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

FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

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

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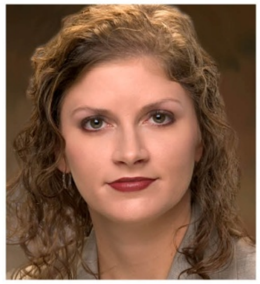
Schedule of Executive Management

Decosta Jenkins
NES President and Chief Executive Officer



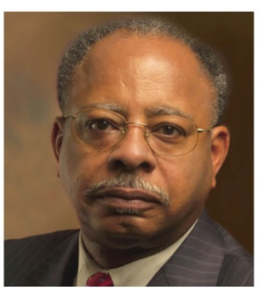
Teresa Broyles-Aplin
Vice President of Finance and Administration and Chief Financial Officer

Allen Bradley
Executive Vice President and Chief Operating Officer

Board Members

Robert McCabe
NES Board Chairman
Chairman
Pinnacle Financial Partners

Richard Courtney
Partner
Christianson Patterson Courtney and Associates



Sam Howard
Chairman
Phoenix Holdings, Inc.

Robert J. Mendes
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Yanika Smith-Bartley
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Electric Power Board of the Metropolitan
Government of Nashville and Davidson County
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying statements of net position of the Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Electric Power Board"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of June 30, 2013 and 2012 and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Power Board as of June 30, 2013 and 2012 and the changes in its net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Electric Power Board adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective June 30, 2012 and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2011. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements the collectively comprise the Electric Power Board's financial statements. The schedule of executive management and board members as listed in table of contents and the supplementary information on pages 39-53 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of executive management and board members as listed in table of contents and the supplementary information on pages 39-53 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013 on our consideration of the Electric Power 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Electric Power Board's internal control over financial reporting and compliance.

Deloitte & Touche LLP

October 31, 2013

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, 2013 and 2012 as compared to fiscal years 2012 and 2011, 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 position present information on all of NES' assets and deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of NES is improving or deteriorating. Net position increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net position, which indicates an improved financial position.

The statements of revenues, expenses and changes in net position present information showing how NES' net position changed during the fiscal year. All changes in net position 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 Position

Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $600.3 million at June 30, 2013, and $572.5 million at June 30, 2012. This represents an increase of $27.8 million in 2013 and $41.7 million in 2012.

The largest portion of the Board's net position 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 position 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 POSITION ($000 omitted)

	June 30,		
	2013	**2012**	**2011**
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS	$ 383,072	$ 367,057	$ 329,741
INVESTMENT OF RESTRICTED FUNDS	81,310	128,354	55,261
UTILITY PLANT, NET	890,320	865,013	842,384
ENERGY CONSERVATION PROGRAMS' NOTES RECEIVABLE	1,997	1,548	884
OTHER NON-CURRENT ASSETS	268	288	308
TOTAL ASSETS	1,356,967	1,362,260	1,228,578
DEFERRED OUTFLOWS OF RESOURCES	11,195	9,018	5,555
TOTAL ASSETS AND DEFERRED OUTLFOWS OF RESOURCES	$1,368,162	$1,371,278	$1,234,133
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
CURRENT LIABILITIES	194,567	208,789	198,213
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	30,669	26,852	22,113
LONG-TERM DEBT, LESS CURRENT PORTION	529,115	558,058	470,400
OTHER NON-CURRENT LIABILITIES			
Payable to TVA – energy conservation programs	1,337	1,495	785
Other	12,220	3,585	11,851
	13,557	5,080	12,636
TOTAL LIABILITIES	767,908	798,779	703,362
DEFERRED INFLOWS OF RESOURCES	-	37	75

	June 30,		
	2013	2012	2011
NET POSITION			
Invested in utility plant, net of related debt	344,661	360,840	358,152
Restricted	54,735	55,435	52,536
Unrestricted	200,858	156,187	120,008
Total Net Position, as previously stated	600,254	572,462	530,696
TOTAL LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES AND NET POSITION	$1,368,162	$1,371,278	$1,234,133
Cumulative effect of GASB 65	-	-	(2,258)
TOTAL NET POSITION, as reported	$600,254	$572,462	$528,438

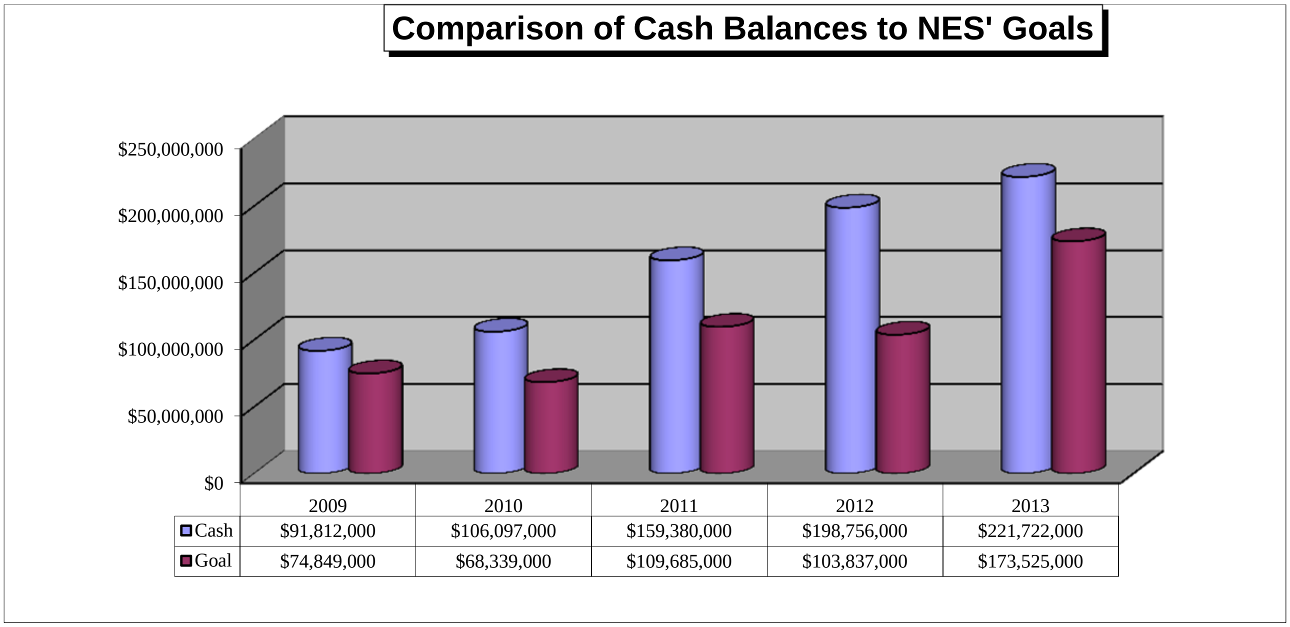
Liquidity and Capital Resources

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, 2013, the Board closed on the sale of the Metropolitan Government of Nashville and Davidson County, Tennessee, Electric System Refunding Bonds, 2013 Series A. The 2013 Series A Bonds were being offered to refund $58.9 million aggregate principal amount of the outstanding 2004 Series A Bonds, maturing May 15, 2025, 2026, and 2029. During fiscal year 2013, NES drew down $46.7 million in proceeds from the System Revenue Bonds, 2011 Series A, for capital expenditures.

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, 2013, the Board's revenue bonds were 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 result in lower interest costs. The outlook on all debt ratings is stable as of June 30, 2013.

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 16.5 percent of purchased power, and operating and maintenance expense. This goal changed from the prior year, where the goal was 10 percent and the calculation included purchased power, operating and maintenance expenses, and in-lieu-of-tax payments. This goal was met every month of the fiscal year 2013. That percentage was 21.1 percent as of June 30, 2013, and 19.1 percent as of June 30, 2012. The Board also has a goal of maintaining a debt coverage ratio of at least 2 to 1. The Board's debt coverage ratio for the 12 months ended June 30, 2013, was 2.5 to 1. The Board continues to exceed its goals.



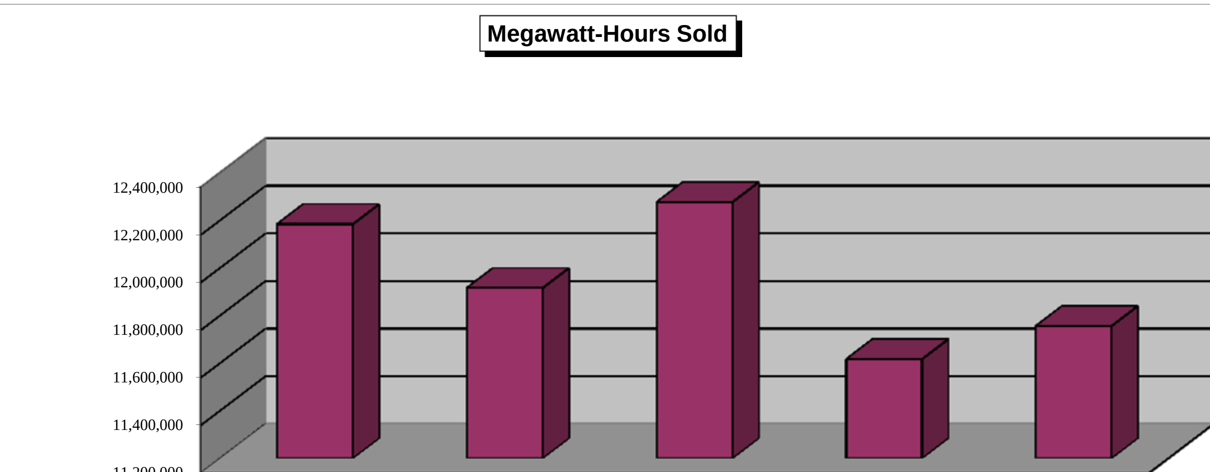
Operations

Summary Revenue & Expense Data
($000 omitted)

	Year Ended June 30, 2013	2012	Net Position Effect	Year Ended June 30, 2011	Net Position Effect
Operating Revenues	$1,174,424	$1,154,512	$ 19,912	$1,199,609	$ (45,097)
Purchased Power	900,916	868,453	(32,463)	927,065	58,612
Margin	273,508	286,059	(12,551)	272,544	13,515
Operating Expenses	150,749	141,289	(9,460)	142,189	900
Depreciation and Tax Equivalents	71,695	77,904	6,209	75,115	(2,789)
Interest Income	525	399	126	513	(114)
Interest Expense	23,797	25,251	1,454	24,451	(800)
Extraordinary Gain (Loss)	-	2,010	(2,010)	(2,415)	4,425
Increase in Net Position	27,792	44,024	(16,232)	28,887	15,137
Effect of adoption of GASB 65	-	1,151	(1,151)	-	1,151
Increase in Net Position, as previously stated	$ 27,792	$ 45,175	$ (17,383)	$ 28,887	$ 16,288

2013 and 2012 Results of Operations

Operating Revenues. Operating revenues increased by $19.9 million, or 1.7 percent, when compared to 2012. Total electric sales were $1.2 billion for the period versus $1.1 billion last year. The average realized rate on electric sales was $.0981 per kilowatt-hour in 2013 compared to $.0976 per kilowatt-hour in 2012. The increase in average realized rate in 2013 is the impact of Tennessee Valley Authority ("TVA") rate adjustments for fuel costs and rate structure changes. Megawatt-hours sold in 2013 increased by 1.2 percent when compared to 2012. 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 1,808 compared to 1,999 in 2012. Total heating degree-days were 3,505 compared to 2,812 in 2012. Total heating and cooling degree-days were 5,313 compared to 4,811 in 2012 or an increase of approximately 10.4 percent. Total average number of active year-to-date customers increased by 1.0 percent when compared to 2012. Revenue in Excess of Net Bills (Late Charge) increased by $0.1 million, and Rentals of Electric Property (primarily pole attachments) increased by $1.4 million.



	2009	2010	2011	2012	2013
Megawatt-Hours Sold	12,184,000	11,916,000	12,277,000	11,617,000	11,756,000

Non-operating Revenues. Interest Income was $0.5 million compared to $0.4 million in 2012. The average rate of return on the General Fund was 0.16 percent in 2013 compared to 0.15 percent in 2012. The average monthly balance of the General Fund was $181.7 million in 2013 compared to $148.3 million in 2012, an increase of 22.5 percent. In addition, interest income from the bond reserve fund increased by $67 thousand over the previous year.

Purchased Power and 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 $900.9 million for the period compared to $868.5 million last year. The average realized rate on purchased power was $.074 per kilowatt-hour in 2013 compared to $.072 per kilowatt-hour in 2012. This increase is due to the pass-through of the Fuel Cost Adjustment

("FCA") and because the TVA adjusted purchased power in March 2012 in the amount of $20.6 million due to over-billings by the TVA at the Old Hickory hydro substation. Megawatt-hours purchased were 12.1 million in 2013 compared to 12.1 million in 2012.

Distribution expenses for the period were $59.3 million compared to $49.2 million last year. This is an increase of $10.1 million or 20.5 percent. The change is primarily attributable to an increase in storms, $5.9 million; operation and maintenance of supervision and engineering, $3.0 million; operation and maintenance of overhead lines, $2.5 million; emergency service, $0.6 million; operation and maintenance of meters, $0.4 million; load dispatching, $0.4 million; operation and maintenance of underground lines, $0.3 million; operation and maintenance of station equipment, $0.3 million; operation and maintenance of mapping, $0.1 million; and rents, $0.1 million, offset by decreases in tree-trimming expense, $2.1 million; operation, maintenance, and miscellaneous expense, $0.9 million; operation and maintenance of street light and signal system, $0.4 million; and private lights, $0.1 million.

Customer Accounts expense and Customer Service and Information expenses combined were $23.7 million for the period compared to $25.1 million last year or a decrease of $1.4 million or 5.6 percent. This is primarily the result of a decrease in the uncollectible accounts accrual, $2.2 million; and customer orders and services, $0.6 million, offset by increases in meter reading, $0.5 million; customer records and collections, $0.4 million; supervision, $0.2 million; data processing, $0.2 million; and customer assistance, $0.1 million.

Administrative and General ("A&G") expenses were $67.8 million for the period compared to $67.0 million last year. This was an increase of $0.8 million or 1.1 percent. The increase is primarily the result of increases in employee pensions, $1.5 million; office supplies and expenses, $0.5 million; injuries and damages, $0.4 million; data processing, $0.4 million; and outside services employed, $0.2 million, offset by decreases in employee health insurance, $1.4 million; administrative and general salaries, $0.6 million; maintenance of general plant, $0.1 million; and miscellaneous general expense, $0.1 million.

Depreciation and Tax Equivalents were $39.5 million and $32.2 million compared to $49.3 million and $28.6 million for 2013 and 2012, respectively. The decrease in depreciation was the result of a number of assets becoming fully depreciated in prior years. 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.

2012 and 2011 Results of Operations

On April 1, 2011, the TVA implemented a new wholesale Time of Use rate structure. With the new structure, retail customers are billed under a seasonal rate structure. Retail and Wholesale billing units are misaligned due to timing of meter readings, which will impact retail revenue and wholesale power costs.

Operating Revenues. Operating revenues decreased by $45.1 million, or 3.8 percent, when compared to 2011. Total electric sales were $1.15 billion for 2012 versus $1.20 billion in 2011. The average realized rate on electric sales was $.0976 per kilowatt-hour in 2012 compared to $.0961 per kilowatt-hour in 2011. The increase in the average realized rate in 2012 is the result of the 2.20 percent rate increase passed-through from TVA in October 2011. Megawatt-hours sold in 2012 decreased by 5.4 percent when compared to 2011. 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 1,999 in 2012 compared to 2,069 in 2011. Total heating degree-days were 2,812 in 2012 compared to 3,665 in 2011. Total heating and cooling degree-days were 4,811 in 2012 compared to 5,734 in 2011 or a decrease of approximately 16.1 percent. Total average number of active year-to-date customers increased by 0.3 percent when compared to 2011. Revenue in Excess of Net Bills (Late Charge), decreased by $0.5 million, and Rentals and Electric Property (primarily pole attachments) decreased by $0.2 million.

Non-operating Revenues. Interest income was $0.4 million in 2012 compared to $0.5 million in 2011. The average rate of return on the General Fund was 0.2 percent in 2012 and 2011. The average monthly balance of the General Fund was $148.3 million in 2012 compared to $126.3 million in 2011, an increase of 17.4 percent. Interest income was less in 2012 than in 2011 due to the maturity of a $22.0 million investment in June 2011 that carried an interest rate of 4.25 percent. The interest rate on the same funds in fiscal year 2012 was 0.23 percent.

Purchased Power and 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 $868.5 million in 2012 compared to $927.1 million in 2011. The average realized rate on purchased power was $.072 per kilowatt-hour in 2012 compared to $.070 per kilowatt-hour in 2011. This decrease is due to the pass-through of the FCA and the rate structure change in April 2011. In addition, TVA adjusted purchased power by $20.6 million in March 2012 due to an over-billing at the Old Hickory hydro substation. Megawatt-hours purchased were 12.1 million in 2012 compared to 13.2 million in 2011.

Distribution expenses for the period were $49.2 million in 2012 compared to $55.7 million in 2011. This is a decrease of $6.5 million or 11.7 percent. The change is primarily attributable to a decrease in storms, $7.6 million; operation and maintenance miscellaneous expense, $2.4 million; operation and maintenance of overhead lines, $1.9 million; and emergency service, $0.9 million, offset by increases in tree-trimming, $4.3 million; operation and maintenance supervision and engineering, $0.6 million; operation and maintenance of street light and signal system, $0.5 million; operation and maintenance of meters, $0.5 million; operation and maintenance of station equipment, $0.2 million; operation and maintenance mapping, $0.1 million; and private lights, $0.1 million.

Customer Accounts expense and Customer Service and Information expenses combined were $25.1 million in 2012 compared to $23.7 million in 2011 or an increase of $1.4 million or 5.9 percent. This is primarily the result of an increase in customer orders and service expenses, $0.5 million; customer records and collection, $0.4 million; data processing, $0.2 million; customer assistance costs, $0.2 million; supervision, $0.1 million; and meter reading, $0.1 million.

Administrative and General (A&G) expenses were $67.0 million in 2012 compared to $62.8 million in 2011. This was an increase of $4.2 million or 6.7 percent. The increase is primarily the result of increases in employee and retirement benefits, $4.0 million; employees welfare, $0.7 million; maintenance of general plant, $0.4 million; data processing, $0.4 million; miscellaneous expense, $0.3 million; property insurance, $0.3 million, offset by decreases in injuries and damages, $1.2 million; office supplies and expenses, $0.4 million; and administrative and general salaries, $0.3 million.

Depreciation and Tax Equivalents were $49.3 million and $28.6 million compared to $47.5 million and $27.6 million for 2012 and 2011, 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 Gain (Loss). In 2011, NES experienced an extraordinary loss due to extensive flooding that impacted the Nashville area in May of 2010. An event is deemed extraordinary if it is both unusual in nature and infrequent in occurrence. The extraordinary loss recognized in 2011 was $2.4 million. It was made up of $1.9 million in expenditures and a reduction to the prior year receivable of $0.5 million. NES received insurance recoveries in 2012 in the amount of $2.0 million that resulted in an extraordinary gain from impairment loss on capital assets and other expenditures.

The following table shows the composition of the operating expenses (excluding depreciation and tax equivalents) of the Board by major classification of expense for the last three years:

Major Classifications of Expense ($000 omitted)

Description	Fiscal 2013	Fiscal 2012	Increase (Decrease)	Fiscal 2011	Increase (Decrease)
Labor	$ 59,316	$ 56,244	5.5%	$ 58,338	(3.6%)
Benefits	42,958	42,786	0.4%	39,143	9.3%
Tree-trimming	9,602	10,652	(9.9%)	8,873	20.0%
Outside Services	10,632	8,123	30.9%	8,290	(2.0%)
Materials	3,021	1,528	97.7%	1,722	(11.3%)
Transportation	4,683	4,184	11.9%	4,412	(5.2%)
Accrual for Uncollectible Accounts	2,523	5,180	(51.3%)	5,234	(1.0%)
Postage	43	1,317	(96.7%)	1,323	(0.5%)
Security/Police	1,141	1,168	(2.3%)	1,186	(1.5%)
Rentals	969	917	5.7%	992	(7.6%)
Professional Fees	1,252	1,162	7.7%	1,132	2.7%
Insurance Premiums	1,191	1,025	16.2%	664	54.4%
Other	13,418	7,003	91.6%	10,880	(35.6%)
	$150,749	$141,289	6.7%	$142,189	(0.6%)

The Board's total operating expenses increased 6.7 percent from June 30, 2012 to June 30, 2013. Labor for fiscal year 2013 totaled $59.3 million, which represents an increase from fiscal year 2012 due to increases in cost of living, merit adjustments, and step increases. Benefits increased primarily due to increases in retirement and survivors, $1.5 million; and medical, $1.3 million, offset by decreases in other post-employment benefits, $2.5 million. Tree-trimming decreased due to a reduction in the ACRT contract labor crews. The Outside Services increased primarily due to one-time additional projects. Materials were more in 2013 due to clean up of obsolete inventory. Transportation costs are more than in 2012 due to an increase in clearing rates. Accrual for Uncollectible Accounts decreased due to less write-offs than last year. Insurance Premiums increased due to the property insurance program. The Other category contains a wide array of smaller accounts. In fiscal year 2013, primary increases occurred in work order transfers, $3.7 million; transportation, $0.5 million; injuries and damages, $0.4 million; protectors and switches, $0.3 million; temporary agency services, $0.3 million; education and training, $0.2 million; insurance premiums, $0.2 million; and professional fees, $0.1 million.

The Board's total operating expenses decreased 0.6 percent from June 30, 2011 to June 30, 2012. Labor for fiscal year 2012 totaled $56.2 million, which represents a decrease from fiscal year 2011 due to less overtime from fewer storms offset by increases due to cost of living and merit adjustments, step increases, and changes in allocation between Operations and Maintenance ("O&M") and Capital. Benefits increased due to increases in Other Post-Employment Benefits, $4.3 million; and Vision, $0.2 million; offset by a decrease in Medical, $0.5 million. Tree-trimming increased due to additional circuit miles trimmed. Outside services decreased due to cost savings on various services. Materials were less in 2012 due to a Federal Emergency Management Agency ("FEMA") reimbursement for the April 2011 storm damage. Transportation costs are less than in 2012 due to decreased storm restoration. Insurance Premiums increased due to implementation of a property insurance program and an increase in Director and Officers coverage. The Other category contains a wide array of smaller accounts. In fiscal year 2012, decreases occurred in work order transfers, $3.7 million; clearing accounts (payroll, transportation, overhead, etc.), $3.1 million; injuries and damages, $0.9 million; transportation, $0.2 million, offset by increases in contract meter readings, $0.6 million; and insurance premiums, $0.4 million.

Capital Assets and Debt Administration

The Board's transmission and distribution facilities serve more than 700 square miles and include the Metropolitan Government of Nashville and Davidson County, Tennessee. The Board also serves 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, 2013, was $890.3 million compared to $865.0 million at June 30, 2012. Major projects during fiscal year 2013 included new business installations, $12 million; twenty-four planned distribution circuit upgrades, $4.1 million; planned replacement of wood transmission poles, $2 million; fifteen other substation upgrades, $1.8 million; installed a new transformer and four breakers at Craighead substation, $1.4 million; Smart Grid Project, $1.4 million; repaired, removed and replaced private lights, $0.9 million; converted or partially converted three 4kV substations, $0.9 million; RTU replacements in 9 substations, $0.8 million; East Substation replaced all nine feeder breakers, $0.6 million; purchased property for new Trinity substation, $0.6 million; planned replacement of wood distribution poles, $0.5 million; Davidson Road Substation replaced five feeder breakers, $0.4 million.

The Board has outstanding bonds payable of $555.4 million at June 30, 2013, compared to $579.4 million at June 30, 2012. This decrease is primarily due to $21.3 million of principal payments during the year. More details about the Board's capital assets and debt can be found in the notes to the financial statements.

Respectfully submitted,

Teresa Broyles-Aplin

Teresa Broyles-Aplin
Vice President and Chief Financial Officer

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

STATEMENTS OF NET POSITION ($000 OMITTED)
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and cash equivalents	$ 221,722	$ 198,756
Customer and other accounts receivable, less allowance for doubtful accounts of $2,298 and $2,608 respectively	139,217	144,702
Accrued interest receivable	23	407
Materials and supplies	19,319	21,041
Other current assets	2,791	2,151
TOTAL CURRENT ASSETS	383,072	367,057
INVESTMENT OF RESTRICTED FUNDS:		
Cash and cash equivalents	56,105	26,212
Other investments	25,205	102,142
TOTAL INVESTMENT OF RESTRICTED FUNDS	81,310	128,354
UTILITY PLANT:		
Electric plant, at cost	1,455,716	1,417,145
Less: Accumulated depreciation	(565,396)	(552,132)
TOTAL UTILITY PLANT, NET	890,320	865,013
ENERGY CONSERVATION PROGRAMS' NOTES RECEIVABLE	1,997	1,548
OTHER NON-CURRENT ASSETS	268	288
TOTAL ASSETS	1,356,967	1,362,260
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amount on refunding of debt	11,195	9,018
TOTAL ASSETS AND DEFERRED OUTLFOWS OF RESOURCES	1,368,162	1,371,278

See notes to financial statements.

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

STATEMENTS OF NET POSITION ($000 OMITTED)
JUNE 30, 2013 AND 2012 (continued)

	2013	2012
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
CURRENT LIABILITIES:		
Accounts payable for purchased power	154,155	163,828
Other accounts payable and accrued expenses	27,173	31,873
Customer deposits	13,239	13,088
TOTAL CURRENT LIABILITIES	194,567	208,789
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Construction contracts payable	1,468	2,360
Accrued interest payable	2,931	3,125
Current portion of long-term debt	26,270	21,367
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	30,669	26,852
LONG-TERM DEBT, LESS CURRENT PORTION	529,115	558,058
OTHER NON-CURRENT LIABILITIES:		
Payable to TVA—energy conservation programs	1,337	1,495
Other	12,220	3,585
TOTAL OTHER NON-CURRENT LIABILITIES	13,557	5,080
COMMITMENTS AND CONTINGENCIES		
TOTAL LIABILITIES	767,908	798,779
DEFERRED INFLOWS OF RESOURCES		
Deferred revenue	-	37
NET POSITION		
Invested in utility plant, net of related debt	344,661	360,840
Restricted	54,735	55,435
Unrestricted	200,858	156,187
TOTAL NET POSITION	600,254	572,462
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	$ 1,368,162	$ 1,371,278

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 POSITION ($000 OMITTED)
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES:		
Residential	$ 488,025	$ 470,306
Commercial and industrial	649,003	648,961
Street and highway lighting	16,590	16,165
Other	20,806	19,080
Total operating revenues	1,174,424	1,154,512
PURCHASED POWER	900,916	868,453
MARGIN	273,508	286,059
OPERATING EXPENSES:		
Distribution	59,258	49,199
Customer accounts	22,064	23,570
Customer service and information	1,668	1,520
Administrative and general	67,759	67,000
Tax equivalents	32,211	28,628
Depreciation	39,484	49,276
Total operating expenses	222,444	219,193
Operating income	51,064	66,866
NON-OPERATING REVENUE (EXPENSE):		
Interest income	525	399
Interest expense	(23,797)	(25,251)
Total non-operating expense	(23,272)	(24,852)
EXTRAORDINARY GAIN – FLOOD	-	2,010
NET INCREASE IN NET POSITION	27,792	44,024
NET POSITION, beginning of year, as previously stated	572,462	530,696
Cumulative effect of an accounting change	-	(2,258)
NET POSITION, beginning of year	572,462	528,438
NET POSITION, end of year	$ 600,254	$ 572,462

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, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 1,179,611	$ 1,157,563
Payments to suppliers for goods and services	(1,005,534)	(957,103)
Payments to employees	(49,971)	(47,909)
Payments for tax equivalents	(31,484)	(27,974)
Net cash provided by operating activities	92,622	124,577
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of utility plant	(58,136)	(67,829)
Utility plant removal costs	(10,751)	(8,802)
Salvage received from utility plant retirements	1,488	1,104
Principal payments on revenue bonds	(21,367)	(15,113)
Interest payments on revenue bonds	(28,842)	(32,139)
Proceeds from sale of revenue bonds	-	110,668
Net cash used in capital and related financing activities	(117,608)	(12,111)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities	(67,183)	(216,917)
Proceeds from sales and maturities of investment securities	144,120	118,512
Interest on investments	908	3
Net cash provided by (used in) investing activities	77,845	(98,402)
NET INCREASE IN CASH AND CASH EQUIVALENTS	52,859	14,064
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	224,968	210,904
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 277,827	$ 224,968

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, 2013 AND 2012 (continued)

	2013	2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 51,064	$ 66,866
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	41,200	50,909
Extraordinary gain–flood	-	2,010
Changes in assets and liabilities:		
Decrease in customer and other accounts receivable	5,485	3,574
Decrease (increase) in materials and supplies	1,722	(1,157)
(Increase) decrease in other current assets	(640)	39
Increase in energy conservation programs' notes receivable	(449)	(664)
Decrease in other non-current assets	20	20
(Decrease) increase in accounts payable for purchased power	(9,673)	8,026
(Decrease) increase in other accounts payable and accrued expenses	(4,700)	2,410
Increase in customer deposits	151	140
(Decrease) increase in payable to TVA–energy conservation programs	(157)	708
Increase (decrease) in other non-current liabilities	8,599	(8,304)
Net cash provided by operating activities	$ 92,622	$ 124,577

NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:

Accounts payable associated with the acquisition and construction of utility plant was $1.5 million in 2013 and $2.0 million in 2012.

During 2013 and 2012, NES charged $18.6 million and $14.9 million, respectively, to accumulated depreciation representing the cost of retired utility plant.

During 2013 and 2012, $3.9 million and $2.8 million respectively, were charged to interest expense for amortization of bond premiums. Also, NES expensed debt issuance costs of $0.6 million and $1.4 million in 2013 and 2012, respectively.

During 2013, the 2013 Series A Bonds were offered to refund $58.9 million aggregate principal amount of the Board's 2004 Series A Bonds. In 2012, the 2011 Series B Bonds were offered to refund $101.5 million and $51.1 million aggregate principal amount of the Board's 2001 Series A and 2004 Series A Bonds, 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 the 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.

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, useful lives of capital assets, employee benefit plan obligations, 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 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 $582 thousand in 2013 and $441 thousand in 2012.

When plant assets are disposed of at salvage value, NES charges the amount to accumulated depreciation. 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 7 to 50 years. The composite straight-line rates expressed as a percentage of average depreciable plant were as follows for June 30, 2013 and 2012:

	2013	2012
Distribution plant, 18.2 to 40 years	3.5%	3.5%
Structure and improvements, 40 to 50 years	2.1%	2.1%
Office furniture and equipment, 7.1 to 16.7 years	2.6%	13.6%
Transportation equipment, 8 to 10 years	5.6%	5.6%
Other equipment, 8 to 33.3 years	5.7%	5.7%

Maintenance and repairs, including the cost of renewals of minor items of property, are charged to maintenance expense 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 Governmental Accounting Standards Board ("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.

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. This amount is included in other accounts payable and accrued expenses in the Statement of Net Position.

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"). On April 1, 2011, TVA implemented a new wholesale Time of Use rate structure. With the new structure, retail customers

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

are billed under a seasonal rate structure. In addition, wholesale rates are now billed based on energy use and demand charges. Prior to this, the cost of purchased power was calculated based upon retail billing units adjusted for estimated line losses.

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. 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.

New Accounting Standards Adopted – In fiscal year 2013, NES adopted four new accounting standards as follows:

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in FASB pronouncements, which does not conflict with or contradict GASB pronouncements, and eliminates the criteria to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

GASB Statement, No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources , and Net Position* (GASB 63), establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the NES financial statements was the renaming of "Net Assets" to "Net Position," including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position." NES reported deferred outflows of resources of $11.2 million and $9.0 million in 2013 and 2012, respectively, and deferred inflows of resources of $37.0 thousand in 2012. NES had no deferred inflows of resources in 2013.

GASB Statement No 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53* (GASB 64), establishes that when a government enters into a swap and the swap counterparty or counterparty credit support provider commits or experiences an act of default or a termination event, the government does not terminate hedge accounting if the counterparty is replaced by another counterparty and the rest of the terms of the

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

swap remain the same (assignment or in-substance assignment). Thereby, the government continues to report changes in fair values of the swap as either deferred inflows or outflows and does not recognize an investment income or expenses. There was no impact on NES's financial statements as a result of the adoption of GASB 64.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), amends or supersedes the accounting and financial reporting guidance for items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012 and was early adopted by NES, effective July 1, 2011. The cumulative effect of the accounting change in connection with the implementation of GASB 65 was a reduction of $2.3 million in Net Position as of the beginning of 2011. In accordance with GASB 65, debt issuance costs are recognized as expenses in the period incurred, rather than as deferred costs and subsequently amortized. NES expensed debt issuance costs of $0.6 million and $1.4 million in 2013 and 2012, respectively.

Recent Accounting Pronouncements – In June 2012, GASB issued two Statements addressing important practice issues for state and local governments. Statement No. 67, *Financial Reporting for Pension Plans*, improves financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. Statement No. 68, *Accounting and Financial Reporting for Pensions*, improves the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The provisions for the Statement No. 67 and No. 68 are effective for periods beginning after June 15, 2013 and June 15, 2014, respectively. NES has yet to determine the impact of the adoption of these standards on NES's financial position, results of operations, or cash flows.

Purchased Power Adjustments – The TVA adjusted purchased power in March 2012 in the amount of $20.6 million due to over-billings by TVA at the Old Hickory hydro substation.

2. UTILITY PLANT AND ACCUMULATED DEPRECIATION

Utility plant activity for the years ended June 30, 2013 and 2012 was as follows ($000 omitted):

	Balance June 30, 2012	Additions	Transfers & Retirements	Balance June 30, 2013
Distribution plant	$ 1,212,008	$ 52,630	$ (12,130)	$ 1,252,508
Land and land rights	1,139	-	-	1,139
Structures and improvements	48,277	1,124	-	49,401
Office furniture and equipment	41,887	2,928	(4,523)	40,292
Transportation equipment	7,274	345	(650)	6,969
Other equipment	39,528	2,186	(1,370)	40,344
Construction work-in-progress (a)	67,032	-	(1,969)	65,063
	$ 1,417,145	$ 59,213	$ (20,642)	$ 1,455,716

	Balance June 30, 2011	Additions	Transfers & Retirements	Balance June 30, 2012
Distribution plant	$ 1,164,718	$ 56,152	$ (8,862)	$ 1,212,008
Land and land rights	1,139	-	-	1,139
Structures and improvements	46,610	1,667	-	48,277
Office furniture and equipment	40,743	3,112	(1,968)	41,887
Transportation equipment	7,198	839	(763)	7,274
Other equipment	38,513	4,325	(3,310)	39,528
Construction work-in-progress (a)	67,286	-	(254)	67,032
	$ 1,366,207	$ 66,095	$ (15,157)	$ 1,417,145

(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, 2013 and 2012 was as follows ($000 omitted):

	Balance June 30, 2012	Provision	Original Cost	Cost of Removal	Salvage	Balance June 30, 2013
Distribution plant	$ 464,293	$ 44,241	$ (12,130)	$ (10,751)	$ 1,225	$ 486,878
Structures and improvements	17,873	1,024	-	-	-	18,897
Office furniture and equipment	43,651	(5,784)	(4,523)	-	-	33,344
Transportation equipment	2,546	403	(650)	-	198	2,497
Other equipment	23,769	1,316	(1,370)	-	65	23,780
	$ 552,132	$ 41,200	$ (18,673)	$ (10,751)	$ 1,488	$ 565,396

	Balance June 30, 2011	Provision	Original Cost	Cost of Removal	Salvage	Balance June 30, 2012
Distribution plant	$ 439,430	$ 41,651	$ (8,861)	$ (8,802)	$ 875	$ 464,293
Structures and improvements	16,885	988	-	-	-	17,873
Office furniture and equipment	39,977	5,642	(1,968)	-	-	43,651
Transportation equipment	2,765	407	(762)	-	136	2,546
Other equipment	24,766	2,221	(3,311)	-	93	23,769
	$ 523,823	$ 50,909	$ (14,902)	$ (8,802)	$ 1,104	$ 552,132

Depreciation is either capitalized as a cost of utility plant or reported as depreciation expense in the statements of revenues, expenses and changes in net position.

3. CASH AND INVESTMENTS

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

2013	Cash	Bond Funds	Special Construction	Total	Weighted Average Maturity (Years)
Cash and cash equivalents	$ 221,722	$ 32,461	$ 23,644	$ 277,827	-
Securities from Agencies Chartered by Congress	-	25,205	-	25,205	0.96
	$ 221,722	$ 57,666	$ 23,644	$ 303,032	0.08

2012	Cash	Bond Funds	Special Construction	Total	Weighted Average Maturity (Years)
Cash and cash equivalents	$ 198,756	$ 25,014	$ 1,198	$ 224,968	-
U.S. Treasury Investments	-	4,172	-	4,172	0.38
Securities from Agencies Chartered by Congress	-	29,374	68,596	97,970	0.69
	$ 198,756	$ 58,560	$ 69,794	$ 327,110	0.21

There were no investments reported at fair value in U.S. Treasury Investments, Securities from Agencies Chartered by Congress, commercial paper and certificates of deposit held at June 30, 2013. Investments of $56.9 million in U.S. Treasury Investments and Securities from Agencies Chartered by Congress are reported at fair value as of June 30, 2012. Investments of $25.2 million and $45.2 million held in U.S. Treasury Investments and Securities from Agencies Chartered by Congress are reported at cost at June 30, 2013 and 2012, respectively.

3. CASH AND INVESTMENTS (continued)

Custodial Credit Risk – As of June 30, 2013 and 2012, NES' cash and cash equivalents held by financial institutions was $277.8 million and $224.9 million, respectively. Bank balances for such accounts totaled $174.3 million and $150.6 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, 2013 and 2012, 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 2013, 100 percent of NES' investments were in Securities from Agencies Chartered by Congress. In 2012, 96.0 percent of NES' investments were in Securities from Agencies Chartered by Congress.

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, 2013, is as follows ($000 omitted):

	Balance June 30, 2012	Deductions/ Repayments	Additions/ Amortization/ Accretion	Balance June 30, 2013
Electric System Revenue Bonds, 1996 Series A, bear interest at rates from 5.5% to 6%, maturing through May 15, 2013, interest paid semiannually.	$ 6,244	$(2,412)	$ (3,832)	$ -
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.	25,988	-	1,422	27,410
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.	28,972	(5,120)	(124)	23,728
Electric System Revenue Bonds, 2001 Series B, bear interest at 5.50%, maturing through May 15, 2014, interest paid semiannually.	18,644	(6,365)	(153)	12,126
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.	57,973	(58,875)	902	-
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.	100,665	(2,960)	(187)	97,518
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.	75,250	-	(422)	74,828
Electric System Revenue Bonds, 2011 Series A, bear interest at rates from 1.50% to 5.00%, maturing through May 15, 2036, interest paid semiannually.	108,432	(2,520)	(780)	105,132
Electric System Revenue Bonds, 2011 Series B, bear interest at rates from 2.00% to 5.00%, maturing through May 15, 2026, interest paid semiannually.	157,257	(1,990)	(2,323)	152,944
Electric System Revenue Bonds, 2013 Series A, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2029, interest paid semiannually.	-	-	61,699	61,699
	579,425	$ (80,242)	$ 56,202	555,385
Less current portion of long-term debt	(21,367)			(26,270)
	$ 558,058			$ 529,115

4. LONG-TERM DEBT (continued)

Long-term debt for the year ended June 30, 2012, is as follows ($000 omitted):

	Balance June 30, 2011	Deductions/ Repayments	Additions/ Amortization/ Accretion	Balance June 30, 2012
Electric System Revenue Bonds, 1996 Series A, bear interest at rates from 5.5% to 6%, maturing through May 15, 2013, interest paid semiannually.	$ 18,369	$ (5,158)	$ (6,967)	$ 6,244
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.	24,644	-	1,344	25,988
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.	33,969	(4,855)	(142)	28,972
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.	100,899	(101,455)	556	-
Electric System Revenue Bonds, 2001 Series B, bear interest at 5.50%, maturing through May 15, 2014, interest paid semiannually.	18,798	-	(154)	18,644
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.	109,383	(51,125)	(285)	57,973
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.	103,720	(2,860)	(195)	100,665
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.	75,656	-	(406)	75,250
Electric System Revenue Bonds, 2011 Series A, bear interest at rates from 1.50% to 5.00%, maturing through May 15, 2036, interest paid semiannually.	-	(2,110)	110,542	108,432
Electric System Revenue Bonds, 2011 Series B, bear interest at rates from 2.00% to 5.00%, maturing through May 15, 2026, interest paid semiannually.	-	(130)	157,387	157,257
	485,438	$ (167,693)	$ 261,680	579,425
Less current portion of long-term debt	(15,038)			(21,367)
	$ 470,400			$ 558,058

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):

Year	Principal	Interest
2014	$ 26,270	$ 22,965
2015	27,525	21,995
2016	28,735	20,782
2017	22,792	26,991
2018	21,923	26,396
2019-2023	156,131	84,432
2024-2028	128,125	40,427
2029-2033	72,720	14,489
2034-2036	19,080	1,939
	503,301	$ 260,416
Unamortized premium	52,084	
Total long-term debt	$ 555,385	

On June 27, 2013, the Board closed on the sale of the Metropolitan Government of Nashville and Davidson County, Tennessee, Electric System Revenue bonds, 2013 Series A. The 2013 Series A Bonds were being offered to refund $58.9 million aggregate principal amount of the outstanding 2004 Series A Bonds, maturing May 15, 2025, 2026, and 2029. The par amount of the 2013 Series A bonds, $56.1 million, plus original issue premium and transfer from prior debt service funds, less underwriter discount and cost of issuance resulted in a deposit into an escrow fund of $61.8 million. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $3.4 million. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through the year 2029 using the effective-interest method. The Board completed the advance refunding to reduce its total debt service payments over the next 16 years by $8.5 million and to obtain an economic gain of $3.4 million.

The following bond issues have been defeased through advanced refundings; therefore, the balances indicated, which are still outstanding at June 30, 2013, do not appear as liabilities on the Board's Statement of Net Position:

1998 Series A Bonds	$ 74,430,000
2004 Series A Bonds	110,000,000
	$ 184,430,000

4. LONG-TERM DEBT (continued)

NES had a $25 million unsecured line-of-credit for fiscal year 2013 and July 2011 through January 2012 to be used for purchased power in case of a natural disaster. Borrowings under this line of credit bore a negotiated interest rate. There were no borrowings under this line-of-credit in 2013 or 2012. The Company renewed the line of credit effective July 1, 2013.

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 years ended June 30, 2013 and 2012 ($000 omitted):

June 30, 2012	Repayments	Additions	June 30, 2013
$ 5,080	$ (3,643)	$ 12,120	$ 13,557

June 30, 2011	Repayments	Additions	June 30, 2012
$ 12,636	$ (16,766)	$ 9,210	$ 5,080

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 hired before June 30, 2012 and under age 65 were eligible to participate in the Plan. Employees hired after June 30, 2012 are eligible to participate in the Nashville Electric Service Defined Contribution 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.

6. PENSION PLAN (continued)

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 $1,800 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-year funding level. The current rate is 32.91 percent of annual covered payroll. NES contributed 100 percent of the required contribution for the Plan years 2013 and 2012.

The annual required contribution for the current year was determined as part of the April 1, 2012, 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
2013	$ 23,075	100%
2012	21,713	100%
2011	22,877	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
4/1/2013	$ 348,341	$ 502,790	$ 154,449	69.30%	$ 69,576	221.99%
4/1/2012	318,502	477,101	158,599	66.80%	69,419	228.47%
4/1/2011	291,658	441,801	150,143	66.00%	67,300	223.10%

6. PENSION PLAN (continued)

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.

Effective July 1, 2012, Nashville Electric Service established a Defined Contribution Retirement Plan for all new participants. This plan is intended to be a defined contribution money purchase pension plan. Its purpose is to provide retirement benefits to eligible employees. All full-time regular employees not vested in the Retirement Annuity and Survivors' Plan or hired after July 1, 2012, are eligible.

7. DEFERRED COMPENSATION PLAN

NES has a deferred compensation plan (the "457 Plan") created in accordance with Internal Revenue Code ("IRC") Section 457. The 457 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 457 Plan with NES providing a matching contribution of up to 3 percent of compensation. The 457 Plan provides that assets or income of the 457 Plan shall be used for the exclusive purpose of providing benefits for participants and their beneficiaries or defraying reasonable expenses of administration of the 457 Plan. Since the assets of the 457 Plan are held in custodial and annuity accounts for the exclusive benefit of 457 Plan participants, the related assets of the 457 Plan are not reflected on the Statements of Net Position. Employees contributed $3.6 million and $3.4 million for the years ended June 30, 2013 and 2012, respectively. NES contributed $1.9 million to the 457 Plan for each of the years ended June 30, 2013 and 2012.

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, 2013, approximately 591 retirees meet those eligibility requirements. Expenses for these post-retirement benefits have previously been recognized as retirees report claims. Those incurred claims totaled $9.6 million and $10.0 million for the years ended June 30, 2013 and 2012, respectively. During the year ended June 30, 2008, NES implemented the provisions of GASB Statement No. 45, *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

8. POST-EMPLOYMENT BENEFITS (continued)

rather than as claims are incurred. The total expenses that were recognized were $18.6 million and $18.1 million during the years ended June 30, 2013 and 2012, 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 OPEB 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 20.59 percent of annual covered payroll. NES contributed 100 percent of the required contribution for the 2013 Plan year. In 2012, NES contributed 50 percent by the Plan year-end and the remaining 50 percent by June 30, 2012.

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.

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, 2013

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.

8. POST-EMPLOYMENT BENEFITS (continued)

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

Plan Year	Annual Required Contribution	Percentage Contributed	
2013	$ 15,361,358	100%	
2012	18,041,316	100%	**(a)**
2011	18,123,818	100%	

(a) In 2013, NES contributed 50% before Plan Year end and the remaining 50% by June 30, 2012

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
4/1/2013	$ 56,486	$ 227,605	$ 171,119	24.8%	$ 74,086	231.0%
4/1/2012	36,894	223,058	186,164	16.5%	74,623	249.5%
4/1/2011	34,650	249,243	214,593	13.9%	70,245	305.5%

9. LEASES

Total rental expense entering into the determination of net position amounted to approximately $1.0 million in both 2013 and 2012, 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 telephone pole-attachments totaled $2.5 million and $2.1 million for the years ended June 30, 2013 and 2012, respectively. Rental income from cable pole-attachments totaled $3.6 million at June 20, 2013 and $2.7 million at June 30, 2012.

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 no longer a participant in the Metropolitan Government Insurance Pool (the "Pool") for coverage of most property losses. With some of the sub-limits of the Pool coverage being reached as a result of the damage sustained by many participants of the Pool during the flood of 2010, NES deemed it prudent

10. RISK MANAGEMENT AND LIABILITY (continued)

to withdraw from the Pool and obtain commercial property insurance that would no longer have shared sub-limits.

NES is self-insured for employee medical, dental and vision claims and self-insured up to $100 thousand for employee medical claims. The changes in the insurance reserves for medical, dental and vision benefits for the years ended June 30, 2013 and 2012, are as follows ($000 omitted):

Balance—June 30, 2011	$ 1,981
Payments	(19,417)
Incurred claims	19,987
Balance—June 30, 2012	2,551
Payments	(20,735)
Incurred claims	20,672
Balance—June 30, 2013	$ 2,488

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, 2013 and 2012, are summarized as follows ($000 omitted):

11. RELATED PARTY TRANSACTIONS (continued)

	2013	2012
Balances:		
Accounts receivable	$ 2,303	$ 2,479
Transactions:		
Commercial and industrial revenue—Metropolitan Government Entities	58,208	58,963
Street and highway lighting revenue—Metropolitan Government Entities	7,069	6,347
Tax equivalents operating expense—Metropolitan Government Entities	30,022	26,562

In addition to the receivables above, NES also has a receivable from the Music City Convention Authority of $2.8 million and $9.4 million in 2013 and 2012, respectively.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments has been determined by NES using available market information. However, judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the fair values are not necessarily indicative of the amounts that NES could realize in a current market exchange. The carrying amounts of cash and short-term investments, investments of special funds, accounts receivable and accounts payable are a reasonable estimate of their fair value. The fair value of NES' long-term debt is estimated to be $574.2 million and $624.0 million at June 30, 2013 and 2012, respectively.

13. EXTRAORDINARY GAIN – FLOOD

NES experienced significant damage and loss in connection with heavy rainfall and flooding in the Metro Nashville /Davidson County area in May 2010. The flooding resulted in the declaration of a Federal Disaster area by the Federal Emergency Management Agency. For the fiscal year ended June 30, 2012, NES received insurance recoveries in the amount of $2.0 million, which resulted in an extraordinary gain. No recoveries were received for the fiscal year ended June 30, 2013.

SUPPLEMENTARY INFORMATION

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

SCHEDULE OF INSURANCE COVERAGE
YEAR ENDED JUNE 30, 2013 (UNAUDITED)

Type of Coverage	Amount of Coverage
Property Insurance	
General plant, contents, substations and construction in progress	$750,000,000
Computer equipment	$150,000,000
Boiler & Machinery	
Limit per Accident	$50,000,000
Electronic Data Processing	$15,000,000
Vehicle Coverage	
Automobile physical damage:	$150,000,000
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 second layer	Statutory
Employers liability	$35,000,000
Directors and Officers Liability/Public Officials Liability	
Employment practices liability	$50,000,000
Fiduciary/Pension Trust Liability	$15,000,000
Excess fiduciary	$10,000,000
Crime	
Employee theft	$3,000,000
Loss inside	$3,000,000
Loss outside	$3,000,000
Money order/counterfeit	$3,000,000
Forgery or alteration	$3,000,000
Computer crime	$3,000,000
Funds transfer fraud	$3,000,000
Group Travel	
24-hour business trip for all full-time employees and non-employee member of EPB	$400,000
Extortion	$3,000,000

**SCHEDULE OF INSURANCE COVERAGE (continued)
YEAR ENDED JUNE 30, 2013 (UNAUDITED)**

Terrorism	$101,000,000
Environmental Liability	$2,000,000
Cyber & Privacy Liability	$1,000,000
Flood	
Buildings & Contents	
West Service Center	$2,477,400
Other locations (per location)	$549,500

***Note: Policy period for Flood Insurance Coverage is 12/8/12-12/8/13.
Policy period for all other coverages is 11/1/12-10/31/13.***

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

SCHEDULE OF UTILITY RATES IN FORCE
JUNE 30, 2013 (UNAUDITED)

RS Residence

Customer Charge (Per Delivery Point Per Month)	$11.83
Summer Season - Energy Charge (per kWh)	$ 0.09636
Winter Season – Energy Charge (per kWh)	$0.09353
Transition Season – Energy Charge (per kWh)	$0.09177

General Power Rate Schedules

GSA I (Less than 50kW)	
Customer Charge (Per Delivery Point Per Month)	$25.38
Summer Season - Energy Charge (per kWh)	$0.10815
Winter Season – Energy Charge (per kWh)	$0.10532
Transition Season – Energy Charge (per kWh)	$0.10356
GSA II (51-1000 kW)	
Customer Charge (Per Delivery Point Per Month)	$156.87
Summer Season	
Demand Charge (Per Delivery Point Per Month)	$12.49
Energy Charge (per kWh)	
First 15,000 kWh	$0.10815
All Additional kWh	$0.06313
Winter Season	
Demand Charge (Per Delivery Point Per Month)	$11.68
Energy Charge (per kWh)	
First 15,000 kWh	$0.10532
All Additional kWh	$0.06313
Transition Season	
Demand Charge (Per Delivery Point Per Month)	$11.68
Energy Charge (per kWh)	
First 15,000 kWh	$0.10356
All Additional kWh	$0.06313
GSA III (1001 – 5000 kW)	
Customer Charge (Per Delivery Point Per Month)	$818.95
Summer Season	
Demand Charge (Per Delivery Point Per Month)	
0 - 1,000 kW	$12.47
1,001 - 5,000 kW	$14.41
Energy Charge – all kWh (per kWh)	$0.06288
Winter Season	
Demand Charge (Per Delivery Point Per Month)	
0 - 1,000 kW	$11.65
1,001 – 5,000 kW	$13.60
Energy Charge – all kWh (per kWh)	$0.06288
Transition Season	
Demand Charge (Per Delivery Point Per Month)	
0 – 1,000 kW	$11.65
1,001 – 5,000 kW	$13.60
Energy Charge – all kWh (per kWh)	$0.06288

SCHEDULE OF UTILITY RATES IN FORCE (continued)
JUNE 30, 2013 (UNAUDITED)

LS – Outdoor Lighting

Customer Charge (Per Delivery Point Per Month)	$2.50
Summer Season	
Energy Charge – all kWh	$0.06869
Winter Season	
Energy Charge – all kWh	$0.06587
Transition Season	
Energy Charge – all kWh	$0.06411

Time of Day Rate Classes

TGSA I (Demand < = 50kW)	
Customer Charge (Per Delivery Point Per Month)	$326.79
Summer Season	
Energy - On Peak kWh	$0.11588
Energy Charge (<=15,000 kWh)	
Energy – Off Peak kWh	$0.10454
Winter Season	
Energy - On Peak kWh	$0.10945
Energy Charge (<=15,000 kWh)	
Energy – Off Peak kWh	$0.10429
Transition Season	
Energy – On Peak kWh	$0.00000
Energy Charge (<=15,000 kWh)	
Energy – Off Peak kWh	$0.10356

TGSA II (Demand = 51 – 1,000 kW)	
Customer Charge (Per Delivery Point Per Month)	$326.79
Summer Season	
Demand Charge - over 50 kW	$12.49
Energy Charge – On Peak kWh energy	$0.11588
Energy Charge – Off Peak kWh energy	$0.10454
Winter Season	
Demand Charge – over 50 kW	$11.68
Energy Charge – On Peak kWh energy	$0.10945
Energy Charge – Off Peak kWh energy	$0.10429
Transition Season	
Demand Charge – over 50 kW	$11.68
Energy Charge – On Peak kWh energy	$0.00000
Energy Charge – Off Peak kWh energy	$0.10356

**SCHEDULE OF UTILITY RATES IN FORCE (continued)
JUNE 30, 2013 (UNAUDITED)**

TGSA III (Demand = 1,001 – 5,000 kW)	
Customer Charge	$818.95
Summer Season	
Demand Charge – 1st 1,000 kW	$12.47
Demand Charge – Excess over 1,000	$14.41
Energy Charge – On Peak kWh	$0.07061
Energy Charge – Off Peak kWh	$0.05927
Winter Season	
Demand Charge – 1st 1,000 kW	$11.65
Demand Charge – Excess over 1,000	$13.60
Energy Charge – On Peak kWh	$0.06701
Energy Charge – Off Peak kWh	$0.06185
Transition Season	
Demand Charge – 1st 1,000 kW	$11.65
Demand Charge – Excess over 1,000	$13.60
Energy Charge – On Peak kWh	$0.0000
Energy Charge – Off Peak kWh	$0.06288

Time Differentiated Hours Use of Demand (Time of Use Service)

TDHUD GSA, GSB (Demand = 1,001 – 15,000 kW)	
Customer charge (Per Delivery Point Per Month)	$2,000.00
Summer Season	
On Peak kW	$16.62
Off Peak Demand Charge	$4.17
Energy Charge – On Peak	$0.09683
Energy Charge – Off Peak first 425 hours	$0.06215
Energy Charge – Off Peak next 195 hours	$0.04349
Energy Charge – Off Peak additional kWh	$0.02764
Winter Season	
On Peak kW	$9.52
Off Peak Demand Charge	$4.17
Energy Charge – On Peak	$0.06617
Energy Charge – Off Peak first 425 hours	$0.06215
Energy Charge – Off Peak next 195 hours	$0.04349
Energy Charge – Off Peak additional kWh	$0.02764
Transition Season	
Off Peak Demand Charge	$4.17
Energy Charge – Off Peak first 425 hours	$0.06215
Energy Charge – Off Peak next 195 hours	$0.04349
Energy Charge – Off Peak additional kWh	$0.02764

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

SCHEDULE OF UTILITY RATES IN FORCE (continued)
JUNE 30, 2013 (UNAUDITED)

TDHUD GSC (Demand 15,001-25,000kW)	
Customer Charge (Per Delivery Point Per Month)	$2,000.00
Summer Season	
On-Peak kW	$16.62
Off-Peak Demand	$4.17
Energy Charge – On Peak	$0.09323
Energy Charge – Off Peak first 425 hours	$0.05954
Energy Charge – Off Peak next 195 hours	$0.04086
Energy Charge – Off Peak additional kWh	$0.02501
Winter Season	
On-Peak kW	$9.52
Off-Peak Demand	$4.17
Energy Charge – On Peak	$0.06332
Energy Charge – Off Peak first 425 hours	$0.05954
Energy Charge – Off Peak next 195 hours	$0.04086
Energy Charge – Off Peak additional kWh	$0.02501
Transition Season	
Off-Peak Demand Charge	$4.17
Energy Charge – Off Peak first 425 hours	$0.05954
Energy Charge – Off Peak next 195 hours	$0.04086
Energy Charge – Off Peak additional kWh	$0.02501

TDHUD GSD (Demand = >25,000 kW)	
Customer Charge (Per Delivery Point Per Month)	$2,000.00
Summer Season	
On-Peak kW	$16.61
Off-Peak Demand	$4.16
Energy Charge – On Peak	$0.09170
Energy Charge – Off Peak first 425 hours	$0.05696
Energy Charge – Off Peak next 195 hours	$0.03829
Energy Charge – Off Peak additional kWh	$0.02244
Winter Season	
On-Peak kW	$9.51
Off-Peak Demand	$4.16
Energy Charge – On Peak	$0.06093
Energy Charge – Off Peak first 425 hours	$0.05696
Energy Charge – Off Peak next 195 hours	$0.03829
Energy Charge – Off Peak additional kWh	$0.02244
Transition Season	
Off-Peak Demand Charge	$4.16
Energy Charge – Off Peak first 425 hours	$0.05696
Energy Charge – Off Peak next 195 hours	$0.03829
Energy Charge – Off Peak additional kWh	$0.02244

SCHEDULE OF UTILITY RATES IN FORCE (continued)
JUNE 30, 2013 (UNAUDITED)

TDHUD MSA (Demand 1,001-15,000kW)	
Customer Charge (Per Delivery Point Per Month)	$2,000.00
Summer Season	
On-Peak kW	$16.62
Off-Peak Demand	$4.17
Energy Charge – On Peak	$0.08166
Energy Charge – Off Peak first 425 hours	$0.04737
Energy Charge – Off Peak next 195 hours	$0.02871
Energy Charge – Off Peak additional kWh	$0.01286
Winter Season	
On-Peak kW	$9.52
Off-Peak Demand	$4.17
Energy Charge – On Peak	$0.05162
Energy Charge – Off Peak first 425 hours	$0.04737
Energy Charge – Off Peak next 195 hours	$0.02871
Energy Charge – Off Peak additional kWh	$0.01286
Transition Season	
Off-Peak Demand Charge	$4.17
Energy Charge – Off Peak first 425 hours	$0.04737
Energy Charge – Off Peak next 195 hours	$0.02871
Energy Charge – Off Peak additional kWh	$0.01286

TDHUD MSC (Demand 15,001-25,000kW)	
Customer Charge (Per Delivery Point Per Month)	$2,000.00
Summer Season	
On-Peak kW	$16.62
Off-Peak Demand	$4.17
Energy Charge – On Peak	$0.08248
Energy Charge – Off Peak first 425 hours	$0.04723
Energy Charge – Off Peak next 195 hours	$0.02857
Energy Charge – Off Peak additional kWh	$0.01273
Winter Season	
On-Peak kW	$9.52
Off-Peak Demand	$4.17
Energy Charge – On Peak	$0.05177
Energy Charge – Off Peak first 425 hours	$0.04723
Energy Charge – Off Peak next 195 hours	$0.02857
Energy Charge – Off Peak additional kWh	$0.01273
Transition Season	
Off-Peak Demand Charge	$4.17
Energy Charge – Off Peak first 425 hours	$0.04723
Energy Charge – Off Peak next 195 hours	$0.02857
Energy Charge – Off Peak additional kWh	$0.01273

**SCHEDULE OF UTILITY RATES IN FORCE (continued)
JUNE 30, 2013 (UNAUDITED)**

TDHUD MSD (Demand = >25,000 kW)	
Customer Charge (Per Delivery Point Per Month)	$2,000.00
Summer Season	
On-Peak kW	$16.61
Off-Peak Demand	$4.16
Energy Charge – On Peak	$0.08080
Energy Charge – Off Peak first 425 hours	$0.04558
Energy Charge – Off Peak next 195 hours	$0.02691
Energy Charge – Off Peak additional kWh	$0.01108
Winter Season	
On-Peak kW	$9.51
Off-Peak Demand	$4.16
Energy Charge – On Peak	$0.04993
Energy Charge – Off Peak first 425 hours	$0.04558
Energy Charge – Off Peak next 195 hours	$0.02691
Energy Charge – Off Peak additional kWh	$0.01108
Transition Season	
Off-Peak Demand Charge	$4.16
Energy Charge – Off Peak first 425 hours	$0.04558
Energy Charge – Off Peak next 195 hours	$0.02691
Energy Charge – Off Peak additional kWh	$0.01108

Seasonal Demand and Energy

SD&E GSB (Demand 5,001 – 15,000 kW)	
Customer Charge (Per Delivery Point Per Month)	$2,000.00
Summer Season	
Demand – All kW	$21.80
Energy – All kWh	$0.04972
Winter Season	
Demand – All kW	$15.48
Energy – All kWh	$0.04562
Transition Season	
Demand – All kW	$10.72
Energy – All kW	$0.04471

**SCHEDULE OF UTILITY RATES IN FORCE (continued)
JUNE 30, 2013 (UNAUDITED)**

SD&E GSC (Demand 15,001 – 25,000 kW)	
Customer Charge (Per Delivery Point Per Month)	$2,000.00
Summer Season	
Demand – All kW	$21.80
Energy – All kWh	$0.04985
Winter Season	
Demand – All kW	$15.48
Energy – All kWh	$0.04566
Transition Season	
Demand – All kW	$10.72
Energy – All kWh	$0.04478
SD&E GSD (Demand >25,000 kW)	
Customer Charge (Per Delivery Point Per Month)	$2,000.00
Summer Season	
Demand – All kW	$25.36
Energy – All kWh	$0.04279
Winter Season	
Demand – All kW	$19.02
Energy – All kWh	$0.03913
Transition Season	
Demand – All kW	$14.28
Energy – All kWh	$0.03832
Seasonal Demand and Energy Manufacturing Rates	
SD&E MSB (Demand 5,0001 - 15,000 kW)	
Customer Charge (Per Delivery Point Per Month)	$2,000.00
Summer Season	
Demand – All kW	$18.91
Energy – All kWh	$0.04206
Winter Season	
Demand – All kW	$12.58
Energy – All kWh	$0.03742
Transition Season	
Demand – All kW	$7.82
Energy – All kWh	$0.03633

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

SCHEDULE OF UTILITY RATES IN FORCE (continued)
JUNE 30, 2013 (UNAUDITED)

SD&E MSC (Demand 15,0001 - 25,000 kW)	
Customer Charge (Per Delivery Point Per Month)	$2,000.00
Summer Season	
Demand – All kW	$18.91
Energy – All kWh	$0.04175
Winter Season	
Demand – All kW	$12.58
Energy – All kWh	$0.03740
Transition Season	
Demand – All kW	$7.82
Energy – All kWh	$0.03636

SD&E MSD (Demand = >25,000 kW)	
Customer Charge (Per Delivery Point Per Month)	$2,000.00
Summer Season	
Demand – All kW	$21.79
Energy – All kWh	$0.03463
Winter Season	
Demand – All kW	$15.47
Energy – All kWh	$0.03114
Transition Season	
Demand – All kW	$10.714
Energy – All kWh	$0.03030

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

SCHEDULE OF NUMBER OF CUSTOMERS
JUNE 30, 2013 (UNAUDITED)

Residential	327,033
Small Commercial	33,111
Large Commercial and Industrial	6,790
Street and Highway Lighting	550
Total Customers	367,484

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

SCHEDULE OF INVESTMENTS
JUNE 30, 2013 (UNAUDITED)

Face Value	Description	Fair Value
	Securities From Agencies Chartered by Congress	
\$2,805,000	FHLB, 0.16%, 06/17/14	\$2,805,000
\$22,400,000	FHLB, 0.16%, 06/17/14	\$22,400,000
		\$25,205,000

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

SCHEDULE OF LONG-TERM DEBT, PRINCIPAL AND INTEREST SINKING FUND REQUIREMENTS BY FISCAL YEAR

JUNE 30, 2013 (UNAUDITED)

YEAR	1998 SERIES A CABS		1998 SERIES B		2001 SERIES B		2008 SERIES A	
ENDING 5/15/xx	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2014	$ -	$ -	$ 5,400,000	$ 1,290,300	$ 12,035,000	$ 661,925	$ 3,065,000	$ 4,485,438
2015	-	-	5,700,000	993,300	-	-	3,170,000	4,378,163
2016	-	-	6,015,000	679,800	-	-	3,290,000	4,259,288
2017	4,311,609	7,523,391	6,345,000	348,975	-	-	3,415,000	4,135,913
2018	4,087,927	7,747,073	-	-	-	-	3,545,000	4,007,850
2019	3,875,844	7,959,156	-	-	-	-	3,685,000	3,866,050
2020	-	-	-	-	-	-	3,870,000	3,681,800
2021	-	-	-	-	-	-	4,060,000	3,488,300
2022	-	-	-	-	-	-	4,265,000	3,285,300
2023	-	-	-	-	-	-	4,480,000	3,072,050
2024	-	-	-	-	-	-	4,700,000	2,848,050
2025	-	-	-	-	-	-	4,925,000	2,624,800
2026	-	-	-	-	-	-	5,160,000	2,390,863
2027	-	-	-	-	-	-	5,405,000	2,145,763
2028	-	-	-	-	-	-	5,660,000	1,889,025
2029	-	-	-	-	-	-	5,930,000	1,620,175
2030	-	-	-	-	-	-	6,210,000	1,338,500
2031	-	-	-	-	-	-	6,520,000	1,028,000
2032	-	-	-	-	-	-	6,850,000	702,000
2033	-	-	-	-	-	-	7,190,000	359,500
2034	-	-	-	-	-	-	-	-
2035	-	-	-	-	-	-	-	-
2036	-	-	-	-	-	-	-	-
TOTAL	12,275,380	23,229,620	23,460,000	3,312,375	12,035,000	661,925	95,395,000	55,606,828
ACCRETION	15,135,097	(15,135,097)	-	-	-	-	-	-
DISC/ PREM	-	-	267,530	(267,530)	90,856	(90,856)	2,123,082	(2,123,082)
GROSS	$ 27,410,477	$ 8,094,523	$ 23,727,530	$ 3,044,845	$ 12,125,856	$ 571,069	$ 97,518,082	$ 53,483,746

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

SCHEDULE OF LONG-TERM DEBT, PRINCIPAL AND INTEREST SINKING FUND REQUIREMENTS BY FISCAL YEAR (continued)
JUNE 30, 2013 (UNAUDITED)

YEAR ENDING 5/15/xx	2008 SERIES B		2011 SERIES A		2011 SERIES B		2013 SERIES A	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2014	$ 1,160,000	$ 3,468,300	$ 2,600,000	$ 4,408,263	$ 2,010,000	$ 6,414,975		$ 2,235,551
2015	10,540,000	3,427,700	2,675,000	4,330,263	5,440,000	6,334,575		2,530,813
2016	11,025,000	2,945,250	2,755,000	4,250,013	5,650,000	6,116,975		2,530,813
2017	-	2,394,000	2,840,000	4,167,363	5,880,000	5,890,975		2,530,813
2018	-	2,394,000	2,945,000	4,060,263	11,345,000	5,655,775		2,530,813
2019	-	2,394,000	3,035,000	3,971,913	11,915,000	5,088,525		2,530,813
2020	11,575,000	2,394,000	3,170,000	3,838,663	12,510,000	4,492,775		2,530,813
2021	12,155,000	1,815,250	3,265,000	3,743,563	13,075,000	3,929,825		2,530,813
2022	12,760,000	1,207,500	3,410,000	3,595,188	13,730,000	3,276,075		2,530,813
2023	13,400,000	569,500	3,555,000	3,449,863	14,340,000	2,658,225		2,530,813
2024	-	-	3,735,000	3,272,113	18,045,000	1,941,225		2,530,813
2025	-	-	3,920,000	3,085,363	10,380,000	1,038,975	$ 8,245,000	2,530,813
2026	-	-	4,115,000	2,889,363	10,900,000	519,975	8,510,000	2,262,850
2027	-	-	4,325,000	2,683,613	-	-	12,470,000	1,965,000
2028	-	-	4,540,000	2,467,363	-	-	13,090,000	1,341,500
2029	-	-	4,765,000	2,240,363	-	-	13,740,000	687,000
2030	-	-	5,005,000	2,002,113	-	-	-	-
2031	-	-	5,255,000	1,751,863	-	-	-	-
2032	-	-	5,490,000	1,516,750	-	-	-	-
2033	-	-	5,765,000	1,242,250	-	-	-	-
2034	-	-	6,050,000	954,000	-	-	-	-
2035	-	-	6,355,000	651,500	-	-	-	-
2036	-	-	6,675,000	333,750	-	-	-	-
TOTAL	72,615,000	23,009,500	96,245,000	64,905,759	135,220,000	53,358,875	56,055,000	36,330,844
ACCRETION	-	-	-	-	-	-	-	-
DISC/ PREM	2,213,413	(2,213,413)	8,887,154	(8,887,154)	17,724,176	(17,724,176)	5,643,370	(5,643,370)
GROSS	$ 74,828,413	$ 20,796,087	$ 105,132,154	$ 56,018,605	$ 152,944,176	$ 35,634,699	$ 61,698,370	$ 30,687,474

SCHEDULE OF LONG-TERM DEBT, PRINCIPAL AND INTEREST SINKING FUND REQUIREMENTS BY FISCAL YEAR (continued)
JUNE 30, 2013 (UNAUDITED)

YEAR ENDING 5/15/xx	TOTAL DEBT SERVICE		
	PRINCIPAL	INTEREST	TOTAL
2014	$ 26,270,000	$ 22,964,752	$ 49,234752
2015	27,525,000	21,994,814	49,519,814
2016	28,735,000	20,782,139	49,517,139
2017	22,791,609	26,991,430	49,783,039
2018	21,922,927	26,395,774	48,318,701
2019	22,510,844	25,810,457	48,32,1301
2020	31,125,000	16,938,051	48,063,051
2021	32,555,000	15,507,751	48,062,751
2022	34,165,000	13,894,876	48,059,876
2023	35,775,000	12,280,451	48,055,451
2024	26,480,000	10,592,201	37,072,201
2025	27,470,000	9,279,951	36,749,951
2026	28,685,000	8,063,051	36,748,051
2027	22,200,000	6,794,376	28,994,376
2028	23,290,000	5,697,888	28,987,888
2029	24,435,000	4,547,538	28,982,538
2030	11,215,000	3,340,613	14,555,613
2031	11,775,000	2,779,863	14,554,863
2032	12,340,000	2,218,750	14,558,750
2033	12,955,000	1,601,750	14,556,750
2034	6,050,000	954,000	7,004,000
2035	6,355,000	651,500	7,006,500
2036	6,675,000	333,750	7,008,750
TOTAL	503,300,380	260,415,726	763,716,097
ACCRETION	15,135,097	(15,135,097)	
DISC/ PREM	36,949,581	(36,949,581)	
GROSS	$ 555,385,058	$ 208,331,048	$ 763,716,097

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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*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Electric Power Board"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Electric Power Board's basic financial statements, and have issued our report thereon dated October 31, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Electric Power Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Electric Power Board's internal control. Accordingly we do not express an opinion on the effectiveness of the Electric Power Board's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Electric Power Board's financial statements are free from material misstatements, 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 reporting under *Government Auditing Standards*.

Electric Power Board's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

October 31, 2013

Schedule of Findings and Responses

Finding 13-1

The design and operating effectiveness of the Electric Power Board's controls, related to the depreciation of general assets that are fully depreciated, were not effective in the preparation of financial statements.

Background

The Electric Power Board's fixed asset system calculates depreciation expense by applying a straight-line percentage rate to the cost by asset class including utility plant and other property and equipment. These rates result in depreciation of the related assets over their estimated useful lives ranging from seven to fifty years. A system limitation exists whereby the depreciation expense continues to be calculated and reported even if an asset class has been fully depreciated. This can result in accumulated depreciation exceeding the cost of the asset class and thus report a negative net book value. In order to prevent such a result, a detailed review of the depreciation calculation and a manual recalculation is required to ensure that a negative net book value does not result in the general ledger. During fiscal 2013 errors were identified whereby certain asset classes within office furniture and equipment had accumulated depreciation in excess of cost resulting in a negative net book value. The impact of this error was approximately $8 million, the majority of which related to fiscal years prior to 2013. As evidenced by this error, the detailed review control of the depreciation calculation did not operate as intended.

Recommendation

Programmed changes to the fixed asset system to prevent depreciation beyond the asset cost are the preferred remediation to this control deficiency. In the absence of such a change, additional oversight and review of the depreciation calculation and recording of necessary adjustments and reconciliation to the general ledger is warranted. These calculations and the accompanying review should be clearly evidenced through documentation.

Management Response

Management detected this depreciation error during the reporting period and took measures to correct the calculation. The fixed asset system is maintained on an old legacy system that contains over 6,000 transactions. The office furniture and equipment category is over 4,000 of those transactions. Management is researching an automated system to convert the fixed asset system to capture the asset cost and to calculate the appropriate depreciation. Until conversion to an automatic system can occur, we have created detailed electronic spreadsheets for each item. Depreciation is being calculated monthly and reviewed and approved by the appropriate level of management. In addition, we are reconciling the asset accounts monthly.