



Annual Report 2013

POWERING A VIBRANT CITY

It's official: Nashville is the latest "it" city, as honored by many influential lists in the last year. Economic indicators and general attitudes alike prove Nashville is the place to be. This report explores what makes Nashville special and how NES is deeply connected to it.



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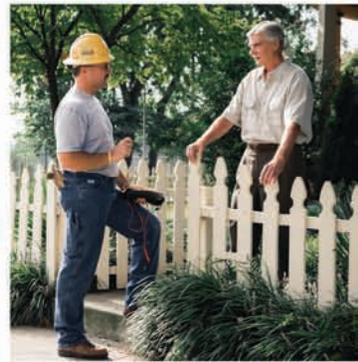
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NES' MISSION IS TO PROVIDE SAFE, RELIABLE ELECTRICITY AT AN AFFORDABLE PRICE. OUTAGES ARE NEVER IDEAL, BUT NES LINEMEN AND RESPONSE TEAMS ARE THERE WHEN THEY ARE NEEDED. JUST ASK THE HOBACK FAMILY.



Out of hardship comes resilience. If anyone knows this to be certain, it's the proud people of Nashville. We have survived and rebuilt after the wreckage of torrential rains and a flailing economy. And we have watched our city progress in a time when other municipalities struggle to simply maintain.



Nashville's recent growth is the best evidence of our city's magic, a direct result of the unwavering and generous spirit of its people. At Nashville Electric Service, we experience this every day. Powering Nashville is our main priority.

We recognize Nashville's progress and accept the opportunity to evolve with it. We have improved our technology and services and built new substations in order to meet the demand and exceed expectations. We have acknowledged the change in how people access information by optimizing our website for mobile users. We also created a Spanish-language YouTube channel to expand outreach to our emergent Latino population.

In our last fiscal year, we completed several improvements related to the Music City Center and Korean Veterans Boulevard to directly support the new SoBro entertainment and business district. We issued millions of dollars in bonds with a gross debt savings of \$8.5 million and maintained our AA+ bond rating. We have also saved more than \$2 million through the Peak Load Management program. With reliable financial management comes support for the continued growth in our region. This attention to fiscal responsibility is NES' own testament to leading by example.

Above all, we are a devoted community partner. Our employees contribute thousands of dollars and volunteer hours to various organizations, such as United Way. We also offer a number of programs designed to better assist our customers with managing household expenses and commercial budgets in an ever-changing economy.

**NASHVILLE
IS CURRENTLY RANKED
#8 ON BLOOMBERG'S
TOP 12 AMERICAN
BOOMTOWNS LIST
(2013)**

The following stories are our tribute to this city and the folks who make it special. Through our insider's perspective of a thriving metropolis, we hope you'll come to love and appreciate what makes Nashville a great example of modern America.

We'll look at the state of our boomtown by exploring the essence of southern hospitality only Nashville can offer, and you'll learn why Nashville is consistently ranked among the top cities to live, work and play.

NES' commitment to our neighbors is evident as we strive to support the new American dream. It is alive and well here in Middle Tennessee, and we are honored to power it.

A handwritten signature in black ink that reads "Decosta Jenkins". The signature is fluid and cursive.

President and Chief Executive Officer



NASHVILLE GIVES NEW MEANING TO “COME ON IN AND STAY AWHILE”

“The Music City Center promised Nashville new opportunity for business and residential growth. It’s safe to say it has exceeded expectations.”



“A few years ago, I was driving to work early one morning and saw a woman jogging with her dog downtown. Five years prior, you would have never seen that.”

At that moment, Charles Starks knew the collective efforts of many leaders in the Nashville community were coming to fruition. As president and CEO of Nashville’s Music City Center, and following a respected career in the hospitality industry, Starks has made it his mission to help redefine the essence of downtown Nashville.

The Music City Center, profiled as a work-in-progress in our recent reports, is officially open and has a vast number of events already on the books. It is also the anchor of SoBro, the mixed-use district located downtown just south of Broadway.

Since SoBro’s inception in the early 2000s with the Hilton Hotel, quickly followed by the Schermerhorn Symphony Center, the Country Music Hall of Fame and a number of residential condo buildings, Nashville’s central district has slowly come to life.

The Music City Center was the catalyst SoBro needed to realize its ambitious growth plans. Since the Center was officially announced, SoBro has seen \$1 billion in new developments, including two new hotels and seven new restaurants, according to Starks. The Nashville Downtown Partnership reports that SoBro

has already achieved 98 percent residential occupancy with more buildings in the works.

SoBro’s rapidly growing infrastructure required road expansions, which directly improve the city’s traffic patterns. NES also relocated a substation to power the Music City Center and the newly thriving district. Our substation powers more than 1,700 residences and more than 750 businesses.

All of these developments are indicative of a modern city shifting from a popular tourism destination to a permanent residence. Southern hospitality is alive and well, indeed. As seen with the Music City Center, it is not only a fixture on the convention circuit, as designed, but it will be a proud host to many local events in years to come.

**NES’ SUBSTATION POWERS
MORE THAN 1,700
RESIDENCES AND MORE
THAN 750 BUSINESSES**

The proof is in the numbers: Nashville has experienced a 30.6 percent population boom since 2000, according to the Chamber of Commerce. Nashville also saw record hotel sales in 2012, with

2013 tracking to surpass it, as indicated by the Nashville Convention & Visitors Corporation.

“The Music City Center promised Nashville new opportunity for business and residential growth. It’s safe to say it has exceeded expectations,” said Starks.

If the Music City Center and SoBro are any indication, Nashville is definitely having its moment.

LOCAL PUB OWNER BANKS ON NASHVILLE'S CHANGING PALATE



The modern American city is best defined by a significant shift from the sprawling, cookie-cutter suburbia popular in recent years to the mixed-use urban development evident in most cities today.

One of Nashville's best examples of this change is its diverse and clearly defined neighborhoods. Each owns a distinct personality intended to cater to the wide-ranging tastes of new and long-term Nashvillians alike. And every neighborhood boasts local businesses catering to the needs and whims of its residents.

"I not only grew up in Nashville, I grew up with Nashville, and it's evolving now more than ever," said Austin Ray, a Nashville native and owner of M.L. Rose Craft Beer & Burgers. "Not even five years ago, there were only a handful of local Nashville restaurants. Now it is hard to keep track of locally owned expansions and openings. It's exciting to see the restaurants full and the menus so diversified."

A fan of all things Nashville, Ray has taken a keen interest in green business responsibility as evidenced by his choice of restaurant design, financial management methods and community partnerships.

NES' Green Power Switch program in partnership with TVA, coupled with all the LED lighting in both M.L. Rose locations, helps Ray realize the impact of energy savings. He is also an NES E-bill user, which allows him immediate, one-stop access and account management for both locations.

Ray has witnessed Nashville's growth firsthand and attributes the city's cultural evolution to the dedicated entrepreneurs proud to own Nashville-based businesses, especially the eateries created to satisfy the adventurous palate.

The proof is in the pudding. Or the burgers, in Ray's case. Ray and his team have significantly contributed to the revival of the Melrose neighborhood with M.L. Rose. Intended to be interactive and engaging rather than exclusive, M.L. Rose is not only a popular haven for craft beer and burger enthusiasts, it's also a part of the community where neighbors can relax and interact outside of work and home.

Ray immediately knew he was on to something when, after being open for only two days, he met a local resident who arrived and assumed the pub had been there for years. This spoke directly to the environment he intended and reinforced his plans to expand his business with a second location in West Nashville.

"We pride ourselves on offering Nashville something it had no idea it was hungry for: a down-to-earth, yet relevant and evolving menu designed to delight our customers and inspire curiosity with creative and all-natural burgers. People have really responded to the NashVegas Burger, with homemade pimiento cheese, crispy tobacco onions, and a sweet potato bun," said Ray. "The craft brews from a growing number of local and regional brewers are a huge draw as well."

Much like NES, Ray is committed to giving back to the Nashville community. M.L. Rose is a proud supporter of Brew at the Zoo craft beer festival every May and a headlining sponsor of the craft beer areas at the popular Live on the Green music series.

**NASHVILLE RANKED
#5 BEST CITY FOR
YOUNG ENTREPRENEURS
BY UNDER30CEO.COM (2013)**



Austin Ray, owner of M.L. Rose Craft Beer & Burgers



Juan and Paola Garcia-Serrano pictured with son, Juan Esteban

CULTURAL DIVERSITY MEETS SOUTHERN HOSPITALITY

There is no denying the evolution of Nashville's cultural diversity in recent years. The changing demographics prove what our famous southern hospitality has long assumed: there is a place here for everyone.



No one knows this more than the Garcia-Serrano family, a shining example of the modern American dream. Settled on a quiet suburban street in Bellevue, the Garcia-Serranos are an energetic family of four: Juan, Paola, Juan Esteban and Hannah, their lovely and precocious dog. Five minutes with them and it is evident they are very close and delight in each other's company.

Juan and Paola originally met in high school in Bogotá, Colombia. Thirteen years ago, Paola made the very brave decision to leave behind everyone she knew to follow Juan to Nashville. Like most immigrant families, they settled on Middle Tennessee because extended family had done the same. Their family members fled here to escape the violence and class warfare of Colombia. The Garcia-Serranos immediately found Nashville to be the quiet and safe respite they craved.

As Juan and Paola established their new life together here, and eventually had their son Juan Esteban, they continued with their chosen careers: Paola as a freelance graphic designer and Juan as a custom furniture and home accent craftsman. They purchased their first house and stripped it down to the studs in an ambitious remodel, all performed by Juan.

Like many of their friends and family, the Garcia-Serranos are fully acclimated to the United States but find comfort in familiarity and tradition. Paola still washes all of the family dishes by hand, having never once used the dishwasher—a habit that makes her chuckle.

"We grew up a certain way in Colombia. We were very resourceful and did everything ourselves," said Paola. "It

never occurred to me to use the dishwasher, even though it is convenient. Why use a machine when I can do it faster?"

Like the dishwasher, the cultural differences in behavior were evident when she arrived in Nashville from Bogotá.

"We would never dream of sending money in the mail, much less a letter. You could send your neighbor a note and they wouldn't see it for 10 years!"

The unreliable government services and the insecurity of the Internet in developing countries like Colombia breeds natural wariness of modern payment and communications systems.

NES' bill pay partnership with the T10 kiosk system was an obvious solution. It helps reduce and better manage in-person payment traffic at our headquarters by providing more convenient and efficient payment opportunities throughout the Metro Nashville area.

Customers can pay their bills in cash at more than 40 Mapco Express stores, Exxon Tiger Markets and other convenient locations. In the last fiscal year, the T10 kiosks have processed more than 61,000 NES payments worth more than \$8.3 million.

"When we first came to Nashville, we would drive all over town to pay our bills. Then companies such as NES made it possible to pay most of our bills at a digital kiosk. Once we became comfortable with that system, and adopted USA banking, we eventually moved our household finances online. NES' E-bill system has made all the difference in how we manage our budget," Paola explained.

**NES' BILL PAY PARTNERSHIP
WITH T10 KIOSKS PROCESSES
MORE THAN 61,000
NES PAYMENTS**

HARNESSING INSPIRATION AND PASSION TO POWER AN EXCEPTIONAL FUTURE



Eliasar Zuniga is curious and articulate. But above all, he is ambitious. As a senior at Maplewood High School in East Nashville, and a graduating student of the Maplewood Academy of Energy & Power in partnership with NES, he is well-versed in opportunity.

NES partners with the Academy to develop curriculum and annual class projects focused on skills application for students interested in engineering. Through this program, many students personally discover their aptitude.

Zuniga is a stand-out member of the first graduating class of the Academy, which was founded in 2011. Throughout the three-year program, Zuniga learned the fundamentals of electrical engineering. These skills enabled him to co-design a fully functional cascading water fountain as a permanent architectural fixture at the school.

But it's not all about electrical circuits and safety, according to Zuniga. "Not only has the Academy helped me identify my skill for electrical engineering, it has supplemented my math and science curriculum in a meaningful way."

His passion for the program is matched only by its fearless instructor, Ms. Angela Lake. She immediately recognized her most impactful moments would not be instruction, but in time and attention.

"It was clear my students were smart and had potential, but what they needed most was consistency and devotion," said Lake. "Passion inspires passion here at the Academy. If you show them you believe in them and are equally passionate, they'll give you all they have."

This mutual commitment to education isn't focused strictly on numbers and formulas. The Maplewood Academy of Energy & Power and NES provide foundations for a professional future by building writing and presentation skills through expos and workshops, in addition to interview experience as part of the student's graduating year.

"Without the Academy, Ms. Lake and NES, I probably wouldn't have such a clear plan for my career," said Zuniga. "It's made all the difference in my education

and given me confidence in my future. I look forward to earning my degree in electrical engineering at the University of Tennessee and then joining the job market here in Nashville."

It's this mutual investment in skilled teaching and learning that contributes to Middle Tennessee's

aggressive job growth. Nashville leads the nation in job growth at 3.9 percent, the highest among metro areas with more than 1 million people, according to the U.S. Bureau of Labor and Statistics.

If the economic boom continues as expected, combined with the continuation of labor-force building programs such as the Academy, Zuniga should have no problem starting his career here in Nashville after college graduation.

**NASHVILLE LEADS THE NATION
IN JOB GROWTH AT 3.9%,
ACCORDING TO THE
U.S. BUREAU OF LABOR
AND STATISTICS (2013)**



Eliasar Zuniga, Maplewood High School senior, pictured with teacher, Ms. Angela Lake

GREEN LIVING POSITIVELY IMPACTS THE EARTH AND THE WALLET



At her retirement 10 years ago, Ellen Johns took a keen eye to her new fixed income. By invoking the age-old theory of “waste not, want not,” she made changes to her daily routine to save money.

Her consideration was simple: buy what you need, use what you buy, reduce your waste. “Waste not, want not,” in fact, is the very essence of sustainability.

As a modern city, and a very changed one, Nashville attracts many different “shades” of green. From “light green” consumers who make it a point to recycle, to the “dark green” who would prefer to live off the grid, this city boasts many organizations and opportunities to help make a more sustainable and efficient lifestyle possible.

While a sustainable approach to living can have positive impacts

on our earth, it can also have positive impacts on your wallet, a frequently overlooked outcome.

“When I retired from Opryland, I immediately saw my electric bill rise from all the time I was spending at home,” says Johns, a homeowner in East Nashville. “I didn’t really think I could make a difference in my energy usage and bill. I thought it was just the way it would be and that I would have to cut back in other areas.”

Johns immediately made the connection in energy efficiency and cost savings when she spotted a flyer at her YMCA for the NES Neighborhood Energy Savers workshop.

“Saving money attracted me to the workshop, but I walked away with a wealth of knowledge about simple solutions for creating a more energy-efficient home,” said Johns.

**BY APPLYING TIPS
AND TRICKS FROM THE
WORKSHOPS, AN AVERAGE
1,900 SQUARE FOOT HOME
CAN SAVE \$357 A YEAR**

NES, along with the Tennessee Valley Authority, offers the free Neighborhood Energy Savers workshops to consumers who are interested in learning how to make easy, energy-saving improvements at home.

Participants are guided through a home energy action plan and, after watching demonstrations given by the instructors, they can practice using expanding insulation foam, caulk and weather stripping to seal air leaks. Each participating household receives a complimentary energy saving kit with tools to take immediate action on improving their home’s efficiency.

“Applying my own energy action plan and using the materials provided to me at the workshop has made a big difference,” said Johns. “Previously my bills were around \$90, and now they average at \$65.”

According to Mary Badino, the Energy Savers Workshop director and a sustainability consultant, an average home of 1,900 square feet could save \$357 a year. In the past year, more than 180 people have participated in the Neighborhood Energy Savers program and rated the curriculum as both educational and applicable.

We’re pretty proud of our customers’ actions to save energy and money. We can’t help but think Mother Earth is too.





Ellen Johns, NES customer and workshop participant, pictured with Mary Badino, Energy Savers Workshop instructor



NES team members Vaughan Charles, Amanda Cochran, Al Freeland, Eric Fugett and Fred Friton

POWERING THE COMMUNITY BEYOND THE GRID

Tennessee has many nicknames, perhaps none more apt than “The Volunteer State.” Earned by volunteer soldiers from Tennessee during the War of 1812, this spirit of generosity still rings true today. The people of Nashville prove that time, talent and treasure all come together when helping hands unite.



NES is honored to provide our employees with many different opportunities to give back to the community. NES employees can discover their best fit in our award-winning Employee Combined Needs Appeal (ECNA) campaign. Through ECNA, our team members select where their funds are allocated: United Way of Metropolitan Nashville, Community Shares or Community Health Charities.

Vaughan Charles, a Civil and Environmental Engineering Manager, has been a loyal contributor to United Way through the ECNA campaign.

“I’ve contributed to United Way since my early days at NES 17 years ago,” said Charles. “It’s always been an easy choice. As a member of the team, I want to do my part.”

The NES team members participating in ECNA have graciously allocated more than \$160,000 across all three organizations in the past year. Contributions earmarked for United Way of Metropolitan Nashville directly support multiple initiatives focusing on education, financial stability and health. More specifically, these investments have allowed NES employees to have a hand in assisting people all over our community through

NES EARMARKED MORE THAN \$160,000 IN PERSONAL EMPLOYEE CONTRIBUTIONS TO MIDDLE TENNESSEE NONPROFITS

countless United Way programs including Days of Action, United Way Family Resource Centers, United Way Read to Succeed, the Volunteer Income Tax Assistance (VITA) program and the 2-1-1 Helpline.

“It’s an easy way to contribute when an hour’s worth of pay each month is automatically deducted from

your paycheck,” said Charles. “It’s rewarding to think about the people who notice your contribution and the difference it makes in their lives.”

As a result of these United Way programs and the contributions that help fund them, in 2012 31,404 individuals benefitted from Days of Action, community-changing volunteer opportunities that impact Nashville’s greatest needs; 32,000 individuals were served at 18 United Way Family Resource Centers across the city with job training, food pantries and financial counseling; 1,200 students increased their level of reading readiness through United Way’s Read to Succeed program; and more than 10,400 individuals received approximately \$19.1 million in refunds and credits through the VITA program.

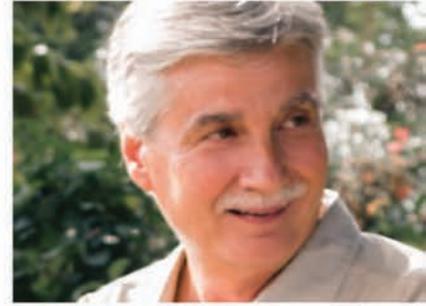
We are proud our employees realize they hold the power to make a difference here in Nashville.



NES customer, Scott Hoback, pictured with linemen Mark McNabney, Matthew Woodside and David Baker, and Teddy the Boston Terrier

KINDNESS IS THE CORNERSTONE OF GREAT CUSTOMER SERVICE

Nashville is known for its southern charm and sweet tea–favorite qualities often cited by native Nashvillians like Scott Hoback and his wife, Patty. Perhaps that’s why it was consistently ranked as a top city over the past year. There is a certain sweetness you can expect from people in Nashville.



When Hoback woke up one Sunday, he realized some of his lights, kitchen appliances and air conditioner were not working. His experience in maintenance allowed him to quickly identify only partial power feeding into his house.

He immediately called NES, and within 30 minutes there was a service truck at his house in Joelton.

“The crews were great to work with. They were very courteous and concerned with our problem,” said Hoback. “We are so grateful for their service.”

Hoback knows a thing or two about quality customer experience. After 37 years at the Metro Public Health Department, Hoback retired in 2008 as the director of operations supervising the maintenance division, courier services and telecommunications functions.

“I wasn’t expecting that kind of response time, because I know how busy they are,” said Hoback. Upon arrival, the NES lineman was able to identify the problem and recommend a solution.

While some maintenance work on Hoback’s end was required, as soon as he was ready so was the NES crew. “Within another 30 minutes, our power was restored.”

“There is not a thing they could have done better,” said Hoback.

BASED ON A 2012 CUSTOMER SURVEY, NES RECEIVED A 79% CUSTOMER SATISFACTION RATING

At NES, we understand good customer service can be hard to come by in this modern day and age. It is opportunities to help folks like Scott Hoback that we treasure the most.

In the past year, we unveiled an improved outage reporting experience for customers. The new automated system is more concise and easier to use. This new system, combined with the customer campaign to obtain cell phone numbers for faster outage reporting, means less waiting on the front end of the call and faster time to a solution.

In recent years, we have embraced social media platforms to better communicate with our customers, especially during storms or crisis situations. NES’ Twitter and Facebook presence allows customers to directly connect with our communications team. It has proven useful to thousands of folks and helps us solve problems more efficiently.

NES is proud to take advantage of every opportunity to improve our customer service and continues to work every day to make the experience better and faster. After all, when you live in America’s newest “it” city, there are plenty of things to do besides waiting for an answer.



FINANCIAL REPORT

Electric Power Board of the Metropolitan Government of Nashville and Davidson County
Financial Statements for the years ended June 30, 2013 and 2012

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NASHVILLE ELECTRIC SERVICE

SCHEDULE OF EXECUTIVE MANAGEMENT



DECOSTA JENKINS
*NES President and
Chief Executive Officer*



TERESA BROYLES-APLIN
*Vice President of Finance
and Administration
and Chief Financial Officer*



ALLEN BRADLEY
*Executive Vice President
and Chief Operating Officer*

BOARD MEMBERS



ROBERT MCCABE
*NES Board Chairman
Chairman
Pinnacle Financial Partners*



RICHARD COURTNEY
*Partner
Christianson Patterson
Courtney and Associates*



SAM HOWARD
*Chairman
Phoenix Holdings, Inc.*



ROBERT J. MENDES
*Attorney
Frost Brown Todd, LLC*



YANIKA SMITH-BARTLEY
*Legal Counsel
Asurion*

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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



Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte & Touche LLP

October 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Board"), we offer readers of these financial statements, this narrative overview and analysis of the financial activities of the Board for the fiscal years ended June 30, 2013 and 2012 as compared to fiscal years 2012 and 2011, respectively. In conducting the operations of the electrical distribution system, the Board does business as Nashville Electric Service ("NES"). NES is a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

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

Summary of Changes in Net Position

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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

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

STATEMENTS OF NET POSITION (\$000 omitted)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

	June 30,		
	2013	2012	2011
NET POSITION			
Invested in utility plant, net of related debt	344,661	360,840	358,152
Restricted	54,735	55,435	52,536
Unrestricted	<u>200,858</u>	<u>156,187</u>	<u>120,008</u>
Total Net Position, as previously stated	<u>600,254</u>	<u>572,462</u>	<u>530,696</u>
TOTAL LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES AND NET POSITION	<u>\$1,368,162</u>	<u>\$1,371,278</u>	<u>\$1,234,133</u>
Cumulative effect of GASB 65	-	-	(2,258)
TOTAL NET POSITION, as reported	<u>\$600,254</u>	<u>\$572,462</u>	<u>\$528,438</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 the cash flow from operations. On June 27, 2013, the Board closed on the sale of the Metropolitan Government of Nashville and Davidson County, Tennessee, Electric System Refunding Bonds, 2013 Series A. The 2013 Series A Bonds were being offered to refund \$58.9 million aggregate principal amount of the outstanding 2004 Series A Bonds, maturing May 15, 2025, 2026, and 2029. During fiscal year 2013, NES drew down \$46.7 million in proceeds from the System Revenue Bonds, 2011 Series A, for capital expenditures.

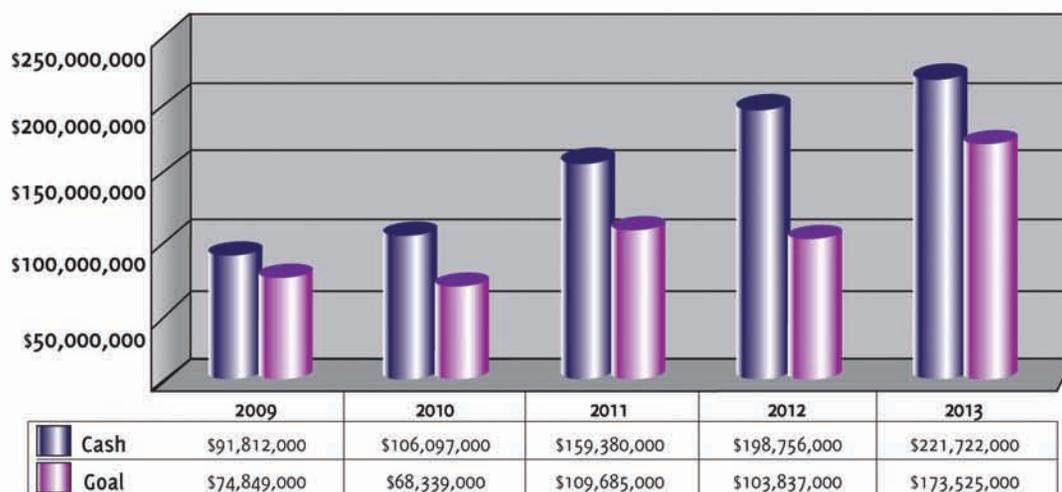
In addition to operating cash flow and proceeds from tax-exempt bonds, the Board has a \$25 million line-of-credit, which is renewed each year. The credit facility is not a source of liquidity for ongoing operations. It is available as an additional funding source in the event of a natural catastrophe.

The Board's financing cost may be impacted by short-term and long-term debt ratings assigned by independent rating agencies. During the fiscal year ended June 30, 2013, the Board's revenue bonds were rated at AA+ by both Standard & Poor's and Fitch. In issuing bond ratings, agencies typically evaluate financial operations, rate-setting practices, and debt ratios. Higher ratings aid in securing favorable borrowing rates, which result in lower interest costs. The outlook on all debt ratings is stable as of June 30, 2013.

Debt ratings are based, in significant part, on the Board's performance as measured by certain credit measures. In order to maintain its strong credit ratings, the Board has adopted certain financial goals. Such goals provide a signal to the Board as to the adequacy of rates for funding ongoing cash flows from operations. One such goal is a cash goal of 16.5 percent of purchased power, and operating and maintenance expense. This goal changed from the prior year, where the goal was 10 percent and the calculation included purchased power, operating and maintenance expenses, and in-lieu-of-tax payments. This goal was met every month of the fiscal year 2013. That percentage was 21.1 percent as of June 30, 2013, and 19.1 percent as of June 30, 2012. The Board also has a goal of maintaining a debt coverage ratio of at least 2 to 1. The Board's debt coverage ratio for the 12 months ended June 30, 2013, was 2.5 to 1. The Board continues to exceed its goals.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Comparison of Cash Balances to NES' Goals



Operations

Summary Revenue & Expense Data (\$000 omitted)

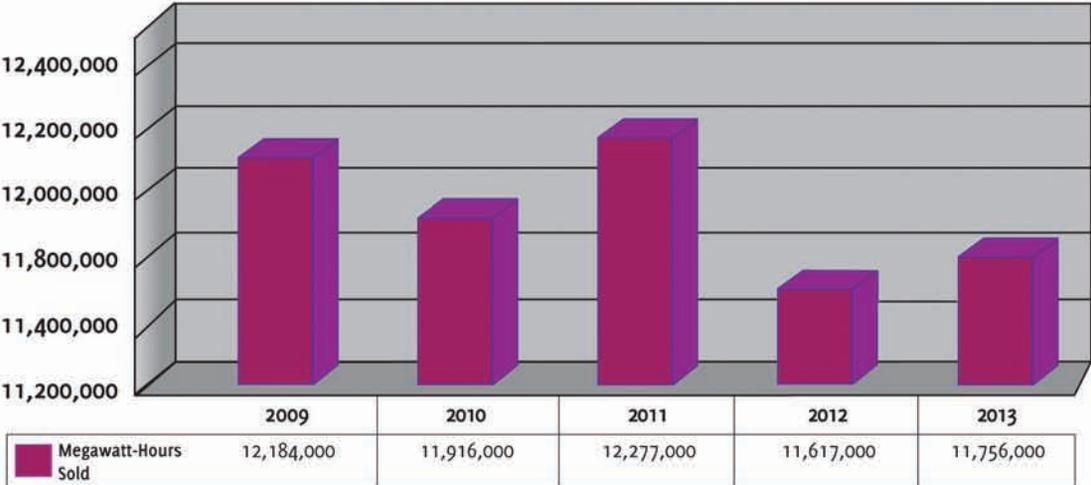
	Year Ended June 30, 2013	Year Ended June 30, 2012	Net Position Effect	Year Ended June 30, 2011	Net Position Effect
Operating Revenues	\$1,174,424	\$1,154,512	\$ 19,912	\$1,199,609	\$ (45,097)
Purchased Power	<u>900,916</u>	<u>868,453</u>	<u>(32,463)</u>	<u>927,065</u>	<u>58,612</u>
Margin	273,508	286,059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

MANAGEMENT’S DISCUSSION AND ANALYSIS (continued)

2013 and 2012 Results of Operations

Operating Revenues. Operating revenues increased by \$19.9 million, or 1.7 percent, when compared to 2012. Total electric sales were \$1.2 billion for the period versus \$1.1 billion last year. The average realized rate on electric sales was \$.0981 per kilowatt-hour in 2013 compared to \$.0976 per kilowatt-hour in 2012. The increase in average realized rate in 2013 is the impact of Tennessee Valley Authority (“TVA”) rate adjustments for fuel costs and rate structure changes. Megawatt-hours sold in 2013 increased by 1.2 percent when compared to 2012. Weather plays an important part in determining revenue for any year. The impact of weather is reflected in the comparison of degree-days from one period to the next. Degree-days represent the difference between the weather’s average daily temperatures minus 65 degrees. Temperatures above 65 degrees are considered cooling degree-days; temperatures below 65 degrees are considered heating degree-days. Total cooling degree-days were 1,808 compared to 1,999 in 2012. Total heating degree-days were 3,505 compared to 2,812 in 2012. Total heating and cooling degree-days were 5,313 compared to 4,811 in 2012 or an increase of approximately 10.4 percent. Total average number of active year-to-date customers increased by 1.0 percent when compared to 2012. Revenue in Excess of Net Bills (Late Charge) increased by \$0.1 million, and Rentals of Electric Property (primarily pole attachments) increased by \$1.4 million.

Megawatt-Hours Sold



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

Purchased Power and Operating Expenses. The Board purchases all of its power from TVA under an all-requirements contract that had an initial term of 20 years. Beginning on December 19, 1989, and on each subsequent anniversary thereafter, the contract is automatically extended for an additional one-year period. The contract is subject to earlier termination by either party on not less than 10 years prior written notice. Purchased power was \$900.9 million for the period compared to \$868.5 million last year. The average realized rate on purchased power was \$.074 per kilowatt-hour in 2013 compared to \$.072 per kilowatt-hour in 2012. This increase is due to the pass-through of the Fuel Cost Adjustment (“FCA”) and because the TVA adjusted purchased power in March 2012 in the amount of \$20.6 million due to over-billings by the TVA at the Old Hickory

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

hydro substation. Megawatt-hours purchased were 12.1 million in 2013 compared to 12.1 million in 2012.

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

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

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

Depreciation and Tax Equivalents were \$39.5 million and \$32.2 million compared to \$49.3 million and \$28.6 million for 2013 and 2012, respectively. The decrease in depreciation was the result of a number of assets becoming fully depreciated in prior years. Tax equivalents consist primarily of payments in-lieu-of taxes to the Metropolitan Government and the surrounding counties. Such payments are calculated based on a prescribed formula that takes into consideration utility plant value and the average of the Board's last three years' operating margin. The increase in payments in-lieu-of taxes was the result of increases in tax rates coupled with increased investment in the utility plant.

2012 and 2011 Results of Operations

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

Operating Revenues. Operating revenues decreased by \$45.1 million, or 3.8 percent, when compared to 2011. Total electric sales were \$1.15 billion for 2012 versus \$1.20 billion in 2011. The average realized rate on electric sales was \$.0976 per kilowatt-hour in 2012 compared to \$.0961 per kilowatt-hour in 2011. The increase in the average realized rate in 2012 is the result of the 2.20 percent rate increase passed-through from TVA in October 2011. Megawatt-hours sold in 2012 decreased by 5.4 percent when compared to 2011. Weather plays an important part in determining revenue for any year. The impact of weather is reflected in the comparison of degree-

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

days from one period to the next. Degree-days represent the difference between the weather's average daily temperatures minus 65 degrees. Temperatures above 65 degrees are considered cooling degree-days; temperatures below 65 degrees are considered heating degree-days. Total cooling degree-days were 1,999 in 2012 compared to 2,069 in 2011. Total heating degree-days were 2,812 in 2012 compared to 3,665 in 2011. Total heating and cooling degree-days were 4,811 in 2012 compared to 5,734 in 2011 or a decrease of approximately 16.1 percent. Total average number of active year-to-date customers increased by 0.3 percent when compared to 2011. Revenue in Excess of Net Bills (Late Charge), decreased by \$0.5 million, and Rentals and Electric Property (primarily pole attachments) decreased by \$0.2 million.

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

Purchased Power and Operating Expenses. The Board purchases all of its power from TVA under an all-requirements contract that had an initial term of 20 years. Beginning on December 19, 1989, and on each subsequent anniversary thereafter, the contract is automatically extended for an additional one-year period. The contract is subject to earlier termination by either party on not less than 10 years' prior written notice. Purchased power was \$868.5 million in 2012 compared to \$927.1 million in 2011. The average realized rate on purchased power was \$.072 per kilowatt-hour in 2012 compared to \$.070 per kilowatt-hour in 2011. This decrease is due to the pass-through of the FCA and the rate structure change in April 2011. In addition, TVA adjusted purchased power by \$20.6 million in March 2012 due to an over-billing at the Old Hickory hydro substation. Megawatt-hours purchased were 12.1 million in 2012 compared to 13.2 million in 2011.

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Depreciation and Tax Equivalents were \$49.3 million and \$28.6 million compared to \$47.5 million and \$27.6 million for 2012 and 2011, respectively. The increase in depreciation was the result of increased investment in the utility plant. Tax equivalents consist primarily of payments in-lieu-of taxes to the Metropolitan Government and the surrounding counties. Such payments are calculated based on a prescribed formula that takes into consideration utility plant value and the average of the Board's last three years' operating margin. The increase in payments in-lieu-of taxes was the result of increases in tax rates coupled with increased investment in the utility plant.

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

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

Major Classifications of Expense (\$000 omitted)

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

The Board's total operating expenses increased 6.7 percent from June 30, 2012 to June 30, 2013. Labor for fiscal year 2013 totaled \$59.3 million, which represents an increase from fiscal year 2012 due to increases in cost of living, merit adjustments, and step increases. Benefits increased primarily due to increases in retirement and survivors, \$1.5 million; and medical, \$1.3 million, offset by decreases in other post-employment benefits, \$2.5 million. Tree-trimming decreased due to a reduction in the ACRT contract labor crews. The Outside Services increased primarily due to one-time additional projects. Materials were more in 2013 due to clean up of obsolete inventory. Transportation costs are more than in 2012 due to an increase in clearing rates. Accrual for Uncollectible Accounts decreased due to less write-offs than last year. Insurance Premiums

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

increased due to the property insurance program. The Other category contains a wide array of smaller accounts. In fiscal year 2013, primary increases occurred in work order transfers, \$3.7 million; transportation, \$0.5 million; injuries and damages, \$0.4 million; protectors and switches, \$0.3 million; temporary agency services, \$0.3 million; education and training, \$0.2 million; insurance premiums, \$0.2 million; and professional fees, \$0.1 million.

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

Capital Assets and Debt Administration

The Board's transmission and distribution facilities serve more than 700 square miles and include the Metropolitan Government of Nashville and Davidson County, Tennessee. The Board also serves portions of the adjacent counties of Cheatham, Rutherford, Robertson, Sumner, Wilson, and Williamson. Such facilities require significant annual capital and maintenance expenditures. The Board's target is to have the capital expenditures funded equally from cash flow from operations and proceeds from tax-exempt bonds. The Board's investment in utility plant at June 30, 2013, was \$890.3 million compared to \$865.0 million at June 30, 2012. Major projects during fiscal year 2013 included new business installations, \$12 million; twenty-four planned distribution circuit upgrades, \$4.1 million; planned replacement of wood transmission poles, \$2 million; fifteen other substation upgrades, \$1.8 million; installed a new transformer and four breakers at Craighead substation, \$1.4 million; Smart Grid Project, \$1.4 million; repaired, removed and replaced private lights, \$0.9 million; converted or partially converted three 4kV substations, \$0.9 million; RTU replacements in 9 substations, \$0.8 million; East Substation replaced all nine feeder breakers, \$0.6 million; purchased property for new Trinity substation, \$0.6 million; planned replacement of wood distribution poles, \$0.5 million; Davidson Road Substation replaced five feeder breakers, \$0.4 million.



MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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

Respectfully submitted,



Teresa Broyles-Aplin
Vice President and Chief Financial Officer

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

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

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

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

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

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

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

NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:

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

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

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

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

See notes to financial statements.



**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The significant accounting policies followed by NES are outlined below.

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

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

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

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Utility Plant is stated at original cost. Such cost includes applicable general and administrative costs and payroll and related costs such as pensions, taxes and other fringe benefits related to plant construction. Interest cost incurred during the period of construction of certain plant is capitalized. Capitalized interest was \$582 thousand in 2013 and \$441 thousand in 2012.

When plant assets are disposed of at salvage value, NES charges the amount to accumulated depreciation. Costs of depreciable retired utility plant, plus removal costs, less salvage, are charged to accumulated depreciation.

Depreciation is provided at rates which are designed to amortize the cost of depreciable plant over the estimated useful lives ranging from 7 to 50 years. The composite straight-line rates expressed as a percentage of average depreciable plant were as follows for June 30, 2013 and 2012:

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

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

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

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

Compensated Absences represent the liability for employees' accumulated vacation days. The general policy of NES permits the accumulation, within certain limitations, of unused vacation days. This amount is included in other accounts payable and accrued expenses in the Statement of Net Position.

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

NES purchases electric power from the Tennessee Valley Authority ("TVA"). On April 1, 2011, TVA implemented a new wholesale Time of Use rate structure. With the new structure, retail customers

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Income Taxes – NES is not subject to federal or state income taxes. While NES is not subject to property tax, NES pays tax equivalents in-lieu-of taxes to the Metropolitan Government and surrounding counties. Such payments are calculated based on a prescribed formula that takes into consideration utility plant value and the average of the Board's last three years' operating margin.

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

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

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

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

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

2. UTILITY PLANT AND ACCUMULATED DEPRECIATION

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

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

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

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

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

2. UTILITY PLANT AND ACCUMULATED DEPRECIATION (continued)

The related activity for accumulated depreciation for the years ended June 30, 2013 and 2012 was as follows (\$000 omitted):

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

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

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

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

3. CASH AND INVESTMENTS

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

2013					
	Cash	Bond Funds	Special Construction	Total	Weighted Average Maturity (Years)
Cash and cash equivalents	\$ 221,722	\$ 32,461	\$ 23,644	\$ 277,827	-
Securities from Agencies Chartered by Congress	-	25,205	-	25,205	0.96
	<u>\$ 221,722</u>	<u>\$ 57,666</u>	<u>\$ 23,644</u>	<u>\$ 303,032</u>	<u>0.08</u>
2012					
	Cash	Bond Funds	Special Construction	Total	Weighted Average Maturity (Years)
Cash and cash equivalents	\$ 198,756	\$ 25,014	\$ 1,198	\$ 224,968	-
U.S. Treasury Investments	-	4,172	-	4,172	0.38
Securities from Agencies Chartered by Congress	-	29,374	68,596	97,970	0.69
	<u>\$ 198,756</u>	<u>\$ 58,560</u>	<u>\$ 69,794</u>	<u>\$ 327,110</u>	<u>0.21</u>

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

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

3. CASH AND INVESTMENTS (continued)

Custodial Credit Risk – As of June 30, 2013 and 2012, NES' cash and cash equivalents held by financial institutions was \$277.8 million and \$224.9 million, respectively. Bank balances for such accounts totaled \$174.3 million and \$150.6 million, respectively. Deposits in financial institutions are required by State of Tennessee ("State") statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and have a total minimum market value of 105 percent of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. Collateral requirements are not applicable for financial institutions that participate in the State's collateral pool. As of June 30, 2013 and 2012, all of NES' deposits were held by financial institutions which participate in the bank collateral pool administered by the State Treasurer. Participating banks determine the aggregated balance of their public-fund accounts for the Metropolitan Government. The amount of collateral required to secure these public deposits is a certain percentage set by the State, depending on the financial institution, and must be at least that percentage of the average daily balance of public deposits held. Collected securities required to be pledged by the participating banks to protect their public-fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public-fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

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

Concentration of Credit Risk – NES has a policy prohibiting investment of greater than \$5 million or 20 percent of the total investment portfolio in any one issue, except for the U.S. Government or any of its agencies. In 2013, 100 percent of NES' investments were in Securities from Agencies Chartered by Congress. In 2012, 96.0 percent of NES' investments were in Securities from Agencies Chartered by Congress.

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

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

4. LONG-TERM DEBT

Long-term debt for the year ended June 30, 2013, is as follows (\$000 omitted):

	Balance June 30, 2012	Deductions/ Repayments	Additions/ Amortization/ Accretion	Balance June 30, 2013
Electric System Revenue Bonds, 1996 Series A, bear interest at rates from 5.5% to 6%, maturing through May 15, 2013, interest paid semiannually.	\$ 6,244	\$(2,412)	\$ (3,832)	\$ -
Electric System Revenue Bonds, 1998 Series A, bear interest at rates from 5.125% to 5.40%, maturing through May 15, 2023, interest paid semiannually.	25,988	-	1,422	27,410
Electric System Revenue Bonds, 1998 Series B, bear interest at rates from 4.75% to 5.50%, maturing through May 15, 2017, interest paid semiannually.	28,972	(5,120)	(124)	23,728
Electric System Revenue Bonds, 2001 Series B, bear interest at 5.50%, maturing through May 15, 2014, interest paid semiannually.	18,644	(6,365)	(153)	12,126
Electric System Revenue Bonds, 2004 Series A, bear interest at rates from 4.50% to 5.00%, maturing through May 15, 2029, interest paid semiannually.	57,973	(58,875)	902	-
Electric System Revenue Bonds, 2008 Series A, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2033, interest paid semiannually.	100,665	(2,960)	(187)	97,518
Electric System Revenue Bonds, 2008 Series B, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2023, interest paid semiannually.	75,250	-	(422)	74,828
Electric System Revenue Bonds, 2011 Series A, bear interest at rates from 1.50% to 5.00%, maturing through May 15, 2036, interest paid semiannually.	108,432	(2,520)	(780)	105,132
Electric System Revenue Bonds, 2011 Series B, bear interest at rates from 2.00% to 5.00%, maturing through May 15, 2026, interest paid semiannually.	157,257	(1,990)	(2,323)	152,944
Electric System Revenue Bonds, 2013 Series A, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2029, interest paid semiannually.	-	-	61,699	61,699
	579,425	<u>\$ (80,242)</u>	<u>\$ 56,202</u>	555,385
Less current portion of long-term debt	<u>(21,367)</u>			<u>(26,270)</u>
	<u>\$ 558,058</u>			<u>\$ 529,115</u>

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

4. LONG-TERM DEBT (continued)

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

	Balance June 30, 2011	Deductions/ Repayments	Additions/ Amortization/ Accretion	Balance June 30, 2012
Electric System Revenue Bonds, 1996 Series A, bear interest at rates from 5.5% to 6%, maturing through May 15, 2013, interest paid semiannually.	\$ 18,369	\$ (5,158)	\$ (6,967)	\$ 6,244
Electric System Revenue Bonds, 1998 Series A, bear interest at rates from 5.125% to 5.40%, maturing through May 15, 2023, interest paid semiannually.	24,644	-	1,344	25,988
Electric System Revenue Bonds, 1998 Series B, bear interest at rates from 4.75% to 5.50%, maturing through May 15, 2017, interest paid semiannually.	33,969	(4,855)	(142)	28,972
Electric System Revenue Bonds, 2001 Series A, bear interest at rates from 4.50% to 5.125%, maturing through May 15, 2017, interest paid semiannually.	100,899	(101,455)	556	-
Electric System Revenue Bonds, 2001 Series B, bear interest at 5.50%, maturing through May 15, 2014, interest paid semiannually.	18,798	-	(154)	18,644
Electric System Revenue Bonds, 2004 Series A, bear interest at rates from 4.50% to 5.00%, maturing through May 15, 2029, interest paid semiannually.	109,383	(51,125)	(285)	57,973
Electric System Revenue Bonds, 2008 Series A, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2033, interest paid semiannually.	103,720	(2,860)	(195)	100,665
Electric System Revenue Bonds, 2008 Series B, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2023, interest paid semiannually.	75,656	-	(406)	75,250
Electric System Revenue Bonds, 2011 Series A, bear interest at rates from 1.50% to 5.00%, maturing through May 15, 2036, interest paid semiannually.	-	(2,110)	110,542	108,432
Electric System Revenue Bonds, 2011 Series B, bear interest at rates from 2.00% to 5.00%, maturing through May 15, 2026, interest paid semiannually.	-	(130)	157,387	157,257
	485,438	\$ (167,693)	\$ 261,680	579,425
Less current portion of long-term debt	<u>(15,038)</u>			<u>(21,367)</u>
	<u>\$ 470,400</u>			<u>\$ 558,058</u>

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

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):

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

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

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

1998 Series A Bonds	\$ 74,430,000
2004 Series A Bonds	<u>110,000,000</u>
	<u>\$ 184,430,000</u>

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

4. LONG-TERM DEBT (continued)

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

5. OTHER NON-CURRENT LIABILITIES

NES' other non-current liabilities consist primarily of TVA energy conservation program loans and customer contributions. The following table shows the activity for the years ended June 30, 2013 and 2012 (\$000 omitted):

<u>June 30, 2012</u>	<u>Repayments</u>	<u>Additions</u>	<u>June 30, 2013</u>
\$ 5,080	\$ (3,643)	\$ 12,120	\$ 13,557
<u>June 30, 2011</u>	<u>Repayments</u>	<u>Additions</u>	<u>June 30, 2012</u>
\$ 12,636	\$ (16,766)	\$ 9,210	\$ 5,080

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

6. PENSION PLAN

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

All full-time regular employees hired before June 30, 2012 and under age 65 were eligible to participate in the Plan. Employees hired after June 30, 2012 are eligible to participate in the Nashville Electric Service Defined Contribution Plan. The vesting provision of the Plan provides for five-year cliff vesting. NES employees who retire at or after age 65 are entitled to annual retirement benefits payable monthly for life in an amount equal to 2 percent of final average compensation multiplied by years in the Plan not in excess of 35 years.

Final average compensation is the average compensation in the 36 consecutive months in which compensation is highest. Unused sick leave may be used to increase credited service and benefit percentage under certain circumstances. Early retirement is an option beginning at age 55 with 15 years of credited service or at age 50 with 30 years of credited service with an actuarially-reduced monthly benefit.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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YEARS ENDED JUNE 30, 2013 AND 2012

6. PENSION PLAN (continued)

If the participant has attained age 55, and his/her age plus service is 85 or greater, then there is no reduction for early receipt of the benefit. However, a participant cannot use accumulated sick leave to increase effective age to meet the requirements for this unreduced benefit. For a participant with 25 or more years of service, the minimum pension benefit is \$1,800 per month.

The contribution requirements of NES are established and may be amended by NES. The Plan is currently non-contributory. NES' practice is to typically fund at least the minimum contribution for a 30-year funding level. The current rate is 32.91 percent of annual covered payroll. NES contributed 100 percent of the required contribution for the Plan years 2013 and 2012.

The annual required contribution for the current year was determined as part of the April 1, 2012, actuarial valuation using the frozen initial liability method. The actuarial assumptions included (a) 8.0 percent investment rate of return and (b) projected salary increases of 4.5 percent. Both (a) and (b) included an inflation component. The assumptions include cost-of-living post-retirement benefit increases equal to 2 percent per year. The actuarial value of Plan assets is determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. The unfunded actuarial accrued liability is being amortized over 30 years. The required schedule of funding progress below presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. A change was made in the plan funding method effective April 1, 2009, whereby the amortization period was reset to a 30-year period beginning April 1, 2009. The result of this funding method change was a decrease in the normal cost of the plan of \$11.0 million and an increase in the Plan's actuarial accrued liability of \$120.5 million.

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

Plan Year	Annual Required Contribution	Percentage Contributed
2013	\$ 23,075	100%
2012	21,713	100%
2011	22,877	100%

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c
4/1/2013	\$ 348,341	\$ 502,790	\$ 154,449	69.30%	\$ 69,576	221.99%
4/1/2012	318,502	477,101	158,599	66.80%	69,419	228.47%
4/1/2011	291,658	441,801	150,143	66.00%	67,300	223.10%

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

6. PENSION PLAN (continued)

In 1994, NES established a non-qualified Supplemental Executive Retirement Plan (the "SERP"). The SERP was limited to certain employees of NES. Benefits accrued at the rate of 5 percent of salary for each year of credited service not to exceed 12 years and vests at the rate of 20 percent for each year of service, reduced by the percentage accrued and vested under NES' qualified plan. Effective April 1, 2005, the Board merged the SERP with the NES Retirement Annuity and Survivors' Benefit Plan. Adding the SERP benefits to the Plan increased the funding requirements for the Plan, but the amounts that had accumulated in the SERP Trust were transferred to the Plan in order to offset those increased costs. Future payments that would have been made into the SERP Trust will be directed into the Plan.

At the time of conversion, no benefits had been paid from the SERP. Any change in funding requirements is reflected in the above schedule.

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

7. DEFERRED COMPENSATION PLAN

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

8. POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6 and the deferred compensation benefits described in Note 7, NES provides post-retirement medical, dental, and life insurance benefits to all employees who retire from NES under the provisions of the qualified plan and supplemental executive retirement plan. Medical and dental benefits are also provided to their spouses. As of June 30, 2013, approximately 591 retirees meet those eligibility requirements. Expenses for these post-retirement benefits have previously been recognized as retirees report claims. Those incurred claims totaled \$9.6 million and \$10.0 million for the years ended June 30, 2013 and 2012, respectively. During the year ended June 30, 2008, NES implemented the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. These provisions were applied prospectively with respect to NES' Other Post-Employment Benefits (OPEB) Plan. GASB Statement No. 45 requires the accrual of OPEB obligations over the working careers of plan members

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8. POST-EMPLOYMENT BENEFITS (continued)

rather than as claims are incurred. The total expenses that were recognized were \$18.6 million and \$18.1 million during the years ended June 30, 2013 and 2012, respectively.

The NES OPEB Plan is a single-employer defined benefit plan funded through an irrevocable trust that was established during the year ended June 30, 2008. The OPEB Plan is not required to issue a separate financial report.

NES' annual OPEB cost (expense) is calculated based on the annual required contribution ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a 30-year period beginning April 1, 2009. The current rate is 20.59 percent of annual covered payroll. NES contributed 100 percent of the required contribution for the 2013 Plan year. In 2012, NES contributed 50 percent by the Plan year-end and the remaining 50 percent by June 30, 2012.

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

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

Actuarial valuation date: April 1, 2013

Actuarial cost method: Entry age, normal method

Amortization method: Level percentage of pay, open

Remaining amortization period: 30 years, closed

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

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

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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

8. POST-EMPLOYMENT BENEFITS (continued)

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

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

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

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded Percentage	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c
4/1/2013	\$ 56,486	\$ 227,605	\$ 171,119	24.8%	\$ 74,086	231.0%
4/1/2012	36,894	223,058	186,164	16.5%	74,623	249.5%
4/1/2011	34,650	249,243	214,593	13.9%	70,245	305.5%

9. LEASES

Total rental expense entering into the determination of net position amounted to approximately \$1.0 million in both 2013 and 2012, respectively. Rental expense consists primarily of payments for facilities rental and leasing arrangements for software licensing. NES leases these facilities and software under various cancelable lease agreements. Rental income is received under pole-attachment leases, which are accounted for as operating leases. These leases are cancelable. Therefore, future minimum rentals under these leases are not significant. Rental income from telephone pole-attachments totaled \$2.5 million and \$2.1 million for the years ended June 30, 2013 and 2012, respectively. Rental income from cable pole-attachments totaled \$3.6 million at June 20, 2013 and \$2.7 million at June 30, 2012.

10. RISK MANAGEMENT AND LIABILITY

NES is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. NES is an agency of the Metropolitan Government and is covered under the Tennessee Governmental Tort Liability Act, TCA 29-20-101, et al, (the "Act") and is self-insured under the act for tort liability. NES is immune from any award or judgment for death, bodily injury and/or property damage in excess of the limits as set forth in the Act. Therefore, NES has not secured insurance coverage in excess of such limits. NES is no longer a participant in the Metropolitan Government Insurance Pool (the "Pool") for coverage of most property losses. With some of the sub-limits of the Pool coverage being reached as a result of the damage sustained by many participants of the Pool during the flood of 2010, NES deemed it prudent

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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

10. RISK MANAGEMENT AND LIABILITY (continued)

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

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

Balance—June 30, 2011	\$ 1,981
Payments	(19,417)
Incurred claims	<u>19,987</u>
Balance—June 30, 2012	2,551
Payments	(20,735)
Incurred claims	<u>20,672</u>
Balance—June 30, 2013	<u>\$ 2,488</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. These balances and transactions as of and for the years ended June 30, 2013 and 2012, are summarized as follows (\$000 omitted):

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

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



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12. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

13. EXTRAORDINARY GAIN – FLOOD

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



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