

In the opinion of Adams and Reese LLP, Bond Counsel, under existing law and assuming compliance with certain tax covenants described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. Bond Counsel is also of the opinion, under existing law, that the Bonds and interest on the Bonds are exempt from all state, county, and municipal taxation in the State of Tennessee, except for inheritance, transfer, and estate taxes and except to the extent that interest on the Bonds is included within the measure of certain privilege and excise taxes imposed under Tennessee law. See "LEGAL MATTERS—Tax Matters" herein.



\$12,415,000
CITY OF KINGSPORT, TENNESSEE
Consisting Of:
\$3,110,000 GENERAL OBLIGATION BONDS, SERIES 2012A
\$9,305,000 GENERAL OBLIGATION PUBLIC IMPROVEMENT BONDS, SERIES 2012C

Dated: Delivery Date

Due: April 1st (as shown following page)

The \$3,110,000 General Obligation Bonds, Series 2012A (the "Series 2012A Bonds") and \$9,305,000 General Obligation Public Improvement Bonds, Series 2012C (the "Series 2012C Bonds") of the City of Kingsport, Tennessee (the "Municipality") shall be issued as fully registered in denominations of \$5,000 and authorized integral multiples thereof. The Series 2012A Bonds and the Series 2012C Bonds (collectively, 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 semiannually from the date thereof commencing on October 1, 2012 and thereafter on each April 1st and October 1st by check or draft mailed to the owners thereof as shown on the books and records at the principal corporate trust office of Regions Bank, Nashville, Tennessee, the registration, paying and escrow agent (the "Registration Agent"). In the event of discontinuation of the book-entry system, principal of and interest on the Bonds are payable at the principal corporate office of the Registration Agent.

The Series 2012A Bonds are payable from funds of the Municipality legally available therefor and to the extent necessary from ad valorem taxes to be levied on all taxable property within the corporate limits of the Municipality without limitation as to time, rate, or amount. For the prompt payment of the Series 2012A Bonds, both principal and interest, as the same shall become due, the full faith, and credit of the Municipality is irrevocably pledged. The Series 2012A Bonds are also payable from and secured by a pledge of the revenues to be derived from the one-quarter percent (0.25%) local option sales tax levied by the Municipality within the corporate limits of the Municipality within Sullivan County, Tennessee.

The Series 2012C Bonds, including the principal thereof and the interest thereon, are payable from funds of the Municipality legally available therefor and to the extent necessary from ad valorem taxes to be levied for such purpose on all taxable property within the corporate limits of the Municipality without limitation as to time, rate, or amount. The Series 2012C Bonds are a direct general obligation of the Municipality, for which the punctual payment of the principal of and interest on the Series 2012C Bonds, the full faith and credit of the Municipality is irrevocably pledged.

The Bonds are subject to redemption as described herein.

This cover page and the inside cover page contain certain information for quick reference only. They are not a summary of these issues. Investors must read the entire *Official Statement* to obtain information essential to make an informed investment decision.

The Bonds are offered when, as and if issued, subject to the approval of the legality thereof by Adams and Reese LLP, Nashville, Tennessee, Bond Counsel. Certain matters will be passed upon for the Municipality by J. Michael Billingsley, Esq., City Attorney. The Bonds are expected to be available for delivery through the facilities of The Depository Trust Company, New York, New York on or about June 22, 2012.

Hutchinson, Shockey, Erley & Co.

June 11, 2012

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

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

This *Official Statement* and the Appendices hereto contain brief descriptions of, among other matters, the Municipality, the Bonds, the Resolutions (as defined herein), 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 Resolutions, 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 Resolutions.

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

No dealer, broker, salesman, or other person has been authorized by the Municipality or the Financial Advisor to give any information or to make any representations other than those contained in this *Official Statement*, and, if given or made, such other information or representations should not be relied upon as having been authorized by the Municipality or Financial Advisor. Except where otherwise indicated, all information contained in this *Official Statement* has been provided by the Municipality. The information set forth herein has been obtained by the Municipality 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. 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 Municipality, 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.

Series 2012A Bonds					Series 2012A Bonds				
April 1 st	Amounts	Rate	Yield	CUSIP	April 1 st	Amounts	Rate	Yield	CUSIP
2015	\$125,000	5.000%	0.620%	496443 HC9	2020	\$160,000	2.000%	2.000%	496443 HH8
2016	135,000	5.000%	0.770%	496443 HD7	2021	160,000	2.250%	2.100%	496443 HJ4
2017	140,000	5.000%	1.100%	496443 HE5	2022	165,000	2.250%	2.250%	496443 HK1
2018	145,000	5.000%	1.400%	496443 HF2	2023	170,000	2.500%	2.550%	496443 HL9
2019	155,000	2.000%	1.700%	496443 HG0	2024	175,000	2.750%	2.800%	496443 HM7
	<u>Amounts</u>	<u>Rate</u>	<u>Type</u>	<u>Due</u>	<u>Yield</u>	<u>CUSIP</u>			
	\$360,000	3.000%	Term Bond	April 1, 2026	3.000%	496443 HP0			
	385,000	3.000%	Term Bond	April 1, 2028	3.100%	496443 HR6			
	405,000	3.125%	Term Bond	April 1, 3030	3.280%	496443 HT2			
	430,000	3.250%	Term Bond	April 1, 2032	3.350%	496443 HV7			
Series 2012C Bonds					Series 2012C Bonds				
April 1 st	Amounts	Rate	Yield	CUSIP	April 1 st	Amounts	Rate	Yield	CUSIP
2015	\$570,000	2.000%	0.620%	496443 JD5	2021	\$675,000	3.000%	2.150%	496443 JK9
2016	580,000	2.000%	0.770%	496443 JE3	2022	695,000	3.000%	2.350%	496443 JL7
2017	595,000	3.000%	1.030%	496443 JF0	2023	375,000	3.000%	2.550%	C 496443 JM5
2018	610,000	4.000%	1.330%	496443 JG8	2024	385,000	3.000%	2.800%	C 496443 JN3
2019	635,000	3.000%	1.630%	496443 JH6	2025	400,000	3.000%	3.000%	496443 JP8
2020	655,000	2.250%	2.000%	496443 JJ2					
	<u>Amounts</u>	<u>Rate</u>	<u>Type</u>	<u>Due</u>	<u>Yield</u>	<u>CUSIP</u>			
	\$830,000	3.000%	Term Bond	April 1, 2027	3.080%	496443 JR4			
	880,000	3.000%	Term Bond	April 1, 2029	3.120%	496443 JT0			
	1,420,000	3.250%	Term Bond	April 1, 3032	3.350%	496443 JW3			

C = Yield to the First Date of Optional Redemption

⁽¹⁾ CUSIP numbers have been assigned by Standard & Poor's CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc., and are included solely for convenience of the Bondholders. The Municipality is not responsible for the selection or use of these CUSIP numbers, nor is any representation made as to their correctness on the Bonds or as indicated herein.

CITY OF KINGSPORT, TENNESSEE

BOARD OF MAYOR AND ALDERMEN

Dennis R. Phillips	<i>Mayor</i>
Tom Parham	<i>Vice Mayor and Alderman</i>
John Clark	<i>Alderman</i>
Valerie Joh	<i>Alderman</i>
Mike McIntire	<i>Alderman</i>
Tom Segelhorst	<i>Alderman</i>
Jantry Shupe	<i>Alderman</i>

OFFICIALS

John G. Campbell	<i>City Manager</i>
Tilden J. Fleming	<i>Assistant City Manager</i>
James H. Demming	<i>City Recorder/CFO</i>
J. Michael Billingsley, Esq.	<i>City Attorney</i>

REGISTRATION AND PAYING AGENT

Regions Bank
Nashville, Tennessee

BOND COUNSEL

Adams and Reese LLP
Nashville, Tennessee

FINANCIAL ADVISOR

RAYMOND JAMES | Morgan Keegan
Nashville, 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 *Official Statement*. This Summary Statement shall not be reproduced, distributed or otherwise used except in conjunction with the remainder of this *Official Statement*.

The IssuerCity of Kingsport, Tennessee (the "Municipality"). See the section entitled "Supplemental Information Statement" (APPENDIX B) for more information.

Securities Offered.....The \$3,110,000 General Obligation Bonds, Series 2012A (the "Series 2012A Bonds") and the \$9,305,000 General Obligation Public Improvement Bonds, Series 2012C (the "Series 2012C Bonds") of the City of Kingsport, Tennessee (the "Municipality"). The Series 2012A Bonds and the Series 2012C Bonds (collectively, the "Bonds") are dated the date of issuance. The Bonds will mature each April 1st beginning April 1, 2015 through April 1, 2032, inclusive.

See the section entitled "SECURITIES OFFERED – Authority and Purpose".

PurposeThe Series 2012A Bonds are being issued for the purpose of financing certain public works projects, consisting of the acquisition of public art; the acquisition, construction, renovation, improvement and equipping of a municipal recreational center and related facilities, including a public swimming pool; the acquisition of all property real and personal, appurtenant thereto or connected with such work, to pay legal, fiscal, administrative, and engineering costs, to reimburse the Municipality for the costs of any of the above projects, to pay capitalized interest, and to pay costs incident to the issuance and sale of the Series 2012A Bonds.

The Series 2012C Bonds are being issued for the purpose of financing certain public works projects, consisting of the acquisition of public art; acquisition, construction, improvement and renovation of public school facilities; road construction, improvement and expansion; sidewalk and bike trail construction, improvement and expansion; acquisition of emergency sirens; acquisition and improvement of public recreational facilities; land acquisition and improvement to the Municipality's landfill; the acquisition, construction, renovation, improvement and equipping of public buildings for municipal operations within the Municipality; acquisition of public works equipment, including dump trucks, hook lift, leaf pick-up, and curbside recycling equipment; construction, expansion and improvement of the Municipality's water system; construction, expansion and improvement of the Municipality's sewer system; and the acquisition of all property real and personal, appurtenant thereto or connected with such work; and to pay legal, fiscal, administrative, and engineering costs, to reimburse the Municipality for the costs of any of the above projects, to pay capitalized interest and to pay costs incident to the financing.

See the section entitled "SECURITIES OFFERED – Authority and Purpose" for additional information.

SecurityThe Series 2012A Bonds are payable from funds of the Municipality legally available therefor and to the extent necessary from ad valorem taxes to be levied on all taxable property within the corporate limits of the Municipality without limitation as to time, rate, or amount. For the prompt payment of the Series 2012A Bonds, both principal and interest, as the same shall become due, the full faith, and credit of the Municipality is irrevocably pledged. The Series 2012A

Bonds are also payable from and secured by a pledge of the revenues to be derived from the one-quarter percent (0.25%) local option sales tax levied by the Municipality within the corporate limits of the Municipality within Sullivan County, Tennessee.

The Series 2012C Bonds, including the principal thereof and the interest thereon, are payable from funds of the Municipality legally available therefor and to the extent necessary from ad valorem taxes to be levied for such purpose on all taxable property within the corporate limits of the Municipality without limitation as to time, rate, or amount. The Series 2012C Bonds are a direct general obligation of the Municipality, for which the punctual payment of the principal of and interest on the Bonds the full faith and credit of the Municipality is irrevocably pledged.

See the section entitled “SECURITIES OFFERED – Security” for additional information.

Optional Redemption..... Bonds maturing April 1, 2015 through April 1, 2022, are not subject to redemption prior to maturity. Bonds maturing on and after April 1, 2023, are subject to redemption prior to maturity on April 1, 2022, and at any time thereafter, at the option of the Municipality, as a whole or in part, in integral multiples of \$5,000 (less than all Bonds of a single maturity to be selected by lot by the Registration Agent), at the price of par, plus accrued interest to the date fixed for redemption.

See the section entitled “SECURITIES OFFERED – Redemption – *Optional*” for additional information.

Mandatory Redemption If any, a mandatory redemption provision will be determined by bids received and awarded. See the section entitled “SECURITIES OFFERED – Redemption – *Mandatory*” for additional information.

Ratings..... Moody’s – “Aa2” and Standard & Poor’s – “AA-”.

See the section entitled “MISCELLANEOUS – Ratings” for more information.

Book-Entry Only The Bonds will be issued under the Book-Entry-Only System.

For additional information, see the section entitled “BASIC DOCUMENTATION – Book-Entry-Only System.”

Underwriter..... Hutchinson, Shockey, Erley & Co., Chicago, Illinois (the “Underwriter”)

See the section entitled “MISCELLANEOUS – Competitive Public Sale” for additional information.

Financial Advisor Morgan Keegan & Company, Inc. or its successor in interest, Nashville, Tennessee (“Raymond James | Morgan Keegan” or the “Financial Advisor”)

See the section entitled “MISCELLANEOUS - Financial Advisor; Related Parties; Other”.

Registration and Paying Agent Regions Bank, Nashville, Tennessee (the “Registration Agent”)

See the section entitled “MISCELLANEOUS - Financial Advisor; Related Parties; Other”.

General The Bonds are being issued in full compliance with Title 9, Chapter 21, Parts 1 and 2 *Tennessee Code Annotated*, as supplemented and revised.

See the section entitled “SECURITIES OFFERED – Authority and Purpose” for more information. The Bonds will be issued with CUSIP numbers through the facilities of The Depository Trust Company, New York, New York.

Tax Matters.....In the opinion of Bond Counsel, under existing law and assuming compliance with certain tax covenants described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. Bond Counsel is also of the opinion, under existing law, that the Bonds and interest on the Bonds are exempt from all state, county, and municipal taxation in the State of Tennessee, except for inheritance, transfer, and estate taxes and except to the extent that interest on the Bonds is included within the measure of certain privilege and excise taxes imposed under Tennessee law. See “LEGAL MATTERS—Tax Matters” herein. See also “APPENDIX A: Legal Opinions” included herein.

Disclosure In accordance with Rule 15c2-12 of the Securities and Exchange Commission as amended, the Municipality 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”), if any, annual financial statements and other pertinent credit or event information, including Comprehensive Annual Financial Reports.

See the section entitled “MISCELLANEOUS - Continuing Disclosure.”

Other Information.....The information in the *Official Statement* is deemed "final" within the meaning of Rule 15c2-12(b)(5) of the SEC (the “Rule”). For more information concerning the Municipality or the *Official Statement*, contact Mr. James H. Demming, City Recorder and Chief Financial Officer; City of Kingsport; City Hall; 225 West Center Street; Kingsport, Tennessee 37660. Telephone: 423.229.9400 or the Financial Advisor, Raymond James | Morgan Keegan; One Burton Hills Blvd., Suite 225, Nashville, Tennessee 37215-6299, Telephone: 615.665.6920 or 800.764.1002.

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GENERAL FUND
Summary of Changes In Fund Balances

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Beginning Fund Balance:	\$14,729,151	\$15,311,831	\$18,239,746	\$20,919,000	\$18,653,000
Revenues:	61,801,910	59,502,903	59,757,455	60,373,732	57,945,000
Expenditures:	(43,177,567)	(41,698,583)	(40,920,755)	(39,168,535)	(34,979,000)
Other Financing Sources:					
Transfers In:	3,513,680	3,759,855	2,587,824	2,524,363	3,449,000
Transfers Out:	(23,368,942)	(22,146,855)	(24,352,439)	(27,208,550)	(24,337,000)
Sale of Building	0	0	0	800,000	0
Prior Period Adjustment:	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>189,000</u>
Ending Fund Balance:	\$13,584,395	\$14,729,151	\$15,311,831	\$18,239,746	\$20,919,000
 Unassigned	 \$12,099,373	 \$13,155,138	 \$12,927,260	 \$14,848,415	 \$17,409,000

Source: Comprehensive Annual Financial Reports of City of Kingsport, Tennessee

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\$12,415,000
CITY OF KINGSPORT, TENNESSEE
Consisting Of:

\$3,110,000 GENERAL OBLIGATION BONDS, SERIES 2012A
\$9,305,000 GENERAL OBLIGATION PUBLIC IMPROVEMENT BONDS, SERIES 2012C

SECURITIES OFFERED

AUTHORITY AND PURPOSE

This *Preliminary Official Statement* (including the Summary Statement and appendices) is furnished in connection with the offering by the City of Kingsport, Tennessee (the "Municipality") of \$3,110,000 General Obligation Bonds, Series 2012A (the "Series 2012A Bonds") and \$9,305,000 General Obligation Public Improvement Bonds, Series 2012C (the "Series 2012C Bonds").

The Series 2012A Bonds and the Series 2012C Bonds (collectively, the "Bonds") are authorized to be issued pursuant to the provisions of Title 9, Chapter 21, Parts 1 and 2, *Tennessee Code Annotated*, as supplemented and amended, and other applicable provisions of law and pursuant to resolutions (the "Resolutions") duly adopted by the Board of Mayor and Aldermen of the Municipality (the "Governing Body") on May 15, 2012.

The Series 2012A Bonds are being issued for the purpose of financing certain public works projects, consisting of the acquisition of public art; the acquisition, construction, renovation, improvement and equipping of a municipal recreational center and related facilities, including a public swimming pool; the acquisition of all property real and personal, appurtenant thereto or connected with such work, to pay legal, fiscal, administrative, and engineering costs, to reimburse the Municipality for the costs of any of the above projects, to pay capitalized interest, and to pay costs incident to the issuance and sale of the Series 2012A Bonds.

The Series 2012C Bonds are being issued for the purpose of financing certain public works projects, of the acquisition of public art; acquisition, construction, improvement and renovation of public school facilities; road construction, improvement and expansion; sidewalk and bike trail construction, improvement and expansion; acquisition of emergency sirens; acquisition and improvement of public recreational facilities; land acquisition and improvement to the Municipality's landfill; the acquisition, construction, renovation, improvement and equipping of public buildings for municipal operations within the Municipality; acquisition of public works equipment, including dump trucks, hook lift, leaf pick-up, and curbside recycling equipment; construction, expansion and improvement of the Municipality's water system; construction, expansion and improvement of the Municipality's sewer system; and the acquisition of all property real and personal, appurtenant thereto or connected with such work; and to pay legal, fiscal, administrative, and engineering costs, to reimburse the Municipality for the costs of any of the above projects, to pay capitalized interest and to pay costs incident to the financing.

DESCRIPTION OF THE BONDS

The Bonds initially will be dated the date of their issuance estimated to be June 22, 2012. Interest on the Bonds will be payable semiannually on April 1st and October 1st, commencing October 1, 2012. The Bonds will be initially registered only in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds.

In the event that any amount payable on any Bond as interest shall at any time exceed the rate of interest lawfully chargeable thereon under applicable law, then any such excess shall, to the extent of such excess, be applied against the principal of such Bond as a prepayment thereof without penalty, and such excess shall not be considered to be interest. All rates of interest specified herein shall be computed on the basis of a three hundred sixty (360) day year composed of twelve (12) months of thirty (30) days each.

The principal of and all installments of interest on any Bond shall bear interest from and after their respective due dates at a rate of interest equal to the rate of interest payable on the principal of such Bond.

Interest on the Bonds shall be payable by check or other form of draft of the Registration Agent deposited by the Registration Agent in the United States mail, first class postage prepaid, in sealed envelopes, addressed to the Owners of such Bonds, as of the applicable Interest Payment Date, at their respective addresses as shown on the registration books of the Municipality maintained by the Registration Agent as of the close of business on the fifteenth (15th) calendar day of the month next preceding the applicable Interest Payment Date (the “Regular Record Date”). The principal or redemption price, if any, of all Bonds shall be payable upon presentation and surrender of such Bonds at the principal corporate trust office of the Registration Agent. All payments of the principal of and interest on the Bonds shall be made in any coin or currency of the United States of America which, on the date of payment thereof, shall be legal tender for the payment of public and private debts.

See the section entitled “BASIC DOCUMENTATION - Book-Entry-Only System”, “Special Record Date” and the “Registration Agent” for additional information.

SECURITY AND OTHER SOURCES OF PAYMENT

Security. The Series 2012A Bonds are payable from funds of the Municipality legally available therefor and to the extent necessary from ad valorem taxes to be levied on all taxable property within the corporate limits of the Municipality without limitation as to time, rate, or amount. For the prompt payment of the Series 2012A Bonds, both principal and interest, as the same shall become due, the full faith, and credit of the Municipality is irrevocably pledged. The Series 2012A Bonds are also payable from and secured by a pledge of the revenues to be derived from the one-quarter percent (0.25%) local option sales tax levied by the Municipality within the corporate limits of the Municipality within Sullivan County, Tennessee.

The Series 2012C Bonds, including the principal thereof and the interest thereon, are payable from funds of the Municipality legally available therefor and to the extent necessary from ad valorem taxes to be levied for such purpose on all taxable property within the corporate limits of the Municipality without limitation as to time, rate, or amount. The Series 2012C Bonds are a direct general obligation of the Municipality, for which the punctual payment of the principal of and interest on the Bonds the full faith and credit of the Municipality is irrevocably pledged.

For the purpose of providing for the payment of the principal of and interest on, the Bonds, to the extent necessary, there shall be levied in each year in which such Bonds shall be outstanding a direct tax on all taxable property in the Municipality, fully sufficient, to pay all such principal and interest falling due prior to the time of collection of the next succeeding tax levy. Said tax shall be assessed, collected, and paid at the time, and in the same manner, as the other taxes of said Municipality, shall be in addition to all other taxes, and shall be without limitation as to time, rate, or amount. The Governing Body of the Municipality is required by law and shall and does pledge to levy such tax. Principal and interest, or any of the foregoing, falling due at any time when there shall be insufficient funds on hand from such tax levy for the payment thereof shall be paid from the General Fund or other available funds of the Municipality, but reimbursement therefor may be made from the taxes herein provided when the same shall have been collected. Such taxes levied and collected therefor shall be deposited in the General Fund of the Municipality, and used solely for the payment of principal and interest on the Bonds as the same shall become due.

Other Sources of Payment. Although not secured by the net revenues of the Municipality's water or sewer systems, approximately \$3,120,000 or 33.53 percent of the proceeds of the Series 2012C Bonds are attributable to the water and sewer system of the Municipality. Of that amount, approximately \$1,291,034 or 41.38 percent of that sum is related to the water system and approximately \$1,828,966 or 58.62 percent of that sum is related to the sewer system. Consistent with State law, debt service on those portions of the Series 2012C Bonds will be paid in their entirety from the net revenues of the Municipality's water and sewer systems, respectively.

See the section entitled "MISCELLANEOUS – Additional Debt Obligations" for additional information.

REDEMPTION

Optional Redemption. Bonds maturing April 1, 2015 through April 1, 2022 are not subject to redemption prior to maturity. Bonds maturing on and after April 1, 2023 are subject to redemption prior to maturity on April 1, 2022 and at any time thereafter, at the option of the Municipality, as a whole or in part, in integral multiples of \$5,000 (less than all Bonds of a single maturity to be selected by lot by the Registration Agent), at the price of par, plus accrued interest to the date fixed for redemption.

Mandatory Redemption. In the event of mandatory redemption, notice of intended redemption shall be given by the Registration Agent on behalf of the Municipality to the Owners

of the Series 2012A Bonds or the Series 2012C Bonds to be redeemed by first-class mail, postage prepaid, at the addresses shown on the registration books kept by the Registration Agent. Notice of intended redemption shall be given not less than thirty (30) calendar days, nor more than sixty (60) calendar days prior to the date fixed for redemption. Each such notice of redemption shall state: (1) the redemption date; (2) the redemption price; (3) if less than all outstanding Bonds are to be redeemed, the registered number and the CUSIP number printed on the Series 2012A Bonds or the Series 2012C Bonds (and, in the case of partial redemption, the respective principal amounts) of the Series 2012A Bonds or the Series 2012C Bonds to be redeemed; (4) that on the redemption date, the redemption price will become due and payable upon each such Series 2012A Bond or the Series 2012C Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date provided sufficient funds are available on such redemption date to fully pay the redemption price of and the interest on the Series 2012A Bonds or the Series 2012C Bonds called for redemption; and, (5) the place where such Series 2012A Bonds or the Series 2012C Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal corporate trust office of the Registration Agent. Neither failure to mail any such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of any of the Series 2012A Bonds or the Series 2012C Bonds for which notice was correctly given.

Subject to the credit hereinafter provided, the Municipality shall redeem Series 2012A Bonds and the Series 2012C Bonds maturing on April 1st on the redemption dates set herein below opposite the maturity dates, in aggregate principal amounts equal to the respective dollar amounts set forth below opposite the respective redemption dates at a price of par plus accrued interest thereon to the date of redemption. DTC, as securities depository for the Series 2012A Bonds or the Series 2012C Bonds or such person as shall then be serving as the securities depository for the Series 2012A Bonds or the Series 2012C Bonds, shall determine the interest of each participant in the Series 2012A Bonds or the Series 2012C Bonds to be redeemed using its procedures generally in use at that time. If DTC, or another securities depository is no longer serving as securities depository for the Series 2012A Bonds or the Series 2012C Bonds to be redeemed within a maturity shall be selected by the Registration Agent by lot or such other random manner as the Registration Agent in its discretion shall select. The dates of redemption and principal amount of Series 2012A Bonds and the Series 2012C Bonds to be redeemed on said dates is depicted on the following page:

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<u>Final Maturity</u>	<u>Redemption Date</u>	<u>Series 2012A Bonds Principal Amount</u>	<u>Series 2012C Bonds Principal Amount</u>
April 1, 2026	April 1, 2025	\$175,000	-
	April 1, 2026*	185,000	-
April 1, 2027	April 1, 2026	-	\$410,000
	April 1, 2027*	-	420,000
April 1, 2028	April 1, 2027	\$190,000	-
	April 1, 2028*	195,000	-
April 1, 2029	April 1, 2028	-	\$435,000
	April 1, 2029*	-	445,000
April 1, 2030	April 1, 2029	\$200,000	-
	April 1, 2030*	205,000	-
April 1, 2032	April 1, 2030	-	\$460,000
	April 1, 2031	\$210,000	470,000
	April 1, 2032*	220,000	490,000

*Final Maturity

If notice of redemption shall have been given in the manner and under the conditions provided herein and if on the date so designated for redemption the Registration Agent shall hold sufficient monies to pay the redemption price of, and interest to the redemption date on, the Series 2012A Bonds or the Series 2012C Bonds to be redeemed as provided in the Resolutions, then: (1) the Series 2012A Bonds or the Series 2012C Bonds so called for redemption shall become and be due and payable at the redemption price provided for redemption of such Series 2012A Bonds or the Series 2012C Bonds on such date; (2) interest on the Series 2012A Bonds or the Series 2012C Bonds so called for redemption shall cease to accrue; and, (3) such Series 2012A Bonds or the Series 2012C Bonds shall no longer be Outstanding or secured by, or be entitled to, the benefits of the Resolutions, except to receive payment of the redemption price thereof and interest thereon from monies then held by the Registration Agent.

Prior to any redemption date, the Municipality shall deposit with the Registration Agent an amount of money sufficient to pay the redemption price of all of the Series 2012A Bonds or Series 2012C Bonds or portions of the Series 2012A Bonds or the Series 2012C Bonds which are to be redeemed on that date.

If on the redemption date, monies for the redemption of all the Series 2012A Bonds or the Series 2012C Bonds or portions thereof to be redeemed, together with interest thereon to the

redemption date, shall not be held by the Registration Agent so as to be available therefor on such date, the Series 2012A Bonds or the Series 2012C Bonds or portions thereof so called for redemption shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption and shall continue to be secured by and be entitled to the benefits of the Resolutions.

In case any Series 2012A Bond or the Series 2012C Bond is of a denomination larger than \$5,000, a portion of such Series 2012A Bond or Series 2012C Bond - \$5,000 or any integral multiple thereof - may be redeemed, but Series 2012A Bonds or Series 2012C Bonds shall be redeemed only in the principal amount of \$5,000 or any integral multiple thereof. In selecting Series 2012A Bonds or Series 2012C Bonds for redemption, the Municipality shall treat each Series 2012A Bonds or Series 2012C Bonds as representing that number of Series 2012A Bonds or Series 2012C Bonds which is obtained by dividing the principal amount of such Series 2012A Bond or Series 2012C Bond by \$5,000. If part but not all of a Series 2012A Bond or a Series 2012C Bond shall be selected for redemption, the Owner thereof or his, her, or its legal representative shall present and surrender such Series 2012A Bond or Series 2012C Bond to the Registration Agent for payment of the principal amount thereof so called for redemption and the premium, if any, on such principal amount thereof so called for redemption, and the Municipality shall execute and the Registration Agent shall authenticate and deliver to such Owner or legal representative, without charge therefor, for the unredeemed portion of the Series 2012A Bond or Series 2012C Bond surrendered, a Series 2012A Bond or a Series 2012C Bond of the same maturity, bearing the same interest rate, and of authorized denomination or denominations.

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BASIC DOCUMENTATION

REGISTRATION AGENT

Regions Bank (the “Registration Agent”) or the Municipality 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 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 Municipality 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.

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

BOOK-ENTRY-ONLY SYSTEM

The Registration Agent, its successor or the Municipality 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 Municipality in respect of such Bonds to the extent of the payments so made, except as described above. Payment of principal of the Bonds shall be made upon presentation and surrender of such Bonds to the Registration Agent as the same shall become due and payable.

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

The Bonds, when issued, will be registered in the name of Cede & Co., DTC’s partnership nominee, except as described above. When the Bonds are issued, ownership interests will be available to purchasers only through a book-entry system maintained by DTC (the “Book-Entry-Only System”). One 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 Ratings: “**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. Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts, upon DTC’s receipt of funds and corresponding detail information from the Registration Agent on the payable date in accordance with their respective holdings shown on DTC’s records, unless DTC has reason to believe it will not receive payment on such date. Payments by Direct and Indirect Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with municipal securities held for the accounts of customers in bearer form or registered in “**street name**”, and will be the responsibility of such Participant and not of DTC, the Municipality 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 Municipality 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 MUNICIPALITY, THE UNDERWRITER, THE BOND COUNSEL, THE FINANCIAL ADVISOR OR THE REGISTRATION AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENT TO, OR THE PROVIDING OF NOTICE FOR, SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES.

Transfers of Bonds. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not 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.

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

No Assurance Regarding DTC Practices. The foregoing information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Municipality believes to be reliable, but the Municipality, the Bond Counsel, the Registration Agent, the Financial Advisor 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 Municipality, the Bond Counsel, 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 Resolutions. Also, please see the section entitled "SECURITIES OFFERED – Redemption."

SPECIAL RECORD DATE

Any interest on any of the Bonds which is payable but is not punctually paid or duly provided for on any Interest Payment Date on which interest is due (hereinafter "Defaulted Interest") shall forthwith cease to be payable to the Owner on the relevant Regular Record Date; and, in lieu thereof, such Defaulted Interest shall be paid by check or other form of draft of the Registration Agent 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 Municipality 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 Municipality 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 arrangement 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 as in this Section provided. Thereupon, not less than ten (10) calendar 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) calendar days prior to the date of the proposed payment to the Owners. The Registration Agent shall promptly notify the Municipality of such Special Record Date and, in the name and at the expense of the Municipality, not less than ten (10) calendar 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 Owner at the address thereof as it appears in the registration books of the Municipality maintained by the Registration Agent as of the date of such notice. Nothing contained in the Resolutions or in the Bonds shall impair any statutory or other rights in law or in equity of any Owner arising as a result of the failure of the Municipality to punctually pay or duly provide for the payment of principal of and interest on, the Bonds when due.

TRANSFER AND EXCHANGE

The Bonds are transferable only by presentation at the office of the Registration Agent, by the registered owner or their legal representative duly authorized in writing, of the registered Bond(s) to be transferred with the form of assignment completed in full and signed with the name of the registered owner as it appears upon the face of the Bond(s) accompanied by appropriate documentation necessary to prove the legal capacity of any legal representative of the registered owner. Upon receipt of the Bond(s) in such form and with such documentation, if any, the Registration Agent shall issue a new Bonds to the assignee(s) in \$5,000 denominations, or integral multiples thereof, as requested by the registered owner requesting transfer. No charge shall be made to any registered owner for the privilege of transferring any Bond, provided that any transfer tax relating to such transaction shall be paid by the owner requesting transfer. The Registration Agent shall not be required to transfer or exchange any Bond during the fifteen calendar days next preceding an Interest Payment Date or the first mailing of any notice of redemption or with respect to any Bond, after such Bond has been called for redemption. The person in whose name any Bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes and neither the Municipality nor the Registration Agent shall be affected by any notice to the contrary whether or not any payments due on the Bonds shall be overdue. Bonds, upon surrender to the Registration Agent, may, at the option of the registered owner, be exchanged for an equal aggregate principal amount of Bonds of the same maturity in any authorized denomination or denominations.

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SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds relating to the proceeds from the Series 2012A Bonds and the Series 2012C Bonds:

	Series 2012A Bonds	Series 2012C Bonds
<u>Sources of Funds:</u>		
Par Amount	\$3,110,000.00	\$9,305,000.00
Plus: Net Premium	<u>74,217.85</u>	<u>323,960.20</u>
TOTAL SOURCES:	<u>\$3,184,217.85</u>	<u>\$9,628,960.20</u>
<u>Uses of Funds:</u>		
Deposit to the Project Fund	\$3,135,588.00	\$9,451,802.39
Underwriter’s Discount	42,331.34	107,909.02
Costs of Issuance	<u>6,298.51</u>	<u>69,248.79</u>
TOTAL USES:	<u>\$3,184,217.85</u>	<u>\$9,628,960.20</u>

DISPOSITION OF BOND PROCEEDS

The proceeds of the sale of the Series 2012A Bonds and the Series 2012C Bonds and certain other funds shall be used and applied as follows:

(a) The proceeds from the sale of the Series 2012A Bonds and the Series 2012C Bonds (including premium, if any, received) shall be paid to the official of the Municipality designated by law as the custodian of the funds thereof to be deposited in a special fund, which is hereby authorized to be created, to be known as the “General Obligation Bonds, Series 2012A, Project Fund,” or the “General Obligation Public Improvement Bonds, Series 2012C, Project Fund,” (the “Series 2012A Project Fund” and the “Series 2012C Project Fund” collectively, the “Project Funds”), to be kept separate and apart from all other funds of the Municipality. The funds in the Series 2012A Project Fund and the Series 2012C Project Fund, respectively, shall be disbursed solely to pay the costs of the projects funded by the Series 2012A Bonds and the Series 2012C Bonds, respectively, to reimburse the Municipality, to pay capitalized interest, and to pay costs incurred in connection with the issuance of the Series 2012A Bonds and the Series 2012C Bonds, respectively, including necessary legal, accounting, engineering, and fiscal expenses, printing, 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 Series 2012A Bonds and the Series 2012C Bonds and the financing of the projects funded by the Series 2012A Bonds and the Series 2012C Bonds, respectively. Monies in the Series 2012A Project Fund and the Series 2012C Project Fund, respectively, shall be secured in the manner prescribed by applicable statutes relative to the securing of public or trust funds, if any. Monies in the Series 2012A Project Fund and the Series 2012C Project Fund, respectively, shall be expended only for the purposes authorized by the respective Resolutions for the Series 2012A Bonds and the Series 2012C Bonds. Monies, if any,

remaining in the Project Funds upon completion of the purposes authorized by the Resolutions shall be transferred to the Series 2012A Bond Fund or the Series 2012C Bond Fund, respectively, and used to pay principal of and interest on the Series 2012A Bonds or the Series 2012C Bonds, respectively. Monies in the Series 2012A Project Fund and the Series 2012C Project Fund, respectively, may be invested as directed by an Authorized Representative of the Municipality (see the Resolutions) in any investment authorized for municipal funds under the applicable laws of the State of Tennessee. All income derived from such investments shall be deposited in the Series 2012A Bond Fund or in the Series 2012C Bond Fund and used to pay principal and interest on the Series 2012A Bonds or the Series 2012C Bonds, respectively, unless, by resolution, the Municipality directs retention of such earnings in the Series 2012A Project Fund or the Series 2012C Project Fund to pay the costs of the projects funded by the Series 2012A Bonds or the Series 2012C Bonds.

(b) The principal proceeds of the sale of the Series 2012A Bonds or the Series 2012C Bonds deposited to the Project Funds shall also be used for the purpose of paying the costs incurred in connection with the issuance of the Series 2012A Bonds or the Series 2012C Bonds, respectively.

DISCHARGE AND SATISFACTION OF BONDS

The Municipality may pay and discharge the entire 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, the Bonds, as and when the same become due and payable;

(b) By depositing or causing to be deposited with any trust company or bank whose deposits are insured by the Federal Deposit Insurance Corporation and which has trust powers (“a Trustee”; which Trustee may be the Registration Agent), in trust, at or before the date of maturity or redemption, sufficient monies or Government Obligations, the principal of and interest on which, when due and payable, will provide sufficient monies to pay or redeem the Bonds Outstanding and to pay interest thereon when due until the maturity or redemption date; provided, if such the Bonds are to be redeemed prior to the maturity thereof, proper notice of such redemption shall have been given or adequate provision shall have been made for the giving of such notice; or,

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

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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 Municipality to sell or issue the Bonds. See the subsection in this section entitled Closing Certificates for additional information.

The Municipality, like other similar bodies, is subject to a variety of suits and proceedings arising in the ordinary conduct of its affairs. Except as discussed below, after reviewing the current status of all pending and threatened litigation, the Municipality believes that, while the outcome of litigation cannot be predicted, the final settlement of all lawsuits that have been filed and of any actions or claims presently pending or threatened against the Municipality or its officials in such capacity are adequately covered by insurance or by sovereign immunity or will not have an adverse effect upon the Municipality's financial condition.

Notwithstanding the foregoing, the Municipality is currently defending two lawsuits in federal district court, neither of which are covered by insurance. In one lawsuit, the plaintiff has alleged a lack of probable cause for the plaintiff's arrest and is seeking \$1,400,000 in damages from the Municipality. Trial is set for September 2012. In the other lawsuit, the plaintiff has alleged malicious prosecution and is seeking \$5,000,000 in compensatory damages and \$10,000,000 in punitive damages from the Municipality. Trial is set for May 2013. It is not possible to determine the outcome of either lawsuit at this time, and the Municipality intends to vigorously defend its position in each lawsuit. A significant award of damages by the court in either lawsuit could have an adverse effect upon the Municipality's financial condition.

TAX MATTERS

In the opinion of Adams and Reese LLP, as Bond Counsel, under existing law, interest on the Bonds is excluded from gross income for federal income purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporation. However, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

In rendering its opinion, Bond Counsel has relied on certain representations, certifications of facts and statements of reasonable expectations made by the Municipality in connection with the Bonds, and Bond Counsel has assumed compliance by the Municipality with certain ongoing covenants to comply with applicable requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. The Municipality has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Bond Counsel has not undertaken

to advise in the future whether any events after the date of execution and delivery of the Bonds may affect the federal tax status of the interest on the Bonds.

Prospective purchasers of the Bonds should be aware that ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with “excess net passive income,” foreign corporations subject to the branch profits tax, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. Prospective purchasers of the Bonds should consult their tax advisers as to collateral federal income tax consequences.

From time to time, there are legislative proposals in the Congress or in the various states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the market value of the Bonds. Prospective purchasers of the Bonds are encouraged to consult their own tax advisors regarding any pending or proposed federal legislation.

It cannot be predicted with certainty whether or in what form any proposed legislation might be enacted or whether if enacted, it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds or the market value thereof, would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation.

Original issue discount (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons acting in the capacity as underwriters, placement agents or wholesalers). In general, the issue price of each maturity of the Bonds is expected to be the initial public offering price set forth on the cover page of this Official Statement.

In general, under Section 1288 of the Code, OID on any of the Bonds having OID accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compound rate determined by reference to the yield on such Bonds. The OID that has accrued and is properly allocable to the owners of Bonds having OID will be excluded from gross income for federal income tax purposes, and will increase the owner’s tax basis in such Bond. Purchasers of any Bond having OID should consult their tax advisors regarding the determination and treatment of OID for federal income tax purposes, and with respect to state and local tax consequences of owning such Bonds.

In general, if an owner of a Bond acquires such Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium must be amortized over the remaining term of the Bond, based on the owner’s yield over the remaining term of the Bond, determined based on constant yield principles (in certain cases involving a premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Bond). An owner of a premium Bond must amortize the premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the premium allocable to that period. In the case of a tax-exempt premium bond, if the premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a premium Bond may realize a taxable gain upon disposition of the premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any premium Bond should consult their own tax advisors regarding the treatment of premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of premium on, sale, exchange or other disposition of premium Bonds.

In the opinion of Bond Counsel, under existing law, the Bonds and interest on the Bonds are exempt from all state, county, and municipal taxation in the State of Tennessee, except for inheritance, transfer, and estate taxes, and except to the extent that interest on the Bonds is included within the measure of certain privilege and excise taxes imposed under Tennessee law. Bond Counsel expresses no opinion regarding taxation of the Bonds or interest on the Bonds in any state other than Tennessee. Prospective purchasers of the Bonds should consult their tax advisers as to whether the Bonds or interest on the Bonds is or is not exempt from taxation in any other state.

The forms of the opinions of Bond Counsel are attached as APPENDIX A. Copies of the opinions will be available at the time of the initial delivery of the Bonds.

CLOSING CERTIFICATES

Upon delivery of the Bonds, the Municipality will execute in a form satisfactory to Bond Counsel, certain closing certificates including the following: (i) A certificate as to the *Official Statement*, in final form (as defined herein), signed by the Mayor and other officials acting in their official capacities to the effect that to the best of their knowledge and belief, and after reasonable investigation, (a) neither the *Official Statement*, in final form, nor any amendment or supplement thereto, contains any untrue statements of material fact or omits to state any material fact necessary to make statements therein, in light of the circumstances in which they are made, misleading, (b) since the date of the *Official Statement*, in final form, no event has occurred which should have been set forth in such a memo or supplement, and (c) 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 officials acting in their official capacities evidencing delivery of and payment for the Bonds; (iv) a signature identification and incumbency certificate, signed by the Mayor, City Recorder and/or other officials of the Municipality 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 Municipality 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 – Competitive Public Sale”, “MISCELLANEOUS - Additional Information”, “MISCELLANEOUS - Continuing Disclosure” and “APPENDIX A: Legal Opinions”.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters relating to the authorization and the validity of the Bonds are subject to the approval of Adams and Reese LLP, Nashville, Tennessee, Bond Counsel. Bond Counsel did not prepare the *Preliminary Official Statement* or the *Official Statement*, in final form, or verify their accuracy, completeness or fairness. Accordingly, Bond Counsel expresses no opinion of any kind concerning the *Preliminary Official Statement* or *Official Statement*, in final form, except for the information under the section entitled “LEGAL MATTERS – Tax Matters”. The opinions of Bond Counsel will be limited to matters relating to authorization and validity of the Bonds. Reference is hereby made to the *Preliminary Official Statement* and the forms of the opinions contained in APPENDIX A.

Certain other matters will be passed upon for the Municipality by J. Michael Billingsley, Esq., City Attorney.

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MISCELLANEOUS

RATINGS

Moody's Investors Service, Inc., a division of Moody's Corp. ("Moody's") and Standard & Poor's Corporation Ratings Group, a division of McGraw-Hill, Inc. ("S&P") have assigned the Series 2012A Bonds, and the Series 2012C Bonds the ratings of "Aa2" and "AA-", respectively.

The Municipality furnished Moody's and S&P certain information and materials concerning the Bonds and the Municipality. Generally, Moody's and S&P base their ratings on such information and materials and also on such investigations, studies and assumptions that it may undertake independently. There is no assurance that any rating will be maintained for any given period of time or that it will not be revised downward or withdrawn entirely by Moody's or S&P, if, in their judgment, circumstances so warrant. The Municipality undertakes no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of a rating or ratings or other actions by a rating agency may have an adverse effect on the market price of the Bonds.

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 explanation of the significance of the ratings may be obtained only from Moody's or S&P.

COMPETITIVE PUBLIC SALE

The Series 2012A Bonds and the Series 2012C Bonds were offered for sale at competitive public bidding on June 11, 2012. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated May 30, 2012.

Through IPREO's BiDCOMP®/Parity® system, 3 of the original 4 firms which indicated an interest in bidding for the Series 2012A Bonds submitted proposals ranging from a high bid of 2.9549817 percent on a true interest cost basis ("TIC") to 3.086665 percent. Additionally, 3 of the original 4 firms which indicated an interest in bidding for the Series 2012C Bonds submitted proposals ranging from a high bid of 2.954981 percent on a TIC to 3.086665 percent.

The successful bidder for the 2012A Bonds was an account led by Hutchinson, Shockey, Erley & Co., Chicago, Illinois (the "2012A Bond Underwriter") who contracted with the Municipality, subject to the conditions set forth in the Detailed Notice of Sale, to purchase the Series 2012A Bonds at a purchase price of \$3,141,886.51 (consisting of the par amount of the

Series 2012A Bonds of \$3,110,000, plus a net premium of \$74,217.85, less an underwriter's discount of \$42,331.34) or a bid price of 101.025 percent of par.

The successful bidder for the 2012C Bonds was an account led by Hutchinson, Shockey, Erley & Co., Chicago, Illinois (the "2012C Bond Underwriter") who contracted with the Municipality, subject to the conditions set forth in the Detailed Notice of Sale, to purchase the Series 2012C Bonds at a purchase price of \$9,521,051.18 (consisting of the par amount of the Series 2012C Bonds of \$9,305,000, plus a net premium of \$323,960.20, less an underwriter's discount of \$107,909.42) or a bid price of 102.322 percent of par.

FINANCIAL ADVISOR; RELATED PARTIES; OTHER

Financial Advisor. Morgan Keegan & Company, Inc. or its successor in interest, Nashville, Tennessee ("Raymond James | Morgan Keegan" or "Morgan Keegan"), has been employed by the Municipality to serve as its Financial Advisor and will receive compensation for duties performed in that role conditioned upon the sale and issuance of the Series 2012A Bonds and/or the Series 2012C Bonds.

On April 2, 2012, Raymond James Financial, Inc. ("RJF"), the parent company of Raymond James & Associates, Inc. ("Raymond James"), acquired all of the stock of Morgan Keegan from Regions Financial Corporation. Morgan Keegan and Raymond James are each registered broker-dealers. Both Morgan Keegan and Raymond James are wholly owned subsidiaries of RJF and, as such, are affiliated broker-dealer companies under the common control of RJF, utilizing "Raymond James | Morgan Keegan" as their trade name. It is anticipated that the businesses of Raymond James and Morgan Keegan will be combined.

Regions Bank. Regions Bank (the "Bank") is a wholly owned subsidiary of Regions Financial Corporation. Among other services the Bank provides are commercial banking, investments and corporate trust services to private parties and 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 their role in serving as registration and paying agent for the Bonds. In instances where the Bank serves the Municipality in other normal commercial banking capacities, then the Bank will be compensated separately for such services. The Bank was formerly an affiliate of Morgan Keegan.

Official Statements. Certain information relative to the location, economy and finances of the Municipality is found in the *Preliminary Official Statement*, in final form and the *Official Statement*, in final form. All such data, as in the case for other information herein contained, was prepared for and with the direct assistance of the Municipality. While not guaranteed as to completeness or accuracy, the *Preliminary Official Statement*, in final form and the *Official Statement*, in final form, both are believed to be correct as of their respective dates. As the Financial Advisor for this transaction, Raymond James | Morgan Keegan has reviewed the information in the *Preliminary Official Statement*, in final form, and the *Official Statement* in final form in accordance with and as part of its responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but Raymond James | Morgan Keegan does not guarantee the accuracy or completeness of such information.

Under the direction and with the assistance and direct input of the Municipality, Raymond James | Morgan Keegan drafted, published and distributed the *Preliminary Official Statement*, in final form, and the *Official Statement*, in final form, and will be compensated and/or reimbursed for such services.

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

Bond Counsel. From time to time, Adams and Reese LLP may have represented Morgan Keegan, Raymond James, Raymond James | Morgan Keegan or the Bank on legal matters unrelated to the Municipality and may do so again in the future.

DEBT LIMITATIONS

There is no limit on the amount of debt obligations that may be issued by the Municipality under State law although the Municipality has limited itself by policy to no more than an amount of general obligation bonds that would equal ten percent of its total assessed valuation. Currently, the Municipality is substantially under this limitation. (See “DEBT STRUCTURE - Indebtedness and Debt Ratios” for more information.)

ADDITIONAL DEBT OBLIGATIONS

Simultaneously with the issuance of the Bonds, the Municipality will issue its \$9,970,000 General Obligation Refunding Bonds, Series 2012B dated June 22, 2012. The Series 2012B Bonds are being issued to advance refund the outstanding maturities of those certain General Obligation Bonds, Series 2003 of the Municipality dated December 1, 2003 issued in the original aggregate principal amount of \$7,900,000; those certain Water and Sewer System Revenue and Tax Bonds, Series 2003 of the Municipality, dated December 1, 2003 issued in the original aggregate principal amount of \$5,900,000; those certain General Obligation School Bonds, Series 2004 of the Municipality dated December 1, 2004 issued in the original aggregate principal amount of \$2,850,000; and, those certain Water and Sewer System Revenue and Tax Bonds, Series 2004 of the Municipality, dated December 1, 2004 issued in the original aggregate principal amount of \$7,900,000, and to pay costs incident to the financing thereof.

Of the Series 2012B Bonds, \$5,630,000 or 56.47 percent of the proceeds are attributable debt of the water and sewer system of the Municipality. Of that amount, approximately \$1,198,294 or 21.284 percent of that sum is related to the water system and approximately \$4,431,706 or 78.716 percent of that sum is related to the sewer system.

The purpose of the Series 2012B Bonds was to achieve substantial net present value savings without any extension or restructuring of debt obligations refunded.

The State has approved three State Revolving Fund Loans to fund wastewater plant improvements. The first loan was for up to \$20,000,000 (March 21, 2007) and carries an interest rate of 3.14 percent. The Municipality has drawn down over 90 percent of the available proceeds and has begun making principal and interest payments to the State. As of May 1, 2012, the outstanding principal balance is \$17,782,556. The Municipality will make one final draw within the next few months and the State will provide a new final amortization schedule.

The second loan was for up to \$2,850,000 (June 25, 2007) and carries an interest rate of 3.20 percent. The Municipality has drawn down \$1,384,279 and is making principal and interest payments on this loan. As of May 1, 2012 the outstanding principal balance is \$1,303,869.

The third loan was for up to \$2,200,000 (August 5, 2009) and carries an interest rate of 2.88 percent. As part of the American Recovery and Revitalization Act of 2009, up to \$880,000 of this loan is subject to principal forgiveness. Draws totaling \$1,793,098 have been made against this loan of which \$717,239 was forgiven by the federal government. The Municipality has begun making principal and interest payments to the State. As of May 1, 2012 the outstanding principal balance is \$1,052,393.

On November 3, 2009, the Municipality adopted a resolution authorizing a loan agreement in an amount up to \$1,250,000 between itself and the Tennessee School Bond Authority to fund improvements and expansions to the Municipality's school buildings. The loan agreement was funded by Qualified School Construction Bonds (QSABs) issued pursuant to authority granted to the State under the American Recovery and Revitalization Act of 2009 and carries an interest rate of 1.515 percent. As of May 1, 2012, \$238,053 has been drawn on this loan.

CONTINUING DISCLOSURE

At the time the Bonds are delivered, the Municipality will execute a Continuing Disclosure Certificate in which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information relating to the Municipality by not later than twelve months after each of the Municipality's fiscal years, (the "Annual Report"), commencing with the fiscal year ending June 30, 2012 and to provide notice of the occurrence of certain enumerated events, if determined by the Municipality 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") through the operation of the Electronic Municipal Market Access system ("EMMA") and any State Information Depository established in the State of Tennessee (the "SID"). If the Municipality is unable to provide the Annual Report to the MSRB and the SID by the date required, notice of each failure will be sent to the MSRB and the SID on or before such date. The notices of material events will be filed by the Municipality with the MSRB and the SID. The specific nature of the information to be contained in the Annual Report or the notices of material events will be summarized in the Municipality's *Official Statement* to be prepared and distributed in connection with the sale of the Bonds. These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12 (b) (the "Rule"). The Municipality has not failed to comply in the last five years with any previous undertakings with regard to said Rule to provide Annual Reports or

notices of events. See “APPENDIX C: Form of Continuing Disclosure Certificate” for additional information.

ADDITIONAL INFORMATION

References, excerpts and summaries contained herein of certain provisions of the laws of the State and any documents referred to herein do not purport to be complete statements of the provisions for 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 the *Official Statement* in final forms, and any advertisement of the Bonds are not to be construed as a contract or agreement between the Municipality and the purchasers of any of the Bonds. Any statements or information printed in the *Preliminary Official Statement* and the *Official Statement*, in final forms, involving matters of opinion or of estimates, whether or not expressly so identified, is intended merely as such and not representations of fact.

The Municipality has deemed this *Official Statement* as "final" as of its date within the meaning of Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the "SEC") (the "Rule").

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CERTIFICATION OF THE MUNICIPALITY

At the time of payment for and delivery of the Bonds, the Municipality will furnish the purchaser a certificate, signed by the Mayor and City Recorder/CFO, to the effect that (a) the descriptions and statements of or pertaining to the Municipality contained in its *Official Statement* and any addendum thereto, for its Bonds, on the date of such *Official Statement*, on the date of sale of the Bonds and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the Municipality and its affairs, including its financial affairs, are concerned, such *Official Statement* did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data of or pertaining to entities other than the Municipality, and their activities contained in such *Official Statement* are concerned, such statements and data have been obtained from sources which the Municipality believes to be reliable and that the Municipality has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the Municipality since June 30, 2011, the date of the last audited financial statements of the Municipality, the electronic link to which appears in “APPENDIX D: Comprehensive Annual Financial Report”.

/s/ Dennis R. Phillips
Mayor

ATTEST:

/s/ James H. Demming, Jr.
City Recorder

APPENDIX A

LEGAL OPINIONS

June 22, 2012

Board of Mayor and Aldermen
City of Kingsport, Tennessee

Re: \$3,110,000 General Obligation Bonds, Series 2012A

Ladies and Gentlemen:

We have acted as bond counsel in connection with, and have examined a certified copy of the record of the proceedings of the Board of Mayor and Aldermen (the "Board") of the City of Kingsport, Tennessee (the "Municipality"), and other proofs to us submitted relating to, the authorization, issuance, and sale by the Municipality of its \$3,110,000 General Obligation Bonds, Series 2012A, dated the date of original issuance and delivery (the "Bonds"). The Bonds are issued under and pursuant to that certain "Resolution Authorizing the Execution, Terms, Issuance, Sale, and Payment of Not to Exceed \$3,200,000 General Obligation Bonds, in One or More Series, of the City of Kingsport, Tennessee, and Providing the Details Thereof" (the "Resolution"), of the Municipality, adopted by the Board on May 15, 2012.

The Bonds are issuable in definitive form as fully registered Bonds, without coupons, are numbered from one upwards, and mature on the first day of April in the years 2015 through 2032, inclusive. The Bonds will bear interest payable semiannually on April 1 and October 1 of each year, commencing October 1, 2012.

The Bonds are subject to redemption prior to maturity upon the terms and conditions set forth therein and in the Resolution.

Based upon such examination and such other documents, showings, and related matters of law as we deem necessary to render this opinion, and in reliance upon the matters herein referred to, we are of the opinion that:

(1) Such proceedings and proofs show lawful authority for the issuance and sale of the Bonds pursuant to the Constitution and laws of the State of Tennessee as now in force, including particularly Title 9, Chapter 21, Tennessee Code Annotated, as amended, and the Resolution according to its terms, and that the Resolution is valid and binding on the Municipality, enforceable in accordance with its terms.

(2) The Bonds are valid and legally binding obligations of the Municipality payable from funds of the Municipality legally available therefor and to the extent necessary from ad valorem taxes to be levied for such purpose on all taxable property within the corporate limits of the Municipality, without limitation as to time, rate, or amount, and for which the punctual payment of the principal of and interest on the Bonds, the full faith and credit of the Municipality are irrevocably pledged. The Bonds are also payable from and secured by a pledge of the revenues to be derived from the one-quarter percent (0.25%) local option sales tax levied by the Municipality within the corporate limits of the Municipality within Sullivan County, Tennessee.

(3) Interest on the Bonds is excluded from gross income for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the Municipality comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereof be, and continue to be, excludable from gross income for federal income tax purposes. The Municipality has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds. We have not undertaken to advise in the future whether any events after the date of execution and delivery of the Bonds may affect the tax status of interest on the Bonds.

(4) The Bonds and interest on the Bonds are exempt from all state, county, and municipal taxation in the State of Tennessee, except for inheritance, transfer, and estate taxes and except to the extent interest on the Bonds is included within the measure of certain privilege and excise taxes imposed under Tennessee law. We express no opinion regarding taxation of the Bonds or interest on the Bonds in any state other than Tennessee.

The rights of owners of the Bonds and the enforceability of the Bonds may be limited by future proceedings under bankruptcy, reorganization, debt arrangements, insolvency, or other laws of general application or principles of equity relating to or affecting the enforcement of creditors' rights.

In rendering the above opinion, we have relied upon the opinion of even date herewith of the Attorney of the Municipality with respect to: (1) the due organization and existence of the Municipality as a valid political subdivision of the State of Tennessee; (2) the right, title, and interest of the present officials of the Municipality to their respective positions; and, (3) matters which might be disclosed by an examination of agreements or instruments to which the Municipality is a party or by which it or any of its assets are bound.

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

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

Yours truly,

ADAMS AND REESE LLP

June 22, 2012

Board of Mayor and Aldermen
City of Kingsport, Tennessee

Re: \$9,305,000 General Obligation Public Improvement Bonds, Series 2012C

Ladies and Gentlemen:

We have acted as bond counsel in connection with, and have examined a certified copy of the record of the proceedings of the Board of Mayor and Aldermen (the "Board") of the City of Kingsport, Tennessee (the "Municipality"), and other proofs submitted to us relating to the authorization, issuance and sale by the Municipality of its \$9,305,000 General Obligation Public Improvement Bonds, Series 2012C, dated the date of original issuance and delivery (the "Bonds"). The Bonds are issued under and pursuant to that certain "Resolution Authorizing the Execution, Terms, Issuance, Sale, and Payment of Not to Exceed \$9,750,000 General Obligation Public Improvement Bonds, in One or More Series, of the City of Kingsport, Tennessee, and Providing the Details Thereof," adopted by the Board on May 15, 2012 (the "Resolution").

The Bonds are issuable in definitive form as fully registered Bonds, without coupons, are numbered from one upwards, and mature serially on April 1 of the years 2015 through 2032, inclusive. The Bonds will bear interest payable semiannually on April 1 and October 1 of each year, commencing October 1, 2012.

The Bonds are subject to redemption prior to maturity upon the terms and conditions set forth therein and in the Resolution.

Based upon such examination and such other documents, showings, and related matters of law as we deem necessary to render this opinion, we are of the opinion that, under existing law:

(1) Such proceedings and proofs show lawful authority for the issuance and sale of the Bonds pursuant to the Constitution and laws of the State of Tennessee as now in force, including particularly Title 9, Chapter 21, Tennessee Code Annotated, as amended, and the Resolution according to its terms, and that the Resolution is valid and binding on the Municipality, enforceable in accordance with its terms.

(2) The Bonds are valid and legally binding obligations of the Municipality payable from funds of the Municipality legally available therefor and to the extent necessary from ad valorem taxes to be levied on all taxable property within the corporate limits of the Municipality, without limitation as to time, rate, or amount, and for which the punctual payment of the principal of and interest on the Bonds, the full faith and credit of the Municipality are irrevocably pledged.

(3) Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the Municipality comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Municipality has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

(4) The Bonds and interest on the Bonds are exempt from all state, county, and municipal taxation within the State of Tennessee, except for inheritance, transfer, and estate taxes and except to the extent that interest on the Bonds is included within the measure of certain privilege and excise taxes imposed under Tennessee law. We express no opinion regarding taxation of the Bonds or interest on the Bonds in any state other than Tennessee.

The rights of owners of the Bonds and the enforceability of the Bonds may be limited by future proceedings under bankruptcy, reorganization, debt arrangements, insolvency, or other laws of general application or principles of equity relating to or affecting the enforcement of creditors' rights.

In rendering the above opinion, we have relied upon the opinion of even date herewith of the Attorney of the Municipality with respect to: (1) the due organization and existence of the Municipality as a valid political subdivision of the State of Tennessee; (2) the right, title, and interest of the present officials of the Municipality to their respective positions; and (3) matters that might be disclosed by an examination of agreements or instruments to which the Municipality is a party or by which it or any of its assets are bound.

We express no opinion as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds. In addition, we express no opinion regarding tax consequences arising with respect to the Bonds other than as expressly set forth herein. We have not undertaken to advise in the future whether any events after the date of execution and delivery of the Bonds may affect the tax status of the interest on the Bonds.

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

Yours truly,

ADAMS AND REESE LLP

SUPPLEMENTAL INFORMATION STATEMENT

GENERAL INFORMATION

LOCATION

Kingsport occupies an area of approximately 50 square miles in the northeastern portion of Tennessee. The Municipality is 25 miles northwest of Johnson City and about 23 miles from



Bristol, Tennessee/Virginia. Kingsport is the largest City in the Kingsport – Bristol, TN – Bristol, VA Metropolitan Statistical Area, with a population of 309,544 according to the 2010 U.S. Census. Approximately 173,700 people reside within a five mile radius of the city limits.

Kingsport is located in both Hawkins County (Tennessee) and Sullivan County (Tennessee) with approximately four percent located in Hawkins County and the remainder in Sullivan County. According to the 2010 U.S. Census, the populations of Sullivan County and Hawkins County were 156,823 and 56,833, respectively. Traditionally, the Municipality has been a regional medical center for the area including southwest Virginia and southeast Kentucky. It is a modern industrial community and one of the State’s leading manufacturing centers.

<u>FYE</u>	<u>2000</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010⁽¹⁾</u>	<u>2011</u>
Population	44,905	44,362	44,362	44,231	44,070	44,130	44,191	44,435	45,763	48,205	49,275

Source: City of Kingsport.

⁽¹⁾ U.S. Census: Population increased 7.3 percent from 44,905 in 2000

The Municipality has recently completed a special census resulting from recent annexations resulting in a population of 50,561. State verification of this special census is pending, but expected within the next month or so.

GENERAL

The Municipality was incorporated in 1917 and has been operated under the Council-Manager form of government since that time. The Board of Mayor and Aldermen (the “Board” or the “Governing Body”) was expanded from five to seven members through a charter amendment effective May 15, 1973. In odd numbered years, three members of the Board are elected by the qualified voters of the Municipality for four-year terms beginning at the first regular meeting of the Board in July following the May election. The Board appoints a City Manager who is responsible for the administration of the Municipality according to the Charter and Ordinances in effect. The City Manager appoints various department heads, officials and employees except those who operate and administer the Municipality’s School System. The Municipality’s School System is governed by a five member Board of Education. In each odd numbered year, two or three members are elected by the qualified voters of the Municipality. The Board of Education is responsible for the hiring of a Director of Schools and other personnel, formulating policies and operating the school system within the framework of state statutes, the City Charter and City Code.

Pay scales for employees and officials of all departments are approved by the Board and all appropriations of funds are made by the Board.

For Additional information on the Municipality, see the website: <http://www.kingsporttn.gov/>

SCHOOL SYSTEM

In 2000, the Municipality became the first in the State to institute a K-14 educational system. This program known as “Educate and Grow” provides two years of free tuition to Northeast State Technical Community College (NSTCC). Since 2002, graduating high school seniors whose parents have been residents of the Sullivan County portion of the Municipality for one year are eligible for free tuition paid for by Sullivan County. The Municipality offers and pays for the same program benefits for graduating high school seniors whose parents have been residents of the Hawkins County portion of the Municipality for one year. During its first year of implementation, almost one-quarter of graduating high school seniors took advantage of this free tuition program to NSTCC.

Number of Schools:

High Schools	1
Middle Schools	2
Elementary Schools	8

School Enrollment:

FYE 2011	6,556
FYE 2010	6,439
FYE 2009	6,392
FYE 2008	6,396
FYE 2007	6,455
FYE 2006	6,451
FYE 2005	6,377
FYE 2004	6,382
FYE 2003	6,412
FYE 2002	6,372

Source: City of Kingsport

MANUFACTURING AND COMMERCE

Kingsport finished strong in 2011, with continued growth evident in both sales perspectives and manufacturing into 2012.

Eastman Chemical Company, a FORTUNE 500 company which employs approximately 6,800 employees and about 3,000 contractors in Kingsport, is the second largest private employer in Tennessee, largest regional employer and largest taxpayer in the Municipality.

Eastman, which has had a major presence in Kingsport since 1920, is the world's largest supplier of polyester plastics for packaging; a leading supplier of coatings raw materials, specialty chemicals and plastics, as well as fine chemicals for pharmaceutical, agricultural chemicals, and other markets. In addition, Eastman manufacturers cellulose esters used in LCD screens as well as Bisphenol- free (**BPA**) plastics for the food industry in Kingsport.

Eastman Chemical Company posted record earnings per share in 2011, and noted in a late March 2012 community breakfast that its \$3.4 billion acquisition of Solutia in January represents immediate and future job growth in Kingsport. Solutia is a global provider of performance materials and specialty chemicals.

Eastman has also brought its first retail product to market in decades, Perennial Wood, manufactured in Kingsport. This product modifies the structure of real wood, producing a long-lived product that is environmentally-friendly while outlasting other wood and wood-replacement products. The product launched in February 2012.

Another new retail product is Finished Elegance, a line of interior molding and trim using Eastman's Cerfis technology to create a smooth, highly durable, finished surface. It is currently in 471 stores and set to expand to more than 1,700 stores by December.

Eastman also purchased the defunct 37-acre Borden Mill textile mill adjacent to its facility in 2012 for future expansion, with demolition of the old facility now underway.

Another major employer, Wellmont Health System, headquartered in Kingsport, reported net patient service revenue of \$767.5 million and net income of \$28.2 million for the 2011 fiscal year. Net income for the previous fiscal year was \$18.1 million. Wellmont held 153.4 days of cash on hand.

This solid employment base has resulted in East Tennessee State University economist noting in October 2011 that Kingsport led the region with 832 new jobs created in the third quarter, and that “virtually all the jobs lost in the recession have now been recovered.”

The first quarter unemployment rate for Kingsport stood at 7.6 percent. In the third quarter 2011, Kingsport’s unemployment rate was 8.17 percent. The state of Tennessee unemployment rate in March 2012 was 7.9 percent. First quarter job growth across the region was led by education & health services, construction, manufacturing, and leisure & hospitality. For seven quarters the metro area has produced strong job creation while the national economy struggled to add jobs.

Job growth and confidence in the local economy are further reflected in the sales tax performance of Kingsport. Sales tax collections are above budget for the fiscal year. Through 11 months of the fiscal year, Kingsport sales tax collections are projected to grow by \$1.1 million year over the previous year.

Clearly, sales tax growth is a measure of the City’s focused effort over the last decade to diversify Kingsport’s economy through development of the commercial retail sector. As further evidence of those efforts, it is worth noting that 17 new Kingsport dining options have opened in the last 18 months, featuring local, regional and national concepts. Of those openings, only two, both local concepts, failed. New restaurants frequently report sales above expectations.

Notably, while Eastman Chemical Company represented 48 percent of all property tax revenue for the City some 20 years ago, today that ratio is in the range of 27 percent, with the change largely due to the growth of commercial/medical/retail properties in the community.

In particular, the medical sector has been an important source of job growth in the City. Kingsport is home to the largest hospital in the Wellmont Health System, as well as the system's corporate headquarters, and the second largest hospital in the Mountain States Health Alliance system.

In all, the medical sector has created 9,000 new jobs in Kingsport over the last decade, while Kingsport is also home to the largest private practice in group in the region, Holston Medical Group with more than 900 doctors and staff, as well as the largest specialty practice, Cardiovascular Associates, with 30 physicians offering a full spectrum of cardiology treatment options, in addition to cardiac research and heart disease prevention programming.

For the 2011 fiscal year, Wellmont reported net patient service revenue of \$767.5 million and net income of \$28.2 million. Net income for the previous fiscal year was \$18.1 million. Wellmont held 153.4 days of cash on hand.

The City of Kingsport encompasses approximately 50 square miles and an actual population of 50,000. Kingsport's urban growth boundary, areas which will be incorporated into the City at some point under the State's growth law, offers another 50 square miles of growth potential.

In all, 173,700 persons reside within a 5 mile radius of the existing City limits. It is located in northeast Tennessee and is part of a Metropolitan Statistical Area (MSA) Kingsport – Bristol, TN – Bristol, VA. This MSA has a population of approximately 309,500.

On a regional basis, there are approximately 401,000 persons living within a radius of 25 miles, 863,000 persons living within a radius of 50 miles and 1,305,000 persons living within a radius of 75 miles.

OTHER CURRENT HIGHLIGHTS

Other current highlights as of the date of this *Official Statement* are as follows:

- The State of Tennessee has certified a 950-acre Border Region Retail Tourism District for Kingsport. Located at the intersection of Interstate 26 and Interstate 81, the certification allows the City to use up to 59 percent of the state sales tax growth in the district to incent new retail development over the next 30 years. As the only true super regional site in the heart of the Tri-Cities region, the site represents a dramatic retail sales growth opportunity for the City.
- Frank Entertainment announced a new 75,000 square feet entertainment complex will be built at the Kingsport Mall, including a 12 screen theater with five 3-D screens and an IMAX format Extreme Screen complex. The facility will also include a full service restaurant, two lounges, a bowling alley, and other recreational areas. The new theater section is set to open by Easter 2013. The existing theater will then be converted to the family entertainment center and will open by late summer of 2013. Employment numbers have not yet been published.

- A Chrysler, Jeep, Dodge and Ram dealer is also returning to Kingsport, with Victory automotive group building a 25,000-square-foot facility on the site of a defunct Lincoln Mercury dealership. The new building is expected to be completed in the fourth quarter 2012 and employ about 75 people. The dealership joins a new Kia dealership that opened last year in Kingsport.
- Fifteen Kingsport Town Center stores reported record sales in the mall for 2011.
- The City of Kingsport continues a strong focus on Higher Education. Currently, the city-sponsored downtown Academic Village consists of the Center for Higher Education, the Regional Center for Health Professions, the Regional Center for Advanced Manufacturing and the new Pal Barger Center for Automotive Programs, which opened early in 2012. These programs are a partnership between the City, State of Tennessee, Northeast State Community College, King College, Lincoln Memorial University and the University of Tennessee. Kingsport is in conversations with regional educational institutions about future uses for a large downtown post office that adjoins Kingsport's downtown academic village
- Kingsport's efforts in Higher Education have been honored by Harvard University, the National League of Cities and the Tennessee Municipal League.
- The latest data from the U.S. Census Bureau indicates a 36.6 percent increase in the population with an associate degree and a 34.1 percent jump in population with graduate and higher level degrees from 2005 to 2008. A full 24 percent of the population holds a bachelor's degree, graduate degree or higher.
- Marriott MeadowView Conference, Resort & Convention Center celebrated its most successful year in its 15-year history by posting more than \$12 million in sales and over 100,000 visitors to the facility in 2011. These results followed the 2009-2010 expansion of the publicly-owned conference center and privately-owned hotel. The complex saw 60,000 room nights and 67,000 visitors to The Meadows restaurant.
- Construction is underway on a new 50-meter indoor aquatic center in the MeadowView area, along with an outdoor water park area as well. The facility is designed to meet the community's immediate needs as well as serve as a new tourist attraction for the region. The 50-meter pool is the only one like it within a 120 mile radius. The project is co-located with a YMCA fitness facility.
- Mountain Region Family Medicine, a multi-physician practice group, opened its new 67,000 square foot office downtown in December 2011, with another 8,000 square feet now under lease in the reconstructed former Quebecor facility in downtown area. The practice is estimated to generate 70,000 trips a year to the downtown area. The Quebecor book plant site was donated to the City in 2007.
- Foreclosure rates continue to be well below regional and national averages according to several national metrics, while home prices continue to appreciate in the marketplace. Realtytrac.com reports the April 2012 foreclosure rate is .05 percent in Kingsport, .10 percent in Tennessee and .14 percent nationally. This represents 1 in every 2,183 housing

units in the City. A May Kingsport Times-News analysis of CoreLogic and Northeast Tennessee Association of Realtors Trend Reports for sales indicates a 12th straight month of home price increases for non-distressed properties in Kingsport.

- The Municipality continues to pursue annexation of urban areas within its growth boundary, which increases state funding for K-12 education, as well as state-shared and local property tax revenue. Kingsport posted a state-verified 2012 population of 50,851, up from an estimated 44,975 in 2009. Many of these residents were already served with City utilities prior to annexation, while public safety facilities and personnel are already funded to serve these new areas.
- Bays Mountain Park and Planetarium attracted more than 200,000 visitors in 2011, a record year for the park, which is the 15th largest municipal park in the country with more than 3,500 acres preserved.
- Kingsport continues to operate an aggressive resident recruitment program and website, www.MoveToKingsport.com.
- An analysis by the Buxton Group, a national leader in consumer analytics, finds that in-migrants to Kingsport are generally younger, better-educated, wealthier and more diverse than the average existing resident.

Source: City of Kingsport

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EMPLOYMENT - GENERAL

The chart below depicts the average annual employment and unemployment trends (on a seasonally adjusted basis) for the last five years:

<u>Location</u>	<u>Average Annual Employment Trends</u>							
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
United States	5.5%	5.1%	4.6%	4.6%	5.8%	9.3%	9.6%	8.9%
Tennessee	5.4%	5.6%	5.1%	4.7%	6.4%	10.5%	9.7%	9.2%
Sullivan County	5.6%	5.2%	4.5%	4.1%	5.2%	8.7%	8.4%	7.7%
✓ County Workforce	72,280	72,320	73,620	73,530	74,360	74,970	74,840	76,010
✓ County Employment	68,220	68,550	70,320	70,550	70,520	68,420	68,520	70,130
✓ County Unemployment	4,070	3,770	3,300	2,980	3,840	6,550	6,320	5,880
Kingsport	7.1%	8.7%	6.4%	5.6%	7.1%	8.6%	9.4%	8.4%
✓ City Workforce	19,260	18,920	19,030	19,000	19,380	19,150	19,320	20,840
✓ City Employment	17,890	17,280	17,810	17,940	18,000	17,500	17,500	19,100
✓ City Unemployment	1,370	1,640	1,220	1,070	1,380	1,660	1,820	1,740

Tennessee's unemployment rate for March 2012 was 7.9 percent, down slightly from the revised February rate of 8.0 percent. The March rate a year ago was 9.4 percent. The national unemployment rate for March 2012 was 8.2 percent (seasonally adjusted), 0.1 percentage point lower than the February rate. In Kingsport, the March 2012 unemployment rate was estimated to be 7.2 percent (unadjusted), down slightly from the February rate of 7.3 percent.

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

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PRINCIPAL EMPLOYERS

<u>Employer</u>	<u>2011</u>			<u>2002</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of County Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of County Employment</u>
Eastman Chemical Company	6,525	1	8.5%	7,400	1	10.1%
Wellmont Health Systems	2,624	2	3.4%	2,200	2	3.0%
Brock Services LLC	1,550	3	2.0%	-	-	-
Kingsport City Schools	1,013	4	1.3%	1,000	5	1.4%
Jacobs Engineering Group, Inc.	866	5	1.1%	-	-	-
Mountain States Health	845	6	1.1%	739	7	1.0%
Holston Medical Group	815	7	1.1%	-	-	-
Wal-Mart	789	8	1.0%	980	6	1.3%
City of Kingsport	736	9	1.0%	703	8	1.0%
BAE SYSTEMS Ordinance Systems, Inc.	542	10	0.7%	-	-	-
AGC Industries	-	-	-	1,167	4	1.6%
Quebecor World	-	-	-	1,450	3	2.0%
Weyerhaeuser Company	-	-	-	400	9	0.5%
Chiquola Fabrics	-	-	-	250	10	0.3%

Source: Comprehensive Annual Financial Report of the City of Kingsport

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ECONOMIC DATA

The following chart shows estimated per capita personal income trends from 2005 through 2011 for the nation, State and the Municipality.

PER CAPITA PERSONAL INCOME							
<u>Location</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
National	\$34,757	\$36,714	\$39,392	\$40,208	\$39,138	\$39,937	\$41,663
Tennessee	\$31,302	\$32,881	\$34,237	\$35,119	\$34,277	\$34,921	\$36,533
City of Kingsport	\$26,316	\$27,163	\$28,549	\$28,222	\$29,730	\$29,730	\$31,697
City vs. National	75.71%	73.99%	74.47%	70.19%	75.96%	74.44%	76.08%
City vs. Tennessee	84.07%	82.61%	83.39%	80.36%	86.73%	85.14%	86.76%

Source: U.S. Department of Commerce, Bureau of Economic Analysis and the City of Kingsport. Data for 2010 is not currently available

The following chart depicts building permit activity in the Municipality from 2006 through 2011.

<u>FYE</u>	<u>Permits Issued</u>	<u>Estimated Value</u>
2011	531	65,620,983
2010	581	56,285,000
2009	631	123,745,000
2008	884	180,938,000
2007	885	123,352,000
2006	829	79,250,000

Source: City of Kingsport, Tennessee

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CITY OF KINGSPORT, TENNESSEE
DEBT STRUCTURE
SUMMARY OF BONDED INDEBTEDNESS
As of June 30, 2011

The following section outlines various important factors related to the outstanding debt of the City.

Amount Issued - (1)	Purpose	Due Date	Interest Rates	Debt Outstanding
<i>General Obligation Debt</i>				
\$ 7,900,000	General Obligation Bonds, Series 2003	April 2018	2.500 - 4.200%	\$ 4,385,000
5,825,000	General Obligation Refunding Bonds, Series 2004	March 2016	2.200 - 5.000%	3,900,000
2,850,000	General Obligation School Bonds, Series 2004	May 2019	3.000 - 4.000%	1,770,000
3,230,000	General Obligation Bonds, Series 2005	February 2021	3.000 - 5.000%	2,355,000
13,320,000	General Obligation School and Public Improvement Bonds, Series 2006	February 2027	3.625 - 4.100%	12,250,000
1,600,000	General Obligation Capital Outlay Notes, Series 2007	May 2019	4.125	1,228,000
19,360,000	General Obligation School and Public Improvement Bonds, Series 2007	February 2027	4.000 - 5.000%	17,840,000
7,480,000	General Obligation Public Improvement and Refunding Bonds, Series 2008A	March 2028	3.500 - 4.375%	6,920,000
11,265,000	General Obligation Bonds, Series 2008B	March 2028	3.500 - 4.375%	10,330,000
12,160,000	General Obligation Public Improvement Bonds, Series 2009A	March 2029	2.000 - 5.000%	11,685,000
7,100,000	General Obligation Bonds, Series 2009B	March 2029	2.000 - 5.000%	6,825,000
12,406,436	General Obligation Public Improvement Bonds, Series 2009D (Federally Taxable Build America Bonds)	March 2030	2.250 - 5.625%	12,406,436
2,021,437	General Obligation Public Improvement Bonds, Series 2009D (Federally Taxable Build America Bonds)	March 2030	2.250 - 5.625%	2,021,437
303,404	General Obligation Public Improvement Bonds, Series 2009D (Federally Taxable Build America Bonds)	March 2030	2.250 - 5.625%	303,404
11,300,000	General Obligation Public Improvement Bonds, Series 2011	March 2032	2.000 - 3.750%	11,300,000
475,000	Energy Efficiency (ECD) Capital Outlay Notes, Series 2007 (Loan L102)	July 2014	0.000%	271,429
34,483	Qualified Zone Academy Bonds, Series 1999	2012	0.000%	34,483
2,202,926	Qualified Zone Academy Bonds, Series 2004	2021	0.000%	2,202,926
1,032,665	Qualified Zone Academy Bonds, Series 2005	2021	0.000%	1,032,665
15,180,000	Local Option Sales Tax Revenue and Tax Bonds, Series 2009C	March 2029	2.000 - 5.000%	14,595,000
1,016,085	General Obligation Public Improvement Bonds, Series 2009D (Federally Taxable Build America Bonds)	March 2030	2.250 - 5.625%	1,016,085
554,170	General Obligation Public Improvement Bonds, Series 2009D (Federally Taxable Build America Bonds)	March 2030	2.250 - 5.625%	554,170
14,225,000	General Obligation Bonds, Series 2009E	March 2030	2.500 - 5.000%	14,225,000
1,450,000	Meadow View Golf Course TMBF Loan, Series 1998	September 2017	Variable	722,000
<i>Water Revenue Supported Debt</i>				
2,000,000	State Revolving Loan Fund, Series 1998	2018	3.600%	953,452
1,315,000	Water and Sewer System Revenue and Tax Bonds, Series 2003	April 2018	2.500 - 4.200%	730,000
4,127,000	Water and Sewer System Revenue and Tax Refunding Bonds, Series 2004	March 2015	2.050% - 5.000%	2,240,000
2,200,000	General Obligation Refunding Bonds, Series 2004	March 2016	3.500 - 5.000%	1,600,000
7,900,000	Water and Sewer System Revenue and Tax Bonds, Series 2004	May 2019	3.000 - 4.125%	1,015,000
4,970,000	Water and Sewer System Revenue and Tax Bonds, Series 2005	February 2021	3.750 - 3.875%	635,000
1,680,000	Water and Sewer System Revenue and Tax Bonds, Series 2006	February 2027	3.750 - 5.000%	271,254
1,200,000	Water Revenue and Tax Bonds, Series 2008	March 2023	3.500 - 4.250%	1,065,000
4,045,387	General Obligation Public Improvement Bonds, Series 2009D (Federally Taxable Build America Bonds)	March 2030	2.250 - 5.625%	4,045,387
9,800,000	TMBF Loan, Series 2008 (Water)	May 2026	Variable	8,970,000
1,515,000	General Obligation Refunding Bonds, Series 2010 (Water Portion)	June 2017	2.000 - 3.000%	1,305,000
805,000	General Obligation Public Improvement Bonds, Series 2011	March 2032	2.000 - 3.750%	805,000
<i>Sewer Revenue Supported Debt</i>				
4,585,000	Water and Sewer System Revenue and Tax Bonds, Series 2003	April 2018	2.500 - 4.200%	2,555,000
12,473,000	Water and Sewer System Revenue and Tax Refunding Bonds, Series 2004	March 2016	2.050 - 5.000%	6,255,000
3,010,000	General Obligation Refunding Bonds, Series 2004	March 2016	2.200 - 5.000%	2,185,000
6,275,000	Water and Sewer System Revenue and Tax Bonds, Series 2004	May 2019	3.000 - 4.125%	3,910,000
4,970,000	Water and Sewer System Revenue and Tax Bonds, Series 2005	February 2021	3.750 - 3.875%	2,985,000
1,680,000	Water and Sewer System Revenue and Tax Bonds, Series 2006	February 2027	3.750 - 5.000%	1,168,746
554,170	General Obligation Public Improvement Bonds, Series 2009D (Federally Taxable Build America Bonds)	March 2030	2.250 - 5.625%	6,068,081
2,940,000	\$2,940,000 General Obligation Refunding Bonds, Series 2010 (Sewer Portion)	June 2017	2.000 - 3.000%	2,540,000
4,035,000	General Obligation Public Improvement Bonds, Series 2011	March 2032	2.000 - 3.750%	4,035,000
2,419,000	State Revolving Loan Fund, Series 1999 98-119	2018	3.150%	1,211,796
2,419,000	State Revolving Loan Fund, Series 1999 99-123	2018	3.150%	1,475,524
19,366,647	State Revolving Loan - SRF#07-197 3.14%		3.140%	19,366,647
2,850,000	State Revolving Loan - SRF#07-200 3.20%		3.200%	2,850,000
2,200,000	State Revolving Loan - SRF#09-240 2.88%		2.880%	2,200,000
\$ 265,625,810	Total Existing Debt			\$ 222,613,922
3,110,000	General Obligation Bonds, Series 2012A	April 2032	Fixed	(2) 3,110,000
9,970,000	General Obligation Refunding Bonds, Series 2012B	April 2019	Fixed	(3) 9,970,000
9,305,000	General Obligation Public Improvement Bonds, Series 2012C	April 2032	Fixed	(4) 9,305,000
(10,100,000)	Less: Bonds Refunded			(10,100,000)
\$ 277,910,810	Total Existing / Proposed Debt			\$ 234,898,922
(149,934,459)	Revenue Supported Bonds - (5)			(119,728,142)
<u>\$ 127,976,351</u>	Net Direct Debt			<u>\$ 115,170,780</u>

(1) Does not include capitalized leases or compensated absences, if any. Interfund loans are not included. QSCBs are also not included. The total QSCB's is \$1,240,000 with \$214,318.69 drawn as of 6/30/11. SRF's are estimates only. Amounts for the current issue are preliminary and subject to change. For more information, see the Summary of Bonded Indebtedness and the Notes to the Financial Statements referenced in Appendix D.

(2) TIC - 2.94%

(3) TIC - 1.24%

(4) TIC - 2.76%

(5) Revenue Supported Debt includes the debt that is supported by the Regional Sales Tax Revenue.

**CITY OF KINGSPORT, TENNESSEE
INDEBTEDNESS AND DEBT RATIOS**

INTRODUCTION

The information set forth in the following table is based upon information derived from the General Purpose Financial Statements, including those for the most recent reporting period which are included as Appendix C. This table should be read in conjunction with those statements. The table does not include future funding plans, if any.

INDEBTEDNESS	For Fiscal Years Ended June 30									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	After Issuance
TAX SUPPORTED										
General Obligation Bonds - (1)	\$ 67,626,625	\$ 61,935,657	\$ 54,677,731	\$ 51,679,240	\$ 75,037,207	\$ 83,414,174	\$ 107,301,284	\$ 102,991,394	\$ 109,060,780	\$ 115,170,780
TOTAL TAX SUPPORTED	<u>\$ 67,626,625</u>	<u>\$ 61,935,657</u>	<u>\$ 54,677,731</u>	<u>\$ 51,679,240</u>	<u>\$ 75,037,207</u>	<u>\$ 83,414,174</u>	<u>\$ 107,301,284</u>	<u>\$ 102,991,394</u>	<u>\$ 109,060,780</u>	<u>\$ 115,170,780</u>
REVENUE SUPPORTED										
Water & Sewer Bonds, Loans & Leases and Sales Tax Supported Debt	\$ 65,927,257	\$ 60,534,273	\$ 62,661,281	\$ 58,655,000	\$ 54,028,000	\$ 49,977,000	\$ 97,743,000	\$ 91,559,000	\$ 113,553,142	\$ 119,728,142
TOTAL REVENUE SUPPORTED	<u>\$ 65,927,257</u>	<u>\$ 60,534,273</u>	<u>\$ 62,661,281</u>	<u>\$ 58,655,000</u>	<u>\$ 54,028,000</u>	<u>\$ 49,977,000</u>	<u>\$ 97,743,000</u>	<u>\$ 91,559,000</u>	<u>\$ 113,553,142</u>	<u>\$ 119,728,142</u>
TOTAL DEBT	\$ 133,553,882	\$ 122,469,930	\$ 117,339,012	\$ 110,334,240	\$ 129,065,207	\$ 133,391,174	\$ 205,044,284	\$ 194,550,394	\$ 222,613,922	\$ 234,898,922
Less: Revenue Supported Debt	(65,927,257)	(60,534,273)	(62,661,281)	(58,655,000)	(54,028,000)	(49,977,000)	(97,743,000)	(91,559,000)	(113,553,142)	(119,728,142)
Less: Debt Service Fund Balance - (2)	-	(71,000)	(33,000)	(59,000)	(1,045,000)	(1,172,778)	(676,082)	(495,077)	(169,280)	(169,280)
NET DIRECT DEBT	\$ 67,626,625	\$ 61,864,657	\$ 54,644,731	\$ 51,620,240	\$ 73,992,207	\$ 82,241,396	\$ 106,625,202	\$ 102,496,317	\$ 108,891,500	\$ 115,001,500
OVERLAPPING DEBT - (3)	\$ 13,195,873	\$ 10,273,505	\$ 12,616,000	\$ 11,000,979	\$ 14,602,000	\$ 18,431,987	\$ 24,614,843	\$ 33,183,233	\$ 33,183,233	\$ 33,183,233
NET DIRECT & OVERLAPPING DEBT	\$ 80,822,498	\$ 72,138,162	\$ 67,260,731	\$ 62,621,219	\$ 88,594,207	\$ 100,673,383	\$ 131,240,045	\$ 135,679,550	\$ 142,074,733	\$ 148,184,733
PROPERTY TAX BASE - (4)										
Estimated Actual Value	\$ 3,517,857,573	\$ 3,963,988,784	\$ 3,943,851,119	\$ 4,100,277,574	\$ 4,191,243,619	\$ 5,129,398,172	\$ 5,026,784,103	\$ 5,136,863,657	\$ 5,305,111,318	\$ 5,604,513,479
Appraised Value	3,517,857,573	3,756,874,247	3,737,754,979	4,082,275,721	4,191,243,619	4,380,660,219	4,270,247,541	5,136,863,657	5,305,111,318	5,288,268,400
Assessed Value	1,081,877,429	1,157,957,281	1,155,042,394	1,169,011,610	1,297,375,372	1,352,126,208	1,322,721,235	1,606,980,905	1,641,584,382	1,643,256,206
Source: Tennessee Tax Aggregate Reports.										

- (1) Does not include compensated absences or capitalized leases. See the Notes to the Financial Statements accessible as indicated in APPENDIX D for additional details.
- (2) The columns for 2011 and After Issuance contain estimates based on the best available information.
- (3) OVERLAPPING DEBT Includes the City's estimated portion of Sullivan County's debt and Hawkins County's debt - best available information includes estimates.
- (4) The most recent reappraisal of property was effective January 1, 2009 for Sullivan County and January 1, 2011 for Hawkins County. The next reappraisal of property will be in 2013 and 2016, respectively.

DEBT RATIOS	For Fiscal Years Ended June 30									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	After Issuance
TOTAL DEBT to Estimated Actual Value	3.80%	3.09%	2.98%	2.69%	3.80%	3.08%	2.60%	4.08%	3.79%	4.20%
TOTAL DEBT to Appraised Value	3.80%	3.26%	3.14%	2.70%	3.80%	3.08%	3.05%	4.80%	3.79%	4.20%
TOTAL DEBT to Assessed Value	12.34%	10.58%	10.16%	9.44%	12.34%	9.95%	9.87%	15.50%	12.11%	13.56%
NET DIRECT DEBT to Estimated Actual Value	1.92%	1.56%	1.39%	1.26%	1.92%	1.77%	1.60%	2.12%	2.00%	2.05%
NET DIRECT DEBT to Appraised Value	1.92%	1.65%	1.46%	1.26%	1.92%	1.77%	1.88%	2.50%	2.00%	2.05%
NET DIRECT DEBT to Assessed Value	6.25%	5.34%	4.73%	4.42%	6.25%	5.70%	6.08%	8.06%	6.38%	6.63%
OVERLAPPING DEBT to Estimated Actual Value	0.38%	0.26%	0.32%	0.27%	0.38%	0.35%	0.36%	0.49%	0.65%	0.63%
OVERLAPPING DEBT to Appraised value	0.38%	0.27%	0.34%	0.27%	0.38%	0.35%	0.42%	0.58%	0.65%	0.63%
OVERLAPPING DEBT to Assessed Value	1.22%	0.89%	1.09%	0.94%	1.22%	1.13%	1.36%	1.86%	2.06%	2.02%
NET DIRECT & OVERLAPPING DEBT to Assessed Value	7.47%	6.23%	5.82%	5.36%	7.47%	6.83%	7.45%	9.92%	8.44%	8.65%
POPULATION (1)	44,905	44,905	44,905	44,905	44,191	44,435	45,763	48,205	48,205	48,205
PER CAPITA PERSONAL INCOME (2)	\$25,046	\$26,014	\$27,079	\$27,079	\$28,549	\$28,222	\$29,730	\$29,730	\$29,730	\$29,730
Estimated Actual Value to POPULATION	\$78,340	\$88,275	\$87,827	\$91,310	\$79,606	\$94,323	\$112,086	\$104,279	\$106,563	\$110,053
Assessed Value to POPULATION	\$24,093	\$25,787	\$25,722	\$26,033	\$24,482	\$29,197	\$29,546	\$27,440	\$33,336	\$34,054
Total Debt to POPULATION	\$2,974	\$2,727	\$2,613	\$2,457	\$3,022	\$2,905	\$2,915	\$4,254	\$4,036	\$4,618
Net Direct Debt to POPULATION	\$1,506	\$1,378	\$1,217	\$1,150	\$1,530	\$1,665	\$1,797	\$2,212	\$2,126	\$2,259
Overlapping Debt to POPULATION	\$294	\$229	\$281	\$245	\$299	\$329	\$403	\$511	\$688	\$688
Net Direct & Overlapping Debt to POPULATION	\$1,800	\$1,606	\$1,498	\$1,395	\$1,829	\$1,994	\$2,200	\$2,723	\$2,815	\$2,947
Total Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	11.87%	10.48%	9.65%	9.07%	10.59%	10.29%	9.80%	14.31%	13.58%	15.53%
Net Direct Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	6.01%	5.30%	4.49%	4.25%	5.36%	5.90%	6.04%	7.44%	7.15%	7.60%
Overlapping Debt Per Capita as a % of PER CAPITA PERSONAL INCOME	1.17%	0.88%	1.04%	0.90%	1.05%	1.16%	1.35%	1.72%	2.32%	2.32%
Net Direct & Overlapping Debt Per Capita as a % of PER CAPITA PERSONAL INCOME	7.19%	6.18%	5.53%	5.15%	6.41%	7.06%	7.40%	9.16%	9.47%	9.91%

(1) POPULATION data according to: the U.S. Census data and population estimates.

(2) PER CAPITA PERSONAL INCOME is based upon the most current data available from the Bureau of Economic Analysis for Kingsport, Bristol, TN, and Bristol, VA area.

CITY OF KINGSPORT, TENNESSEE
DEBT SERVICE REQUIREMENTS - Tax Backed
As of June 30, 2011

Year Ending June 30	Principal - General Obligation Bonds				Percent Total Debt Retired	Interest - General Obligation Bonds				Total Debt Service Requirements
	Outstanding Debt - (1)	Current Issue	Less: Bonds Refunded - (4)	Total Principal		Outstanding Debt	Current Issue - (3)	Less: Bonds Refunded	Total Interest Net of BABS Subsidy - (2)	
2012	\$ 5,374,899	\$ -	-	\$ 5,374,899		\$ 3,757,053	\$ -	-	\$ 3,757,053	\$ 9,131,952
2013	6,171,416	30,000	-	6,201,416		3,853,947	240,095	(175,391)	3,918,650	10,120,066
2014	6,361,416	600,000	(600,000)	6,361,416		3,646,351	308,900	(175,391)	3,779,860	10,141,276
2015	6,523,417	1,275,000	(845,000)	6,953,417		3,419,823	290,900	(152,891)	3,557,832	10,511,249
2016	6,309,559	1,310,000	(875,000)	6,744,559	27.47%	3,199,752	257,000	(120,533)	3,336,219	10,080,778
2017	6,290,559	1,330,000	(895,000)	6,725,559		2,981,725	222,150	(85,870)	3,118,005	9,843,564
2018	6,517,559	1,385,000	(950,000)	6,952,559		2,771,124	182,250	(49,400)	2,903,974	9,856,533
2019	5,983,559	695,000	(250,000)	6,428,559		2,550,814	136,050	(10,000)	2,676,864	9,105,423
2020	5,743,559	500,000	-	6,243,559		2,345,559	115,200	-	2,460,759	8,704,318
2021	5,943,560	515,000	-	6,458,560	55.96%	2,142,192	103,950	-	2,246,142	8,704,702
2022	5,560,000	530,000	-	6,090,000		1,923,488	88,500	-	2,011,988	8,101,988
2023	5,770,000	205,000	-	5,975,000		1,712,209	72,600	-	1,784,809	7,759,809
2024	6,010,000	210,000	-	6,220,000		1,486,321	66,450	-	1,552,771	7,772,771
2025	6,245,000	220,000	-	6,465,000		1,246,809	60,150	-	1,306,959	7,771,959
2026	6,480,000	225,000	-	6,705,000	83.27%	996,399	53,550	-	1,049,949	7,754,949
2027	6,765,000	230,000	-	6,995,000		732,117	46,800	-	778,917	7,773,917
2028	4,420,000	240,000	-	4,660,000		449,593	39,900	-	489,493	5,149,493
2029	3,185,000	245,000	-	3,430,000		260,966	32,700	-	293,666	3,723,666
2030	1,806,277	255,000	-	2,061,277		126,372	25,350	-	151,722	2,212,999
2031	785,000	255,000	-	1,040,000	99.06%	60,000	17,063	-	77,063	1,117,063
2032	815,000	270,000	-	1,085,000	100.00%	30,563	8,775	-	39,338	1,124,338
	<u>\$ 109,060,780</u>	<u>\$ 10,525,000</u>	<u>\$ (4,415,000)</u>	<u>\$ 115,170,780</u>		<u>\$ 39,693,176</u>	<u>\$ 2,368,333</u>	<u>\$ (769,476)</u>	<u>\$ 41,292,033</u>	<u>\$ 156,462,813</u>

(1) Does not include capitalized leases or compensated absences, if any. Interfund loans are not included. QSCBs are also not included. The total QSCB's is \$1,240,000 with \$214,318.69 drawn as of 6/30/11. Amounts for the current issue are preliminary and subject to change. For more information, see the Summary of Bonded Indebtedness and the Notes to the Financial Statements accessible as indicated in Appendix D

(2) Interest shown is net of Build America Bonds subsidy for applicable bond issue(s).

(3) TIC - 2.30%.

(4) For more information on Outstanding Obligations to be refinanced, see the section entitled SECURITIES OFFERED - Refunding Plan.

CITY OF KINGSPORT, TENNESSEE
DEBT SERVICE REQUIREMENTS - Sales Tax Backed
As of June 30, 2011

Year Ending June 30	Principal - General Obligation Bonds			Percent Total Debt Retired	Interest - General Obligation Bonds			Total Debt Service Requirements
	Outstanding Debt - (1)	Current Issues	Total Principal		Outstanding Debt	Current Issue - (3)	Total Interest Net of BABS Subsidy - (2)	
2012	\$ 705,000	\$ -	\$ 705,000		\$ 1,205,230	\$ -	\$ 1,205,230	\$ 1,910,230
2013	1,380,000	-	1,380,000		1,184,959	76,652	1,261,611	2,641,611
2014	1,417,000	-	1,417,000		1,148,406	98,906	1,247,312	2,664,312
2015	1,458,000	125,000	1,583,000		1,105,766	98,906	1,204,672	2,787,672
2016	1,500,000	135,000	1,635,000	19.89%	1,060,101	92,656	1,152,758	2,787,758
2017	1,552,000	140,000	1,692,000		1,012,866	85,906	1,098,772	2,790,772
2018	1,460,000	145,000	1,605,000		962,785	78,906	1,041,692	2,646,692
2019	1,510,000	155,000	1,665,000		910,254	71,656	981,910	2,646,910
2020	1,565,000	160,000	1,725,000		854,189	68,556	922,745	2,647,745
2021	1,645,000	160,000	1,805,000	45.02%	785,184	65,356	850,540	2,655,540
2022	1,705,000	165,000	1,870,000		720,160	61,756	781,916	2,651,916
2023	1,765,000	170,000	1,935,000		656,616	58,044	714,660	2,649,660
2024	1,840,000	175,000	2,015,000		587,485	53,794	641,279	2,656,279
2025	1,910,000	175,000	2,085,000		511,222	48,981	560,204	2,645,204
2026	1,995,000	185,000	2,180,000	74.86%	430,758	43,731	474,489	2,654,489
2027	2,075,000	190,000	2,265,000		345,420	38,181	383,602	2,648,602
2028	2,165,000	195,000	2,360,000		256,520	32,481	289,002	2,649,002
2029	2,270,000	200,000	2,470,000		157,069	26,631	183,700	2,653,700
2030	1,195,255	205,000	1,400,255	100.00%	52,772	20,381	73,153	1,473,408
	<u>\$ 31,112,255</u>	<u>\$ 3,110,000</u>	<u>\$ 33,792,255</u>		<u>\$ 13,947,764</u>	<u>\$ 1,142,609</u>	<u>\$ 15,069,247</u>	<u>\$ 48,861,502</u>

(1) Does not include capitalized leases or compensated absences. For more information, see the Summary of Bonded Indebtedness and the Notes to the Financial Statements accessible as indicated in Appendix D.

(2) Interest shown is net of Build America Bonds subsidy for applicable bond issue(s).

(3) TIC- 2.94%

CITY OF KINGSPORT, TENNESSEE
DEBT SERVICE REQUIREMENTS - Revenue/Tax-Backed
As of June 30, 2011

PRINCIPAL REQUIREMENTS WATER AND SEWER SYSTEM					INTEREST REQUIREMENTS WATER AND SEWER SYSTEM					
Year Ending June 30	Outstanding Debt - (1)	Current Issue	Less: Bonds Refunded	Total Principal	Percent Total Debt Retired	Outstanding Debt	Current Issue - (2)	Less: Bonds Refunded	Total Interest Net of BABS Subsidy - (3)	Total Debt Service Requirements
2012	\$ 7,003,882	\$ -	-	\$ 7,003,882		\$ 2,913,816	\$ -	-	\$ 2,913,816	\$ 9,917,698
2013	7,198,637	40,000	-	7,238,637		2,753,572	202,808	(226,294)	2,730,086	9,968,723
2014	7,451,507	455,000	(450,000)	7,456,507		2,475,038	260,488	(226,294)	2,509,232	9,965,739
2015	7,403,534	1,200,000	(1,065,000)	7,538,534		2,177,397	246,838	(209,419)	2,214,816	9,753,350
2016	6,073,755	1,255,000	(1,125,000)	6,203,755	41.45%	1,882,442	212,188	(168,600)	1,926,030	8,129,785
2017	5,286,201	1,270,000	(1,150,000)	5,406,201		1,665,775	175,888	(124,225)	1,717,437	7,123,638
2018	4,670,174	1,310,000	(1,195,000)	4,785,174		1,483,616	137,788	(77,725)	1,543,679	6,328,853
2019	3,772,471	805,000	(700,000)	3,877,471		1,315,929	97,038	(28,875)	1,384,092	5,261,563
2020	3,147,643	155,000	-	3,302,643		1,182,181	72,888	-	1,255,069	4,557,712
2021	3,248,489	160,000	-	3,408,489	65.75%	1,068,186	69,400	-	1,137,586	4,546,075
2022	2,890,455	165,000	-	3,055,455		947,474	64,600	-	1,012,074	4,067,529
2023	3,018,576	170,000	-	3,188,576		842,797	59,650	-	902,447	4,091,023
2024	2,997,890	175,000	-	3,172,890		732,555	54,550	-	787,105	3,959,995
2025	3,018,431	180,000	-	3,198,431		623,826	49,300	-	673,126	3,871,557
2026	3,105,240	185,000	-	3,290,240	84.35%	513,650	43,900	-	557,550	3,847,790
2027	2,423,356	190,000	-	2,613,356		402,537	38,350	-	440,887	3,054,243
2028	2,397,821	195,000	-	2,592,821		322,855	32,650	-	355,505	2,948,326
2029	2,473,673	200,000	-	2,673,673		243,475	26,800	-	270,275	2,943,948
2030	2,564,428	205,000	-	2,769,428		161,573	20,800	-	182,373	2,951,801
2031	1,944,724	215,000	-	2,159,724	99.33%	75,977	14,138	-	90,114	2,249,838
2032	350,000	220,000	-	570,000	100.00%	13,125	7,150	-	20,275	590,275
	<u>\$ 82,440,887</u>	<u>\$ 8,750,000</u>	<u>\$ (5,685,000)</u>	<u>\$ 85,505,887</u>		<u>\$ 23,797,798</u>	<u>\$ 1,887,208</u>	<u>\$ (1,061,431)</u>	<u>\$ 24,623,574</u>	<u>\$ 110,129,461</u>

(1) Does not include capitalized leases or compensated absences, if any. Interfund loans are not included. SRFs are estimates only. Amounts for the current issue are preliminary and subject to change. For more information, see the Summary of Bonded Indebtedness and the Notes to the Financial Statements accessible as indicated in Appendix D.

(2) TIC - 2.21%.

(3) Interest shown is net of Build America Bonds subsidy for applicable bond issue(s).

(4) For more information on Outstanding Obligations to be refinanced, see the section entitled SECURITIES OFFERED - Refunding Plan.

CITY OF KINGSPORT, TENNESSEE
Five Year Summary of Revenues, Expenditures and
Changes In Fund Balances - General Fund

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues										
Taxes	\$ 27,468,164	\$ 28,147,000	\$ 29,261,000	\$ 30,010,000	\$ 32,560,000	\$ 33,415,000	\$ 34,196,929	\$ 34,956,317	\$ 35,687,142	\$ 36,735,841
Licenses and Permits	401,240	264,000	324,000	350,000	350,000	526,000	778,788	544,797	354,400	339,843
Intergovernmental	17,960,979	18,010,000	18,035,000	18,183,000	19,223,000	20,511,000	20,799,950	20,387,165	19,642,492	20,241,878
Charges for Services	2,000,096	839,000	879,000	877,000	1,100,000	1,312,000	1,270,450	1,412,505	2,201,664	2,345,903
Fines and Forfeitures	365,678	312,000	246,000	321,000	448,000	679,000	2,034,486	1,840,622	1,205,281	1,243,032
Investment Earnings	538,285	357,000	301,000	513,000	900,000	1,278,000	939,112	388,048	105,839	68,235
Contributions and Donations	15,435	12,000	10,000	20,000	13,000	15,000	7,350	2,074	2,154	32,407
Miscellaneous	59,620	84,000	83,000	131,000	70,000	209,000	346,667	225,927	303,931	794,771
Total Revenues	\$ 48,809,497	\$ 48,025,000	\$ 49,139,000	\$ 50,405,000	\$ 54,664,000	\$ 57,945,000	\$ 60,373,732	\$ 59,757,455	\$ 59,502,903	\$ 61,801,910
Expenditures										
General government	\$ 5,159,413	\$ 5,357,000	\$ 5,569,000	\$ 5,724,000	\$ 5,861,000	\$ 6,672,000	\$ 7,005,005	\$ 8,056,430	\$ 8,159,252	\$ 8,182,493
Public Safety:	12,140,857	12,590,000	13,027,000	13,807,000	14,487,000	15,414,000	16,860,706	17,763,626	17,935,335	18,350,902
Public Works	4,447,972	4,299,000	5,207,000	4,814,000	5,018,000	5,178,000	5,639,582	6,162,895	6,297,624	6,292,395
Economic and Physical Dev.	2,434,547	2,282,000	2,132,000	2,444,000	2,455,000	2,749,000	3,282,588	3,333,384	3,419,325	3,577,098
Culture and Recreation	3,169,195	3,253,000	2,994,000	3,629,000	3,937,000	3,889,000	4,462,490	4,693,900	4,680,818	4,884,922
Miscellaneous Gov. Services	220,312	309,000	348,000	516,000	722,000	878,000	1,019,288	860,350	1,164,299	1,179,584
Capital Outlay	95,623	125,000	436,000	376,000	195,000	199,000	898,876	50,170	41,930	710,173
Total Expenditures	\$ 27,667,919	\$ 28,215,000	\$ 29,713,000	\$ 31,310,000	\$ 32,675,000	\$ 34,979,000	\$ 39,168,535	\$ 40,920,755	\$ 41,698,583	\$ 43,177,567
Excess of Revenues										
Over (Under) Expenditures	\$ 21,141,578	\$ 19,810,000	\$ 19,426,000	\$ 19,095,000	\$ 21,989,000	\$ 22,966,000	\$ 21,205,197	\$ 18,836,700	\$ 17,804,320	\$ 18,624,343
Other Financing Sources										
(Uses)										
Transfers In	\$ 6,504	\$ 3,340,000	\$ 1,912,000	\$ 2,086,000	\$ 2,232,000	\$ 3,449,000	\$ 2,524,363	\$ 2,587,824	\$ 3,759,855	\$ 3,513,680
Transfers Out	(21,128,307)	(22,389,000)	(22,966,000)	(22,166,000)	(23,348,000)	(24,337,000)	(27,208,550)	(24,352,439)	(22,146,855)	(23,368,942)
Sale of Building	-	-	-	-	-	-	800,000	-	-	-
Debt Proceeds	-	-	-	-	-	-	-	-	-	-
Total	\$(21,121,803)	\$(19,049,000)	\$(21,054,000)	\$(20,080,000)	\$(21,116,000)	\$(20,888,000)	\$(23,884,187)	\$(21,764,615)	\$(18,387,000)	\$(19,855,262)
Excess of Revenues										
Over (Under) Expenditures										
& Other Uses	\$ 19,775	\$ 761,000	\$ (1,628,000)	\$ (985,000)	\$ 873,000	\$ 2,078,000	\$ (2,678,990)	\$ (2,927,915)	\$ (582,680)	\$ (1,230,919)
Fund Balance July 1	16,752,290	17,537,000	18,298,000	16,670,000	15,685,000	18,652,000	20,918,736	18,239,746	15,311,831	14,729,151
Restatement	-	-	-	-	-	-	-	-	-	86,162
Prior Period Adjustment	765,078	-	-	-	2,095,000	189,000	-	-	-	-
Net Encumbrances	-	-	-	-	-	-	-	-	-	-
Fund Balance June 30	\$ 17,537,143	\$ 18,298,000	\$ 16,670,000	\$ 15,685,000	\$ 18,653,000	\$ 20,919,000	\$ 18,239,746	\$ 15,311,831	\$ 14,729,151	\$ 13,584,394

Source: Comprehensive Annual Financial Reports of the City of Kingsport, Tennessee.

Note: From Fiscal Year ending 2004 - 2008, the figures reported in the CAFR were rounded to the nearest thousand.

CITY OF KINGSPORT, TENNESSEE
Five Year Summary of Revenues, Expenses and
Changes in Net Assets - Water and Sewer Funds

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Operating Revenues										
Charges and Fees	\$ 20,052,420	\$ 20,716,000	\$ 21,233,000	\$ 23,088,000	\$ 24,223,000	\$ 24,610,000	\$ 25,183,269	\$ 25,403,240	\$ 24,545,159	\$ 23,873,075
Penalties and Fines	406,658	418,000	456,000	470,000	462,000	530,000	599,559	637,750	556,118	547,732
Miscellaneous	47,344	3,000	629,000	1,055,000	703,000	1,662,000	31,684	22,491	29,740	239,140
Total Operating Revenues	<u>\$ 20,506,422</u>	<u>\$ 21,137,000</u>	<u>\$ 22,318,000</u>	<u>\$ 24,613,000</u>	<u>\$ 25,388,000</u>	<u>\$ 26,802,000</u>	<u>\$ 25,814,512</u>	<u>\$ 26,063,481</u>	<u>\$ 25,131,017</u>	<u>\$ 24,659,947</u>
Operating Expenses										
Operating Costs	\$ 9,674,056	\$ 8,770,000	\$ 9,321,000	\$ 9,143,000	\$ 9,601,000	\$ 9,341,000	\$ 10,578,186	\$ 11,109,643	\$ 10,772,806	\$ 11,054,147
Depreciation	3,995,429	3,872,000	3,938,000	4,201,000	4,288,000	4,465,000	4,637,732	5,261,711	5,312,280	5,877,230
Total Operating Expenses	<u>\$ 13,669,485</u>	<u>\$ 12,642,000</u>	<u>\$ 13,259,000</u>	<u>\$ 13,344,000</u>	<u>\$ 13,889,000</u>	<u>\$ 13,806,000</u>	<u>\$ 15,215,918</u>	<u>\$ 16,371,354</u>	<u>\$ 16,085,086</u>	<u>\$ 16,931,377</u>
Operating Income	<u>\$ 6,836,937</u>	<u>\$ 8,495,000</u>	<u>\$ 9,059,000</u>	<u>\$ 11,269,000</u>	<u>\$ 11,499,000</u>	<u>\$ 12,996,000</u>	<u>\$ 10,598,594</u>	<u>\$ 9,692,127</u>	<u>\$ 9,045,931</u>	<u>\$ 7,728,570</u>
Non-Operating Revenues (Expenses)										
Investment Earnings	\$ 415,429	\$ 277,000	\$ 228,000	\$ 339,000	\$ 846,000	\$ 1,245,000	\$ 970,530	\$ 486,747	\$ 223,541	\$ 121,499
Interest Expense	(1,946,217)	(1,609,000)	(1,775,000)	(1,732,000)	(1,734,000)	(1,608,000)	(1,606,431)	(1,308,336)	(1,007,724)	203,407
Gain on Disposal of Capital Assets	(5,475)	-	(25,000)	(8,000)	-	2,000	50	(11,266)	400	(843,459)
Amortization Expense	(94,074)	(70,000)	(78,000)	(86,000)	(77,000)	(75,000)	(63,400)	(56,477)	(58,378)	(22,029)
Arbitrage Expense	-	-	-	-	(51,000)	-	(27,121)	-	-	-
Payment in Lieu of Taxes	(541,000)	-	-	-	-	-	-	-	-	-
Other	20,341	(6,000)	4,000	5,000	22,000	(3,000)	-	-	-	-
Total Non-Operating Rev. (Exp.)	<u>\$ (2,150,996)</u>	<u>\$ (1,408,000)</u>	<u>\$ (1,646,000)</u>	<u>\$ (1,482,000)</u>	<u>\$ (994,000)</u>	<u>\$ (439,000)</u>	<u>\$ (726,372)</u>	<u>\$ (889,332)</u>	<u>\$ (842,161)</u>	<u>\$ (540,582)</u>
Operating Income Before Other	<u>\$ 4,685,941</u>	<u>\$ 7,087,000</u>	<u>\$ 7,413,000</u>	<u>\$ 9,787,000</u>	<u>\$ 10,505,000</u>	<u>\$ 12,557,000</u>	<u>\$ 9,872,222</u>	<u>\$ 8,802,795</u>	<u>\$ 8,203,770</u>	<u>\$ 7,187,988</u>
Other										
Capital Contributions	\$ 200,525	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,660,735	\$ 2,123,441	\$ 1,296,823	\$ 655,174
Transfers In	160,710	-	20,000	40,000	-	100,000	87,163	122,826	125,786	105,304
Transfers Out	(34,898)	(1,997,000)	(1,900,000)	(2,027,000)	(2,104,000)	(2,106,000)	(2,253,434)	(2,342,344)	(2,455,001)	(2,583,080)
Total Other	<u>\$ 326,337</u>	<u>\$ (1,997,000)</u>	<u>\$ (1,880,000)</u>	<u>\$ (1,987,000)</u>	<u>\$ (2,104,000)</u>	<u>\$ (2,006,000)</u>	<u>\$ 494,464</u>	<u>\$ (96,077)</u>	<u>\$ (1,032,392)</u>	<u>\$ (1,822,602)</u>
Net Income (Loss)	\$ 5,012,278	\$ 5,090,000	\$ 5,533,000	\$ 7,800,000	\$ 8,401,000	\$ 10,551,000	\$ 10,366,686	\$ 8,706,718	\$ 7,171,378	\$ 5,365,386
Net Assets (Equity) - PY	77,044,988	88,946,000	94,075,000	99,608,000	107,408,000	115,809,000	126,360,600	136,727,286	145,434,004	152,605,382
Change in Contributed Capital	-	-	-	-	-	-	-	-	-	-
Net Assets (Equity)	<u>\$ 88,946,297</u>	<u>\$ 94,075,000</u>	<u>\$ 99,608,000</u>	<u>\$ 107,408,000</u>	<u>\$ 115,809,000</u>	<u>\$ 126,360,600</u>	<u>\$ 136,727,286</u>	<u>\$ 145,434,004</u>	<u>\$ 152,605,382</u>	<u>\$ 157,970,788</u>

Source: Comprehensive Annual Financial Reports of the City.

Note: From Fiscal Year ending 2005 - 2007, the figures reported in the CAFR were rounded to the nearest thousand.

Water Rates				
	Inside City Limits		Outside City Limits	
First 1,000 gallons	\$	3.43	First 1,000 gallons	\$ 15.65
Next 13,000 gallons		2.76	Next 9,000 gallons	6.79
Next 35,000 gallons		2.13	Next 10,000 gallons	6.14
Over 50,000 gallons		1.46	Next 70,000 gallons	5.70
			Next 100,000 gallons	4.66
			Over 190,000 gallons	4.39
Sewer Rates				
	Inside City Limits		Outside City Limits	
First 2,000 gallons (minimum charge)	\$	13.64	\$	20.08
Per Additional 1,000 gallons		6.82		10.04

Source: City Finance Department.

Note: The rate structure above is effective for fiscal year 2011.

FINANCIAL INFORMATION

FUND BALANCES AND NET ASSETS

The following table depicts fund balances and net assets for the five fiscal years beginning in 2006 and ending June 30, 2011.

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011*</u>
General Fund	\$18,652,000	\$20,919,000	\$18,239,746	\$15,311,831	\$14,729,151	\$13,584,394
All Other Governmental Funds						
Debt Service	69,000	1,022,000	1,140,765	626,839	411,923	169,280
Special Revenue	5,050,000	7,556,000	6,915,485	7,460,947	6,631,548	0
Other	<u>8,504,000</u>	<u>39,129,000</u>	<u>45,034,403</u>	<u>38,232,047</u>	<u>47,266,673</u>	<u>40,563,604</u>
Total Other Governmental Funds	<u>\$13,623,000</u>	<u>\$47,707,000</u>	<u>\$53,090,653</u>	<u>\$46,319,833</u>	<u>\$54,310,144</u>	<u>\$40,732,884</u>
Total All Governmental Funds	<u>\$32,275,000</u>	<u>\$68,626,000</u>	<u>\$71,330,399</u>	<u>\$61,631,664</u>	<u>\$69,039,295</u>	<u>\$54,317,278</u>

Source: Annual Financial Reports of the City of Kingsport.

* FY 2011 Implementation of GASB Statement No. 54 Fund Balance Classification.

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GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE

The following table depicts major revenue sources for all governmental activities for the most recent 10 fiscal years:

<u>Fiscal Year</u>	<u>Property Tax</u>	<u>Sales Tax</u>	<u>Hall Income Tax</u>	<u>Business Tax</u>	<u>Alcoholic Beverage Tax</u>	<u>Hotel/Motel Tax</u>	<u>Total</u>
2011	\$47,144,856	\$27,514,740	\$555,283	\$1,681,523	\$1,617,478	\$1,380,588	\$79,894,468
2010	45,938,645	26,304,997	577,363	1,589,591	1,549,521	1,300,766	77,260,883
2009	45,003,403	27,003,900	957,062	1,673,312	1,575,636	1,241,227	77,454,540
2008	43,181,138	27,531,437	1,324,987	1,951,834	1,459,593	1,381,161	76,830,150
2007	42,857,000	27,570,000	1,026,000	1,707,000	1,398,000	938,000	75,496,000
2006	41,609,000	26,154,000	750,000	1,551,000	1,368,000	791,000	72,223,000
2005	39,122,000	25,174,000	468,000	1,219,000	1,313,000	743,000	68,039,000
2004	38,532,000	24,394,000	379,000	1,419,000	1,296,000	735,000	66,752,000
2003	36,399,000	24,133,000	659,000	1,272,000	1,318,000	764,000	64,545,000
2002	35,254,000	23,874,000	664,000	1,427,000	1,307,000	717,000	63,243,000

Source: Comprehensive Annual Financial Report of the City of Kingsport. Fiscal Year 2008 rounded to nearest thousand

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are various charges between the City's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Source: Comprehensive Annual Financial Report of the City of Kingsport, TN for fiscal year 2011

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period for local revenues, 120 days for state-shared revenues, and 365 days for grant revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In general, taxes, licenses, federal and state grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for and reported in another fund. The primary financial resources reported in the general fund are local property taxes, local option sales taxes, and state shared revenues.

The *general purpose school fund* is used to account for and report transactions of the City School System. The major sources of funding are state-shared revenues, local property taxes, and local option sales taxes.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets related to the general operation of the City (excluding types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments).

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest on long-term general obligation debt other than that payable from enterprise funds.

The City reports the following non-major governmental funds:

The *school nutrition services fund* is a special revenue fund used to account for and report federal and state financial resources, as well as user fees for the specific activities associated with the operation of the City School System cafeterias.

The *special school projects fund* is a special revenue fund used to account for and report financial resources derived from federal and state grants related to school projects.

The *public law 93-380 fund* is a special revenue fund used to account for and report restricted federal financial resources, specific to academic programs associated with federal grant entitlements.

The *Palmer Center fund* is a special revenue fund used to account for and report a contribution from the heirs of the late Mary L. Robinson estate, for the support of educational and other services provided to physically challenged children, by the Palmer Center.

The *special revenue general projects fund* is a special revenue fund used to account for and report federal and state grants matched with local revenues to fund general government programs or non-capital improvement projects.

The *community development fund* is a special revenue fund used to account for and report activities funded by community block grant entitlements from the United States Department of Housing and Urban Development.

The *federal transit administration fund* is a special revenue fund used to account for and report activities funded by federal and state grants for support of local government transportation programs.

The *state street aid fund* is a special revenue fund used to account for and report activities funded by state gasoline taxes.

The *drug fund* is a special revenue fund used to account for and report financial resources primarily derived from fines and forfeitures and used to support the City's police department drug investigations and enforcement programs.

The *criminal forfeiture fund* is a special revenue fund used to account for and report activities related to seized property and money with the exception of those related to drug activities. In addition, this fund accounts for funds received from the United States Department of Justice under the Equitable Sharing of Federally Forfeited Property program.

The *regional sales tax revenue fund* is a special revenue fund used to account for and report the proceeds from a \$.0025 (1/4 cent) local option sales tax previously approved by local

referendum. These funds are used for the retirement of debt issued to fund construction of the MeadowView Conference Resort and Convention Center and to support the operations of the complex including the Cattails Golf Course and future Aquatic Center.

The *public library commission fund* is a special revenue fund used to account for and report contributions from patrons, civic organizations, private corporations, and other supporters of the Kingsport Public Library.

The Bays *Mountain Park fund* is a special revenue fund used to account for and report contributions from individuals, civic organizations and private corporations for the support and continued development of the Bays Mountain Park.

The *Steadman cemetery fund* is a special revenue fund used to account for and report a contribution from the heirs of Bonnie M. Steadman to provide for the maintenance of the Steadman family cemetery.

The *senior citizens advisory board fund* is a special revenue fund used to account for and report financial resources derived from various programs and events conducted by participating senior citizens and contributions from individuals, civic organizations and private corporations.

The *metropolitan planning office fund* is a special revenue fund used to account for and report grant funds received from the federal highway administration, federal transit administration, and State of Tennessee for support of local MPO programs.

The *justice assistance grant fund* is a special revenue fund used to account for and report direct federal grant funds received from the Edward Byrne Memorial Justice Assistance Grant Program. These funds are restricted for certain law enforcement programs.

The *visitors enhancement fund* is a special revenue fund used to account for and report 25% of the hotel and motel taxes collected in Kingsport from hotel and motel room rentals. This revenue is used to fund special visitor enhancement projects.

The City reports the following major proprietary funds:

The *water fund* accounts for the activities of the City's production, storage and transportation of potable water.

The *sewer fund* accounts for the activities of the City's collection, transportation, treatment and disposal of wastewater.

The *solid waste management fund* accounts for the activities of the City's collection of residential garbage refuse collection, recycling, and demolition landfill activities.

The *MeadowView Conference Resort and Convention Center fund* accounts for the activities of the City's outsourced operation (through Marriott) of the convention center.

The *Cattails at MeadowView Golf Course fund* accounts for the activities of the City's outsourced operation (through Marriott Golf) of the 18-hole championship golf course.

Additionally, the City reports the following fund types:

Internal service funds account for risk management, self-insured health insurance, retiree's health insurance and fleet maintenance services provided to other departments or agencies of the government on a cost reimbursement basis.

The *Allandale Trust fund* is a permanent fund used to account for and report restricted, nonexpendable assets left to the City by the late Harvey Brooks, consisting of his home (Allandale Mansion) and other tangible and intangible assets.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all of the City's enterprise funds and of the City's internal service funds are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Internal service funds of a government (which traditionally provide services primarily to other funds of the government) are presented, in summary form, as part of the proprietary fund financial statements. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental column when presented at the government-wide level. The costs of these services are allocated to the appropriate functional activity (police, fire, public works, etc.).

Source: Comprehensive Annual Financial Report of the City of Kingsport, TN for fiscal year 2011

BUDGETARY PROCESS

Annual budgets are adopted on a basis consistent with GAAP for all governmental funds except the capital projects fund and certain special revenue funds associated with grant awards, which are adopted on a project-by-project basis and normally span a multi-year period.

The City Manager is required by charter to present to the Board of Mayor and Aldermen a preliminary budget for the upcoming fiscal year, by May 15th. The preliminary budget is compiled from revenue and expense projections as well as requests submitted by each department. The Board of Mayor and Aldermen must pass the preliminary budget on two readings before it is adopted and becomes the approved spending plan for the Municipality.

The City Manager has the authority to transfer the unused portion of any items or appropriation within the same department, between departments in any given fund, and across departments and/or funds for fleet, risk management and health insurance. The City Manager also has the authority to transfer funds from the vehicle repair and maintenance account of one department to the vehicle repair and maintenance account of another department. Any revisions that alter the total expenditures of any fund must be approved by the Board of Mayor and Aldermen. Expenditures may not exceed appropriations at the fund level. Supplemental appropriations may be authorized by the Board of Mayor and Aldermen through the adoption of appropriate ordinances during the year.

Formal budgetary accounting is employed as a management control for all funds of the Municipality. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for the general fund, certain special revenue funds (criminal forfeiture, drug, state street aid, regional sales tax, Eastman annex tax, Steadman cemetery, public library commission, Bays Mountain, senior citizen advisory board, school nutrition services, and Palmer Center), debt service fund, proprietary funds and the permanent fund. Budgets for the remaining special revenue funds and capital projects funds are made on a project basis, spanning more than one fiscal year. Budgetary control is exercised at the departmental level or by project.

Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. Encumbrance reservations are presented in the general, general purpose school, debt service, capital projects, community development, special revenue general projects, criminal forfeiture, justice assistance grant, federal transit administration, metropolitan planning office, special school projects, and public law 93-380 funds.

Source: Comprehensive Annual Financial Report of the City of Kingsport, TN for fiscal year 2011

INVESTMENT AND CASH MANAGEMENT PRACTICES

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

State statutes impose various restrictions on the City's, IDBK's, and ECD's deposits and investments, including repurchase agreements. These restrictions are summarized as follows:

DEPOSITS - All deposits with financial institutions must be collateralized in an amount equal to 105% of the market value of uninsured deposits.

INVESTMENTS - State statutes authorize the City to invest in treasury bonds, notes or bills of the United States of America; nonconvertible debt securities of the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the State Loan Marketing Association; other obligations not listed above which are guaranteed as to principal and interest by the United States of America or any of its agencies; Certificates of Deposit and other evidences of deposit at State and Federal chartered banks and Savings and

Loan Associations; obligations of the United States of America or its agencies under a repurchase agreement and money market funds whose portfolios consist of any of the foregoing investments if approved by the State Director of Local Finance and made in accordance with procedures established by the State Funding Board; the State of Tennessee Local Government Investment Pool (LGIP); obligations of the Public Housing Authority and bonds of the Tennessee Valley Authority.

The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. In general, cash overdrafts are reflected in the financial statements as due to other funds. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments.

Investments for the City, as well as for its component units, are reported at fair value based on quoted market prices.

Source: Comprehensive Annual Financial Report of the City of Kingsport, TN for fiscal year 2011

PROPERTY TAX

Introduction. The Municipality is authorized to levy a tax on all property within the Municipality without limitation as to rate or amount.

In accordance with the State constitutional and statutory provisions, all property (real and personal) is assessed by the County Property Tax Assessor. Most utility property is assessed directly by the State. All Municipality property taxes are due on November 1st of each year based upon appraisals as of January 1st of the same calendar year. All property taxes levied in the Municipality are delinquent on December 1st of the same calendar year. Delinquent taxes begin accumulating penalties after November 1st at a rate of two percent for November and December and at a rate of one percent for each month thereafter that taxes remain unpaid. In order to collect delinquent taxes, suit must be filed in Chancery Court within a ten-year period of the delinquency date. After the Chancery Court suit is filed by the Municipality, additional costs are incurred and attached to delinquent property.

Reappraisal Program. Title 67, Chapter 5, Part 16, *Tennessee Code Annotated*, as supplemented and amended mandates that all property in the State be reappraised on a continuous cycle composed of an on-sight review of each parcel. Periodic valuations and indices are established for the jurisdiction by the State Board of Equalization in order to maintain real property values at full value as defined in Title 67, Chapter 5, Part 6, *Tennessee Code Annotated*. The State Board of Equalization is also required to consider a plan submitted by a local assessor that may be used in lieu of indexing which would have the effect of maintaining real property values at full value.

Title 67, Chapter 5, Part 17, *Tennessee Code Annotated*, provides that at such time as such reappraisal and reassessment processes are completed in a particular county, the respective governing bodies of the county and the municipalities located therein shall determine and certify a tax rate which will provide the same *ad valorem* tax revenue for the respective jurisdiction as was levied prior to reappraisal and reassessment. In computing the new tax rate, the estimated assessed

value of all new construction and improvements placed on the tax rolls since the previous year, and the assessed value of all deletions from the previous tax roll are excluded. The new tax rate therefore, is derived from a comparison of tax revenues, tax rates and assessed values of property on the tax roll in both the year before and the year after the reappraisal. The effect of the reappraisal and reassessment statutes is to adjust the property tax rate downward to prevent a taxing unit from collecting additional property tax revenues as a result of reappraisal. Once a municipality or county complies with State law and certifies a tax rate which provides the same property tax revenue as was collected for reappraisal, its governing body may vote to approve a tax rate change which would produce more or less tax revenue.

Assessed Valuations. As of June 7, 2011 according to the Tennessee State Board of Equalization, property in Sullivan County reflected a ratio of appraised value to true market value of 0.9412 resulting from a County-wide reappraisal certified in 2009 (fiscal year 2010). Sullivan County is on a four year appraisal cycle. The next county-wide reappraisal will be dated January 1, 2013 (fiscal year 2014).

Approximately four percent of the Municipality is located in Hawkins County. Property in Hawkins County reflected a ratio of appraised value to true market value of 1.000 according to the State resulting from a county-wide reappraisal certified in 2011 (fiscal year 2012). Hawkins County is on a five year appraisal cycle. The next county-wide appraisal in Hawkins County will occur in 2016. Public utility assessments have been equalized and certified by the State after adjustment resulting from reappraisals or from sales studies.

Assessed Values and Estimated Actual Values for the Municipality. The following table depicts total historical data tax years 2002(fiscal year 2003) through 2011 (fiscal year 2012):

<u>FY</u>	<u>Tax Year</u>	<u>Real Property</u>				<u>Total Assessed Value</u>	<u>Estimated Actual Value</u>	<u>Direct Tax Rate</u>
		<u>Commercial/ Industrial</u>	<u>Residential/ Farm</u>	<u>Tangible Personal Property</u>	<u>Public Utility Property</u>			
2012	2011	\$636,935,120	\$594,457,500	\$359,875,528	\$51,988,058	\$1,643,256,206	\$5,604,513,479	\$1.94
2011	2010	625,090,560	575,564,300	386,518,022	54,411,500	1,641,584,382	5,305,111,318	1.94
2010	2009	608,769,000	542,286,325	407,493,801	48,431,779	1,606,980,905	5,136,863,657	1.94
2009	2008 ⁽¹⁾	479,385,760	456,688,100	345,092,059	40,551,109	1,321,717,028	5,026,787,103	2.30
2008	2007	459,666,840	444,210,025	401,179,200	47,070,183	1,352,126,208	5,129,398,172	2.30
2007	2006	447,971,040	432,502,400	370,955,810	44,945,105	1,297,375,372	4,191,243,619	2.26
2006	2005	448,656,200	416,869,700	354,208,836	49,276,874	1,169,011,610	4,100,277,574	2.26
2005	2004	388,316,240	391,880,100	327,251,076	46,710,193	1,154,157,609	3,943,851,119	2.29
2004	2003	377,317,520	386,690,400	349,893,057	43,163,340	1,157,064,317	3,963,988,784	2.29
2003	2002	376,777,480	455,316,100	302,914,610	47,781,507	1,182,789,697	3,517,857,573	2.29
	Rate	40%	25%	30%	55%			

⁽¹⁾ In tax year 2008, Quebecor Printing which closed in October 2006 reduced assessments as did the new Eastman PILOT.

Source: Tax Aggregate Reports of Tennessee published by the State Board of Equalization.

Property Tax Levies and Collections. The following table depicts property tax levies and collections for fiscal years ending June 30th 2003 through 2012:

<u>FY</u>	<u>Tax Year</u>	<u>Assessed Valuation</u>	<u>Adjusted Taxes Levied</u>	<u>Fiscal Year Collections</u>	
				<u>Amount</u>	<u>Pct. Adj. Levy</u>
2012	2011	\$1,643,256,206	\$32,696,105	In Process	
2011	2010	1,641,584,382	32,297,608	31,071,305	96.20%
2010	2009	1,606,980,905	31,198,267	30,151,757	96.65%
2009	2008	1,321,717,028	30,535,512	29,616,908	96.99%
2008	2007	1,352,126,208	29,757,507	28,616,818	96.17%
2007	2006	1,297,375,372	29,566,014	28,769,796	97.31%
2006	2005	1,169,011,610	28,734,891	27,985,510	97.39%
2005	2004	1,155,042,394	26,599,513	25,793,768	96.97%
2004	2003	1,157,064,317	26,331,516	25,315,529	96.14%
2003	2002	1,182,789,697	24,932,427	24,104,536	96.68%

Source: Tax Aggregate Reports of the Tennessee published by the State Board of Equalization and the City of Kingsport. See the paragraph at the top of the preceding page for additional information.

Ten Largest Taxpayers. For the fiscal year ending June 30, 2012 (tax year 2011), the ten largest taxpayers in Kingsport are as follows:

<u>Employer</u>	<u>Fiscal Year 2012</u>			<u>Fiscal Year 2011</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Taxes Levied</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Taxes Levied</u>
Eastman Chemical Company	\$385,515,630	1	\$7,873,144	\$406,862,939	1	\$8,069,212
Domtar, Inc.(Weyerhaeuser/Williamette)	30,146,575	2	703,984	29,004,892	2	634,981
Wellmont Health /Holston Valley Health Care	25,428,251	3	500,937	27,819,601	3	539,700
Fort Henry Mall – Baltry, LLC (Town Ctr.)	17,232,320	4	339,477	17,036,239	5	330,452
Kingsport Power Company*	16,669,274	5	328,385	17,828,101	4	348,321
Brandy Mill Apartments, LLC	12,846,360	6	253,073	13,157,040	6	255,247
Eastman Credit Union	11,929,701	7	235,015	9,219,225	10	178,853
Mountain States Health/HCA	11,362,600	8	223,843	11,362,600	7	220,434
Wal Mart Properties Real Estate	10,621,946	9	209,252	9,228,840	9	179,040
Inland Western Kpt East Stone LLC	<u>9,895,480</u>	10	<u>194,941</u>	<u>9,607,560</u>	8	<u>186,387</u>
	<u>\$531,648,137</u>		<u>\$10,862,051</u>	<u>\$551,127,037</u>		<u>\$10,942,627</u>

* State of Tennessee Office of State Assessed Properties preliminary estimate. Final results are not available until early 2012.
Source: City of Kingsport Finance Department

LOCAL OPTION SALES TAX

Pursuant to applicable provisions of Title 67, Chapter 6, Part 7 of *Tennessee Code Annotated* as amended (the "Sales Tax Act"), Sullivan County and Hawkins County levy a county-wide local option sales and use tax. Under the Sales Tax Act, counties and incorporated cities may levy sales and use tax on the same privileges on which the State levies its sales and use tax. The rate of any

sales and use tax levied by a county or city is limited under State law to two and three-fourths percent (2.75%).

Pursuant to the Sales Tax Act, the levy of a sales and use tax by a county precludes any city from within the county from levying a sales and use tax, but a city may levy a sales tax in addition to the county's sales tax at a rate not exceeding the difference between the county sales tax rate and the maximum local option sales tax rate of two and three-fourths percent (2.75%). If a city is located in more than one county, each portion of the city that is located in a separate county is treated as a separate city for purposes of determining the maximum sales tax rate.

Currently, Sullivan County levies a two and one-quarter percent (2.25%) sales tax, but the Municipality has elected to add an additional one-quarter percent (0.25%) to all sales within that portion of the corporate limits of the Municipality located in Sullivan County bringing the total to two and one-half percent (2.50%) in the Sullivan County portion of the Municipality. These funds go directly to the Regional Fund which is used to support capital improvements associated with the Municipality's MeadowView Convention Center and Resort. The local option sales tax levied by Hawkins County equals the maximum rate allowed by the Sales Tax Act of two and three-fourths percent (2.75%).

The revenues from the county-wide sales and use taxes in Sullivan and Hawkins Counties are distributed pursuant to the provisions of the Sales Tax Act and other provisions of the *Tennessee Code Annotated*. Fifty percent (50.0%) of the revenues raised through the county-wide sales taxes are directed to educational purposes and are distributed to all organized public school systems in the county (including the Kingsport City School System) in which the taxes are collected based upon the average daily attendance of each school system. The balance of the sales tax collections are divided between the general fund of the county in which the taxes are collected and all incorporated cities in such county based upon the situs of collection unless a separate agreement has been ratified concerning the distribution of these funds. As noted, the Regional Fund receives all the proceeds from the special one-quarter percent (0.25%) increment.

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The distribution of the sales tax for the most recent fiscal years was as follows:

City-Wide				
Fiscal Year	Total Sales Tax	FY Percentage Change	General Fund	Regional Fund ⁽¹⁾
2011	\$17,778,766	4.17%	\$14,594,959	\$3,183,807
2010	17,067,113	(3.22%)	14,009,678	3,057,435
2009	17,634,903	(1.23%)	14,478,441	3,156,462
2008	17,854,873	0.18%	14,640,220	3,214,653
2007	17,834,000	4.27%	14,619,000	3,215,000
2006	17,103,000	2.60%	14,019,000	3,084,000
2005	16,669,868	1.91%	13,685,614	2,984,254
2004	16,357,600	2.43%	13,433,000	2,924,600
2003	15,970,648	0.71%	13,110,702	2,859,946
2002	15,859,370	2.57%	13,040,584	2,818,786

⁽¹⁾ One quarter (0.25%) percent is levied by the Municipality only in that portion of the Municipality located in Sullivan County (the "Regional Fund") and has been and will be used to offset the costs related to the Municipality's MeadowView Conference Center and Resort and related facilities and the Aquatics Center and Water park which will serve the Municipality and the region. All totals are depicted on an accrued basis as of the end of the appropriate fiscal year.

Source: Comprehensive Annual Financial Report for Fiscal Year 2011

As allowed by the Sales Tax Act, the Municipality formally has pledged revenues to be derived from the one-quarter percent (0.25%) local option sales tax levied by the Municipality within the corporate limits of the Municipality within Sullivan County to the payment of both principal and interest on its \$15,180,000 Local Option Sales Tax Revenue and Tax Bonds, Series 2009C Bonds, dated February 3, 2009 (the "Series 2009C Bonds"). The Series 2009C Bonds mature on March 1, 2011 through March 1, 2022, inclusive, on March 1, 2024, on March 1, 2025 through March 1, 2027, inclusive, and on March 1, 2029. In the event of a deficiency of such revenues, the Municipality has pledged such payments from ad valorem taxes to be levied on all taxable property within the corporate limits of the Municipality without limitation as to time, rate, or amount. For the prompt payment of the Series 2009 C Bonds, both principal and interest, as the same shall become due, the full faith, and credit of the Municipality has been irrevocably pledged.

The Municipality's the \$26,415,000 General Obligation Public Improvement Bonds, Series 2009D (Federally Taxable Build America Bonds), dated December 8, 2009 and maturing on March 1, 2013 through March 1, 2027, on March 1, 2029 and on March 1, 2020 (the "Series 2009D Bonds") are also payable from funds of the Municipality legally available therefor and to the extent necessary from ad valorem taxes to be levied on all taxable property within the corporate limits of the Municipality without limitation as to time, rate, or amount. For the prompt payment of the Series 2009D Bonds, both principal and interest, as the same shall become due, the full faith, and credit of the Municipality has been irrevocably pledged. The Municipality's \$14,225,000 General Obligation Bonds, Series 2009E, dated December 8, 2009 and maturing on March 1, 2013 through March 1, 2023, inclusive and on March 1, 2025, on March 1, 2027 and on March 1, 2028 through March 1, 2030, inclusive (the "Series 2009E

Bonds”) are also payable from revenues derived from the one-quarter percent (0.25%) local option sales tax levied by the Municipality within the corporate limits of the Municipality within Sullivan County, Tennessee.

Approximately, 5.9 percent of the proceeds of the Series 2009D Bonds were used to fund the acquisition, development and construction of additional improvements to Municipality’s MeadowView Convention Center and area roads. One hundred percent of the proceeds of the Series 2009E Bonds are being used to fund the acquisition, development and construction of the Municipality’s new aquatics center and Water Park and related facilities. Debt service related to these projects is paid from revenues derived from the one-quarter percent (0.25%) local option sales tax levied by the Municipality within the corporate limits of the Municipality within Sullivan County, Tennessee.

The Series 2012A Bonds are payable from funds of the Municipality legally available therefor and to the extent necessary from ad valorem taxes to be levied on all taxable property within the corporate limits of the Municipality without limitation as to time, rate, or amount. For the prompt payment of the Series 2012A Bonds, both principal and interest, as the same shall become due, the full faith, and credit of the Municipality is irrevocably pledged. The Series 2012A Bonds are also payable from revenues derived from the one-quarter percent (0.25%) local option sales tax levied by the Municipality within the corporate limits of the Municipality within Sullivan County, Tennessee.

TOP TEN WATER CUSTOMERS

The Municipality’s Water Treatment facility has a capacity of 28 MGD (WTP capacity). Water is distributed through nearly 826 miles of waterlines. There are currently 34,429 total customers (13,249 outside the City), the Top Ten Customers of the Water System as of June 30, 2011 are depicted on the following chart:

<u>Customer</u>	<u>Consumption</u>	<u>Revenues</u>	<u>Revenues as % of FYE 2011 Water Sales</u>
1. Eastman Chemical Company	764,726,600	\$1,150,910	9.90%
2. Royal Ordinance of North America, Inc.	59,838,300	88,427	0.76%
3. Wellmont Health System	51,533,600	77,244	0.66%
4. Domtar Paper Company, LLC	46,150,800	82,543	0.71%
5. AGC	37,570,200	64,202	0.55%
6. Kingsport Housing Authority	25,361,400	47,441	0.41%
7. Indian Path Hospital	20,218,300	30,050	0.26%
8. Allandale Falls Apt., LLC	14,346,100	21,477	0.18%
9. Warriors Path State Park	12,123,300	57,001	0.49%
10. Cross Creek, LLC	<u>11,887,700</u>	<u>27,959</u>	<u>0.24%</u>
	<u>1,043,756,300</u>	<u>\$1,647,254</u>	<u>14.7%</u>

Total:

Source: Comprehensive Annual Financial Reports of the City of Kingsport

TOP TEN WASTEWATER CUSTOMERS

The Municipality's Wastewater Treatment facility has a current capacity of 12.4 MGD. Wastewater is collected through nearly 533 miles of sewer lines. There are currently about 20,876 total connections (1,221 outside the City). The Top Ten Customers of the Wastewater System as of June 30, 2011 are depicted on the following chart:

<u>Customer</u>	<u>Consumption</u>	<u>Revenues</u>	<u>Revenues as % of FYE 2011 Sewer Sales</u>
1. Eastman Chemical Company	161,960,900	\$1,105,174	9.47%
2. Wellmont Health Systems	53,527,300	365,060	3.13%
3. Kingsport Housing Authority	25,348,400	175,680	1.51%
4. Domtar Paper Company, LLC	15,366,200	104,908	0.90%
5. Indian Path Hospital	14,835,400	101,177	0.87%
6. Allandale Falls Apt, LLC	14,346,100	97,840	0.84%
7. Cross Creek, LLC	11,887,700	81,074	0.69%
8. Model City II, L.P.	11,099,900	75,706	0.65%
9. Warriors Path State Park	10,710,300	107,531	0.92%
10. Holston Manor	<u>9,228,400</u>	<u>62,938</u>	<u>0.54%</u>
	<u>328,310,600</u>	<u>2,277,088</u>	<u>19.51%</u>

Total:

Source: Comprehensive Annual Financial Reports of the City of Kingsport

PENSION PLANS

City of Kingsport General Government Plan

Plan Description

Employees of the City 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 and 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 become 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 become 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, Chapters 34-37 of the Tennessee Code

Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the City participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of the plan.

Benefit improvements are not applicable to a political subdivision unless approved by the chief governing 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 Tennessee Treasury Department, Consolidated Retirement System, 10 h Floor Andrew Jackson Building; Nashville, Tennessee 37243-0230 or can be accessed at

<http://www.treasury.tn.gov/TCRS-AnnualReport-2011.pdf>

Source: Comprehensive Annual Financial Report of the Municipality of Fiscal Year 2011

Withdrawal from TCRS Effective June 30, 2012 Affecting New Employees

During FY2011, the City filed appropriate documents with the Tennessee Consolidated Retirement System (TCRS) to initiate the process of withdrawing from this retirement program. Following the required one year notice, only a simple majority of the Board of Mayor and Alderman is required to stay in the TCRS system.

The Municipality has explored other retirement plan options for its employees due to Municipality's rising contribution rates over the last decade and the current funding levels. Under the current TCRS plan, the Municipality's contribution rate has nearly doubled over the past decade to slightly more than 16 percent of payroll.

When the Municipality leaves the TCRS system, the new retirement plan will be a 401(a) defined contribution plan with a 457(b) supplemental plan to accommodate voluntary employee contributions. The new plan only affects full-time Municipal employees and non-teachers hired after June 30, 2012. New hires will be eligible for the new plan on the first day of their employment and will be fully vested after 6 years. New employees will contribute 5 percent of their salary to the program which the Municipality will match. Employee voluntary contributions to the 457(b) will be matched by the Municipality up to 3 percent. No loans would be allowed from the corpus of the Plan although employees facing severe financial conditions attributable to illness or accident could withdraw funds subject to any prevailing tax consequences.

On April 17, 2012, the Board of Mayor and Alderman voted 7-0 to adopt the defined contribution plan and directed that proposals be solicited for administrative services relating to the new plan. In the past, the Municipality has undertaken similar steps only to reverse the process prior to the effective date. As of the date of this document, no such vote has occurred nor is one likely.

Source: City of Kingsport and the *Kingsport Times-News* (April 18, 2012) and the Municipality

Kingsport City Schools Plan

Plan Description

The Kingsport City Schools contribute to the State Employees, Teachers, and Higher Education Employees' Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the TCRS. TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. 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 who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become 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 plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the TCA. State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

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

Source: Comprehensive Annual Financial Report of the Municipality of Fiscal Year 2011

For additional information on the funding status, trend information and actuarial status of the Municipality's retirement programs, please refer to the appropriate Note to Financial Statements found on pages 112 through 114 located in the Comprehensive Annual Financial Report of the Municipality for Fiscal Year 2011 which may be accessed as described in APPENDIX D.

OTHER POST EMPLOYMENT BENEFITS

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2008, the City recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the liability accumulated for prior years will be phased in over 30 years, commencing with the 2008 liability.

City of Kingsport General Government Plan

Plan Description

The City of Kingsport provides continuation of medical insurance coverage to eligible employees that retire under the Tennessee Consolidated Retirement System at the same time they end their services to the City. Employees hired prior to June 1, 2007 are eligible to continue coverage if they had been enrolled in the City's offered health insurance plan as an active full time employee at the date of retirement. Employees hired after June 1, 2007, must have a minimum of 25 years of service with the City, be at least 55 years old, and must have been enrolled in the health insurance provided by the City for three full consecutive years immediately prior to retirement or have 30 years of service with the City and have been enrolled in the health insurance provided by the City for one full year immediately prior to retirement. Employees who retired before June 30, 2010 and continued on the City's health insurance as listed above are eligible for the City funded Medicare supplement plan when they reach 65 years of age.

Employees retiring after June 30, 2010 are no longer eligible for the City funded Medicare supplement plan.

Source: Comprehensive Annual Financial Report of the Municipality of Fiscal Year 2011

Kingsport City Schools Plan

Plan Description

The Kingsport City Schools participate in the state-administered Teacher Group Insurance Plan and Medicare Supplement Plan for healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* (TCA) 8-27-302 (teachers) and TCA 8-27-701 (Medicare Supplement). Prior to reaching the age of 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at <http://www.tn.gov/finance/act/cafr.shtml>

Source: Comprehensive Annual Financial Report of the Municipality of Fiscal Year 2011

For additional information on the funding status, trend information and actuarial status of the Municipality's OPEB programs, please refer to the appropriate Note to Financial Statements found in the Comprehensive Annual Financial Report of the Municipality for Fiscal Year 2011 which may be accessed as described in APPENDIX D.

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CITY OF KINGSPORT, TENNESSEE

\$3,110,000 GENERAL OBLIGATION BONDS, SERIES 2012A
\$9,305,000 GENERAL OBLIGATION PUBLIC IMPROVEMENT BONDS, SERIES 2012C

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Kingsport, Tennessee (the “Municipality”) in connection with the issuance of \$3,110,000 General Obligation Bonds, Series 2012A (the “Series 2012A Bonds”) and its \$9,305,000 General Obligation Public Improvement Bonds, Series 2012C (the “Series 2012C Bonds”), dated the date of original issuance and delivery. The Series 2012A Bonds and the Series 2012C Bonds (collectively, the “Bonds”) are being issued pursuant to Resolutions adopted by the Board of Mayor and Aldermen of the Municipality on May 15, 2012 (collectively, the “Resolutions”). The Municipality covenants and agrees as follows:

SECTION 1(a). Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Municipality for the benefit of the holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 1(b). Filing Requirements. Any filing under this Disclosure Certificate must be made solely by transmitting such filing to the MSRB (defined herein) through the Electronic Municipal Market Access (“EMMA”) System at www.emma.msrb.org in the format prescribed by the MSRB. All documents provided to the MSRB shall be accompanied by the identifying information prescribed by the MSRB.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolutions, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Municipality pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Dissemination Agent” shall mean the Municipality, or any successor Dissemination Agent designated in writing by the Municipality and which has filed with the Municipality a written acceptance of such designation.

“Material Event” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board located at 1900 Duke Street, Suite 600, Alexandria, Virginia 22314.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of Tennessee.

SECTION 3. Provision of Annual Reports.

(a) The Municipality shall, or shall cause the Dissemination Agent to, not later than 12 months after the end of the Municipality’s fiscal year, commencing with the report for the fiscal year ending June 30, 2012, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Municipality may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Municipality’s fiscal year changes, it shall give notice of such change in the same manner as for a Material Event under Section 5(c) hereof.

(b) Not later than fifteen (15) Business Days prior to said date, the Municipality shall provide the Annual Report to the Dissemination Agent (if other than the Municipality). If the Municipality is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Municipality shall send a notice to the MSRB in substantially the form of Exhibit A attached hereto.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the Municipality), file a report with the Municipality certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

SECTION 4. Content of Annual Reports. The Municipality’s Annual Report shall contain or include by reference the audited financial statements of the Municipality for the prior fiscal year, prepared in accordance with generally accepted accounting principles; provided, however, if the Municipality’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 in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

The Annual Report shall also include the following information in a format similar to that included in the Official Statement, dated June 11, 2012 relating to the Bonds (the “Official Statement”):

1. Summary of long-term indebtedness as of the end of such fiscal year;
2. The indebtedness and debt ratios as of the end of such fiscal year, together with information regarding the property tax base;
3. Information regarding general obligation debt service requirements;
4. Information about the revenue and tax backed debt service requirements as of the end of such fiscal year;
5. The fund balances and retained earnings for the fiscal year;
6. Summary of revenues, expenditures, and changes in fund earnings – general fund for the fiscal year;
7. Summary of revenues, expenditures, and changes in retained balances – water fund and the sewer fund;
8. The estimated assessed value of property in the Municipality for the tax year ending in such fiscal year and the total estimated actual value of all taxable property for such year;
9. Property tax rates and tax collections of the Municipality for the tax year ending in such fiscal year as well as the uncollected balance for such fiscal year;
10. The ten largest taxpayers; and
11. Information regarding the Municipality’s share of the Local Option Sales Tax.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Municipality or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Municipality shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Material Events.

(a) Pursuant to the provisions of this Section 5, the Municipality shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Modifications to rights of Bondholders, if material.
4. Bond calls, if material, and tender offers.
5. Defeasances.
6. Rating changes.
7. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.
8. Unscheduled draws on the debt service reserves reflecting financial difficulties.

9. Unscheduled draws on the credit enhancements reflecting financial difficulties.
10. Substitution of the credit or liquidity providers or their failure to perform.
11. Release, substitution or sale of property securing repayment of the Bonds, if material.
12. Bankruptcy, insolvency, receivership or similar event of the Municipality.
13. The consummation of a merger, consolidation, or acquisition involving the Municipality or the sale of all or substantially all of the assets of the Municipality, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. Appointment of a successor or additional trustee or the change of the name of a trustee, if material.

For purposes of the event identified in subsection (a)12. above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Municipality in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Municipality, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Municipality.

(b) When a Material Event occurs, the Municipality shall, in a timely manner not in excess of ten business days after the occurrence of the Material Event, file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Material Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Resolutions.

(c) Unless otherwise required by law, the Municipality shall submit the information in the format prescribed by the MSRB, as described in Section 1(b) of this Disclosure Certificate.

SECTION 6. Termination of Reporting Obligation. The Municipality's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Municipality shall give notice of such termination in the same manner as for a Material Event under Section 5(c).

SECTION 7. Dissemination Agent. The Municipality may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Municipality pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the Municipality.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Municipality may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), 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 in the same manner as provided in the Resolutions for amendments to the Resolutions with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Municipality 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 Municipality. 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 in the same manner as for a Material Event under Section 5(c), 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.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Municipality from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Material Event, in addition to that which is required by this Disclosure Certificate. If the Municipality chooses to include any information in any Annual Report or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Certificate, the Municipality shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Material Event.

SECTION 10. Default. In the event of a failure of the Municipality to comply with any provision of this Disclosure Certificate, any holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Municipality to comply with its obligations under this

Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolutions, and the sole remedy under this Disclosure Certificate in the event of any failure of the Municipality to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities, and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Municipality agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Municipality under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Municipality, the Dissemination Agent, the Participating Underwriters, and holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: June 22, 2012

CITY OF KINGSPORT, TENNESSEE

By: Dennis P. Phillips
Mayor

Attest:

By: James H. Demming, Jr.
Recorder

APPROVED AS TO FORM:

J. Michael Billingsley
City Attorney

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
CITY OF KINGSPORT, TENNESSEE**

FOR THE FISCAL YEAR ENDED

June 30, 2011

This document and similar documents for at least the past 5 fiscal years may be found in electronic, searchable format on the City of Kingsport's official web site:
www.kingsporttn.gov/financial-reports

The Comprehensive Annual Financial Reports are hereby incorporated by reference as APPENDIX D. To the extent there are any differences between the electronically posted financial statements of the Municipality, the printed version shall control.

The Municipality's independent auditors have not been engaged to perform and have not performed any procedures on the financial statements addressed in that report since the date of its report included herein. Additionally, no procedures have been performed relating to this *Official Statement*.

