,419,135</u>	10.30%

Operating revenues showed a 4.45% decrease from 2015 to 2016 and operating expenses showed a 1.34% decrease from 2015 to 2016. Ending net position increased 10.30% from 2015 to 2016 mainly due to the restatement of beginning net position explained at Note 4G.

CAPITAL ASSETS

At the end of fiscal year 2016, the Authority had \$21.09 million (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, land rights, distribution and transmission systems and their related equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as transmission plant, distribution plant and general plant. This investment represents an overall increase (net of increases and decreases) of \$177 thousand or 0.84% as compared to 2015.

The following tables summarize the Authority's capital assets, net of accumulated depreciation, and changes therein, for the year ended June 30, 2016. These changes are presented in detail in Note 3C to the financial statements.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION (TABLE 3)

	June 30, 2016	June 30, 2015	Increase (Decrease)	
			\$	%
Transmission plant	\$ 635,800	\$ 664,792	\$ (28,992)	-4.36%
Distribution plant	17,886,571	18,477,690	(591,119)	-3.20%
General plant	1,010,347	699,936	310,411	44.35%
Construction in progress	1,559,665	1,073,375	486,290	45.30%
Total capital assets, net	<u>\$ 21,092,383</u>	<u>\$ 20,915,793</u>	<u>\$ 176,590</u>	0.84%

The Authority plans on using existing financial resources to keep upgrading existing systems and adding new systems where it sees fit.

DEBT ADMINISTRATION

The Authority has outstanding revenue bonds of \$5.59 million as of June 30, 2016. Principal payments are due in the upcoming fiscal year in the amount of \$360 thousand with interest payments totaling approximately \$175 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 RATES

As proposed for fiscal year 2017, rate increases or decreases will be made as reflected by TVA's monthly fuel cost adjustments which are revenue neutral to the Authority. This rate is set by the supplier and passed on to the customer. The fiscal year 2017 budget was approved by the Board on May 24, 2016. The City is actively recruiting new industries to the area to make up for past plant closures. Any new industry that comes to the area will increase the Authority's power sales and should help the overall financial condition of the Authority.

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 Manager of Bolivar Energy Authority, 815 Tennessee St., Bolivar, TN, 38008.

BOLIVAR ENERGY AUTHORITY
STATEMENT OF NET POSITION
June 30, 2016

	2016
Assets	
Current assets	
Cash on hand	\$ 3,000
Cash and cash equivalents - general	2,029,024
Accounts receivable - trade (net of allowance for uncollectibles)	1,853,813
Accounts receivable - other	74,198
Materials and supplies	658,757
Prepayments and other current assets	108,415
Total current assets	4,727,207
Noncurrent assets	
Other assets:	
Cash and cash equivalents - restricted	252,449
Unamortized debt expense	531,709
Investments - restricted	900,000
Investments - unrestricted	1,501,691
Notes receivable - TVA Home Insulation Program	35,561
Total other assets	3,221,410
Capital assets:	
Transmission plant	935,022
Distribution plant	34,493,550
General plant	4,013,506
Construction in progress	1,559,665
Less: Accumulated depreciation	(19,909,360)
Total capital assets (net of accumulated depreciation)	21,092,383
Total noncurrent assets	24,313,793
Total assets	29,041,000
Deferred Outflows of Resources	
Mapping system	349,602
Pension related deferred outflows of resources	1,248,498
	1,598,100

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

BOLIVAR ENERGY AUTHORITY
STATEMENT OF NET POSITION
June 30, 2016

	2016
Liabilities	
Current liabilities:	
Accounts payable	3,249,544
Other accrued expense	9,934
Customers' deposits	950,195
Bonds payable- current portion (plus premium of \$10,680)	370,680
Interest accrued - bonds- payable from restricted assets	32,285
Compensated absences	200,150
Total current liabilities	4,812,788
Noncurrent liabilities:	
Bonds payable- noncurrent portion (plus premium of \$129,886)	5,359,886
Advances from Home Insulation Program	36,928
Net pension liability	4,469,268
Compensated absences	601,348
Total noncurrent liabilities	10,467,430
Total liabilities	15,280,218
Deferred Inflows of Resources	
Pension related deferred inflows of resources	164,237
Net Position	
Net investment in capital assets	15,361,817
Restricted for debt service	1,120,164
Unrestricted	(1,287,336)
Total net position	\$ 15,194,645

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

BOLIVAR ENERGY AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2016

	2016
Operating revenues	
Charges for sales and services	\$ 26,428,144
Other electric revenue	522,809
Total operating revenues	26,950,953
Operating expenses	
Cost of sales and services	18,115,161
Operations expense	4,084,167
Maintenance expense	1,657,588
Tax equivalent payments	629,445
Provision for depreciation	1,659,327
Total operating expenses	26,145,688
Operating income (loss)	805,265
Nonoperating revenues (expenses)	
Interest income	19,642
Loss on Venale investment	(36,722)
Interest on long-term debt - bonds	(282,355)
Amortization of debt expense	(32,281)
Miscellaneous revenue	302
Miscellaneous expense	(1,500)
Total nonoperating revenues (expenses)	(332,914)
Income (loss) before transfers	472,351
Change in net position	472,351
Total net position - beginning	13,775,510
Prior period adjustment	946,784
Total net position - beginning - adjusted	14,722,294
Total net position - ending	\$ 15,194,645

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

BOLIVAR ENERGY AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016

	2016
Cash flows from operating activities	
Cash received from consumers	\$ 26,895,565
Cash paid to suppliers of goods and services	(22,327,429)
Cash paid to employees for services	(1,963,265)
Amounts paid for taxes	(629,445)
Customer deposits received	198,120
Customer deposits refunded	(152,637)
Net cash provided (used) by operating activities	2,020,909
Cash flows from non-capital financing activities	
Payment of Home Insulation Program	(24,547)
Net cash provided (used) by non-capital financing activities	(24,547)
Cash flows from capital and related financing activities	
Advances from Refunding Bonds Series 2016	2,842,760
Repayment of Revenue Bonds Series 2006A	(5,170,000)
Repayment of Revenue Bonds Series 2011	(190,000)
Interest paid on bonds	(328,223)
Construction and acquisition of plant	(2,886,647)
Plant removal cost	(162,566)
Materials salvaged from retirements	1,213,296
Net cash provided (used) by capital and related financing activities	(4,681,380)
Cash flows from investing activities	
Purchase of investment	(2,372,801)
Proceeds from sale of investments	2,300,000
Notes receivable - TVA Home Insulation Program	23,905
Interest income	19,642
Miscellaneous revenue	302
Miscellaneous expense	(1,500)
Net cash provided (used) by investing activities	(30,452)
Net increase (decrease) in cash and cash equivalents	(2,715,470)
Cash and cash equivalents - beginning of year	4,999,943
Cash and cash equivalents - end of year	\$ 2,284,473
Cash and cash equivalents	
Unrestricted cash on hand	\$ 3,000
Unrestricted cash and cash equivalents on deposit	2,029,024
Restricted cash and cash equivalents on deposit	252,449
Total cash and cash equivalents	\$ 2,284,473

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

**BOLIVAR ENERGY AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016**

	2016
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ 805,265
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense charged to operations	1,659,327
Change in pension related deferred outflows and inflows of resources	(459,824)
Amortization of mapping system	103,935
(Increase) decrease in accounts receivable	(55,388)
(Increase) decrease in materials and supplies	(80,762)
(Increase) decrease in prepayments and other assets	(44,450)
Increase (decrease) in accounts payable and accrued expenses	(87,968)
Increase (decrease) in net pension liability	135,291
Increase (decrease) in customer deposits	45,483
Net cash provided (used) by operating activities	\$ 2,020,909

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

BOLIVAR ENERGY AUTHORITY
STATEMENTS OF FIDUCIARY NET POSITION
June 30, 2016

	<u>2016</u>
Assets	
Cash and cash equivalents	\$ 249,038
Investments	<u>6,483,178</u>
Net assets available for benefits	<u><u>6,732,216</u></u>
 Liabilities	 <u>-</u>
 Net position restricted for pensions	 \$ <u>6,732,216</u>

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

BOLIVAR ENERGY AUTHORITY
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2016

	2016
Additions	
Contributions	
Employer	\$ 845,019
Investment income	
Dividend income	282,060
Interest income	387
Net depreciation in fair value of investments	(379,930)
Total investment income (loss)	(97,483)
Total additions	747,536
Deductions	
Benefit payments	211,509
Administrative and other expenses	15,015
Total deductions	226,524
Net increase in fiduciary net position	521,012
Net position restricted for pensions	
Beginning of year	6,211,204
End of year	\$ 6,732,216

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

BOLIVAR ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Bolivar Energy Authority (the Authority) was formed June 27, 2006, pursuant to Chapter No. 130 of the Private Acts, 2006 cited as the Bolivar 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 Bolivar Electric Utility 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 utility and telecommunications systems within or outside the corporate limits of the City of Bolivar and within or outside the state. Upon creation of the Authority, the City of Bolivar was authorized to transfer to the Authority all its rights, title and interest in and to all assets operated for the City by Bolivar Electric Utility 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. The accompanying financial statements present the financial position, results of operations and cash flows of Bolivar Energy Authority as of and for the period ended June 30, 2016.

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

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

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Assets, Liabilities, and Equity

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.

BOLIVAR ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

Investments – Pension Plan

Investment policy. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Directors by a majority vote of its members. It is the policy of the Board of Directors to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

Method used to value investment. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Real estate assets are reported at fair value utilizing an income approach to valuation. By contract, an independent appraisal is obtained once every year to determine the fair market value of the real estate assets.

Accounts receivable

Trade receivables result from unpaid billings for electric 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.

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 statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Capital assets

Capital assets, which include property, plant, equipment, and construction in progress, are defined by the Authority as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

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

BOLIVAR ENERGY AUTHORITY
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General plant	5 - 40 years
Transmission plant	28 - 33 years
Distribution plant	16 - 40 years

Compensated absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay has been accrued and is reflected as both a current and non-current liability on the financial statements. All sick leave has been accrued and is reflected as both a current and non-current liability on the financial statements.

Long-term obligations

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Actual results from applying the straight-line method are not materially different from those that would result from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as noncurrent 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 regulatory option as part of GASB Statement No. 65 is available due to the above mentioned cost being used for rate setting by the utility.

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(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority's deferred outflows of resources are related to the mapping system and to the Authority's pension requirements under GASB Statement No. 68.

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 an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority's deferred inflows of resources are related to the Authority's pension requirements under GASB Statement No. 68.

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:

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

Impact of recently issued accounting pronouncements

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*, effective for fiscal years beginning after June 15, 2015, provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

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 the Authority's participation in their single employer defined benefit pension plan, and additions to/deductions from the Authority's fiduciary net position have been determined on the same basis as they are reported by the retirement plan. For this purposes, benefits are recognized when due and payable in accordance with the benefit terms of the pension plan. Investments are reported at fair value. Benefits are recorded when the participant has met all of the Plan requirements to receive a benefit. At June 30, 2016 no benefits were payable and not paid. Qualified Plan administrative expenses are paid by the Plan. During the year ended June 30, 2016 administrative expenses paid were \$15,015.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The fiscal year 2017 budget was approved unanimously at the May 2016 Board meeting.

NOTE 3 – DETAILED NOTES

A. Deposits and Investments

Investment- Electric

Investments consist of certificates of deposits for renewal and replacement with a maturity of twelve months and an investment of \$1,691 in The Venale Corporation for the fiscal year ended June 30, 2016.

BOLIVAR ENERGY AUTHORITY
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Custodial credit risk

The Authority's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statutes require 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, 2016, all bank deposits were fully collateralized or insured.

Investment- Fiduciary Fund

The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plan has the following recurring fair value measurements as of June 30, 2016:

Investment by fair value level	Total	Fair value measurement using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Debt securities				
Mutual funds - fixed	\$ 2,325,308	\$2,323,308	\$ -	\$ -
Mutual funds - U.S. government	227,788	227,788	-	-
Total debt securities	<u>2,553,096</u>	<u>2,551,096</u>	-	-
Equity securities				
Mutual funds	3,930,082	3,930,082	-	-
Total investments measured at fair value	<u>\$ 6,483,178</u>	<u>\$6,481,178</u>	<u>\$ -</u>	<u>\$ -</u>

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

BOLIVAR ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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B. Receivables

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

	June 30, 2016
Billed services for utility customers	\$ 1,866,039
Other receivables	74,198
Allowance for doubtful accounts	(12,226)
Total	\$ 1,928,011

C. Capital assets

Capital asset activity during the year was as follows:

Description	Balance at June 30, 2015	Additions	Disposals	Balance at June 30, 2016
Capital assets, not being depreciated				
Distribution plant	\$ 136,415	\$ -	\$ -	\$ 136,415
General plant	21,540	-	-	21,540
Construction in progress	1,073,375	486,290	-	1,559,665
Total capital assets not being depreciated	1,231,330	486,290	-	1,717,620
Capital assets, being depreciated				
Transmission plant	927,482	7,540	-	935,022
Distribution plant	33,912,814	584,335	140,014	34,357,135
General plant	3,406,429	739,620	154,083	3,991,966
Total capital assets being depreciated	38,246,725	1,331,495	294,097	39,284,123
Less accumulated depreciation for:				
Transmission plant	262,690	36,532	-	299,222
Distribution plant	15,571,539	1,329,674	294,234	16,606,979
General plant	2,728,033	397,708	122,582	3,003,159
Total accumulated depreciation	18,562,262	1,763,914	416,816	19,909,360
Total capital assets, being depreciated, net	19,684,463	(432,419)	(122,719)	19,374,763
Total capital assets, net	\$ 20,915,793	\$ 53,871	\$ (122,719)	\$ 21,092,383

Depreciation expense charged to operations amounted to \$1,659,327 for the fiscal year ended June 30, 2016. Additionally, transportation expense depreciation charged to clearing for the fiscal year ended June 30, 2016 was \$104,587.

BOLIVAR ENERGY AUTHORITY
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D. Restricted assets

Restricted assets for the fiscal year end were made up of the following:

	June 30, 2016
The restricted assets consist of the following:	
Cash and cash equivalents - restricted	\$ 252,449
Investments - restricted	900,000
	1,152,449
The total of these funds is represented by:	
Certificates of deposit and bank accounts	\$ 1,152,449

E. Net position

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

	June 30, 2016
Invested in capital assets, net of related debt:	
Net property, plant and equipment in services	\$ 21,092,383
Less: Debt as disclosed in Note 3F	(5,730,566)
	15,361,817
Restricted for debt service:	
Restricted cash and cash equivalents	\$ 252,449
Restricted investments	900,000
Interest accrued - bonds	(32,285)
	1,120,164
Unrestricted	(1,287,336)
Total net position	\$ 15,194,645

BOLIVAR ENERGY AUTHORITY
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F. Long-term debt

Long-term debt is made up of the following:

	June 30, 2016
Revenue Bonds:	
Electric System Revenue Bonds, Series 2011A, variable interest of 2.5% to 4.0% due serially through 2027	\$ 2,650,000
Electric System Revenue Bonds, Series 2011B, variable interest of 2.5% to 2.7% due serially through 2017	100,000
Electric System Refunding Revenue Bonds, Series 2016 variable interest of 2.0% to 4.0% due serially through 2030	2,840,000
Total bonds payable	5,590,000
Less current portion Revenue Bonds	360,000
Total long-term portion Revenue Bonds	\$ 5,230,000

Electric System Revenue Bonds, Series 2006A and 2006B (taxable)

During 2006, Bolivar Energy Authority authorized the issuance of \$7,645,000 Electric System Revenue Bonds, Series 2006A and \$1,315,000 Electric System Revenue Bonds, Series 2006B. The bonds were issued in order to retire the outstanding debt obligation of the City of Bolivar associated with the Bolivar Electric Utility Board, and to provide funds for improvements to the system. The bonds bear interest at variable rates not exceeding 6.00%. The bonds are secured by a pledge of revenues by the System. Expenses incurred by the issuance of the bonds are being amortized by equal charges to operations over the life of the bonds.

During 2011, the Authority issued the Electric System Revenue Bonds, Series 2011B to retire the Electric System Revenue Bonds, Series 2006B.

During fiscal year 2016, the Authority issued the Electric System Revenue Refunding Bonds, Series 2016 to retire the Electric System Revenue Bonds, Series 2006A.

Electric System Revenue Bonds, Series 2011A and 2011B (taxable)

During 2011, Bolivar Energy Authority issued \$3,000,000 Electric System Revenue Bonds, Series 2011A (Series 2011A Bonds) and \$555,000 Electric System Revenue Bonds, Series 2011B (Series 2011B Bonds).

Series 2011A Bonds were to provide funds for additions and improvements to the system. The bonds bear a variable rate of interest ranging from 2.5% to 4.0%. The last payment is due on May 1, 2027. The bonds are secured by a pledge of revenues by the System. Expenses incurred by the issuance of the bonds are being amortized by equal charges to operations over the life of the bonds. The Series 2011 Bonds maturing on or after May 1, 2022 are subject to redemption prior to maturity, as a whole or in part at any time on or after May 1, 2021, at a redemption price equal to the par amount of the Series 2011 Bonds to be redeemed plus accrued interest to the redemption date.

BOLIVAR ENERGY AUTHORITY
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Series 2011B Bonds were to provide funds to retire the Electric System Revenue Bonds, Series 2006B. The bonds bear a variable rate of interest ranging from 2.5% to 2.7%. The last payment is due on May 1, 2017. The bonds are secured by a pledge of revenues by the System. Expenses incurred by the issuance of the bonds are being amortized by equal charges to operations over the life of the bonds.

Electric System Refunding Revenue Bonds, Series 2016

During 2016, Bolivar Energy Authority issued \$2,840,000 Electric System Revenue Refunding Bonds, Series 2016, for the purpose of retiring the Electric System Revenue Bonds, Series 2006A. The bonds bear a variable rate of interest ranging from 2.0% to 4.0%. The last payment is due on May 1, 2030. The bonds are secured by a pledge of revenues by the System. Expenses incurred by the issuance of the bonds are being amortized by equal charges to operations over the life of the bonds. The Series 2016 Bonds maturing on or after May 1, 2022 are subject to redemption prior to maturity, as a whole or in part at any time on or after May 1, 2021, at a redemption price equal to the par amount of the Series 2016 Bonds to be redeemed plus accrued interest to the redemption date.

The following is a summary of long-term debt transactions for the year ended June 30, 2016:

	Balance at June 30, 2015	Additions	Retirements	Balance at June 30, 2016	Due Within One Year
Revenue bonds	\$ 8,110,000	\$ 2,840,000	\$ 5,360,000	\$ 5,590,000	\$ 360,000
Premium	65,182	81,376	5,992	140,566	10,680
Compensated absences	786,229	212,036	196,767	801,498	200,150
	<u>\$ 8,961,411</u>	<u>\$ 3,133,412</u>	<u>\$ 5,562,759</u>	<u>\$ 6,532,064</u>	<u>\$ 570,830</u>

The scheduled annual requirements for long-term debt at June 30, 2016, including interest of \$1,189,326 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 360,000	\$ 175,049	\$ 535,049
2018	390,000	157,338	547,338
2019	405,000	144,963	549,963
2020	420,000	132,813	552,813
2021	440,000	119,638	559,638
2022-2026	2,370,000	392,779	2,762,779
2027-2030	1,205,000	66,751	1,271,751
	<u>\$ 5,590,000</u>	<u>\$ 1,189,331</u>	<u>\$ 6,779,331</u>

Line of Credit

The Authority has a \$1,500,000 line-of-credit with Bank of Fayette County. The line has an interest rate of 3.50% and a maturity date of February 5, 2017. During fiscal year 2016, the Authority did not use this line of credit and the balance at June 30, 2016 was \$0.

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G. Leases

Operating Leases

The Authority has entered into three operating lease agreements for two copiers and one postage meter. The first copier lease agreement is with American Business solution for 60 months, with monthly payments of \$385. The second copier lease agreement is with Memphis Communication Corporation for 63 months, with monthly payments of \$159. And the postage meter lease agreement is with American Business Supplies, Inc. for 38 months, with monthly payments of \$247.

The future minimum lease payments as of June 30, 2016 were as follows:

<u>Year ending June 30,</u>	
2017	\$ 7,180
2018	4,870
2019	<u>2,468</u>
	<u>\$ 14,518</u>

NOTE 4 – OTHER INFORMATION

A. Pension Plan

General information. The Pension Plan for Employees of The Bolivar Energy Authority (the Plan) is a single-employer defined benefit retirement plan administered by the Bolivar Energy Authority for the employees of the Bolivar Energy Authority. The Plan, including the maximum contribution rates, were established by statute. Required contributions and benefit provisions are established and amended by the Board of Directors.

Benefits Provided. The Plan provides retirement, termination, disability, and death benefits to plan members and their beneficiaries.

Normal retirement benefit. The amount of retirement benefit to be provided for each Participant who retires on the Participant's Normal Retirement Date shall be equal to the Participant's Accrued Benefit (herein called the Participant's Normal Retirement Benefit). For Eligible Employees, a Participant's Accrued Benefit is based on a retirement benefit formula equal to 2.40% of such Participant's Average Annual Earnings multiplied by the Participant's years of Credited Service.

Early retirement. Any Participant, who has attained his Early Retirement Age, may elect to retire on an Early Retirement Date once the participant has attained age 55. In the event that a Participant makes such an election, he shall be entitled to receive an early retirement Pension equal to his Vested Accrued Benefit reduced by 0.4 percent for each full calendar month by which his Annuity Starting Date precedes his Normal Retirement Date. However, in the event a Participant is at least age 57 on his Annuity Starting Date and is credited with at least 30 years of Credited Service, his early retirement Pension shall not be subject to a reduction.

Late retirement. A Participant may continue in employment beyond his Normal Retirement Date. In such event, no retirement benefit will be paid to the Participant until he actually retires, subject to any required minimum distributions.

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The amount of retirement benefit payable to the Participant at his Late Retirement Date is the amount determined for the Normal Retirement Pension, increased actuarially for each year that retirement is deferred.

Normal form of distribution. The retirement benefit payable to a Participant shall be paid in the Normal Form which is a single life annuity with 120 months certain; provided, however, a Participant may elect an optional form of payment pursuant to the provisions of the Plan.

Vested termination benefit. The vested percentage of a participant's benefit is determined based on the number of years of vesting service. If the participant has fewer than 5 years of service, the vesting percentage is 0%. If the participant has 5 or more years of vesting service, the vesting percentage is 100%.

Cost of living adjustment. Beginning January 1, 2016, all retirees and beneficiaries who are receiving a full monthly retirement (full early or normal retirement) benefit are subject to a cost of living adjustment (COLA) with a maximum of 1% per year, based off the Consumer Price Index (CPI).

At July 1, 2015 membership consisted of:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to, but not yet receiving benefits	7
Active employees	<u>49</u>
Total	<u><u>60</u></u>

At July 1, 2014 membership consisted of:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to, but not yet receiving benefits	9
Active employees	<u>47</u>
Total	<u><u>58</u></u>

Contributions Required contributions are determined by the USI Consulting Group based on actuarial calculations performed by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The Plan's policy provides for actuarially determined periodic contributions. Contributions to the Plan of \$845,019 and \$843,420 were made for the year ended June 30, 2016 and 2015, respectively, in accordance with actuarially determined requirements computed through the actuarial valuation performed as of July 1, 2015 and 2014.

Funded status and funding progress. As of June 30, 2015 the actuarial accrued liability for benefits was \$10,680,472 and the net pension liability was \$4,469,268. Total covered payroll was \$2,199,842 and the ratio of net pension liability to covered payroll was 203.16%.

Net pension liability. The System's net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The total pension liability in the July 1, 2015 and 2014

BOLIVAR ENERGY AUTHORITY
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actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry-age normal, level percent of compensation
Amortization method	Level percentage of payroll, closed, 30 years for the initial unfunded accrued liability as of July 1, 2014. Future gains and losses, after July 1, 2014 will be amortized over a closed 10 year period. Future assumption changes, plan amendments and actuarial method changes after July 1, 2014 will be amortized over a closed 30 year period.
Asset valuation method	Fair market value of assets
Salary increases	4.00% per annum
Inflation rate	2.00% per annum
Investment rate of return	7.00% per annum
Retirement assumption	If eligible for full early, 25% retire the first year eligible. Ten percent of the remaining population retire each respective year until age 62, when all participants eligible for an unreduced full early retirement benefit retire. If not eligible for full early, retirement age is assumed to be age 65.
Mortality table	Pre-retirement: 2008 Generational Mortality Table Post-retirement: TCRS Mortality Table

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2014 through June 30, 2015. The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2009 through June 30, 2014.

Long-term expected rate of return on pension plan investments. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The Board adopted asset allocation policy as of June 30, 2016 and 2015 and the best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 and 2015 are summarized in the following tables:

June 30, 2016		Long-Term Expected	
Asset Class	Real Rate of Return	Target Allocation	
US Equity - Large Cap	10.0%	24%	
US Equity - Small/Mid Cap	6.4%	32%	
Non-US Equity - Developed	8.1%	13%	
Real Estate	5.0%	5%	
US corporate Bonds - Core	5.6%	16%	
Non-US Debt - Developed	5.0%	5%	
US Treasuries (Cash Equivalents)	5.0%	5%	

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June 30, 2015

Asset Class	Long-Term Expected	
	Real Rate of Return	Target Allocation
US Equity - Large Cap	8.5%	20%
US Equity - Small/Mid Cap	9.3%	25%
Non-US Equity - Developed	8.7%	10%
US Corporate Bonds - Core	4.9%	35%
Non-US Debt - Developed	5.0%	5%
US Treasuries (Cash Equivalents)	3.2%	5%

The following summarizes the asset allocation and their market values as of June 30, 2016:

	Market Value	Percentage of Total
Cash equivalents	\$ 249,038	3.70
Equities	3,930,082	58.38
Fixed income	<u>2,553,096</u>	<u>37.92</u>
Total	<u>\$ 6,732,216</u>	<u>100.00</u>

Concentrations. The following investments represent more than 5% of the fiduciary net position as of June 30, 2016 and are not issued or explicitly guaranteed by the U.S. government:

	2016
AB Discovery Growth A	\$ 501,941
Allianz NFS Small Cap Value Class A	385,127
Columbia Mid Cap Value A Series	337,615
John Hancock Disciplined Value Fund	571,038
Pioneer Fundamental Growth A	644,828
Calvert Short Duration Inc. CL A	661,573

Discount rate. The discount rate used to measure the total pension liability was 7.25 percent and 7.00 percent for the measurement dates of June 30, 2016 and 2015, respectively. The projection of cash flows used to determine the discount rate assumed that employees do not contribute to the plan and that contributions from the employer will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was 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 Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

BOLIVAR ENERGY AUTHORITY
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Changes in the Authority's net pension liability. Changes in the Authority's net pension liability measured at June 30, 2016 and 2015 are detailed in the following tables. Table 1 shows the net pension liability as of June 30, 2015, which is what is reported in the proprietary financial statements in accordance with GASB Statement No. 68. Table 2 is required to be disclosed due to the inclusion of the fiduciary fund statements in the Authority's financial statements. Total Pension Liability was rolled forward to 6/30/16 in order to be in compliance with GASB Statement No. 67.

Table 1
Increase (Decrease)

	Plan		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 6/30/2014	\$ 9,665,961	\$ 5,331,984	\$ 4,333,977
Changes for the year:			
Service Cost	204,511	-	204,511
Interest	689,284	-	689,284
Differences between expected and actual experience	62,398	-	62,398
Changes of assumptions	106,251		106,251
Contributions - employer	-	843,420	(843,420)
Contributions - employee	-	-	-
Net investment income	-	88,804	(88,804)
Benefit payments	(47,933)	(47,933)	-
Administrative expense	-	(5,071)	5,071
Net changes	<u>1,014,511</u>	<u>879,220</u>	<u>135,291</u>
Balances at 6/30/15	<u>\$ 10,680,472</u>	<u>\$ 6,211,204</u>	<u>\$ 4,469,268</u>

Table 2
Increase (Decrease)

	Plan		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 6/30/2015	\$ 10,680,472	\$ 6,211,204	\$ 4,469,268
Changes for the year:			
Service Cost	277,107	-	277,107
Interest	759,753	-	759,753
Changes of benefit items	1,518,721	-	1,518,721
Differences between expected and actual experience	385,961	-	385,961
Changes of assumptions	(846,769)		(846,769)
Contributions - employer	-	845,019	(845,019)
Contributions - employee	-	-	-
Net investment income	-	(97,483)	97,483
Benefit payments	(211,509)	(211,509)	-
Administrative expense	-	(15,015)	15,015
Net changes	<u>1,883,264</u>	<u>521,012</u>	<u>1,362,252</u>
Balances at 6/30/16	<u>\$ 12,563,736</u>	<u>\$ 6,732,216</u>	<u>\$ 5,831,520</u>

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Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability calculated using the discount of 7.25 percent and 7.00 percent for measurement periods of June 30, 2016 and 2015, respectively, as well as what the net pension 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:

		June 30, 2016		
		Current		
		1% Decrease	Discount Rate	1% Increase
		(6.25%)	(7.25%)	(8.25%)
	Net pension liability	\$ 7,624,860	\$ 5,831,520	\$ 4,326,421
		June 30, 2015		
		Current		
		1% Decrease	Discount Rate	1% Increase
		(6.00%)	(7.00%)	(8.00%)
	Net pension liability	\$ 5,903,425	\$ 4,469,268	\$ 3,265,107

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions. For the measurement period ended June 30, 2015, the Authority recognized pension expense of \$520,486. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 57,042	\$ -
Changes of assumptions	97,131	-
Net difference between projected and actual earnings on pension plan investments	249,306	164,237
Contributions subsequent to the measurement date of June 30, 2015	845,019	-
Total	\$ 1,248,498	\$ 164,237

Contributions subsequent to the measurement date will be recognized as expenses in the subsequent period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

BOLIVAR ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Year ended June 30:	
2016	\$ 22,056
2017	22,056
2018	22,057
2019	76,804
2020	14,476
Thereafter	81,793

Rate of Return. For the year ended June 30, 2016 and 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -1.41 and 1.54 percent, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

B. Deferred Compensation Plan

Effective July 1, 2007, the Authority established a deferred compensation plan known as the Bolivar Energy Authority Deferred Compensation Plan in accordance with Internal Revenue Code Section 457. The deferred compensation plan is available to all employees, with the exception of leased employees. Eligible employees may participate and defer compensation under this plan as of their hire date. Maximum amounts of annual deferrals to the deferred compensation plan are governed by the Internal Revenue Code Section 457(e)(15). The purpose of the Plan is to enable employees who become covered under the Plan to enhance their retirement security by permitting them to enter into agreements with the Authority to defer a portion of the compensation and receive benefits at retirement, separation from service, death, or in the event of financial hardship due to unforeseeable emergencies.

C. Power Contract

The Authority has a power contract with the Tennessee Valley Authority (TVA) whereby the electric system 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 furnishings, advancing, lending, pledging or otherwise diverting Authority funds, revenues or property to other operations of the county and the purchase or payment of, or providing security for indebtedness on other obligations applicable to such other operations.

D. 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 year ended June 30, 2016, 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 provided.

E. Investment in Related Company

In the past, the Authority purchased 10,874 shares of Tennergy Partners, LLC – Utilicor (The Utilicor Corporation) at a price of \$163,110. Utilicor is a distributor owned electric supply company.

In July 2013, the name and assets of the Utilicor Corporation were sold. The name was changed to the Venale Corporation at that time. The Corporation holds the remaining inventory that was not

BOLIVAR ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

sold with the intention of selling it and ceasing operations once the inventory is sold and the escrow has been closed out. The total escrow amount is set to be fully distributed to the Venale Corporation after 18 months from the date of closing, assuming there are no claims remaining unresolved and there are no claims paid to Buyer Indemnified Parties. The Authority expects to receive payment for their share of ownership as the total amount in escrow is released. The value of the investment as of June 30, 2016 is \$1,691. The investment balance consists of Venale Corporation's estimate of the fair market value of the remaining inventory plus the utility's portion of the remaining escrow balance.

F. Change in classifications made to financial statements for the period ending June 30, 2015

In the financial statements for the period ending June 30, 2015, the Authority reported \$6,989,227 as cash and cash equivalents. However, \$2,300,000 in certificates of deposit with maturity dates of twelve months was erroneously classified as cash and cash equivalents, while the bond and interest sinking fund bank account of \$313,716 was excluded from the total cash and cash equivalents. Therefore, we have made a change in current year to properly classify the cash and cash equivalent amount as of June 30, 2015 to be \$4,999,943.

G. Prior Period Adjustment

During fiscal year 2016, a restatement was made to increase the ending net position as of June 30, 2015 by \$946,784. Of this amount, \$843,420 was due to the contributions to the pension plan subsequent to the measurement date of June 30, 2014 being expensed instead of being reported as a deferred outflow of resources in 2015 financial statements. The remaining \$103,364 was the amount by which the unamortized debt expense was understated in the 2015 financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

BOLIVAR ENERGY AUTHORITY
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
For the Years Ended June 30,

Measurement Period Ended	2016	2015	2014
Total pension liability			
Service cost	\$ 277,107	\$ 204,511	\$ 196,645
Interest	759,753	689,284	633,389
Changes in benefit terms	1,518,721	-	-
Differences between actual & expected experience	385,961	62,398	-
Change of assumptions	(846,769)	106,251	-
Benefit payments, including refunds of employee contributions	(211,509)	(47,933)	(31,164)
Net change in total pension liability	1,883,264	1,014,511	798,870
Total pension liability - beginning	10,680,472	9,665,961	8,867,091
Total pension liability - ending (a)	12,563,736	10,680,472	9,665,961
 Plan fiduciary net position			
Contributions - employer	\$ 845,019	\$ 843,420	\$ 840,000
Contributions - employee	-	-	-
Net investment income	(97,483)	88,804	577,790
Benefit payments, including refunds of employee contributions	(211,509)	(47,933)	(31,164)
Administrative expense	(15,015)	(5,071)	(1,560)
Other	-	-	-
Net change in plan fiduciary net position	521,012	879,220	1,385,066
Plan fiduciary net position - beginning	6,211,204	5,331,984	3,946,918
Plan fiduciary net position - ending (b)	6,732,216	6,211,204	5,331,984
 Net pension liability - ending (a) - (b)	5,831,520	4,469,268	4,333,977
 Plan fiduciary net position as a percentage of the total pension liability	53.58%	58.15%	55.16%
 Covered-employee payroll	\$ 2,595,812	\$ 2,199,842	\$ 2,135,694
 Net pension liability (asset) as a percentage of covered-employee payroll	224.65%	203.16%	202.93%

This is a 10-year schedule; however, the information in this 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.

See independent auditor's report

BOLIVAR ENERGY AUTHORITY
SCHEDULE OF PLAN CONTRIBUTIONS
Fiscal Years Ending June 30,

Measurement Period Ended	2016	2015	2014
Actuarially determined contribution	\$ 692,043	\$ 747,319	\$ 747,319
Contributions made	845,019	843,420	840,000
Contribution deficiency (excess)	\$ (152,976)	\$ (96,101)	\$ (92,681)
Covered-employee payroll	\$ 2,595,812	\$ 2,135,694	\$ 2,135,694
Contributions as a percentage of covered-employee payroll	32.55%	39.49%	39.33%

This is a 10-year schedule; however, the information in this 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.

Notes to schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of the beginning of the fiscal year (July 1)

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Individual Entry Age Normal, level percentage of compensation
Amortization method:	Level percentage of payroll, closed
Remaining amortization period:	30 years
Asset valuation method:	Fair market value
Inflation:	N/A
Salary increases:	4.00%
Retirement age:	Earliest unreduced retirement age
Mortality:	2008 Generational mortality table

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BOLIVAR ENERGY AUTHORITY
SCHEDULE OF INVESTMENT RETURNS
Fiscal Years Ending June 30,

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	-1.41%	1.54%	13.54%

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 is available.

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**SUPPLEMENTARY AND OTHER
INFORMATION SECTION**

BOLIVAR ENERGY AUTHORITY
SCHEDULE OF OPERATING REVENUES AND EXPENSES
For the Year Ended June 30, 2016

	2016	
	Actual	Percent
Operating revenues		
Charges for sales and services:		
Residential sales	14,854,677	55.13
Small lighting and power sales	3,213,591	11.92
Large lighting and power sales	7,838,842	29.09
General power credit	(248,233)	(0.92)
Street and athletic lighting sales	180,987	0.67
Outdoor lighting	592,604	2.20
Uncollectible accounts	(4,324)	(0.02)
Total charges for sales and services	26,428,144	98.07
Other revenues:		
Forfeited discounts	180,804	0.67
Miscellaneous service revenue	76,745	0.28
Rent from electric property	265,260	0.98
Total other revenues	522,809	1.93
Total operating revenues	\$ 26,950,953	100.00
Operating expenses		
Cost of sales and services:		
Purchased power	18,115,161	67.22
Operations expenses:		
Distribution expenses:		
Station expense	47,007	0.17
Overhead line expense	917,842	3.41
Street lighting and signal system	7,942	0.03
Meter expense	217,223	0.81
Consumer installations	7,679	0.03
Miscellaneous distribution expense	126,547	0.47
Rent expense	59,727	0.22
Total distribution expenses	1,383,967	5.14
Customer accounts expenses:		
Meter reading	132,705	0.49
Consumer records and collection expense	710,649	2.64
Total customer accounts expenses	843,354	3.13

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BOLIVAR ENERGY AUTHORITY
SCHEDULE OF OPERATING REVENUES AND EXPENSES
For the Year Ended June 30, 2016

	2016	
	Amount	Percent
Sales expenses:		
Customer assistance	50,882	0.19
Advertising	17,179	0.06
Miscellaneous	26,434	0.10
Total sales expenses	<u>94,495</u>	<u>0.35</u>
Administrative expenses:		
Salaries	1,069,029	3.97
Office supplies and expense	452,225	1.68
Outside services	23,881	0.09
Property insurance	142,802	0.53
Injuries and damages	2,858	0.01
Employee pension and benefits	2,316	0.01
Miscellaneous	69,240	0.26
Total administrative expenses	<u>1,762,351</u>	<u>6.55</u>
Total operations expense	<u>4,084,167</u>	<u>15.17</u>
Maintenance expenses:		
Distribution expenses:		
Substation distribution	162,309	0.60
Overhead lines	406,926	1.51
Right-of-way	759,759	2.82
Line transformers	84,705	0.31
Street lighting and signal system	231,630	0.86
Meters	3,959	0.01
Total distribution expenses	<u>1,649,288</u>	<u>6.11</u>
General plant and equipment	<u>8,300</u>	<u>0.03</u>
Total maintenance expenses	<u>1,657,588</u>	<u>6.14</u>
Depreciation	<u>1,659,327</u>	<u>6.16</u>
Tax equivalent payments	<u>629,445</u>	<u>2.34</u>
Total operating expenses	<u>\$ 26,145,688</u>	<u>97.03</u>

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BOLIVAR ENERGY AUTHORITY
ELECTRIC RATES IN FORCE
June 30, 2016

Residential rate schedule

Customer charge - per delivery point per month	\$ 23.89
Energy charge - cents per kWh	
First 800 kWh per month	0.11481
Additional kWh	0.08148

General power schedule

GSA1 (0-50 kW demand and less than 15,000 kWh)	
Customer charge - per delivery point per month	26.34
Energy charge - cents per kWh	
First 800 kWh per month	0.12426
Additional kWh	0.08905
GSA2 (51-1000 kW demand or more than 15,000 kWh)	
Customer charge per delivery point per month	263.25
Demand charges - per kW per month	
First 50 kW	9.58
Excess over 50 kW	20.87
Energy charge - cents per kWh	
First 15,000 kWh per month	0.06218
Additional kWh per month	0.06098
GSA3 (over 1,000 kW)	
Customer charge per delivery point per month	1,242.05
51 to 1,000 kW	24.04
Excess over 1000 kW	9.01
Energy charge - cents per kWh	0.06084

Outdoor Lighting

100 watt HPS	7.70
250 watt HPS	14.11
400 watt MH	20.30

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**BOLIVAR ENERGY AUTHORITY
HISTORICAL INFORMATION - UNAUDITED**

For The Fiscal Year Ended June 30,

	2016
Revenue	
Residential	\$ 14,850,353
Commercial	3,213,591
Industrial	7,590,609
Street and outdoor lighting	773,591
Other operating	522,809
Interest and other revenue	19,944
	\$ 26,970,897
Expense	
Electric power costs	18,115,161
Other operating expenses	5,741,755
Provision for depreciation	1,659,327
Tax equivalents and transfers	629,445
Interest and other expense	352,858
	26,498,546
Net Income (Loss)	\$ 472,351
Financial	
Plant in service (at original cost)	\$ 41,001,743
Power in use - KWH	
Residential	124,122,424
Commercial	23,113,347
Industrial	71,884,614
Other Customers	4,828,717
Total	223,949,102
Number of customers	
Residential	8,784
Small commercial	2,209
Large commercial	102
Street and athletic	14
Outdoor lighting - Code 78	19
	11,128
Line Loss	6.06%

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**BOLIVAR ENERGY AUTHORITY
SCHEDULE OF LONG-TERM DEBT
June 30, 2016**

Year Ended June 30,	Revenue Bond Series 2011A		Revenue Bond Series 2011B		Revenue Refunding Bond Series 2016		Total	Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2017	\$ 100,000	\$ 92,900	\$ 100,000	\$ 2,700	\$ 160,000	\$ 79,449	\$ 360,000	\$ 175,049	\$ 535,049
2018	215,000	90,400	-	-	175,000.00	66,938	390,000	157,338	547,338
2019	225,000	85,025	-	-	180,000.00	59,938	405,000	144,963	549,963
2020	230,000	78,275	-	-	190,000.00	54,538	420,000	132,813	552,813
2021	245,000	70,800	-	-	195,000.00	48,838	440,000	119,638	559,638
2022	250,000	62,838	-	-	200,000.00	42,988	450,000	105,826	555,826
2023	260,000	54,088	-	-	205,000.00	38,988	465,000	93,076	558,076
2024	265,000	44,338	-	-	205,000.00	34,888	470,000	79,226	549,226
2025	275,000	34,400	-	-	210,000.00	30,788	485,000	65,188	550,188
2026	285,000	23,400	-	-	215,000.00	26,063	500,000	49,463	549,463
2027	300,000	12,000	-	-	220,000.00	21,225	520,000	33,225	553,225
2028	-	-	-	-	225,000.00	16,275	225,000	16,275	241,275
2029	-	-	-	-	230,000.00	11,213	230,000	11,213	241,213
2030	-	-	-	-	230,000.00	6,038	230,000	6,038	236,038
	<u>\$ 2,650,000</u>	<u>\$ 648,464</u>	<u>\$ 100,000</u>	<u>\$ 2,700</u>	<u>\$ 2,840,000</u>	<u>\$ 538,167</u>	<u>\$ 5,590,000</u>	<u>\$ 1,189,331</u>	<u>\$ 6,779,331</u>

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BOLIVAR ENERGY AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2016

	Grant Number	Federal CFDA No.	Expenditures
FEDERAL AWARDS			
United States Department of Homeland Security			
Federal Emergency Management Agency:			
Passed through the State of Mississippi			
Emergency Management Agency:			
Public Assistance	FEMA-4248-DR-MS	97.036	\$ <u>113,668</u>
Total Federal Awards			\$ <u>113,668</u>

Note 1 - The schedule of expenditures of federal awards is presented using the modified accrual basis of accounting.

Note 2 - Due to the regulatory basis of accounting of The Tennessee Valley Authority, the above grant

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INTERNAL CONTROL AND COMPLIANCE SECTION

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

Board of Directors
Bolivar Energy Authority
Bolivar, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Bolivar Energy Authority (the Authority), as of and for the year ended June 30, 2016, 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 October 31, 2016.

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 the 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 Authority'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 over financial reporting 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 therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness (2016-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

In addition, we noted other matters involving the internal control and its operation that we reported to management of the Authority in a separate letter dated October 31, 2016.

The Authority's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Authority'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.



Jackson, Tennessee
October 31, 2016

BOLIVAR ENGERGY AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2016

2016-001 Lack of Adequate Controls over Inventory (Material Weakness)

Condition

During our audit, we noted that a significant adjustment was made to inventory. The adjustment appears to be mainly caused by a malfunction of the inventory software. However, the issue was not detected and corrected timely since the Authority only performed the inventory reconciliation annually at the end of the fiscal year.

Criteria

Section 9-18-102(a), *Tennessee Code Annotated* states that, "Each agency of state government and institution of higher education along with each county, municipal, and metropolitan government shall establish and maintain internal controls, which shall provide reasonable assurance that:

- (1) Obligations and costs are in compliance with applicable law;
- (2) Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- (3) Revenues and expenditures are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets."

Effect

The condition noted above created an opportunity for misappropriation and theft of inventories.

Recommendation

We recommend that inventory reconciliations be performed more frequently throughout the year to ensure that all issues are timely detected and corrected.

Response

Bolivar Energy Authority is concerned and has put steps into practice to remedy the inventory control issue. BEA is currently doing a monthly spot inventory on our large inventory items to correct any issues that may happen during the month. In association to the monthly spot inventories, we will be doing a full inventory of all items on a quarterly basis. This we insure that BEA will detect any issues before they become too severe.

By doing these steps, BEA is hoping to catch any issues that arise and correct them before they become severe.

BOLIVAR ENERGY AUTHORITY
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
June 30, 2016

Financial Statement Findings

There were no prior findings reported.