

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

**FINANCIAL STATEMENTS FOR THE YEARS ENDED
JUNE 30, 2015 AND 2014**

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY
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schedule of
executive
management

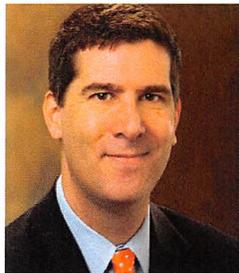


Decosta Jenkins
NES President and
Chief Executive Officer



Teresa Broyles-Aplin
NES Executive Vice President
and Chief Financial Officer

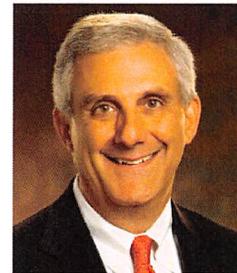
board
members



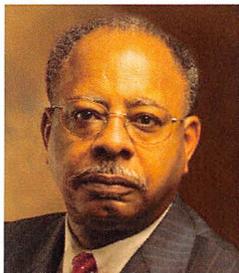
Robert J. Mendes
NES Board Chairman
Attorney
Waypoint Law, PLLC



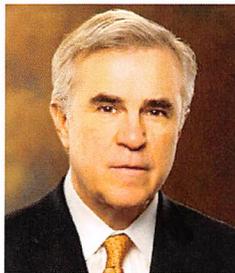
Irma Paz-Bernstein
NES Board Vice Chair
Owner
Las Paletas



Robert Campbell, Jr.
Partner
Waller Lansden Dortch
and Davis, LLP



Samuel H. Howard
Chairman
Phoenix Holdings, Inc.



Robert McCabe
Chairman
Pinnacle Financial Partners



Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying statement 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, 2015 and 2014, 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 and fair presentation of the 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 the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the Electric Power Board'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 Electric Power Board's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Power Board as of June 30, 2015 and 2014, and the changes in its net



position and its 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 the Electric Power Board adopted the provisions of Governmental Accounting Standards Board (GASB) No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. Our opinion is not modified in respect to this matter.

Other Matters

Required Supplementary Information

The accompanying management’s discussion and analysis on pages 4 through 14 and supplemental schedules on pages 48-67, respectively, are required by accounting principles generally accepted in the United States of America 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 the 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 audits 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2015 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.

PricewaterhouseCoopers LLP

Nashville, Tennessee
October 28, 2015

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, 2015 and 2014 as compared to fiscal years 2014 and 2013, respectively. The Electric Power Board adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, which required the presentation of a net pension obligation in the amount of \$165.4 million and \$149.0 million at June 30, 2015 and 2014, respectively. The standard also changed the required disclosures for pension activity in the financial statements. Amounts prior to fiscal 2014 were not amended for this standard. 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 (the "Metropolitan Government"). We refer to our infrastructure as "the Electric System". 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. Certain reclassifications have been made to the fiscal year 2014 amounts to conform to the fiscal year 2015 presentation and the adoption of GASB 68. 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.

The Company adopted GASB 68, *Accounting and Financial Reporting for Pensions*, during fiscal 2015. The purpose of this standard was to improve the transparency of pension obligations and related funding status by presenting the net pension liability on the statement of net assets of the plan sponsor. This standard also changed how funding is recognized, and changed the elements of pension expense. However, the funding *requirements* were not impacted by this standard; only the manner in which the funding is recognized in the financial statements.

The standard required retroactive application to the most recent preceding year for comparative financial statements. NES recorded the effects of adopting GASB 68 beginning in July of 2013 through the recognition of a net pension liability with a corresponding offset to unrestricted net position of \$179.1 million. Accordingly, all comparative periods for fiscal year 2015 and fiscal year 2014 reflect results with this new accounting standard.

The most significant impact of the adoption of this standard is the recognition of the net pension liability of \$165.4 million and \$149.0 million at June 30, 2015 and 2014, respectively. The 2014 Change in Net Position increased approximately \$5.0 million from amounts previously reported.

Other effects of the adoption of GASB 68 included the following:

The accounting for pension activity under the new standard results in deferred outflows (delayed recognition of unfavorable investment income changes or unfavorable actuarial changes) and deferred inflows (delayed recognition of favorable investment income changes or favorable actuarial changes). All

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

deferred investment income changes (whether favorable or unfavorable) are combined together for a net balance sheet presentation. These changes will be amortized into net pension expense over five years for investment related deferrals, and approximately eight years for actuarially determined deferrals beginning in the year that the inflow or outflow is initially recognized.

At June 30, 2015 and 2014, deferred investment related inflows, net were \$6.9 million and \$29.3 million, respectively. The decrease in the net deferred investment inflows for the period ending June 30, 2015 as compared to the same period ended June 30, 2014 was primarily due to investment results that were \$18.8 million less than expected when compared to actuarial projections for each period. Approximately \$3.9 million of these net deferred inflows were amortized in 2015, reducing pension expense by the same amount.

At June 30, 2015 and 2014, deferred actuarial outflows were \$6.0 million and \$5.4 million, respectively. These actuarial outflows relate to an unfavorable actuarial change from the June 2014 annual plan measurement. In fiscal 2015, there were unfavorable developments of \$1.8 million. Approximately \$1.0 million of these net deferred outflows were amortized in 2015, increasing pension expense by the same amount.

The administrative and general expenses (and pension expense) decreased by \$5.0 million (as compared to the prior accounting method) for the twelve months ended June 30, 2014 due to the adoption of GASB 68.

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 result 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Summary of Changes in Net Position

Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$542.9 million at June 30, 2015, and \$487.1 million at June 30, 2014. This represents an increase of \$55.8 million in 2015 and \$65.9 million in 2014.

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,		
	2015	2014	2013
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>			
CURRENT ASSETS	\$466,859	\$437,487	\$ 383,072
INVESTMENT OF RESTRICTED FUNDS	145,640	182,801	81,310
UTILITY PLANT, NET	919,884	901,696	890,320
OTHER NON-CURRENT ASSETS	<u>3,356</u>	<u>2,804</u>	<u>2,265</u>
TOTAL ASSETS	1,535,739	1,524,788	1,356,967
DEFERRED OUTFLOWS OF RESOURCES	<u>25,401</u>	<u>15,200</u>	<u>11,195</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$1,561,140</u>	<u>\$1,539,988</u>	<u>\$1,368,162</u>

MANAGEMENT’S DISCUSSION AND ANALYSIS (continued)

STATEMENTS OF NET POSITION (\$000 omitted) continued

	June 30,		
	2015	2014	2013
<u>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>			
CURRENT LIABILITIES			
	\$ 200,358	\$ 205,494	\$ 194,567
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	37,283	33,895	30,669
LONG-TERM DEBT, LESS CURRENT PORTION	599,342	622,309	529,115
NET PENSION LIABILITY	165,435	148,956	-
OTHER NON-CURRENT LIABILITIES	<u>8,912</u>	<u>12,994</u>	<u>13,557</u>
TOTAL LIABILITIES	<u>1,011,330</u>	<u>1,023,648</u>	<u>767,908</u>
DEFERRED INFLOWS OF RESOURCES	<u>6,945</u>	<u>29,288</u>	<u>-</u>
<u>NET POSITION</u>			
Net investment in capital assets	384,058	375,144	344,661
Restricted, net	63,730	62,979	54,735
Unrestricted	<u>95,077</u>	<u>48,929</u>	<u>200,858</u>
TOTAL NET POSITION	<u>542,865</u>	<u>487,052</u>	<u>600,254</u>
TOTAL LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES AND NET POSITION	<u>\$1,561,140</u>	<u>\$1,539,988</u>	<u>\$1,368,162</u>

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 cash flows from operations for capital maintenance and expansion. On May 19, 2015, the Board issued \$112.9 million in Electric System Revenue Refunding Bonds, 2015 Series A, with an interest rate of 5.0 percent to advance refund \$121.3 million of outstanding 2008 Series A and 2008 Series B bonds with interest rates of 4.25 percent to 5.0 percent and 4.75 percent to 5.0 percent, respectively. The Board completed the advance refunding to reduce its total debt service payments over the next 18 years. The advance refunding resulted in a \$9.0 million savings in future interest expense. The refunded portion represents significantly all of the outstanding 2008 Series A Bonds, and a significant portion of outstanding 2008 Series B bonds. The net proceeds of \$135.6 million (after payment of \$0.9 million in underwriting fees and other issuance costs) plus an additional \$0.3 million of monies transferred from the Debt Service Fund were placed in escrow. These funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of 2008 A and 2008 B Series Revenue Bonds. Funds deposited

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

with the escrow agent were used to purchase U.S. Treasury Obligations. As a result, \$78.9 million of the 2008 Series A and \$42.4 million of 2008 Series B outstanding bonds are considered defeased and the liability for those bonds have been removed from the Statements of Net Position as of June 30, 2015.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$14.3 million, which is reported as a component of deferred outflows on the Statements of Net Position. The bonds have an aggregate principal amount of \$112.9 million, were issued at a premium totaling \$23.4 million, and mature annually on May 15, 2019 through 2033.

On June 25, 2014, the Board closed on the sale of the Metropolitan Government of Nashville and Davidson County, Tennessee, Electric System Revenue Bonds, 2014 Series A. The 2014 Series A Bonds were issued to finance the costs of acquisition, expansion, and improvements to the Electric System in accordance with the Board's capital improvement plan, to fund the Debt Service Reserve Account established under the Bond Resolution, and to pay costs of issuance of the bonds. The bonds have an aggregate principal amount of \$109.1 million, including both serial and term issuances. The 2014 Series A Bonds were issued at a premium totaling \$16.5 million. The serial bonds totaling \$88.0 million mature annually on May 15, 2015 through 2036. A term bond totaling \$21.1 million matures May 15, 2039. The Board has \$78.0 million and \$117.0 million in proceeds from the 2014 Series A Bond issuance in cash and cash equivalents at June 30, 2015 and 2014, respectively, and are reported as a component of Investment of Restricted Funds in the accompanying Statements of Net Position. During fiscal 2015, NES drew \$39.0 million of funds from these bonds. During fiscal year 2014, NES drew no funds from the System Revenue Bonds, 2014 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, 2015, 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.

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 was met every month of the fiscal year 2015. That percentage was 28.2 percent as of June 30, 2015, and 25.0 percent as of June 30, 2014. 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, 2015, was 3.1 to 1. The Board continues to exceed its goals. The outlook on all debt ratings is stable as of June 30, 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Comparison of Cash Balances to NES' Goals



Operations
Summary Revenue & Expense Data
(\$'000 omitted)

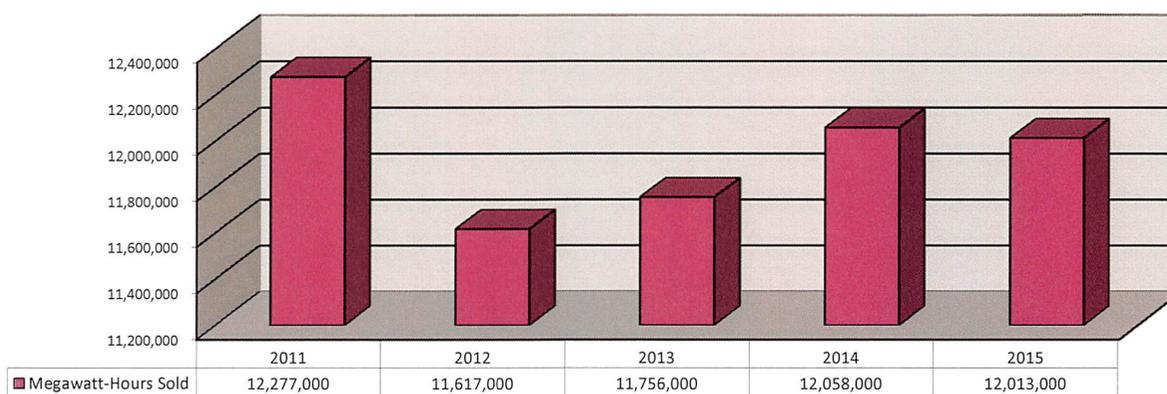
	Year Ended June 30,		Change in	Year Ended	Change in
	2015	2014	Net Position	June 30, 2013	Net Position
Operating revenues, net	\$1,246,632	\$1,241,434	\$5,199	\$1,174,424	\$67,009
Purchased power	<u>(929,726)</u>	<u>(926,575)</u>	<u>(3,151)</u>	<u>(900,916)</u>	<u>(25,659)</u>
Operating revenues, net, less Purchased power	316,906	314,859	2,048	273,508	41,350
Operating expenses	(149,512)	(145,267)	(4,246)	(150,749)	5,483
Depreciation and Tax equivalents	(87,076)	(81,747)	(5,329)	(71,695)	(10,052)
Interest income	995	295	700	525	(230)
Interest expense, net	<u>(25,500)</u>	<u>(22,236)</u>	<u>(3,264)</u>	<u>(23,797)</u>	<u>1,561</u>
Increase in Net position	55,813	65,904	(10,091)	27,792	38,112
Effect of adoption of GASB 68	<u>-</u>	<u>(4,997)</u>	<u>4,997</u>	<u>-</u>	<u>(4,997)</u>
Increase in Net position, as previously stated	<u>\$ 55,813</u>	<u>\$ 60,907</u>	<u>\$ (5,094)</u>	<u>\$ 27,792</u>	<u>\$ 33,115</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

2015 and 2014 Results of Operations

Operating Revenues. Operating revenues increased by \$5.2 million, or 0.4 percent, when compared to 2014. Total electric sales were \$1.2 billion for each year. The average realized rate on electric sales was \$.1023 per kilowatt-hour in 2015 compared to \$.1014 per kilowatt-hour in 2014. Megawatt-hours sold in 2015 decreased by 0.4 percent when compared to 2014. 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 1,791 compared to 1,820 in 2014. Total heating degree-days were 3,790 compared to 3,930 in 2014. Total heating and cooling degree-days were 5,581 compared to 5,750 in 2014, or a decrease of approximately 2.9 percent. Total average number of active year-to-date customers increased by 1.6 percent when compared to 2014. Revenue in Excess of Net Bills (Late Charges) decreased by \$0.2 million, and Rentals of Electric Property (primarily pole attachments) decreased by \$1.0 million.

Megawatt-Hours Sold



Non-operating Revenues. Interest Income was \$1.0 million compared to \$0.3 million in 2014. The average rate of return on the General Fund was 0.10 percent in 2015 compared to 0.09 percent in 2014. The average monthly investible balance of the General Fund was \$255.6 million in 2015 compared to \$219.6 million in 2014, an increase of 16.4 percent. Interest income increased due to the investment of Special Construction Funds from the 2014 Series A Electric Service Revenue Bond issuance previously held as cash at June 30, 2014.

Operating Expenses. The Board purchases all of its power from TVA under a full-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 \$929.7 million for the period compared to \$926.6 million last year. The average realized rate on purchased power was \$.077 per kilowatt-hour in both 2015 and 2014. Megawatt-hours purchased were 12.4 million in 2015 compared to 12.5 million in 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Distribution expenses for the period were \$59.5 million compared to \$61.9 million last year. This is a decrease of \$2.4 million or 0.4 percent. The change is primarily attributable to decreases in the following expense categories: Tree trimming, \$2.7 million; operation and maintenance miscellaneous, \$0.8 million; storm restoration, \$0.3 million; operation and maintenance of street light and signal systems, \$0.3 million; and operation and maintenance of private lights, \$0.1 million. These decreases were offset by increases in the following expense categories: Operation and maintenance of overhead lines, \$1.1 million; operation and maintenance of supervision and engineering, \$0.5 million; operation and maintenance of load dispatching, \$0.2 million; and operation and maintenance of station equipment, \$0.1 million.

Customer Accounts expense and Customer Service and Information expenses combined were \$21.9 million for the period compared to \$21.5 million last year or an increase of \$0.4 million or 0.02 percent. This is primarily the result of increases in the following expense categories: Customer assistance, \$0.5 million; data processing, \$0.3 million; and customer orders and service, \$0.1 million. These increases were offset by decreases in the following expense categories: Meter reading, \$0.3 million; customer records and collections, \$0.2 million; and supervision, \$0.1 million.

Administrative and General (A&G) expenses were \$68.2 million for the period compared to \$61.9 million last year. This was an increase of \$6.3 million or 10.2 percent. The increase is attributable to increases in the following expense categories: Employee pension, \$3.2 million; employee health insurance, \$1.5 million; injuries and damages, \$0.6 million; outside services employed, \$0.6 million; data processing, \$0.4 million; miscellaneous general expenses, \$0.2 million; maintenance of general plant, \$0.1 million; and office supplies and expenses, \$0.1 million. These increases were offset by decreases in the following expense categories: Employee welfare, \$0.3 million; and duplicate credit charges, \$0.2 million.

Depreciation and Taxes and Equivalents were \$53.3 million and \$33.8 million, respectively, for 2015, compared to \$49.1 million and \$32.6 million, respectively, for 2014. The increase in depreciation was the result of a net increase in investments of depreciable property of \$69.3 million. 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.

2014 and 2013 Results of Operations

Operating Revenues, net. Operating revenues, net increased by \$67.0 million in 2014, or 5.7 percent, when compared to 2013. Total electric sales were \$1.22 billion in 2014 versus \$1.15 billion in 2013. The average realized rate on electric sales was \$.1014 per kilowatt-hour in 2014 compared to \$.0981 per kilowatt-hour in 2013. The increase in average realized rate in 2014 is the result of a 3.8 percent increase in retail rates, effective October 1, 2013. Megawatt-hours sold in 2014 increased by 2.6 percent when compared to 2013. 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 1,820 in 2014 compared to 1,808 in 2013. The 2014 total heating degree-days were 3,930 compared to 3,505 in 2013. Total heating and cooling degree-days were 5,750 in 2014 compared to 5,313 in 2013, or an increase of approximately 8.2 percent. Total average number of active year-to-date customers increased by 1.1 percent in 2014 when

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

compared to 2013. Revenue in excess of net bills (Late Charges) increased by \$0.3 million, and rentals of electric property (primarily pole attachments) decreased by \$0.1 million

Non-operating Revenues. Interest income was \$0.3 million in 2014 compared to \$0.5 million in 2013. The average rate of return on the General Fund was 0.09 percent in 2014 compared to 0.16 percent in 2013. The average monthly investible balance of the General Fund was \$219.6 million in 2014 compared to \$181.7 million in 2013, an increase of 20.9 percent. In addition, interest income from the bond reserve fund decreased by \$0.02 million in 2014 when compared to 2013.

Purchased Power and Operating Expenses. The Board purchases all of its power from the Tennessee Valley Authority ("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 \$926.6 million in 2014 compared to \$900.9 million in 2013. The average realized rate on purchased power was \$.077 per kilowatt-hour in 2014 compared to \$.074 per kilowatt-hour in 2013. Megawatt-hours purchased were 12.5 million in 2014 compared to 12.1 million in 2013.

Distribution expenses for the period were \$61.9 million compared to \$59.3 million last year. This is an increase of \$2.6 million or 4.4 percent. The change is primarily attributable to an increase in the following expense categories: Operation and maintenance of supervision and engineering, \$1.4 million; operation and maintenance of miscellaneous expense, \$0.7 million; load dispatching, \$0.6 million; operation and maintenance of station equipment, \$0.5 million; emergency services, \$0.2 million; operation and maintenance of meters, \$0.2 million; and operation and maintenance of underground lines, \$0.1 million; Those increases were offset by decreases in the following expense categories: Operation and maintenance of street light and signal system, \$0.5 million; operation and maintenance of overhead lines, \$0.3 million; operation and maintenance of line transformers, \$0.2 million; and operation and maintenance of mapping, \$0.1 million.

Customer accounts expense and Customer service and information expenses combined were \$21.5 million in 2014 compared to \$23.7 million in 2013 or a decrease of \$2.2 million or 9.3 percent. This was primarily the result of decreases in customer assistance expense category, \$0.5 million.

Administrative and general expenses were \$61.9 million in 2014 compared to \$67.8 million in 2013. This was a decrease of \$5.9 million or 8.7 percent. The decrease was primarily the result of decreases in the following expense categories: Pension and retirement benefits due to the adoption of GASB 68, \$5.0 million; employee health insurance, \$0.5 million; duplicate credit charges, \$0.3 million; miscellaneous general expenses, \$0.3 million; office supplies and expenses, \$0.3 million; injuries and damages, \$0.2 million. Those decreases were offset by increases in the following expense categories: Data processing, \$0.4 million; and administrative and general salaries, \$0.3 million.

Depreciation, and Tax equivalents were \$49.1 million and \$32.6 million, respectively, for 2014, compared to \$39.5 million and \$32.2 million, respectively, for 2013. The increase in depreciation was the result of fully depreciated assets in the prior year. Tax equivalents consist primarily of payments in-lieu-of taxes to the Metropolitan Government and the surrounding counties. Such payments were calculated based on a prescribed formula that took 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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

Major Classifications of Expense (\$000 omitted)

<u>Description</u>	<u>Fiscal 2015</u>	<u>Fiscal 2014</u>	<u>Increase (Decrease)</u>	<u>Fiscal 2013</u>	<u>Increase (Decrease)</u>
Labor	\$ 68,600	\$ 63,371	8.3%	\$ 59,316	6.8%
Benefits	42,613	37,699	13.0%	42,958	(12.2%)
Tree-trimming	6,951	9,561	(27.3%)	9,602	(0.4%)
Outside Services	10,571	9,990	5.80%	10,632	(6.0%)
Materials	2,128	2,242	(5.1%)	3,021	(25.8%)
Transportation	4,539	4,488	1.1%	4,683	(4.2%)
Security/Police	1,401	1,167	20.1%	1,141	2.3%
Rentals	999	959	4.2%	969	(1.0%)
Professional Fees	1,061	925	14.7%	1,252	(26.1%)
Insurance Premiums	1,283	1,184	8.4%	1,191	(0.6%)
Other	<u>9,366</u>	<u>13,680</u>	(31.5%)	<u>15,984</u>	(14.4%)
	<u>\$149,512</u>	<u>\$145,266</u>	2.9%	<u>\$150,749</u>	(3.6%)

The Board's total operating expenses increased 2.9 percent from June 30, 2014 to June 30, 2015. Labor for fiscal year 2015 totaled \$68.6 million, which remained stable compared to 2014 due to increases in cost of living adjustments, merit adjustments, and step increases, offset by a decrease in filled positions. Benefits increased primarily due to the accounting for investment activity prescribed by GASB 68. Tree trimming decreased as a result of unanticipated contractor delays in 2015. Outside Services increased primarily due to information technology, \$0.7 million in 2015. Materials were lower primarily due to fewer distribution related materials required in 2015. Transportation costs increased due to increased repairs and maintenance costs in Fleet. Security/Police increased due to additional coverage for North Service Center and Training Facility. Rentals remained stable from 2014 to 2015. Insurance premiums have increased from 2014 due to market increases. Professional fees increased due to increases in legal and audit fees in 2015. The Other category contains a wide array of smaller expense types. There were no major fluctuation in these categories.

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 flows from operations and proceeds from tax-exempt bonds. The Board's investment in utility plant, less accumulated depreciation, at June 30, 2015 was \$919.9 million compared to \$901.7 million at June 30, 2014. Major projects during fiscal year 2015 included new

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

business installations, \$15.2 million; \$8.2 million in substation improvements including commissioning of Trinity Hills substation; \$7.7 million for the North Service Center; and \$7.4 million in capital maintenance.

In 2014, NES entered into an agreement with a general contractor for the construction of its new North Service and Training Center. The contract, which is set to expire on October 31, 2015, has a not to exceed value of \$12.5 million. As of June 30, 2015, \$10.1 million has been expended.

The Board has outstanding bonds payable of \$630.6 million at June 30, 2015 compared to \$652.0 million at June 30, 2014. The decrease is due to debt payments, accretion, and amortization of \$33.7 million, and partial refunding of 2008 Series A and 2008 Series B Bonds of \$124.0 million principal and associated premiums; offset by the issuance of 2015 Electric Service Revenue Refunding Series A Bonds of \$136.3 million principal and associated premiums. The Board completed a refunding of significantly all of the 2008 Series A and 2008 Series B bonds for \$78.9 million and \$42.4 million, respectively, in conjunction with the issuance of the 2015 Electric Service Revenue Refunding Series A Bonds with an aggregate principal balance of \$112.9 million, and with associated premiums of \$23.4 million. More details about the Board's capital assets and debt can be found in the notes to the financial statements.

In August 2015, the Board approved an agreement between the Employee Association of NES and management for a period of five years, effective July 1, 2015. The agreement amended the Nashville Electric Service Retirement Annuity and Survivors Plan with respect to early retirement options. This change increased the total pension liability at that time by approximately \$6.0 million. The agreement also increased non-supervisory pay by 3.0 percent in fiscal 2016.

Respectfully submitted,



Teresa Broyles-Aplin
Executive 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, 2015 AND 2014**

	2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 303,851	\$ 267,994
Customer and other accounts receivable, less allowance for doubtful accounts of \$469 and \$1,819 respectively	136,613	144,325
Materials and supplies	19,483	19,723
Other current assets	<u>6,912</u>	<u>5,445</u>
TOTAL CURRENT ASSETS	<u>466,859</u>	<u>437,487</u>
INVESTMENT OF RESTRICTED FUNDS:		
Cash and cash equivalents	30,729	141,667
Other investments	<u>114,911</u>	<u>41,134</u>
TOTAL INVESTMENT OF RESTRICTED FUNDS	<u>145,640</u>	<u>182,801</u>
UTILITY PLANT:		
Electric plant, at cost	1,519,141	1,473,175
Less: Accumulated depreciation	<u>(599,257)</u>	<u>(571,479)</u>
TOTAL UTILITY PLANT, NET	919,884	901,696
OTHER NON-CURRENT ASSETS	<u>3,356</u>	<u>2,804</u>
TOTAL ASSETS	<u>1,535,739</u>	<u>1,524,788</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amount on refunding of debt	19,393	9,831
Difference between projected and actual pension experience	<u>6,008</u>	<u>5,369</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	25,401	15,200
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>1,561,140</u>	<u>1,539,988</u>

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, 2015 AND 2014 (continued)**

	2015	2014
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
CURRENT LIABILITIES:		
Accounts payable for purchased power	160,455	165,262
Other accounts payable and accrued expenses	25,463	26,899
Customer deposits	<u>14,440</u>	<u>13,333</u>
TOTAL CURRENT LIABILITIES	<u>200,358</u>	<u>205,494</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Construction contracts payable	2,894	1,372
Accrued interest payable	3,159	2,823
Current portion of long-term debt	<u>31,230</u>	<u>29,700</u>
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	<u>37,283</u>	<u>33,895</u>
LONG-TERM DEBT, LESS CURRENT PORTION	599,342	622,309
NET PENSION LIABILITY	165,435	148,956
OTHER NON-CURRENT LIABILITIES	<u>8,912</u>	<u>12,994</u>
TOTAL LIABILITIES	<u>1,011,330</u>	<u>1,023,648</u>
DEFERRED INFLOWS OF RESOURCES		
Difference between projected and actual pension earnings	<u>6,945</u>	<u>29,288</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>6,945</u>	<u>29,288</u>
NET POSITION		
Net investment in capital assets	384,058	375,144
Restricted, net	63,730	62,979
Unrestricted	<u>95,077</u>	<u>48,929</u>
TOTAL NET POSITION	<u>542,865</u>	<u>487,052</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	<u>\$ 1,561,140</u>	<u>\$ 1,539,988</u>

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, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES:		
Residential	\$ 530,169	\$ 530,113
Commercial and industrial	676,002	672,954
Street and highway lighting	19,996	19,726
Other	<u>20,465</u>	<u>18,641</u>
 Total operating revenues, net	 1,246,632	 1,241,434
 PURCHASED POWER	 <u>929,726</u>	 <u>926,575</u>
 Operating revenues, net, less purchased power	 <u>316,906</u>	 <u>314,859</u>
OPERATING EXPENSES:		
Distribution	59,496	61,889
Customer accounts	20,176	20,302
Customer service and information	1,690	1,206
Administrative and general	68,150	61,870
Tax equivalents	33,759	32,641
Depreciation	<u>53,317</u>	<u>49,106</u>
 Total operating expenses	 <u>236,588</u>	 <u>227,014</u>
 Operating income	 <u>80,318</u>	 <u>87,845</u>
NON-OPERATING REVENUE (EXPENSE):		
Interest income	995	295
Interest expense, net	<u>(25,500)</u>	<u>(22,236)</u>
 Total non-operating expense	 <u>(24,505)</u>	 <u>(21,941)</u>
 NET INCREASE IN NET POSITION	 55,813	 65,904
 NET POSITION, beginning of year, as previously stated	 487,052	 600,254
Cumulative effect of an accounting change	<u>-</u>	<u>(179,106)</u>
NET POSITION, beginning of year	<u>487,052</u>	<u>421,148</u>
 NET POSITION, end of year	 <u>\$ 542,865</u>	 <u>\$ 487,052</u>

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, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,254,943	\$ 1,235,814
Payments to suppliers for goods and services	(1,037,471)	(1,017,075)
Payments to employees	(55,705)	(53,298)
Payments for tax equivalents	<u>(32,937)</u>	<u>(31,885)</u>
Net cash provided by operating activities	<u>128,830</u>	<u>133,556</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Proceeds from sale of revenue bonds	136,300	-
Payment on defeased debt	(121,265)	-
Deferred outflow debt defeasance	<u>(14,337)</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>698</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of utility plant	(68,725)	(50,300)
Utility plant removal costs	(9,942)	(14,521)
Salvage received from utility plant retirements	746	2,224
Contributions in aid of construction	3,451	488
Principal payments on revenue bonds	(29,700)	(26,270)
Interest payments on revenue bonds	(27,132)	(23,311)
Proceeds from sale of revenue bonds	<u>-</u>	<u>125,588</u>
Net cash (used in) provided by capital and related financing activities	<u>(131,302)</u>	<u>13,898</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities	(171,054)	(91,259)
Proceeds from sales and maturities of investment securities	97,274	75,330
Interest on investments	<u>473</u>	<u>309</u>
Net cash used in investing activities	<u>(73,307)</u>	<u>(15,620)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(75,081)	131,834
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>409,661</u>	<u>277,827</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 334,580</u>	<u>\$ 409,661</u>

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, 2015 AND 2014 (continued)**

	2015	2014
Reconciliation of operating income to net cash provided		
by operating activities:		
Operating income	\$ 80,318	\$ 87,845
Adjustments to reconcile operating income		
to net cash provided by operating activities:		
Depreciation	53,317	50,333
Pension	19,242	16,583
Accrual for uncollectible accounts	2,836	2,713
Changes in assets and liabilities:		
(Increase) decrease in customer and other accounts receivable	4,876	(10,597)
Decrease in materials and supplies	240	596
Increase in other current assets	(1,208)	(2,631)
Decrease in other non-current assets	(552)	(539)
Increase (decrease) in accounts payable for purchased power	(4,807)	11,107
Decrease in other accounts payable and accrued expenses	(1,436)	(274)
Increase in customer deposits	1,107	94
Increase in other non-current liabilities	643	1,139
Pension contributions	<u>(25,746)</u>	<u>(22,813)</u>
Net cash provided by operating activities	<u>\$ 128,830</u>	<u>\$ 133,556</u>

NON-CASH OPERATING ACTIVITIES, CAPITAL AND RELATED FINANCING ACTIVITIES:

Accounts payable associated with the acquisition and construction of utility plant was \$2.9 million in 2015 and \$1.4 million in 2014.

Allowances for funds used during constructions (AFUDC), approximates NES' current weighted average cost of debt. AFUDC was capitalized as a component of the cost of utility plant. AFUDC was \$0.6 million in 2015 and \$0.2 million in 2014.

During 2015 and 2014, NES charged \$17.3 million and \$32.7 million, respectively, to accumulated depreciation representing the cost of retired utility plant.

During 2015 and 2014, \$5.5 million and \$3.9 million, respectively, was credited to interest expense for amortization of net bond premiums and discounts in each year. NES expensed debt issuance costs of \$0.9 million in 2015 and 2014.

During 2015, the 2015 Series A Bonds were issued to refund significantly all of the 2008 Series A and 2008 Series B bonds for \$78.9 million and \$42.4 million. The advance refunding resulted in a deferred outflow of \$14.3 million due to the difference between the reacquisition price and net carrying amount of the debt and financing expense of \$1.0 million.

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

NON-CASH OPERATING ACTIVITIES, CAPITAL AND RELATED FINANCING ACTIVITIES (continued):

During 2014, NES and the Metropolitan Government of Nashville reached an agreement in which the Music City Convention Authority receivable of \$2.8 million was exchanged for land that was of a similar value.

During 2014, \$1.0 million of Distribution assets were transferred back to Material and Supplies.

See notes to financial statements.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

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 Board establishes rates. Such rates are approved by the Tennessee Valley Authority ("TVA"). The Metropolitan Government does not assume liability for the financial obligations of NES. In addition, the assets of NES (our infrastructure or "the Electric System") 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 using the economic measurement focus and the accrual basis of accounting. NES is not subject to the jurisdiction of federal or state energy regulatory commissions.

Recently Adopted Accounting Pronouncements

The Company adopted GASB 68, *Accounting and Financial Reporting for Pensions*, during fiscal 2015. The purpose of this standard was to improve the transparency of pension obligations and related funding status by presenting the net pension liability on the statement of net assets of the plan sponsor. This standard also changed how funding is recognized, and changed the elements of pension expense. However, the funding *requirements* were not impacted by this standard; only the manner in which the funding is recognized in the financial statements.

The standard required retroactive application to the most recent preceding year for comparative financial statements. NES recorded the effects of adopting GASB 68 beginning in July of 2013 through the recognition of a net pension liability with a corresponding offset to unrestricted net position of \$179.1 million. Accordingly, all comparative periods for fiscal year 2015 and fiscal year 2014 reflect results with this new accounting standard.

The most significant impact of the adoption of this standard is the recognition of the net pension liability of \$165.4 million and \$149.0 million at June 30, 2015 and 2014, respectively. The 2014 Change in Net Position increased approximately \$5.0 million from amounts previously reported.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other effects of the adoption of GASB 68 included the following:

The accounting for pension activity under the new standard results in deferred outflows (delayed recognition of unfavorable investment income changes or unfavorable actuarial changes) and deferred inflows (delayed recognition of favorable investment income changes or favorable actuarial changes). All deferred investment income changes (whether favorable or unfavorable) are combined together for a net balance sheet presentation. These changes will be amortized into net pension expense over five years for investment related deferrals, and approximately eight years for actuarially determined deferrals beginning in the year that the inflow or outflow is initially recognized.

The administrative and general expenses (and pension expense) decreased by \$5.0 million (as compared to the prior accounting method) for the twelve months ended June 30, 2014 due to the adoption of GASB 68.

The significant accounting policies followed by NES are outlined below.

Use of Estimates

Estimates used in the preparation of financial statements are based on management's best judgments. The most significant estimates relate to useful lives of capital assets, employee benefit plan obligations, and unreported medical claims. These estimates may be adjusted as information that is more current becomes available.

Cash and cash equivalents

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

Restricted assets of NES represent bond proceeds designated for construction and other monies required to be restricted for debt service. As of June 30, 2015 and 2014, amounts restricted for debt service were \$63.7 million and \$62.9 million, respectively. NES releases capital debt funds quarterly based on expected draws for that quarter. As of June 30, 2015 and 2014, amounts restricted for construction were \$78.8 million and \$117.0 million, respectively. NES generally makes disbursements for all capital projects out of its unrestricted operating funds. When restricted resources for capital projects exist, NES reimburses the unrestricted operating fund from the restricted resources according to a quarterly funding schedule. At that time such funds are considered applied to capital projects. The funding release schedule is based on expected capital expenditures which are typically over a three-year period, or may be based upon specific bond terms.

Utility Plant

Electric plant is stated at original cost. Such cost includes applicable overhead such as general and administrative costs, depreciation of vehicles used in the construction process, and payroll and related

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 that are designed to amortize the cost of depreciable plant (including estimated removal costs) 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, 2015 and 2014:

	2015	2014
Distribution plant, 8 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	10.9%	5.0%
Transportation equipment, 8 to 10 years	6.3%	6.1%
Other equipment, 8 to 33.3 years	6.6%	5.3%

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.

Contributions in Aid of Construction (CIAC)

Payments are received from customers and TVA for construction costs primarily relating to the expansion or improvement of the capabilities of the Electric System. FERC guidelines are followed in recording CIAC, which direct the reduction of utility plant assets by the amount of contributions received toward the construction of utility plant. CIAC earned and recovered in the plant costs was \$8.0 million in 2015 and \$2.2 million in 2014.

Investments of Restricted Funds

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 cash equivalents which are investments with an original maturity of three months or less, respectively. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reflected at their fair value except those investments that have a remaining maturity at the time of purchase of one year or less and certificates of deposit, which are reflected at amortized cost and cost, respectively.

Materials and Supplies

Materials and supplies are stated at weighted average cost, which approximates actual cost.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

NES recognizes a 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.

Net Position

Net position is reported in three components on the Statement of Net Position: Net investment in capital assets, Restricted, and Unrestricted. The net investment in capital assets is the portion of net position that consists of capital assets, net of accumulated depreciation, plus deferred outflows of resources reduced by the proceeds used from outstanding capital debt and construction contracts payable that are attributable to the acquisition, construction, or improvement of those assets. The Restricted component of net position consists of restricted assets reduced by related liabilities, and deferred inflows of resources related to those assets. A net position is reported as restricted when constraints are externally imposed on the use of net position. As of June 30, 2015, the Restricted Net position consisted of Cash of \$30.7 million for capital projects (\$1.5 million) and debt service (\$29.2 million) and of investments of \$114.9 million for capital projects (\$77.2 million) and debt service (\$37.7 million). Unrestricted is the share of net position that is neither restricted nor invested in capital assets.

Revenues

Revenues for residential, commercial and industrial customers 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. As of June 30, 2015 and 2014, such unbilled revenues were \$48.7 million and \$49.7 million, respectively. In addition to a base rate, NES collects and recognizes a variable fuel cost adjustment based upon changing fuel and purchased power costs, which is a pass-through from TVA. NES also collects sales tax from a majority of its commercial customers. Revenues are presented net of sales tax and net of allowances for uncollectible accounts of \$2.8 million and \$2.7 million for the years ended June 30, 2015 and 2014, respectively. Significantly all uncollectible accounts are from residential sales.

Purchased Power

NES purchases electric power from the TVA. TVA's rate structure is a wholesale Time of Use rate structure, which includes a variable fuel charge component. Retail customers are billed under a seasonal rate structure. Wholesale rates are billed based on energy use and demand charges.

Asset Retirement Obligations

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

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating and Non-operating Revenues and Expenses

Operating revenues include the sale of power and rental of electric property less accruals for uncollectible accounts. 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 and gains or losses on the disposal of certain assets.

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, which is the operating revenues, net less purchased power expenses.

Fair Value of Financial Instruments

Fair value of financial instruments has been determined by NES using available market information. 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 \$643.8 million and \$684.0 million at June 30, 2015 and 2014, respectively, based on pricing models derived from trading activity of similar long-term municipal debt, which are a reasonable estimate of their fair value. However, judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the fair values of debt are not necessarily indicative of the amounts that NES could realize in a current market exchange.

Reclassifications

To achieve conformity and comparability, the Board may reclassify certain amounts in prior year financial statements where applicable.

During 2015, the Board determined that the Net Position section of the Combined Statements of Net Position in the 2014 financial statements should be revised from their previous presentation. As of June 30, 2014 the Net investment in capital assets category had been decreased by \$117 million and Unrestricted net position had been increased by \$117 million as it reflected all financings as replenishment of operating funds used for capital expenditures. The current year presentation of these components of Net Position in the 2014 financial statements have been revised and corrected by \$117 million from previously reported amounts to only reflect as a reduction in the net investment in capital assets those debt proceeds which have been specifically expended on the capital assets at that date. Management does not believe that this revision is material to the 2014 financial statements.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
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YEARS ENDED JUNE 30, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement defined fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Statement also provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions for Statement No. 72 are effective for periods beginning after June 15, 2015. The Board does not expect this standard will have any impact on net position. The main impact of this standard will be expanded disclosures around the risk characteristics of investments held by the Board. The Board has investments related to bond retirements and capital projects. The Board also has investments in the Nashville Electric Service Retirement Annuity and Survivors Plan, and in the Nashville Electric Service Other Post-Employment Benefit (OPEB) Plan. All such investments have readily available market information regarding the fair value of such investments.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, (GASB 75) which requires governments to report the net liability on the face of the financial statements for the OPEB that they provide. This statement will also require the presentation of more extensive note disclosures and required supplementary information about their OPEB liabilities and investments. The provisions in GASB 75 are effective for financial statements for fiscal years beginning after June 15, 2017. The main impact of this standard, similar to the effects of GASB 68, will be the presentation of the Post Employment Benefit Obligation related to NES' retiree health plan on the statement of Net Position net of the fair value of investments in that plan. The Board is evaluating the effects of the adoption of GASB 75 and expects to record a net liability of approximately \$170 million. Additionally, disclosures about the postemployment plan will change.

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2. UTILITY PLANT AND ACCUMULATED DEPRECIATION

Utility plant activity for the years ended June 30, 2015 and 2014 was as follows (\$000 omitted):

	Balance June 30, 2014	Additions	Transfers & Retirements	Balance June 30, 2015
Distribution plant	\$ 1,292,528	\$ 54,409	\$ (13,694)	\$ 1,333,243
Land and land rights	3,901	-	-	3,901
Structures and improvements	52,239	681	-	52,920
Office furniture and equipment	28,047	3,803	(2,045)	29,805
Transportation equipment	7,411	95	(96)	7,410
Other equipment	41,904	4,758	(1,416)	45,246
Construction work-in-progress (a)	<u>47,145</u>	<u>-</u>	<u>(529)</u>	<u>46,616</u>
	<u>\$ 1,473,175</u>	<u>\$ 63,746</u>	<u>\$ (17,780)</u>	<u>\$ 1,519,141</u>

	Balance June 30, 2013	Additions	Transfers & Retirements	Balance June 30, 2014
Distribution plant	\$ 1,252,508	\$ 54,413	\$ (14,393)	\$ 1,292,528
Land and land rights	1,139	2,762	-	3,901
Structures and improvements	49,401	2,976	(138)	52,239
Office furniture and equipment	40,292	1,523	(13,768)	28,047
Transportation equipment	6,969	1,502	(1,060)	7,411
Other equipment	40,344	6,093	(4,533)	41,904
Construction work-in-progress (a)	<u>65,063</u>	<u>-</u>	<u>(17,918)</u>	<u>47,145</u>
	<u>\$ 1,455,716</u>	<u>\$ 69,269</u>	<u>\$ (51,810)</u>	<u>\$ 1,473,175</u>

(a) Represents the net activity to the construction work-in-progress account after transfers to plant accounts. Construction work-in-progress was reduced by \$1.2 million for the adoption of GASB 68 as a result of adjustments to allocated overhead.

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YEARS ENDED JUNE 30, 2015 AND 2014

2. UTILITY PLANT AND ACCUMULATED DEPRECIATION (continued)

The related activity for accumulated depreciation for the years ended June 30, 2015 and 2014 was as follows (\$000 omitted):

	Balance June 30, 2014	Provision	Original Cost	Cost of Removal	Salvage	Balance June 30, 2015
Distribution plant	\$ 505,319	\$46,623	\$ (13,692)	\$ (9,942)	\$ 669	\$ 528,977
Structures and improvements	19,823	1,110	-	-	-	20,933
Office furniture and equipment	21,381	3,145	(2,045)	-	-	22,481
Transportation equipment	2,044	469	(97)	-	13	2,429
Other equipment	<u>22,912</u>	<u>2,877</u>	<u>(1,416)</u>	<u>-</u>	<u>64</u>	<u>24,437</u>
	<u>\$ 571,479</u>	<u>\$ 54,224</u>	<u>\$ (17,250)</u>	<u>\$ (9,942)</u>	<u>\$ 746</u>	<u>\$ 599,257</u>
	Balance June 30, 2013	Provision	Original Cost	Cost of Removal	Salvage	Balance June 30, 2014
Distribution plant	\$ 486,878	\$45,091	\$ (13,182)	\$ (14,521)	\$ 1,053	\$ 505,319
Structures and improvements	18,897	1,056	(130)	-	-	19,823
Office furniture and equipment	33,344	1,715	(13,678)	-	-	21,381
Transportation equipment	2,497	441	(1,050)	-	156	2,044
Other equipment	<u>23,780</u>	<u>2,757</u>	<u>(4,640)</u>	<u>-</u>	<u>1,015</u>	<u>22,912</u>
	<u>\$ 565,396</u>	<u>\$ 51,060</u>	<u>\$ (32,680)</u>	<u>\$ (14,521)</u>	<u>\$ 2,224</u>	<u>\$ 571,479</u>

Depreciation is either capitalized as a cost of utility plant for equipment used in the construction of assets or reported as depreciation expense in the statements of revenues, expenses and changes in net position. Depreciation capitalized was \$0.9 million and \$0.7 million in 2015 and 2014, respectively.

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3. CASH AND INVESTMENTS

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

2015					
	Cash	Bond Funds	Special Construction	Total	Weighted Average Maturity (Years)
Cash and cash equivalents	\$ 303,851	\$ 29,217	\$ 1,512	\$ 334,580	-
U.S. Treasury Investments	-	-	9,857	9,857	1.53
Securities from Agencies Chartered by Congress	<u>-</u>	<u>37,672</u>	<u>67,382</u>	<u>105,054</u>	0.97
	<u>\$ 303,851</u>	<u>\$ 66,889</u>	<u>\$ 78,751</u>	<u>\$ 449,491</u>	
2014					
	Cash	Bond Funds	Special Construction	Total	Weighted Average Maturity (Years)
Cash and cash equivalents	\$ 267,994	\$ 24,667	\$ 117,000	\$ 409,661	-
Securities from Agencies Chartered by Congress	<u>-</u>	<u>41,134</u>	<u>-</u>	<u>41,134</u>	1.63
	<u>\$ 267,994</u>	<u>\$ 65,801</u>	<u>\$ 117,000</u>	<u>\$ 450,795</u>	

There were \$114.9 million of investments reported at fair value in U.S. Treasury Investments and Securities from Agencies Chartered by Congress held at June 30, 2015. Investments of \$41.1 million in Securities from Agencies Chartered by Congress are reported at fair value at June 30, 2014. Standard & Poor's rated such investments AA+ at June 30, 2015.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

3. CASH AND INVESTMENTS (continued)

Custodial Credit Risk

As of June 30, 2015 and 2014, NES' cash and cash equivalents held by financial institutions was \$334.5 million and \$409.7 million, respectively. Bank balances for such accounts totaled \$256.0 million and \$220.2 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 but rather are set by the State as described below. As of June 30, 2015 and 2014, 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 20.0 percent of the total investment portfolio in any one issue, except for the U.S. Government or any of its agencies. In 2015, 91.0 percent of NES' investments were held in Securities from Agencies Chartered by Congress. In 2014, 100.0 percent of NES' investments were in Securities from Agencies Chartered by Congress.

Interest Rate Risk

NES restricts its investments other than for construction, debt service, and pensions to those with 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.

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4. LONG-TERM DEBT

Long-term debt for the year ended June 30, 2015, is as follows (\$000 omitted):

	Balance June 30, 2014	Deductions/ Repayments	Additions/ Amortization/ Accretion	Balance June 30, 2015
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.	28,910	-	1,582	30,492
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.	18,224	(5,700)	(81)	12,443
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.	94,269	(82,080)	(1,911)	10,278
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.	73,231	(52,895)	(1,450)	18,886
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.	101,793	(2,675)	(701)	98,417
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.	148,608	(5,440)	(2,304)	140,864
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.	61,403	-	(303)	61,100
Electric System Revenue Bonds, 2014 Series A, bear interest at rates from 2.00% to 5.00%, maturing through May 15, 2039, interest paid semiannually.	125,571	(2,175)	(1,277)	122,119
Electric System Revenue Bonds, 2015 Series A, bear interest at 5.00%, maturing through May 15, 2033, interest paid semiannually.	<u>-</u>	<u>-</u>	<u>135,973</u>	<u>135,973</u>
	652,009	<u>\$ (150,965)</u>	<u>\$ 129,528</u>	630,572
Less current portion of long-term debt	<u>(29,700)</u>			<u>(31,230)</u>
	<u>\$ 622,309</u>			<u>\$ 599,342</u>

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

4. LONG-TERM DEBT (continued)

Long-term debt for the year ended June 30, 2014, is as follows (\$000 omitted):

	Balance June 30, 2013	Deductions/ Repayments	Additions/ Amortization/ Accretion	Balance June 30, 2014
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.	\$27,410	-	1,500	28,910
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.	23,728	(5,400)	(104)	18,224
Electric System Revenue Bonds, 2001 Series B, bear interest at 5.50%, maturing through May 15, 2014, interest paid semiannually.	12,126	(12,035)	(91)	-
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.	97,518	(3,065)	(184)	94,269
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.	74,828	(1,160)	(437)	73,231
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.	105,132	(2,600)	(739)	101,793
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.	152,944	(2,010)	(2,326)	148,608
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	-	(296)	61,403
Electric System Revenue Bonds, 2014 Series A, bear interest at rates from 2.00% to 5.00%, maturing through May 15, 2039, interest paid semiannually.	-	-	<u>125,571</u>	<u>125,571</u>
	555,385	<u>\$ (26,270)</u>	<u>\$ 122,894</u>	652,009
Less current portion of long-term debt	<u>(26,270)</u>			<u>(29,700)</u>
	<u>\$ 529,115</u>			<u>\$ 622,309</u>

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

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
2016	\$ 31,230	\$ 25,709
2017	25,357	31,906
2018	24,593	31,208
2019	24,851	30,489
2020	33,550	21,528
2021-2025	170,715	82,373
2026-2030	128,600	44,759
2031-2035	75,075	19,134
2036-2039	<u>34,110</u>	<u>3,848</u>
	548,081	<u>\$ 209,954</u>
Unamortized premium	<u>82,491</u>	
Total long-term debt	<u>\$ 630,572</u>	

On May 19, 2015, the Board issued \$112.9 million in Electric System Revenue Refunding Bonds, 2015 Series A, with an interest rate of 5.0 percent to advance refund \$121.3 million of outstanding 2008 Series A and 2008 Series B bonds with interest rates of 4.25 percent to 5.0 percent and 4.75 percent to 5.0 percent, respectively. The Board completed the advance refunding to reduce its total debt service payments over the next 18 years. The advance refunding resulted in a \$9.0 million savings in future interest expense. The refunded portion represents significantly all of the outstanding 2008 Series A Bonds, and a significant portion of outstanding 2008 Series B bonds. The net proceeds of \$135.6 million (after payment of \$0.9 million in underwriting fees and other issuance costs) plus an additional \$0.3 million of monies transferred from the Debt Service Fund were placed in escrow. These funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of 2008 A and 2008 B Series Revenue Bonds. Funds deposited with the escrow agent were used to purchase U.S. Treasury Obligations. As a result, \$78.9 million of the 2008 Series A and \$42.4 million of 2008 Series B outstanding bonds are considered defeased and the liability for those bonds have been removed from the Statements of Net Position as of June 30, 2015.

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4. LONG-TERM DEBT (continued)

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$14.3 million, which is reported as a component of deferred outflows on the Statements of Net Position. The bonds have an aggregate principal amount of \$112.9 million, were issued at a premium totaling \$23.4 million, and mature annually on May 15, 2019 through 2033.

On June 25, 2014, the Board closed on the sale of the Metropolitan Government of Nashville and Davidson County, Tennessee, Electric System Revenue Bonds, 2014 Series A. The 2014 Series A Bonds were issued to finance the costs of acquisition, expansion, and improvements to the Electric System in accordance with the Board's capital improvement plan, to fund the Debt Service Reserve Account established under the Bond Resolution, and to pay costs of issuance of the bonds. The bonds have an aggregate principal amount of \$109.1 million and include both serial and term issuances. The 2014 Series A Bonds were issued at a premium totaling \$16.5 million. Serial bonds totaling \$88.0 million mature annually on May 15, 2015 through 2036. A term bond totaling \$21.1 million matures May 15, 2039. At June 30, 2014, the Board has \$117 million in proceeds from the 2014 Series A Bond issuance in cash and cash equivalents that are reported as a component of Investment of Restricted Funds in the accompanying Statements of Net Position. During fiscal 2015, NES drew \$39.0 million of funds from these bonds. During fiscal year 2014, NES drew no funds from the System Revenue Bonds, 2014 Series A, for capital expenditures.

NES had a \$25 million unsecured line-of-credit for fiscal year 2015 and 2014 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 2015 or 2014. The line-of-credit is renewable annually. The Company renewed the line of credit effective July 1, 2015, with an expiration date of June 30, 2016.

All bonds are subject to customary covenants restricting the Board from, among other things: (1) issuing additional bonds if certain financial ratios are not met, or (2) selling or leasing or otherwise disposing components of the Electric System except in certain circumstances, and (3) reporting selected financial data annually. Additionally, the Board is required, among other things, to: (1) charge and collect rates, fees and charges to meet the cash flow requirements of the organization and (2) maintain the System including completing necessary improvements.

Events of default under the Bonds include, but are not limited to: (1) failure to make principal payments when due and payable, (2) failure to make an installment of interest or sinking fund payment, (3) failure to make payment of an Option bond when duly tendered, and (4) failure to report selected financial data annually. NES is not in violation of any covenants at June 30, 2015.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

5. OTHER NON-CURRENT LIABILITIES

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

	Balance June 30, 2014	Repayments / Earned Contributions	Additions	Balance June 30, 2015
TVA Energy Conservation Loans	\$ 2,476	\$ (838)	\$ 1,480	\$ 3,118
Contributions in Aid of Construction	<u>10,518</u>	<u>(8,288)</u>	<u>3,564</u>	<u>5,794</u>
	<u>\$ 12,994</u>	<u>\$ (9,126)</u>	<u>\$ 5,044</u>	<u>\$ 8,912</u>

	Balance June 30, 2013	Repayments / Earned Contributions	Additions	Balance June 30, 2014
TVA Energy Conservation Loans	\$ 1,337	\$ (647)	\$ 1,786	\$ 2,476
Contributions in Aid of Construction	<u>12,220</u>	<u>(4,492)</u>	<u>2,790</u>	<u>10,518</u>
	<u>\$ 13,557</u>	<u>\$ (5,139)</u>	<u>\$ 4,576</u>	<u>\$ 12,994</u>

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. NES acts as a loan servicer and collects the principal and interest for these loans, which are then remitted to TVA's lender. Included in Other Non-Current Assets are receivables from NES customers equal to the aforementioned liabilities.

During 2014, NES repaid approximately \$2.3 million of advance payments from TVA for certain technologies that NES is no longer intending to pursue for the Smart Grid Pilot Program.

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.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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6. PENSION PLAN (continued)

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 reduced monthly benefits.

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.

At April 1, 2015, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving benefits	833
Inactive employees entitled to but not yet receiving benefits	130
Active employees	<u>831</u>
	1,794

The contribution requirements of NES are established and may be amended by NES. The Plan is currently non-contributory. NES' policy is to fund at least the minimum contribution for a 25-year funding level.

The current rate is 37 percent of annual covered payroll. NES contributed 100 percent and 99.6 percent of the required contribution for the Plan years 2015 and 2014, respectively. In April of 2014, the State of Tennessee passed an amendment to the Tennessee Code to establish funding requirements for public defined benefit pension plans. The legislation requires funding by a plan sponsor of at least 100 percent of the actuarially determined contribution, as defined in the legislation. The legislation requires that NES submit a funding policy to the Comptroller by fiscal 2016. In 2015, in response to recent legislation, NES amended its funding policy for the retirement plan. The plan will now be fully funded within the next twenty-five years.

The NES net pension liability was measured using the Entry Age actuarial cost method. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2015, which was rolled forward to the measurement date of June 30, 2015.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
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6. PENSION PLAN (continued)

The total pension liability was determined using certain actuarial assumptions, applied to all periods included in the measurement. The actuarial assumptions included (a) 7.5 percent investment rate of return and (b) projected salary increases of 4.5 percent. Both (a) and (b) included an inflation component. The long-term rate of return was determined using the Plan’s specific asset returns over the past ten years and historical long-term returns of the broader U.S. markets. The assumptions include cost-of-living post-retirement benefit increases equal to 2 percent per year. Mortality rates are based on the RP-2000 Healthy Combined Mortality Table. The base mortality rates have been adjusted by applying the Projection Scale AA for seven years beyond the valuation date to reflect mortality improvements.

The value of Plan assets is determined using the market value of investments.

Investments Measured at Fair Value (\$000 omitted)	
Investments by fair value level	June 30, 2015
Equity securities	
Mutual Fund – S&P 500 Index	\$ 151,280
Mutual Fund – Small Mid Cap	41,099
Mutual Fund – Core Fixed Income	97,508
Mutual Fund – Emerging Markets	14,535
Mutual Fund – High Yield Bond	30,722
Mutual Fund – World Equity Ex-US	<u>91,257</u>
Total equity securities	<u>426,401</u>
Total investments measured at fair value	<u>\$ 426,401</u>

Investment characteristics are as follows:

S&P 500 Index Fund

The S&P 500 Index fund aims to produce investment results that correspond to the aggregate price and dividend performance of the securities in the S&P 500 Index. The Fund invests substantially all of its assets in securities that are members of the S&P 500 Index. The sub-advisor selects the Fund’s securities, but does not actively manage the Fund in the traditional sense of trying to outperform its benchmark. Instead, the sub-advisor generally gives the same weight to each stock as its weight in the S&P 500 Index.

Small Mid Cap Equity Fund

The Small/Mid Cap Equity Fund aims to provide long-term capital appreciation. Under normal circumstances, the Fund will invest primarily in U.S. small- and mid-cap stocks with market capitalization ranges similar to those found in its benchmark, the Russell 2500 Index. The Fund’s sub-advisors may include both value and growth managers.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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YEARS ENDED JUNE 30, 2015 AND 2014**

6. PENSION PLAN (continued)

Core Fixed Income Fund

The Core Fixed Income Fund seeks current income consistent with the preservation of capital. The Fund will invest at least 80% of its net assets in U.S. fixed-income securities. The Fund will invest primarily in investment-grade U.S. corporate and government fixed-income securities, including mortgage- and asset-backed securities. Investment-grade securities are those with an equivalent rating of BBB- or higher from a nationally recognized credit rating agency. To a limited extent, the Fund may invest in unrated securities or securities rated below investment grade.

Emerging Markets Debt Fund

The Emerging Markets Debt Fund seeks to maximize total return. It normally invests at least 80% of its assets in fixed income securities, in both U.S. dollar and local currency denominated debt of government, government-related, and corporate issuers in emerging market countries, as well as entities organized to restructure the debt of those issuers. Although it is a non-diversified strategy, the Fund will invest in a number of countries and industries in order to limit its exposure to a single emerging market economy.

High Yield Bond Fund

The High Yield Bond Fund seeks to provide total return by investing in riskier, higher-yielding fixed income securities. Under normal circumstances, the Fund will invest at least 80% of its net assets in high-yield fixed income securities, primarily in securities rated below investment grade (also known as junk bonds), including corporate bonds and debentures, convertible and preferred securities, and zero coupon obligations. The Fund's securities are diversified as to issuers and industries. The Fund's weighted average maturity may vary but will generally not exceed ten years.

World Equity Ex-US Fund

The World Equity Ex-US Fund seeks to provide long-term capital appreciation. Under normal circumstances, the Fund will invest at least 80% of its net assets in equity securities of foreign countries. The Fund will invest in securities of foreign issuers located in developed countries as well as emerging-market countries, although no more than 30% of its assets will be invested in equity securities of emerging-market issuers. It is expected that the Fund will invest at least 40% of its assets in companies domiciled in foreign countries.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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6. PENSION PLAN (continued)

The discount rate used to measure the total pension liability was 7.5 percent. The undiscounted future payment assumptions for the Plan are as follows:

Projected Schedule of Benefit Payments (\$000 omitted)		
Calendar Year	Number Retiring	Total Payouts
2015-2019	172	\$ 158,566
2020-2024	174	195,179
2025-2029	178	251,088
2030-2034	171	308,186
2035-2039	155	364,343
2040-2044	111	<u>417,596</u>
Total projected benefit payments		<u>\$ 1,694,958</u>

Changes in Net Pension Liability

(\$000 omitted)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at June 30, 2014	<u>\$ 566,735</u>	<u>\$417,779</u>	<u>\$ 148,956</u>
Changes for the year:			
Service Costs	10,792		10,792
Interest	41,399		41,399
Differences between expected and actual experience	1,768		1,768
Contributions – employer		25,746	(25,746)
Net investment income		12,561	(12, 561)
Benefit payments / refunds	(28,687)	(28,687)	-
Administrative expenses		(827)	827
Net Change	<u>25,272</u>	<u>8,793</u>	<u>16,479</u>
Balance at June 30, 2015	<u>\$ 592,007</u>	<u>\$426,572</u>	<u>\$165,435</u>

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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6. PENSION PLAN (continued)

The following presents the net pension liability of NES, calculated using the discount rate of 7.5 percent, as well as what NES's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Current Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Net Pension Liability (\$000 omitted)	\$240,433	\$165,435	\$102,389

For the year ended June 30, 2015, NES recognized pension expense of \$18.4 million. At June 30, 2015, NES reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$6,008	
Net difference between projected and actual earnings on pension plan investments		\$ 6,945
Total	<u>\$ 6,008</u>	<u>\$ 6,945</u>

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

Years Ending June 30:	
2016	\$ (2,496)
2017	(2,496)
2018	(2,496)
2019	4,822
2020	1,070
Thereafter	661

There are no deferred outflows that will be recognized as a reduction in the net pension liability.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
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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.

7. DEFERRED COMPENSATION AND RETIREMENT PLANS

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 for each of the years ended June 30, 2015 and 2014, respectively. NES contributed \$2.0 million to the 457 Plan for the years ended June 30, 2015 and June 30, 2014.

Nashville Electric Service established a Defined Contribution Retirement Plan (the "DC Plan") for all full-time regular employees not vested in the Retirement Annuity and Survivors' Plan or hired after July 1, 2012. This plan is intended to be a defined contribution money purchase pension plan. Its purpose is to provide retirement benefits to eligible employees. For the fiscal years ended June 30, 2015 and June 30, 2014, NES contributed \$0.4 million and \$0.1 million, respectively, to the DC Plan.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

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 and have completed a minimum of five years of service. Medical and dental benefits are also provided to their spouses. As of June 30, 2015, approximately 613 retirees met the eligibility requirements. Expenses for these post-retirement benefits have previously been recognized as retirees report claims. Those incurred claims totaled \$13.0 million and \$11.0 million for the years ended June 30, 2015 and 2014, respectively. The total expenses that were recognized were \$16.5 million and \$15.5 million during the years ended June 30, 2015 and 2014, 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 22.1% percent of annual projected payroll. NES contributed 100 percent of the required contribution for the 2015 and 2014 Plan years.

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, 2015

Actuarial cost method: Entry age, normal method

Amortization method: Level percentage of pay, open

Remaining amortization period: 30 years, closed

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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8. POST-EMPLOYMENT BENEFITS (continued)

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) 7.5 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 medical health care cost trend rate increases equal to 5.0 percent per year and dental health care cost trend rates of 4.0 percent per year.

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

Plan Year	Annual Required Contribution	Percentage Contributed
2015	\$ 16,493	100%
2014	\$ 15,222	100%
2013	15,361	100%

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded Percentage	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c
4/1/2015	\$ 78,069	\$ 249,211	\$ 171,142	31.3%	\$ 78,176	218.9%
4/1/2014	\$ 66,597	\$ 245,210	\$ 178,613	27.2%	\$ 76,241	234.3%
4/1/2013	56,486	227,605	171,119	24.8%	74,086	231.0%

9. LEASES

Total rental expense entering into the determination of net position amounted to approximately \$1.0 million in both 2015 and 2014, 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. The majority of these leases are cancelable by either party within six to twelve months. Therefore, future minimum rentals under these leases are \$2.8 million in 2016.

Rental income is received under pole-attachment leases, which are accounted for as operating leases. Rental income from telephone provider pole-attachments totaled \$2.5 million for each of the years ended June 30, 2015 and 2014, respectively. Rental income from cable provider pole-attachments totaled \$2.5 million at June 30, 2015, and \$3.3 million at June 30, 2014. The net book value of the poles used in the rental activity was \$131.8 million and \$128.1 million at June 30, 2015 and 2014, respectively.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
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YEARS ENDED JUNE 30, 2015 AND 2014

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 not 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 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 \$100,000 for employee medical claims. The changes in the insurance reserves for medical, dental and vision benefits for active employees and retirees for the years ended June 30, 2015 and 2014 are as follows (\$000 omitted):

Balance – June 30, 2013	\$ 2,488
Payments	(20,959)
Incurred Claims	<u>21,455</u>
Balance – June 30, 2014	2,984
Payments	(22,899)
Incurred Claims	<u>23,056</u>
Balance – June 30, 2015	<u>\$ 3,141</u>

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.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

11. RELATED PARTY TRANSACTIONS (continued)

These balances and transactions as of and for the years ended June 30, 2015 and 2014 are summarized as follows (\$000 omitted):

	2015	2014
Balances:		
Accounts receivable	\$ 3,763	\$ 3,003
Transactions:		
Commercial and industrial revenue – Metropolitan Government Entities	64,799	60,154
Outdoor lighting – Metropolitan Government Entities	9,179	9,002
Tax equivalents operating expense – Metropolitan Government Entities	31,396	30,405

During 2015, NES and the Metropolitan Government of Nashville agreed to split the cost of the development of the underground infrastructure that would serve the West Riverfront Park and Amphitheater. Installation of this additional infrastructure provides a more reliable level of service for the facility while expanding the existing downtown network. The total contribution made by NES was \$0.2 million.

During 2014, NES and the Metropolitan Government of Nashville reached an agreement in which the Music City Convention Authority receivable of \$2.8 million at June 30, 2013, was exchanged for land that was of a similar value.

12. COMMITMENTS

NES has no generating capacity and purchases all of its power from the Tennessee Valley Authority ("TVA") pursuant to a Power Contract dated December 19, 1977 (the "Power Contract"). The Power Contract had an initial term of 20 years, but beginning on December 19, 1987, and on each subsequent anniversary thereof, the contract has been and is automatically extended for additional one year renewal terms beyond its then existing time of expiration. The Power Contract, however, is subject to earlier termination by either party on not less than ten years' written notice.

The Power Contract provides that the Board may sell power to all customers in its service area, except federal installations having contract demands greater than 5,000 kW and large customers as determined by a calculation outlined in TVA's Industrial Service Policy whom TVA may serve directly. At the present time, TVA does not directly serve any customer located within the service area of the Electric System.

The Power Contract contains provisions that establish the wholesale rates, resale rates and terms and conditions under which power is to be purchased by TVA and distributed to the customers of NES. Under the Power Contract, TVA, on a monthly basis, may determine and make adjustments in the wholesale rate schedule with corresponding adjustments in resale rate schedules necessary to enable TVA to meet all requirements of the Tennessee Valley Authority Act of 1933, as amended (the "TVA Act"), and the tests and provisions of TVA's bond resolutions.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

12. COMMITMENTS (continued)

NES purchased power totaling \$929.7 million from TVA during the year ending June 30, 2015. The Power Contract establishes the resale rates that NES and other distributors charge the ultimate power consumers. These rates are revised from time to time to reflect changes in costs, including changes in the wholesale cost of power. While the wholesale rates are uniformly applicable to all distributors of TVA power under the present power contracts with distributors such as NES, the retail resale rates will vary among distributors of TVA power depending upon the respective distributor's retail customer distribution costs. The rates of TVA for the sale of electric power in the TVA region and its contracts with distributors, including TVA, are structured with the intent to achieve the TVA Act's objective of the distributors of TVA power, including NES, to operate the respective distribution systems on a nonprofit basis and to provide a wide and ample supply of power at the lowest feasible rates.

NES' retail resale rates are subject to TVA's review and approval under the provisions, terms and conditions of the Power Contract. The Power Contract provides for revisions to the resale rates that may be charged by NES when necessary to permit NES to operate on a self-supporting and financially sound basis. NES is not aware of any pending legislation that would propose to make its retail electric rates subject to regulation by any third party or agency other than TVA. The Power Contract further provides that if the resale rates set forth therein do not provide sufficient revenues for the operation and maintenance of the Electric System on a self-supporting, financially-sound basis, including debt service, TVA and NES shall agree to changes in rates to provide increased revenues. Similarly, if the rates and charges produce excess revenues, the Power Contract provides that the parties will agree to appropriate reductions. Since the date of the Power Contract, the wholesale and resale rates have been adjusted from time to time.

In 2014, NES entered into an agreement with a general contractor for the construction of its new North Service and Training Center. The contract term is set to expire on October 31, 2015. The contract's not to exceed value is \$12.5 million of which \$10.1 million has been expended as of June 30, 2015.

13. SUBSEQUENT EVENTS

In August 2015, the Board approved an agreement between the Employee Association of NES and management for a period of five years, effective July 1, 2015. The agreement amended the Nashville Electric Service Retirement Annuity and Survivors Plan with respect to early retirement options. This change increased the total pension liability at that time by approximately \$6.0 million. The agreement also increased non-supervisory pay by 3.0 percent in fiscal 2016.

NES has evaluated subsequent events through October 28, 2015, the issuance date of the financial statements, and has determined that there are no other subsequent events that require disclosure.

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

SUPPLEMENTARY INFORMATION

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

**SCHEDULE OF INSURANCE COVERAGE
YEAR ENDED JUNE 30, 2015 (UNAUDITED)**

Type of Coverage	Amount of Coverage
Property Insurance	
General plant, contents, substations and construction in progress	\$150,000,000
Boiler & Machinery	
Limit per Accident	\$50,000,000
Electronic Data Processing and Computer Equipment	\$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	\$35,400,000
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 Coverage (Per nature of 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

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

**SCHEDULE OF INSURANCE COVERAGE
YEAR ENDED JUNE 30, 2014 (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)	\$1,472,200

Note: Policy period for Flood Insurance Coverage for West Service Center is 11/27/14 -11/26/15. Flood Insurance Coverage for all other locations is 12/8/14-12/8/15.

Policy period for all other coverages is 11/1/14-10/31/15.

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

**SCHEDULE OF UTILITY RATES IN FORCE
JUNE 30, 2015 (UNAUDITED)**

RS Residential

Customer Charge (per delivery point per month)	\$11.83
Summer Season - Energy Charge (per kWh)	0.10252
Winter Season - Energy Charge (per kWh)	0.09953
Transition Season - Energy Charge (per kWh)	0.09768

SRS Supplemental Residential

Customer Charge (per delivery point per month)	\$13.43
Summer Season - Energy Charge (per kWh)	0.10846
Winter Season - Energy Charge (per kWh)	0.10548
Transition Season - Energy Charge (per kWh)	0.10363

General Power Rate Schedules

GSA1 (Small Commercial - Less than 50 kW)

Customer Charge - One Phase Meter (per delivery point per month)	\$25.38
Customer Charge - Three Phase Meter (per delivery point per month)	\$30.00
Summer Season - Energy Charge (per kWh)	0.11390
Winter Season - Energy Charge (per kWh)	0.11093
Transition Season - Energy Charge (per kW)	0.10907

GSA2 (Large Commercial - 51-1,000 kW)

Customer Charge (per delivery point per month)	\$156.87
Summer Season	
Demand Charge (per delivery point per month)	13.84
Energy Charge (per kWh)	
1st 15,000 kWh Energy	0.11305
All Additional kWh Energy	0.06378
Winter Season	
Demand Charge (per delivery point per month)	12.98
Energy Charge (per kWh)	
1st 15,000 kWh Energy	0.11008
All Additional kWh Energy	0.06378
Transition Season	
Demand Charge (per delivery point per month)	12.98
Energy Charge (per kWh)	
1st 15,000 kWh Energy	0.10822
All Additional kWh Energy	0.06378

GSA3 (Large Commercial - 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	13.65
1,001 - 5,000 kW	15.65
Energy Charge	
All kWh (per kWh)	0.06316

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

**SCHEDULE OF UTILITY RATES IN FORCE
JUNE 30, 2015 (UNAUDITED)**

Winter Season	
Demand charge (per delivery point per month)	
0 - 1,000 kW	12.78
1,001 - 5,000 kW	14.79
Energy Charge	
All kWh (per kWh)	0.06316
Transition Season	
Demand charge (per delivery point per month)	
0 - 1,000 kW	12.78
1,001 - 5,000 kW	14.79
Energy Charge	
All kWh (per kWh)	0.06316
LS - Outdoor Lighting	
Customer Charge (Per delivery point per month)	\$2.50
Summer Season	
Energy Charge - All kWh	0.07040
Winter Season	
Energy Charge - All kWh	0.06743
Transition Season	
Energy Charge - All kWh	0.06557
Time of Day Rate Classes	
TGSA1 (Demand <= 50kW)	
Customer Charge (Per delivery point per month)	\$326.79
Summer Season	
Energy Charge (<= 15,000 kWh)	
On-peak kWh Energy	0.12204
Off-peak kWh Energy	0.11011
Winter Season	
Energy Charge (<= 15,000 kWh)	
On-peak kWh Energy	0.11528
Off-peak kWh Energy	0.10984
Transition Season	
Energy Charge (<= 15,000 kWh)	
On-peak kWh Energy	0.00000
Off-peak kWh Energy	0.10907
TGSA2 (Demand = 51-1,000 kW)	
Customer Charge (Per delivery point per month)	\$326.79
Summer Season	
Demand Charge	
Over 50 kW	13.84
Energy Charge	
On-peak kWh Energy	0.12119
Off-peak kWh Energy	0.10926

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

**SCHEDULE OF UTILITY RATES IN FORCE
JUNE 30, 2015 (UNAUDITED)**

Winter Season		
Demand Charge		
Over 50 kW		12.98
Energy Charge		
On-peak kWh Energy		0.11443
Off-peak kWh Energy		0.10899
Transition Season		
Demand Charge		
Over 50 kW		12.98
Energy Charge		
On-peak kWh Energy		0.00000
Off-peak kWh Energy		0.10822
TGSA3 (Demand = 1,001-5,000 kW)		
Customer Charge		\$818.95
Summer Season		
Demand Charge		
1st 1,000 kW		13.65
Excess over 1,000		15.65
Energy Charge		
On-peak kWh		0.07130
Off-peak kWh		0.05936
Winter Season		
Demand Charge		
1st 1,000 kW		12.78
Excess over 1,000		14.79
Energy Charge		
On-peak kWh		0.06752
Off-peak kWh		0.06208
Transition Season		
Demand Charge		
1st 1,000 kW		12.78
Excess over 1,000		14.79
Energy Charge		
On-peak kWh		0.00000
Off-peak kWh		0.06316

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

**SCHEDULE OF UTILITY RATES IN FORCE
JUNE 30, 2015 (UNAUDITED)**

Time Differentiated Hours Use of Demand (TDHUD) (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	17.41
Off-Peak Demand Charge	4.31
Energy Charge - On Peak	0.09815
Energy Charge - Off Peak First 425 hours	0.06163
Energy Charge - Off Peak Next 195 hours	0.04198
Energy Charge - Off Peak Additional kWh	0.02529

Winter Season

On-Peak kW	9.94
Off-Peak Demand Charge	4.31
Energy Charge - On Peak	0.06587
Energy Charge - Off Peak First 425 hours	0.06163
Energy Charge - Off Peak Next 195 hours	0.04198
Energy Charge - Off Peak Additional kWh	0.02529

Transition Season

Off-Peak Demand Charge	4.31
Energy Charge - Off Peak First 425 hours	0.06163
Energy Charge - Off Peak Next 195 hours	0.04198
Energy Charge - Off Peak Additional kWh	0.02529

TDHUD GSC (Demand = 15,001 - 25,000 kW)

Customer Charge (per delivery point per month) \$2,000.00

Summer Season

On-Peak kW	17.41
Off-Peak Demand Charge	4.31
Energy Charge - On Peak	0.09436
Energy Charge - Off Peak First 425 hours	0.05888
Energy Charge - Off Peak Next 195 hours	0.03921
Energy Charge - Off Peak Additional kWh	0.02253

Winter Season

On-Peak kW	9.94
Off-Peak Demand Charge	4.31
Energy Charge - On Peak	0.06286
Energy Charge - Off Peak First 425 hours	0.05888
Energy Charge - Off Peak Next 195 hours	0.03921
Energy Charge - Off Peak Additional kWh	0.02253

Transition Season

Off-Peak Demand Charge	4.31
Energy Charge - Off Peak First 425 hours	0.05888
Energy Charge - Off Peak Next 195 hours	0.03921
Energy Charge - Off Peak Additional kWh	0.02253

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

**SCHEDULE OF UTILITY RATES IN FORCE
JUNE 30, 2015 (UNAUDITED)**

TDHUD GSD (Demand = > 25,000 kW)	
Customer Charge (per delivery point per month)	\$2,000.00
Summer Season	
On-Peak kW	17.40
Off-Peak Demand Charge	4.30
Energy Charge - On Peak	0.09275
Energy Charge - Off Peak First 425 hours	0.05617
Energy Charge - Off Peak Next 195 hours	0.03650
Energy Charge - Off Peak Additional kWh	0.01982
Winter Season	
On-Peak kW	9.93
Off-Peak Demand Charge	4.30
Energy Charge - On Peak	0.06035
Energy Charge - Off Peak First 425 hours	0.05617
Energy Charge - Off Peak Next 195 hours	0.03650
Energy Charge - Off Peak Additional kWh	0.01982
Transition Season	
Off-Peak Demand Charge	4.30
Energy Charge - Off Peak First 425 hours	0.05617
Energy Charge - Off Peak Next 195 hours	0.03650
Energy Charge - Off Peak Additional kWh	0.01982
TDHUD MSA, MSB (Manufacturing) (Demand = 1,001 - 15,000 kW)	
Customer Charge (per delivery point per month)	\$2,000.00
Summer Season	
On-Peak kW	17.41
Off-Peak Demand Charge	4.31
Energy Charge - On Peak	0.08218
Energy Charge - Off Peak First 425 hours	0.04606
Energy Charge - Off Peak Next 195 hours	0.02641
Energy Charge - Off Peak Additional kWh	0.00973
Winter Season	
On-Peak kW	9.94
Off-Peak Demand Charge	4.31
Energy Charge - On Peak	0.05055
Energy Charge - Off Peak First 425 hours	0.04606
Energy Charge - Off Peak Next 195 hours	0.02641
Energy Charge - Off Peak Additional kWh	0.00973
Transition Season	
Off-Peak Demand Charge	4.31
Energy Charge - Off Peak First 425 hours	0.04606
Energy Charge - Off Peak Next 195 hours	0.02641
Energy Charge - Off Peak Additional kWh	0.00973

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

**SCHEDULE OF UTILITY RATES IN FORCE
JUNE 30, 2015 (UNAUDITED)**

TDHUD MSC (Demand = 15,001 - 25,000 kW)	
Customer Charge (per delivery point per month)	\$2,000.00
Summer Season	
On-Peak kW	17.41
Off-Peak Demand Charge	4.31
Energy Charge - On Peak	0.08304
Energy Charge - Off Peak First 425 hours	0.04592
Energy Charge - Off Peak Next 195 hours	0.02627
Energy Charge - Off Peak Additional kWh	0.00959
Winter Season	
On-Peak kW	9.94
Off-Peak Demand Charge	4.31
Energy Charge - On Peak	0.05070
Energy Charge - Off Peak First 425 hours	0.04592
Energy Charge - Off Peak Next 195 hours	0.02627
Energy Charge - Off Peak Additional kWh	0.00959
Transition Season	
Off-Peak Demand Charge	4.31
Energy Charge - Off Peak First 425 hours	0.04592
Energy Charge - Off Peak Next 195 hours	0.02627
Energy Charge - Off Peak Additional kWh	0.00959
TDHUD MSD (Demand = > 25,000 kW)	
Customer Charge (per delivery point per month)	\$2,000.00
Summer Season	
On-Peak kW	17.40
Off-Peak Demand Charge	4.30
Energy Charge - On Peak	0.08127
Energy Charge - Off Peak First 425 hours	0.04419
Energy Charge - Off Peak Next 195 hours	0.02453
Energy Charge - Off Peak Additional kWh	0.00785
Winter Season	
On-Peak kW	9.93
Off-Peak Demand Charge	4.30
Energy Charge - On Peak	0.04876
Energy Charge - Off Peak First 425 hours	0.04419
Energy Charge - Off Peak Next 195 hours	0.02453
Energy Charge - Off Peak Additional kWh	0.00785
Transition Season	
Off-Peak Demand Charge	4.30
Energy Charge - Off Peak First 425 hours	0.04419
Energy Charge - Off Peak Next 195 hours	0.02453
Energy Charge - Off Peak Additional kWh	0.00785

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

**SCHEDULE OF UTILITY RATES IN FORCE
JUNE 30, 2015 (UNAUDITED)**

Seasonal Demand and Energy (SD&E)

SD&E GSB (Demand = 5,001 - 15,000 kW)

Customer Charge (per delivery point per month)	\$2,000.00
Summer Season	
Demand - All kW	22.87
Energy - All kWh	0.04855
Winter Season	
Demand -All kW	16.21
Energy - All kWh	0.04423
Transition Season	
Demand - All kW	11.20
Energy - All kWh	0.04326

SD&E GSC (Demand = 15,001 - 25,000 kW)

Customer Charge (per delivery point per month)	\$2,000.00
Summer Season	
Demand - All kW Demand	22.87
Energy - All kWh	0.04868
Winter Season	
Demand - All kW	16.21
Energy - All kWh	0.04427
Transition Season	
Demand - All kW	11.20
Energy - All kWh	0.04334

SD&E GSD (Demand = > 25,000 kW)

Customer Charge (per delivery point per month)	\$2,000.00
Summer Season	
Demand - All kW	26.62
Energy - All kWh	0.04124
Winter Season	
Demand - All kW	19.95
Energy - All kWh	0.03739
Transition Season	
Demand - All kW	14.95
Energy - All kWh	0.03654

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

**SCHEDULE OF UTILITY RATES IN FORCE
JUNE 30, 2015 (UNAUDITED)**

SD&E MSB (Demand = 5,001 - 15,000 kW)	
Customer Charge (per delivery point per month)	\$2,000.00
Summer Season	
Demand - All kW	19.82
Energy - All kWh	0.04047
Winter Season	
Demand - All kW	13.16
Energy - All kWh	0.03559
Transition Season	
Demand - All kW	8.15
Energy - All kWh	0.03444
SD&E MSC (Demand = 15,001 - 25,000 kW)	
Customer Charge (per delivery point per month)	\$2,000.00
Summer Season	
Demand - All kW	19.82
Energy - All kWh	0.04015
Winter Season	
Demand - All kW	13.16
Energy - All kWh	0.03557
Transition Season	
Demand - All kW	8.15
Energy - All kWh	0.03447
SD&E MSD (Demand = > 25,000 kW)	
Customer Charge (per delivery point per month)	\$2,000.00
Summer Season	
Demand - All kW	22.86
Energy - All kWh	0.03265
Winter Season	
Demand - All kW	16.20
Energy - All kWh	0.02898
Transition Season	
Demand - All kW	11.19
Energy - All kWh	0.02809

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

**SCHEDULE OF NUMBER OF CUSTOMERS
JUNE 30, 2015 (UNAUDITED)**

Residential	339,381
Small Commercial	33,428
Large Commercial and Industrial	6,818
Street and Highway Lighting	<u>539</u>
Total Customers	<u>380,166</u>

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

**SCHEDULE OF INVESTMENTS
JUNE 30, 2015 (UNAUDITED)**

Face Value	Description	Fair Value
<i>Securities From Agencies Chartered by Congress</i>		
\$2,805,000	FHLB, 0.375%, Matures 06/10/16	\$2,805,224
\$7,735,000	FHLB, 0.420%, Matures 06/6/16	\$7,734,690
\$10,400,000	FHLB, 0.375%, Matures 06/10/16	\$10,400,832
\$12,000,000	FHLB, 0.625%, Matures 05/30/17	\$11,975,520
\$560,000	FHLB, Zero Coupon, Matures 11/13/15	\$559,709
\$308,000	FHLB, Zero Coupon, Matures 11/13/15	\$307,840
\$999,000	FHLB, Zero Coupon, Matures 11/13/15	\$998,482
\$585,000	FHLB, Zero Coupon, Matures 11/13/15	\$584,696
\$984,000	FHLB, Zero Coupon, Matures 11/13/15	\$983,489
\$211,000	FHLB, Zero Coupon, Matures 11/13/15	\$210,890
\$646,000	FHLB, Zero Coupon, Matures 11/13/15	\$645,664
\$465,000	FHLB, Zero Coupon, Matures 11/13/15	\$464,758
\$75,000	FHLB, Zero Coupon, Matures 06/20/16	\$74,326
\$3,088,000	FHLB, Zero Coupon, Matures 05/15/16	\$3,062,700
\$667,000	FHLB, Zero Coupon, Matures 11/15/16	\$654,126
\$921,000	FHLB, Zero Coupon, Matures 05/15/17	\$897,572
\$8,341,000	FHLB, Zero Coupon, Matures 06/01/17	\$8,139,128
\$6,070,000	FHLB, 2.125%, Matures 06/10/16	\$6,168,516
\$395,000	FHLB, 0.375%, Matures 06/24/16	\$394,972
\$485,000	FHLB, 1.000%, Matures 03/08/17	\$488,056
\$7,184,000	Federal National Mortgage, 1.25%, Matures 09/28/16	\$7,253,254
\$7,193,000	Federal National Mortgage, 0.500%, Matures 09/28/15	\$7,191,633
\$9,614,000	Federal National Mortgage, 0.375%, Matures 12/21/15	\$9,620,826
\$9,679,000	Federal National Mortgage, 0.500%, Matures 03/30/16	\$9,692,454
\$474,000	Fannie Mae, 5.375%, Matures 06/12/17	\$516,271
\$10,000	U.S. Government, 4.450%, Matures, 09/15/15	\$10,083
\$117,000	TVA, Zero Coupon, Matures 07/15/15	\$116,687
\$117,000	TVA, Zero Coupon, Matures 07/15/16	\$101,875
\$117,000	TVA, Zero Coupon, Matures 01/15/17	\$47,357
\$2,398,000	U.S. Guaranteed Notes, Zero Coupon, Matures 09/15/16	\$2,371,537
\$8,375,000	U.S. Guaranteed Notes, Zero Coupon, Matures 03/15/17	\$8,245,244
\$2,337,000	U.S. Guaranteed Notes, Zero Coupon, Matures 08/15/15	<u>\$2,334,863</u>
	<i>Total Securities from Agencies Chartered by Congress</i>	\$105,053,274
<i>U.S. Treasury Investments</i>		
\$9,031,000	United States Treasury, 0.875%, Matures 12/31/16	\$9,083,922
\$767,000	United States Treasury, 1.000%, Matures 03/31/17	<u>\$772,875</u>
	<i>Total U.S. Treasury Investments</i>	\$9,856,797
	<i>Total Investments</i>	<u>\$114,910,071</u>

**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, 2015 (UNAUDITED)**

YEAR ENDING 5/15/xx	1998 SERIES A CABS		1998 SERIES B		2008 SERIES A		2008 SERIES B	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2016	-	-	6,015,000	679,800	3,290,000	393,238	11,025,000	912,813
2017	4,311,609	7,523,391	6,345,000	348,975	3,415,000	269,863	-	361,562
2018	4,087,927	7,747,073	-	-	3,545,000	141,800	-	361,562
2019	3,875,844	7,959,156	-	-	-	-	-	361,562
2020	-	-	-	-	-	-	1,750,000	361,562
2021	-	-	-	-	-	-	1,835,000	274,063
2022	-	-	-	-	-	-	1,925,000	182,313
2023	-	-	-	-	-	-	2,025,000	86,063
2024	-	-	-	-	-	-	-	-
2025	-	-	-	-	-	-	-	-
2026	-	-	-	-	-	-	-	-
2027	-	-	-	-	-	-	-	-
2028	-	-	-	-	-	-	-	-
2029	-	-	-	-	-	-	-	-
2030	-	-	-	-	-	-	-	-
2031	-	-	-	-	-	-	-	-
2032	-	-	-	-	-	-	-	-
2033	-	-	-	-	-	-	-	-
2034	-	-	-	-	-	-	-	-
2035	-	-	-	-	-	-	-	-
2036	-	-	-	-	-	-	-	-
2037	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-	-
TOTAL	12,275,380	23,229,620	12,360,000	1,028,775	10,250,000	804,901	18,560,000	2,901,500
ACCRETION	18,217,529	(18,217,529)	-	-	-	-	-	-
DISC/ PREM	-	-	82,732	(82,732)	28,854	(28,854)	326,352	(326,352)
GROSS	<u>\$30,492,909</u>	<u>\$5,012,091</u>	<u>\$12,442,732</u>	<u>\$946,043</u>	<u>\$10,278,854</u>	<u>\$776,047</u>	<u>\$18,886,352</u>	<u>\$2,575,148</u>

**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, 2015 (UNAUDITED)**

YEAR ENDING 5/15/xx	2011 SERIES A		2011 SERIES B		2013 SERIES A		2014 SERIES A	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2016	2,755,000	4,250,013	5,650,000	6,116,975	-	2,530,813	2,495,000	5,243,650
2017	2,840,000	4,167,363	5,880,000	5,890,975	-	2,530,813	2,565,000	5,168,800
2018	2,945,000	4,060,263	11,345,000	5,655,775	-	2,530,813	2,670,000	5,066,200
2019	3,035,000	3,971,913	11,915,000	5,088,525	-	2,530,813	2,805,000	4,932,700
2020	3,170,000	3,838,663	12,510,000	4,492,775	-	2,530,813	2,915,000	4,820,500
2021	3,265,000	3,743,563	13,075,000	3,929,825	-	2,530,813	3,060,000	4,674,750
2022	3,410,000	3,595,188	13,730,000	3,276,075	-	2,530,813	3,215,000	4,521,750
2023	3,555,000	3,449,863	14,340,000	2,658,225	-	2,530,813	3,375,000	4,361,000
2024	3,735,000	3,272,113	18,045,000	1,941,225	-	2,530,813	3,545,000	4,192,250
2025	3,920,000	3,085,363	10,380,000	1,038,975	\$ 8,245,000	2,530,813	3,720,000	4,015,000
2026	4,115,000	2,889,363	10,900,000	519,975	8,510,000	2,262,850	3,905,000	3,829,000
2027	4,325,000	2,683,613	-	-	12,470,000	1,965,000	4,100,000	3,633,750
2028	4,540,000	2,467,363	-	-	13,090,000	1,341,500	4,310,000	3,428,750
2029	4,765,000	2,240,363	-	-	13,740,000	687,000	4,525,000	3,213,250
2030	5,005,000	2,002,113	-	-	-	-	4,750,000	2,987,000
2031	5,255,000	1,751,863	-	-	-	-	4,985,000	2,749,500
2032	5,490,000	1,516,750	-	-	-	-	5,235,000	2,500,250
2033	5,765,000	1,242,250	-	-	-	-	5,500,000	2,238,500
2034	6,050,000	954,000	-	-	-	-	5,775,000	1,963,500
2035	6,355,000	651,500	-	-	-	-	6,060,000	1,674,750
2036	6,675,000	333,750	-	-	-	-	6,365,000	1,371,750
2037	-	-	-	-	-	-	6,685,000	1,053,500
2038	-	-	-	-	-	-	7,015,000	719,250
2039	-	-	-	-	-	-	7,370,000	368,500
TOTAL	90,970,000	56,167,233	127,770,000	40,609,325	56,055,000	31,564,480	106,945,000	78,727,850
ACCRETION	-	-	-	-	-	-	-	-
DISC/ PREM	7,446,533	(7,446,533)	13,093,853	(13,093,853)	5,044,248	(5,044,248)	15,173,805	(15,173,805)
GROSS	<u>\$98,416,533</u>	<u>\$48,720,700</u>	<u>\$140,863,853</u>	<u>\$27,515,472</u>	<u>\$61,099,248</u>	<u>\$26,520,232</u>	<u>\$122,118,805</u>	<u>63,554,045</u>

**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, 2015 (UNAUDITED)**

YEAR ENDING 5/15/xx	2015 SERIES A		TOTAL DEBT SERVICE		
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	TOTAL
2016	-	5,582,030	31,230,000	25,709,332	56,939,332
2017	-	5,644,750	25,356,609	31,906,492	57,263,101
2018	-	5,644,750	24,592,927	31,208,236	55,801,163
2019	3,220,000	5,644,750	24,850,844	30,489,419	55,340,263
2020	13,205,000	5,483,750	33,550,000	21,528,063	55,078,063
2021	13,870,000	4,823,500	35,105,000	19,976,514	55,081,514
2022	14,560,000	4,130,000	36,840,000	18,236,139	55,076,139
2023	15,290,000	3,402,000	38,585,000	16,487,964	55,072,964
2024	4,190,000	2,637,500	29,515,000	14,573,901	44,088,901
2025	4,405,000	2,428,000	30,670,000	13,098,151	43,768,151
2026	4,625,000	2,207,750	32,055,000	11,708,938	43,763,938
2027	4,855,000	1,976,500	25,750,000	10,258,863	36,008,863
2028	5,095,000	1,733,750	27,035,000	8,971,363	36,006,363
2029	5,355,000	1,479,000	28,385,000	7,619,613	36,004,613
2030	5,620,000	1,211,250	15,375,000	6,200,363	21,575,363
2031	5,900,000	930,250	16,140,000	5,431,613	21,571,613
2032	6,200,000	635,250	16,925,000	4,652,250	21,577,250
2033	6,505,000	325,250	17,770,000	3,806,000	21,576,000
2034	-	-	11,825,000	2,917,500	14,742,500
2035	-	-	12,415,000	2,326,250	14,741,250
2036	-	-	13,040,000	1,705,500	14,745,500
2037	-	-	6,685,000	1,053,500	7,738,500
2038	-	-	7,015,000	719,250	7,734,250
2039	-	-	7,370,000	368,500	7,738,500
TOTAL	112,895,000	55,920,030	548,080,380	290,953,714	839,034,094
ACCRETION	-	-	18,217,529	(18,217,529)	-
DISC/ PREM	23,077,941	(23,077,941)	64,274,318	(64,274,318)	-
GROSS	<u>\$ 135,972,941</u>	<u>\$ 32,842,089</u>	<u>\$ 630,572,227</u>	<u>\$ 208,461,867</u>	<u>\$ 839,034,094</u>

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2015 (UNAUDITED)**

Federal Grantor / Pass-Through Grantor / Cluster Title	CFDA Number	Contract Number	Accrued Balance June 30, 2014	Cash Receipts	Expenditures	Adjustments	Accrued Balance June 30, 2015
U.S Department of Homeland Security/ TN Emergency Management Agency/ Disaster Grants- Public Assistance Total U.S. Department of Homeland Security - Flood	97.036	N/A	\$ 279,448	(\$213,830)	\$ -	(\$65,618)	\$ -
U.S Department of Homeland Security/ TN Emergency Management Agency/ Disaster Grants- Public Assistance Total U.S. Department of Homeland Security	97.036	N/A	\$ 367,155	(\$367,155)	\$ -	\$ -	\$ -

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

1. The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Board") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
2. The grant revenue amounts received are subject to audit and adjustment. If any expenditures are disallowed by the grantor agency as a result of such an audit, any claim for reimbursement to the grantor agency would become a liability of the Board. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations.

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

**Retirement Annuity and Survivors Plan
Schedule of Changes in Net Pension Liability (Unaudited)**

	Years ended June 30,	
	2015	2014
Total Pension Liability		
Service Costs	\$ 10,791,995	\$ 9,934,862
Interest	41,399,061	39,288,033
Differences between expected and actual experience	1,767,775	6,127,296
Changes of assumptions	-	-
Benefit Payments / Refunds	<u>(28,720,035)</u>	<u>(27,104,368)</u>
Net Change in Total Pension Liability	\$ 25,238,796	\$ 28,245,823
Total Pension Liability, beginning	<u>\$ 566,767,793</u>	<u>\$ 538,521,970</u>
Total Pension Liability, ending (a)	\$ 592,006,589	\$ 566,767,793
 Plan Fiduciary Net Position		
Contributions – employer	\$ 25,746,366	\$ 22,812,880
Net investment income	12,207,239	63,101,612
Benefit Payments / Refunds	(28,720,035)	(27,104,368)
Administrative expenses	<u>(682,629)</u>	<u>(450,603)</u>
Net Change in Plan Fiduciary Net Position	\$ 8,550,941	\$ 58,359,521
 Plan Fiduciary Net Position – beginning	<u>418,021,700</u>	<u>359,662,179</u>
Plan Fiduciary Net Position – ending (b)	\$ 426,572,641	\$ 418,021,700
 Net Pension Liability – ending (a) – (b)	\$ 165,433,947	\$ 148,746,093
 Plan Fiduciary Net Position as a % of the Total Pension Liability	72%	74%
Covered –employee payroll	\$ 68,800,950	\$ 69,409,887
Net Pension Liability as a % of covered-employee payroll	240%	214%

As permitted by GASB 68, two years of data is presented because it was impractical to present ten years. The previous method of determining the pension liability, while permitted under the previous standards, was not the Entry Age Actuarial Method required by GASB 68. The Plan Sponsor determined that the cost to recompute all historical data using the Entry Age Method was prohibitive for the disclosure benefits obtained.

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

**Retirement Annuity and Survivors Plan
Schedule of Contributions (Unaudited)**

	Years ended June 30,	
	2015	2014
Actuarially determined contribution	\$25,746,365	\$22,897,905
Contributions in relation to the actuarially determined contribution	<u>25,746,366</u>	<u>22,812,880</u>
Contribution deficiency (excess)	<u>(\$1)</u>	<u>\$85,025</u>
Covered employee payroll	\$68,800,950	\$69,409,887
Contributions as a percentage of covered-employee payroll	37%	33%

In computing the table above, actuarial assumptions included (a) 25-year funding level, (b) 7.5 percent investment rate of return and discount rate, and (c) projected salary increases of 4.5 percent. Both (b) and (c) included an inflation component. The long term rate of return was determined using the Plan's specific asset returns over the past ten years and historical long-term returns of the broader U.S. markets. The assumptions include cost-of-living post-retirement benefit increases equal to 2 percent per year. Mortality rates are based on the RP-2000 Healthy Combined Mortality Table. The base mortality rates have been adjusted by applying the Projection Scale AA for seven years beyond the valuation date to reflect mortality improvements.

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

**Other Post Employment Benefit Plan
Schedule of Funding Progress (Unaudited)**

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
4/1/2015	\$78,069,285	\$249,211,205	\$171,141,920	31.3%	\$78,175,709	218.9%
4/1/2014	66,596,617	245,210,065	178,613,448	27.2%	76,241,228	234.3%
4/1/2013	56,486,373	227,604,668	171,118,295	24.8%	74,085,873	231.0%



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

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

We have audited, 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, 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, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2015.

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. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Electric Power Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material



effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

PricewaterhouseCoopers LLP

Nashville, Tennessee
October 28, 2015

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

Schedule of Findings and Responses

None