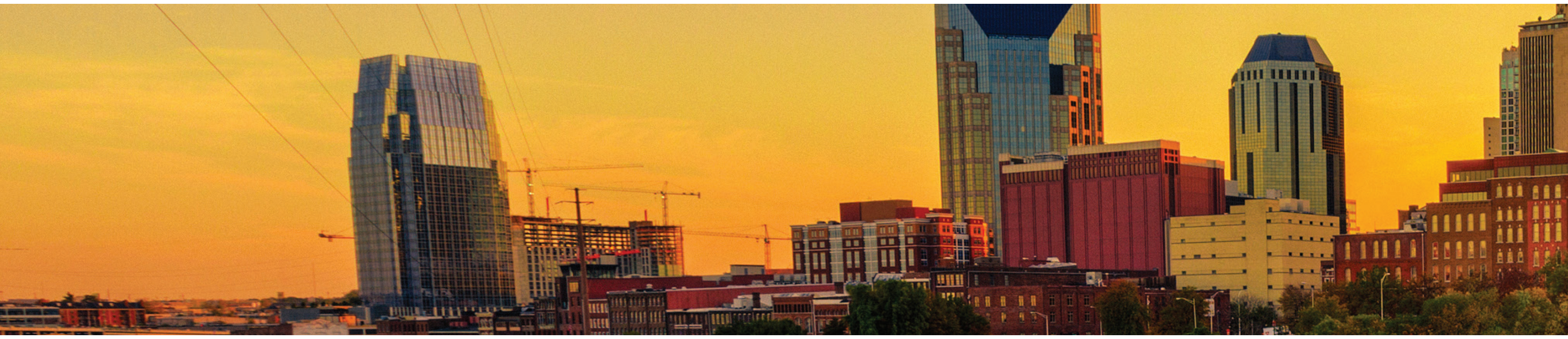


financial report

electric power board of the metropolitan government of nashville and davidson county

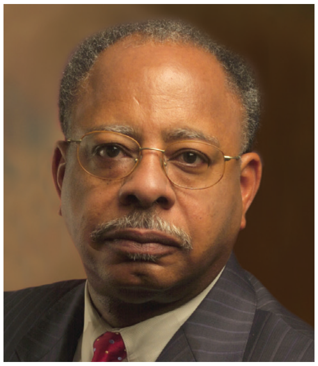
contents

executive management

Decosta Jenkins
President and
Chief Executive Officer

Teresa Broyles-Aplin
Executive Vice President
and Chief Financial Officer

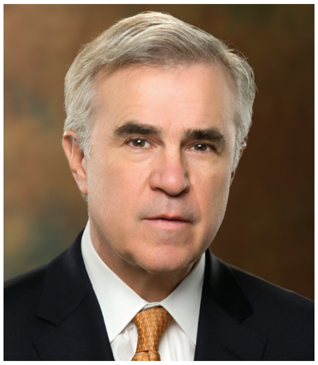
board members



Samuel H. Howard
NES Board Chairman
Chairman
Phoenix Holdings, Inc.

Irma Paz-Bernstein
Owner
Las Paletas

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



Robert McCabe
Chairman
Pinnacle Financial Partners

Robert J. Mendes
Attorney
Waypoint Law, PLLC

Independent Auditor's Report

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

We have audited the accompanying statement of net position of the Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Electric Power Board"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Power Board as of June 30, 2014, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Electric Power Board as of June 30, 2013 and for the year then ended were audited by other auditors whose report, dated October 31, 2013, expressed an unmodified opinion on those statements. The predecessor auditor's report included an Emphasis of Matter paragraph regarding the adoption of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*; their opinion was not modified with respect to this matter. In addition, the predecessor auditor's report included an Other Matters paragraph to describe the nature of Required Supplementary Information included with the financial statements, as well as the nature of procedures performed over this information; they did not express an opinion or provide any assurance on the Required Supplementary Information.

Required Supplementary Information

The accompanying management's discussion and analysis on pages 20 through 29 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

Nashville, Tennessee
October 16, 2014

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, 2014 and 2013 as compared to fiscal years 2013 and 2012, 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 (the "Metropolitan Government"). This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Certain reclassifications have been made to the fiscal year 2013 and 2012 amounts to conform to the fiscal year 2014 presentation. 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 result in increased net position, which indicates an improved financial position.

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

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

Summary of Changes in Net Position

Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $661.2 million at June 30, 2014, and $600.3 million at June 30, 2013. This represents an increase of $60.9 million in 2014 and $27.8 million in 2013.

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,		
	2014	**2013**	**2012**
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS	$437,487	$ 383,072	$ 367,057
INVESTMENT OF RESTRICTED FUNDS	182,801	81,310	128,354
UTILITY PLANT, NET	902,930	890,320	865,013
ENERGY CONSERVATION PROGRAMS' NOTES RECEIVABLE	2,554	1,997	1,548
OTHER NON-CURRENT ASSETS	250	268	288
TOTAL ASSETS	1,526,022	1,356,967	1,362,260
DEFERRED OUTFLOWS OF RESOURCES	9,831	11,195	9,018
TOTAL ASSETS AND DEFERRED OUTLFOWS OF RESOURCES	$1,535,853	$1,368,162	$1,371,278

STATEMENTS OF NET POSITION ($000 omitted) continued

	June 30,		
	2014	**2013**	**2012**
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
CURRENT LIABILITIES	$ 205,494	$ 194,567	$ 208,789
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	33,895	30,669	26,852
LONG-TERM DEBT, LESS CURRENT PORTION	622,309	529,115	558,058
OTHER NON-CURRENT LIABILITIES			
Payable to TVA – energy conservation programs	2,476	1,337	1,495
Contributions in aid of construction	10,518	12,220	3,585
	12,994	13,557	5,080
TOTAL LIABILITIES	874,692	767,908	798,779
DEFERRED INFLOWS OF RESOURCES	-	-	37
NET POSITION			
Net investment in capital assets	259,378	344,661	360,840
Restricted	62,979	54,735	55,435
Unrestricted	338,804	200,858	156,187
TOTAL NET POSITION	661,161	600,254	572,462
TOTAL LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES AND NET POSITION	$1,535,853	$1,368,162	$1,371,278

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

MANAGEMENT’S DISCUSSION AND ANALYSIS (continued)

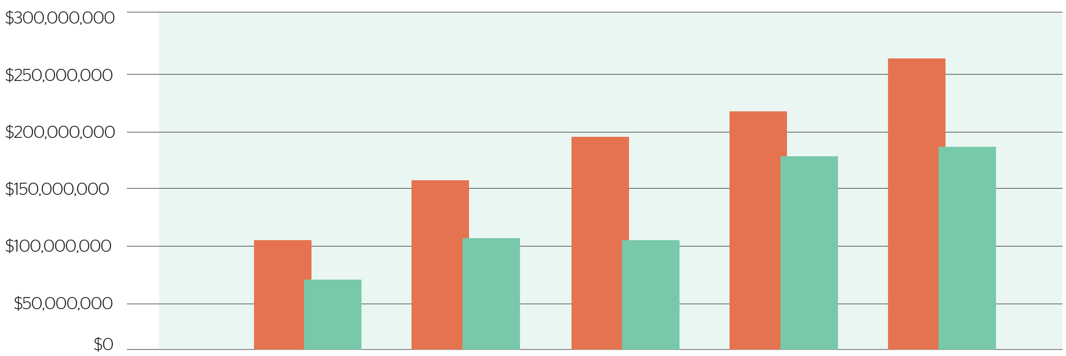
On June 27, 2013, the Board closed on the sale of the Metropolitan Government of Nashville and Davidson County, Tennessee, Electric System Refunding Bonds, 2013 Series A. The 2013 Series A Bonds were being offered to refund $58.9 million aggregate principal amount of the outstanding 2004 Series A Bonds, 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, 2014, the Board’s revenue bonds were rated at AA+ by both Standard & Poor’s and Fitch. In issuing bond ratings, agencies typically evaluate financial operations, rate-setting practices, and debt ratios. Higher ratings aid in securing favorable borrowing rates, which result in lower interest costs.

Debt ratings are based, in significant part, on the Board’s performance as measured by certain credit measures. In order to maintain its strong credit ratings, the Board has adopted certain financial goals. Such goals provide a signal to the Board as to the adequacy of rates for funding ongoing cash flows from operations. One such goal is a cash goal of 16.5 percent of purchased power, and operating and maintenance expense. This goal was met every month of the fiscal year 2014. That percentage was 24.8 percent as of June 30, 2014, and 21.1 percent as of June 30, 2013. 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, 2014, was 3.45 to 1. The Board continues to exceed its goals. The outlook on all debt ratings is stable as of June 30, 2014.

Comparison of Cash Balances to NES' Goals



	2010	2011	2012	2013	2014
Cash	$106,097,000	$159,380,000	$198,756,000	$221,722,000	$267,994,000
Goal	$68,339,000	$109,685,000	$103,837,000	$173,525,000	$178,127,000

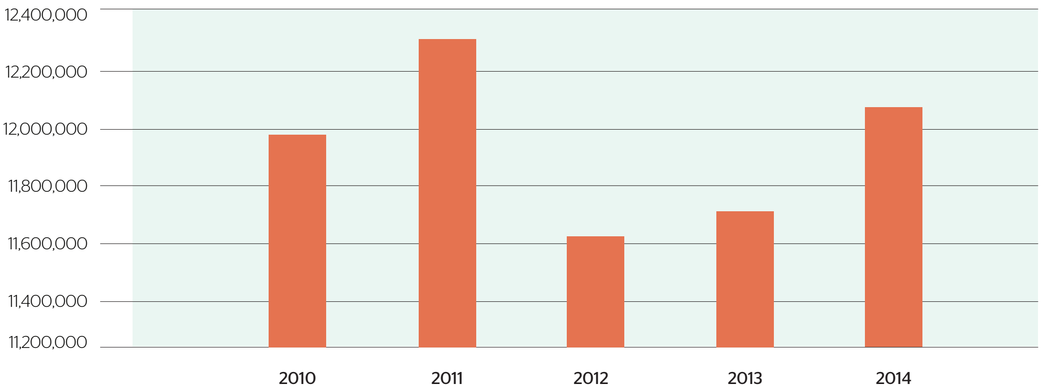
Operations
Summary Revenue & Expense Data
($000 omitted)

	Year Ended June 30, 2014	Year Ended June 30, 2013	Net Position Effect	Year Ended June 30, 2012	Net Position Effect
Operating revenues, net	$1,241,434	$1,174,424	$67,010	$1,154,512	$ 19,912
Purchased power	926,575	900,916	(25,659)	868,453	(32,463)
Operating revenues, net less Purchased power	314,859	273,508	41,351	286,059	(12,551)
Operating expenses	150,264	150,749	(485)	141,289	(9,460)
Depreciation and Tax equivalents	81,747	71,695	(10,052)	77,904	6,209
Interest income	295	525	(230)	399	126
Interest expense, net	22,236	23,797	1,561	25,251	1,454
Extraordinary gain (loss)	-	-	-	2,010	(2,010)
Increase in Net position	60,907	27,792	33,115	44,024	(16,232)
Effect of adoption of GASB 65	-	-	-	1,151	(1,151)
Increase in Net position, as previously stated	$ 60,907	$ 27,792	$ 33,115	$ 45,175	$ (17,383)

2014 and 2013 Results of Operations

Operating Revenues, net. Operating revenues, net increased by $67.0 million, or 5.7 percent, when compared to 2013. Total electric sales were $1.22 billion for the period versus $1.15 billion last year. The average realized rate on electric sales was $.1014 per kilowatt-hour in 2014 compared to $.0981 per kilowatt-hour in 2013. The increase in average realized rate in 2014 is the result of a 3.8 percent increase in retail rates, effective October 1, 2013. Megawatt-hours sold in 2014 increased by 2.6 percent when compared to 2013. Weather plays an important part in determining revenue for any year. The impact of weather is reflected in the comparison of degree-days from one period to the next. Degree-days represent the difference between the weather's average daily temperatures minus 65 degrees. Temperatures above 65 degrees are considered cooling degree-days; temperatures below 65 degrees are considered heating degree-days. Total cooling degree-days were 1,820 compared to 1,808 in 2013. Total heating degree-days were 3,930 compared to 3,505 in 2013. Total heating and cooling degree-days were 5,750 in 2014 compared to 5,313 in 2013, or an increase of approximately 8.2 percent. Total average number of active year-to-date customers increased by 1.1 percent when compared to 2013. Revenue in excess of net bills (late charges) increased by $0.3 million, and rentals of electric property (primarily pole attachments) decreased by $0.1 million

Megawatt-Hours Sold



	2010	2011	2012	2013	2014
Megawatts-Hours Sold	11,916,000	12,277,000	11,617,000	11,756,000	12,058,000

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

Purchased Power and Operating Expenses. The Board purchases all of its power from the Tennessee Valley Authority ("TVA") under an all-requirements contract that had an initial term of 20 years. Beginning on December 19, 1989, and on each subsequent anniversary thereafter, the contract is automatically extended for an additional one-year period. The contract is subject to earlier termination by either party on not less than 10 years' prior written notice. Purchased power was $926.6 million for the period compared to $900.9 million last year. The average realized rate on purchased power was $.077 per kilowatt-hour in 2014 compared to $.074 per kilowatt-hour in 2013. Megawatt-hours purchased were 12.5 million in 2014 compared to 12.1 million in 2013.

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

Customer accounts expense and Customer service and information expenses combined were $21.5 million for the period compared to $23.7 million last year or a decrease of $2.2 million or 9.3 percent. This is primarily the result of decreases in customer assistance, $0.5 million.

Administrative and general expenses were $66.9 million for the period compared to $67.8 million last year. This was a decrease of $0.9 million or 1.3 percent. The decrease is primarily the result of decreases in employee health insurance, $0.5 million; duplicate credit charges, $0.3 million; miscellaneous general expenses, $0.3 million; office supplies and expenses, $0.3 million; injuries and damages, $0.2 million; offset by increases in data processing, $0.4 million; and administrative and general salaries, $0.3 million.

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

2013 and 2012 Results of Operations

Operating Revenues, net. Operating revenues, net increased by $19.9 million, or 1.7 percent, when compared to 2012. Total electric sales were $1.2 billion in 2013 versus $1.1 billion in 2012. 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 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 in 2013 compared to 2,812 in 2012. Total heating and cooling degree-days were 5,313 in 2013 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 in 2013 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.

Non-operating Revenues. Interest income was $0.5 million in 2013 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 in 2013 over 2012.

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 in 2013 compared to $868.5 million in 2012. The average realized rate on purchased power was $.074 per kilowatt-hour in 2013 compared to $.072 per kilowatt-hour in 2012. The increase was due to the pass-through of the fuel cost adjustment and because 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. Megawatt-hours purchased were 12.1 million in 2013 compared to 12.1 million in 2012.

Distribution expenses for 2013 were $59.3 million compared to $49.2 million in 2012. 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 in 2013 compared to $25.1 million in 2012 or a decrease of $1.4 million or 5.6 percent. This is primarily the result of a decrease in 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 expenses were $67.8 million in 2013 compared to $67.0 million in 2012. 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.

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

Major Classifications of Expense ($000 omitted)

Description	Fiscal 2014	Fiscal 2013	Increase (Decrease)	Fiscal 2012	Increase (Decrease)
Labor	$ 63,371	$ 59,316	6.8%	$ 56,244	5.5%
Benefits	42,697	42,958	(0.6%)	42,786	0.4%
Tree-trimming	9,561	9,602	(0.4%)	10,652	(9.9%)
Outside Services	9,990	10,632	(6.0%)	8,123	30.9%
Materials	2,242	3,021	(25.8%)	1,528	97.7%
Transportation	4,488	4,683	(4.2%)	4,184	11.9%
Security/Police	1,167	1,141	2.3%	1,168	(2.3%)
Rentals	959	969	(1.0%)	917	5.7%
Professional Fees	925	1,252	(26.1%)	1,162	7.7%
Insurance Premiums	1,184	1,191	(0.6%)	1,025	16.2%
Other	13,680	15,984	(14.4%)	13,500	18.4%
	$150,264	$150,749	(0.3%)	$141,289	6.7%

The Board's total operating expenses decreased 0.3 percent from June 30, 2013 to June 30, 2014. Labor for fiscal year 2014 totaled $63.4 million, which represents an increase from fiscal year 2013 due to increases in cost of living, merit adjustments, and step increases. Benefits and tree-trimming remained stable from 2013 to 2014. The Outside Services decreased primarily due to one-time additional projects in 2013. Materials were lower primarily due to early completion of the relamping project and additional new business capital work in 2014. Transportation costs decreased in 2014 primarily due to less utilization of vehicles. Security/Police increased due to negotiation of a new vendor contract in 2014. Rentals and insurance premiums have seen slight decreases from 2013. Professional fees decreased due to reduced outside legal fees in 2014. The Other category contains a wide array of smaller expense types. In fiscal year 2014, the primary decreases occurred in decreases in protectors and switches, $0.2 million; temporary agency services, $0.1 million; and education and training, $0.1 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, less accumulated depreciation, at June 30, 2014, was $902.9 million compared to $890.3 million at June 30, 2013. Major projects during fiscal year 2014 included $13.5 million in new business installations; $5.5 million in substation improvements including site preparation and equipment for the new Trinity Hills substation, $4.7 million in substation maintenance, $3 million in lighting installations and replacements and $2.7 million in distribution improvements.

In 2014, NES entered into an agreement with a general contractor for the construction of its new North Service and Training Center. The contract term is 15 months with an expiration of June 30, 2015. The contract's not-to-exceed value is $12.5 million of which $2.4 million has been expended as of June 30, 2014.

The Board has outstanding bonds payable of $652.0 million at June 30, 2014, compared to $555.4 million at June 30, 2013. This increase is due to the issuance of the 2014 Electric Service Revenue Series A Bonds of $109.1 million with associated premiums of $16.5 million; offset by debt payments, accretion, and amortization of $26.3 million and $2.7 million, respectively. 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
Executive Vice President and Chief Financial Officer

STATEMENTS OF NET POSITION ($000 OMITTED)
JUNE 30, 2014 AND 2013

	2014	2013
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and cash equivalents	$ 267,994	$ 221,722
Customer and other accounts receivable, less allowance for doubtful accounts of $1,819 and $2,298 respectively	144,325	139,217
Materials and supplies	19,723	19,319
Other current assets	5,445	2,814
TOTAL CURRENT ASSETS	437,487	383,072
INVESTMENT OF RESTRICTED FUNDS:		
Cash and cash equivalents	141,667	56,105
Other investments	41,134	25,205
TOTAL INVESTMENT OF RESTRICTED FUNDS	182,801	81,310
UTILITY PLANT:		
Electric plant, at cost	1,474,409	1,455,716
Less: Accumulated depreciation	(571,479)	(565,396)
TOTAL UTILITY PLANT, NET	902,930	890,320
ENERGY CONSERVATION PROGRAMS' NOTES RECEIVABLE	2,554	1,997
OTHER NON-CURRENT ASSETS	250	268
TOTAL ASSETS	1,526,022	1,356,967
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amount on refunding of debt	9,831	11,195
TOTAL ASSETS AND DEFERRED OUTLFOWS OF RESOURCES	1,535,853	1,368,162

See notes to financial statements.

STATEMENTS OF NET POSITION ($000 OMITTED)
JUNE 30, 2014 AND 2013 (continued)

	2014	2013
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
CURRENT LIABILITIES:		
Accounts payable for purchased power	165,262	154,155
Other accounts payable and accrued expenses	26,899	27,173
Customer deposits	13,333	13,239
TOTAL CURRENT LIABILITIES	205,494	194,567
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Construction contracts payable	1,372	1,468
Accrued interest payable	2,823	2,931
Current portion of long-term debt	29,700	26,270
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	33,895	30,669
LONG-TERM DEBT, LESS CURRENT PORTION	622,309	529,115
OTHER NON-CURRENT LIABILITIES	12,994	13,557
COMMITMENTS AND CONTINGENCIES		
TOTAL LIABILITIES	874,692	767,908
DEFERRED INFLOWS OF RESOURCES		
Deferred revenue	-	-
NET POSITION		
Net investment in capital assets	259,378	344,661
Restricted	62,979	54,735
Unrestricted	338,804	200,858
TOTAL NET POSITION	661,161	600,254
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	$ 1,535,853	$ 1,368,162

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION ($000 OMITTED)
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
OPERATING REVENUES:		
Residential	$ 530,113	$ 488,025
Commercial and industrial	672,954	649,003
Street and highway lighting	19,726	16,590
Other	18,641	20,806
Total operating revenues, net	1,241,434	1,174,424
PURCHASED POWER	926,575	900,916
Operating revenues, net, less purchased power	314,859	273,508
OPERATING EXPENSES:		
Distribution	61,889	59,258
Customer accounts	20,302	22,064
Customer service and information	1,206	1,668
Administrative and general	66,867	67,759
Tax equivalents	32,641	32,211
Depreciation	49,106	39,484
Total operating expenses	232,011	222,444
Operating income	82,848	51,064
NON-OPERATING REVENUE (EXPENSE):		
Interest income	295	525
Interest expense, net	(22,236)	(23,797)
Total non-operating expense	(21,941)	(23,272)
NET INCREASE IN NET POSITION	60,907	27,792
NET POSITION, beginning of year	600,254	572,462
NET POSITION, end of year	$ 661,161	$ 600,254

See notes to financial statements.

STATEMENTS OF CASH FLOWS ($000 OMITTED)
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 1,235,814	$ 1,179,611
Payments to suppliers for goods and services	(1,015,842)	(1,014,167)
Payments to employees	(53,298)	(49,971)
Payments for tax equivalents	(31,885)	(31,484)
Net cash provided by operating activities	134,789	83,989
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of utility plant	(51,534)	(61,286)
Utility plant removal costs	(14,521)	(10,751)
Salvage received from utility plant retirements	2,224	1,488
Contributions in aid of construction	488	11,783
Principal payments on revenue bonds	(26,270)	(21,367)
Interest payments on revenue bonds	(23,311)	(28,842)
Proceeds from sale of revenue bonds	125,588	-
Net cash provided by (used in) capital and related financing activities	12,665	(108,975)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities	(91,259)	(67,183)
Proceeds from sales and maturities of investment securities	75,330	144,120
Interest on investments	309	908
Net cash provided by (used in) investing activities	(15,620)	77,845
NET INCREASE IN CASH AND CASH EQUIVALENTS	131,833	52,859
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	277,827	224,968
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 409,661	$ 277,827

See notes to financial statements.

STATEMENTS OF CASH FLOWS ($000 OMITTED)
YEARS ENDED JUNE 30, 2014 AND 2013 (continued)

	2014	2013
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 82,848	$ 51,064
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	50,333	41,200
Accrual for uncollectible accounts	2,713	2,523
Changes in assets and liabilities:		
(Increase) decrease in customer and other accounts receivable	(10,597)	2,962
Decrease in materials and supplies	596	1,722
Increase in other current assets	(2,631)	(640)
Increase in energy conservation programs' notes receivable	(557)	(449)
Decrease in other non-current assets	18	20
Increase (decrease) in accounts payable for purchased power	11,107	(9,673)
Decrease in other accounts payable and accrued expenses	(274)	(4,700)
Increase in customer deposits	94	151
Increase (decrease) in payable to TVA–energy conservation programs	1,139	(157)
Decrease in other non-current liabilities	-	(34)
Net cash provided by operating activities	$ 134,789	$ 83,989

NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:

Accounts payable associated with the acquisition and construction of utility plant was $1.4 million in 2014 and $1.5 million in 2013.

During 2014 and 2013, NES charged $32.7 million and $18.6 million, respectively, to accumulated depreciation representing the cost of retired utility plant.

During 2014 and 2013, $3.9 million was credited to interest expense for amortization of net bond premiums and discounts in each year. During 2014, $1.1 million was recognized as interest expense related to deferred outflows for losses related to bond refunding. In addition, NES expensed debt issuance costs of $0.9 million and $0.6 million in 2014 and 2013, respectively.

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

During 2013, the 2013 Series A Bonds were issued to refund $58.9 million aggregate principal amount of the Board's 2004 Series A Bonds.

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

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

NES has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in U.S. Financial Accounting Standards Board (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.

The significant accounting policies followed by NES are outlined below.

Use of Estimates

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

Cash and cash equivalents

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

Restricted Assets

Restricted assets of NES represent bond proceeds designated for construction and other monies required to be restricted for debt service. As of June 30, 2014 and 2013, amounts restricted for debt service were $65.8 million and $57.6 million, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Utility Plant

Electric plant is stated at original cost. Such cost includes applicable general and administrative costs, depreciation of vehicles used in the construction process, 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. Allowances for funds used during constructions (AFUDC), approximates NES' current weighted average cost of debt. AFUDC was capitalized as a component of the cost of utility plant. AFUDC was $219 thousand in 2014 and $582 thousand in 2013.

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

Depreciation is provided at rates that are designed to amortize the cost of depreciable plant 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, 2014 and 2013:

	2014	2013
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	5.0%	2.6%
Transportation equipment, 8 to 10 years	6.1%	5.6%
Other equipment, 8 to 33.3 years	5.3%	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.

Contributions in Aid of Construction (CIAC)

Payments are received from customers and TVA for construction costs primarily relating to the expansion or improvement of the capabilities of the electric system. FERC guidelines are followed in recording CIAC, which direct the reduction of utility plant assets by the amount of contributions received toward the construction of utility plant. CIAC earned and recovered in the plant costs was $2.2 million in 2014 and $3.1 million in 2013.

Investments of Restricted Funds

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Materials and Supplies

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

Compensated Absences

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

Net Position

Net position is reported in three components on the Statement of Net Position: Net investment in capital assets, Restricted, and Unrestricted. The net investment in capital assets is the portion of net position that consists of capital assets, net of accumulated depreciation, plus deferred outflows of resources reduced by outstanding debt and construction contracts payable that are attributable to the acquisition, construction, or improvement of those assets. The Restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. A net position is reported as restricted when constraints are externally imposed on the use of net position. The Restricted net position consists of $24.7 million in restricted cash and cash equivalents and $41.1 million in restricted other investments, reduced by $2.8 million in accrued interest payable. Unrestricted is the share of net position that is neither restricted nor invested in capital assets.

Revenues

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. In addition to a base rate, NES collects and recognizes a variable fuel cost adjustment based upon changing fuel and purchased power costs which is a pass-through from TVA. NES also collects sales tax from a majority of its commercial customers. Revenues are presented net of sales tax.

Purchased Power

NES purchases electric power from the TVA. On April 1, 2011, TVA implemented a new wholesale Time of Use rate structure, which includes a variable fuel charge component. With the new structure, retail customers are billed under a seasonal rate structure. In addition, wholesale rates are 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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating and Non-operating Revenues and Expenses

Operating revenues include the sale of power and rental of electric property less accruals for uncollectible accounts. Operating expenses include direct and indirect costs to operate and maintain the electric distribution system, including purchased power, fuel, depreciation, customer accounts, tax equivalents, and general and administrative costs. Non-operating revenues and expenses consist of interest income and expense and gains or losses on the disposal of certain assets.

Income Taxes

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

Fair Value of Financial Instruments

Fair value of financial instruments has been determined by NES using available market information. The carrying amounts of cash and short-term investments, investments of special funds, accounts receivable and accounts payable are a reasonable estimate of their fair value. The fair value of NES' long-term debt is estimated to be $684.0 million and $574.2 million at June 30, 2014 and 2013, respectively, based on pricing models derived from trading activity of similar long-term municipal debt, which are a reasonable estimate of their fair value. However, judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the fair values of debt are not necessarily indicative of the amounts that NES could realize in a current market exchange.

Reclassifications

Certain reclassifications have been made to the fiscal year 2013 balances to conform to fiscal year 2014 presentation.

Recent Accounting Pronouncements

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which improves the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The provisions for Statement No. 68 are effective for periods beginning after June 15, 2014, respectively.

The new standard improves the accounting and financial reporting by state and local governments for periods. It will also result in NES recognizing the net pension liability on the statement of net position for its pension plan. The net pension liability is the discounted liability determined based on the expected benefit payments for past periods of service (i.e., the Total Pension Liability) less the assets in the plan based on the assets fair value at the measurement date (i.e., the Fiduciary Net Position). At

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

June 30, 2014, NES estimated that the net pension liability was approximately $157.0 million. This adjustment would also result in a similar decrease in the unrestricted net position on the statement of net position. When the statement is applied, the recognition of the net pension liability will be presented as a prior period adjustment. All periods presented and affected will be adjusted. The new standard computes the actuarially determined contribution in a new manner. NES does not expect the funding amounts to differ materially under the new accounting standards. Other measurement changes include recognizing pension expense in-lieu-of annual pension cost. NES estimated that the pension expense for the 2014 Plan year would have been $18.5 million compared to $22.9 million. The statement will improve transparency about the pension plan through new note disclosures and supplementary information. The statement will be implemented by NES in 2015.

The impacts of GASB 68 on the recognition and disclosure on the NES deferred compensation plan (the 457 Plan) are not expected to be material. GASB 68 does not change the reporting or recognition requirements for NES post-employment benefits plan.

In November of 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement amends GASB 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68, which NES will implement in 2015. The impact is not expected to be significant on the measurement of the beginning net pension liability.

The Financial Accounting Standards Board (the FASB) issued a new revenue recognition standard ASU 2014-09, *Revenue From Contracts With Customers* that will supersede virtually all revenue recognition guidance in U.S. GAAP. The core principle of the new standard is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The new guidance must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. The earliest effective date for certain entities following U.S. GAAP is fiscal years beginning after December 15, 2016. The Company has not yet completed its evaluation of the impacts of this standard.

2. UTILITY PLANT AND ACCUMULATED DEPRECIATION

Utility plant activity for the years ended June 30, 2014 and 2013 was as follows ($000 omitted):

	Balance June 30, 2013	Additions	Transfers & Retirements	Balance June 30, 2014
Distribution plant	$ 1,252,508	$ 54,413	$ (14,393)	$ 1,292,528
Land and land rights	1,139	2,762	-	3,901
Structures and improvements	49,401	2,976	(138)	52,239
Office furniture and equipment	40,292	1,523	(13,768)	28,047
Transportation equipment	6,969	1,502	(1,060)	7,411
Other equipment	40,344	6,093	(4,533)	41,904
Construction work-in-progress (a)	65,063	-	(16,684)	48,379
	$ 1,455,716	$ 69,269	$ (50,576)	$ 1,474,409

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

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

2. UTILITY PLANT AND ACCUMULATED DEPRECIATION (continued)

The related activity for accumulated depreciation for the years ended June 30, 2014 and 2013 was as follows ($000 omitted):

	Balance June 30, 2013	Provision	Original Cost	Cost of Removal	Salvage	Balance June 30, 2014
Distribution plant	$ 486,878	$45,091	$ (13,182)	$ (14,521)	$ 1,053	$ 505,319
Structures and improvements	18,897	1,056	(130)	-	-	19,823
Office furniture and equipment	33,344	1,715	(13,678)	-	-	21,381
Transportation equipment	2,497	441	(1,050)	-	156	2,044
Other equipment	23,780	2,757	(4,640)	-	1,015	22,912
	$ 565,396	$ 51,060	$ (32,680)	$ (14,521)	$ 2,224	$ 571,479

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

Depreciation is either capitalized as a cost of utility plant for equipment used in the construction of assets or reported as depreciation expense in the statements of revenues, expenses and changes in net position. Depreciation capitalized was $0.7 million and $0.6 million in 2014 and 2013, respectively.

3. CASH AND INVESTMENTS

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

2014

	Cash	Bond Funds	Special Construction	Total	Weighted Average Maturity (Years)
Cash and cash equivalents	$ 267,994	$ 24,667	$ 117,000	$ 409,661	-
Securities from Agencies Chartered by Congress	-	41,134	-	41,134	1.63
	$ 267,994	$ 65,801	$ 117,000	$ 450,795	

2013

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

There were $41.1 million of investments reported at fair value in Securities from Agencies Chartered by Congress held at June 30, 2014. Investments of $25.2 million held Securities from Agencies Chartered by Congress are reported at amortized cost at June 30, 2013. Standard & Poor’s rated such investments AA+ at June 30, 2014.

3. CASH AND INVESTMENTS (continued)

Custodial Credit Risk

As of June 30, 2014 and 2013, NES' cash and cash equivalents held by financial institutions was $409.7 million and $277.8 million, respectively. Bank balances for such accounts totaled $220.2 million and $174.3 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, 2014 and 2013, all of NES' deposits were held by financial institutions, which participate in the bank collateral pool administered by the State Treasurer. Participating banks determine the aggregated balance of their public-fund accounts for the Metropolitan Government. The amount of collateral required to secure these public deposits is a certain percentage set by the State, depending on the financial institution, and must be at least that percentage of the average daily balance of public deposits held. Collected securities required to be pledged by the participating banks to protect their public-fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public-fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

Credit Risk

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

Concentration of Credit Risk

NES has a policy prohibiting investment of greater than $5 million or 20.0 percent of the total investment portfolio in any one issue, except for the U.S. Government or any of its agencies. In 2014 and 2013, 100.0 percent of NES' investments were in Securities from Agencies Chartered by Congress.

Interest Rate Risk

NES restricts its investments other than for construction, debt service, and pensions to those with maturities less than two years from the date of settlement as a means of managing exposure to fair value losses arising from changes in interest rates.

4. LONG-TERM DEBT

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

	Balance June 30, 2013	Deductions/ Repayments	Additions/ Amortization/ Accretion	Balance June 30, 2014
Electric System Revenue Bonds, 1998 Series A, bear interest at rates from 5.125% to 5.40%, maturing through May 15, 2023, interest paid semiannually.	$27,410	-	1,500	28,910
Electric System Revenue Bonds, 1998 Series B, bear interest at rates from 4.75% to 5.50%, maturing through May 15, 2017, interest paid semiannually.	23,728	(5,400)	(104)	18,224
Electric System Revenue Bonds, 2001 Series B, bear interest at 5.50%, maturing through May 15, 2014, interest paid semiannually.	12,126	(12,035)	(91)	-
Electric System Revenue Bonds, 2008 Series A, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2033, interest paid semiannually.	97,518	(3,065)	(184)	94,269
Electric System Revenue Bonds, 2008 Series B, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2023, interest paid semiannually.	74,828	(1,160)	(437)	73,231
Electric System Revenue Bonds, 2011 Series A, bear interest at rates from 1.50% to 5.00%, maturing through May 15, 2036, interest paid semiannually.	105,132	(2,600)	(739)	101,793
Electric System Revenue Bonds, 2011 Series B, bear interest at rates from 2.00% to 5.00%, maturing through May 15, 2026, interest paid semiannually.	152,944	(2,010)	(2,326)	148,608
Electric System Revenue Bonds, 2013 Series A, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2029, interest paid semiannually.	61,699	-	(296)	61,403
Electric System Revenue Bonds, 2014 Series A, bear interest at rates from 2.00% to 5.00%, maturing through May 15, 2039, interest paid semiannually.	-	-	125,571	125,571
	555,385	$ (26,270)	$ 122,894	652,009
Less current portion of long-term debt	(26,270)			(29,700)
	$ 529,115			$ 622,309

4. LONG-TERM DEBT (continued)

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

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

4. LONG-TERM DEBT (continued)

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

Year	Principal	Interest
2015	$ 29,700	$ 26,695
2016	31,230	26,026
2017	25,356	32,160
2018	24,593	31,462
2019	25,316	30,743
2020-2024	176,210	91,784
2025-2029	146,640	52,502
2030-2034	80,580	23,334
2035-2039	46,525	6,173
	586,150	$ 320,879
Unamortized premium	65,859	
Total long-term debt	$ 652,009	

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

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

4. LONG-TERM DEBT (continued)

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.

NES had a $25 million unsecured line-of-credit for fiscal year 2014 and 2013 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 2014 or 2013. The line-of-credit is renewable annually. The Company renewed the line of credit effective July 1, 2014, with an expiration date of June 30, 2015.

All bonds are subject to customary covenants restricting the Board from, among other things: (1) issuing additional bonds if certain financial ratios are not met, or (2) selling or leasing or otherwise disposing components of the Electric System except in certain circumstances. Additionally, the Board is required, among other things, to: (1) charge and collect rates, fees and charges to meet the cash flow requirements of the organization and (2) maintain the System including completing necessary improvements. Events of default under the Bonds include, but are not limited to: (1) failure to make principal payments when due and payable, (2) failure to make an installment of interest or sinking fund payment, (3) failure to make payment of an Option bond when duly tendered. NES is not in violation of any covenants at June 30, 2014.

5. OTHER NON-CURRENT LIABILITIES

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

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

	Balance June 30, 2012	Repayments / Earned Contributions	Additions	Balance June 30, 2013
TVA Energy Conservation Loans	$ 1,493	$ (493)	$ 337	$ 1,337
Contributions in Aid of Construction	3,587	(3,150)	11,783	12,220
	$ 5,080	$ (3,643)	$ 12,120	$ 13,557

5. OTHER NON-CURRENT LIABILITIES (continued)

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. During 2014, NES repaid approximately $2.3 million of advance payments from TVA for certain technologies that NES is no longer intending to pursue for the Smart Grid Pilot Program. During 2013, NES received a payment of $10 million from TVA for additional improvements for the Smart Grid Pilot Program.

6. PENSION PLAN

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

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.

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 37.09 percent of annual covered payroll. NES contributed 99.6 percent and 100 percent of the required contribution for the Plan years 2014 and 2013.

The annual required contribution (which is also the pension cost) for the current year was determined as part of the April 1, 2014, actuarial valuation using the frozen initial liability method. The actuarial assumptions included (a) 7.5 percent investment rate of return and (b) projected salary increases of 2.5 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

6. PENSION PLAN (continued)

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.

In April of 2014, the State of Tennessee passed an amendment to the Tennessee Code to establish funding requirements for public defined benefit pension plans. The legislation requires funding by a plan sponsor of at least 100 percent of the actuarially determined contribution, as defined in the legislation. The legislation requires that NES submit a funding policy to the Comptroller by fiscal 2016. The Company is evaluating the effects, if any, that this legislation may have on the financial position of the Company.

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

Plan Year	Annual Required Contribution	Percentage Contributed
2014	$ 22,897	99.6%
2013	23,075	100%
2012	21,713	100%

The Plan made payments to participants of $27.1 million and $24.5 million for the fiscal years 2014 and 2013, respectively. The Plan also paid administrative fees of $0.5 million and $1.8 million in fiscal 2014 and 2013, respectively.

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
4/1/2014	$ 382,483	$ 560,095	$ 177,612	68.30%	$ 69,410	255.89%
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%

6. PENSION PLAN (continued)

In 1994, NES established a non-qualified Supplemental Executive Retirement Plan (the "SERP"). The SERP was limited to certain employees of NES. Benefits accrued at the rate of 5 percent of salary for each year of credited service not to exceed 12 years and vests at the rate of 20 percent for each year of service, reduced by the percentage accrued and vested under NES' qualified plan. Effective April 1, 2005, the Board merged the SERP with the NES Retirement Annuity and Survivors' Benefit Plan.

Adding the SERP benefits to the Plan increased the funding requirements for the Plan, but the amounts that had accumulated in the SERP Trust were transferred to the Plan in order to offset those increased costs. Future payments that would have been made into the SERP Trust will be directed into the Plan.

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

7. DEFERRED COMPENSATION AND RETIREMENT PLANS

NES has a deferred compensation plan (the "457 Plan") created in accordance with Internal Revenue Code ("IRC") Section 457. The 457 Plan, which is available to all full-time employees, permits employees to defer a portion of their salary until future years. Employees may contribute up to the legal limit of their compensation to the 457 Plan with NES providing a matching contribution of up to 3 percent of compensation. The 457 Plan provides that assets or income of the 457 Plan shall be used for the exclusive purpose of providing benefits for participants and their beneficiaries or defraying reasonable expenses of administration of the 457 Plan. Since the assets of the 457 Plan are held in custodial and annuity accounts for the exclusive benefit of 457 Plan participants, the related assets of the 457 Plan are not reflected on the Statements of Net Position. Employees contributed $3.6 million for each of the years ended June 30, 2014 and 2013, respectively. NES contributed $2.0 million to the 457 Plan for the year ended June 30, 2014, and $1.9 million for the year ended June 30, 2013.

Nashville Electric Service established a Defined Contribution Retirement Plan (the "DC Plan") for all full-time regular employees not vested in the Retirement Annuity and Survivors' Plan or hired after July 1, 2012. This plan is intended to be a defined contribution money purchase pension plan. Its purpose is to provide retirement benefits to eligible employees. NES contributed $0.1 million to the DC Plan for the year ended June 30, 2014. No contributions were made for the year ended June 30, 2013.

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, 2014, approximately 612 retirees meet those eligibility requirements. Expenses for these post-retirement benefits have previously been recognized as retirees report claims. Those incurred claims totaled $11.0 million and $9.6 million for the years ended June 30, 2014 and 2013, 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

8. POST-EMPLOYMENT BENEFITS (continued)

plan members rather than as claims are incurred. The total expenses that were recognized were $15.5 million and $18.6 million during the years ended June 30, 2014 and 2013, 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 21.63 percent of annual covered payroll. NES contributed 100 percent of the required contribution for the 2014 and 2013 Plan years.

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

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

Actuarial valuation date: April 1, 2014

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) 7.5 percent investment rate of return and (b) projected salary increases of 4.5 percent. Both (a) and (b) included an inflation component. The assumptions include medical health care cost trend rate increases equal to 5 percent per year and dental health care cost trend rates of 4 percent per year.

8. POST-EMPLOYMENT BENEFITS (continued)

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

Plan Year	Annual Required Contribution	Percentage Contributed
2014	$ 15,222	100%
2013	15,361	100%
2012	18,041	100%

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded Percentage	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c
4/1/2014	$ 66,597	$ 245,210	$ 178,613	27.2%	$ 76,241	234.3%
4/1/2013	56,486	227,605	171,119	24.8%	74,086	231.0%
4/1/2012	36,894	223,058	186,164	16.5%	74,623	249.5%

9. LEASES

Total rental expense entering into the determination of net position amounted to approximately $1.0 million in both 2014 and 2013, 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. The majority of these leases are cancelable by either party within six to twelve months. Therefore, future minimum rentals under these leases are $2.7 million in 2015. Rental income from telephone provider pole-attachments totaled $2.5 million for each of the years ended June 30, 2014 and 2013, respectively. Rental income from cable provider pole-attachments totaled $3.3 million at June 30, 2014, and $3.6 million at June 30, 2013. The net book value of the poles used in the rental activity was $128.1 million and $119.5 million at June 30, 2014 and 2013, respectively.

10. RISK MANAGEMENT AND LIABILITY

NES is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. NES is an agency of the Metropolitan Government and is covered under the Tennessee Governmental Tort Liability Act, TCA 29-20-101, et al, (the “Act”) and is self-insured under the act for tort liability. NES is immune from any award or judgment for death, bodily injury and/or property damage in excess of the limits as set forth in the Act. Therefore, NES has not secured insurance coverage in excess of such limits. NES is 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

10. RISK MANAGEMENT AND LIABILITY (continued)

sustained by many participants of the Pool during the flood of 2010, NES deemed it prudent to withdraw from the Pool and obtain commercial property insurance that would no longer have shared sub-limits.

NES is self-insured for employee medical, dental and vision claims and self-insured up to $100,000 for employee medical claims. The changes in the insurance reserves for medical, dental and vision benefits for the years ended June 30, 2014 and 2013 are as follows ($000 omitted):

Balance – June 30, 2012	$ 2,551
Payments	(20,735)
Incurred Claims	20,672
Balance – June 30, 2013	2,488
Payments	(20,959)
Incurred Claims	21,455
Balance – June 30, 2014	$ 2,984

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, 2014 and 2013 are summarized as follows ($000 omitted):

	2014	2013
Balances:		
Accounts receivable	$ 3,003	$ 2,303
Transactions:		
Commercial and industrial revenue – Metropolitan Government Entities	60,154	58,208
Outdoor lighting – Metropolitan Government Entities	9,002	7,069
Tax equivalents operating expense – Metropolitan Government Entities	30,405	30,022

11. RELATED PARTY TRANSACTIONS (continued)

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

12. COMMITMENTS

In 2014, NES entered into an agreement with a general contractor for the construction of its new North Service and Training Center. The contract term is 15 months with an expiration of June 30, 2015. The contract's not to exceed value is $12.5 million of which $2.4 million has been expended as of June 30, 2014.

13. SUBSEQUENT EVENTS

NES has evaluated subsequent events through October 16, 2014, the issuance date of the financial statements, and has determined that there are no subsequent events that require disclosure.

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