NEW ISSUE

Rating: Standard & Poor's: "AA-"

PRELIMINARY OFFICIAL STATEMENT

$10,000,000*

HENDERSONVILLE UTILITY DISTRICT OF SUMNER COUNTY, TENNESSEE

Water and Sewer Revenue Bonds, Series 2011

OFFERED FOR SALE NOT SOONER THAN

December 5, 2011 at 11:30 A.M. E.S.T.
Through the Facilities of ***PARITY***®
and at the offices of
Morgan Keegan & Company, Inc.
Knoxville, Tennessee

Morgan Keegan
Financial Advisor

November 28, 2011

*Subject to Change

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 28, 2011

NEW ISSUE Rating: Standard & Poor's: "AA-"
Book-Entry (See MISCELLANEOUS-Rating)

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

$10,000,000
HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE
Water and Sewer Revenue Bonds, Series 2011

Dated: Date of Issuance (Assume December 15, 2011). Due: August 1 (as shown below)

The $10,000,000 Water and Sewer Revenue Bonds, Series 2011 (the "Bonds") 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 August 1, 2012 and thereafter on each February1 and August 1 by check or draft mailed to the owners thereof as shown on the books and records of the Registration Agent. In the event of discontinuation of the book-entry system, principal of and interest on the Bonds are payable at the principal corporate trust office of Regions Bank, Nashville, Tennessee, the registration and paying agent (the "Registration Agent").

The Bonds are payable from and secured by a pledge of revenues to be derived from the operation of the District's Water and Sewer System (the "System"), subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System and subject to a prior pledge of such revenues in favor of the Prior Lien Bond (as defined herein).

The Bonds are subject to redemption, in whole or in part, prior to maturity as described herein.

Due (August 1)	Amount*	Interest Rate	Yield	CUSIPs	Due (August 1)	Amount*	Interest Rate	Yield	CUSIPs
2020	$ 100,000				2030	$ 500,000			
2021	100,000				2031	500,000			
2022	100,000				2032	500,000			
2023	500,000				2033	500,000			
2024	500,000				2034	500,000			
2025	500,000				2035	700,000			
2026	500,000				2036	750,000			
2027	500,000				2037	750,000			
2028	500,000				2038	750,000			
2029	500,000				2039	750,000			

(Accrued Interest to be added)

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 District, subject to the approval of the legality thereof by Glankler Brown, PLLC, Memphis, Tennessee, bond counsel, whose opinion will be delivered with the Bonds. It is expected that the Bonds will be available for delivery through the facilities of The Depository Trust Company, New York, New York, on or about December __, 2011.

Morgan Keegan
Financial Advisor

December __, 2011 * 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, 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 City is not responsible for the selection or use of these CUSIP numbers, nor is any representation made as to their correctness on the bonds or as indicated herein.

HENDERSONVILLE UTILITY DISTRICT OF
SUMNER COUNTY, TENNESSEE

OFFICIALS

W.C. Boyers
President

Ronald E. Flowers
Treasurer

J.W. McMurray
Secretary

GENERAL MANAGER

Thomas S. Atchley

REGISTRATION AND PAYING AGENT

Regions Bank
Nashville, Tennessee

BOND COUNSEL

Glankler Brown, PLLC
Memphis, Tennessee

FINANCIAL ADVISOR

MORGAN KEEGAN & 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	Hendersonville Utility District of Sumner County, Tennessee (the "District" or "Issuer"). See APPENDIX B contained herein.
Securities Offered	$10,000,000 Water and Sewer Revenue Bonds, Series 2011 (the "Bonds") of the District will be dated the date of issuance (assume December 15, 2011) and maturing August 1, 2020 through August 1, 2039, 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 Revenues on a parity and equality of lien with the Outstanding Parity Bonds and any Parity Bonds hereafter issued including but not limited to not-to-exceed $20,000,000 Water and Sewer Revenue Bonds, Series 2012 expected to be issued in the calendar year of 2012, subject to the prior pledges of such Net Revenues in favor of the Prior Lien Bond. 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 Revenues without priority by reason of series, number or time of sale or delivery. Certain revenues of the District are also pledged to the payment of the State Loans. The Bonds do not constitute a debt of Sumner County, Tennessee, the State of Tennessee, or any political subdivision, agency or instrumentality thereof, or municipal corporation therein, other than the District, and no holder of the Bonds shall have recourse to the taxing power of any such entities.
Purpose	The Bonds are being issued for the purpose to provide funds to (i) finance certain extensions and improvements to the System (as hereinafter defined); (ii) fund the Debt Service Reserve Fund; (iii) pay interest on the Bonds during construction and for up to six months thereafter; (iv) pay costs incurred in connection with the issuance and sale of the Bonds. See the section entitled "SECURITIES OFFERED-Authority and Purpose" contained herein.
Optional Redemption	The Bonds are subject to redemption, in whole or in part, at a price of par plus accrued interest on August 1, 2021 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 Matter" and APPENDIX A (form of 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" herein for additional information.
Rating..	Standard & Poor's: "AA-". 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.
Financial Advisor	Morgan Keegan & Company, Inc., Knoxville, Tennessee. See the section entitled "MISCELLANEOUS – Financial Advisor" 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 Title 7, Chapter 82 and Title 9, Chapter 21, *Tennessee Code Annotated*, as supplemented and revised. See "SECURITIES OFFERED" herein. The Bonds will be issued with CUSIP numbers and delivered through the facilities of The Depository Trust Company, New York, New York.
Disclosure	In accordance with Rule 15c2-12 of the Securities and Exchange Commission (the "SEC"), the District 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 of the Securities and Exchange Commission 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 District or the *Preliminary Official Statement*, contact W.C. Boyers, President, 125 Indian Lake Road, Hendersonville, Tennessee 37077, Telephone: 615-824-3717 or the District's Underwriter, Morgan Keegan & Company, Inc., 11400 Parkside Drive, Suite 110, Knoxville, Tennessee 37934, Telephone: 865-777-5840.

NET ASSETS
Summary of Changes In Net Assets
(In Thousands)

	For the Fiscal Year Ended June 30				
	2007	**2008**	**2009**	**2010**	**2011**
Beginning Net Assets	$57,941,759	$70,534,618	$76,768,523	$78,054,464	$79,421,521
Revenues	9,400,678	10,564,350	10,601,998	10,536,235	12,894,967
Expenditures	8,264,931	10,053,834	10,908,861	11,614,786	11,448,794
Non-Operating Revenue (Expense)	277,727	(1,002,543)	(531,445)	(652,578)	(1,150,964)
Contributions	2,914,282	6,725,932	1,602,183	3,098,206	846,433
Change in Net Assets	3,511,606	6,233,905	1,285,941	1,367,077	1,141,642
Ending Net Assets	**$70,534,618**	**$76,768,523**	**$78,054,464**	**$79,421,541**	**$80,563,183**

Source: Financial Statements with Report of Certified Public Accountants.

SUMMARY NOTICE OF SALE

$10,000,000*

HENDERSONVILLE UTILITY DISTRICT OF SUMNER COUNTY, TENNESSEE Water and Sewer Revenue Bonds, Series 2011

NOTICE IS HEREBY GIVEN that the President of the Hendersonville Utility District of Sumner County, Tennessee (the "District") will receive electronic or written sealed bids until **11:30 a.m. E.S.T.** on **Monday, December 5, 2011** for the purchase of all, but not less than all, of the District's $10,000,000* Water and Sewer Revenue Bonds, Series 2011 (the "Bonds"). Electronic bids must be submitted through ***PARITY®*** as described in the "Detailed Notice of Sale". In case of written sealed bids, bids will be received at the office of the District's Financial Advisor, Morgan Keegan & Company, Inc., 11400 Parkside Drive, Suite 110, Knoxville, Tennessee 37934. Prior to accepting bids, the District 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 December 15, 2011). The Bonds will mature on August 1 in the years 2020 through 2039, inclusive, with term bonds optional, with interest payable on February 1 and August 1 of each year, commencing August 1, 2012, and will be subject to redemption prior to maturity on August 1, 2021 and anytime thereafter. Bidders must bid not less than ninety-nine percent (99.00%) of par or more than one hundred and five percent (105%) of par for the Bonds. The approving opinion for the Bonds will be furnished at the expense of the District 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 District 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 i-dealprospectus.com or from the District's Financial Advisor, Morgan Keegan & Company, Inc., 11400 Parkside Drive, Suite 110, Knoxville, Tennessee 37934 (865) 777-5840. Further information regarding ***PARITY®*** may be obtained from i-Deal LLC, 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone: 212-849-5000.

HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE
By: W.C. Boyers, President

*Subject to Change

DETAILED NOTICE OF SALE

$10,000,000*

HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE
Water and Sewer Revenue Bonds, Series 2011

NOTICE IS HEREBY GIVEN that the President of the Hendersonville Utility District of Sumner County, Tennessee (the "District") will receive electronic or written sealed bids until **11:30 a.m. E.S.T.** on **Monday, December 5, 2011** for the purchase of all, but not less than all, of the District's $10,000,000* Water and Sewer Revenue Bonds, Series 2011 (the "Bonds"). Electronic bids must be submitted through ***PARITY®*** as described in the "Detailed Notice of Sale." In case of written sealed bids, bids will be received at the office of the District's Financial Advisor, Morgan Keegan & Company, Inc., 11400 Parkside Drive, Suite 110, Knoxville, Tennessee 37934. Prior to accepting bids, the District 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 February 1 and August 1, commencing August 1, 2012, 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:

YEAR (AUGUST 1)	AMOUNT*	YEAR (AUGUST 1)	AMOUNT*
2020	$ 100,000	2030	$ 500,000
2021	100,000	2031	500,000
2022	100,000	2032	500,000
2023	500,000	2033	500,000
2024	500,000	2034	500,000
2025	500,000	2035	700,000
2026	500,000	2036	750,000
2027	500,000	2037	750,000
2028	500,000	2038	750,000
2029	500,000	2039	750,000

Bank Qualification. The Bonds are "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

*Subject to Change

Bonds and will be deposited with DTC. The book-entry system will evidence beneficial ownership interests of 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 District 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 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 District, 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 District 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 District's water and sewer system (the "System) on a parity and complete equality of lien with respect to such revenues with the District's Water and Sewer Revenue Improvement Bonds, Series 2003, dated August 1, 2003; its Water and Sewer Revenue Refunding Bonds, Series 2004, dated March 1, 2004; and its Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2008, dated February 28, 2008 (collectively, the "Outstanding Parity Bonds"), and any bonds issued hereafter on parity with the Outstanding Parity Bonds and/or the Bonds including but not limited to not-to-exceed $20,000,000 Water and Sewer Revenue Bonds, Series 2012 expected to be issued in the calendar year of 2012, subject to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System and subject to the prior pledges of such revenues in favor of its outstanding Waterworks and Sewer Revenue Bond, Series 1995 dated December 19, 1996 (the "Prior Lien Bond"). As provided in the Resolution, the punctual payment of principal of and interest on the series of the Bonds of which this Bond is one, 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. Certain revenues of the District are also pledged as security for the payment of two loans to the District pursuant to Revolving Fund Loan Agreements between the District, the Tennessee Department of Environment and Conservation, and the Tennessee Local Development Authority with effective dates of December 14, 2004 and March 17, 2006, respectively (the "State Loans"). The revenues of the District are required by law and by the proceedings pursuant to which this Bond is issued to be fully sufficient to pay the cost of operating, maintaining, repairing and insuring the System, including reserves therefor, to pay principal of and interest on the Prior Lien Bond, and to pay principal of and interest on the Outstanding Parity Bonds and this Bond and the issue of which it is a part and to make the required payments on the State Loans promptly as each becomes due and payable. The District 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 this Bond and the issue of which it is a part 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 District within the meaning of any statutory limitation. For a more complete statement of the revenues from which and conditions under which this Bond is payable, a statement of the conditions on which obligations may hereafter be issued on a parity with this Bond, the general covenants and provisions pursuant to which this Bond is 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, subject to the Prior Lien Bond, in favor of the owner or owners of this Bond and the issue of which it is a part, 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 financing, in whole or in part, the (i) finance certain extensions and improvements to the System (as hereinafter defined); (ii) fund the Debt Service Reserve Fund; (iii) pay interest on the Bonds during construction and for up to six months thereafter; and (iv) pay the costs related to the issuance and sale of the bonds referenced therein.

Optional Redemption. The Bonds maturing on August 1, 2022, and thereafter, will be subject to redemption prior to maturity at the option of the District on and after August 1, 2021 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 District 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 District 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 five percent (105%) of par.

Bidders may designate consecutive serial maturities of the Bonds as one or more Term Bond maturities equal in aggregate principal amount to, and with mandatory redemption requirements corresponding to, such designated serial maturities.

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 District 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, sealed written bid delivered to the District. The District 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 District's Financial Advisor, Morgan Keegan & Company, Inc. at 865-777-5836. Any facsimile submission is made at the sole risk of the prospective bidder. The District 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 sealed bids should be submitted in sealed envelope marked "Bid for Bonds" at the offices of the District's Financial Advisor, 11400 Parkside Drive, Suite 110, Knoxville, Tennessee 37934. Written bids must be submitted on the Bid Forms included with the PRELIMINARY OFFICIAL STATEMENT.

The District 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 District 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 District 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 District reserves the right to make adjustments and/or revisions to the Bonds, as described below.

Adjustment and/or Revision. While it is the District'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 $600,000. 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 District. The District will adjust down the par amount of the Bonds so that the sales proceeds do not exceed $10,000,000. 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 District's Financial Advisor (wire transfer or certified check) the amount of 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 District'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 Morgan Keegan & Company, 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 District as liquidated damages.

In the event of the failure of the District 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 District 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 District.

In addition, within two hours of the award of the Bonds, the successful bidder shall furnish to the District 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 District 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 Glanker 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 District. 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 District 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 and operating data relating to the District by not later than twelve months after each of the District's fiscal years, (the "Annual Report"), and to provide notice of the occurrence of certain enumerated events, if determined by the District to be material under applicable federal securities laws. The Annual Report (and audited financial statements, if filed separately) will be filed with the Municipal Securities Rulemaking Board ("MSRB") and any State Information Depository established in the State of Tennessee (the "SID"). If the District 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 Repositories 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 material events will be summarized in the District'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 and is currently estimated to be December 15, 2011. 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 District. The District 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 District has deemed the PRELIMINARY OFFICIAL STATEMENT to be final as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the "SEC") except for the omission of certain pricing and other information. The District will furnish the successful bidder at the expense of the District 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 District 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 District's Financial Advisor, Morgan Keegan & Company, Inc.; 11400 Parkside Drive, Suite 110, Knoxville, Tennessee 37934, Telephone: 865-777-5840. Further information regarding ***PARITY®*** may be obtained from i-Deal LLC, 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone: 212-849-5000.

HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE
By: W.C. Boyers
President

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BID FORM

W.C. Boyers, President
125 Indian Lake Road
Hendersonville, Tennessee 37077

December 5, 2011

Dear Mr. Boyers:

For your legally issued, properly executed $10,000,000* Water and Sewer Revenue Bonds, Series 2011 (the "Bonds") of Hendersonville Utility District of Sumner County, Tennessee, in all respects as more fully outlined in your Notice of Sale, which by reference are made a part hereof, we will pay you a sum of ___________________________________ _____________________ ($_______________________).

The Bonds shall be dated the date of issuance (assume December 15, 2011) and shall be callable in accordance with the DETAILED NOTICE OF SALE. The Bonds shall mature on August 1 and bear interest at the following rates:

Maturity (August 1)	Amount*	Rate	Maturity (August 1)	Amount*	Rate
2020	$ 100,000	___	2030	$ 500,000	___
2021	100,000	___	2031	500,000	___
2022	100,000	___	2032	500,000	___
2023	500,000	___	2033	500,000	___
2024	500,000	___	2034	500,000	___
2025	500,000	___	2035	700,000	___
2026	500,000	___	2036	750,000	___
2027	500,000	___	2037	750,000	___
2028	500,000	___	2038	750,000	___
2029	500,000	___	2039	750,000	___

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

Term Bond 1: Maturities from August 1, 20_______ through August 1, 20_______ @ _______%.
Term Bond 2: Maturities from August 1, 20_______ through August 1, 20_______ @ _______%.
Term Bond 3: Maturities from August 1, 20_______ through August 1, 20_______ @ _______%.
Term Bond 4: Maturities from August 1, 20_______ through August 1, 20_______ @ _______%.
Term Bond 5: Maturities from August 1, 20_______ through August 1, 20_______ @ _______%.
Term Bond 6: Maturities from August 1, 20_______ through August 1, 20_______ @ _______%.
Term Bond 7: Maturities from August 1, 20_______ through August 1, 20_______ @ _______%.
Term Bond 8: Maturities from August 1, 20_______ through August 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 District without cost to us.

If our bid is accepted, we agree to provide a good faith deposit for 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
Hendersonville Utility District of Sumner County, Tennessee, this
5th day of December, 2011.

____
W.C. Boyers, President

Respectfully submitted,
____
____

Total interest cost from
December 15, 2011 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.

*Subject to Change

$10,000,000
HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE
Water and Sewer Revenue Bonds, Series 2011

SECURITIES OFFERED

AUTHORITY AND PURPOSE

This *Preliminary Official Statement* which includes the “Summary Statement” and appendices is furnished in connection with the offering by Hendersonville Utility District of Sumner County, Tennessee (the “District” or “Issuer”) of its $10,000,000 Water and Sewer Revenue Bonds, Series 2011 (the “Bonds”).

The Bonds are authorized to be issued pursuant to the provisions of Title 7, Chapter 82, *Tennessee Code Annotated*, as amended, and other applicable provisions of law and pursuant to a resolution authorizing not-to-exceed $30,000,000 principal amount of Water and Sewer Revenue Bonds duly adopted by the Board of Commissioners (the “Governing Body”) of the District on March 8, 2011 (the “Resolution”). The balance of the Water and Sewer Revenue Bonds authorized by the Resolution in an amount not-to-exceed $20,000,000 are expected to be issued by the District in calendar year 2012.

The Bonds are being issued for the purpose to provide funds to (i) finance certain extensions and improvements to the System (as hereinafter defined); (ii) fund the Debt Service Reserve Fund; (iii) pay interest on the Bonds during construction and for up to six months thereafter; and (iv) pay costs incurred in connection with the issuance and sale of the Bonds.

DESCRIPTION OF THE BONDS

The Bonds will be initially dated and bear interest from the date of issuance (assume December 15, 2011). Interest on the Bonds will be payable semi-annually on February 1 and August 1, commencing August 1, 2012. 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 District’s President and shall be attested by the signature of the District’s Secretary. 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.

SECURITY

This Bond is payable solely from and secured by a pledge of revenues to be derived from the operation of the District's water and sewer system (the "System") on a parity and complete equality of lien with respect to such revenues with the District's Water and Sewer Revenue Improvement Bonds, Series 2003, dated August 1, 2003; its Water and Sewer Revenue Refunding Bonds, Series 2004, dated March 1, 2004; and its Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2008, dated February 28, 2008 (collectively, the "Outstanding Parity Bonds"), and any bonds issued hereafter on parity with the Outstanding Parity Bonds and/or the Bonds including but not limited to the not-to-exceed $20,000,000 Water and Sewer Revenue Bonds, Series 2012 expected to be issued in calendar year 2012, subject to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System and subject to the prior pledges of such revenues in favor of its outstanding Waterworks and Sewer Revenue Bond, Series 1995 dated December 19, 1996 (the "Prior Lien Bond"). As provided in the Resolution, the punctual payment of principal of and interest on the series of the Bonds of which this Bond is one, 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. Certain revenues of the District are also pledged as security for the payment of two loans to the District pursuant to Revolving Fund Loan Agreements between the District, the Tennessee Department of Environment and Conservation, and the Tennessee Local Development Authority with effective dates of December 14, 2004 and March 17, 2006, respectively (the "State Loans"). The revenues of the District are required by law and by the proceedings pursuant to which this Bond is issued to be fully sufficient to pay the cost of operating, maintaining, repairing and insuring the System, including reserves therefor, to pay principal of and interest on the Prior Lien Bond, and to pay principal of and interest on the Outstanding Parity Bonds and this Bond and the issue of which it is a part and to make the required payments on the State Loans promptly as each becomes due and payable. The District 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 this Bond and the issue of which it is a part 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 District within the meaning of any statutory limitation. For a more complete statement of the revenues from which and conditions under which this Bond is payable, a statement of the conditions on which obligations may hereafter be issued on a parity with this Bond, the general covenants and provisions pursuant to which this Bond is 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, subject to the Prior Lien Bond, in favor of the owner or owners of this Bond and the issue of which it is a part, 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.

Said revenues 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 Prior Lien Bond, the Bonds and the issue of which they are a part promptly as each becomes due and payable. The District 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 Prior Lien Bond, the Bonds and any Parity Bonds and the issue of which it is a part as each becomes due. The Bonds and the interest on the Bonds are payable solely from the revenues so pledged to the payment of the Bonds, and the Bonds do not constitute a debt of the District 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.

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

The Bonds will not be obligations of the State of Tennessee or Sumner County, Tennessee.

OPTIONAL REDEMPTION OF THE BONDS

The Bonds 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 August 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 call for redemption shall be given by the Registration Agent on behalf of the District 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 any such notice nor any defect of any notice so mailed shall affect the sufficiency of the proceedings for the redemption of any of the Bonds for which proper notice was given. The Registration Agent shall mail such notices as and when directed by the District pursuant to written instructions from an authorized representative of the District. 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.

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, Regions Bank, Nashville, Tennessee, 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 District 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 District 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 District 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 District 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 District of such Special Record Date and, in the name and at the expense of the District, 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 District 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 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 or more fully-registered bond certificates will be issued for each maturity, in the entire aggregate principal amount of the Bonds and will be deposited with DTC.

DTC and its Participants. DTC is a limited-purpose trust company organized under the New York Bank Law, a **"banking organization"** within the meaning of the New York Banking Law, a member of the Federal Reserve System, a **"clearing corporation"** within the meaning of the New York Uniform Commercial Code, and a **"clearing agency"** registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for securities that its participants (the **"Direct Participants"**) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry-only changes in DTC Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (**"DTCC"**). DTCC, in turn, is owned by a number of its Direct Participants and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (the **"NSCC"**, **"GSCC"**, **"MBSCC"**, and **"EMCC"**, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc. (the **"NYSE"**), the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as both U.S. and non_U.S. securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct DTC Participant, either directly or indirectly (the **"Indirect Participants"** and, together with the Direct Participants, the **"Participants"**). DTC has S&P's highest rating: **"AAA."** The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

Payments of Principal and Interest. Debt Service 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 District or the Registration Agent subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, tender price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Registration Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of Direct and Indirect Participants.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 DISTRICT, THE FINANCIAL ADVISOR, THE UNDERWRITER OR THE REGISTRATION AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENT TO, OR THE PROVIDING OF NOTICE FOR, SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES.

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

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

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 District 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 District 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 District believes to be reliable, but the District, 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 District, the Registration Agent, the Financial Advisor or the Underwriter will have any responsibility or obligation to the Participants, DTC or the persons for whom they act with respect to (i) the accuracy of any records maintained by DTC or by any Direct or Indirect Participant of DTC, (ii) payments or the providing of notice to Direct Participants, the Indirect Participants or the beneficial owners or (iii) any other action taken by DTC or its partnership nominee as owner of the Bonds.

For more information on the duties of the Registration Agent, please refer to the Resolution. 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) pre-issuance accrued interest, if any, shall be deposited to the Bond Fund to be used to pay interest on the Bonds on the first interest payment date following delivery of the Bonds;

(b) the District 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, Bond Insurance Policy premiums, and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds;

(c) there shall then be deposited to the Reserve Fund bond proceeds or other funds of the District, in an amount sufficient to cause the amount being held therein to be equal to the Reserve Requirement for the Bonds.

(d) 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 2011 Water and Sewer System Construction Fund" to be kept separate and apart from all other funds of the District. Moneys in the Construction 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, bond insurance premiums, if any, and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds and construction of the Project. Money in the Construction 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 Construction Fund. Money in the Construction Fund shall be expended only for the purposes authorized by this resolution. Any funds remaining in the Construction Fund after completion of the Project and payment of authorized expenses shall be deposited to the Bond Fund. Moneys in the Construction Fund shall be invested as directed by an authorized representative of the District in such investments as shall be permitted by Tennessee law. All income derived from such investments shall be retained in the Construction Fund or deposited in the Bond Fund.

DISCHARGE AND SATISFACTION OF BONDS

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

(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 or such notice); or

(c) By delivering such Bonds to the Registration Agent for cancellation by it; and if the District shall also pay or cause to be paid all other sums payable hereunder by the District 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 District to the holders of such Bonds shall be fully discharged and satisfied and shall thereupon cease, terminate and become void; and if the District 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 District 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 District, 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 District to sell or issue the Bonds. See the subsection entitled Closing Certificates for additional information.

TAX MATTERS

Federal

General. Glankler Brown, PLLC, is Bond Counsel for the Bonds. Their opinion under existing law, relying on certain statements by the City and assuming compliance by the City with certain covenants, is that interest on the Bonds:

- is excluded from a bondholder's federal gross income under the Internal Revenue Code of 1986,
- 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 Internal Revenue Code of 1986, as amended (the "Code"), imposes requirements on the Bonds that the City must continue to meet after the Bonds are issued. These requirements generally involve the way that Bond proceeds must be invested and ultimately used. If the City does not meet these requirements, it is possible that a bondholder may have to include interest on the Bonds in its federal gross income on a retroactive basis to the date of issue. The City has covenanted to do everything necessary to meet these requirements of the Code.

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

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

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

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

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

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

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

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 City 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.

Proposed Legislation and Other Matters. Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law or otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Bonds. For example, on September 12, 2011, President Obama sent to Congress draft legislation entitled the "American Jobs Act of 2011" (the "Proposed Act"). On September 13, 2011, Senate Majority Leader Reid introduced the Proposed Act in the Senate (S.1549). The Proposed Act includes a provision that, if enacted as proposed, would limit the amount of exclusions (including tax-exempt interest, such as interest on the Bonds) and deductions certain high income taxpayers could use to reduce their income tax liability for taxable years after 2012, and accordingly the Proposed Act could affect the market price or marketability of the Bonds.

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

State Taxes

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

CLOSING CERTIFICATES

Upon delivery of the Bonds, the District will execute in a form satisfactory to bond counsel, certain closing certificates including the following: (i) A certificate as to the *Preliminary Official Statement* and the *Official Statement*, in final form (as defined herein), signed by the District’s President and Secretary acting in their official capacities to the effect that to the best of their knowledge and belief, and after reasonable investigation, (a) neither the *Preliminary Official Statement* or 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 *Preliminary Official Statement* and 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 District since the date of the *Preliminary Official Statement* and the *Official Statement*, in final form, and (d) there is no litigation of any nature pending or threatened seeking to restrain the issuance, sale, execution and delivery of the Bonds, or contesting the validity of the Bonds or any proceeding taken pursuant to which the Bonds were authorized; (ii) a non-arbitrage certificate which supports the conclusions that based upon facts, estimates and circumstances in effect, upon delivery of the Bonds, the proceeds of the Bonds will not be used in a manner which would cause the Bonds to be arbitrage bonds; (iii) certificates as to the delivery and payment, signed by the District's President acting in his official capacity, evidencing delivery of and payment for the Bonds; (iv) a signature identification and incumbency certificate, signed by the District's President and Secretary acting in their official capacities certifying as to the due execution of the Bonds; and (v) a Continuing Disclosure Certificate regarding certain covenants of the District concerning the preparation and distribution of certain annual financial information and notification of certain material events, if any.

For additional information, see the section entitled "MISCELLANEOUS-Financial Advisor," "Additional Information" and "Continuing Disclosure."

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 to be delivered with the Bonds and a form of the opinion is included in APPENDIX A. For additional information, see the section entitled "MISCELLANEOUS-Financial Advisor," "Additional Information" and "Continuing Disclosure."

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MISCELLANEOUS

RATING

Standard & Poor's Corporation ("Standard & Poor's") has assigned their municipal bond rating of "AA-". Such rating reflects only the views of such organization and explanations of the significance of such rating should be obtained from such agency.

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

Any explanation of the significance of the rating may be obtained only from Standard & Poor's.

COMPETITIVE PUBLIC SALE

The Bonds were offered for sale at competitive public bidding on December 5, 2011. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated November 28, 2011.

The successful bidder for the Bonds was an account led by __________________, _______, _______ (the "Underwriters") who contracted with the District, 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. Morgan Keegan & Company, Inc. ("Morgan Keegan"), Knoxville, Tennessee has been employed by the District to serve as its Financial Advisor. The Financial Advisor is a wholly-owned subsidiary of Regions Financial Corporation. The Financial Advisor and/or its affiliates may receive additional fees for providing services as an investment broker or bidding agent with respect to the investment of proceeds from the Bonds.

Regions Bank. Regions Bank (the "Bank") is also 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 District 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.

Morgan Keegan distributed the *Preliminary Official Statement*, in final form, and the *Official Statement*, in final form on behalf of the District 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 Morgan Keegan and/or the Bank on legal matters unrelated to the District and may do so again in the future.

Other. Among other services, Morgan Keegan and the Bank also assist local jurisdictions in the investment of idle funds and may serve in various other capacities. If the District chooses to use one or more of these other services provided by Morgan Keegan and/or the Bank, then Morgan Keegan and/or the Bank may be entitled to separate compensation for the performance of such services. On prior occasions, Morgan Keegan has served the District in other capacities and may do so again in the future.

DEBT RECORD

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

ADDITIONAL DEBT

The District has authorized not-to-exceed $20,000,000 of Parity Bonds to complete the Project. The proposed Bonds will be issued after January 1, 2012 with at least $10,000,000 issued in the 2012 calendar year.

CONTINUING DISCLOSURE

The District 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 and operating data relating to the District by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending

June 30, 2011 (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 District. The Annual Report (and audited financial statements if filed separately) and notices described above will be filed by the District with the Municipal Securities Rulemaking Board ("MSRB") at www.emma.msrb.com and with any State Information Depository which may be established in Tennessee (the "SID"). The specific nature of the information to be contained in the Annual Report or the notices of events is summarized below. These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b), as it may be amended from time to time (the "Rule"). The District is in compliance with the undertakings required under the Rule.

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

1. Number of Water System Customers by Class as shown on page B-6;
2. Number of Sewer System Customers by Class as shown on page B-8;
3. Top Ten System Customers as shown on page B-11;
4. Summary of bonded indebtedness as of the end of such fiscal year as shown on page B-14;
5. Information about the Bonded Debt Service Requirements as of the end of such fiscal year as show on page B-15;
6. Summary of Revenues, Expenditures and Changes in Fund Balances - General Fund for the fiscal year as shown on page B-16; and
7. The Historical Debt Service Coverages as shown on page B-17.

Any or all of the items listed above may be incorporated by reference from other documents, including OFFICIAL STATEMENTS in final form for debt issues of the District or related public entities, which have been submitted to each of 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 District shall clearly identify each such other document so incorporated by reference.

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

(A) within ten (10) Business Days following the occurrence of an event, notice of any of the following events with respect to the Bonds:

(i) principal and interest payment delinquencies;

(ii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iii) unscheduled draws on any credit enhancements reflecting financial difficulties;

(iv) substitution of any credit or liquidity providers, or their failure to perform;

(v) issuance by the Internal Revenue Service of a proposed or final determination of taxability with respect to the Tax-Exempt Bonds; a Notice of Proposed Issues on IRS Form 5701-TEB with respect to the Tax-Exempt Bonds; adverse tax opinions or events affecting the Build America Bond or Recovery Zone Economic Development Bond status of the Taxable Bonds; other material notices or determination with respect to the tax status of the Bonds; or other event affecting the tax status of the Bonds;

(vi) defeasances;

(vii) rating changes;

(viii) tender offers; and

(ix) bankruptcy, insolvency, receivership or similar proceeding by the District;

(B) within ten (10) Business Days following the occurrence of an event, notice of any of the following events with respect to the Bonds, if material:

(i) non-payment related defaults;

(ii) modification to the rights of the beneficial owners of the Bonds;

(iii) bond calls, other than bond calls relating to mandatory sinking fund redemption;

(iv) release, substitution or sale of any property securing repayment of the Bonds;

(v) mergers, consolidations, acquisition and sales of assets (other than in the ordinary course of business); and

(vi) appointment of a successor or additional trustee or a change in the name of the trustee; and

(C) within ten (10) Business Days following the occurrence of a failure, notice of a failure of the District to provide the Annual Report or the required annual financial information described in (A) or (B) above on or before the date specified.

Termination of Reporting Obligation. The District'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 District 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 District 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 District. 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 District 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 District 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 District 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 District 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 District has deemed this PRELIMINARY OFFICIAL STATEMENT as “final” as of its date within the meaning of Rule 15c2-12(b) of the Securities and Exchange Commission except for the omission of certain pricing information allowed to be omitted pursuant to Rule 15c2-12(b).

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CERTIFICATION

On behalf of the District, I hereby certify that to the best of my 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.

HENDERSONVILLE UTILITY DISTRICT OF SUMNER COUNTY, TENNESSEE

/s/__________________________________
President
Board of Commissioners

ATTEST:

/s/______________________________
Secretary
Board of Commissioners

APPENDIX A

LEGAL OPINION

[Letterhead of Glankler Brown, PLLC]

(Date of Closing)

Hendersonville Utility District
Of Sumner County, Tennessee
125 Indian Lake Road
Hendersonville, TN 37077

Re: Water and Sewer Revenue Bonds, Series 2011 of the Hendersonville Utility District of Sumner County, Tennessee

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Hendersonville Utility District of Sumner County, Tennessee (the "District"), of $10,000,000 aggregate principal amount of its Water and Sewer Revenue Bonds, Series 2011, dated of even date herewith (the "Series 2011 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 2011 Bonds or any other information concerning the financial condition of the District which may have been provided to the purchasers of the Series 2011 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 2011 Bonds have been authorized and issued in accordance with the Constitution and statutes of the State of Tennessee and constitute the valid and binding limited obligations of the District, payable as to both principal and interest exclusively from the net available revenues of the District's water procurement, treatment, storage and distribution and sewage collection, transmission and disposal systems (collectively, the "System"), after payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System, on a parity with the District's outstanding Water and Sewer Revenue Improvement Bonds, Series 2003, dated August 1, 2003, its Water and Sewer Revenue Refunding Bonds, Series 2004, dated February 1, 2004 and its Water and Sewer Revenue Refunding and Improvement Bonds, Series 2008, dated February 28, 2008 subject to prior pledges of such revenues in favor of the District's Waterworks and Sewer Revenue Bond, Series 1995, dated

December 19, 1996. We express no opinion as to the sufficiency of such net available revenues for the payment of principal of, premium, if any, and interest on the Series 2011 Bonds.

2. Interest on the Series 2011 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 District comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2011 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 2011 Bonds to be so included in gross income retroactive to the date of issuance of the Series 2011 Bonds. The District 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 2011 Bonds.

3. The Series 2011 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 2011 Bonds during the period such Series 2011 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 2011 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 District has designated the Series 2011 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 2011 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

HENDERSONVILLE UTILITY DISTRICT

LOCATION

The Hendersonville Utility District (the "District") current coverage area lies entirely within the city limits of the City of Hendersonville (the "City"). However, the District is in no way connected with, governed or controlled by the City. The City is located in southwestern corner of Sumner County, Tennessee (the "County") and is part of the Nashville standard metropolitan area. The boundaries of the District encompass an area of 12,000 acres lying in the southeast portion of the County, generally bounded on the west by Mansker Creek, on the south and southwest by Old Hickory Lake on the Davidson County line, on the southeast by the Wilson County line, and on the north and east by the White House Utility District.

The District obtains its water from Old Hickory Lake. The District provides water and sewer services within its boundaries and is the only entity providing such service or authorized to provide such service within its boundaries. The White House Utility District has authorized the District to provide sewer service outside of its boundaries to several residential subdivisions. The District provides no other service outside of its boundaries.

HISTORY

The District was created pursuant to an Order of the County Court of Sumner County, Tennessee entered on April 15, 1948 (the "Order of Incorporation"), and pursuant to the provisions of the District Act, which provides that any utility district incorporated thereunder shall be a municipality or public corporation in perpetuity and be a body politic and corporate with power of perpetual succession, but without any power to levy or collect taxes.

ORGANIZATION

The District Act provides that, as long as the District continues to furnish any of the services which it is authorized to furnish, it shall continue to be the sole public corporation having the power to furnish such services within the boundaries of the District, and no other person, firm or corporation shall furnish or attempt to furnish any of such services in the District, unless and until it shall have been established that the public convenience and necessity require other or additional services.

POWERS

The District Act provides that the District is empowered, among other things, to conduct, operate and maintain a system or systems for the furnishing of water and sewer and related services. To carry out such purposes, the District has the power and authority to acquire, construct, reconstruct, improve, better, extend, consolidate, maintain and operate such system or systems within or without the District, and to purchase from, furnish, deliver and sell to any municipality, the State, any public institution and the public, generally, any of its services. The District has the power of eminent domain and has the power to issue its negotiable bonds for the purpose of constructing, acquiring, reconstructing, improving, bettering or extending any of its facilities or system or systems and to pledge to the payment of such negotiable bonds all or any part of the revenues derived from the operation of such facilities, system or systems or combination thereof. The District has no power to levy or collect property taxes.

GOVERNING BODY

All corporate powers of the District are vested in and exercised by the Board of Commissioners. The Board consists of three members, each of which must reside or own property within the boundaries of the District, serving staggered four-year terms. The Commissioners are appointed by the County Mayor of the County. Each member of the Board of Commissioners, upon expiration of his or her term, shall continue to hold office until the successor shall have been appointed. A Board member may succeed himself or herself in office.

Pursuant to the District Act, the Board acts by a majority of its members and must meet at least once each quarter. The Board is authorized by the District Act, among other things, to exercise by vote, ordinance or resolution all of the general and specific powers of the District, to make all necessary rules, regulations and bylaws for the management and conduct the affairs of the District, and to issue bonds of the District by resolution of the Board. The individual commissioners receive compensation for their services on a per diem basis in the maximum amount allowable by the District Act for each day's attendance of the meetings of the Board in the performance of their official duties. Pursuant to the District Act, no member of the Board shall draw compensation in excess of $1,200 for such service during anyone calendar year. In addition, Board members are eligible for group medical insurance coverage as may be provided other employees, or payment of premiums for any equivalent or similar group coverage under the terms of Section 7-82-308, Tennessee Code Annotated.

THE BOARD OF COMMISSIONERS

The following is a list of the current members of the Board of Commissioners:

Name and Occupation	Current Term Expires
Mr. W.C. Boyers, President Retired	May 1, 2013
Mr. J.W. McMurray, Sr., Secretary Retired	May 1, 2014
Mr. Ronald E. Flowers, Treasurer Retired	May 1, 2012

MANAGEMENT

The day-to-day operations of the District are managed by the General Manager, who reports to the Board of Commissioners. Thomas S. Atchley has served as the General Manager since 1999. Mr. Atchley was previously employed by the City of Lebanon, TN. Mr. Atchley has a total of twelve (12) years experience with the District.

EMPLOYEES

The District has 46 full-time employees. The breakdown of employment by job description is as follows:

	Number
General Manager	1
Staff Accountant	1
Supervisor	8
Customer Services	10
Foreman in Plant	1
Operators	14
Laborers	11
TOTAL	46

The turnover in the District's work force has averaged less than one employee per year over the last five years. The tenure of District employees presently averages approximately twelve years.

At the present time, no employees of the District are represented by unions. Officials of the District are unaware of any attempts by any union to organize employees of the District, and the District characterizes its relationship with its employees as satisfactory.

REGULATION

State and Local Regulation. The District is required by law to establish and maintain a set of rules and regulations regarding an adjustment of all complaints which may be made to the District concerning the availability of utility services to persons in need thereof, the quality of service performed, the adjustment of bills and all other complaints of any nature, with provisions relating to the manner of resolution of individual complaints, the types of complaints which may be resolved by salaried employees of the District, and those which may be resolved only by the Board. Such rules must be posted or otherwise available in the offices of the District for inspection by customers and members of the public. The District Act provides that the District may not contractually bind itself to issue bonds that would require a rate increase until the users of the system are given notice thereof. The District has complied with this requirement with respect to all current water and sewer user rates by publishing notice of same on all customers' bills. Pursuant to the District Act, rates charged and services provided by the District may be renewed by the Utility Management Review.

Board of the State (the "Review Board") upon the filing with the Review Board of a petition signed by a least ten percent of the users within the authorized area of the District (see the discussion under "THE DISTRICT" - Regulation - Review Board). In addition, the District is required to have its books and records audited annually by a certified public accountant, a public accountant, or by the Department of Audit of the Comptroller of the Treasury of the State. The Comptroller of the Treasury of the State, through the Department of Audit, makes a determination as to whether the annual audit of the District has been prepared in accordance with generally accepted governmental auditing standards and whether the audits meet the minimum standards prescribed by the Comptroller. The Comptroller has promulgated rules and regulations to assure that the books and records of utility district are kept in accordance with generally accepted accounting procedures and that audit standards prescribed by the Comptroller are met. The District must file a copy of the audit with the State Comptroller and with the County Mayor of Sumner County.

Rate Regulation. The District is required by the District Act to charge such rates as shall be sufficient to pay operation and maintenance expenses and to pay principal of and interest on all bond or notes secured by revenues of the System. The Board determines the rates paid by the District's customers. The District is required to publish within ninety days after the close of its fiscal year a statement showing the financial condition of the District and the earnings of the District. Any water and/or sewer user customer of the District may file with the Board a protest concerning the rates. The Board must then give notice of a hearing to determine the validity of the protest and whether the published rates are reasonable. After the Board makes its determination, the customer may seek review of the Board's action and the Review Board, as discussed below, with the right of judicial review by common law writ of certiorari to a court within the county of the District’s principal office.

Review Board. In 1987, the State legislature established a utility management review board (the "Review Board") for the purpose of advising utility district boards of commissioners throughout the State in the area of utility management. The Review Board consists of nine (9) members consisting of the State Commissioner of Environment, the State Comptroller of the Treasury, and seven (7) members appointed by the Governor, three (3) of whom shall be experienced utility district managers, three (3) of whom shall be experienced utility district commissioners and one (1) of whom shall be a consumer residing in the state who is not engaged in utility district management or operation. The Review Board is given the power, among other things, to review any decision of any utility district relating to rate changes upon petition of any customer of the district, to compel the adoption of and adherence to rules and regulations for the adjustment of customer complaints, hear customer protests of rates or appeal from a hearing before the Board of Commissioners of the District, to oversee operations of "financially distressed utility districts", including the power to compel rate increases sufficient to be in compliance with State law and all covenants with bondholders and compel consolidation with another utility. A "financially distressed utility district" is a district (i) which has failed to charge rates sufficient to pay the costs of operation and maintenance of the system, including depreciation and reserves therefore, as well as to pay all bonds and interest thereon secured by the revenues of the system, including reserves therefore, for a period of two (2) consecutive years, or (ii) which is in default on any outstanding indebtedness, or (iii) which has a retained earnings deficit. The Review Board may not take any action which would adversely impair the obligations of contract or the payment of outstanding bonds of the District. Any party to a proceeding before the Review Board may appeal to a local court seeking review of any action taken.

The District Act contains several exemptions pertaining to the jurisdiction of the Review Board over gas utilities districts. Generally, gas utility districts are exempt from the jurisdiction of the Review Board, except the Review Board does have jurisdiction to hear appeals of customer protests of rates after a hearing before the Board of Commissioners of the District. The Review Board also may review and conduct a hearing of any decision of the District regarding the reasonableness of the District’s requirement that a customer or developer build utility systems to be dedicated to the District or the reasonableness of fees or charges against a customer or developer related to such utility systems.

Licenses, Permits and Approval. In the opinions of the General Manager and Counsel to the District, the District has received all licenses, permits and approvals necessary for the operation of the System.

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THE SYSTEMS

INTRODUCTION

The System consists primarily of office facilities; water procurement, treatment, storage, distribution facilities; and sewage collection and transmission facilities.

The District provides services consisting of (i) the treatment and distribution of water to its customers through its Waterworks System; and (ii) the collection, processing and disposal of sewage through its Wastewater System. The District provides no other services to its customers.

The District obtains its water through a raw water intake system in Old Hickory Lake. The District owns and operates a water treatment plant which is located within the boundaries of the District.

SERVICE AREA

The District lies in the southwestern portion of Sumner County and covers an area of approximately 12,000 acres.

WATERWORKS SYSTEM

Physical Plant. The Water System consists of an 8 MGD conventional media filtration plant and intake on Old Hickory Lake and 7 high level reservoirs holding 9.3 M gallons of water. The intake at the Water Plant is powered by 3 alternating raw water pumps, which have capacities of 2,800 gallons each per minute. All of the pumps are electrically driven. The plant produces an average of 5 million gallons per day (MGD) and can treat 8 MGD. At present, the total treatment capacity of the system is 8 million gallons per day. It must be noted that the peak day demand is considerably higher than the average daily demand.

The District's distribution system consists of approximately 250 miles of supply lines sized 4 inch to 24 inch.

Billing Units of the Water System. The following table sets forth the average number of billing units served by the Water System during each of the five fiscal years indicated and categorized by type of unit for the same periods.

NUMBER OF WATER SYSTEM CUSTOMERS BY CLASS
(Fiscal Year Ended June 30)

Customer Class	2007	2008	2009	2010	2011
Residential	13,710	14,253	14,283	14,300	14,336
Commercial	997	1,070	1,102	1,145	1,202
Industrial	6	6	6	6	3
TOTAL	**14,713**	**15,329**	**15,391**	**15,451**	**15,541**

Source: Audited Financial Statements and the District.

Water Consumption. For each of the fiscal years indicated, the following table sets forth the number of gallons of water pumped by the District, the total number of gallons of water consumed by the District's customers, and the number of gallons consumed by each billing unit type.

WATER CONSUMPTION
(in gallons)
(Fiscal Year Ended June 30)

Year	Total Water Billed Residential & Commercial	Water to Operate Plant, Blowoffs & Fire Department	Total Water Pumped	Water Lost
2007	1,244,434,870	171,841,157	1,751,330,400	335,054,373
2008	1,325,013,340	159,326,079	1,733,311,000	248,971,581
2009	1,267,921,164	169,524,008	1,504,073,500	66,628,328
2010	1,186,245,447	179,172,296	1,457,448,900	92,031,157
2011	1,274,316,576	11,614,670	1,571,102,000	285,170,754

Source: Audited Financial Statements and the District.

Water Revenues. For each of the fiscal years indicated, the following table sets forth the total amount of revenues collected by each billing unit type.

TOTAL WATER REVENUES BY CUSTOMERS CLASS
(Fiscal Year Ended June 30)

Customer Class	2007	2008	2009	2010	2011
Residential	$2,108,998	$2,252,528	$2,074,365	$2,114,949	$2,920,672
Commercial	917,198	981,781	998,389	1,034,798	1,362,132
Industrial	17,011	15,608	12,332	5,581	10,400
TOTAL	**$3,043,207**	**$3,249,917**	**$3,085,086**	**$3,155,328**	**$4,293,204**

Source: Audited Financial Statements and the District.

Water System Demand. For each of the fiscal years indicated, the following table sets forth the total amount of revenues collected by each billing unit type.

WATER SYSTEM DEMAND
(Fiscal Year Ended June 30)

	2007	2008	2009	2010	2011
Peak Demand (gallons)	7.6 mgd	7.6 mgd	6.5 mgd	6.0 mgd	6.3 mgd
Average Demand (gallons)	4.7 mgd	4.7 mgd	4.1 mgd	4.0 mgd	4.3 mgd

Source: Audited Financial Statements and the District.

WASTEWATER SYSTEM

Physical Plant. The District currently has approximately 425 miles of sewer mains which act as the collection system for the District. The District's wastewater is then pumped to the Dry Creek Wastewater Treatment Plant through a 36-inch force main running directly from the District to the plant. There are 108 pump stations in the System. The District also provides sewer services to three areas located outside of the District, including the Twin Valley Subdivision, the Riverchase area, and the Saundersville Road area.

All of the District's sewage is treated at the Metro Dry Creek Wastewater Treatment Plant owned and operated by The Metropolitan Government of Nashville and Davidson County ("Metro"), pursuant to an agreement dated March 2, 1978 between Metro and the District (the "Agreement"). Under the Agreement, the District is obligated to collect and convey any sanitary wastewater to be treated to the point of connection with the Metro system. The District provides metering of the wastewater piped to the Metro facilities. The District is also required to maintain adequate provisions to prevent excessive peak flow rates and extended periods of no-flow from the System. Metro agrees to provide wastewater transmission and treatment services sufficient to treat all the wastewater of the District. The Agreement provides for the District to pay rates, which are adjusted from time to time, based on (i) any capital expenditures necessary to increase the capacity of the wastewater treatment plant as it existed on January I, 1977, (ii) operation, maintenance and replacement costs; and (iii) debt service attributable to the portions of the Metro wastewater treatment system utilized by the District.

The rate paid by the District at the inception of the Agreement was $.17 per thousand gallons. The current rate is $.8300 per thousand. The Dry Creek Wastewater Treatment Plant has a capacity of 25 MGD, of which the District is assured a reserve capacity of 6.7 MGD. If the District exceeds such capacity, the District may be subject to certain capital expenditure costs or a rate increase from Metro.

Billing Units of the Sewer System. The following table sets forth the average number of billing units served by the Sewer System during each of the five fiscal years indicated and categorized by type of unit for the same periods.

NUMBER OF SEWER SYSTEM CUSTOMERS BY CLASS
(Fiscal Year Ended June 30)

Customer Class	2007	2008	2009	2010	2011
Residential	13,455	13,599	13,763	14,228	14,293
Commercial	775	852	884	927	982
Industrial	4	4	4	4	3
TOTAL	**14,234**	**14,455**	**14,651**	**15,159**	**15,278**

Source: Audited Financial Statements and the District.

Sewer Revenues. For each of the fiscal years indicated, the following table sets forth the total amount of revenues collected by each billing unit type.

TOTAL SEWER REVENUES BY CUSTOMERS CLASS
(Fiscal Year Ended June 30)

Customer Class	2007	2008	2009	2010	2011
Residential	$3,887,643	$4,565,392	$4,571,976	$4,679,134	$5,890,009
Commercial	1,282,298	1,432,048	1,387,169	1,543,453	1,604,254
Industrial	19,396	25,414	25,837	11,411	21,262
TOTAL	**$5,189,337**	**$6,022,854**	**$5,984,982**	**$6,233,998**	**$7,515,525**

Source: Audited Financial Statements and the District.

RATES

The District's current rate schedule (in effect as of March 1, 2011) is as follows:

Water Rates

0 to 2,000 gallons	$9.60 (minimum bill)
All over 2,000 gallons	$3.75 per 1,000 gallons

Notes:

1) Tennessee State Sales Tax required on water sales.
2) Minimum bill will be $15.00 per month for 1" and larger irrigation and sprinkler meters with no usage.
3) Meters over 2" dedicated solely for fire protection shall be assessed a minimum bill of $150.00 per month.
4) All meters over 2" will be charged a monthly testing and calibration fee of $20.00.

Sewer Rates

0 to 2,000 gallons (water used)	$12.53 (minimum bill)
All over 2,000 gallons	$5.39 per 1,000 gallons

White House Utility District water customers that are served by the Hendersonville Utility District for sewer service rates will be as follows:

Water Billed	*Sewer Rate*
0 to 1,000 gallons	$8.05 (minimum bill)
All over 1,000 gallons	$6.65 per 1,000 gallons

There will be a Metro Water Services treatment charge (user fee) of $1.75 per 1,000 gallons of sewer used. The treatment charge may be adjusted on an annual basis.
Note: Dedicated fire and irrigation meters are not subject to sewer charges.

OPERATING AND FINANCIAL HISTORY OF THE SYSTEMS

MANAGEMENT DISCUSSION OF OPERATING RESULTS

The District has experienced sustained customer and revenue growth in the last few years. During the fiscal year ending June 30, 2011, the District added 0.5% customer growth (74 customers) to its system, and increased revenues by 22% ($2,358,732). This decrease also includes a 16% rate increase for the last 6 months of the fiscal year.

BILLINGS AND COLLECTIONS

The District handles its own billings with the use of its own computer system. During the three fiscal years ended June 30, 2011, June 30, 2010 and June 30, 2009, uncollected accounts charged against the allowance for doubtful accounts amounted to $24,316, $24,316 and $63,000 respectively.

SYSTEMS OPERATING REVENUES

The following table sets forth for each of the fiscal years indicated gross operating revenues for the Waterworks and Wastewater Systems.

OPERATING REVENUES BY SYSTEMS
(Fiscal Year Ended June 30)

System	2007	2008	2009	2010	2011
Waterworks	$3,043,207	$ 3,249,917	$ 3,085,086	$ 3,155,328	$ 4,293,204
Wastewater	5,189,337	6,022,854	5,984,982	6,233,998	7,515,525
TOTAL REVENUES	**$8,584,528**	**$10,564,350**	**$10,601,998**	**$10,536,235**	**$12,894,967**

Source: Audited Financial Statements and the District.

HISTORICAL GROWTH OF SYSTEMS

The following table sets forth for each of the fiscal years indicated the number of customers for the Waterworks and Wastewater Systems.

HISTORICAL SYSTEM GROWTH
(Fiscal Year Ended June 30)

Year	Number of Water Customers	Number of Sewer Customers	Total*
2007	14,713	14,234	28,974
2008	15,329	14,455	29,784
2009	15,391	14,651	30,042
2010	15,451	15,159	30,610
2011	15,541	15,278	30,819

Source: Audited Financial Statements and the District.
*Most customers have both Water and Sewer service. Totals may be counting one customer as two.

MAJOR CUSTOMERS OF SYSTEMS

The following is a list of the major water and sewer customers of the District for the fiscal year ended June 30, 2011.

TOP TEN SYSTEM CUSTOMERS
(Fiscal Year Ended June 30, 2011)

	Customer	Type of Business	Sales (1)	% of Total Sales
1.	Hendersonville Hospital	Medical	$140,534	1.190%
2.	Wessington House Apts	Apartments	119,005	1.008%
3.	G&I VI Williamsburg LLC	Apartments	117,736	0.997%
4.	Nottingham Apartments	Apartments	102,420	0.867%
5.	Pheasant Run	Apartments	99,347	0.841%
6.	Carrington Place	Apartments	86,565	0.733%
7.	Aventura @ Indian Lake	Apartments	80,624	0.683%
8.	Walden Residential Prop.	Apartments	79,095	0.670%
9.	The Grove @ Waterford Cross	Apartments	74,642	0.632%
10.	Inland American Retail Mgmt	Retail	48,338	0.409%
	TOTAL		**$948,306**	**8.031%**

(1) Sales include only water & sewer revenues.

Source: Audited Financial Statements and the District.

COMPETITION AND FRANCHISE RIGHTS

The District Act provides that as long as the District continues to furnish any of the services which it is authorized to furnish, it shall continue to be the sole public corporation having the power to furnish such services within the boundaries of the District, and no other person, firm or corporation shall furnish or attempt to furnish any of such services within said boundaries. The District Act provides certain limited exceptions to the exclusive service right. The District Act provides that the exclusive right to serve may be lost if it can be established that the public convenience and necessity requires other or additional services. The District's right to serve also is subject to prior rights of a municipality to serve newly annexed territories pursuant to Section 6-51-101 et. seq., Tennessee Code Annotated. The District Act further grants to municipalities the prior right to serve areas outside their boundaries if the areas are not within the boundaries of a utility district authorized to provide the service or are not already being served by a utility district. Further, any acquisition of service area must be done in such a way as to fully preserve and protect the contract rights vested in owners of bonds or other obligations of the utility district.

METHOD OF ACCOUNTING

This District utilizes the accrual method of accounting. Provision for depreciation of the utility plant in service has been made on the straight-line method over the estimated useful lives of the assets. Depreciation is not considered on any capital item until the same is actually placed in operation. Plant contributed by developers is included at the developer's cost. Material and supply inventories are stated at the lower of cost (first in, first out method) or market. Sales revenue is recorded monthly based on meter readings subsequent to the delivery and consumption of the product by the customer. Revenues are not accrued for usage in the annual reports of the District from the last meter reading date to June 30. Amounts received from developers and customers for capital improvements are recorded as contributions in-aid-of construction. Bond discounts and issuance expenses are amortized during the period bonds are outstanding using the straight-line method of amortization. The District capitalizes bond interest expenses during the construction phase of expansion of the distribution system.

PENSION PLANS

Employees of the Hendersonville Utility District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 were vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Hendersonville Utility District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief government body.

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

SUMMARY OF OPERATIONS

The financial statements of the District for the year ended June 30, 2011 has been examined by Yeary, Howell & Associates, Nashville, Tennessee, independent accountants, whose report thereon appears herein.

CAPITALIZATION

The following table sets forth the capitalization of the District as of June 30, 2011.

	Outstanding
Total Long Term Indebtedness	$ 34,043,883
Total Current Liabilities	4,070,389
Retained Earnings & Contributed Capital	80,559,731
Total Long Term Indebtedness and Total Customers' Equity	$118,677,455

UTILITY PLANTS

The cost of the District's utility plants as of June 30, 2011 is as follows:

Utility Plants in Service	$147,654,750
Accumulated Depreciation	(42,015,382)
Construction in Progress	1,146,812
TOTAL	**$106,786,180**

Hendersonville Utility District of Sumner County, Tennessee

SUMMARY OF BONDED INDEBTNESS

As of November 28, 2011

AMOUNT ISSUED		PURPOSE	DUE DATE	INTEREST RATE(S)	As of June 30, 2011 OUTSTANDING (1)
$ 485,000		Waterworks and Sewer Revenue Bonds, Series 1995	2035	Fixed	$ 394,568
10,000,000	(2)	Water and Sewer Revenue Improvement Bonds, Series 2003	Feb. 2023	Fixed	7,035,000
9,455,000	(2)	Water and Sewer Revenue Refunding Bonds, Series 2004	Feb. 2023	Fixed	7,535,000
17,000,000	(2)	Water and Sewer Revenue Refunding and improvement Bonds, Series 2008	Feb. 2038	Fixed	16,200,000
3,838,366	(2)	State Revolving Loan, Series 2002-161	2027	Fixed	2,999,059
2,052,964	(2)	State Revolving Loan, Series 2004-179	2027	Fixed	1,660,592
$ 42,831,330		**TOTAL OUTSTANING BONDED DEBT**			$ 35,824,219
$ 10,000,000	(2)	Water and Sewer Revenue Bonds, Series 2011	2040	Fixed	$ 10,000,000
$ 52,831,330		**TOTAL PROPOSED BONDED DEBT**			$ 45,824,219

(1) The above figures do not include leases or other short-term debt, if any. For more information, see the notes to the Financial Statements in the FINANCIAL STATEMENTS included herein. Additionally, The District has authorized an additional $20,000,000 of Parity Bonds to complete the Project. The proposed Bonds will be issued after January 1, 2012 with at least $10,000,000 issued in the 2012 calendar year.

(2) Subordinated Debt

Hendersonville Utility District of Sumner County, Tennessee
BONDED DEBT SERVICE REQUIREMENTS
As of November 28, 2011

F.Y. Ended 6/30	As of June 30, 2011 Senior Existing Waterworks & Sewer Revenue Debt (1)			Percent Senior Principal Repaid	As of June 30, 2011 Subordinated Water & Sewer Revenue Debt			Water and Sewer Revenue Bonds, Series 2011			Total Subordinated Bonded Debt Service Requirements			Percent Subordinated Principal Repaid	Total Bonded Debt Service Requirements			Percent Total Principal Repaid
	Principal	Interest (2)	TOTAL		Principal	Interest	TOTAL	Principal	Interest (2)	TOTAL	Principal	Interest	TOTAL		Principal	Interest	TOTAL	
2012	$ 9,095	$ 20,010	$ 29,105		$ 1,629,696	$ 1,466,952	$ 3,096,648	$ -	$ 89,722	$ 89,722	$ 1,629,696	$ 1,556,674	$ 3,186,370		$ 1,638,791	$ 1,576,684	$ 3,215,474	
2013	9,572	19,533	29,105		1,686,831	1,413,520	3,100,351	-	475,000	475,000	1,686,831	1,888,520	3,575,351		1,696,403	1,908,053	3,604,456	
2014	10,074	19,030	29,105		1,739,183	1,357,306	3,096,489	-	475,000	475,000	1,739,183	1,832,306	3,571,489		1,749,257	1,851,336	3,600,593	
2015	10,603	18,502	29,105		1,811,738	1,298,468	3,110,206	-	475,000	475,000	1,811,738	1,773,468	3,585,206		1,822,341	1,791,970	3,614,311	
2016	11,159	17,946	29,105	12.80%	1,864,508	1,235,882	3,100,390	-	475,000	475,000	1,864,508	1,710,882	3,575,390	19.22%	1,875,667	1,728,828	3,604,495	19.17%
2017	11,744	17,360	29,105		1,932,512	1,170,529	3,103,041	-	475,000	475,000	1,932,512	1,645,529	3,578,041		1,944,256	1,662,889	3,607,146	
2018	12,361	16,744	29,105		1,995,730	1,100,579	3,096,309	-	475,000	475,000	1,995,730	1,575,579	3,571,309		2,008,091	1,592,323	3,600,413	
2019	13,009	16,095	29,105		2,074,187	1,025,790	3,099,977	-	475,000	475,000	2,074,187	1,500,790	3,574,977		2,087,196	1,516,885	3,604,081	
2020	13,692	15,413	29,105		2,162,890	944,543	3,107,433	-	475,000	475,000	2,162,890	1,419,543	3,582,433		2,176,582	1,434,956	3,611,538	
2021	14,410	14,694	29,105	29.33%	1,751,842	858,632	2,610,474	100,000	472,625	572,625	1,851,842	1,331,257	3,183,099	41.27%	1,866,252	1,345,951	3,212,203	41.17%
2022	15,167	13,938	29,105		1,821,059	786,342	2,607,401	100,000	467,875	567,875	1,921,059	1,254,217	3,175,276		1,936,226	1,268,155	3,204,381	
2023	15,962	13,142	29,105		1,895,534	713,892	2,609,426	100,000	463,125	563,125	1,995,534	1,177,017	3,172,551		2,011,496	1,190,159	3,201,655	
2024	16,800	12,305	29,105		1,220,271	635,236	1,855,507	500,000	448,875	948,875	1,720,271	1,084,111	2,804,382		1,737,071	1,096,416	2,833,487	
2025	17,681	11,423	29,105		1,270,298	588,368	1,858,666	500,000	425,125	925,125	1,770,298	1,013,493	2,783,791		1,787,979	1,024,916	2,812,895	
2026	18,609	10,495	29,105	50.67%	1,325,590	532,691	1,858,281	500,000	401,375	901,375	1,825,590	934,066	2,759,656	61.59%	1,844,199	944,562	2,788,761	61.50%
2027	19,586	9,519	29,105		1,067,782	474,473	1,542,255	500,000	377,625	877,625	1,567,782	852,098	2,419,880		1,587,368	861,617	2,448,985	
2028	20,613	8,491	29,105		1,045,000	422,450	1,467,450	500,000	353,875	853,875	1,545,000	776,325	2,321,325		1,565,613	784,816	2,350,430	
2029	21,695	7,410	29,105		555,000	370,200	925,200	500,000	330,125	830,125	1,055,000	700,325	1,755,325		1,076,695	707,735	1,784,430	
2030	22,833	6,271	29,105		585,000	342,450	927,450	500,000	306,375	806,375	1,085,000	648,825	1,733,825		1,107,833	655,096	1,762,930	
2031	24,031	5,073	29,105	78.24%	615,000	313,200	928,200	500,000	282,625	782,625	1,115,000	595,825	1,710,825	75.61%	1,139,031	600,898	1,739,930	75.63%
2032	25,292	3,812	29,105		645,000	282,450	927,450	500,000	258,875	758,875	1,145,000	541,325	1,686,325		1,170,292	545,137	1,715,430	
2033	26,619	2,485	29,105		680,000	248,588	928,588	500,000	235,125	735,125	1,180,000	483,713	1,663,713		1,206,619	486,198	1,692,817	
2034	28,015	1,088	29,103		710,000	212,888	922,888	500,000	211,375	711,375	1,210,000	424,263	1,634,263		1,238,015	425,351	1,663,366	
2035	5,945	41	5,986	100.00%	770,000	175,613	945,613	500,000	187,625	687,625	1,270,000	363,238	1,633,238	86.19%	1,275,945	363,278	1,639,223	86.31%
2036	-	-	-		815,000	135,188	950,188	700,000	159,125	859,125	1,515,000	294,313	1,809,313		1,515,000	294,313	1,809,313	
2037	-	-	-		860,000	92,400	952,400	750,000	124,688	874,688	1,610,000	217,088	1,827,088		1,610,000	217,088	1,827,088	
2038	-	-	-		900,000	47,250	947,250	750,000	89,063	839,063	1,650,000	136,313	1,786,313		1,650,000	136,313	1,786,313	
2039	-	-	-		-	-	-	750,000	53,438	803,438	750,000	53,438	803,438		750,000	53,438	803,438	
2040	-	-	-	100.00%	-	-	-	750,000	17,813	767,813	750,000	17,813	767,813	100.00%	750,000	17,813	767,813	100.00%
	$ 394,568	$ 280,821	$ 675,389		$ 35,429,651	$ 18,245,878	$ 53,675,529	$ 10,000,000	$ 9,556,472	$ 19,556,472	$ 45,429,651	$ 27,802,351	$ 73,232,002		$ 45,824,219	$ 28,083,171	$ 73,907,390	

NOTES:

(1) The above figures do not include leases or other short-term debt, if any. For more information, see the notes to the Financial Statements in the FINANCIAL STATEMENTS included herein. Additionally, The District has authorized an additional $20,000,000 of Parity Bonds to complete the Project. The proposed Bonds will be issued after January 1, 2012 with at least $10,000,000 issued in the 2012 calendar year.

(2) Estimated Average Coupon. Estimated Average Coupon of 5.00%.

Hendersonville Utility District of Sumner County, Tennessee

Five Year Summary of Revenues, Expenses and
Changes in Net Assets

	For the Fiscal Year Ended June 30				
	2007	**2008**	**2009**	**2010**	**2011**
Operating Revenues:					
Water Service Charges	$ 3,043,207	$ 3,249,917	$ 3,085,086	$ 3,155,328	$ 4,293,204
Sewer Service Charges	5,189,337	6,022,854	5,984,982	6,233,998	7,557,657
Tap Fees and Connection Fees	816,150	721,406	994,500	502,830	387,284
Other income	351,984	570,173	537,430	644,079	656,822
Total Operating Revenues	$ 9,400,678	$ 10,564,350	$ 10,601,998	$ 10,536,235	$ 12,894,967
Operating Expenses:					
Water Distribution	$ -	$ -	$ 1,384,410	$ 1,401,294	$ 1,581,550
Sewer Collection	-	-	3,885,316	4,061,856	3,787,348
Salaries and Wages	1,633,048	1,838,791	-	-	-
Employee Benefits	597,883	747,165	-	-	-
Sewer Charges	1,109,501	1,620,877	-	-	-
Chemicals	338,422	457,895	-	-	-
Supplies	124,449	221,560	-	-	-
Utilities	549,245	578,710	-	-	-
Repair and Maintenance	662,535	791,179	-	-	-
Insurance	144,143	97,468	-	-	-
Taxes and Licenses	120,232	146,227	-	-	-
Consulting and Professional	216,380	351,863	-	-	-
Other Operating Expenses	355,401	446,853	-	-	-
Water Plant	-	-	1,721,248	1,643,334	1,560,677
Administration	-	-	752,101	823,753	856,064
Depreciation & Amortization	2,413,692	2,755,246	3,165,786	3,684,549	3,663,155
Total Operating Expenses	$ 8,264,931	$ 10,053,834	$ 10,908,861	$ 11,614,786	$ 11,448,794
Operating Income	$ 1,135,747	$ 510,516	$ (306,863)	$ (1,078,551)	$ 1,446,173
Non-Operating Revenues (Expenses):					
Investment Income	$ 321,099	$ 349,375	$ 230,753	$ 183,871	$ 131,410
Other Income (Expense)	173,014	21,525	96,053	(22,364)	258,959
Interest Expense	(1,032,536)	(1,373,443)	(858,253)	(814,085)	(1,541,333)
Total Non-Operating Rev. (Exp.)	$ (538,423)	$ (1,002,543)	$ (531,447)	$ (652,578)	$ (1,150,964)
Income (Loss) before contributions	$ 597,324	$ (492,027)	$ (838,310)	$ (1,731,129)	$ 295,209
Contributions:					
Capital Grants	$ 121,114	$ 35,092	$ -	$ -	$ 77,932
Capacity Fees	659,558	1,117,436	501,500	190,900	233,100
Capital Contributions-Utility Plant	2,133,610	5,573,404	1,100,683	2,907,306	535,401
Total Contributions	$ 2,914,282	$ 6,725,932	$ 1,602,183	$ 3,098,206	$ 846,433
Special Item - Sale of Capital Assets	$ -	$ -	$ 522,068	$ -	$ -
Change in Net Assets	$ 3,511,606	$ 6,233,905	$ 1,285,941	$ 1,367,077	$ 1,141,642
Net Assets - PY	$ 57,941,759	$ 70,534,618	$ 76,768,523	$ 78,054,464	$ 79,421,541
Prior Year Corrections/Other	9,081,253	-	-	-	-
Net Assets - PY (Restated)	67,023,012	70,534,618	76,768,523	78,054,464	79,421,541
Net Assets	**$ 70,534,618**	**$ 76,768,523**	**$ 78,054,464**	**$ 79,421,541**	**$ 80,563,183**

Source: Audited Financial Statements of the Hendersonville Utility District of Sumner County, TN.
For additional information, please see the individual Audited Financial Statements for each year.

Hendersonville Utility District of Sumner County, Tennessee
HISTORICAL DEBT SERVICE COVERAGES

Existing Senior and Subordinated Bonds

	2007	2008	2009	2010	2011
Operating Revenues	$ 9,400,678	$ 10,564,350	$ 10,601,998	$ 10,536,235	$ 12,894,967
Operating Expenses Before Depreciation	5,851,239	7,298,588	7,743,075	7,930,237	7,785,639
Net Income Before Depreciation	$ 3,549,439	$ 3,265,762	$ 2,858,923	$ 2,605,998	$ 5,109,328
Other Income (Expenses)	494,113	370,900	326,806	161,507	390,369
Other Fees and Grants	780,672	1,152,528	1,023,568	190,900	311,032
Income Available for Debt Service	$4,824,224	$4,789,190	$4,209,297	$2,958,405	$5,810,729
Annual Debt Service - Excludes Capitalized Interest (1)	$2,075,227	$2,560,239	$2,250,817	$2,331,881	$3,124,437
Historical Coverage Ratio - Exclusive of Capitalized Interest	2.32 x	1.87 x	1.87 x	1.27 x	1.86 x
Annual Debt Service - Includes Capitalized Interest (2)	$2,191,770	$2,560,239	$2,863,091	$3,102,091	$3,124,437
Historical Coverage Ratio - Inclusive of Capitalized Interest	2.20 x	1.87 x	1.47 x	0.95 x	1.86 x
Projected Maximum Debt Service after issuance of Series 2011 Bonds (2015)	$3,614,311	$3,614,311	$3,614,311	$3,614,311	$3,614,311
Historical Coverage Ratio	1.33 x	1.33 x	1.16 x	0.82 x	1.61 x

(1) Annual Debt Service is derivated for the notes to the Audited Financial Statements in the FINANCIAL STATEMENTS of the District. Principal and Interest paid are dervied from the cash flow statements of the Audited Financial Statements and exclude the annual amount of capitalized interest.

(2) Annual Debt Service is derivated for the notes to the Audited Financial Statements in the FINANCIAL STATEMENTS of the District. Principal and Interest paid are dervied from the cash flow statements of the Audited Financial Statements and include the annual amount of capitalized interest.

GENERAL INFORMATION

LOCATION

Sumner County (the "County") is located in the northern region of Middle Tennessee. To the north, the County is bordered by the Kentucky State line and to the east, by Robertson County. Davison and Wilson Counties make up the County's southern border, and to the west, the County is bordered by Macon and Trousdale Counties. The City of Gallatin serves as the county seat and is located approximately 25 miles east of Nashville. Other incorporated cities in the County include Goodlettsville, Hendersonville, Millersville, Mitchellville, Portland, Westmoreland and White House.

GENERAL

The County is part of the Nashville-Murfreesboro Metropolitan Statistical Area (the "MSA"), which includes Cannon, Cheatham, Davidson, Dickson, Hickman, Macon, Robertson, Rutherford, Smith, Sumner, Trousdale, Williamson and Wilson Counties. According to the 2000 US Census the MSA had a population of 1,311,789, a 20 percent increase from the 1990 Census.

The County is also part of the Nashville-Murfreesboro-Columbia Combined Statistical Area (the "CSA") which includes Maury, Cannon, Cheatham, Davidson, Dickson, Hickman, Macon, Robertson, Rutherford, Smith, Sumner, Trousdale, Williamson and Wilson Counties. According to the 2010 Census, the CSA had a population of 1,674,191. The City of Nashville, the State Capital, is the largest city in the CSA with a population of 626,681 according to the 2010 Census. The 2010 Census puts Sumner County's population at 160,645. The largest city in Sumner County is Hendersonville is 51,372. The County seat of Sumner County is Gallatin with a 2010 Census population of 30,278.

TRANSPORTATION

Interstate Highway I-65 runs along the eastern border of the County into Kentucky. Interstate Highway I-40 is located 12 miles south of the County. U.S. Highways 31E and State Highways 25, 52, 76, 109, 231, 258 and 386 traverse the County. The Cumberland River flows through the south of the County, which has a channel depth of nine feet, and the nearest port is about 18 miles away in Nashville. As many as ten motor freight companies serve the County, and freight rail service is provided by the CSX Transportation. The Sumner County Regional Airport is the County's municipal airport with a 5,000 foot asphalt runway. The nearest commercial airport is Nashville International Airport, which is located 25 miles away.

EDUCATION

The County has one school system, the Sumner County School System. *The Sumner County School System* has forty-six schools: twenty-six elementary schools (including one magnet school), twelve middle/junior high schools (including one magnet school), and ten high schools (including one magnet school, one night school and one alternative school). In the fall of 2010 the system enrolled about 26,723 students with 1,853 teachers.

Source: Tennessee Department of Education.

Volunteer State Community College is a public two-year community college in Gallatin, Tennessee, serving a twelve-county region including the counties of Clay, Davidson, Jackson, Macon, Overton, Pickett, Putnam, Robertson, Smith, Sumner, Trousdale and Wilson. Off-Campus operations include two Degree-Granting Centers, five major teaching sites, high-school dual enrollment sites and various allied health and business sites in Davidson, Macon, Robertson, Overton and Wilson Counties. Fall 2010 enrollment was 9,029.

Source: Volunteer State Community College and TN Higher Education Commission.

The Tennessee Technology Center at Hartsville. The Tennessee Technology Center at Hartsville 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 Hartsville serves the north central region of the state including Trousdale, Macon, Smith and Sumner Counties. The Technology Center at Hartsville began operations in 1965, and the 20 acre main campus is located in Trousdale County. Fall 2009 enrollment was 871 students. There are also Instructional Service Centers located at the Trousdale County High School and Gallatin Housing Authority (SumHar Rose Learning Center).

Source: Tennessee Technology Center at Hartsville and TN Higher Education Commission.

HEALTHCARE

Sumner Regional Medical Center (the "SRMC"). SRMC is a 155-bed healthcare facility and provides care in numerous areas, including cancer treatment, cardiac care, same- day surgery, orthopaedics, diagnostics, women's health and rehabilitation services. Since opening in 1959 as Sumner County Memorial Hospital, SRMC has grown from a facility with just 50 employees and seven physicians to a comprehensive health care leader in the community with over 1,000 employees and more than 300 physicians.

The HighPoint Health System is comprised of four hospitals, including Sumner Regional Medical Center, the 155-bed flagship hospital located in Gallatin; Riverview Regional Medical Center - North, a 63-bed acute care hospital in Carthage; Riverview Regional Medical Center – South, a 25-bed critical access hospital in Carthage; and Trousdale Medical Center, a 25-bed critical access hospital in Hartsville. The system, which employs more than 1,300 people, as of 2010 is part of LifePoint Hospital, Inc. based in Brentwood, Tennessee. LifePoint's network of 50 hospital facilities nationwide, which includes six other hospitals in Tennessee: Athens Regional Medical Center in Athens, Crockett Hospital in Lawrenceburg, Livingston Regional Hospital in Livingston, Hillside Hospital in Pulaski, Southern Tennessee Medical Center in Winchester and Emerald-Hodgson Hospital (a campus of Southern Tennessee Medical Center) in Sewanee. (See "RECENT DEVELOPMENTS" for more information.)

Source: Sumner Regional Medical Center.

POWER PRODUCTION

Gallatin Fossil Plant. Tennessee Valley Authority's ("TVA") Gallatin Fossil Plant is located in Sumner County on the north bank of the Cumberland River. Construction at Gallatin began in 1953 and was completed in 1959. Gallatin has four coal-fired generating units. The winter net dependable generating capacity is 988 megawatts. The plant consumes about 12,350 tons of coal a day.

Electricity is produced at Gallatin's four coal-fired units by the process of heating water in a boiler to produce steam. Under extremely high pressure, the steam flows into a turbine that spins a generator to make electricity. Gallatin generates some 4.7 billion kilowatt-hours of electricity a year, enough to supply 300,000 homes. TVA added four combustion-turbine units at Gallatin in the early 1970s, and another four in 2000. These units, which can burn either fuel oil or natural gas, are designed to start quickly. Although they cost more to operate than TVA's other power sources, they are needed to meet the demand for electricity during peak operating periods. In 2004, two units at Gallatin set all-time continuous-run records, operating without any interruptions for repairs or maintenance for a longer period than ever before.

To reduce sulfur dioxide (SO_2) emissions, all four Gallatin units use a blend of low-sulfur coal. To reduce nitrogen oxides (NO_X), the units use low-NO_X burners. By 2010, TVA will have spent about $6 billion on emissions controls at its fossil-fuel plants to ensure that this power supply is generated as cleanly as possible, consistent with efficiency.

Source: Tennessee Valley Authority.

MANUFACTURING AND COMMERCE

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

Company	Product	Employment
Gap, Inc	Clothing Distribution	1,250
UNIPRES	Pressed Metal Parts	600
Peyton's Mid-South	Distribution	475
Federal Department Stores	Distribution for Macy's	409
RR Donnelley & Sons	Commercial Printing & Binding	320
ABC Fuel Systems, Inc.	Automotive Fuel Systems	305
Thomas & Betts Corp	Electrical Boxes	270
Kirby Building Systems	Steel Fabrication	250
Servpro Industries, Inc.	Fire & Water Cleanup & Restoration	214
Aladdin Temp Rite LLC	Distributes General Line Groceries	200
Hoeganaes Corp	Powdered Metal	197
Illinois Toolworks, Inc.	Binding Machines	180
NIC Global Manufacturing	Precision Sheet Metal	168
Albany International	Eng. Fabrics/Sales Div.	165
Commercial Whse Carthage	Distribution (For GE)	152
Charles C. Parks Inc.	Food Distribution	150
MGM Industries, Inc.	Stormdoors	150
Lowe's Co's. Inc.	Wooden doors and trim	150
United Structures of America	Metal Bldgs.	142
R&B - Motormite Dorman OE Solutions	After Market Automotive Provide	140
First Fleet Trucking, Inc.	Trucking	130
Betty Machine	Sewing Machine Parts	125
Byron’s Barbecue, Inc.	Frozen BBQ Meat Products	120
Western Enterprises	Plastic Injection Molding	120
ITW/CIP Tennessee	Automotive Fasteners	119
ABC Technologies, Inc.	Plastic Automotive Parts	111
ITW Dynatec	Adhesives	110
Jamison Bedding, Inc.	Mattresses	105
Imperial Group	Fabricated Steel	100
Olhausen Billiards	Mfg. Pool Tables	96
Tennessee Stamping	Auto Metal Stamping	95
Salga Plastics, Inc.	Plastic Blow & Injection Moldings	80
TimBar Packaging & Display	Packaging	74
Linatex Corporation of America	Rubber Liner Mining Equipment	70
Precision Casting of TN, Inc.	Metal Castings	70

Source: Tennessee Department of Economic and Community Development - 2011.

EMPLOYMENT INFORMATION

For the month of September 2011, the unemployment rate for Gallatin stood at 10.4% with 12,980 persons employed out of a labor force of 14,480. For the month of September 2011, the unemployment rate for Hendersonville stood at 8.3% with 24,560 persons employed out of a labor force of 26,780. As of September 2011, Sumner County's unemployment rate was 8.5% with 76,590 persons employed out of a work force of 83,750.

The Nashville-Murfreesboro MSA's unemployment for September 2011 was at 8.5% with 770,680 persons employed out of a labor force of 842,460. As of September 2011, the unemployment rate in the Nashville-Murfreesboro-Columbia CSA stood at 8.7%, representing 801,970 persons employed out of a workforce of 878,320. The following charts show unemployment trends in the Counties from 2006 through 2010:

Unemployment

	Annual Average **2006**	Annual Average **2007**	Annual Average **2008**	Annual Average **2009**	Annual Average **2010**
National	4.6%	4.6%	5.8%	9.3%	9.6%
Tennessee	5.2%	4.7%	6.4%	10.5%	9.7%
Gallatin	**5.8%**	**5.7%**	**8.0%**	**11.8%**	**9.7%**
Index vs. National	126	124	138	127	101
Index vs. State	112	121	125	112	100
Hendersonville	**3.9%**	**3.7%**	**5.3%**	**8.5%**	**8.1%**
Index vs. National	85	80	91	91	84
Index vs. State	75	79	83	81	83
Sumner County	**3.7%**	**4.0%**	**5.8%**	**9.9%**	**8.7%**
Index vs. National	80	87	100	106	91
Index vs. State	71	85	91	94	90
Nashville-Murfreesboro MSA	**4.2%**	**3.9%**	**5.5%**	**9.3%**	**8.6%**
Index vs. National	91	85	95	100	90
Index vs. State	81	83	86	89	89
Nashville-Murfreesboro-Columbia CSA	**4.3%**	**4.1%**	**5.6%**	**9.5%**	**8.9%**
Index vs. National	93	89	97	102	93
Index vs. State	83	87	88	90	92

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

ECONOMIC DATA

Per Capita Personal Income

	2005	2006	2007	2008	2009
National	$35,424	$37,698	$39,461	$40,674	$39,635
Tennessee	$31,302	$32,881	$34,237	$35,119	$34,277
Sumner County	**$31,486**	**$32,878**	**$34,394**	**$34,849**	**$33,557**
Index vs. National	89	87	87	86	85
Index vs. State	101	100	100	99	98
Nashville-Murfreesboro MSA	**$36,051**	**$38,172**	**$39,522**	**$40,246**	**$38,656**
Index vs. National	12	101	100	99	98
Index vs. State	115	116	115	115	113
Nashville-Murfreesboro-Columbia CSA	**$35,656**	**$37,715**	**$38,981**	**$39,708**	**$38,138**
Index vs. National	101	100	99	98	96
Index vs. State	114	115	114	113	111

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

The following socioeconomic factors indicate the standard of living in the County, as compared to that of the State and Nation:

Social and Economic Characteristics

	National	Tennessee	Sumner County
Median Value Owner Occupied Housing	$185,400	$128,500	$164,400
% High School Graduates or Higher Persons 25 Years Old and Older	84.6%	81.8%	84.9%
% Families with Income Below Poverty Level	9.9%	12.2%	7.0%
Median Family Income	$62,363	$52,910	$64,157

Source: U.S. Census Bureau State & County QuickFacts - 2009 inflation-adjusted dollars.

RECREATION

Bledsoe Creek State Park. Off Highway 25, this 164-acre park is situated on the Bledsoe Creek embayment of the U.S. Corps of Engineers Old Hickory Reservoir near the old 1780's settlement of Cairo in Sumner County. There are many campsites, hiking trails and picnic facilities on site. Boating and fishing is also a popular activity.

Source: Tennessee State Parks.

RECENT DEVELOPMENTS

Sumner Regional Health Systems / HighPoint Health System. As of September 2010, LifePoint Hospitals purchased Sumner Regional Health Systems (HighPoint Health System). The comprehensive three-market hospital system serves 11 counties in the northern middle Tennessee region. Under the terms of the final sales agreement, LifePoint purchased HighPoint Health System for $145 million plus working capital and committed to make $60 million in capital investments in the system's four hospitals over the next decade. The company also will provide charity care to residents across the HighPoint Health System region and to inmates of Sumner County. LifePoint Hospitals is based in Brentwood, Tennessee and has 50 hospitals nation-wide with seven located in Tennessee.

Source: Sumner Regional Medical Center.

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APPENDIX C

SUMMARY OF BOND RESOLUTION

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following briefly summarizes certain terms and provisions of the resolution adopted by the Board of Commissioners of the District on March 8, 2011, which authorized the issuance and sale of the Series 2011 Bonds (the "Resolution"). The District also intends to issue not-to-exceed $20,000,000 Water and Sewer Revenue Bonds, Series 2012 (the "Series 2012 Bonds") pursuant to the authority granted in the Resolution. The Resolution is supplementary to, and incorporates certain provisions of, the resolutions authorizing the Series 1998, 2003, 2004 and 2008 Bonds. This summary is not considered a complete explanation of the terms and conditions of the Resolution. Reference is made to the Resolution for a complete statement of the terms, provisions and conditions thereof. A copy of the Resolution may be obtained from Hendersonville Utility District, 125 Indian Lake Road, Hendersonville, Tennessee 37077, Attn: General Manager.

Definitions of Certain Terms

"Acquired System" shall mean any water procurement, treatment, storage or distribution system or sewage collection, transmission or treatment system, or any combination thereof, acquired by the District pursuant to State of Tennessee law.

"Bonds" means the Series 2003 Bonds, the Series 2004 Bonds, the Series 2008 Bonds, the Series 2011 Bonds, the Series 2012 Bonds and any Parity Bonds.

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

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

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

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

"Current Expenses" means expenses incurred by the District in the operation of the System, determined in accordance with generally accepted accounting principles, including the reasonable and necessary costs of operating, maintaining, repairing and insuring the System, the cost of producing potable water, the cost of obtaining treatment of sewage collected and transported by the sewer system, salaries and wages, cost of material and supplies, and insurance premiums, but shall exclude depreciation, amortization and interest on any bonds, notes or other obligations of the District.

"Federal Obligations" means obligations and securities described in Section 9-21-1012, Tennessee Code Annotated.

"Financial Guaranty Agreement" means any financial guaranty agreement or reimbursement agreement authorized to be executed in connection with a Reserve Fund Credit Facility.

"Fiscal Year" means the twelve-month period commencing July 1 of each year and ending June 30 of the following year.

"Governing Body" means the Board of Commissioners of the District.

"Gross Earnings" means all revenues, rentals, earnings and income of the District from whatever source, determined in accordance with generally accepted accounting principles, including all revenues derived from the operation of the System; proceeds from the sale of property; proceeds of insurance and condemnation awards and compensation for damages, to the extent not applied to the payment of the cost of repairs, replacements and improvements; and all amounts realized from the investment of funds of the System, including money in any accounts and funds created by the Resolution or the resolutions authorizing any Prior Lien Bond or subordinate lien bonds (excluding any investment earnings from construction or improvement funds created for the deposit of bond proceeds pending use, to the extent such income is applied to the purposes for which the bonds were issued, and funds created to defease any outstanding obligations of the District); provided, however, at the election of the Governing Body, the term "Gross Earnings" as used herein shall not include any revenues, rentals, earnings or other income received by the District from the operation of an Acquired System.

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

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

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

"Parity Bonds" means bonds, notes, loan agreements, and other debt obligations, including Short-Term Indebtedness and Variable Rate Indebtedness, issued or entered into by the District on a parity with the Bonds in accordance with the restrictive provisions of the Resolution.

"Prior Lien Bond" means the District's outstanding Waterworks and Sewer Revenue Bond, Series 1995, dated December 19, 1996.

“Rating Agency” means Fitch, Moody’s, and Standard & Poor’s or any successor thereto and any other nationally recognized credit rating agency.

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

"Reserve Fund Credit Facility Issuer" means, with respect to the Outstanding Parity Bonds, the issuer of a Reserve Fund Credit Facility rated in the highest rating category by Standard & Poor's Rating Group, if rated by Standard & Poor's, and Moody's Investors Service, Inc., if rated by Moody's and, A.M. Best & Company, if rated by A.M. Best & Company and with respect to the Series 2011 Bonds, Series 2012 Bonds and future Parity Bonds the issuer of a Reserve Fund Credit Facility rated in one of the three highest rating categories (without regard to gradations within such categories) by a Rating Agency that rates the Reserve Fund Credit Facility Issuer.

"Reserve Fund Requirement" means the least of (a) the Maximum Annual Principal and Interest Requirement on the Bonds (excluding Short-Term Indebtedness) during the term thereof; (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, on the Bonds (excluding Short-Term Indebtedness) during the term thereof, or (c)10% of the stated principal amount of the Bonds (excluding Short-Term Indebtedness), as from time to time interpreted under the Code.

“Series 1998 Bonds” mean the Water and Sewer Revenue Bonds, Series 1998 dated August 1, 1998, which are no longer outstanding.

"Series 2003 Bonds" mean the District's Water and Sewer System Revenue Bonds, Series 2003, dated August 1, 2003.

"Series 2004 Bonds" shall mean the Water and Sewer Revenue Refunding Bonds, Series 2004, dated February 1, 2004.

"Series 2008 Bonds" mean the Water and Sewer Revenue Refunding and Improvement Bonds, Series 2008, dated February 28, 2008.

“Series 2011 Bonds” mean the Water and Sewer Revenue Bonds, Series 2011, dated the date of their delivery in calendar year 2011.

“Series 2012 Bonds” mean the Water and Sewer Revenue Bonds, Series 2012 anticipated to be issued in calendar year 2012.

"Short-Term Indebtedness" means bonds, notes, loan agreements or other debt obligations, including Variable Rate Indebtedness, maturing five years or less from their date of issuance, issued by the District as Parity Bonds in accordance with the restrictive provisions of the Resolution.

"System" means the complete water procurement, treatment, storage and distribution system of the District and the complete sewage collection, transmission and disposal system of the District (which systems may be operated separately or as a consolidated system for accounting, financial, record keeping, billing and legal purposes), together with, and including all properties of every nature hereafter owned by the District, including all improvements and extensions made by the District while the Bonds remain outstanding, and including all real and personal property of every nature comprising part of or used or useful in connection with the foregoing, and including all appurtenances, contracts, leases, franchises, and other intangibles; provided, however, at the election of the Governing Body, an Acquired System may be included within the System and become a part thereof or, at the election of the Governing Body, not become a part of the System but be operated as a separate and independent system by the Governing Body with the continuing right, upon the election of the Governing Body, to incorporate such separately Acquired System within the System.

"Variable Rate Indebtedness" means any 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 Bonds. For purposes of calculating the Reserve Fund Requirement, determining compliance with the covenant as to rates, and determining compliance with the requirements of the Resolution hereof relating to the issuance of Parity Bonds, (i) if interest on the Variable Rate Indebtedness is intended to be excludable from gross income for purposes of federal income taxation, the interest rate shall be assumed to be an interest rate equal to the most recently published Twenty-Five Revenue Bond Index as published in The Bond Buyer (or comparable index if no longer published) plus fifty (50) basis points, or (ii), if interest on the Variable Rate Indebtedness is not intended to be excludable from gross income for purposes of federal income taxation, the interest rate shall be assumed to be an interest rate equal to the most recently published rates on direct U.S. Treasury Obligations with comparable maturities, plus fifty (50) basis points. For purposes of any rate covenant measuring actual debt service coverage during a test period, Variable Rate Indebtedness shall be deemed to bear interest at the actual rate per annum applicable during the test period.

Application of Revenues and Creation of Funds

As long as any of the Bonds shall be outstanding and unpaid either as to principal or as to interest, or until the discharge and satisfaction of all the Bonds, the Gross Earnings of the System shall be deposited as collected by the District in the District's Revenue Fund (the "Revenue Fund"), administered and controlled by the District. The funds 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 be applied and deposited to the various funds established under the resolution authorizing the Prior Lien Bond, in full satisfaction of the requirements thereof for the benefit of the Prior Lien Bond, for so long as the Prior Lien Bond shall be outstanding and unpaid or until the discharge, satisfaction and defeasance of the Prior Lien Bond pursuant to the resolution authorizing the Prior Lien Bond.

(c) The money thereafter remaining in the Revenue Fund shall next be used to make deposits into a separate and special fund, to be known as the "Bond and Interest Sinking Fund" (the "Bond Fund") to be kept separate and apart from all other funds of the District and used to pay principal of and interest on the Bonds as the same become due, either by maturity or mandatory redemption. Such deposits shall be made monthly until the Bonds are paid in full or discharged and satisfied pursuant to the terms of the Resolution. Each monthly deposit shall consist of an interest component and a principal component. The interest component shall be an amount equal to not less than one-sixth (1/6th) of the interest coming due on the Bonds then outstanding on the next succeeding interest payment date. The principal component shall be an amount equal to not less than one-twelfth (1/12) of the total of the Maturity Amounts or principal amounts, as the case may be, coming due, whether by maturity or mandatory redemption, on the Bonds then outstanding during any twelve-month period. No further deposit shall be required when the Bond Fund balance is equal to or greater than the amount needed to pay interest on the next interest payment date and the total of the Maturity Amounts or principal amounts payable, either by maturity or mandatory redemption, during the applicable twelve-month period. Notwithstanding the foregoing, deposits for payment of interest and principal on Variable Rate Indebtedness shall be made as set forth in the resolution authorizing such Variable Rate Indebtedness. Money in the Bond Fund shall be used solely and is expressly and exclusively pledged for the purpose of paying principal of and interest on the Bonds.

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

(e) To the extent the Reserve Fund Requirement for the Bonds is not fully satisfied by a Reserve Fund Credit Facility or Facilities or funds of the District, or a combination thereof, the next available money in the Revenue Fund shall be used to make deposits into a separate and special fund, to be known and designated as the "Debt Service Reserve Fund" (the "Reserve

Fund") to be kept separate and apart from all other funds of the District. No deposit shall be required to be made to the Reserve Fund unless the amount in the Reserve Fund, together with the Reserve Fund Credit Facility or Facilities, if any, becomes less than the Reserve Fund Requirement. In the event deposits to the Reserve Fund shall be required pursuant to the preceding sentence, said deposits shall be payable monthly as hereafter provided and each deposit shall be in a minimum amount equal to 1/12th of the difference between the Reserve Fund Requirement and the amount in said Fund, together with the Reserve Fund Credit Facility or Facilities, if any, immediately following the occurrence of such deficiency, so that any deficiency in said Fund shall be replenished over a period of not greater than twelve (12) consecutive months; provided, any monthly payments in excess of said minimum payments shall be a credit against the next ensuing payment or payments. Any deposits required to be made shall be made monthly at the same time as deposits are made to the Bond Fund, commencing the first month in which the amount in the Fund, together with the Reserve Fund Credit Facility or Facilities, if any, is less than the Reserve Fund Requirement. All deposits to the Reserve Fund shall be made from the first money in the Revenue Fund thereafter received which shall not then be required to pay Current Expenses, satisfy the contractual obligations for the benefit of the Prior Lien Bond, be transferred into the Bond Fund, or to be paid to the Reserve Fund Credit Facility Issuer or Issuers as above provided. Money in the Reserve Fund shall be used solely for the purpose of paying principal of or interest on the Bonds for the payment of which funds are not available in the Bond Fund.

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

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

In the event the Reserve Fund Requirement, or any part thereof, shall be satisfied with a Reserve Fund Credit Facility or Facilities, notwithstanding the terms of the Resolution regarding discharge and satisfaction, the terms, covenants, liability and liens provided or created in the Resolution or in any resolution supplemental thereto 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 District 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 the Resolution other than remedies which would adversely affect owners of the Bonds.

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

(f) If the District enters into an interest rate swap or other interest rate hedging transaction with respect to the payment of interest with respect to the Bonds, the amounts that the District pays or receives under such interest rate swap or other hedging transaction shall be taken into account in calculating the interest requirements on such Bonds. Such payments shall be made or such funds received at such times and in such amounts as shall be established by a supplemental resolution authorizing the interest rate swap or other hedging transaction; provided however, termination payments received in connection with an interest rate swap or other interest rate hedging transaction shall be deposited to the Revenue Fund and termination payments required of the District shall be paid as a subordinate lien obligation, as described in (g) below.

(g) 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 may thereafter be used by the District for any legally permissible purpose, as the Board of Commissioners shall determine.

(h) Money on deposit in the Funds described above may be invested by the District in such investments as shall be permitted by applicable law, as determined by an authorized representative of the District, all such investments to mature not later than the date on which the money so invested shall be required for the purpose for which the respective Fund was created. All income derived from such investments shall be regarded as revenues of the System and shall be deposited in the 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 District is authorized to enter into contracts with third parties for the investment of funds in any of the Funds described above.

(i) 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 District 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.

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Covenants Regarding the Operation of the System

In the Resolution, the District covenants and agrees with the owners of the Bonds so long as any of the Bonds shall remain outstanding as follows:

Operation of the System. The District shall maintain the System in good condition and operate the System in an efficient manner and at reasonable cost and conduct all activities associated therewith or incident thereto. The District will permit no free service to be furnished to any consumer or user whatsoever; that the charges for all services supplied through the medium of the System to all consumers and users shall be reasonable and just, taking into account and consideration the cost and value of the System and the cost of maintaining, operating, repairing and insuring the System, a proper and necessary allowance for the depreciation thereof, and the amounts necessary for the payment of principal of and interest on all obligations payable from revenues of the System; and that there shall be charged against all users of the services of the System such rates and amounts as shall be fully adequate to comply with the covenants of the Resolution.

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

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

Records and Accounts. The District 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 a firm of such accountant or accountants and, upon written request, will make available to any registered owner of the Bonds the balance sheet and the profit and loss statement of the District as certified by such accountant or accountants. Each such audit, in addition to whatever matters may be thought proper by the accountant or accountants to be included therein, shall include the following:

(i) A statement in detail of the revenues and expenditures of the System and the excess of revenues over expenditures for the Fiscal Year;

(ii) A statement showing beginning and ending balances of each Fund described in the Resolution;

(iii) A balance sheet as of the end of the Fiscal Year;

(iv) The accountant's comments regarding the manner in which the District has carried out the requirements of the Resolution and the accountant's recommendations with respect to any change or improvement in the operation of the System;

(v) A list of insurance policies in force at the end of the Fiscal Year, setting out as to each policy the amount of the policy, the risks covered, the name of the insurer and the expiration date of the policy;

(vi) The number and classifications of customer service connections to the System as of the end of the Fiscal Year;

(vii) The disposition of any Bond proceeds during the Fiscal Year; and

(vii) A statement as to all breaches or defaults hereunder by the District of which the accountant or accountants have knowledge or, in the alternative, a statement that they have no knowledge of any such breach or default.

All expenses incurred in the making of the audits shall be regarded and paid as Current Expenses. The District further agrees to cause copies of such audits to be furnished to the registered owner of any of the Bonds, at the written request thereof, within 120 days after the close of each Fiscal Year. The registered owner of any of the Bonds shall have at all reasonable times the right to inspect the System and the records, accounts and data of the District relating thereto. If the District fails to provide the audits and reports required by this subsection, the registered owner or owners of twenty-five percent (25%) in principal amount of the Bonds may cause such audits and reports to be prepared at the expense of the District.

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

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

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

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

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

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

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

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

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

Franchise. The District will not construct, finance or grant a franchise for the development or operation of facilities that compete for service with the services to be provided by the System or consent to the provision of any such services in the area currently served by the District by any other public or private entity and will take all steps necessary and proper, including appropriate legal action to prevent any such entity from providing such service.

Remedies of Bond Owners

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

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

Statutory Mortgage Lien

For the further protection of the registered owners of the Bonds, a statutory lien in the nature of a mortgage lien upon the System is granted and created by Sections 7-82-101 et seq., Tennessee Code Annotated, which said statutory mortgage lien is recognized as valid and binding upon the District and to be a lien upon the System, subject only to the statutory mortgage lien securing the Prior Lien Bond, and the System shall remain subject to such statutory mortgage lien until the payment in full of the principal of and interest on the Bonds.

Prohibition of Prior Lien; Parity Bonds

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

Additional bonds, notes or obligations may be issued on a parity with the Bonds under the following conditions but not otherwise:

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

(b) Additional bonds, notes or obligations may be issued on a parity with the Bonds without regard to the requirements of subsection (c) below, if such bonds, notes or obligations shall be issued for the purpose of refunding any Bonds under circumstances not resulting in the defeasance of all of the Bonds pursuant to the Resolution, provided the Maximum Annual Principal and Interest Requirement computed with respect to all Bonds to be outstanding as of the date of issuance of such additional bonds, notes or obligations (and after giving effect to the application of the proceeds thereof) shall not be greater than 1.05 times the Maximum Annual Principal and Interest Requirement computed with respect to all Bonds outstanding as of the date immediately preceding the issuance of such additional bonds, notes or obligations.

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

(i) Either:

(A) the Net Revenues of the System for the most recent Fiscal Year for which an annual audit has been delivered must have been equal to at least 1.20 times the Maximum Annual Principal and Interest Requirement computed with respect to the bonds, notes, loan agreements or obligations proposed to be issued and all Bonds other than any Bonds intended to be refunded by the proposed additional bonds, notes, loan agreements or obligations, plus the amounts payable to the Reserve Fund pursuant to the requirements hereof and amounts payable under any Financial Guaranty Agreement and in connection with any Reserve Fund Credit Facility; or, provided, however, if the annual audit for the most recent Fiscal Year has not been delivered within nine (9) months after the end of such Fiscal Year, Parity Bonds may not be issued pursuant to this paragraph; or

(B) (i) the Net Revenues of the System for the most recent Fiscal Year for which an annual audit has been delivered must be equal at least to 1.20 times the Maximum Annual Principal and Interest Requirement computed with respect to the bonds, notes, loan agreements or obligations proposed to be issued and all Bonds other than any Bonds intended to be refunded by the proposed bonds, notes, loan agreements or obligations, plus the amounts payable to the Reserve Fund pursuant to the requirements hereof and amounts payable under any Financial Guaranty Agreement and in connection with any Reserve Fund Credit Facility; provided, however, if the annual audit for the most recent Fiscal Year has not been delivered within nine (9) months after the end of such Fiscal Year, Parity Bonds may not be issued pursuant to this paragraph; provided, further, that if prior to the issuance of such additional bonds, notes, loan agreements or obligations the District shall have adopted a revised schedule of rates for the System and resolved to put such rate schedule in effect at or prior to the issuance of the additional bonds, notes, loan agreements or obligations, then the Net Revenues for the immediately preceding Fiscal Year, as certified by an independent engineer or engineering firm or a nationally recognized firm of financial feasibility consultants having a favorable reputation for skill and experience in the financial feasibility of water and sewer systems, that would have resulted from such rates had they been in effect for such period, may be used in lieu of the actual Net Revenues for such Fiscal Year; and (ii) the Net Revenues for each of the next three (3) Fiscal Years ending after the issuance of the additional bonds, notes, Loan Agreements or obligations, as estimated by an independent engineer or engineering firm, or a nationally recognized firm of financial feasibility consultants, having a favorable reputation for skill and experience in the financial feasibility of water and sewer systems, must be equal to at least 1.20 times the Maximum Annual Principal and Interest Requirement computed with respect to the additional bonds, notes, loan agreements or obligations proposed to be issued and all Bonds other than any Bonds intended to be refunded by the proposed additional bonds, notes, loan agreements or obligations; provided, however, that if the proposed additional bonds, notes, loan agreements or obligations are to be issued for the acquisition or construction of any extension, improvement or replacement to the System or the acquisition of an Acquired System, then the estimate of Net Revenues may be for the next three (3) Fiscal Years ending after the time that such improvement, extension or replacement is expected to be placed in service and the period of construction thereof, subject to reduction in debt service during the period of construction in an amount equal to any capitalized interest funded from proceeds of the additional bonds;

(ii) 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 a Reserve Fund Credit Facility must be current; and

(iii) The proceeds of the additional bonds, notes loan agreements or obligations may be used only to (1) make improvements, extensions, renewals or replacements to the System or to refund Bonds, (2) fund necessary reserves related thereto, (3) fund capitalized interest related to the additional bonds, notes or other obligations, and (4) pay the costs and expenses of issuance and sale of the additional bonds.

Modification of Resolution

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

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

(i) Make any change in the maturities or redemption dates of the Bonds;

(ii) Make any change in the rates of interest borne by the Bonds;

(iii) Reduce the amount of the principal payments or redemption premiums payable on the Bonds;

(iv) Modify the terms of payment of principal of or interest on the Bonds or impose any conditions with respect to such payments;

(v) Affect the rights of the registered owners of less than all of the Bonds then outstanding; or

(vi) Reduce the percentage of the principal amount of the Bonds the consent of the registered owners of which is required to effect a further modification.

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

Whenever at any time within one (1) year from the date of mailing of said notice there shall be filed with the Secretary of the Governing Body an instrument or instruments executed by the registered owners of at least a majority in aggregate principal amount of the Bonds then outstanding, which instrument or instruments shall refer to the proposed amendatory resolution described in said notice and shall specifically consent to and approve the adoption thereof, thereupon, but not otherwise, the District may adopt such amendatory resolution and such resolution shall become effective and binding upon the owners of all Bonds.

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

Any consent given by the registered owner of a Bond 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 District office, but such revocation shall not be effective if the registered owners of a majority in aggregate principal amount of the Bonds outstanding shall have, prior to the attempted revocation, consented to and approved the amendatory resolution referred to in such revocation.

Discharge and Satisfaction of Bonds

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

(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 Federal Obligations, the principal of and interest on which, when due and payable, will provide sufficient moneys to pay or redeem such Bonds and to pay premium, if any, and interest thereon when due until the maturity or redemption date (provided, if such Bonds are to be redeemed prior to maturity thereof, proper notice of such redemption shall have been given or adequate provision shall have been made for the giving of such notice);

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

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

If the District 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 Federal Obligations deposited as aforesaid.

Except as otherwise provided in the Resolution, neither Federal Obligations nor moneys deposited with the Registration Agent pursuant to the Resolution nor principal or interest payments on any such Federal Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust 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 Federal 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 District 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 Federal Obligations maturing at times and in amounts sufficient to pay when due the principal and premium, if any, and interest to become due on said Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the District, as received by the Registration Agent.

4819-9756-3150, v. 1

APPENDIX D

GENERAL PURPOSE FINANCIAL STATEMENTS

OF

HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE

FOR THE FISCAL YEAR ENDED

June 30, 2011

The General Purpose Financial Statements are extracted from the Financial Statements with Report of Certified Public Accountants of the District for the fiscal year ended June 30, 2011, which is available upon request from the District.

HENDERSONVILLE UTILITY DISTRICT

OF SUMNER COUNTY, TENNESSEE

For the Years Ended June 30, 2011 and 2010

HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE

For the Years Ended June 30, 2011 and 2010

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**HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Hendersonville Utility District (HUD) is a municipal corporation operated under the general supervision and control of a three (3) member board as prescribed by Chapter 248, Public Act of 1937, and as amended by Chapter 76, Public Act of 1947. HUD is comprised of a water treatment plant, a water distribution system and a wastewater collection system. All wastewater is pumped to and treated at Metro Nashville's Dry Creek WWTP.

The intent of this discussion and analysis is to provide narratives for the financial activities of HUD. The readers of this narrative should also review the transmittal letter, financial statements, and note disclosures to enhance the understanding of HUD's financial performance.

The financial statements include a Statement of Net Assets; a Statement of Revenues, Expenses and Changes in Net Assets; a Statement of Cash Flows; and Notes to the Financial Statements. The Statement of Net Assets presents the overall financial position of the District on June 30, 2011. The Statement of Revenues, Expenses and Changes in Net Assets summarizes the results of the operation activities over the course of the fiscal year. All changes in net assets 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 also provides certain information about the District's recovery of its costs.

The statement of cash flows provides relevant information about cash receipts and cash disbursements and changes in cash and cash equivalents resulting from operational, financial and investing activities.

The notes to the financial statement provide disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes provide information regarding the District's accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events, if any.

The financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. The accrual basis of accounting is similar to accounting used by similar business activities in the private sector. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or expended.

FINANCIAL STATEMENT OVERVIEW

The financial statements presented herein are comprised of statement of net assets, statement of revenues, expenses, changes in net assets, the statement of cash flows, capital assets/plant and the accompanying notes to the financial statements. The water and sewer systems do maintain separate accounting records but not cash funds.

HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE

MANAGEMENT'S DISCUSSION AND ANALYSIS

TABLE I

HENDERSONVILLE UTILITY DISTRICT
CONDENSED STATEMENT OF NET ASSETS
JUNE 30

Assets	2011	2010
Current assets	$ 11,299,562	9,779,552
Capital assets (net)	106,786,180	108,678,859
Other non-current assets	591,713	627,686
Total Assets	$ 118,677,455	119,086,097
Liabilities		
Current liabilities	$ 4,073,841	3,916,936
Long-term liabilities	34,043,883	35,747,620
Total Liabilities	38,117,724	39,664,556
Net Assets		
Invested in capital assets (net)	71,406,956	72,161,540
Restricted net assets	2,204,249	2,182,561
Unrestricted net assets	6,948,526	5,077,440
Total Net Assets	80,559,731	79,421,541
Total Liabilities and Net Assets	$ 118,677,455	119,086,097

The District's assets exceeded its liabilities by $80,559,731 for the year ended June 30, 2011 as compared to $79,421,541 in the previous fiscal year.

The largest portion of the District's net assets reflects its investment in capital assets, less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the funds needed to repay this debt must be provided from other sources, because the capital assets themselves cannot be used to repay the debt. The unrestricted net assets may be used to meet the obligations to employees and creditors and provide current operating resources.

HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE

MANAGEMENT'S DISCUSSION AND ANALYSIS

TABLE II
CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30,

	2011	2010
Operating Revenue	$ 12,894,967	10,536,235
Operating Expenses	11,448,794	10,614,789
Operating Income (loss)	1,446,173	(1,078,551)
Non-operating Income (Expenses)	(1,154,416)	(652,578)
Income (Loss) Before Contributions	291,757	(1,731,129)
Capital Contributions	846,433	3,098,206
Change in Net Assets	1,138,190	1,367,077
Net assets - beginning of year	79,421,541	78,054,464
Net assets - end of year	$ 80,559,731	79,421,541

The District's total net assets increased by $1,138,190. This was largely as a result of operating revenue increases of $2,524,724 or approximately 22%, that arose primarily as a result of rate increases during 2010-11 and decreases in operating expenses of $165,992. These factors were offset, in part, by increases in interest expense of approximately $727,248 as a result of interest capitalized in earlier years related to projects completed in 2010.
:

TABLE III
CASH FLOWS
FOR THE YEAR ENDED JUNE 30,

	2011	2010
Cash Flow and Operating Activities	$ 5,209,005	2,130,995
Cash Flows from Capital and Related Financing Activities	(4,223,191)	(5,954,526)
Cash Flows from Non capital Financing Activities	8,855	(7,126)
Cash Flows from Investing Activities	148,650	2,748,883
Net Increase (Decrease) in Cash and Cash Equivalents	1,143,319	(1,081,714)
Cash and Cash Equivalents - Beginning of Year	5,811,930	6,893,704
Cash and Cash Equivalents-End of Year	$ 6,955,249	5,811,930

HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE

MANAGEMENT'S DISCUSSION AND ANALYSIS

TABLE IV
DEBT

As of June 30, 2011 HUD has a total outstanding debt of $ 37,165,097. This debt consists of the following long-term liabilities:

Series 1995, Water and Sewer Bonds	$ 394,620
Series 2003, Water and Sewer Revenue Bonds	7,035,000
Series 2004, Water and Sewer Revenue Refunding Bonds	7,535,000
Series 2008, Water and Sewer Refunding and Improvement Bonds	16,200,000
State of Tennessee Revolving Loan (2002-161)	2,999,054
State of Tennessee Revolving Loan (2004-179)	1,660,592
	$35,824,266

TABLE V
CAPITAL ASSETS/PLANT

	2011	2010
Capital Assets Not Being Depreciated	$ 1,146,812	735,194
Capital Assets Being Depreciated	147,654,750	146,305,252
Less Accumulated Depreciation	(42,015,382)	(38,361,587)
Net Capital Assets	$106,786,180	108,678,859

FACTORS AFFECTING FUTURE STATEMENTS AND RATES

The Hendersonville Utility District has several water and sewer projects scheduled for fiscal year 2011-2012. Projects include a new water treatment plant, water system improvements, and sewer rehab. HUD's rates increased effective March 1, 2011 and are projected to generate sufficient revenues to satisfy operating requirements and our current bond and loan obligations for these projects.

The current economic condition has impacted the District relative to new development in the area.

HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING THE DISTRICT

This financial report is designed to provide the District's Commissioners, customers, creditors and regulatory agencies with a general overview of the District's finances.

For questions about this report, or additional information, the District can be contacted at:

Hendersonville Utility District of Sumner County, Tennessee
125 Indian Lake Road, P.O. Box 180
Hendersonville, Tennessee 37077-0180

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(615) 385-1008
FAX (615) 385-1208

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Hendersonville Utility District
of Sumner County, Tennessee
Hendersonville, Tennessee

We have audited the accompanying statement of net assets of Hendersonville Utility District of Sumner County, Tennessee, and the related statements of revenues, expenses and changes in net assets and statement of cash flows as of and for years ended June 30, 2011 and 2010. These financial statements are the responsibility of the management of Hendersonville Utility District of Sumner County, Tennessee. Our responsibility is to express and opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hendersonville Utility District of Sumner County, Tennessee, as of June 30, 2011 and 2010, and the changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 19, 2011 on our consideration of Hendersonville Utility District of Sumner County, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

The managements' discussion and analysis information on pages i through v is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Hendersonville Utility District of Sumner County, Tennessee. The supplemental information on pages 15 – 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information, except for that marked as "Unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeary, Howell & Associates

September 19, 2011

THE HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE

Statement of Net Assets

June 30, 2011 and 2010

ASSETS

		2011	2010
Current Assets			
Cash and cash equivalents:			
Unrestricted cash and cash equivalents	$	2,878,654	1,324,145
Restricted cash and cash equivalents:			
Debt service		2,756,805	2,758,167
Construction		303,395	712,094
Customer deposits and other		16,395	17,524
Total cash and cash equivalents		5,955,249	4,811,930
Investments, certificates of deposit			
Unrestricted		2,500,000	2,500,000
Restricted for customer deposits		150,000	154,000
		2,650,000	2,654,000
Acounts receivable:			
Customer, net of allowance for doubtful accounts of $24,316 in 2011 and $63,000 in 2010		1,803,255	1,283,722
Other		234,601	376,468
Total accounts receivable		2,037,856	1,660,190
Inventory		656,457	592,045
Prepaid expenses		-	61,387
Total Current Assets		11,299,562	9,779,552
Non-Current Assets			
Property, plant and equipment, at cost		148,801,562	147,040,446
Less accumulated depreciation		(42,015,382)	(38,361,587)
		106,786,180	108,678,859
Unamortized bond issuance costs		591,713	627,686
Total Non-Current Assets		107,377,893	109,306,545
Total Assets	$	118,677,455	119,086,097

LIABILITIES

		2011	2010
Current Liabilities			
Accounts payable	$	1,636,332	1,488,997
Contracts payables		-	176,897
Accrued interest payable		552,556	575,606
Accrued liabilities		65,056	89,104
Customers deposits		177,709	168,855
Revenue bonds payable - current portion		1,638,736	1,586,332
Total Current Liabilities		4,070,389	4,085,791
Non-Current Liabilities			
Long-term debt, net of current portion		34,043,883	35,578,765
Total Liabilities		38,114,272	39,664,556

NET ASSETS

		2011	2010
Invested in capital assets, net of related debt:		71,406,956	72,161,540
Restricted for:			
Debt service		2,204,249	2,182,561
Unrestricted		6,951,978	5,077,440
Total Net Assets	$	80,563,183	79,421,541

See accompanying notes to financial statements.

THE HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE

Statement of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2011 and 2010

		2011	2010
Operating revenue:			
Water service charges	$	4,293,204	3,155,328
Sewer service charges		7,515,525	6,233,998
Tap fees and connection fees		429,416	502,830
Other		656,822	644,079
Total revenue		12,894,967	10,536,235
Operating expenses:			
Water distribution		1,581,550	1,401,294
Sewer collection		3,787,348	4,061,856
Water plant		1,560,677	1,643,334
Administration		856,064	823,753
Depreciation and amortization		3,663,155	3,684,549
Total operating expenses		11,448,794	11,614,786
Operating income (loss)		1,446,173	(1,078,551)
Non-operating revenue (expense):			
Investment income		131,410	183,871
Other income (expense)		258,959	(22,364)
Interest expense		(1,541,333)	(814,085)
Total non-operating revenue (expense)		(1,150,964)	(652,578)
Income (Loss) before contributions		295,209	(1,731,129)
Contributions:			
Capacity fees		233,100	190,900
Capital grant revenue		77,932	-
Capital contributions-utility plant		535,401	2,907,306
Total contributions		846,433	3,098,206
Change in net assets		1,141,642	1,367,077
Net assets - beginning of year		79,421,541	78,054,464
Net assets, end of year	$	80,563,183	79,421,541

See accompanying notes to financial statements.

THE HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE

Statement of Cash Flows

For the Years Ended June 30, 2011 and 2010

		2011	2010
Cash flows provided (used) by operating activities			
Receipts from customers	$	12,563,093	10,080,620
Payments to employees		(2,021,086)	(1,917,303)
Payments to suppliers for goods and services		(5,551,534)	(6,009,958)
Other		218,532	(22,364)
Net cash provided (used) by operating activities		5,209,005	2,130,995
Cash flows provided (used) by capital and related financing activities			
Additions to capital assets		(1,350,754)	(3,043,335)
Principal paid on long term-debt		(1,586,337)	(1,524,165)
Interest paid on long-term debt		(1,538,100)	(1,577,926)
Capital grant received		18,900	-
Capacity fees		233,100	190,900
Net cash provided (used) by capital and related financing activities		(4,223,191)	(5,954,526)
Cash flows provided (used) by non capital financing activities			
Customer deposits		8,855	(7,126)
Net cash provided (used) by non capital financing activities		8,855	(7,126)
Cash flows from investing activities			
Sale (Purchase) of investments (certificates of deposits)		4,000	1,506,000
Investment income from cash and cash equivalents		144,650	242,883
Net cash provided (used) by investing activities		148,650	1,748,883
Net increase (decrease) in cash and cash equivalents		1,143,319	(2,081,774)
Cash and Cash Equivalents at beginning of year		4,811,930	6,893,704
Cash and Cash Equivalents at end of year	$	5,955,249	4,811,930

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities

		2011	2010
Operating income (loss)	$	1,446,173	(1,078,551)
Adjustments to reconcile operating income to net cash provided (used) by operations:			
Depreciation and amortization		3,663,155	3,684,549
Increase in OPEB obligation		91,572	112,581
Other		216,265	1,725
Change in net assets and liabilities:			
(Increase) decrease in:			
Receivables		(331,874)	(455,615)
Inventory		(64,412)	(26,473)
Prepaid expenses		61,387	(61,387)
Increase (decrease) in:			
Accounts payable		150,787	(38,455)
Accrued expenses		(24,048)	(7,379)
Net cash provided (used) by operating activities	$	5,209,005	2,130,995

Supplemental Schedule of Non-cash Capital Financing Activities

The District accepted $535,401 and $2,907,306 in contributed water and sewer lines from developers in 2011 and 2010, respectively. Also, capital asset purchases were financed by contracts payable in the amounts of $176,897 in 2010. Capitalizd interest expense amounted to $-0- in 2011 and $770,210 in 2010.

See accompanying notes to financial statements.

HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE

Notes to Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Information

The Hendersonville Utility District of Sumner County, Tennessee (District) was incorporated on April 15, 1948 under the statutes of the State of Tennessee. The District was organized for the purpose of acquiring, maintaining and securing the benefits of publicly owned and operated systems for the furnishing of water and sewer systems in the City of Hendersonville, Tennessee and certain surrounding areas.

Reporting Entity

The Hendersonville Utility District of Sumner County, Tennessee, is the basic level of government which has financial accountability and control over all activities related to the operations of the water and sewer systems in a designated portion of Sumner County, Tennessee. The District is not included in other governmental "reporting entities", because it was created as a body corporate and therefore, has the capacity to have a name; the right to sue and be sued without recourse to another governmental unit; the right to buy, sell , lease and mortgage property in its name. It determines its own budget and sets its own revenue generating rates; it has authority to issue bonded debt, subject to existing bond covenant provisions, without approval by another government and primary accountability for all fiscal matters.

Based upon the above criteria set forth in GASB pronouncements, there are no component units to be included in the District's financial statements.

Basis of Presentation

The Hendersonville Utility District of Sumner County, Tennessee maintains all its financial records and prepares its financial statements on the accrual basis of accounting. Under this basis of accounting revenues are recognized when earned and expenses are recognized when the related liability is incurred. The principal operating revenues of the District are charges to customers for sales and services. The District recognizes as operating revenue the portion of tap fees intended to recover the costs of connecting new customers to the system. Operating expenses include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." Accordingly, the District applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions; issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The District, however, has elected not to apply FASB pronouncements issued subsequent to that date.

Restricted Assets
When both restricted and unrestricted resources are available for use the policy of the District is to use restricted resources first, then unrestricted resources as they are needed.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost and consist principally of demand deposits, short term certificates of deposits (original maturities of three months or less).

Statutes authorize the District to invest in (a) US Government securities and obligations guaranteed by the US Government, (b) deposit accounts at state and federal chartered banks and savings and loan associations, (c) the Local Government Investment Pool of the State of Tennessee. During the year, the District invested funds that were not needed immediately in savings accounts and certificates of deposits. Deposits in financial institutions are required by State statute to be secured and collateralized by the financial institutions. The collateral must meet certain requirements and must have a minimum market value of 105% of the value of the deposits balance less the amount insured by federal institutions who participate in the State of Tennessee's collateral pool.

Inventories

Inventories are recorded at cost on a first-in, first-out basis using the consumption method.

Capital Assets

Capital assets of the District, primarily property, plant and equipment are stated at historical cost. Capital assets are defined by the District as assets with an initial individual cost of $5,000 or more and an estimated useful life in excess of one year. Donated capital assets are stated at their fair value on the date donated. Depreciation is provided for using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	20-50
Water and sewer lines and related assets	20-50
Equipment	10
Vehicles	5
Furniture, fixtures and equipment	10

Capitalized Interest

Interest costs are capitalized when incurred on debt where proceeds are used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Interest capitalized for 2011 and 2010 was $-0- and $770,210, respectively.

Bond Issue Costs

Bond issuance costs are capitalized and amortized over the life of the bonds

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Compensated Absences

Employees of the District are entitled to paid vacation depending on the length of service and other factors. The District recognizes vacation leave when earned. Any unused sick leave at the time employment with the District ends is credited to the employee's longevity per TCRS regulations. Accordingly there is no accrual for accumulated sick leave.

Equity Classification

Equity is classified as net assets and displayed in three components:

a. Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets net of related issue costs.
b. Restricted net assets - Consists of net assets with constraints, primarily for debt service.
c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

(2) DEPOSITS AND INVESTMENTS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. State statutes require deposits to be either (I) secured and collateralized by the institutions at 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance or (ii) that deposits be placed in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. Institutions participating in the collateral pool determine the aggregated balance of their public fund accounts. The amount of collateral required to secure these public deposits must be at least 105% of the average daily balance of public deposits held. At June 30, 2011, all deposits were adequately collateralized.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. Disrict policy provides that to the extent practicable, investments are matched with anticipated cash flows. Typically certificates of deposit are issued for periods less than one year.

Credit Risk the District does not have a formal investment policy, however management's current investment practice is formulated around the prudent-person rule: investments are made as a prudent person should be expected to make, with discretion and intelligence, to produce reasonable income, preserve capital and, in general, avoid speculative investments.

Investments:

As of June 30, 2011, District had the following investments in certificates of deposit.

Investment	Maturities	Fair Value
Certificates of Deposit-Interest .85-1.75%	12 months	$ 2,650,000

As of June 30, 2010, District had the following investments in certificates of deposit.

Investment	Maturities	Fair Value
Certificates of Deposit-Interest 1.75-2.29%	12 months	$ 2,654,000

HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE

Notes to Financial Statements

(3) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Increases	Reclassification/ Decreases	Ending Balance
Capital assets not being depreciated				
Land	$ 564,163	-	-	564,163
Construction in progress	171,031	474,373	(62,755)	582,649
	735,194	474,373	(62,755)	1,146,812
Capital assets being depreciated				
Utility Plant	137,325,185	1,047,342	119,714	138,492,243
Building and improvements	3,750,203	-	-	3,750,203
Machinery and equipment	5,229,864	187,543	(5,103)	5,412,304
	146,305,252	1,234,885	114,611	147,654,750
Less accumulated depreciation				
Utility plant in service	34,835,734	3,073,451	6,940	37,916,125
Buildings and improvements	337,724	101,265	(19,681)	419,308
Machinery and equipment	3,188,129	494,789	(2,969)	3,679,949
	38,361,587	3,669,505	(15,710)	42,015,382
Capital assets, net	$ 108,678,859			106,786,180

Capital assets activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Increases	Reclassification/ Decreases	Ending Balance
Capital assets not being depreciated				
Land	$ 564,163	-	-	564,163
Construction in progress	2,946,674	5,315,212	(8,090,855)	171,031
	3,510,837	5,315,212	(8,090,855)	735,194
Capital assets being depreciated				
Utility Plant	128,166,858	1,067,472	8,090,855	137,325,185
Building and improvements	3,729,203	21,000	-	3,750,203
Machinery and equipment	4,845,951	411,715	(27,802)	5,229,864
	136,742,012	1,500,187	8,063,053	146,305,252
Less accumulated depreciation				
Utility plant in service	31,790,430	3,045,304	-	34,835,734
Buildings and improvements	236,249	101,475	-	337,724
Machinery and equipment	2,676,045	539,886	(27,802)	3,188,129
	34,702,724	3,686,665	(27,802)	38,361,587
Capital assets, net	$ 105,550,125			108,678,859

HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE

Notes to Financial Statements

(4) DEBT

The changes in long-term liabilities, during the year ended June 30, 2011, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Revenue Bonds and Loans	$ 37,410,603	-	(1,586,337)	35,824,266
Bond Premium	377,940	-	(13,996)	363,944
Less amortization of deferred charge on advance refunding	(736,027)	-	26,283	(709,744)
OPEB Obligation	112,581	91,572	-	204,153
Total debt, net of deferred charge	$ 37,165,097	91,572	(1,574,051)	35,682,619

The changes in long-term liabilities, during the year ended June 30, 2010, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Revenue Bonds and Loans	$ 38,934,768	-	(1,524,165)	37,410,603
Bond Premium	391,938	-	(13,998)	377,940
Less amortization of deferred charge on advance refunding	(762,309)	-	26,282	(736,027)
OPEB Obligation	-	112,581	-	112,581
Total debt, net of deferred charge	$ 38,564,397	112,581	(1,511,881)	37,165,097

Description of Long-Term Debt

$485,000 Waterworks and Sewer Revenue Bonds, Series 1995, payable in monthly installments of $2,421 through April 1, 2035 with interest at 5.125%.	$ 394,620
$10,000,000 Waterworks and Sewer Bonds, Series 2003, due in increasing annual installments through February 1, 2023, at varying rates of interest from 2.50% to 4.50%.	7,035,000
$9,455,000 Waterworks and Sewer Revenue and Refunding Bonds, Series 2004, due in varying annual installments through February 1, 2023, at varying rates of interest from 2.50% to 4.50%.	7,535,000
$17,000,000 Water and Sewer Revenue and Refunding Bonds, Series 2008, due in varying annual installments through February 1, 2028, at varying rates of interest from 5.00% to 5.25%.	16,200,000
$3,848,366 Tennessee Revolving Loan No. 2002-161 for sewer collection system extension. Interest rate at 2.76%	2,999,054
$2,052,964 Tennessee Revolving Loan No. 2004-179 for sewer collection system extension. Interest rate at 2.94%.	1,660,592
Total long-term debt	$ 35,824,266

(4) DEBT (CONTINUED)

Debt Service Requirements

The annual debt service requirement to maturity for long-term debt obligations, as of June 30, 2011, were as follows:

Year	Principal	Interest
2012	$ 1,638,736	1,483,745
2013	1,696,345	1,429,749
2014	1,749,196	1,372,943
2015	1,822,277	1,313,480
2016	1,875,600	1,250,249
2017-2021	9,981,984	5,160,932
2022-2026	7,616,463	3,428,043
2027-2031	3,975,879	1,958,334
2032-2036	3,707,786	1,062,514
2037-2038	1,760,000	139,650
	$ 35,824,266	18,599,639

Refunding of Debt

In 2008, the District issued $17,000,000 of Water and Sewer Revenue Refunding and Improvement Bonds, Series 2008, proceeds of which were used to retire the outstanding Series 2006 Bond Anticipation Note in the amount of $3,500,000, advance refund the Series 1998 Revenue Bonds in the amount of $4,150,000, and provide funding for utility plant projects. The $788,596 difference between the requisition price of the refunded debt and its carrying value is being amortized over the 30 year life of the 2008 Bonds. Amortization of the refunding debt valuation account, which is included in interest expense, amounted to $26,283 and $26,282 in 2011 and 2010, respectively.

(5) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and reported revenue and expenses. Accordingly, actual results could differ from these reported amounts.

(6) EMPLOYERS RETIREMENT SYSTEM

Plan Description

Employees of the Hendersonville Utility District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty.

(5) EMPLOYERS RETIREMENT SYSTEM (CONTINUED)

Plan Description

Members joining the system after July 1, 1979 were vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Hendersonville Utility District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief government body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson State Office Building, Nashville, TN 37243-0230 or can be accessed at http://www.treasury.state.tn.us/tcrs/PS/.

Funding Policy

Hendersonville Utility District has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll.

Hendersonville Utility District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2011 was 13.18% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Hendersonville Utility District is established and may be amended by the TCRS Board of Trustees.

Annual Pension Costs

For the year ended June 30, 2011, the Hendersonville Utility District's annual pension cost of $261,481 to TCRS was equal to Hendersonville Utility District's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Hendersonville Utility District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 20 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010

(6) EMPLOYERS RETIREMENT SYSTEM, (continued)

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	$ 261,481	100.00%	0.00
June 30, 2010	254,520	100.00%	0.00
June 30, 2009	243,308	100.00%	0.00

Required Supplementary Information

The Governmental Accouting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial method. The requirement to present the Schedule Funding Progress using Entry Age actuarial cost method was a change made during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

Schedule of Funding Progress for Hendersonville Utility District

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
7-01-09	$5,232,	$6,247	$1,015	83,76%	$1,753	57.89%
7-01-07	$4,976	$5,622	$646	88.51%	$1,640	39.39%

(7) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The district maintains insurance coverage through the Tennessee Municipal League Risk Management, covering each of those risks of loss. The TML Pool is a cooperative risk sharing arrangement between local government agencies that works in many ways like a traditional insurer. The District pays a premium receives coverage, and can make claims against the coverage. The District meets the guidelines of TML and complies with its rules and regulations, including loss control requirements as well as its underwriting standards. Rates of the TML Pool are actuarially projected to provide adequate funding to cover loss reserves and expense as well as building contingency reserves. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this commercial coverage in any of the past three years.

(8) COMMITMENTS AND CONTINGENCIES

Contractual Agreement for Sewer Treatment Services:
The District is under contract with the Metropolitan Government of Nashville and Davidson County, Tennessee (Metro) to provide sewer treatment services for its customers. During 2007, Metro increased the rate charged to the District. The District believed the increased rate is not in accordance with its agreement and, as a result, only paid Metro based upon its existing contract rate of .6353 per thousand gallons. The District however did make provision for additional charges based upon a rate of $ .83 per thousand gallons, a rate based upon the MSUA studies.

In August 2011, the District reached an agreement with Metro concerning the above described contract dispute. The settlement amount was based upon the $.83 rate provided for by the District, accordingly, the provision for additional amounts due on the contract of $1,464,859 at June 30, 2011 was adequate to cover the actual liability to Metro.

The District also negotiated a twenty year Agreement with Metro regarding the treatment of its sewage which the District believes to be favorable. Under the Agreement the District will pay only for treatment and not transportation of sewage. As of the effective date of the Agreement, October 3, 2011, for each gallon of flow through a Point of Connection (POC) that does not exceed the Maximum Rate applicable to that POC, as defined in the Agreement, the price shall be $1.34 per hundred cubic feet.

Construction payable:
The District had no significant uncompleted construction contracts in process at June 30, 2011.

(9) OTHER POST EMPLOYMENT

Description of Plan

The District sponsors a single employer post-employment plan. The plan provides a portion of medical benefits to eligible employees who attain the age of 62 with 15 years service or at any age with 30 years service.

Funding Policy

The District does not intend to fund the post employment medical plan. No assets have been segregated and restricted to provide s for post employment medical benefits. Benefits for retirees under age 65 are deemed to be similar to those benefits provided for active employees. Upon attainment of age 65, the District purchases an individual Medicare Supplement policy for each retiree.

Annual Other Post Employment Benefit (OPEB) Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based on the annual required contribution of the employer. The Annual Required Contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongong basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

(9) OTHER POST EMPLOYMENT BENEFIT PLAN (CONTINUED)

Net OPEB Obligation	2011	2010
Total Annual Required Contribution	$ 149,484	160,156
Contribution made *	(57,588)	(47,575)
Increase in Net OPEB Obligation	91,572	112,581
Net OPEB Obligation, Beginning of Year	112,581	-
Net OPEB Obligation, End of Year	$ 204,153	112,581

*Estimated amounts, as stated in actuarial study.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of the valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial valuation as of July 1, 2009 was prepared using the Entry-Age Normal Actuarial Cost Method. Assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations.

Schedule of Funding Progress

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the\ net OPEB obligation for 2009-10 is as follows:

Plan Year	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (ALL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009-2010	$ -	$ 2,077,401	$ 2,077,401	- %	$1,735,262	119.7%

(10) RECLASSIFICATION

Certain amounts in the 2010 financial statements have been reclassified to conform to the presentation in the 2011 financial statements.

HENDERSONVILLE UTILITY DISTRICT

Schedule of Debt Service Requirements

Year	Waterworks and Sewer Revenue Bonds Series - 1995		Waterworks and Sewer Revenue Bonds Series - 2003		Water and Sewer Revenue Refunding Bonds Series - 2004		Water and Sewer Refunding and \ Improvement Bonds Series - 2008		Tennessee Revolving Loan # 2002-161		Tennessee Revolving Loan # 2004-179		Combined Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012 $	9,040	20,012	465,000	301,163	665,000	262,569	250,000	771,625	161,496	80,736	88,200	47,640	1,638,736	1,483,745
2013	9,514	19,538	485,000	281,400	690,000	243,450	255,000	764,125	166,003	76,224	90,828	45,012	1,696,345	1,429,749
2014	10,013	19,039	505,000	260,788	695,000	222,750	275,000	756,475	170,643	71,592	93,540	42,300	1,749,196	1,372,943
2015	10,539	18,513	525,000	240,588	740,000	200,510	275,000	747,538	175,414	66,816	96,324	39,516	1,822,277	1,313,480
2016	11,092	17,960	545,000	219,586	740,000	175,535	300,000	738,600	180,316	61,920	99,192	36,648	1,875,600	1,250,249
2017	11,674	17,378	565,000	197,788	790,000	150,375	290,000	728,100	185,356	56,880	102,156	33,684	1,944,186	1,184,205
2018	12,286	16,766	590,000	174,481	810,000	122,725	300,000	717,225	190,538	51,696	105,192	30,648	2,008,016	1,113,541
2019	12,931	16,121	615,000	149,406	830,000	93,363	325,000	705,225	195,863	46,368	108,324	27,516	2,087,118	1,037,999
2020	13,609	15,443	640,000	122,500	860,000	62,238	350,000	690,600	201,338	40,896	111,552	24,288	2,176,499	955,964
2021	14,323	14,729	670,000	94,500	230,000	28,913	530,000	674,850	206,966	35,268	114,876	20,964	1,766,165	869,223
2022	15,075	13,977	700,000	64,350	235,000	19,713	555,000	651,000	212,751	29,484	118,308	17,532	1,836,134	796,056
2023	15,866	13,186	730,000	32,850	250,000	10,313	575,000	628,800	218,698	23,532	121,836	14,004	1,911,400	722,685
2024	16,699	12,353	-	-	-	-	870,000	602,925	224,811	17,424	125,460	10,380	1,236,970	643,082
2025	17,575	11,477	-	-	-	-	910,000	565,950	231,094	11,136	129,204	6,636	1,287,873	595,199
2026	18,497	10,555	-	-	-	-	955,000	520,450	237,546	4,680	133,044	135,336	1,344,087	671,021
2027	19,467	8,810	-	-	-	-	1,005,000	472,700	40,221	1,149	22,556	504	1,087,244	483,163
2028	20,489	7,860	-	-	-	-	1,045,000	422,450	-	-	-	-	1,065,489	430,310
2029	21,564	7,488	-	-	-	-	555,000	370,200	-	-	-	-	576,564	377,688
2030	24,640	6,833	-	-	-	-	585,000	342,450	-	-	-	-	609,640	349,283
2031	21,942	4,689	-	-	-	-	615,000	313,200	-	-	-	-	636,942	317,889
2032	25,140	3,912	-	-	-	-	645,000	282,450	-	-	-	-	670,140	286,362
2033	26,459	2,593	-	-	-	-	680,000	248,588	-	-	-	-	706,459	251,181
2034	27,847	1,205	-	-	-	-	710,000	212,888	-	-	-	-	737,847	214,092
2035	8,341	81	-	-	-	-	770,000	175,613	-	-	-	-	778,341	175,693
2036	-	-	-	-	-	-	815,000	135,188					815,000	135,188
2037	-	-	-	-	-	-	860,000	92,400					860,000	92,400
2038	-	-	-	-	-	-	900,000	47,250					900,000	47,250
$	394,620	280,518	7,035,000	2,139,398	7,535,000	1,592,451	16,200,000	13,378,863	2,999,054	675,801	1,660,592	532,608	35,824,266	18,599,639

HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE

Schedule of Utility Rate Structure, Fees and Other Information (Unaudited)

June 30, 2011

Water Rates - Effective 3-1-11

Gallons	
0-2,000	$ 9.60 (minimum bill)
All over 2,000 gallons	$ 3.75 per 1,000 gallons

Notes

Minimum bill will be $15.00 per month for 1" and larger irrigation and sprinkler meters with no usage.
Meters over 2" dedicated solely for fire protection shall be assessed a minimum bill of $150.00 per month.
All meters over 2" will be charged a monthly testing and calibration fee of $20.00.

Sewer Rates - Effective 3-1-11

Gallons	
0-2,000	$ 12.53 (minimum bill)
All over 2,000 gallons	$ 5.39 per 1,000 gallons

White House Utility District water customers that are served by the Hendersonville Utility District for sewer service rates will be as follows

Gallons	
0-2,000	$ 8.05 (minimum bill)
All over 2,000 gallons	$ 6.65 per 1,000 gallons

There will be a Metro Water Services treatment charge (user fee) of $1.75 per 1,000 gallons of sewer used. The treatment charge may be adjusted on an annual basis.

Tap Fees

Water System Tap Fees Meter Size:	Connection Charge	**Irrigation Water System Tap Fees** Meter Size:	Connection Charge
5/8" x 3/4"	$ 1,200.00	5/8" x 3/4"	$ 600.00
1"	$ 1,400.00	1"	$ 700.00
2"	$ 1,600.00	2"	$ 850.00

Fire Protection Tap Fees Meter Size:	Connection Charge	**Sewer System Tap Fees** Meter Size:	Gravity Connection	Grinder Pump Connection
6"	$ 2,000.00	Single Family	$ 2,400.00	$ 10,000.00
8"	$ 2,500.00	Duplex	$ 2,800.00	$ 12,000.00
10"	$ 3,500.00	Triplex	$ 3,000.00	$ 12,000.00
12"	$ 5,000.00	Quad	$ 3,500.00	$ 12,000.00
		Apartment	$ 2,000.00	N/A
		Mobile home	$ 2,400.00	$ 10,000.00

Special tap fees apply for Public Buildings, Commercial Buildings, and Industrial Buidings, contact the District for applicable rates.

Other Fees

The District charges various other fees including capacity fees for new developments, inspection fees, plat review fees and various other fees, contact the District for applicable rates.

Other Information

Customers:
At June 30, 2011 the District provided service to approximately 14,336 water and sewer customers.

HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE

Schedule of Unaccounted for Water (Unaudited)

June 30, 2011

(All amounts in gallons)

A	**Water Treated and Purchased:**		
B	Water Pumped (Potable)	1,571,102,000	
C	Water Purchased	0	
D	**Total Water Treated and Purchased**		1,571,102,000
E	**Accounted for Water:**		
F	Water Sold	1,274,316,576	
G	Metered for Consumption (in house usage)	5,165,280	
H	Fire Department(s) Usuage	0	
I	Flushing	6,449,390	
J	Tank Cleaning/Filling	0	
K	Street Cleaning	0	
L	Bulk Sales	0	
M	Water Bill Adjustments	0	
N	**Total Accounted for Water (Sum lines F-M)**		1,285,931,246
O	**Unaccounted for Water (Line D -N)**		285,170,754
P	**Percent Unaccounted for Water**		18.15%
	(Line O divided by Line D times 100)		
Q	**Other (explain)**		0

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

HENDERSONVILLE UTILITY DISTRICT
OF SUMNER COUNTY, TENNESSEE

Schedule of Principle Officials of the District

June 30, 2011

Governing Body:

Name	Office	Term Expires
W.C Boyers	President	May 1, 2013
J.W. McMurray	Secretary	May 1, 2014
Ronald E. Flowers	Treasurer	May 1, 2012

District Management:

Name	Position
Thomas S. Atchley	General Manager

HENDERSONVILLE UTILITY DISTRICT

Schedule of Federal and State Financial Assistance

For the Year Ended June 30, 2011

CFDA No.	Contract #	Project	Grantor Agency		(Receivable) Deferred 6-30-10	Receipts	Disbursements	(Receivable) Deferred 6-30-11
11.307	EDA Control #8896'	Hendersonville Shopping Center	U.S. Dept. of Commerce- Economic Development Administration	$	-	-	(59,032)	(59,032)
97.036	FEMA 1909-DR-TN	Public Assistance Grant	Federal Emergency Management Agency		-	18,900	(18,900)	-
				$	-	18,900	(77,932)	(59,032)

YEARY, HOWELL & ASSOCIATES

Certified Public Accountants

501 EAST IRIS DRIVE
NASHVILLE, TN 37204-3109

HUBERT E. (BUDDY) YEARY
GREGORY V. HOWELL

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(615) 385-1008
FAX (615) 385-1208

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 AUDIT STANDARDS*

Board of Commissioners
Hendersonville Utility District of
Sumner County, Tennessee
Hendersonville, Tennessee

We have audited the financial statements of Hendersonville Utility District as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated September 19, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 misstatements on a timely basis. A *material weakness* is a significant deficiency, or combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 the 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*.

This report is intended solely for the information and use of management, Board of Commissioners, State Comptroller's Office, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Yeary, Howell & Associates

September 19, 2011

PRIOR YEAR COMMENTS

(10-01) DEBT COVENANT RATIOS

Many of the District's bond agreements contain certain conditions that must be adhered to during the term of the individual bond issue. Most of the agreements require that the "net revenues of the system equal 120% of debt service costs. For the year ended December 31, 2010 the District had a ratio of approximately 99% which is less than that required by the bond agreements.

Recommendation:

It is our understanding, from the District's bond advisors, that this situation necessitates the District take action during the year 2010-2011 to enable compliance with this particular requirement.

Disposition:

During 2010-11 management adopted rate increases and reduced operating expenses resulting in the District being in compliance with this requirement for the year ended June 30, 2011.

(10-02) CASH

During our examination, we noted differences between amounts reported for cash on daily cash summaries and the related bank deposits. Explanations were obtained for differences noted.

Recommendation

We strongly recommend that cash, as reported on the daily cash summaries, be routinely agreed with daily bank deposits on a timely basis by personnel independent of the collection and bank deposit preparation function. Any differences noted should be fully documented at the date the procedure is performed.

Disposition:

No differences were noted in 2010-11.

(09-03) CUSTOMER DEPOSITS

The detail listing of customer deposits, which had not changed from 2008, did not agree with the general ledger control accounts. The detail listings in 2010 continue to differ from the general ledger amounts.

Recommendation:

We recommended this situation be reviewed with appropriate action taken.

Management Response:

Management found an error in the software setup which was corrected. Work was in process to correct the prior deposits refunded.

Disposition:

The situation was corrected in 2010-11.