# ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

## FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

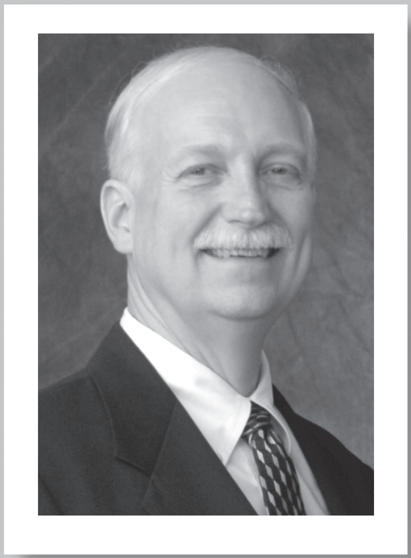
## SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2010

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**
**TABLE OF CONTENTS**

# Executive Management

**Decosta Jenkins**

President and
Chief Executive Officer



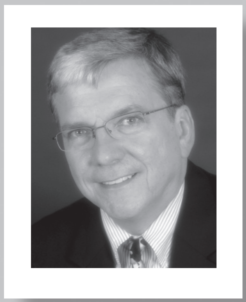
**Allen Bradley**

Executive Vice President and
Chief Operating Officer

**Teresa Broyles-Aplin**

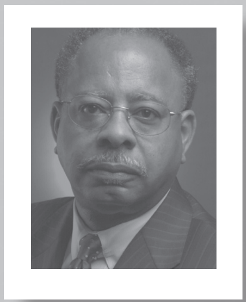
Vice President of Finance and
Administration and
Chief Financial Officer

# The Board



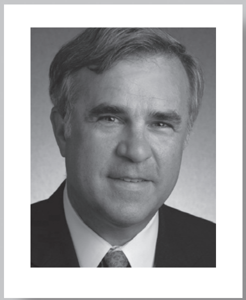
**Richard Courtney**

Principal Broker
Fridrich & Clark Realty, LLC



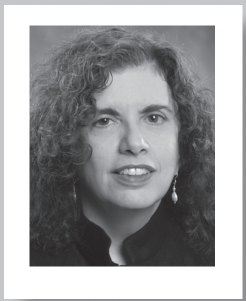
**Sam Howard**

Chairman
Phoenix Holdings Inc.



**Rob McCabe**

Chairman
Pinnacle Financial Partners



**Mary Jo Price**

University Counsel in the
Office of General Counsel
at Vanderbilt University

**Marilyn Robinson**

NES Board Chairman
Executive Director
Nashville Minority
Business Center

CROSSLIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

# INDEPENDENT AUDITORS' REPORT

Members of the Electric Power Board of the
Metropolitan Government of
Nashville and Davidson County
Nashville, Tennessee

We have audited the accompanying statements of net assets of the Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Board"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2010, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Members of the Electric Power Board of the
Metropolitan Government of
Nashville and Davidson County

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

Our audits were conducted for the purpose of forming an opinion on the Board's basic financial statements. The schedule of executive management and the Board as listed in the accompanying table of contents and supplementary information on pages 35 - 46 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards as listed in the accompanying table of contents is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The schedule of executive management and the Board and supplementary information has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on them.

Crosslin & Associates, P.C.

Nashville, Tennessee
October 29, 2010

## *MANAGEMENT'S DISCUSSION AND ANALYSIS*

As financial management of the Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Board"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal years ended June 30, 2010 and 2009 as compared to fiscal years 2009 and 2008, respectively. In conducting the operations of the electrical distribution system, the Board does business as Nashville Electric Service ("NES"). NES is a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to NES' financial statements, which are comprised of the basic financial statements and the notes to the financial statements. Since NES is comprised of a single enterprise fund, no fund-level financial statements are shown.

### Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of NES' finances in a manner similar to that of a private-sector business.

The statements of net assets present information on all of NES' assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of NES is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net assets, which indicates an improved financial position.

The statements of revenues, expenses, and changes in net assets present information showing how NES' net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The statements of cash flows present changes in cash and cash equivalents resulting from operating, financing, and investing activities. These statements present cash receipts and cash disbursements information, without consideration as to the timing for the earnings event, when an obligation arises, or depreciation of capital assets.

### Summary of Changes in Net Assets

Assets exceeded liabilities by $501.8 million at June 30, 2010, and $488.1 million at June 30, 2009. This represents an increase of $13.7 million in 2010 and $16.0 million for 2009.

The largest portion of the Board's net assets reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The Board uses these capital assets to provide service and consequently, these assets are not available to liquidate liabilities or for other spending.

An additional portion of the Board's net assets represents resources that are subject to external restrictions on how they may be used. These restrictions include bond proceeds to be used for construction projects and reserve funds required by bond covenants.

**STATEMENTS OF NET ASSETS ($000 omitted)**

| | June 30, | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| **ASSETS** | | | |
| **CURRENT ASSETS** | $ 265,956 | $ 231,927 | $ 231,887 |
| **INVESTMENT OF RESTRICTED FUNDS** | 91,337 | 125,907 | 150,776 |
| **UTILITY PLANT, NET** | 819,335 | 798,405 | 775,019 |
| **ENERGY CONSERVATION PROGRAMS' NOTES** | 227 | 366 | 550 |
| **OTHER NON-CURRENT ASSETS** | 2,831 | 3,084 | 3,300 |
| **TOTAL ASSETS** | 1,179,686 | 1,159,689 | 1,161,532 |
| **LIABILITIES** | | | |
| **CURRENT LIABILITIES** | 168,554 | 144,141 | 144,773 |
| **CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS** | 18,350 | 18,075 | 16,635 |
| **LONG-TERM DEBT** | 487,142 | 506,027 | 524,099 |
| **OTHER NON-CURRENT LIABILITIES** | | | |
| Payable to TVA – energy conservation programs | 227 | 366 | 550 |
| Other | 3,604 | 2,976 | 3,376 |
| | 3,831 | 3,342 | 3,926 |
| **COMMITMENTS AND CONTINGENCIES** | | | |
| **TOTAL LIABILITIES** | 677,877 | 671,585 | 689,433 |
| **NET ASSETS** | | | |
| Invested in utility plant, net of related debt | 355,501 | 350,101 | 339.793 |
| Restricted | 52,177 | 52,834 | 48,265 |
| Unrestricted | 94,131 | 85,149 | 84,041 |
| **TOTAL NET ASSETS** | $ 501,809 | $ 488,104 | $ 472,099 |

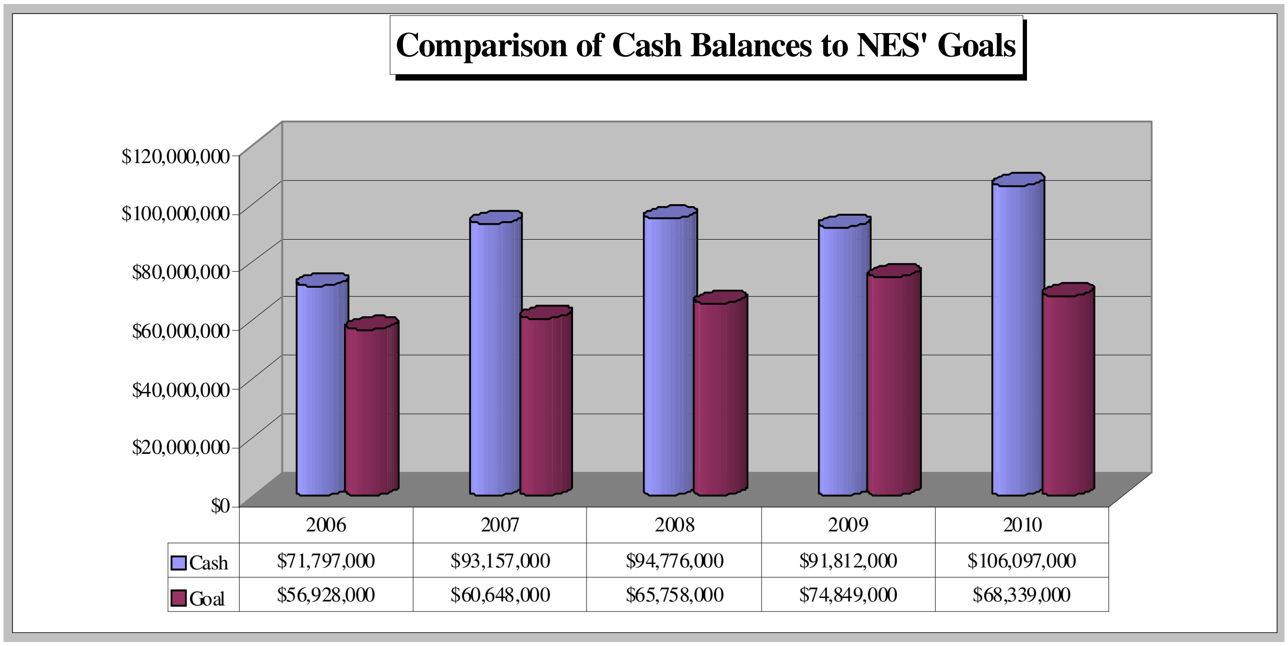
## Liquidity and Capital Resources

The Board has sufficient debt capacity and a strong financial position. Therefore, the tax-exempt bond market is expected to be a future source of liquidity to supplement the cash flow from operations. On June 27, 2008, the Board closed on the sale of the Metropolitan Government of Nashville and Davidson County, Tennessee, Electric System Revenue Bonds, 2008 Series A and B. The purpose of the 2008 Series A Bonds was to reimburse NES for a portion of the 2008 capital expenditures and to fund approximately 50 percent of NES' projected $218.9 million Capital Budget for the fiscal years ending June 30, 2009, through June 30, 2011. The remainder will be funded with operating revenues. The par amount of the 2008 Series A Bonds, $109.2 million, plus original issue premium, less underwriter discount, cost of issuance, and a deposit to the debt service reserve fund netted proceeds in the amount of $111.8 million of which $110 million was deposited into the Special Construction Fund, $1.6 million in the Debt Service Reserve Fund and $225 thousand into the General Fund. The 2008 Series B Bonds were being offered to refund $74.4 million aggregate principal amount of the 1998 Series A Bonds maturing May 15, 2015, 2016 and 2023, and to refund $13.2 million aggregate principal amount of 1998 Series B Bonds maturing on May 15, 2009, 2010 and 2011. During fiscal year 2010, NES drew down $35.7 million from these funds for capital expenditures. The remaining proceeds will be drawn down quarterly over the next year.

In addition to operating cash flow and proceeds from tax-exempt bonds, the Board has a $25 million line-of-credit, which is renewed each year. The credit facility is not a source of liquidity for ongoing operations. It is available as an additional funding source in the event of a natural catastrophe.

The Board's financing cost may be impacted by short-term and long-term debt ratings assigned by independent rating agencies. During the fiscal year ended June 30, 2010, the Board's revenue bonds are rated at AA+, by both Standard & Poor's and Fitch. In issuing bond ratings, agencies typically evaluate financial operations, rate-setting practices, and debt ratios. Higher ratings aid in securing favorable borrowing rates, which results in lower interest costs.

Debt ratings are based, in significant part, on the Board's performance as measured by certain credit measures. In order to maintain its strong credit ratings, the Board has adopted certain financial goals. Such goals provide a signal to the Board as to the adequacy of rates for funding ongoing cash flows from operations. One such goal is a cash goal of 7 percent of in-lieu-of-tax payments, purchased power, and operating and maintenance expenses. That goal was met every month of the fiscal year 2010. That percentage was 10.8 percent as of June 30, 2010, and 8.6 percent as of June 30, 2009. The Board also has a goal of maintaining a debt coverage ratio of at least 2 to 1. The Boards debt coverage ratio for the 12 months ended June 30, 2010, was 2.6 to 1. The Board continues to exceed its goals. The outlook on all ratings is stable.



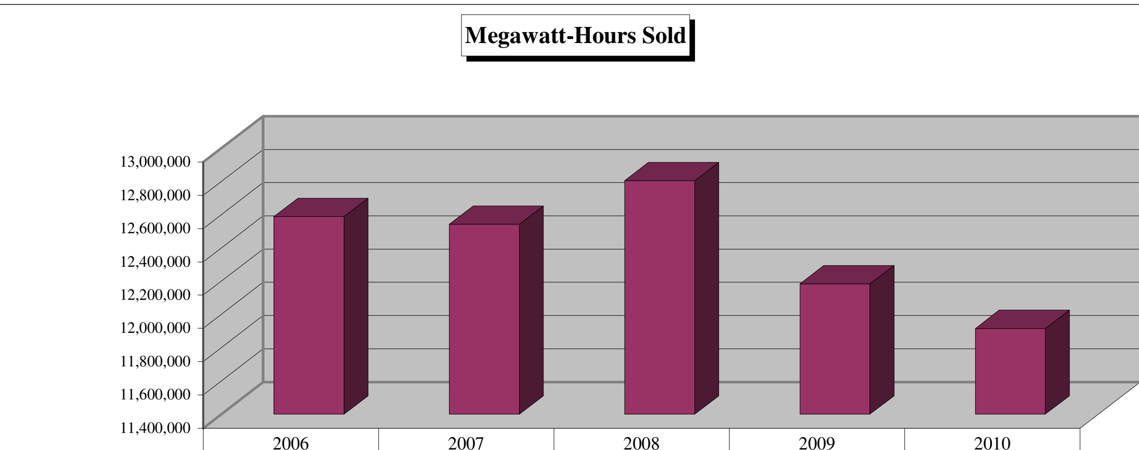

## Operations

### Summary Revenue & Expense Data
### ($000 omitted)

| | Year Ended June 30, 2010 | 2009 | Net Asset Effect | Year Ended June 30, 2008 | Net Asset Effect |
|---|---|---|---|---|---|
| Operating Revenues | $1,063,155 | $1,146,747 | $ (83,592) | $1,030,953 | $ 115,794 |
| Purchased Power | 816,152 | 915,005 | 98,853 | 794,786 | (120,219) |
| Margin | 247,003 | 231,742 | 15,261 | 236,167 | (4,425) |
| Operating Expenses | 133,314 | 128,229 | (5,085) | 119,835 | (8,394) |
| Depreciation and Taxes | 72,840 | 70,055 | (2,785) | 65,659 | (4,396) |
| Interest Income | 1,328 | 7,721 | (6,393) | 5,736 | 1,985 |
| Interest Expense | 26,362 | 25,174 | (1,188) | 22,930 | (2,244) |
| Extraordinary Loss | 2,110 | - | (2,110) | - | - |
| Increase in Net Assets | $ 13,705 | $ 16,005 | $ (2,300) | $ 33,479 | $ (17,474) |

## 2010 and 2009 Results of Operations

*Operating Revenues.* Operating revenues decreased by $83.6 million, or 7.3 percent, when compared to 2009. Total electric sales were $1.0 billion for the period versus $1.1 billion last year. The average realized rate on electric sales was $.0877 per kilowatt-hour in 2010 compared to $.0926 per kilowatt-hour in 2009. The decrease in average realized rates in 2010 is the impact of TVA rate adjustments for fuel offset by the wholesale rate increase that was effective in October 2009. In October 2009, TVA increased wholesale rates 9.0 percent, which increased retail rates by 7.2 percent. TVA modified the quarterly Fuel Cost Adjustment (FCA) in October 2009 to a monthly calculation. The wholesale rate increase and quarterly FCA were implemented as a pass-through to our retail customers. Since the increase in wholesale rates and fluctuations in the wholesale FCA were matched by corresponding adjustments in retail rates, there was no direct impact on NES net income. Megawatt-hours sold in 2010 decreased by 2.2 percent when compared to 2009. In addition, NES increased retail rates 3.0 percent in October 2009, which did have a direct impact on NES net income. Weather plays an important part in determining revenue for any year. The impact of weather is reflected in the comparison of degree-days from one period to the next. Degree-days represent the difference between the weather's average daily temperatures minus 65 degrees. Temperatures above 65 degrees are considered cooling degree-days; temperatures below 65 degrees are considered heating degree-days. Total cooling degree-days were 1,730 compared to 1,838 in 2009. Total heating degree-days were 3,942 compared to 3,614 in 2009. Total heating and cooling degree-days were 5,672 compared to 5,452 in 2009 or an increase of approximately 4.0 percent. Total average number of active year-to-date customers increased by .6 percent when compared to 2009.




| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Megawatt-Hours Sold | 12,589,000 | 12,543,000 | 12,806,000 | 12,184,000 | 11,916,000 |

*Non-operating Revenues.* Interest Income was $1.3 million compared to $7.7 million in 2009. The average rate of return on the General Fund was .20 percent in 2010 compared to .75 percent in 2009. The average monthly balance of the General Fund was $102.8 million in 2010 compared to $98.0 million in 2009, an increase of 5.0 percent. Interest income was less than the previous year due to the additional draw-down of funds in the Construction Fund that were provided by the June 2008 bond issuance. Revenue in Excess of Net Bills (Late Charge) increased by $0.4 million, and Rentals of Electric Property (primarily pole attachments) increased by $0.5 million.

*Operating Expenses.* The Board purchases all of its power from TVA under an all-requirements contract that had an initial term of 20 years. Beginning on December 19, 1989, and on each subsequent anniversary thereafter, the contract is automatically extended for an additional one-year period. The contract is subject to earlier termination by either party on not less than 10 years' prior written notice. Purchased power was $816.2 million for the period compared to $915.0 million last year. The average realized rate on purchased power was $.065 per kilowatt-hour in 2010 compared to $.079 per kilowatt-hour in 2009. This decrease is due to the pass-through of the FCA offset by the impact of TVA wholesale rate increases in October 2009. Megawatt-hours purchased were 12.5 million in 2010 compared to 12.6 million in 2009. Line losses were 4.33 percent in 2010 compared to 2.78 percent in 2009, or an increase of 55.7 percent. The increase in line losses for 2010 were primarily the result of a record winter peak and the impact of the May flood.

Distribution expenses for the period were $43.6 million compared to $49.7 million last year. This is a decrease of $6.1 million or 12.3 percent. The change is primarily attributable to decreases in tree trimming, $3.5 million; miscellaneous expenses, $1.4 million; operation and maintenance of overhead lines, $1.1 million; meters, $0.6 million; and storms, $0.5 million, offset by increases in operation and maintenance of station equipment, $0.4 million; line transformers, $0.1 million; supervision and engineering, $0.1 million; emergency service, $0.1 million; and load dispatching, $0.1 million.

Customer Accounts expense and Customer Service and Information expense combined were $21.4 million for the period compared to $22.7 million last year or a decrease of $1.3 million or 5.7 percent. This is primarily the result of a decrease in the uncollectible accounts accrual of $1.2 million; customer orders and service expenses of $0.1 million; data processing of $0.1 million, offset by an increase in customer records and collection of $0.1 million.

Administrative and General (A&G) expenses were $68.3 million for the period compared to $55.8 million last year. This was an increase of $12.5 million or 22.4 percent. The increase is primarily the result of an increase in employee pensions of $6.3 million; employee health insurance of $4.4 million; injuries and damages of $1.1 million; miscellaneous general, $0.6 million; and outside services employed of $0.4 million, offset by a decrease in data processing of $0.2 million.

Depreciation and Tax Equivalents were $46.0 million and $26.8 million compared to $44.0 million and $26.0 million for 2010 and 2009, respectively. The increase in depreciation was the result of increased investment in the utility plant. Tax equivalents consist primarily of payments in-lieu-of taxes to the Metropolitan Government and the surrounding counties. Such payments are calculated based on a prescribed formula that takes into consideration utility plant value and the average of the Board's last three years' operating margin. The increase in payments in-lieu-of taxes was the result of increases in tax rates coupled with increased investment in the utility plant.

Extraordinary Loss. The Board experienced an extraordinary loss in May of 2010 from the flood. An event is deemed extraordinary if it is both unusual in nature and infrequent in occurrence. The extraordinary loss of $2.1 million was made up of $1.0 million in expenditures in excess of the estimated $5.3 million receivable from insurance and government disaster assistance grants and a $1.1 million impairment loss on capital assets.

### 2009 and 2008 Results of Operations

*Operating Revenues*. Operating revenues increased by $115.8 million, or 11.2 percent, when compared to 2008. Total electric sales were $1.1 billion for the period versus $1.0 billion in the previous year. The average realized rate on electric sales was $.0926 per kilowatt-hour in 2009 compared to $.0794 per kilowatt-hour in 2008. The increase in average realized rates in 2009 is the impact of TVA rate adjustments for fuel and the wholesale rate increase that was effective in October 2008. The wholesale rate increase and quarterly FCA were implemented as a pass-through to our retail customers. Since the increase in wholesale rates and fluctuations in the wholesale FCA were matched by corresponding adjustments in retail rates, there was no direct impact on NES net income. Megawatt-hours sold in 2009 decreased by 4.9 percent when compared to 2008. In October 2008, TVA increased wholesale rates 3.4 percent, which increased retail rates by 2.7 percent. TVA implemented a quarterly Fuel Cost Adjustment (FCA) on all firm energy effective October 2006. Total cooling degree-days were 1,838 compared to 2,164 in 2008. Total heating degree-days were 3,614 compared to 3,320 in 2008. Total heating and cooling degree-days were 5,452 compared to 5,484 in 2008 or a decrease of approximately 1.0 percent. Total average number of active year-to-date customers increased by .9 percent when compared to 2008.

*Non-operating Revenues.* Interest Income was $7.7 million compared to $5.7 million in 2008. The average rate of return on the General Fund was .75 percent in 2009 compared to 3.82 percent in 2008. The average monthly balance of the General Fund was $98.0 million in 2009 compared to $101.2 million in 2008, a decrease of .3 percent. Interest income was more than the previous year due to the additional assets in the Construction Fund that were provided by the June 2008 bond issuance. Revenue in Excess of Net Bills (Late Charge) increased by $0.4 million, and Rentals of Electric Property (primarily pole attachments) increased by $0.6 million.

*Operating Expenses.* Purchased power was $915.0 million for the period compared to $794.8 million in the previous year. The average realized rate on purchased power was $.079 per kilowatt-hour in 2009 compared to $.060 per kilowatt-hour in 2008. This increase was due to the pass-through of the FCA and the impact of TVA wholesale rate increases. Megawatt-hours purchased were 12.6 million in 2009 compared to 13.2 million in 2008. Line losses were 2.78 percent in 2009 compared to 3.22 percent in 2008, or a decrease of 13.7 percent.

Distribution expense for the period was $49.7 million compared to $46.1 million last year. This is an increase of $3.6 million or 7.8 percent. The change is primarily attributable to increases in tree trimming of $2.1 million; operation and maintenance of overhead lines of $0.9 million; emergency service of $0.6 million; supervision and engineering of $0.6 million; operation and maintenance of station equipment of $0.6 million; operation and maintenance of underground lines of $0.4 million; line transformers of $0.2 million; and structures of $.1 million, offset by a decrease in miscellaneous expenses of $1.9 million. Miscellaneous expense decreased as compared to the previous year primarily due to the costs for the pole pulling inventory program that were incurred during fiscal 2008.

Customer Accounts expense and Customer Service and Information expenses combined were $22.7 million for the period compared to $19.5 million last year. This is an increase of $3.2 million or 16.4 percent. This is primarily the result of an increase in the uncollectible accounts accrual of $1.9 million; data processing of $0.7 million; and customer orders and service expenses of $0.3 million; meter reading of $.2 million; customer records and collection of $0.1 million.

Administrative and General (A&G) expenses were $55.8 million for the period compared to $54.2 million last year. This was an increase of $1.6 million or 3.0 percent. The increase is primarily the result of an increase in employee pensions of $1.9 million; data processing of $0.7 million; outside services employed of $0.5 million; maintenance of general plant, $0.4 million; offset by decreases in injuries and damages of $1.4 million; and employee health insurance of $0.6 million.

Depreciation and Tax Equivalents were $44.0 million and $26.0 million compared to $40.9 million and $24.8 million for 2009 and 2008, respectively. The increase in depreciation was the result of increased investment in the utility plant. The increase in payments in-lieu-of taxes was the result of increases in tax rates coupled with increased investment in the utility plant.

The following table shows the composition of the operating expenses of the Board by major classification of expense for the last three years:

**Major Classifications of Expense ($000 omitted)**

| Description | Fiscal 2010 | Fiscal 2009 | Increase (Decrease) | Fiscal 2008 | Increase (Decrease) |
|---|---|---|---|---|---|
| Labor, excluding overtime | $ 48,547 | $ 49,859 | (2.6%) | $ 45,249 | 10.2% |
| Benefits | 46,761 | 33,932 | 37.8% | 32,159 | 5.5% |
| Tree-trimming | 8,393 | 10,655 | (21.2%) | 9,097 | 17.1% |
| Outside Services | 8,579 | 7,879 | 8.9% | 8,177 | (3.6%) |
| Materials | 3,240 | 4,141 | (21.8%) | 4,609 | (10.2%) |
| Transportation | 4,324 | 4,099 | 5.5% | 3,690 | 11.1% |
| Accrual for Uncollectible Accounts | 3,750 | 5,012 | (25.2%) | 2,946 | 70.1% |
| Postage | 1,539 | 1,477 | 4.2% | 1,532 | (3.6%) |
| Security/Police | 1,128 | 1,097 | 2.8% | 909 | 20.7% |
| Rentals | 738 | 1,100 | (32.9%) | 961 | 14.5% |
| Professional Fees | 1,708 | 1,484 | 15.1% | 1,054 | 40.8% |
| Insurance Premiums | 688 | 672 | 2.4% | 664 | 1.2% |
| Other | 3,879 | 6,822 | (43.1%) | 8,788 | (22.4%) |
| | $133,314 | $128,229 | 4.0% | $119,835 | 7.0% |

The Board's total operating expenses increased 4.0 percent from June 30, 2009, to June 30, 2010. Labor, including overtime, for fiscal year 2010 totaled $52.9 million, which represents an increase from fiscal year 2009 due to cost-of-living adjustments, step increases and merit increases. The labor expense for fiscal 2010 was offset by a $4.8 million Federal Disaster reimbursement accrual resulting in a net decrease in total labor costs. Benefits increased due to the increase in funding of Retirement and Survivors and Other Post-Employment Benefits determined by the actuarial valuations. The increase in the actuarial valuations is a direct result of the impact of the investment market. Tree-trimming decreased due to efficiencies gained over the life of our vegetation management program and adoption of our four-year trim cycle. The increase in Outside Services is primarily due to additional contract pole inspections. Material costs were less than the previous year due to a new requisitioning process. Transportation costs increased due to the cost of maintaining and operating vehicles. The Accrual for Uncollectable Accounts decreased due to fewer write-offs. Professional fees increased primarily due to additional legal fees.

The Board's total operating expenses increased 7.0 percent from June 30, 2008, to June 30, 2009. Labor costs increased primarily due to cost of living adjustments, as well as step increases and merit raises. Tree-trimming increased due to circuit trimming carry-over from prior fiscal years. The decrease in Outside Services is primarily due to a decrease in the pole inspection program and contract labor. Material costs were less than the previous year due to fewer maintenance projects being completed. Transportation costs increased due to an increase in the cost of maintaining and operating vehicles. The Board experienced a significant increase in Accrual for Uncollectible Accounts due to difficult economic conditions during fiscal year 2009.

## Capital Assets and Debt Administration

The Board's transmission and distribution facilities serve all of the 533 square miles located within the boundaries of the Metropolitan Government of Nashville and Davidson County, Tennessee. The Board serves an additional 167 square miles located in minor portions of the adjacent counties of Cheatham, Rutherford, Robertson, Sumner, Wilson, and Williamson. Such facilities require significant annual capital and maintenance expenditures. The Board's target is to have the capital expenditures funded equally from cash flow from operations and proceeds from tax-exempt bonds. The Board's investment in utility plant at June 30, 2010, was $819.3 million compared to $798.4 million at June 30, 2009. Major projects during fiscal year 2010 included auto transformer installation at Forest Hills, $20 million; Music City Center, $4.0 million; substation improvement projects at 10th Avenue, Watkins Park, and Edgehill, $2.0 million; breaker upgrades at Hurricane Creek and Davidson Road substations, $1.5 million; and the installation of a substation breaker and bus upgrade at Hillsboro, $1.0 million.

The Board has outstanding bonds payable of $502.0 million at June 30, 2010, compared to $520.9 million at June 30, 2009. This decrease is due primarily to the current portion of long-term debt maturing in 2010. The total outstanding bonds payable as of June 30, 2008 was $538.0 million. More detailed information about the Board's debt can be found in the financial statements.

Respectfully submitted,

Teresa Broyles-Aplin
Vice President and Chief Financial Officer

## ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

### STATEMENTS OF NET ASSETS ($000 OMITTED)
### JUNE 30, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash | $ 106,097 | $ 91,812 |
| Customer and other accounts receivable, less allowance for doubtful accounts of $822 and $797, respectively | 137,290 | 119,139 |
| Accrued interest receivable | 460 | 674 |
| Materials and supplies | 20,015 | 18,379 |
| Other current assets | 2,094 | 1,923 |
| TOTAL CURRENT ASSETS | 265,956 | 231,927 |
| INVESTMENT OF RESTRICTED FUNDS: | | |
| Cash and cash equivalents | 16,912 | 11,050 |
| Other investments | 74,425 | 114,857 |
| TOTAL RESTRICTED FUNDS | 91,337 | 125,907 |
| UTILITY PLANT: | | |
| Electric plant, at cost | 1,322,130 | 1,267,244 |
| Less: Accumulated depreciation | (502,795) | (468,839) |
| TOTAL UTILITY PLANT, NET | 819,335 | 798,405 |
| ENERGY CONSERVATION PROGRAMS' NOTES RECEIVABLE | 227 | 366 |
| UNAMORTIZED BOND ISSUANCE COSTS | 2,496 | 2,743 |
| OTHER NON-CURRENT ASSETS | 335 | 341 |
| TOTAL ASSETS | 1,179,686 | 1,159,689 |

See notes to financial statements.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**

**STATEMENTS OF NET ASSETS ($000 OMITTED)**
**JUNE 30, 2010 AND 2009 (continued)**

| | 2010 | 2009 |
|---|---|---|
| **LIABILITIES** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable for purchased power | 121,763 | 107,610 |
| Other accounts payable and accrued expenses | 34,191 | 24,270 |
| Customer deposits | 12,600 | 12,261 |
| TOTAL CURRENT LIABILITIES | 168,554 | 144,141 |
| CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS: | | |
| Construction contracts payable | 742 | 1,469 |
| Accrued interest payable | 2,778 | 1,725 |
| Current portion of long-term debt | 14,830 | 14,881 |
| TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS | 18,350 | 18,075 |
| LONG-TERM DEBT, LESS CURRENT PORTION | 487,142 | 506,027 |
| OTHER NON-CURRENT LIABILITIES: | | |
| Payable to TVA—energy conservation programs | 227 | 366 |
| Other | 3,604 | 2,976 |
| TOTAL OTHER NON-CURRENT LIABILITIES | 3,831 | 3,342 |
| COMMITMENTS AND CONTINGENCIES | | |
| TOTAL LIABILITIES | 677,877 | 671,585 |
| **NET ASSETS** | | |
| Invested in utility plant, net of related debt | 355,501 | 350,101 |
| Restricted | 52,177 | 52,854 |
| Unrestricted | 94,131 | 85,149 |
| TOTAL NET ASSETS | $ 501,809 | $ 488,104 |

See notes to financial statements.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS ($000 OMITTED) YEARS ENDED JUNE 30, 2010 AND 2009**

| | 2010 | 2009 |
|---|---|---|
| OPERATING REVENUES: | | |
| Residential | $ 446,321 | $ 468,704 |
| Commercial and industrial | 584,369 | 643,972 |
| Street and highway lighting | 14,583 | 15,799 |
| Other | 17,882 | 18,272 |
| Total operating revenues | 1,063,155 | 1,146,747 |
| PURCHASED POWER | 816,152 | 915,005 |
| MARGIN | 247,003 | 231,742 |
| OPERATING EXPENSES: | | |
| Distribution | 43,595 | 49,721 |
| Customer accounts | 20,216 | 21,509 |
| Customer service and information | 1,240 | 1,247 |
| Administrative and general | 68,263 | 55,752 |
| Tax equivalents | 26,806 | 26,031 |
| Depreciation | 46,034 | 44,024 |
| Total operating expenses | 206,154 | 198,284 |
| Operating income | 40,849 | 33,458 |
| NON-OPERATING REVENUE (EXPENSE): | | |
| Interest income | 1,328 | 7,721 |
| Interest expense | (26,362) | (25,174) |
| Total non-operating expense | (25,034) | (17,453) |
| EXTRAORDINARY LOSS – FLOOD | (2,110) | - |
| NET INCREASE IN NET ASSETS | 13,705 | 16,005 |
| NET ASSETS, beginning of year | 488,104 | 472,099 |
| NET ASSETS, end of year | $ 501,809 | $ 488,104 |

See notes to financial statements.

## ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

### STATEMENTS OF CASH FLOWS ($000 OMITTED)
### YEARS ENDED JUNE 30, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from customers | $ 1,045,483 | $ 1,145,402 |
| Payments to suppliers for goods and services | (874,912) | (994,098) |
| Payments to employees | (53,473) | (50,356) |
| Payments for tax equivalents | (26,267) | (25,535) |
| Net cash provided by operating activities | 90,831 | 75,413 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquisition and construction of utility plant | (62,712) | (60,861) |
| Utility plant removal costs | (7,183) | (8,668) |
| Salvage received from utility plant retirements | 1,238 | 398 |
| Principal payments on revenue bonds | (14,882) | (13,875) |
| Interest payments on revenue bonds | (29,117) | (28,123) |
| Net cash used in capital and related financing activities | (112,657) | (111,129) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investment securities | (165,346) | (218,064) |
| Proceeds from sales and maturities of investment securities | 199,915 | 242,933 |
| Interest on investments | 1,542 | 7,883 |
| Net cash provided by investing activities | 36,111 | 32,752 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS — UNRESTRICTED | 14,285 | (2,964) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR — UNRESTRICTED | 91,812 | 94,776 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR — UNRESTRICTED | $ 106,097 | $ 91,812 |

See notes to financial statements.

**STATEMENTS OF CASH FLOWS ($000 OMITTED)**
**YEARS ENDED JUNE 30, 2010 AND 2009 (continued)**

| | 2010 | 2009 |
|---|---|---|
| Reconciliation of operating income to net cash provided | | |
| by operating activities: | | |
| Operating income | $ 40,849 | $ 33,458 |
| Adjustments to reconcile operating income | | |
| to net cash provided by operating activities: | | |
| Depreciation | 47,728 | 45,745 |
| Changes in assets and liabilities: | | |
| Increase in customer and other accounts receivable | (18,151) | (2,010) |
| Increase in materials and supplies | (1,636) | (883) |
| Increase in other current assets | (170) | (273) |
| Decrease in energy conservation programs' notes receivable | 139 | 184 |
| Decrease (increase) in other non-current assets | 6 | (38) |
| Increase (decrease) in accounts payable for purchased power | 14,153 | (2,030) |
| Increase in other accounts payable and accrued expenses | 9,194 | 1,364 |
| Increase in customer deposits | 340 | 480 |
| Decrease in payable to TVA–energy conservation programs | (139) | (184) |
| Increase (decrease) in other non-current liabilities | 628 | (400) |
| Extraordinary loss–flood | (2,110) | - |
| Net cash provided by operating activities | $ 90,831 | $ 75,413 |

NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:

During 2010 and 2009, NES charged $7.8 million and $8.7 million, respectively, to accumulated depreciation representing the cost of retired utility plant.

During 2010 and 2009, $675 thousand and $254 thousand respectively, were charged to interest expense for amortization of bond premiums. Also, $588 thousand and $525 thousand were charged as amortization of the bond-issuance costs in 2010 and 2009, respectively.

See notes to financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Board") was established in 1939 when the City of Nashville purchased certain properties of the Tennessee Electric Power Company for the purpose of exercising control and jurisdiction over the electric distribution system. In conducting the operations of the electric distribution system, the Board does business as Nashville Electric Service ("NES"). NES is a component unit of The Metropolitan Government of Nashville and Davidson County, Tennessee (the "Metropolitan Government"), and is operated by a five-member board appointed by the Mayor and confirmed by the Council of the Metropolitan Government. Members of NES serve five-year staggered terms without compensation. In accordance with the Charter of the Metropolitan Government, NES exercises exclusive control and management, except NES must obtain the approval of the Council before issuing revenue bonds. The Metropolitan Government does not assume liability for the financial obligations of NES. In addition, the assets of NES cannot be encumbered to satisfy obligations of the Metropolitan Government. NES appoints a chief executive officer, who is charged with the responsibility for the day-to-day operations, including hiring of employees.

The financial statements of NES have been prepared in conformity with accounting principles generally accepted in the United States of America. NES maintains its accounts in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission on the accrual basis of accounting. NES is not subject to the jurisdiction of federal or state energy regulatory commissions.

Under Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* NES has elected to apply Financial Accounting Standards Board ("FASB") Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

The significant accounting policies followed by NES are outlined below.

***Estimates*** used in the preparation of financial statements are based on management's best judgments. The most significant estimates relate to allowance for uncollectible accounts receivable, inventory obsolescence, depreciation, intangible asset valuations and useful lives, employee benefit plan obligations, accrued power receivable and payable, unbilled receivables, and unreported medical claims. These estimates may be adjusted as more current information becomes available.

***For purposes of the statements of cash flows,*** cash and cash equivalents include unrestricted cash, commercial paper, U.S. Treasury Bills and certificates of deposit with an original maturity of three months or less.

***Restricted Assets*** of NES represent bond proceeds designated for construction and other monies required to be restricted for debt service.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Utility Plant*** is stated at original cost. Such cost includes applicable general and administrative costs and payroll and related costs such as pensions, taxes and other fringe benefits related to plant construction. Interest cost incurred during the period of construction of certain plant is capitalized. Capitalized interest was $587 thousand and $575 thousand in 2010 and 2009, respectively. Costs of depreciable retired utility plant, plus removal costs, less salvage, are charged to accumulated depreciation.

Depreciation is provided at rates which are designed to amortize the cost of depreciable plant over the estimated useful lives ranging from 5 to 40 years. The composite straight-line rates expressed as a percentage of average depreciable plant were as follows for June 30, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Distribution Plant, 18.2 to 40 years | 3.6% | 3.6% |
| Structure and improvements, 40 to 50 years | 2.1% | 2.0% |
| Office furniture and equipment, 7.1 to 16.7 years | 13.7% | 13.5% |
| Transportation equipment, 8 to 10 years | 6.1% | 6.0% |
| Other equipment, 8 to 33.3 years | 6.0% | 6.2% |

Maintenance and repairs, including the cost of renewals of minor items of property, are charged to either maintenance expense accounts or applicable clearing accounts. Replacements of property are charged to utility plant accounts.

***Investments and Cash Equivalents*** (including restricted assets) consist primarily of short-term U.S. Government securities or mortgage-backed securities from agencies chartered by Congress, and certificates of deposit. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reflected at their fair value except those investments that have a remaining maturity at the time of purchase of one year or less and certificates of deposit, which are reflected at cost.

***Materials and Supplies*** are stated at the moving weighted average cost which approximates actual cost.

***Unamortized Bond Issuance*** costs incurred in connection with the issuance of bonds are being amortized over the respective lives of the bond issues using the effective interest method.

***Compensated Absences*** represent the liability for employees' accumulated vacation days. The general policy of NES permits the accumulation, within certain limitations, of unused vacation days.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Revenues*** are recognized from meters read on a monthly cycle basis. Service that has been rendered from the latest date of each meter-reading cycle to month end is estimated and accrued as unbilled revenue receivable.

NES purchases electric power from the Tennessee Valley Authority ("TVA"). The cost of purchased power is calculated based upon retail billing units adjusted for estimated line losses. NES accrues for unbilled purchased power based on retail billing units.

***Asset Retirement Obligations*** are periodically reviewed and management has concluded that, at present, NES does not have any such asset retirement obligations.

***Operating and Non-operating Revenues and Expenses*** - Operating revenues include the sale of power and rental of electric property. Operating expenses include direct and indirect costs to operate and maintain the electric distribution system, including purchased power, fuel, depreciation, customer accounts, tax equivalents, and general and administrative costs. Non-operating revenues and expenses consist of interest income and expense.

***Income Taxes*** - NES is not subject to federal or state income taxes. While NES is not subject to property tax, NES pays tax equivalents in-lieu-of taxes to the Metropolitan Government and surrounding counties.

***Fair Value Measurements*** - Assets recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. Level inputs are as follows:

> Level 1 - Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.
>
> Level 2 - Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
>
> Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect NES' best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

## 2. UTILITY PLANT AND ACCUMULATED DEPRECIATION

Utility plant activity for the years ended June 30, 2010 and 2009, was as follows ($000 omitted):

| | Balance June 30, 2009 | Additions | Transfers & Retirements | Balance June 30, 2010 |
|---|---|---|---|---|
| Distribution plant | $ 1,084,476 | $ 47,133 | $ (6,837) | $ 1,124,772 |
| Land and land rights | 1,139 | - | - | 1,139 |
| Structures and improvements | 45,133 | - | (149) | 44,984 |
| Office furniture and equipment | 37,887 | 1,077 | (745) | 38,219 |
| Transportation equipment | 7,331 | 41 | (128) | 7,244 |
| Other equipment | 37,067 | 714 | (1,335) | 36,446 |
| Construction work-in-progress (a) | 54,211 | 15,115 | - | 69,326 |
| | $ 1,267,244 | $ 64,080 | $ (9,194) | $ 1,322,130 |

| | Balance June 30, 2008 | Additions | Transfers & Retirements | Balance June 30, 2009 |
|---|---|---|---|---|
| Distribution plant | $ 1,026,484 | $ 64,008 | $ (6,016) | $ 1,084,476 |
| Land and land rights | 1,139 | - | - | 1,139 |
| Structures and improvements | 42,974 | 2,159 | - | 45,133 |
| Office furniture and equipment | 35,434 | 3,135 | (682) | 37,887 |
| Transportation equipment | 6,785 | 879 | (333) | 7,331 |
| Other equipment | 35,812 | 1,409 | (154) | 37,067 |
| Construction work-in-progress (a) | 64,940 | - | (10,729) | 54,211 |
| | $ 1,213,568 | $ 71,590 | $ (17,914) | $ 1,267,244 |

(a) Represents the net activity to the construction work-in-progress account after transfers to plant accounts.

## 2. UTILITY PLANT AND ACCUMULATED DEPRECIATION (continued)

The related activity for accumulated depreciation for the years ended June 30, 2010 and 2009, was as follows ($000 omitted):

| | Balance June 30, 2009 | Provision | Original Cost | Cost of Removal | Salvage | Balance June 30, 2010 |
|---|---|---|---|---|---|---|
| Distribution plant | $ 396,661 | $ 38,899 | $ (6,775) | $ (7,183) | $ 1,177 | $ 422,779 |
| Structures and improvements | 15,011 | 935 | - | - | - | 15,946 |
| Office furniture and equipment | 30,500 | 5,209 | (744) | - | 2 | 34,967 |
| Transportation equipment | 1,891 | 446 | - | - | 46 | 2,383 |
| Other equipment | 24,776 | 2,239 | (307) | - | 12 | 26,720 |
| | $ 468,839 | $ 47,728 | $ (7,826) | $ (7,183) | $ 1,237 | $ 502,795 |

| | Balance June 30, 2008 | Provision | Original Cost | Cost of Removal | Salvage | Balance June 30, 2009 |
|---|---|---|---|---|---|---|
| Distribution plant | $ 373,888 | $ 37,209 | $ (6,016) | $ (8,668) | $ 248 | $ 396,661 |
| Structures and improvements | 14,117 | 894 | - | - | - | 15,011 |
| Office furniture and equipment | 26,238 | 4,944 | (682) | - | - | 30,500 |
| Transportation equipment | 1,684 | 425 | (333) | - | 115 | 1,891 |
| Other equipment | 22,622 | 2,273 | (154) | - | 35 | 24,776 |
| | $ 438,549 | $ 45,745 | $ (7,185) | $ (8,668) | $ 398 | $ 468,839 |

Depreciation is allocated between general and administrative expense and depreciation expense in the statements of revenues, expenses and changes in net assets.

## 3. CASH AND INVESTMENTS

Cash and investments consist of the following ($000 omitted):

| 2010 | Cash | Bond Funds | Special Construction | Total | Weighted Average Maturity (Years) |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 106,097 | $ 14,030 | $ 2,881 | $ 123,008 | - |
| U.S. Treasury Investments | - | 12,082 | - | 12,082 | 0.07 |
| Securities from Agencies Chartered by Congress | - | 28,842 | 33,502 | 62,344 | 0.68 |
| | $ 106,097 | $ 54,954 | $ 36,383 | $ 197,434 | 0.70 |

| 2009 | Cash | Bond Funds | Special Construction | Total | Weighted Average Maturity (Years) |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 91,812 | $ 8,036 | $ 3,014 | $ 102,862 | - |
| Securities from Agencies Chartered by Congress | - | 46,542 | 68,315 | 114,857 | 1.17 |
| | $ 91,812 | $ 54,578 | $ 71,329 | $ 217,719 | 0.66 |

Investments of $56.3 million and $91.6 million at June 30, 2010 and 2009, respectively, in U.S. Treasury Investments and Securities from Agencies Chartered by Congress are reported at fair value. Investments of $18.1 million and $23.3 million at June 30, 2010 and 2009, respectively, in U.S. Treasury investments, Securities from Agencies Chartered by Congress, commercial paper and certificates of deposit are reported at cost.

**3. CASH AND INVESTMENTS (continued)**

The net decrease in the fair value of investments during fiscal year 2010 was $1.6 million. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at June 30, 2010 was $758 thousand.

***Custodial Credit Risk*** – As of June 30, 2010 and 2009, NES' cash held by financial institutions was $123.0 million and $102.9 million, respectively. Bank balances for such accounts totaled $106.4 million and $92.7 million, respectively. Deposits in financial institutions are required by State of Tennessee ("State") statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and have a total minimum market value of 105 percent of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. Collateral requirements are not applicable for financial institutions that participate in the State's collateral pool. As of June 30, 2010 and 2009, all of NES' deposits were held by financial institutions, which participate in the bank collateral pool administered by the State Treasurer. Participating banks determine the aggregated balance of their public-fund accounts for the Metropolitan Government. The amount of collateral required to secure these public deposits is a certain percentage set by the State, depending on the financial institution, and must be at least that percentage of the average daily balance of public deposits held. Collected securities required to be pledged by the participating banks to protect their public-fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public-fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

***Credit Risk*** – NES is authorized to invest in obligations of the U.S. Treasury and U.S. governmental agencies, securities from agencies chartered by Congress, certificates of deposit, commercial paper rated A1 or equivalent and bonds of the State of Tennessee. Each of these investments is registered or held by NES or its agent in NES' name.

***Concentration of Credit Risk*** – NES has a policy prohibiting investment of greater than $5 million or 20 percent of the total investment portfolio in any one issue, except for the U.S. Government or any of its agencies. In 2010, more than 5 percent of NES' investments are in Securities from Agencies Chartered by Congress and a Public Fund Trust. These investments are 41.8 percent and 58.2 percent, respectively, of NES' total investments. In 2009, more than 5 percent of NES' investments are in Securities from Agencies Chartered by Congress and a Public Fund Trust. These investments are 56.4 percent and 43.6 percent, respectively, of NES' total investments.

***Interest Rate Risk*** – NES restricts its investments to maturities less than two years from the date of settlement as a means of managing exposure to fair value losses arising from changes in interest rates.

## 4. LONG-TERM DEBT

Long-term debt for the year ended June 30, 2010, is as follows ($000 omitted):

| | Balance June 30, 2009 | Deductions/ Repayments | Additions/ Amortization/ Accretion | Balance June 30, 2010 |
|---|---|---|---|---|
| Electric System Revenue Bonds, 1996 Series A, bear interest at rates from 5.5% to 6%, maturing through May 15, 2013, interest paid semiannually. | $ 40,642 | $ (5,881) | $ (4,933) | $ 29,828 |
| Electric System Revenue Bonds, 1998 Series A, bear interest at rates from 5.125% to 5.40%, maturing through May 15, 2023, interest paid semiannually. | 22,149 | - | 1,212 | 23,361 |
| Electric System Revenue Bonds, 1998 Series B, bear interest at rates from 4.75% to 5.50%, maturing through May 15, 2017, interest paid semiannually. | 33,189 | - | 92 | 33,281 |
| Electric System Revenue Bonds, 2001 Series A, bear interest at rates from 4.50% to 5.125%, maturing through May 15, 2017, interest paid semiannually. | 104,890 | (1,970) | 17 | 102,937 |
| Electric System Revenue Bonds, 2001 Series B, bear interest at 5.50%, maturing through May 15, 2014, interest paid semiannually. | 18,565 | - | (25) | 18,540 |
| Electric System Revenue Bonds, 2004 Series A, bear interest at rates from 4.50% to 5.00%, maturing through May 15, 2029, interest paid semiannually. | 109,375 | - | 4 | 109,379 |
| Electric System Revenue Bonds, 2008 Series A, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2033, interest paid semiannually. | 109,589 | (2,685) | (214) | 106,690 |
| Electric System Revenue Bonds, 2008 Series B, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2023, interest paid semiannually. | 82,509 | (4,345) | (208) | 77,956 |
| | 520,908 | $ (14,881) | $ (4,055) | 501,972 |
| Less current portion of long-term debt | (14,881) | | | (14,830) |
| | $ 506,027 | | | $ 487,142 |

**4. LONG-TERM DEBT (continued)**

Long-term debt for the year ended June 30, 2009, is as follows ($000 omitted):

| | Balance June 30, 2008 | Deductions/ Repayments | Additions/ Amortization/ Accretion | Balance June 30, 2009 |
|---|---|---|---|---|
| Electric System Revenue Bonds, 1996 Series A, bear interest at rates from 5.5% to 6%, maturing through May 15, 2013, interest paid semiannually. | $ 50,846 | $ (6,265) | $ (3,939) | $ 40,642 |
| Electric System Revenue Bonds, 1998 Series A, bear interest at rates from 5.125% to 5.40%, maturing through May 15, 2023, interest paid semiannually. | 21,000 | - | 1,149 | 22,149 |
| Electric System Revenue Bonds, 1998 Series B, bear interest at rates from 4.75% to 5.50%, maturing through May 15, 2017, interest paid semiannually. | 33,069 | - | 120 | 33,189 |
| Electric System Revenue Bonds, 2001 Series A, bear interest at rates from 4.50% to 5.125%, maturing through May 15, 2017, interest paid semiannually. | 106,767 | (1,880) | 3 | 104,890 |
| Electric System Revenue Bonds, 2001 Series B, bear interest at 5.50%, maturing through May 15, 2014, interest paid semiannually. | 18,582 | - | (17) | 18,565 |
| Electric System Revenue Bonds, 2004 Series A, bear interest at rates from 4.50% to 5.00%, maturing through May 15, 2029, interest paid semiannually. | 109,372 | - | 3 | 109,375 |
| Electric System Revenue Bonds, 2008 Series A, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2033, interest paid semiannually. | 112,348 | (2,500) | (259) | 109,589 |
| Electric System Revenue Bonds, 2008 Series B, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2023, interest paid semiannually. | 85,990 | (3,230) | (251) | 82,509 |
| | 537,974 | $ (13,875) | $ (3,191) | 520,908 |
| Less current portion of long-term debt | (13,875) | | | (14,881) |
| | $ 524,099 | | | $ 506,027 |

## 4. LONG-TERM DEBT (continued)

NES issues Revenue Bonds to provide funds primarily for capital improvements and for refundings of other bonds. All bond issues are secured by a pledge and lien on the net revenues of NES on parity with the pledge established by all bonds issued. Annual maturities on all long-term debt and related interest are as follows for each of the next five fiscal years and in five-year increments thereafter ($000 omitted):

| | Principal | Interest |
|---|---|---|
| 2011 | $ 19,826 | $ 24,087 |
| 2012 | 20,960 | 23,134 |
| 2013 | 22,056 | 22,071 |
| 2014 | 23,020 | 21,041 |
| 2015 | 24,144 | 20,014 |
| 2016-2020 | 135,337 | 82,543 |
| 2021-2025 | 144,854 | 48,159 |
| 2026-2030 | 91,134 | 16,642 |
| 2031-2033 | 20,641 | 2,009 |
| Total | $ 501,972 | $ 259,700 |

The Board has sufficient debt capacity and a strong financial position. Therefore, the tax-exempt bond market is expected to be a future source of liquidity to supplement the cash flow from operations. On June 27, 2008, the Board closed on the sale of the Metropolitan Government of Nashville and Davidson County, Tennessee, Electric System Revenue Bonds, 2008 Series A and B. The purpose of the 2008 Series A Bonds was to reimburse NES for a portion of the 2008 capital expenditures and to fund approximately 50 percent of NES' projected $219 million Capital Budget for the fiscal years ending June 30, 2009, through June 30, 2011. The remainder is being funded with operating revenues. The par amount of the 2008 Series A Bonds, $109.2 million, plus original issue premium, less underwriter discount, cost of issuance, and a deposit to the debt service reserve fund netted proceeds in the amount of $111.8 million of which $110 million was deposited into the Special Construction Fund, $1.6 million in the Debt Service Reserve Fund and $225 thousand into the General Fund. The 2008 Series B Bonds were being offered to refund $74.4 million aggregate principal amount of the 1998 Series A Bonds maturing May 15, 2015, 2016 and 2023, and to refund $13.2 million aggregate principal amount of 1998 Series B Bonds maturing on May 15, 2009, 2010 and 2011. During fiscal year 2010, NES drew down $35.7 million from these funds for capital expenditures. The remaining proceeds will be drawn down quarterly over the next year.

The following bond issues have been defeased through advanced refundings; therefore, the balances indicated, which are still outstanding at June 30, 2010, do not appear as liabilities on the Board's Statement of Net Assets:

| | Amounts Outstanding |
|---|---|
| 1998 Series A Bonds | $ 74,430,000 |
| 1998 Series B Bonds | 4,625,000 |

## 4. LONG-TERM DEBT (continued)

NES had a $25 million unsecured line-of-credit in 2010 and 2009 to be used for purchased power in case of a natural disaster. Borrowings under this line of credit bear a negotiated interest rate. At June 30, 2010 and 2009, there were no borrowings outstanding under this line-of-credit.

## 5. OTHER NON-CURRENT LIABILITIES

NES' other non-current liabilities consist primarily of TVA energy conservation program loans and customer contributions. The following table shows the activity for the year ($000 omitted):

| June 30, 2009 | Repayments | Additions | June 30, 2010 |
|---|---|---|---|
| $ 3,342 | $ (6,788) | $ 7,277 | $ 3,831 |

| June 30, 2008 | Repayments | Additions | June 30, 2009 |
|---|---|---|---|
| $ 3,926 | $ (3,849) | $ 3,265 | $ 3,342 |

NES is a fiscal intermediary for the TVA energy conservation programs whereby loans are made to NES' customers to be used in connection with TVA's Residential Energy Services Program. Pursuant to the terms of an agreement with TVA, the energy conservation loans made to NES' customers are funded and guaranteed by TVA.

## 6. PENSION PLAN

The Nashville Electric Service Retirement Annuity and Survivors' Plan (the "Plan") is a single employer defined benefit pension plan administered by NES. The Plan provides retirement and survivors' benefits to members and beneficiaries. Cost-of-living adjustments are provided to members and beneficiaries annually. The Charter of the Metropolitan Government assigns the authority to establish and amend benefit provisions to NES. The Plan is not required to issue a separate financial report.

All full-time regular employees under age 65 are eligible to participate in the Plan. The vesting provision of the Plan provides for five-year cliff vesting. NES employees who retire at or after age 65 are entitled to annual retirement benefits payable monthly for life in an amount equal to 2 percent of final average compensation multiplied by years in the Plan not in excess of 35 years. Final average compensation is the average compensation in the 36 consecutive months in which compensation is highest. Unused sick leave may be used to increase credited service and benefit percentage under certain circumstances. Early retirement is an option beginning at age 55 with 15 years of credited service or at age 50 with 30 years of credited service with an actuarially-reduced monthly benefit.

If the participant has attained age 55, and his/her age plus service is 85 or greater, then there is no reduction for early receipt of the benefit. However, a participant cannot use accumulated sick leave to increase effective age to meet the requirements for this unreduced benefit. For a participant with 25 or more years of service, the minimum pension benefit is $1,600 per month.

The contribution requirements of NES are established and may be amended by NES. The Plan is currently non-contributory. NES' practice is to typically fund at least the minimum contribution for a 30-

## 6. PENSION PLAN (continued)

year funding level. The current rate is 34.21 percent of annual covered payroll. NES contributed 100 percent of the required contribution for the Plan years 2010 and 2009.

The annual required contribution for the current year was determined as part of the April 1, 2009, actuarial valuation using the frozen initial liability method. The actuarial assumptions included (a) 8.0 percent investment rate of return and (b) projected salary increases of 4.5 percent. Both (a) and (b) included an inflation component. The assumptions include cost-of-living post-retirement benefit increases equal to 2 percent per year. The actuarial value of Plan assets is determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. The unfunded actuarial accrued liability is being amortized over 30 years. The required schedule of funding progress below presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

A change was made in the plan funding method effective April 1, 2009, whereby the amortization period was reset to a 30-year period beginning April 1, 2009. The result of this funding method change was a decrease in the normal cost of the plan of $11.0 million and an increase in the plan's actuarial accrued liability of $120.5 million.

Schedule of employer contributions for the past three years is shown below ($000 omitted):

| Plan Year | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 2010 | $ 23,765 | 100% |
| 2009 | 16,614 | 100% |
| 2008 | 15,203 | 100% |

Schedule of funding progress for the past three years is shown below ($000 omitted):

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) Entry Age | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll |
|---|---|---|---|---|---|---|
| | (a) | (b) | (b-a) | (a/b) | (c) | (b-a)/c |
| 4/1/2010 | $ 254,919 | $ 419,353 | $ 164,435 | 0.61 | $ 66,879 | 245.87% |
| 4/1/2009 | 222,571 | 400,759 | 178,188 | 0.56 | 65,694 | 271.24% |
| 4/1/2008 | 284,387 | 343,574 | 59,187 | 0.83 | 61,242 | 96.65% |

In 1994, NES established a non-qualified Supplemental Executive Retirement Plan (the "SERP"). The SERP was limited to certain employees of NES. Benefits accrued at the rate of 5 percent of salary for each year of credited service not to exceed 12 years and vests at the rate of 20 percent for each year of service, reduced by the percentage accrued and vested under NES' qualified plan. Effective April 1, 2005, the Board merged the SERP with the NES Retirement Annuity and Survivors' Benefit Plan. Adding the SERP benefits to the Plan increased the funding requirements for the Plan, but the amounts that had accumulated in the SERP Trust were transferred to the Plan in order to offset those increased costs. Future payments that would have been made into the SERP Trust will be directed into the Plan. At the time of conversion, no benefits had been paid from the SERP. Any change in funding requirements is reflected in the above schedule.

## 7. DEFERRED COMPENSATION PLAN

NES has a deferred compensation plan (the "Plan") created in accordance with Internal Revenue Code ("IRC") Section 457. The Plan, which is available to all full-time employees, permits employees to defer a portion of their salary until future years. Employees may contribute up to the legal limit of their compensation to the Plan with NES providing a matching contribution of up to 3 percent of compensation. The Plan provides that assets or income of the Plan shall be used for the exclusive purpose of providing benefits for participants and their beneficiaries or defraying reasonable expenses of administration of the Plan. Since the assets of the Plan are held in custodial and annuity accounts for the exclusive benefit of Plan participants, the related assets of the Plan are not reflected on the statements of net assets. Employees contributed $3.3 million and NES contributed $1.8 million to the Plan during each of the years ended June 30, 2010 and 2009.

## 8. POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6 and the deferred compensation benefits described in Note 7, NES provides post-retirement medical, dental, and life insurance benefits to all employees who retire from NES under the provisions of the qualified plan and supplemental executive retirement plan. Medical and dental benefits are also provided to their spouses. As of June 30, 2010, approximately 509 retirees meet those eligibility requirements. Expenses for these post-retirement benefits have previously been recognized as retirees report claims. Those incurred claims totaled $9.7 million and $10.1 million for the years ended June 30, 2010 and 2009, respectively. During the year ended June 30, 2008, NES implemented the provisions of GASB Statement No. 45 titled, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions.* These provisions were applied prospectively with respect to NES' Other Post-Employment Benefits (OPEB) Plan. GASB Statement No. 45 requires the accrual of OPEB obligations over the working careers of plan members rather than as claims are incurred. The total expenses that were recognized were $17.8 million and $15.4 million for the years ended June 30, 2010 and 2009, respectively.

The NES OPEB Plan is a single-employer defined benefit plan funded through an irrevocable trust that was established during the year ended June 30, 2008. The Charter of the Metropolitan Government assigns the authority to establish and amend benefit provisions to NES. The Plan is not required to issue a separate financial report.

NES' annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a 30-year period beginning April 1, 2009. The current rate is 26.18 percent of annual covered payroll. NES contributed 100 percent of the required contribution for the Plan year.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of NES are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented below provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

## 8. POST-EMPLOYMENT BENEFITS (continued)

Projections of benefits are based on the substantive plan (the plan as understood by NES and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between NES and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial valuation date: April 1, 2010

Actuarial cost method: Entry age, normal method

Amortization method: Level percentage of pay, open

Remaining amortization period: 30 years, closed

Asset valuation method: Adjust expected assets on the valuation date toward market value of assets by an amount equal to one-third of the difference between expected and market asset values

The actuarial assumptions included (a) 8.0 percent investment rate of return and (b) projected salary increases of 4.5 percent. Both (a) and (b) included an inflation component. The assumptions include health care cost trend rate increases equal to 5 percent per year.

Schedule of employer contributions for the past three years is listed below:

| Plan Year | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 2010 | $ 17,776,342 | 100% |
| 2009 | 15,382,816 | 100% |
| 2008 | 15,618,849 | 100% |

Schedule of funding progress for the past three years is shown below ($000 omitted):

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) Entry Age | Unfunded Actuarial Accrued Liability (UAAL) | Funded Percentage | Covered Payroll | Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll |
|---|---|---|---|---|---|---|
| | (a) | (b) | (b-a) | (a/b) | (c) | (b-a)/c |
| 4/1/2010 | $ 22,532 | $ 248,269 | $ 225,737 | 9.10 | $ 69,216 | 326.1% |
| 4/1/2009 | 12,894 | 243,925 | 231,031 | 5.30 | 68,775 | 335.9% |
| 4/1/2008 | 9,031 | 212,858 | 203,827 | 4.20 | 64,890 | 314.1% |

## 9. LEASES

Total rental expense entering into the determination of net operating income amounted to approximately $1.2 million and $1.1 million in 2010 and 2009, respectively. Rental expense consists primarily of payments for facilities rental and leasing arrangements for software licensing. NES leases these facilities and software under various cancelable lease agreements. Rental income is received under pole-attachment leases, which are accounted for as operating leases. These leases are cancelable. Therefore, future minimum rentals under these leases are not significant. Rental income from this source totaled $2.5 million and $2.4 million for the years ended June 30, 2010 and 2009, respectively.

## 10. RISK MANAGEMENT AND LIABILITY

NES is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. NES is an agency of the Metropolitan Government and is covered under the Tennessee Governmental Tort Liability Act, TCA 29-20-101, et al, (the "Act") and is self-insured under the act for tort liability. NES is immune from any award or judgment for death, bodily injury and/or property damage in excess of the limits as set forth in the Act. Therefore, NES has not secured insurance coverage in excess of such limits. NES is a participant in the Metropolitan Government Insurance Pool (the "Pool") for coverage of most property losses. The Pool is currently operated as a common risk management and insurance program for several public entities, including NES, the Metropolitan Nashville Airport Authority, the Metropolitan Transit Authority and the Department of Water and Sewerage Services. The Pool is self-sustaining through member premiums. NES subrogates for all losses paid out for the negligence of other parties.

NES is self-insured for employee dental claims and self-insured up to $100,000 for employee medical claims. The changes in the insurance reserves for medical and dental benefits for the years ended June 30, 2010 and 2009, are as follows ($000 omitted):

| | |
|---|---|
| Balance—June 30, 2008 | $ 1,795 |
| Payments | (19,973) |
| Incurred claims | 20,260 |
| Balance—June 30, 2009 | 2,082 |
| Payments | (18,863) |
| Incurred claims | 18,545 |
| Balance—June 30, 2010 | $ 1,764 |

NES continues to carry commercial insurance for all other risks of loss, including a retention with excess workers' compensation coverage and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NES is party to various lawsuits filed against it in the normal course of business. Management does not believe that damages, if any, arising from outstanding litigation, will have a material effect on the financial position of NES.

## 11. RELATED PARTY TRANSACTIONS

NES had related party balances and transactions as a result of providing electric power to the Metropolitan Government and entities of the Metropolitan Government, as well as making tax-equivalent payments to the Metropolitan Government and other payments to entities of the Metropolitan Government. These balances and transactions as of and for the years ended June 30, 2010 and 2009, are summarized as follows ($000 omitted):

| | 2010 | 2009 |
|---|---|---|
| Balances: | | |
| Accounts receivable | $ 2,093 | $ 2,926 |
| Accounts payable | 8 | 75 |
| Transactions: | | |
| Commercial and industrial revenue—Metropolitan Government Entities | 50,465 | 55,343 |
| Street and highway lighting revenue—Metropolitan Government Entities | 5,519 | 6,053 |
| Tax equivalents operating expense—Metropolitan Government Entities | 25,006 | 24,334 |

## 12. FAIR VALUE OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on NES' assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures and measurements at June 30, 2010 and 2009 ($000 omitted):

| | | | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Assets/ Liabilities Measured at Fair Value | Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| June 30, 2010 | | | | | | |
| Cash, cash equivalents and investments | $197,434 | $197,434 | $197,434 | $197,434 | $ - | $ - |
| Long-term debt | 501,972 | 471,795 | - | - | - | - |
| June 30, 2009 | | | | | | |
| Cash, cash equivalents and investments | $217,719 | $217,719 | $217,719 | $217,719 | $ - | $ - |
| Long-term debt | 520,908 | 548,071 | - | - | - | - |

## 12. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following methods were used to estimate fair value of each class of significant financial instruments:

***Cash and Cash Equivalents (both restricted and nonrestricted), Accounts Receivable, Accounts Payable, and Accrued Expenses*** - Carrying amount approximates fair value due to the short-term nature of those instruments.

***Investments (both restricted and unrestricted)*** - Fair value is estimated based upon quoted market prices, where available, and on Level 2 inputs.

***Long-term Debt*** - Fair value is estimated based upon market prices, and discounted cash flow analysis based on the current incremental borrowing rate.

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2010. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of the financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

## 13. EXTRAORDINARY LOSS – FLOOD

NES experienced significant damage and loss in connection with heavy rainfall and flooding in the Metro Nashville/Davidson County area in early May 2010. The flooding resulted in the declaration of a Federal Disaster area by the Federal Emergency Management Agency. Damages, net of estimated reimbursement, in the total amount of $2.1 million were recorded as an extraordinary loss as of June 30, 2010, to reflect the unusual and infrequent nature of the damage and related loss to NES' assets and the associated costs of restoration, repair and replacement. The extraordinary loss of $2.1 million was made up of $1.0 million in expenditures in excess of the estimated $5.3 million receivable from insurance and government disaster assistance grants and a $1.1 million impairment loss on capital assets.

## 14. SUBSEQUENT EVENTS

NES has evaluated subsequent events through October 29, 2010, the issuance date of the financial statements, and has determined that there are no subsequent events that require disclosure.

# SUPPLEMENTARY INFORMATION

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF INSURANCE COVERAGE YEAR ENDED JUNE 30, 2010 (UNAUDITED)**

| Type of Coverage | Amount of Coverage |
|---|---|
| **Property Insurance** | |
| General plant, contents, substations and construction in progress | $689,105,077 |
| Computer equipment | $5,158,350 |
| NFIP – West Service Center | $1,853,600 |
| **Boiler & Machinery** | |
| Limit per Accident | $25,000,000 |
| Business Interruption/Extra Expense | $1,000,000 |
| **Electronic Data Processing** | |
| Equipment | $5,558,350 |
| Transit | $25,000 |
| Data and media combined | $300,000 |
| Extra expense | $100,000 |
| Business Interruption | $25,000 |
| **Vehicle Coverage** | |
| Automobile physical damage: | |
| West Service Center | $4,000,000 |
| Donelson Service Center | $4,000,000 |
| 1214 Church Street | $4,000,000 |
| Primary liability (outside Tennessee) | $1,000,000 |
| Hired physical damage | $50,000 |
| Vehicles subject to 24-hour take home | |
| Liability | $2,000,000 |
| Medical | $5,000 |
| Uninsured motorist | $1,000,000 |
| Excess liability on 24-hour NES vehicles | $4,000,000 |
| **Workers' Compensation** | |
| Excess coverage over $400,000 retention | |
| Workers' compensation | Statutory |
| Employers liability | $35,000,000 |

**SCHEDULE OF INSURANCE COVERAGE (continued)**
**YEAR ENDED JUNE 30, 2010 (UNAUDITED)**

| | |
|---|---|
| **Directors and Officers Liability/Public Officials Liability** | |
| Employment practices liability | $15,000,000 |
| | |
| **Fiduciary/Pension Trust Liability** | $15,000,000 |
| Excess fiduciary | $10,000,000 |
| | |
| **Crime** | |
| Employee dishonesty | $1,000,000 |
| Loss inside | $1,000,000 |
| Loss outside | $1,000,000 |
| Money order/counterfeit | $1,000,000 |
| Depositor's forgery | $1,000,000 |
| Computer crime | $1,000,000 |
| | |
| **Group Travel** | |
| 24-hour business trip for all full-time employees and non-employee member of EPB | $400,000 |
| | |
| **Extortion** | $3,000,000 |

***Note: Policy period for Metro Pool Property Insurance Coverage is 7/1/09-6/30/10. Policy period for all other coverages is 11/1/09- 10/31/10.***

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF UTILITY RATES IN FORCE JUNE 30, 2010 (UNAUDITED)**

| | |
|---|---|
| ***RS Residence*** | |
| Customer Charge - Per Delivery | |
| Point Per Month | $11.72 |
| Energy Charge - Per kWh | $ 0.08923 |
| ***General Power Rate Schedules*** | |
| GSA I (Less than 50kW) | |
| Customer Charge - Per Delivery Point Per Month | $25.38 |
| Energy Charge - (Per kWh) | $0.10092 |
| GSA II (51-1000 kW) | |
| Customer Charge - Per Delivery | |
| Point Per Month | $156.87 |
| Demand charge (Per kWD per month) - | |
| 51-1000 kW | $ 14.47 |
| Energy Charge - (Per kWh) | |
| 1st 15,000 kWh | $0.10092 |
| All Additional kWh | $0.05275 |
| GSA III (1001-5000 kWh) | |
| Customer charge (Per delivery point per month) | $818.95 |
| Demand charge (Per kWD per month) - | |
| First 1000 kWD | $14.63 |
| 1,001 – 5,000 kW | $16.51 |
| Energy charge (Per kWh) | $0.05250 |
| TGSAI (Less than 50 kW) | |
| Customer Charge (Per delivery point per month) | $326.79 |
| Energy Charge - (Per kWh) | |
| Onpeak kWh | $0.16846 |
| Offpeak kWh | $0.05436 |
| TGSAII (51-1,000 kW) | |
| Customer Charge (Per delivery point per month) | $326.79 |
| Demand charge (Per kWD per month) - | |
| Distribution Capacity Charge | $2.59 |
| Onpeak kW | $11.84 |
| Offpeak kW | $1.59 |
| Energy Charge - (Per kWh) | |
| Onpeak kWh | $0.07041 |
| Offpeak kWh | $0.04564 |

**SCHEDULE OF UTILITY RATES IN FORCE (continued)
JUNE 30, 2010 (UNAUDITED)**

| | |
|---|---|
| TGSAIII (1,001 – 5,000 kW) | |
| Customer Charge (Per delivery point per month) | $818.95 |
| Demand charge (Per kWD per month) - | |
| Distribution Capacity Charge | $1.91 |
| Onpeak kW | $13.81 |
| Offpeak kW | $1.58 |
| Energy Charge – (Per kWh) | |
| Onpeak kWh | $0.06760 |
| Offpeak kWh | $0.04282 |
| | |
| GSB (Demand 5,001 – 15,000 kW) | |
| Customer Charge - Per Delivery Point Per Month | $2,000.00 |
| Demand Charge - Per kWD | $15.57 |
| Plus an additional $15.57 per kWD per month for each kWD, if any, of the amount by which the customer's billing demand exceeds the contract demand. | |
| Energy Charge - Per kWh | |
| kWh (620 x metered demand) | $0.04336 |
| Additional kWh | $0.03576 |
| GSC (demand 15,001-25,000 kW) | $2,000.00 |
| Customer charge (Per Delivery Point Per Month) | $15.57 |
| Demand Charge (Per kWD) | |
| Energy charge (Per kWh) | |
| kWh (620 x metered demand) | $0.04336 |
| Additional kWh | $0.03576 |
| | |
| GSD (Demand over 25,000 kW) | |
| Customer Charge (Per Delivery Point Per Month) | $2,000.00 |
| Demand Charge (Per kWD) | $19.02 |
| Energy Charge (Per kWh) | $0.03518 |

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF UTILITY RATES IN FORCE (continued)**
**JUNE 30, 2010 (UNAUDITED)**

| | |
|---|---|
| ***Manufacturing Rates*** | |
| MSBI (Demand 5,001 – 15,000 kW) | |
| Customer Charge (Per Delivery Point Per Month) | $2,000.00 |
| Demand Charge (Per kWD) | $13.44 |
| Energy charge (Per kWh) | |
| kWh (620 x metered demand) | $0.03722 |
| Additional kWh | $0.03074 |
| MSBII (Demand 5,001 – 15,000 kW) | |
| Customer Charge (Per Delivery Point Per Month) | $2,000.00 |
| Demand Charge (Per kWD) | $12.76 |
| Energy charge (Per kWh) | |
| kWh (620 x metered demand) | $0.03545 |
| Additional kWh | $0.02932 |
| MSC (Demand 15,001 – 25,000 kW) | |
| Customer Charge (Per Delivery Point Per Month) | $2,000.00 |
| Demand Charge (Per kWD) | $12.76 |
| Energy charge (Per kWh) | |
| kWh (620 x metered demand) | $0.03545 |
| Additional kWh | $0.02932 |
| MSD (Demand Greater than 25,000 kW) | |
| Customer Charge (Per Delivery Point Per Month) | $2,000.00 |
| Demand Charge (Per kWD) | $15.56 |
| Energy charge (Per kWh) | |
| All kWh | $0.02883 |
| ***LS Outdoor Lighting*** | |
| Energy Charge (Cents Per kWh) | $0.06030 |
| Customer charge (per delivery point Per month) | $2.50 |

**SCHEDULE OF UTILITY RATES IN FORCE (continued)**
**JUNE 30, 2010 (UNAUDITED)**

***Time Differentiated Hours Use of Demand Rates***

| | |
|---|---|
| TDGSB (Demand 1,001 – 15,000 kW) | |
| Customer Charge (Per Delivery Point Per Month) | $2,000.00 |
| Summer Season | |
| On-Peak kW | $16.24 |
| Off-Peak Demand | $4.15 |
| Energy Charge – On Peak | $0.09158 |
| Energy Charge – Off Peak | $0.05520 |
| Winter Season | |
| On-Peak kW | $9.33 |
| Off-Peak Demand | $4.15 |
| Energy Charge – On Peak | $0.06183 |
| Energy Charge – Off Peak | $0.05520 |
| Transition Season | |
| Off-Peak Demand Charge | $4.15 |
| Energy Charge Off-Peak | $0.05520 |

| | |
|---|---|
| TDGSC (Demand 15,001-25,000kW) | |
| Customer Charge (Per Delivery Point Per Month) | $2,000.00 |
| Summer Season | |
| On-Peak kW | $16.24 |
| Off-Peak Demand | $4.15 |
| Energy Charge – On Peak | $0.08807 |
| Energy Charge – Off Peak | $0.05266 |
| Winter Season | |
| On-Peak kW | $9.33 |
| Off-Peak Demand | $4.15 |
| Energy Charge – On Peak | $0.05906 |
| Energy Charge – Off Peak | $0.05266 |
| Transition Season | |
| Off-Peak Demand Charge | $4.15 |
| Energy Charge Off-Peak | $0.05266 |

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF UTILITY RATES IN FORCE (continued)**
**JUNE 30, 2010 (UNAUDITED)**

***Time Differentiated Hours Use of Demand Rates***

| | |
|---|---|
| TDGSD (Demand >25,000 kW) | |
| Customer Charge (Per Delivery Point Per Month) | $2,000.00 |
| Summer Season | |
| On-Peak kW | $16.23 |
| Off-Peak Demand | $4.14 |
| Energy Charge – On Peak | $0.08659 |
| Energy Charge – Off Peak | $0.05014 |
| Winter Season | |
| On-Peak kW | $9.32 |
| Off-Peak Demand | $4.14 |
| Energy Charge – On Peak | $0.05673 |
| Energy Charge – Off Peak | $0.05014 |
| Transition Season | |
| Off-Peak Demand Charge | $4.14 |
| Energy Charge Off-Peak | $0.05014 |

| | |
|---|---|
| TDMSB (Demand 1,001-15,000kW) | |
| Customer Charge (Per Delivery Point Per Month) | $2,000.00 |
| Summer Season | |
| On-Peak kW | $16.25 |
| Off-Peak Demand | $4.16 |
| Energy Charge – On Peak | $0.07685 |
| Energy Charge – Off Peak | $0.04084 |
| Winter Season | |
| On-Peak kW | $9.34 |
| Off-Peak Demand | $4.16 |
| Energy Charge – On Peak | $0.04771 |
| Energy Charge – Off Peak | $0.04084 |
| Transition Season | |
| Off-Peak Demand Charge | $4.16 |
| Energy Charge Off-Peak | $0.04084 |

**SCHEDULE OF UTILITY RATES IN FORCE (continued)**
**JUNE 30, 2010 (UNAUDITED)**

***Time Differentiated Hours Use of Demand Rates***

| | |
|---|---|
| TDMSC (Demand 15,001 - 25,000 kW) | |
| Customer Charge (Per Delivery Point Per Month) | $2,000.00 |
| Summer Season | |
| On-Peak kW | $16.25 |
| Off-Peak Demand | $4.16 |
| Energy Charge – On Peak | $0.07765 |
| Energy Charge – Off Peak | $0.04073 |
| Winter Season | |
| On-Peak kW | $9.34 |
| Off-Peak Demand | $4.16 |
| Energy Charge – On Peak | $0.04785 |
| Energy Charge – Off Peak | $0.04073 |
| Transition Season | |
| Off-Peak Demand Charge | $4.16 |
| Energy Charge Off-Peak | $0.04073 |
| | |
| TDMSD (Demand >25,000kW) | |
| Customer Charge (Per Delivery Point Per Month) | $2,000.00 |
| Summer Season | |
| On-Peak kW | $16.24 |
| Off-Peak Demand | $4.15 |
| Energy Charge – On Peak | $0.07601 |
| Energy Charge – Off Peak | $0.03912 |
| Winter Season | |
| On-Peak kW | $9.33 |
| Off-Peak Demand | $4.15 |
| Energy Charge – On Peak | $0.04606 |
| Energy Charge – Off Peak | $0.03912 |
| Transition Season | |
| Off-Peak Demand Charge | $4.15 |
| Energy Charge Off-Peak | $0.03912 |

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF NUMBER OF CUSTOMERS**
**JUNE 30, 2010 (UNAUDITED)**

| | |
|---|---|
| Residential | 320,142 |
| Small Commercial | 32,442 |
| Large Commercial and Industrial | 6,398 |
| Street and Highway Lighting | 540 |
| Total Customers | 359,522 |

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF INVESTMENTS**
**JUNE 30, 2010 (UNAUDITED)**

| Face Value | Description | Fair Value |
|---|---|---|
| | ***Securities From Agencies Chartered by Congress*** | |
| $ 22,000,000 | FHLB, 4.25%, 6/10/11 | $ 22,749,320 |
| 8,235,000 | Federal National Mortgage (Fannie Mae), 5.50%, 03/15/11 | 8,530,966 |
| 8,280,000 | Federal National Mortgage (Fannie Mae), 4.38%, 9/13/10 | 8,349,883 |
| 8,340,000 | FHLB, 3.00%, 12/10/10 | 8,379,321 |
| 7,970,000 | FHLB, 4.25%, 6/10/11 | 8,241,458 |
| 6,100,000 | FHLB Note, Zero Coupon, 11/05/10 | 6,092,761 |
| | | 62,343,709 |
| | ***U.S. Treasury Investments*** | |
| 12,046,000 | U.S. Treasury Bills, 0.875%, 02/28/11 | 12,081,854 |
| | | $74,425,563 |

**SCHEDULE OF LONG-TERM DEBT, PRINCIPAL AND INTEREST SINKING FUND REQUIREMENTS BY FISCAL YEAR**
**JUNE 30, 2010 (UNAUDITED)**

| YEAR ENDING 5/15/xx | 1996 SERIES A CABS | | 1998 SERIES A CABS | | 1998 SERIES B | | 2001 SERIES A | |
|---|---|---|---|---|---|---|---|---|
| | PRINCIPAL | INTEREST | PRINCIPAL | INTEREST | PRINCIPAL | INTEREST | PRINCIPAL | INTEREST |
| 2011 | $5,509,564 | $7,640,436 | $ - | $ - | $ - | $1,838,925 | $2,060,000 | $5,228,605 |
| 2012 | 5,158,202 | 7,991,798 | - | - | 4,855,000 | 1,838,925 | 2,165,000 | 5,125,605 |
| 2013 | 2,412,285 | 4,162,715 | - | - | 5,120,000 | 1,571,900 | 2,475,000 | 5,028,180 |
| 2014 | - | - | - | - | 5,400,000 | 1,290,300 | 2,545,000 | 4,914,330 |
| 2015 | - | - | - | - | 5,700,000 | 993,300 | 6,015,000 | 4,794,715 |
| 2016 | - | - | - | - | 6,015,000 | 679,800 | 6,310,000 | 4,493,965 |
| 2017 | - | - | 4,311,609 | 7,523,391 | 6,345,000 | 348,975 | 6,625,000 | 4,184,775 |
| 2018 | - | - | 4,087,927 | 7,747,073 | - | - | 5,860,000 | 3,860,150 |
| 2019 | - | - | 3,875,844 | 7,959,156 | - | - | 6,160,000 | 3,559,825 |
| 2020 | - | - | - | - | - | - | 6,475,000 | 3,244,125 |
| 2021 | - | - | - | - | - | - | 6,805,000 | 2,912,281 |
| 2022 | - | - | - | - | - | - | 7,155,000 | 2,563,525 |
| 2023 | - | - | - | - | - | - | 7,520,000 | 2,196,831 |
| 2024 | - | - | - | - | - | - | 11,200,000 | 1,811,431 |
| 2025 | - | - | - | - | - | - | 11,770,000 | 1,237,431 |
| 2026 | - | - | - | - | - | - | 12,375,000 | 634,219 |
| 2027 | - | - | - | - | - | - | - | - |
| 2028 | - | - | - | - | - | - | - | - |
| 2029 | - | - | - | - | - | - | - | - |
| 2030 | - | - | - | - | - | - | - | - |
| 2031 | - | - | - | - | - | - | - | - |
| 2032 | - | - | - | - | - | - | - | - |
| 2033 | - | - | - | - | - | - | - | - |
| TOTAL | 13,080,051 | 19,794,949 | 12,275,380 | 23,229,620 | 33,435,000 | 8,562,125 | 103,515,000 | 55,789,994 |
| ACCRETION | 16,748,324 | (16,748,324) | 11,085,715 | (11,085,715) | - | - | - | - |
| DISC/ PREM | - | - | - | - | 672,128 | (672,128) | (578,433) | 578,433 |
| GROSS | 29,828,375 | $3,046,625 | 23,361,095 | $12,143,905 | 34,107,128 | $7,889,997 | 102,936,567 | $56,368,427 |
| DEFERRED AMOUNT ON REFUNDING | - | | - | | ( 826,630) | | - | |
| NET | $29,828,375 | | $23,361,095 | | $33,280,498 | | $102,936,567 | |

| 2001 SERIES B | | 2004 SERIES A | | 2008 SERIES A | | 2008 SERIES B | | TOTAL DEBT SERVICE | | |
|---|---|---|---|---|---|---|---|---|---|---|
| PRINCIPAL | INTEREST | PRINCIPAL | INTEREST | PRINCIPAL | INTEREST | PRINCIPAL | INTEREST | PRINCIPAL | INTEREST | TOTAL |
| $ - | $1,012,000 | $ - | $5,494,700 | $2,770,000 | $ 4,779,163 | $ 4,490,000 | $ 3,692,800 | $14,829,564 | $29,686,629 | $ 44,516,193 |
| - | 1,012,000 | - | 5,494,700 | 2,860,000 | 4,689,138 | - | 3,468,300 | 15,038,202 | 29,620,466 | 44,658,668 |
| 6,365,000 | 1,012,000 | - | 5,494,700 | 2,960,000 | 4,589,038 | - | 3,468,300 | 19,332,285 | 25,326,833 | 44,659,118 |
| 12,035,000 | 661,925 | - | 5,494,700 | 3,065,000 | 4,485,438 | 1,160,000 | 3,468,300 | 24,205,000 | 20,314,993 | 44,519,993 |
| - | - | - | 5,494,700 | 3,170,000 | 4,378,163 | 10,540,000 | 3,427,700 | 25,425,000 | 19,088,578 | 44,513,578 |
| - | - | - | 5,494,700 | 3,290,000 | 4,259,288 | 11,025,000 | 2,945,250 | 26,640,000 | 17,873,003 | 44,513,003 |
| - | - | - | 5,494,700 | 3,415,000 | 4,135,913 | - | 2,394,000 | 20,696,609 | 24,081,754 | 44,778,363 |
| - | - | 6,320,000 | 5,494,700 | 3,545,000 | 4,007,850 | - | 2,394,000 | 19,812,927 | 23,503,773 | 43,316,700 |
| - | - | 6,630,000 | 5,184,000 | 3,685,000 | 3,866,050 | - | 2,394,000 | 20,350,844 | 22,963,031 | 43,313,875 |
| - | - | 6,965,000 | 4,852,500 | 3,870,000 | 3,681,800 | 11,575,000 | 2,394,000 | 28,885,000 | 14,172,425 | 43,057,425 |
| - | - | 7,315,000 | 4,504,250 | 4,060,000 | 3,488,300 | 12,155,000 | 1,815,250 | 30,335,000 | 12,720,081 | 43,055,081 |
| - | - | 7,680,000 | 4,138,500 | 4,265,000 | 3,285,300 | 12,760,000 | 1,207,500 | 31,860,000 | 11,194,825 | 43,054,825 |
| - | - | 8,060,000 | 3,754,500 | 4,480,000 | 3,072,050 | 13,400,000 | 569,500 | 33,460,000 | 9,592,881 | 43,052,881 |
| - | - | 8,155,000 | 3,351,500 | 4,700,000 | 2,848,050 | - | - | 24,055,000 | 8,010,981 | 32,065,981 |
| - | - | 8,570,000 | 2,943,750 | 4,925,000 | 2,624,800 | - | - | 25,265,000 | 6,805,981 | 32,070,981 |
| - | - | 8,995,000 | 2,515,250 | 5,160,000 | 2,390,863 | - | - | 26,530,000 | 5,540,332 | 32,070,332 |
| - | - | 13,105,000 | 2,065,500 | 5,405,000 | 2,145,763 | - | - | 18,510,000 | 4,211,263 | 22,721,263 |
| - | - | 13,760,000 | 1,410,250 | 5,660,000 | 1,889,025 | - | - | 19,420,000 | 3,299,275 | 22,719,275 |
| - | - | 14,445,000 | 722,250 | 5,930,000 | 1,620,175 | - | - | 20,375,000 | 2,342,425 | 22,717,425 |
| - | - | - | - | 6,210,000 | 1,338,500 | - | - | 6,210,000 | 1,338,500 | 7,548,500 |
| - | - | - | - | 6,520,000 | 1,028,000 | - | - | 6,520,000 | 1,028,000 | 7,548,000 |
| - | - | - | - | 6,850,000 | 702,000 | - | - | 6,850,000 | 702,000 | 7,552,000 |
| - | - | - | - | 7,190,000 | 359,500 | - | - | 7,190,000 | 359,500 | 7,549,500 |
| 18,400,000 | 3,697,925 | 110,000,000 | 79,399,850 | 103,985,000 | 69,664,167 | 77,105,000 | 33,638,900 | 471,795,431 | 293,777,530 | 765,572,961 |
| - | - | - | - | - | - | - | - | 27,834,039 | ( 27,834,039) | - |
| 545,823 | (545,823) | (620,781) | 620,781 | 2,705,021 | (2,705,021) | 3,519,130 | (3,519,130) | 6,242,888 | (6,242,888) | - |
| 18,945,823 | $3,152,102 | 109,379,219 | $80,020,631 | 106,690,021 | $66,959,146 | 80,624,130 | $30,119,770 | 505,872,358 | $259,700,603 | $765,572,961 |
| (405,479) | | - | | - | | (2,668,622) | | ( 3,900,731) | | |
| $18,540,344 | | $109,379,219 | | $106,690,021 | | $77,955,508 | | $501,971,627 | | |

ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

| Federal Grantor | Federal CFDA Number | Beginning (Accrued) Deferred Amount | Cash Receipts | Expenditures | Ending (Accrued) Deferred Amount |
|---|---|---|---|---|---|
| U.S. Department of Homeland Security Disaster Grants - Public Assistance | 97.036 | $ - | $ - | $5,252,902 | $(5,252,902) |

Note 1: The schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

Note 2: The grant revenue amounts received are subject to audit and adjustment. If any expenditures are disallowed by the grantor agency as a result of such an audit, any claim for reimbursement to the grantor agency would become a liability of the Board. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations.

CROSSLIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Electric Power Board of the
Metropolitan Government of
Nashville and Davidson County
Nashville, Tennessee

We have audited the statement of net assets of the Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Board"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of June 30, 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended and have issued our report thereon dated October 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Members of the Electric Power Board of the
Metropolitan Government of
Nashville and Davidson County

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Members of the Board, the Audit and Ethics Committee, management and others within the Board, the Comptroller of the Treasury, State of Tennessee, the Metropolitan Government of Nashville and Davidson County, Tennessee, and the federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin & Associates, P.C.

Nashville, Tennessee
October 29, 2010

CROSSLIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Electric Power Board of the
Metropolitan Government of
Nashville and Davidson County
Nashville, Tennessee

## Compliance

We have audited the compliance of the Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Board"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the Board's major federal program for the year ended June 30, 2010. The Board's major federal program is identified in the summary of independent auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Board's compliance with those requirements.

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Members of the Electric Power Board of the
Metropolitan Government of
Nashville and Davidson County

In our opinion, the Board complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

The Board's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Board's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness on internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Members of the Board, the Audit and Ethics Committee, management and others within the Board, the Comptroller of the Treasury, State of Tennessee, the Metropolitan Government of Nashville and Davidson County, Tennessee, and the federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin & Associates, P.C.

Nashville, Tennessee
December 10, 2010

**SECTION I - SUMMARY OF INDEPENDENT AUDITORS' RESULTS**

Financial Statements

| | |
|---|---|
| Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | ___yes _x_ no |
| Significant deficiency(ies) identified not considered to be material weaknesses? | ___yes _x_ none reported |
| Noncompliance material to financial statements noted? | ___yes _x_ no |

Federal Awards

| | |
|---|---|
| Internal control over major programs: | |
| Material weakness(es) identified? | ___yes _x_ no |
| Significant deficiency(ies) identified not considered to be material weaknesses? | ___yes _x_ none reported |
| Type of auditors' report issued on compliance for the major program: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | ___yes _x_ no |

**SECTION I - SUMMARY OF INDEPENDENT AUDITORS' RESULTS**

Federal Awards - Continued

Identification of major program:

| CFDA Number | Name of Federal Program | |
|---|---|---|
| 97.036 | Disaster Grants - Public Assistant | $5,252,902 |

Dollar threshold used to distinguish between Type A and Type B programs: N/A

Auditee qualified as low-risk auditee? ___yes _x_ no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

A. Significant Deficiencies in Internal Control

None

B. Compliance Findings

None

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2010

The Board had no prior year audit findings.