NES

2016

nes annual report

NES MISSION

Provide safe, reliable and cost-efficient power and energy services for the comfort and security of the community.

2016

contents

IRMA PAZ-BERNSTEIN
nes board chair
owner, las paletas

DECOSTA JENKINS
nes president & ceo

president's letter

Decosta Jenkins

Customer expectations are evolving as quickly as the Nashville skyline changes. At Nashville Electric Service (NES), we are driven to make sure our city's skyline stands out after the sun goes down, and to exceed the rising wants and needs of our customers.

Placing customers at the center of our business is evident based on this year's rising customer satisfaction ratings. Eighty-five percent of residential customers say they are satisfied with NES, a five point increase over last year based on our customer survey. According to J.D. Power, we made huge gains with business customers and achieved one of the top 10 highest scores among all electric utilities in the U.S. In addition, NES was ranked as the 6th most trusted utility in the country by Cogent Reports.

Whether it's making it easier to report a power outage from your mobile device by offering NES Text, proactively reaching out with a friendly video explaining why your bill is higher or lower than last month or engaging with you on various social media platforms – we're focusing on our customers' needs.

NES employees remain dedicated to our customers through their tireless efforts in the community. Students at Maplewood High School's Academy of Energy & Power, with the help of NES, are exploring innovative ways to inspect hard-to-reach power lines using drones. Our employees also raise money for United Way, collect food items and school supplies for those in need, increase awareness about heart disease through the American Heart Association and plant trees in local neighborhoods.

> **"PLACING CUSTOMERS AT THE CENTER OF OUR BUSINESS IS EVIDENT BASED ON THIS YEAR'S RISING CUSTOMER SATISFACTION RATINGS."**

This year, NES opened a specialized training and operations center in North Nashville so that crews can train on equipment in a controlled environment in the safest way possible. The center serves more than 100,000 customers and allows us to provide better response times and improved reliability to a rapidly growing area.

Our customers depend on electricity to run their lives. We've worked hard to earn the Reliable Public Power Provider Diamond Award, the industry's highest honor for safe and reliable electricity, three times in a row. We are also investing additional resources over the next several years that will target our 10 lowest-performing circuits to reduce the frequency and length of outages for customers.

NES will continue leading the way while focusing on our overall mission: empowering the region with safe and reliable energy now and into the future.

DECOSTA JENKINS
PRESIDENT & CHIEF EXECUTIVE OFFICER

2016

financial report

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executive management

DECOSTA JENKINS
NES President and Chief Executive Officer

TERESA BROYLES-APLIN
NES Executive Vice President
and Chief Financial Officer

board members

IRMA PAZ-BERNSTEIN
NES Board Chair
Owner, Las Paletas

ROBERT CAMPBELL, JR.
NES Board Vice Chair
Partner, Waller Lansden Dortch & Davis, LLP

SAMUEL H. HOWARD
Chairman, Phoenix Holdings, Inc.

ROBERT MCCABE
Chairman, Pinnacle Financial Partners

CAROLYN SCHOTT
Partner, Sherrard Roe Voigt & Harbison, PLC

Report of Independent Auditors

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, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Power Board as of June 30, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis on pages 11 through 20 and supplemental schedules on pages 66 through 69, respectively, are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2016 on our consideration of the Electric Power Boards internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Electric Power Board's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

Nashville, Tennessee
October 20, 2016

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, 2016 and 2015 as compared to fiscal years 2015 and 2014, 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"). We refer to our infrastructure as "the Electric System." This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

Overview of the Financial Statements

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

The Company adopted GASB 72, *Fair Value Measurement and Application.* This Statement defined fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Statement also provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This standard did not have any impact on net position. The main impact of this standard was expanded disclosures around the risk characteristics of investments held by the Board. The Board has investments related to bond retirements and capital projects. The Board also has investments in the Nashville Electric Service Retirement Annuity and Survivors Plan, and in the Nashville Electric Service Other Post-Employment Benefit (OPEB) Plan.

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).

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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 $571.4 million at June 30, 2016, and $542.9 million at June 30, 2015. This represents an increase of $28.6 million in 2016 and $55.8 million in 2015.

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,		
	2016	**2015**	**2014**
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS	$489,629	$466,859	$437,487
INVESTMENT OF RESTRICTED FUNDS	116,266	145,640	182,801
UTILITY PLANT, NET	939,159	919,884	901,696
OTHER NON-CURRENT ASSETS	2,778	3,356	2,804
TOTAL ASSETS	1,547,832	1,535,739	1,524,788
DEFERRED OUTFLOWS OF RESOURCES	69,227	25,401	15,200
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$1,617,059	$1,561,140	$1,539,988

STATEMENTS OF NET POSITION ($000 omitted) continued

	June 30, 2016	2015	2014
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
CURRENT LIABILITIES	$ 206,408	$ 200,358	$ 205,494
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	29,830	37,283	33,895
LONG-TERM DEBT, LESS CURRENT PORTION	568,384	599,342	622,309
NET PENSION LIABILITY	233,971	165,435	148,956
OTHER NON-CURRENT LIABILITIES	7,030	8,912	12,994
TOTAL LIABILITIES	1,045,623	1,011,330	1,023,648
DEFERRED INFLOWS OF RESOURCES	-	6,945	29,288
NET POSITION			
Net investment in capital assets	410,691	384,058	375,144
Restricted for debt services	63,953	63,730	62,979
Unrestricted	96,792	95,077	48,929
TOTAL NET POSITION	571,436	542,865	487,052
TOTAL LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES AND NET POSITION	$1,617,059	$1,561,140	$1,539,988

Liquidity and Capital Resources

The Board has sufficient debt capacity and a strong financial position. Therefore, the tax-exempt bond market is expected to be a future source of liquidity to supplement cash flows from operations. On May 19, 2015, the Board closed on the sale of the Metropolitan Government of Nashville and Davidson County, Tennessee Electric System Revenue Refunding Bonds, 2015 Series A. The 2015 Series A Bonds were issued to refinance significantly all outstanding 2008 Series A Bonds, and significant portions of outstanding 2008 Series B bonds. Proceeds from the sale of the bonds were used to fund the escrow account pursuant to the Escrow Agreement, and to pay costs of issuance of the bonds. The bonds have an aggregate principal amount of $112.9 million, and mature annually on May 15, 2019 through 2033. The 2015 Series A Bonds were issued at a premium totaling $23.4 million and resulted in future interest expense savings of approximately $9.0 million.

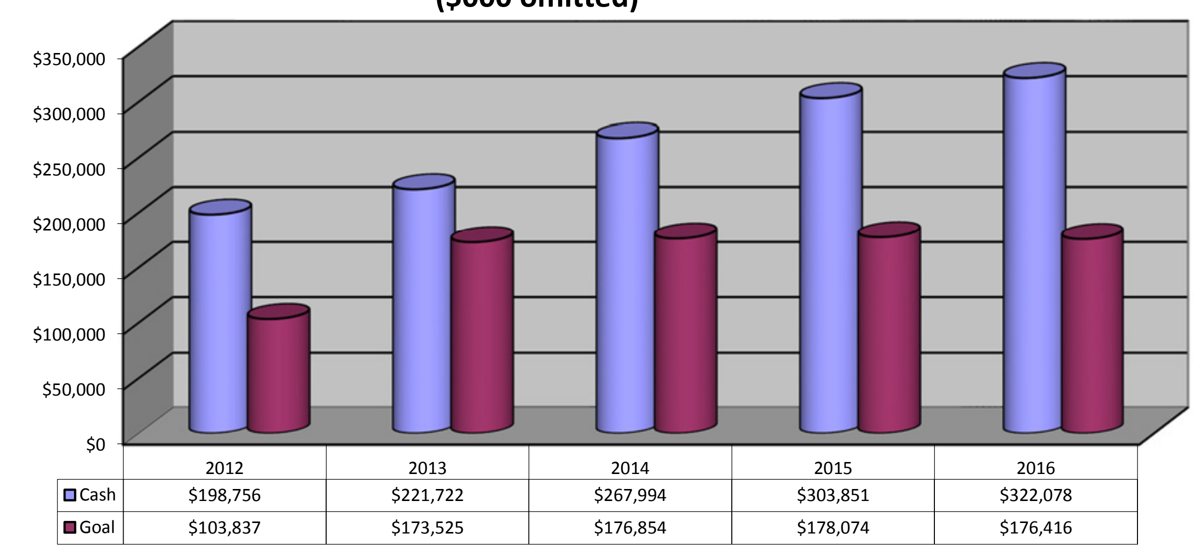
In addition to operating cash flow and proceeds from tax-exempt bonds, the Board has a $25 million line-of-credit, which is renewed each year. The credit facility is not a source of liquidity for ongoing operations. It is available as an additional funding source in the event of a natural catastrophe.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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, 2016, 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 2016. That percentage was 30.1 percent as of June 30, 2016, and 28.2 percent as of June 30, 2015. 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, 2016, was 2.7 to 1. The Board continues to exceed its goals. The outlook on all debt ratings is stable as of June 30, 2016.

Comparison of Cash Balances to NES' Goals
($000 omitted)



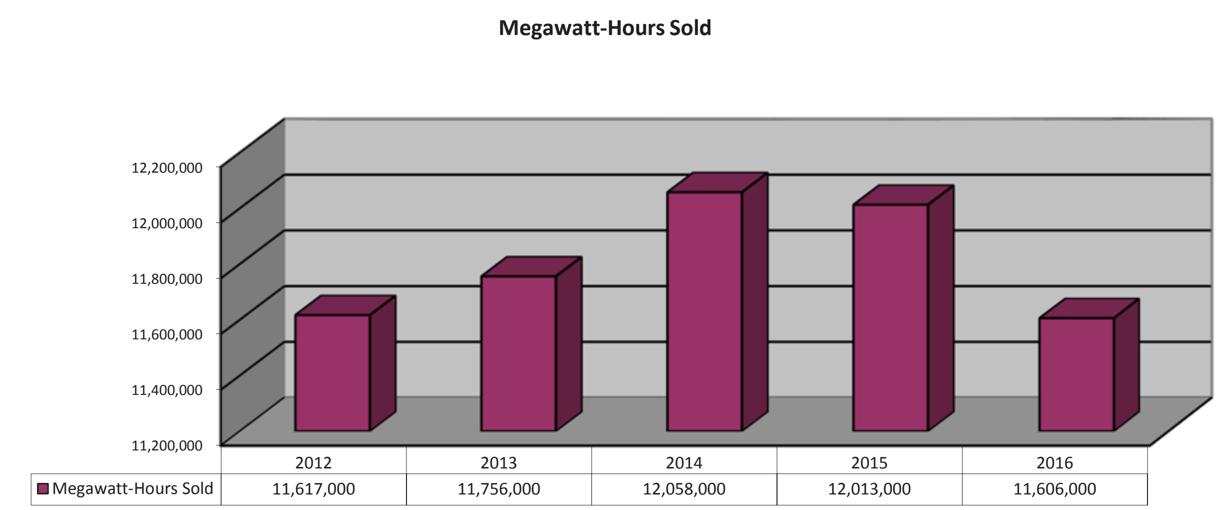
Operations
Summary Revenue & Expense Data
($000 omitted)

	Year Ended June 30, 2016	2015	Change in Net Position	Year Ended June 30, 2014	Change in Net Position
Operating revenues, net	$1,201,448	$1,246,632	$(45,184)	$1,241,434	$5,199
Purchased power	(884,535)	(929,726)	45,191	(926,575)	(3,151)
Operating revenues, net, less Purchased power	316,913	316,906	7	314,859	2,048
Operating expenses	(181,163)	(149,512)	(31,651)	(145,267)	(4,246)
Depreciation and Tax equivalents	(86,839)	(87,076)	237	(81,747)	(5,329)
Interest income	1,303	995	308	295	700
Interest expense, net	(21,643)	(25,500)	3,857	(22,236)	(3,264)
Increase in Net position	28,571	55,813	(27,242)	65,904	(10,091)
Effect of adoption of GASB 68	-	-	-	(4,997)	4,997
Increase in Net position, as previously stated	$ 28,571	$ 55,813	$ (27,242)	$ 60,907	$ (5,094)

Note: During fiscal 2015 the Board adopted the provisions of Governmental Accounting Standards Board (GASB) No. 68, *Accounting and Financial Reporting for Pensions*. The effects of the adoption are shown for 2014 as required by the pronouncement.

2016 and 2015 Results of Operations

Operating Revenues. Operating revenues decreased by $45.2 million, or 3.7 percent, when compared to 2015. Total electric sales were $1.2 billion for each year. The average realized rate on electric sales was $0.1019 compared to $0.1023 per kilowatt-hour in 2015. Megawatt-hours sold in 2016 decreased by 3.4 percent when compared to 2015. 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 1,916 compared to 1,791 in 2015. Total heating degree-days were 2,735 compared to 3,790 in 2015. Total heating and cooling degree-days were 4,651 compared to 5,581 in 2015, or a decrease of approximately 16.7 percent. Residential revenue decreased $31.7 million or 5.9 percent compared to the previous year. Residential revenue is highly correlated to degree days. Commercial and industrial revenue decreased $13.3 million or 1.9 percent compared to the prior year. Commercial and industrial revenue is not as strongly correlated to degree days as is residential. Total average number of active year-to-date customers increased by 1.6 percent when compared to 2015. Revenue in Excess of Net Bills (Late Charges) decreased by $0.7 million, and Rentals of Electric Property (primarily pole attachments) increased by $0.9 million.



Non-operating Revenues. Interest Income was $1.3 million compared to $1.0 million in 2015. The average rate of return on the General Fund was 0.22 percent in 2016 compared to 0.10 percent in 2015. The average monthly balance of the General Fund was $290.3 million in 2016 compared to $255.6 million in 2015, an increase of 13.6 percent. In addition, interest income from the bond funds increased to $0.3 million over the previous year.

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 $884.5 million for the period compared to $929.7 million last year. The average realized rate on purchased power was $0.076 per kilowatt-hour in 2016 compared to $0.077 in 2015. Megawatt-hours purchased were 11.9 million in 2016 compared to 12.4 million in 2015.

Distribution expenses for the period were $62.6 million compared to $59.5 million last year. This is an increase of $3.1 million or 5.2 percent. The change is primarily attributable to increases in the following expense categories: tree trimming, $4.5 million; operation and maintenance of miscellaneous expense, $0.6 million; operation and maintenance of street light and signal system, $0.3 million; load dispatching, $0.1 million; line transformers, $0.1 million; and private lights, $0.1 million. These increases were offset by decreases in the following expense categories: operation and maintenance of overhead lines, $0.6 million; operation and maintenance of station equipment, $0.4 million; storms, $0.4 million; emergency service, $0.3 million; operation and maintenance of supervision and engineering, $0.3 million; operation and maintenance of underground lines, $0.3 million; and operation and maintenance of meters, $0.3 million.

Customer Accounts expense and Customer Service and Information expenses combined were $22.9 million for the period compared to $21.9 million last year or an increase of $1.0 million or 5.0 percent. This is primarily the result of an increase in meter reading, $0.9 million; data processing, $0.6 million;

customer orders and service, $0.4 million; customer assistance, $0.3 million; offset by decreases in customer records and collections, $1.1 million.

Administrative and General (A&G) expenses were $95.6 million for the period compared to $68.2 million last year. This was an increase of $27.4 million or 40.2 percent. The change is primarily attributable to increases in the following expense categories: employee pensions, $22.6 million; employee health insurance, $1.4 million; administrative and general salaries, $1.0 million; data processing, $1.0 million; allocated overhead, $0.5 million; miscellaneous general expense, $0.3 million; maintenance of general plant, $0.3 million; injuries and damages, $0.3 million; and employee welfare, $0.1 million. These increases were offset by a decrease in employee life insurance, $0.1 million.

Depreciation and Taxes and Equivalents were $54.5 million and $32.4 million, respectively, for 2016, compared to $53.3 million and $33.8 million, respectively, for 2015. The increase in depreciation was the result of the capitalization of North Service Center. 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 decrease in payments in-lieu-of taxes was the result of decreases in tax rates offset to some extent by increased investment in the utility plant.

2015 and 2014 Results of Operations

Operating Revenues. Operating revenues increased by $5.2 million, or 0.4 percent, in 2015 when compared to 2014. Total electric sales were $1.2 billion for both years. The average realized rate on electric sales was $.1023 per kilowatt-hour in 2015 compared to $.1014 per kilowatt-hour in 2014. Megawatt-hours sold in 2015 decreased by 0.4 percent when compared to 2014. Weather plays an important part in determining revenue for any year. The impact of weather is reflected in the comparison of degree-days from one period to the next. Degree-days represent the difference between the weather's average daily temperatures minus 65 degrees. Temperatures above 65 degrees are considered cooling degree-days; temperatures below 65 degrees are considered heating degree-days. Total cooling degree-days were 1,791 in 2015 compared to 1,820 in 2014. Total heating degree-days were 3,790 in 2015 compared to 3,930 in 2014. Total heating and cooling degree-days were 5,581 in 2015 when compared to 5,750 in 2014, or a decrease of approximately 2.9 percent. Total average number of active year-to-date customers increased in 2015 by 1.6 percent when compared to 2014. Revenue in Excess of Net Bills (Late Charges) decreased by $0.2 million, and Rentals of Electric Property (primarily pole attachments) decreased by $1.0 million.

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

Operating Expenses. The Board purchases all of its power from TVA under a full-requirements contract that had an initial term of 20 years. Beginning on December 19, 1989, and on each subsequent anniversary thereafter, the contract is automatically extended for an additional one-year period. The contract is subject to earlier termination by either party on not less than 10 years' prior written notice. Purchased power in 2015 was $929.7 million compared to $926.6 million in 2014. The average realized rate on purchased power was $.077 per kilowatt-hour in both 2015 and 2014. Megawatt-hours purchased were 12.4 million in 2015 compared to 12.5 million in 2014.

Distribution expenses for the period were $59.5 million in 2015 compared to $61.9 million in 2014. This is a decrease of $2.4 million or 0.4 percent. The change is primarily attributable to decreases in the following expense categories: Tree trimming, $2.7 million; operation and maintenance miscellaneous, $0.8 million; storm restoration, $0.3 million; operation and maintenance of street light and signal systems, $0.3 million; and operation and maintenance of private lights, $0.1 million. These decreases were offset by increases in the following expense categories: Operation and maintenance of overhead lines, $1.1 million; operation and maintenance of supervision and engineering, $0.5 million; operation and maintenance of load dispatching, $0.2 million; and operation and maintenance of station equipment, $0.1 million.

Customer Accounts expense and Customer Service and Information expenses combined were $21.9 million in 2015 compared to $21.5 million in 2014 or an increase of $0.4 million or 0.02 percent. This is primarily the result of increases in the following expense categories: Customer assistance, $0.5 million; data processing, $0.3 million; and customer orders and service, $0.1 million. These increases were offset by decreases in the following expense categories: Meter reading, $0.3 million; customer records and collections, $0.2 million; and supervision, $0.1 million.

Administrative and General (A&G) expenses were $68.2 million in 2015 compared to $61.9 million in 2014. This was an increase of $6.3 million or 10.2 percent. The increase is attributable to increases in the following expense categories: Employee pension, $3.2 million; employee health insurance, $1.5 million; injuries and damages, $0.6 million; outside services employed, $0.6 million; data processing, $0.4 million; miscellaneous general expenses, $0.2 million; maintenance of general plant, $0.1 million; and office supplies and expenses, $0.1 million. These increases were offset by decreases in the following expense categories: Employee welfare, $0.3 million; and duplicate credit charges, $0.2 million.

Depreciation and Taxes and Equivalents were $53.3 million and $33.8 million, respectively, for 2015, compared to $49.1 million and $32.6 million, respectively, for 2014. The increase in depreciation was the result of a net increase in investments of depreciable property of $69.3 million. Tax equivalents consist primarily of payments in–lieu-of taxes to the Metropolitan Government and the surrounding counties. Such payments are calculated based on a prescribed formula that takes into consideration utility plant value and the average of the Board's last three years' operating margin. The increase in payments in-lieu-of taxes was the result of increases in tax rates coupled with increased investment in the utility plant.

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 2016	Fiscal 2015	Increase (Decrease)	Fiscal 2014	Increase (Decrease)
Labor	$ 69,046	$ 68,600	0.7%	$ 63,371	8.3%
Benefits	67,482	42,613	58.4%	37,699	13.0%
Tree-trimming	11,254	6,951	61.9%	9,561	(27.3%)
Outside Services	11,454	10,571	8.4%	9,990	5.80%
Materials	2,416	2,128	13.5%	2,242	(5.1%)
Transportation	4,082	4,539	(10.1%)	4,488	1.1%
Security/Police	1,400	1,401	(0.1%)	1,167	20.1%
Rentals	961	999	(3.8%)	959	4.2%
Professional Fees	1,244	1,061	17.2%	925	14.7%
Insurance Premiums	1,172	1,283	(8.7%)	1,184	8.4%
Other	10,652	9,366	13.7%	13,680	(31.5%)
	$181,163	$149,512	21.2%	$145,266	2.9%

The Board's total operating expenses increased 21.2 percent from June 30, 2015 to June 30, 2016. Labor for fiscal year 2016 totaled $69.0 million, which remained stable due to increases in cost-of-living and merit adjustment, along with employee step increases, offset by a temporary reduction in workforce due to a large number of retirements during the year. Benefits increased from fiscal year 2015 primarily due to adoption of cost-of-living adjustments for partial lump sum payouts, changes in the pension plan benefit terms resulting from the recently approved joint petition and amortization expense of deferred outflows for pension investment income and actuarial differences. Tree trimming increased for the period as compared to June 30, 2015, as a result of an increase in tree trimming to accommodate for prior year contractor delays and an increased cost per circuit mile. Outside services increased primarily due to increased customer engineering and system operations contractor requirements in 2016. Materials increased due to additional requirements for the North Service Center and Training Facility. Transportation costs decreased due to a reduction in large truck requirements in 2016. Security/Police and Rentals remained stable from 2015 to 2016. Professional fees increased due to increases in professional consulting services for Human Resources, Facilities, and Finance in 2016. Insurance decreased due to a slight increase in the amount of insurance allocated to overhead clearing accounts. The Other category contains a wide array of smaller expense types. There were no major fluctuation in these categories.

Capital Assets and Debt Administration

The Board's transmission and distribution facilities serve more than 700 square miles and include the Metropolitan Government of Nashville and Davidson County, Tennessee. The Board also serves portions of the adjacent counties of Cheatham, Rutherford, Robertson, Sumner, Wilson, and Williamson. Such facilities require significant annual capital and maintenance expenditures. The Board's target is to have the capital expenditures funded equally from cash flows from operations and proceeds from tax-exempt bonds. The Board's investment in utility plant, less accumulated depreciation, at June 30, 2016 was $939.2 million compared to $919.9 million at June 30, 2015. Major projects during fiscal year 2016 included completion of the North Service Center, $15.1 million; new business installations, $14.6 million; $13.3 million in capital maintenance and $7.7 million in substation improvements.

The Board has outstanding bonds payable of $593.7 million at June 30, 2016 compared to $630.6 million at June 30, 2015. The decrease is due to scheduled principal debt payments of $31.2 million and the effects of accretion and amortization of $5.6 million. More details about the Board's capital assets and debt can be found in the notes to the financial statements.

Respectfully submitted,

Teresa Broyles-Aplin

Teresa Broyles-Aplin
Executive Vice President and Chief Financial Officer

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

STATEMENTS OF NET POSITION ($000 OMITTED)
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and cash equivalents	$ 322,078	$ 303,851
Customer and other accounts receivable, less allowance for doubtful accounts of $427 and $469 respectively	141,589	136,613
Materials and supplies	18,971	19,483
Other current assets	6,991	6,912
TOTAL CURRENT ASSETS	489,629	466,859
INVESTMENT OF RESTRICTED FUNDS:		
Cash and cash equivalents	44,774	30,729
Other investments	71,492	114,911
TOTAL INVESTMENT OF RESTRICTED FUNDS	116,266	145,640
UTILITY PLANT:		
Electric plant, at cost	1,570,656	1,519,141
Less: Accumulated depreciation	(631,497)	(599,257)
TOTAL UTILITY PLANT, NET	939,159	919,884
OTHER NON-CURRENT ASSETS	2,778	3,356
TOTAL ASSETS	1,547,832	1,535,739
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amount on refunding of debt	17,434	19,393
Difference between projected and actual pension earnings	22,288	-
Difference between projected and actual pension experience	29,505	6,008
TOTAL DEFERRED OUTFLOWS OF RESOURCES	69,227	25,401
TOTAL ASSETS AND DEFERRED OUTLFOWS OF RESOURCES	1,617,059	1,561,140

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, 2016 AND 2015 (continued)

	2016	2015
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
CURRENT LIABILITIES:		
Accounts payable for purchased power	153,305	160,455
Trade accounts payable	20,708	10,606
Accrued expenses	16,511	14,857
Customer deposits	15,884	14,440
TOTAL CURRENT LIABILITIES	206,408	200,358
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Construction contracts payable	1,425	2,894
Accrued interest payable	3,048	3,159
Current portion of long-term debt	25,357	31,230
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	29,830	37,283
LONG-TERM DEBT, LESS CURRENT PORTION	568,384	599,342
NET PENSION LIABILITY	233,971	165,435
OTHER NON-CURRENT LIABILITIES	7,030	8,912
TOTAL LIABILITIES	1,045,623	1,011,330
DEFERRED INFLOWS OF RESOURCES		
Difference between projected and actual pension earnings	-	6,945
TOTAL DEFERRED INFLOWS OF RESOURCES	-	6,945
NET POSITION		
Net investment in capital assets	410,690	384,058
Restricted for debt services	63,954	63,730
Unrestricted	96,792	95,077
TOTAL NET POSITION	571,436	542,865
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	$ 1,617,059	$ 1,561,140

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, 2016 AND 2015

	2016	2015
OPERATING REVENUES:		
Residential	$ 498,458	$ 530,169
Commercial and industrial	662,727	676,002
Street and highway lighting	19,275	19,996
Other	20,988	20,465
Total operating revenues, net	1,201,448	1,246,632
PURCHASED POWER	884,535	929,726
Operating revenues, net, less purchased power	316,913	316,906
OPERATING EXPENSES	181,163	149,512
TAX EQUIVALENTS	32,383	33,759
DEPRECIATION	54,456	53,317
Operating income	48,911	80,318
NON-OPERATING REVENUE (EXPENSE):		
Interest income	1,303	995
Loss on conveyance of property	(177)	-
Interest expense, net	(21,466)	(25,500)
Total non-operating expense	(20,340)	(24,505)
NET INCREASE IN NET POSITION	28,571	55,813
NET POSITION, beginning of year	542,865	487,052
NET POSITION, end of year	$ 571,436	$ 542,865

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, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 1,198,453	$ 1,254,943
Payments to suppliers for goods and services	(990,103)	(1,037,471)
Payments to employees	(55,913)	(55,705)
Payments for tax equivalents	(31,332)	(32,937)
Net cash provided by operating activities	121,105	128,830
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Proceeds from sale of revenue bonds	-	136,300
Payment on defeased debt	-	(121,265)
Deferred outflow debt defeasance	-	(14,337)
Net cash provided by non-capital financing activities	-	698
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of utility plant	(77,108)	(68,725)
Utility plant removal costs	(5,824)	(9,942)
Salvage received from utility plant retirements	758	746
Contributions in aid of construction	5,161	3,451
Principal payments on revenue bonds	(31,230)	(29,700)
Interest payments on revenue bonds	(25,219)	(27,132)
Net cash (used in) provided by capital and related financing activities	(133,462)	(131,302)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities	(60,279)	(171,054)
Proceeds from sales and maturities of investment securities	103,820	97,274
Interest on investments	1,088	473
Net cash provided by (used in) investing activities	44,629	(73,307)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	32,272	(75,081)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	334,580	409,661
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 366,852	$ 334,580

See notes to financial statements.

STATEMENTS OF CASH FLOWS ($000 OMITTED)
YEARS ENDED JUNE 30, 2016 AND 2015 (continued)

	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 48,911	$ 80,318
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	54,456	53,317
Pension	40,408	19,242
Accrual for uncollectible accounts	2,059	2,836
Changes in assets and liabilities:		
(Increase) decrease in customer and other accounts receivable	(7,035)	4,876
Decrease in materials and supplies	512	240
(Increase) decrease in other current assets	130	(1,208)
(Increase) decrease in other non-current assets	578	(552)
(Decrease) in accounts payable for purchased power	(7,150)	(4,807)
Increase (decrease) in trade accounts payable	10,102	(2,200)
Increase (decrease) in accrued expenses	1,654	764
Increase in customer deposits	1,444	1,107
Increase (decrease) in other non-current liabilities	(364)	643
Pension contributions	(24,600)	(25,746)
Net cash provided by operating activities	$ 121,105	$ 128,830

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

Accounts payable associated with the acquisition and construction of utility plant was $1.4 million in 2016 and $2.9 million in 2015.

Allowances for funds used during constructions (AFUDC), approximates NES' current weighted average cost of debt. AFUDC was capitalized as a component of the cost of utility plant. AFUDC was $0.6 million in both 2016 and 2015.

During 2016 and 2015, NES charged $18.1 million and $17.3 million, respectively, to accumulated depreciation representing the cost of retired utility plant.

During 2016 and 2015, $7.3 million and $5.5 million, respectively, was credited to interest expense for amortization of net bond premiums and discounts in each year. NES expensed debt issuance costs of $0.9 million in 2015.

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

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

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

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 (our infrastructure or "the Electric System") cannot be encumbered to satisfy obligations of the Metropolitan Government. NES appoints a chief executive officer, who is charged with the responsibility for the day-to-day operations, including the hiring of employees.

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

Recently Adopted Accounting Pronouncements

The Company adopted GASB 72, *Fair Value Measurement and Application.* This Statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Statement also provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This standard did not have any impact on net position. The main impact of this standard is expanded disclosures around the risk characteristics of investments held by the Board. The Board has investments related to bond retirements and capital projects. The Board also has investments in trusts for the Nashville Electric Service Retirement Annuity and Survivors Plan, and in the Nashville Electric Service Other Post-Employment Benefit (OPEB) Plan.

The significant accounting policies followed by NES are outlined below.

Use of Estimates

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2016 and 2015, amounts restricted for debt service were $63.9 million and $63.7 million, respectively. NES releases capital debt funds quarterly based on expected draws for that quarter. As of June 30, 2016 and 2015, amounts restricted for construction were $49.3 million and $78.8 million, respectively. NES generally makes disbursements for all capital projects out of its unrestricted operating funds. When restricted resources for capital projects exist, NES reimburses the unrestricted operating fund from the restricted resources according to a quarterly funding schedule. At that time such funds are considered applied to capital projects. The funding release schedule is based on expected capital expenditures which are typically over a three-year period, or may be based upon specific bond terms.

Utility Plant

Electric plant is stated at original cost. Such cost includes applicable overhead such as general and administrative costs, depreciation of vehicles used in the construction process, and payroll and related costs such as pensions, taxes and other fringe benefits related to plant construction. Interest cost incurred during the period of construction of certain plant is capitalized.

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

Depreciation is provided at rates that are designed to amortize the cost of depreciable plant (including estimated removal costs) over the estimated useful lives ranging from 7 to 50 years. The composite straight-line rates expressed as a percentage of average depreciable plant were as follows for June 30, 2016 and 2015:

	2016	2015
Distribution plant, 8 to 40 years	3.5%	3.5%
Structure and improvements, 40 to 50 years	2.0%	2.1%
Office furniture and equipment, 7.1 to 16.7 years	10.5%	10.9%
Transportation equipment, 8 to 10 years	6.3%	6.3%
Other equipment, 8 to 33.3 years	5.9%	6.6%

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 $6.7 million in 2016 and $8.0 million in 2015.

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. Investments are reflected at their fair value except those investments that have a remaining maturity at the time of purchase of one year or less and certificates of deposit, which are reflected at amortized cost and cost, respectively.

Materials and Supplies

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

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

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. In the event that there are unspent proceeds from a bond issuance for the stated purpose of capital improvement, the debt outstanding is reduced by the amount that has not been used for capital projects as of period end. As of June 30, 2016 and 2015, Net Investment in Capital Assets included $49.3 million and $78.2 million, respectively of cash and investments restricted for capital projects.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Restricted net position is the portion of net position over which there are externally imposed constraints as to its use. Restricted net position relates to bond sinking fund requirements and consists of restricted cash and investments reduced by any accrued interest payable and deferred inflows of resources related to the bonds. As of June 30, 2016 and 2015 the Restricted net position consisted of Cash of $34.0 million and $29.2 million, respectively, reduced by accrued interest payable of $3.0 million and $3.2 million in 2016 and 2015. Restricted net position also included investments of $32.9 million and $37.7 million at June 30, 2016 and 2015, respectively, for debt service. There were no amounts of Restricted net position for capital projects unrelated to prior bond issuances for either period.

Unrestricted net position is the share of net position that is neither restricted nor invested in capital assets.

Revenues and Accounts Receivables

Revenues and related receivables for residential, commercial and industrial customers are recognized from meters read on a monthly cycle basis. Service that has been rendered from the latest date of each meter-reading cycle to month end is estimated and accrued as unbilled revenue receivable. Such revenues are derived soley from customers in the NES distribution network, primarily in Davidson County, TN. As of June 30, 2016 and 2015, such unbilled revenues were $49.0 million and $48.7 million, respectively. In addition to a base rate, NES collects and recognizes a variable fuel cost adjustment based upon changing fuel and purchased power costs, which is a pass-through from TVA. NES collects sales tax from a majority of its commercial customers and such amounts are presented net in revenues. Revenues are presented net of allowances for uncollectible accounts of $2.1 million and $2.8 million for the years ended June 30, 2016 and 2015, respectively. Substantially, all uncollectible accounts are from residential sales.

Purchased Power

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

Asset Retirement Obligations

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

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 $633.4 million and $643.8 million at June 30, 2016 and 2015, 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.

Recent Accounting Pronouncements

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* (GASB 75) which requires governments to report the net liability on the face of the financial statements for the OPEB that they provide. This statement will also require the presentation of more extensive note disclosures and required supplementary information about their OPEB liabilities and investments. The provisions in GASB 75 are effective for financial statements for fiscal years beginning after June 15, 2017. The main impact of this standard, similar to the effects of GASB 68, will be the presentation of the Post Employment Benefit Obligation related to NES' retiree health plan on the statement of Net Position net of the fair value of investments in that plan. The Board is evaluating the effects of the adoption of GASB 75 and expects to record a net liability of approximately $200 million. Additionally, disclosures about the postemployment plan will change.

2. UTILITY PLANT AND ACCUMULATED DEPRECIATION

Utility plant activity for the years ended June 30, 2016 and 2015 was as follows ($000 omitted):

	Balance June 30, 2015	Additions	Transfers & Retirements	Balance June 30, 2016
Distribution plant	$ 1,333,243	$ 47,475	$ (13,191)	$ 1,367,527
Land and land rights	3,901	-	-	3,901
Structures and improvements	52,920	15,523	-	68,443
Office furniture and equipment	29,805	2,383	(1,611)	30,577
Transportation equipment	7,410	351	(257)	7,504
Other equipment	45,246	5,572	(3,090)	47,728
Construction work-in-progress (a)	46,616	-	(1,640)	44,976
	$ 1,519,141	$ 71,304	$ (19,789)	$ 1,570,656

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

(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, 2016 and 2015 was as follows ($000 omitted):

	Balance June 30, 2015	Provision	Original Cost	Cost of Removal	Salvage	Balance June 30, 2016
Distribution plant	$ 528,977	$ 47,902	$ (13,191)	$ (5,824)	$ 512	$ 558,376
Structures and improvements	20,933	1,215	-	-	-	22,148
Office furniture and equipment	22,481	3,170	(1,611)	-	-	24,040
Transportation equipment	2,429	466	(257)	-	36	2,674
Other equipment	24,437	2,731	(3,090)	-	181	24,259
	$ 599,257	$ 55,484	$ (18,149)	$ (5,824)	$ 729	$ 631,497

	Balance June 30, 2014	Provision	Original Cost	Cost of Removal	Salvage	Balance June 30, 2015
Distribution plant	$ 505,319	$46,623	$ (13,692)	$ (9,942)	$ 669	$ 528,977
Structures and improvements	19,823	1,110	-	-	-	20,933
Office furniture and equipment	21,381	3,145	(2,045)	-	-	22,481
Transportation equipment	2,044	469	(97)	-	13	2,429
Other equipment	22,912	2,877	(1,416)	-	64	24,437
	$ 571,479	$ 54,224	$ (17,250)	$ (9,942)	$ 746	$ 599,257

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 $1.0 million and $0.9 million in 2016 and 2015, respectively.

3. CASH AND INVESTMENTS

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

2016	Cash	Bond Funds	Special Construction	Total	Weighted Average Maturity (Years)
Cash and cash equivalents	$ 322,078	$ 34,015	$ 10,759	$ 366,852	-
U.S. Treasury Investments	-	-	9,822	9,822	0.77
Securities from Agencies Chartered by Congress	-	32,987	28,682	61,669	0.52
	$ 322,078	$ 67,002	$ 49,263	$ 438,343	

2015	Cash	Bond Funds	Special Construction	Total	Weighted Average Maturity (Years)
Cash and cash equivalents	$ 303,851	$ 29,217	$ 1,512	$ 334,580	-
U.S. Treasury Investments	-	-	9,857	9,857	1.53
Securities from Agencies Chartered by Congress	-	37,672	67,382	105,054	0.97
	$ 303,851	$ 66,889	$ 78,751	$ 449,491	

NES categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair values of investments classified as Level 1 are priced using quoted market prices in active markets for identical assets as of the balance sheet date. The fair values of investments classified as Level 2 are priced using a matrix pricing model. Inputs into these valuation techniques include benchmark yields, reported trades, broker/dealer quotes, and other similar data.

3. CASH AND INVESTMENTS (continued)

Investments as of June 30, 2016, are categorized as follows:

	Level 1	Level 2	Fair Value Measurement Total
Securities from Agencies Chartered by Congress	$42,454	$19,215	$61,669
U.S. Treasury Securities		9,822	9,822
Total	$42,454	$29,037	$71,491

Investments as of June 30, 2015, are categorized as follows:

	Level 1	Level 2	Fair Value Measurement Total
Securities from Agencies Chartered by Congress	$29,270	$75,784	$105,054
U.S. Treasury Securities		9,857	9,857
Total	$29,270	$85,641	$114,911

Custodial Credit Risk

As of June 30, 2016 and 2015, NES' cash and cash equivalents held by financial institutions was $366.9 million and $334.5 million, respectively. Bank balances for such accounts totaled $319.7 million and $256.0 million, respectively. Deposits in financial institutions are required by State of Tennessee ("State") statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and have a total minimum market value of 105 percent of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. Collateral requirements are not applicable for financial institutions that participate in the State's collateral pool but rather are set by the State as described below. As of June 30, 2016 and 2015, 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. At June 30, 2016, the Tennessee Bank Collateral Pool was rated AAA by both Standard and Poor's and Fitch.

3. CASH AND INVESTMENTS (continued)

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 2016, 86.2 percent of NES' investments were held in Securities from Agencies Chartered by Congress. In 2015, 91.0 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, 2016, is as follows ($000 omitted):

	Balance June 30, 2015	Deductions/ Repayments	Additions/ Amortization/ Accretion	Balance June 30, 2016
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.	30,492	-	1,669	32,161
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.	12,443	(6,015)	(56)	6,372
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.	10,278	(3,290)	(14)	6,975
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.	18,886	(11,025)	(173)	7,688
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.	98,417	(2,755)	(673)	94,988
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.	140,864	(5,650)	(2,205)	133,009
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.	61,100	-	(315)	60,786
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.	122,119	(2,495)	(1,261)	118,363
Electric System Revenue Bonds, 2015 Series A, bear interest at 5.00%, maturing through May 15, 2033, interest paid semiannually.	135,973	-	(2,573)	133,400
	630,572	$ (31,230)	$ (5,601)	593,741
Less current portion of long-term debt	(31,230)			(25,357)
	$ 599,342			$ 568,384

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4. LONG-TERM DEBT (continued)

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

	Balance June 30, 2014	Deductions/ Repayments	Additions/ Amortization/ Accretion	Balance June 30, 2015
Electric System Revenue Bonds, 1998 Series A, bear interest at rates from 5.125% to 5.40%, maturing through May 15, 2023, interest paid semiannually.	28,910	-	1,582	30,492
Electric System Revenue Bonds, 1998 Series B, bear interest at rates from 4.75% to 5.50%, maturing through May 15, 2017, interest paid semiannually.	18,224	(5,700)	(81)	12,443
Electric System Revenue Bonds, 2008 Series A, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2033, interest paid semiannually.	94,269	(82,080)	(1,911)	10,278
Electric System Revenue Bonds, 2008 Series B, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2023, interest paid semiannually.	73,231	(52,895)	(1,450)	18,886
Electric System Revenue Bonds, 2011 Series A, bear interest at rates from 1.50% to 5.00%, maturing through May 15, 2036, interest paid semiannually.	101,793	(2,675)	(701)	98,417
Electric System Revenue Bonds, 2011 Series B, bear interest at rates from 2.00% to 5.00%, maturing through May 15, 2026, interest paid semiannually.	148,608	(5,440)	(2,304)	140,864
Electric System Revenue Bonds, 2013 Series A, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2029, interest paid semiannually.	61,403	-	(303)	61,100
Electric System Revenue Bonds, 2014 Series A, bear interest at rates from 2.00% to 5.00%, maturing through May 15, 2039, interest paid semiannually.	125,571	(2,175)	(1,277)	122,119
Electric System Revenue Bonds, 2015 Series A, bear interest at 5.00%, maturing through May 15, 2033, interest paid semiannually.	-	-	135,973	135,973
	652,009	$ (150,965)	$ 129,528	630,572
Less current portion of long-term debt	(29,700)			(31,230)
	$ 622,309			$ 599,342

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
2017	$ 25,357	$ 31,906
2018	24,593	31,208
2019	24,851	30,489
2020	33,550	21,528
2021	35,105	19,977
2022-2026	167,665	74,105
2027-2031	112,685	38,481
2032-2036	71,975	15,408
2036-2039	21,070	2,141
	516,851	$ 265,243
Unamortized premium	76,891	
Total long-term debt	$ 593,742	

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

4. LONG-TERM DEBT (continued)

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $14.3 million, which is reported as a component of deferred outflows on the Statements of Net Position at June 30, 2015. The bonds have an aggregate principal amount of $112.9 million, were issued at a premium totaling $23.4 million, and mature annually on May 15, 2019 through 2033.

NES had a $25 million unsecured line-of-credit for fiscal year 2016 and 2015 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 2016 or 2015. The line-of-credit is renewable annually. The Company established a new line of credit effective July 1, 2016, with an expiration date of June 30, 2017. Borrowings under the renewed line-of-credit bears interest at the rate of LIBOR plus 30 basis points.

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

Events of default under the Bonds include, but are not limited to: (1) failure to make principal payments when due and payable, (2) failure to make an installment of interest or sinking fund payment, (3) failure to make payment of an Option bond when duly tendered, and (4) failure to report selected financial data annually. NES is not in violation of any covenants at June 30, 2016.

5. OTHER NON-CURRENT LIABILITIES

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

	Balance June 30, 2015	Repayments / Earned Contributions	Additions	Balance June 30, 2016
TVA Energy Conservation Loans	$ 3,118	$ (941)	$ 577	$ 2,754
Contributions in Aid of Construction	5,794	(7,362)	5,844	4,276
	$ 8,912	$ (8,303)	$ 6,421	$ 7,030

5. OTHER NON-CURRENT LIABILITIES (continued)

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

NES is a fiscal intermediary for the TVA energy conservation programs whereby loans are made to NES' customers to be used in connection with TVA's Residential Energy Services Program. Pursuant to the terms of an agreement with TVA, the energy conservation loans made to NES' customers are funded and guaranteed by TVA. NES acts as a loan servicer and collects the principal and interest for these loans, which are then remitted to TVA's lender. Included in Other Non-Current Assets are receivables from NES customers equal to the aforementioned liabilities.

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.

In August 2015, the Plan Sponsor approved an agreement between the Employee Association of NES and management for a period of five years, effective July 1, 2015. The amendment related to the early retirement option was effective for all who retire on or after January 1, 2016 and changed the eligibility for unreduced early retirement (as early as age 52.5 and satisfying the Rule of 80), changed the eiligibility for reduced early retirement (as early as age 52.5 and completing 15 years of service), and decreased the early retirement reduction factor from 3% to 1% per year. The current year impact of this amendment increased the net pension liability by $6.0 million. The cost-of-living (COLA) amendment, effective April 1, 2015, clarified that the cost-of-living increase of at least 2% must be provided each year, provided explicitly for including the minimum annual cost-of-living increase in the calculation of the amount of the partial lump sum, specified that a disabled participant shall not be required to comment retirement benefits until 3 months after meeting the Rule of 85 (not the Rule of 80), and clarified that a disabled participant as of January 1, 2016 is also covered by the amendment related to the early retirement options. The impact of this amendment in fiscal year 2016 was an increase to net pension liability of $2.6 million.

As permitted by GASB 68, upon adoption, NES determined that it was impractical to present ten years of data as required by certain disclosures: The Plan actuarial measurements are made on March 31 of each year and the results are rolled forward to the reporting date of June 30. Additionally, during the adoption of GASB 68, the previous method of determining the pension liability, while permitted under the previous

6. PENSION PLAN (continued)

standards, was not the Entry Age Actuarial Method required by GASB 68. The Plan Sponsor determined that the cost to recompute all historical data using the Entry Age Method was prohibitive for the disclosure benefits obtained. Accordingly, cumulative tables present data from the date of adoption, July 1, 2013.

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 52.5 with 15 years of credited service or at age 50 with 30 years of credited service with reduced monthly benefits.

If the participant has attained age 52.5, and his/her age plus service is 80 or greater, then there is no reduction for early receipt of the benefit. However, a participant cannot use accumulated sick leave to increase effective age to meet the requirements for this unreduced benefit. For a participant with 25 or more years of service, the minimum pension benefit is $1,800 per month.

At April 1, 2016, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving benefits	855
Inactive employees entitled to but not yet receiving benefits	139
Active employees	774
	1,768

The contribution requirements of NES are established and may be amended by NES. The Plan is currently non-contributory. NES' policy, which is consistent with State of Tennessee regulations, is to fund new liability layers over a funding period of not more than 25 years.

The current rate is 36 percent of annual covered payroll. NES contributed 100 percent of the required contribution for both of the Plan years 2016 and 2015, respectively.

The NES net pension liability was measured using the Entry Age actuarial cost method. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2016, which was rolled forward to the measurement date of June 30, 2016.

6. PENSION PLAN (continued)

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

The Plan Sponsor conducted an experience study in fiscal year 2016 on the withdrawal rate and rate of retirement. Effects of the study were incorporated into the net pension liability calculation at June 30, 2016. The overall impact of this change in assumptions to net pension liability was an increase of $17.7 million, of which $2.8 million was recognized in pension expense at June 30, 2016.

The Plan Sponsor's investment policy mandates that investments in pooled fund holdings, including mutual funds, should substantially follow guidelines established by the policy for equity investments and fixed income investments. These guidelines also address concentrations of credit risk. The policy manages investment principle preservation and return risks through an overall long-term investment strategy that employs a diversified portfolio of actively traded stock and bond mutual fund investments. This results in sufficient liquidity through the ability to buy and sell in active markets. The investments are governed by total return objectives of the portfolio. The investments are typically rebalanced annual to achieve long-term asset allocation targets.

All of the investments below are classified in Level 1 of the fair value hierarchy established by generally accepted accounting principles because they are valued using prices quoted in active markets for those investments. None are subject to any substantive redemption restrictions.

Equity Investments through / in mutual funds
($000 omitted)

Investments by fair value level	June 30, 2016
Registered Investment Companies – Mutual Funds	
SEI S&P 500 Index Fund	$ 148,021
SEI Small Mid Cap Fund	33,315
SEI World Equity Ex-US Fund	84,226

6. PENSION PLAN (continued)

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

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

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

Fixed Income Investments through / in mutual funds
($000 omitted)

Investments by fair value level	June 30, 2016
Registered Investment Companies – Mutual Funds	
SEI Core Fixed Income Fund	$ 102,619
SEI Emerging Markets Debt Fund	16,929
SEI High Yield Bond Fund	25,714

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

6. PENSION PLAN (continued)

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

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

Risk Disclosures

Credit Risk
For an investment, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Both equity and fixed income investments are subject to credit risk. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is NES policy to limit its investments in these investment types to the top rating issued by NRSROs. The Plan's investments in mutual funds are not rated by agencies such as Standards and Poor's, or Fitch. However, the funds are rated by Morningstar, which is a risk-based performance measurement for the funds compared to similar funds. Morningstar rates the investments between 3-stars and 5-stars.

Custodial Credit Risk
For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, NES will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. NES does not have any custodial credit risk.

Concentration of Credit Risk
For an investment, concentration of credit risk is the risk of loss attributed to the magnitude of a governments investment in a single issuer. Significant concentration guidelines are as follows:

Equity Investments through/in mutual funds
The Trust's investment policy mandates that no more than 10 percent of the Trust assets shall be invested in the securities of one company, and that no more than 25 percent of the Trust assets be invested in any single industry.

6. PENSION PLAN (continued)

Fixed Income Investments through/in mutual funds
The Trust's investment policy mandates that, except for U.S. Treasury and agency obligations, no more than 10 percent of the Trust assets shall be invested in the securities of a single company or foreign government. Except for U.S. Treasury and agency obligations, no portfolio should invest more than 10 percent of the fund assets in the securities of a single company or foreign government.

Interest rate risk
For an investment, interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Fixed Income Investments are subject to interest rate risk as follows:

The following are risk characteristics for the Core Fixed Income Fund as of June 30, 2016:

Characteristic	Portfolio
Effective duration	5.1 years
Average maturity	8.8 years
Average Moody's quality	Aa2, with 68.2% of portfolio rated Aa or higher
Bond duration	5 years or less, 64.1%

The following are risk characteristics for the Emerging Markets Debt Fund as of June 30, 2016:

Characteristic	Portfolio
Modified duration	9.4 years
Average maturity	6.2 years
Average Moody's quality	Baa3, with 55.8% of portfolio rated Baa or higher

The following are risk characteristics for the High Yield Bond Fund as of June 30, 2016:

Characteristic	Portfolio
Effective duration	4.4 years
Average maturity	5.5 years
Average Moody's quality	B1, with 66.0% of portfolio rated B or higher

6. PENSION PLAN (continued)

Foreign Currency Risk
For an investment, foreign currency risk is the risk that the changes in exchange rates will adversely affect the fair value of an investment. The Plan's investments are not subject to any significant foreign currency risk.

The long-term expected rate of returns on Plan investments were calculated using the Modified Dietz method of calculation, which considers the timing of cash flows during the year and assumes a constant rate of return over the period. Annual performance is based on daily return streams, geometrically linked as of the specified time period. The asset classes used for these calculations approximate the actual asset class allocation of the plan's investments as follows:

Asset Class	Asset Allocation	Long-Term Expected Rate of Return
Equity	65%	10.8%
Fixed Income	35%	6.5%

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

Projected Schedule of Benefit Payments
($000 omitted)

Year	Number Retiring	Total Payouts
2016-2020	314	$ 192,627
2021-2025	191	252,283
2026-2030	134	306,418
2031-2035	81	354,646
2036-2040	69	387,555
2041-2045	26	388,675
Total projected benefit payments		$ 1,882,204

6. PENSION PLAN (continued)

Changes in Net Pension Liability

($000 omitted)	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)–(b)
Balance at June 30, 2015	$ 592,007	$426,572	$ 165,435
Changes for the year:			
Service Costs	10,083		10,083
Interest	43,983		43,983
Changes in benefit terms	8,619		8,619
Differences between expected and actual experience	11,291		11,291
Changes in assumptions	17,741		17,741
Contributions – employer		24,600	(24,600)
Net investment income		(622)	622
Benefit payments / refunds	(38,753)	(38,753)	
Administrative expenses		(797)	797
Net Change	52,964	(15,572)	68,536
Balance at June 30, 2016	$ 644,971	$ 411,000	$ 233,971

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

	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability ($000 omitted)	$311,121	$233,971	$169,061

6. PENSION PLAN (continued)

For the year ended June 30, 2016, NES recognized pension expense of $40.4 million. At June 30, 2016, NES reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 14,721	
Changes in assumptions	14,784	
Net difference between projected and actual earnings on pension plan investments	$ 22,288	$ -
Total	$ 51,793	$ -

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

Years Ending June 30:	
2017	$ 8,392
2018	8,392
2019	15,709
2020	11,940
2021	5,128
Thereafter	2,233

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6. PENSION PLAN (continued)

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

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. DEFINED CONTRIBUTION PENSION PLAN

Nashville Electric Service established a single-employer Defined Contribution Retirement Plan (the “DC Plan”) in 2012. This plan is intended to be a defined contribution money purchase pension plan. Its purpose is to provide retirement benefits to eligible employees and their beneficiaries. NES has sole responsibility for administration of the DC Plan and the authority to amend benefit provisions. The DC Plan is not required to issue a separate financial report.

All full-time regular employees hired on or after July 1, 2012 , and under age 65 are eligible to participate in the DC Plan. Employees are fully vested after five continuous 12-month periods of participation in the DC Plan. Retirement benefits for employees who retire at or after age 65 are paid in one-lump sum payment.

The DC Plan is a non-contributory plan. NES is required to make an employer basic contribution to the DC Plan for each Plan Year. The amount of the contribution is calculated by applying a uniform percentage, actuarially determined, to each participant’s compensation for the Plan Year. At December 31, 2015, the DC Plan had approximately 107 participants. For plan years ended December 31, 2016 and 2015, the contribution percentage was 13.16% and 11.54%, respectively. NES contributed $0.7 million and $0.4 million to the DC Plan in the fiscal year ended June 30, 2016 and June 30, 2015.

The NES investment policy mandates that investments in pooled fund holdings, including mutual funds, should substantially follow guidelines established by the policy for equity investments and fixed income investments. These guidelines also address concentrations of credit risk. The policy manages investment principle preservation and return risks through an overall long-term investment strategy that employs a diversified portfolio of actively traded stock and bond mutual fund investments. This results in sufficient liquidity through the ability to buy and sell in active markets. The investments are governed by total return objectives of the portfolio. The investments are typically rebalanced annual to achieve long-term asset allocation targets.

7. DEFINED CONTRIBUTION PENSION PLAN (continued)

All of the investments below are classified in Level 1 of the fair value hierarchy established by generally accepted accounting principles because they are valued using prices quoted in active markets for those investments. None are subject to any substantive redemption restrictions.

Equity Investments through / in mutual funds
($000 omitted)

Investments by fair value level	June 30, 2016
Registered Investment Companies – Mutual Funds	
SEI S&P 500 Index Fund	$ 458
SEI Small Mid Cap Fund	108
SEI World Equity Ex-US Fund	266

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

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

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

7. DEFINED CONTRIBUTION PENSION PLAN (continued)

Fixed Income Investments through / in mutual funds
($000 omitted)

Investments by fair value level	June 30, 2016
Registered Investment Companies – Mutual Funds	
SEI Core Fixed Income Fund	$ 295
SEI Emerging Markets Debt Fund	50
SEI High Yield Bond Fund	105

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

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

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

7. DEFINED CONTRIBUTION PENSION PLAN (continued)

Risk Disclosures

Credit Risk
For an investment, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Both equity and fixed income investments are subject to credit risk. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is NES policy to limit its investments in these investment types to the top rating issued by NRSROs. The Plan's investments in mutual funds are not rated by agencies such as Standards and Poor's, or Fitch. However, the funds are rated by Morningstar, which is a risk-based performance measurement for the funds compared to similar funds. Morningstar rates the investments between 3-stars and 5-stars.

Custodial Credit Risk
For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, NES will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. NES does not have any custodial credit risk.

Concentration of Credit Risk
For an investment, concentration of credit risk is the risk of loss attributed to the magnitude of a governments investment in a single issuer. Significant concentration guidelines are as follows:

Equity Investments through/in mutual funds
The Trust's investment policy mandates that no more than 10 percent of the Trust assets shall be invested in the securities of one company, and that no more than 25 percent of the Trust assets be invested in any single industry.

Fixed Income Investments through/in mutual funds
The Trust's investment policy mandates that, except for U.S. Treasury and agency obligations, no more than 10 percent of the Trust assets shall be invested in the securities of a single company or foreign government. Except for U.S. Treasury and agency obligations, no portfolio should invest more than 10 percent of the fund assets in the securities of a single company or foreign government.

Interest rate risk
For an investment, interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Fixed Income Investments are subject to interest rate risk as follows:

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7. DEFINED CONTRIBUTION PENSION PLAN (continued)

The following are risk characteristics for the Core Fixed Income Fund as of June 30, 2016:

Characteristic	Portfolio
Effective duration	5.1 years
Average maturity	8.8 years
Average Moody's quality	Aa2, with 68.2% of portfolio rated Aa or higher
Bond duration	5 years or less, 64.1%

The following are risk characteristics for the Emerging Markets Debt Fund as of June 30, 2016:

Characteristic	Portfolio
Modified duration	9.4 years
Average maturity	6.2 years
Average Moody's quality	Baa3, with 55.8% of portfolio rated Baa or higher

The following are risk characteristics for the High Yield Bond Fund as of June 30, 2016:

Characteristic	Portfolio
Effective duration	4.4 years
Average maturity	5.5 years
Average Moody's quality	B1, with 66.0% of portfolio rated B or higher

Foreign Currency Risk
For an investment, foreign currency risk is the risk that the changes in exchange rates will adversely affect the fair value of an investment. The Plan's investments are not subject to any significant foreign currency risk.

8. POST-EMPLOYMENT BENEFITS

NES provides post-retirement medical, dental, and life insurance benefits to all employees who retire from NES under the provisions of the qualified plan and supplemental executive retirement plan and have completed a minimum of five years of service. Medical and dental benefits are also provided to their spouses. As of June 30, 2016, approximately 647 retirees met the eligibility requirements. Expenses for these post-retirement benefits have previously been recognized as retirees report claims. Those incurred claims totaled $14.8 million and $13.0 million for the years ended June 30, 2016 and 2015, respectively. The total expenses that were recognized were $16.8 million and $16.5 million during the years ended June 30, 2016 and 2015, 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 21.5% percent of annual projected payroll. NES contributed 100 percent of the required contribution for the 2016 and 2015 Plan years.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts 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. The Plan was amended during 2016 to provide accident and outpatient surgery at the same level of cost sharing as for inpatient surgery and other major medical benefits. The cost sharing will phase in over seven years beginning January 1, 2017. NES conducted an experience study in fiscal year 2016 on the withdrawal rate and rate of retirement. Effects of the study were incorporated into the actuarial calculations for June 30, 2016.

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.

8. POST-EMPLOYMENT BENEFITS (continued)

Significant methods and assumptions were as follows:

Actuarial valuation date: April 1, 2016

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 5.0 percent per year and dental health care cost trend rates of 4.0 percent per year.

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

Plan Year	Annual Required Contribution	Percentage Contributed
2016	$ 16,835	100%
2015	16,493	100%
2014	15,222	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
4/1/2016	$ 84,325	$ 278,435	$ 194,110	30.3%	$ 78,207	248.2%
4/1/2015	78,069	249,211	171,142	31.3%	$ 78,176	218.9%
4/1/2014	66,597	245,210	178,613	27.2%	$ 76,241	234.3%

The NES OPEB Plan's investment policy mandates that investments in pooled fund holdings, including mutual funds, should substantially follow guidelines established by the policy for equity investments and fixed income investments. These guidelines also address concentrations of credit risk. The policy manages investment principle preservation and return risks through an overall long-term investment strategy that employs a diversified portfolio of actively traded stock and bond mutual fund investments.

8. POST-EMPLOYMENT BENEFITS (continued)

This results in sufficient liquidity through the ability to buy and sell in active markets. The investments are governed by total return objectives of the portfolio. The investments are typically rebalanced annually to achieve long-term asset allocation targets. Significant concentration guidelines are as follows:

Equity Investments through/in mutual funds
At June 30, 2016, equity investments consisted of the following mutual stated at fair value (in 000's omitted):

Registered Investment Companies – Mutual Funds	
SEI S&P 500 Index Fund	$ 30,997
SEI Small Mid Cap Fund	6,974
SEI World Equity Ex-US Fund	17,662

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

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

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

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8. POST-EMPLOYMENT BENEFITS (continued)

Fixed Income Investments through/in mutual funds
At March 31, 2016, fixed income investments consisted of the following mutual stated at fair value (in 000's omitted):

Registered Investment Companies – Mutual Funds	
SEI Core Fixed Income Fund	$ 21,476
SEI Emerging Markets Debt Fund	3,553
SEI High Yield Bond Fund	5,381

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

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

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

Fair Value Disclosures
All of the investments above are classified in Level 1 of the fair value hierarchy established by generally accepted accounting principles because they are valued using prices quoted in active markets for those investments. None are subject to any substantive redemption restrictions.

8. POST-EMPLOYMENT BENEFITS (continued)

Risk Disclosures

Credit Risk
For an investment, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Both equity and fixed income investments are subject to credit risk. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is NES policy to limit its investments in these investment types to the top rating issued by NRSROs. The Plan's investments in mutual funds are not rated by agencies such as Standards and Poor's, or Fitch. However, the funds are rated by Morningstar, which is a risk-based performance measurement for the funds compared to similar funds. Morningstar rates the investments between 3-stars and 5-stars.

Custodial Credit Risk
For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, NES will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. NES does not have any custodial credit risk.

Concentration of Credit Risk
For an investment, concentration of credit risk is the risk of loss attributed to the magnitude of a governments investment in a single issuer. Significant concentration guidelines are as follows:

Equity Investments through/in mutual funds
The Trust's investment policy mandates that no more than 10 percent of the Trust assets shall be invested in the securities of one company, and that no more than 25 percent of the Trust assets be invested in any single industry.

Fixed Income Investments through/in mutual funds
The Trust's investment policy mandates that, except for U.S. Treasury and agency obligations, no more than 10 percent of the Trust assets shall be invested in the securities of a single company or foreign government. Except for U.S. Treasury and agency obligations, no portfolio should invest more than 10 percent of the fund assets in the securities of a single company or foreign government.

Interest rate risk
For an investment, interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Fixed Income Investments are subject to interest rate risk as follows:

8. POST-EMPLOYMENT BENEFITS (continued)

The following are risk characteristics for the Core Fixed Income Fund as of June 30, 2016:

Characteristic	Portfolio
Effective duration	5.1 years
Average maturity	8.8 years
Average Moody's quality	Aa2, with 68.2% of portfolio rated Aa or higher
Bond duration	5 years or less, 64.1%

The following are risk characteristics for the Emerging Markets Debt Fund as of June 30, 2016:

Characteristic	Portfolio
Modified duration	9.4 years
Average maturity	6.2 years
Average Moody's quality	Baa3, with 55.8% of portfolio rated Baa or higher

The following are risk characteristics for the High Yield Bond Fund as of June 30, 2016:

Characteristic	Portfolio
Effective duration	4.4 years
Average maturity	5.5 years
Average Moody's quality	B1, with 66.0% of portfolio rated B or higher

Foreign Currency Risk
For an investment, foreign currency risk is the risk that the changes in exchange rates will adversely affect the fair value of an investment. The Plan's investments are not subject to any significant foreign currency risk.

9. 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 $3.7 million and $3.6 million to the plan for the years ended June 30, 2016 and 2015, respectively. NES contributed $2.1 million and $2.0 million to the 457 Plan for the years ended June 30, 2016 and June 30, 2015.

10. LEASES

Total rental expense entering into the determination of net position amounted to approximately $1.0 million in both 2016 and 2015. Rental expense consists primarily of payments for facilities rental and leasing arrangements for software licensing. NES leases these facilities and software under various cancelable lease agreements. The majority of these leases are cancelable by either party within six to twelve months. Therefore, future minimum rentals under these leases are $2.7 million in 2017.

Rental income is received under pole-attachment leases, which are accounted for as operating leases. Rental income from telephone provider pole-attachments totaled $2.5 million for each of the years ended June 30, 2016 and 2015, respectively. Rental income from cable provider pole-attachments totaled $2.9 million at June 30, 2016, and $2.5 million at June 30, 2015. The net book value of the poles for use in the rental activity was $131.6 million and $131.8 million at June 30, 2016 and 2015, respectively. Accumulated depreciation on poles was $83.3 million at June 20, 2016 and $77.5 million at June 30, 2015.

11. RISK MANAGEMENT AND LIABILITY

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

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11. RISK MANAGEMENT AND LIABILITY (continued)

NES is self-insured for employee medical, dental and vision claims and self-insured up to $100,000 for employee medical claims. The changes in the insurance reserves for medical, dental and vision benefits for active employees and retirees for the years ended June 30, 2016 and 2015 are as follows ($000 omitted):

Balance – June 30, 2014	$ 2,984
Payments	(22,899)
Incurred Claims	23,056
Balance – June 30, 2015	$ 3,141
Payments	(24,542)
Incurred Claims	25,193
Balance – June 30, 2016	$ 3,792

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.

12. RELATED PARTY TRANSACTIONS

NES has 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, 2016 and 2015 are summarized as follows ($000 omitted):

	2016	2015
Balances:		
Accounts receivable	$ 4,587	$ 3,763
Transactions:		
Commercial and industrial revenue – Metropolitan Government Entities	63,132	64,799
Outdoor lighting – Metropolitan Government Entities	8,217	9,179
Tax equivalents operating expense – Metropolitan Government Entities	29,804	31,396

12. RELATED PARTY TRANSACTIONS (continued)

NES and the Metropolitan Government of Nashville agreed that NES would install traffic lights and related traffic controls at the North Service Center facility upon its completion. The fixtures were installed during fiscal year 2016 and subsequently contributed to Metro. The conveyance of the traffic controls resulted in a recognized loss for NES of $0.2 million in 2016.

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

13. COMMITMENTS

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

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

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

NES purchased power totaling $884.5 million from TVA during the year ending June 30, 2016. The Power Contract establishes the resale rates that NES and other distributors charge the ultimate power consumers. These rates are revised from time to time to reflect changes in costs, including changes in the wholesale cost of power. While the wholesale rates are uniformly applicable to all distributors of TVA power under the present power contracts with distributors such as NES, the retail resale rates will vary among distributors of TVA power depending upon the respective distributor's retail customer distribution costs. The rates of TVA for the sale of electric power in the TVA region and its contracts with distributors, including TVA, are structured with the intent to achieve the TVA Act's objective of the distributors of TVA power, including NES, to operate the respective distribution systems on a nonprofit basis and to provide a wide and ample supply of power at the lowest feasible rates.

13. COMMITMENTS (continued)

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

14. SUBSEQUENT EVENTS

NES has evaluated subsequent events through October 20, 2016, the issuance date of the financial statements, and has determined that there are no other subsequent events that require disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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Retirement Annuity and Survivors Plan
Schedule of Changes in Net Pension Liability (Unaudited)

	Years ended June 30, 2016	2015	2014
Total Pension Liability			
Service Costs	$ 10,082,534	$ 10,791,995	$ 9,934,862
Interest	43,982,739	41,399,061	39,288,033
Changes in benefit terms	8,619,615		
Differences between expected and actual experience	11,291,250	1,767,775	6,127,296
Changes of assumptions	17,740,812	-	-
Benefit Payments / Refunds	(38,753,201)	(28,720,035)	(27,104,368)
Net Change in Total Pension Liability	$ 52,963,749	$ 25,238,796	$ 28,245,823
Total Pension Liability, beginning	592,006,589	$ 566,767,793	$ 538,521,970
Total Pension Liability, ending (a)	$ 644,970,338	$ 592,006,589	$ 566,767,793
Plan Fiduciary Net Position			
Contributions – employer	$ 24,600,000	$ 25,746,366	$ 22,812,880
Net investment income	(622,257)	12,207,239	63,101,612
Benefit Payments / Refunds	(38,753,201)	(28,720,035)	(27,104,368)
Administrative expenses	(796,558)	(682,629)	(450,603)
Net Change in Plan Fiduciary Net Position	($ 15,572,016)	$ 8,550,941	$ 58,359,521
Plan Fiduciary Net Position – beginning	426,572,641	418,021,700	359,662,179
Plan Fiduciary Net Position – ending (b)	$ 411,000,625	$ 426,572,641	$ 418,021,700
Net Pension Liability – ending (a) – (b)	$ 233,969,713	$ 165,433,947	$ 148,746,093
Plan Fiduciary Net Position as a % of the Total Pension Liability	64%	72%	74%
Covered –employee payroll	$ 69,336,555	$ 68,800,950	$ 69,409,887
Net Pension Liability as a % of covered-employee payroll	337%	240%	214%

Notes to Schedule:

The Plan Sponsor conducted an experience study in fiscal year 2016 on the withdrawal rate and rate of retirement. Effects of the study were incorporated into the net pension liability calculation at June 30, 2016. The overall impact of this change in assumptions to net pension liability was an increase of $17.7 million, of which $2.8 million was recognized in pension expense at June 30, 2016.

As permitted by GASB 68, upon adoption, NES determined that it was impractical to present ten years of data as required by certain disclosures: the previous method of determining the pension liability, while permitted under the previous standards, was not the Entry Age Actuarial Method required by GASB 68. The Plan Sponsor determined that the cost to recompute all historical data using the Entry Age Method was prohibitive for the disclosure benefits obtained. Accordingly, cumulative tables present data from the date of adoption, July 1, 2013.

Retirement Annuity and Survivors Plan
Schedule of Contributions (Unaudited)

	Years ended June 30, 2016	2015	2014
Actuarially determined contribution	$24,594,439	$25,746,365	$22,897,905
Contributions in relation to the actuarially determined contribution	24,600,000	25,746,366	22,812,880
Contribution deficiency (excess)	($5,561)	($1)	$85,025
Covered employee payroll	$69,336,555	$68,800,950	$69,409,887
Contributions as a percentage of covered-employee payroll	35%	37%	33%

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

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Retirement Annuity and Survivors Plan
Schedule of Investment Returns (Unaudited)

Annual money-weighted rate of return, net of investment expense:

Year Ended June 30	Return
2016	-0.15%
2015	2.97%
2014	17.75%

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded Percentage	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c
4/1/2016	$84,324,863	$278,434,774	$194,109,911	30.3%	$78,206,706	248.2%
4/1/2015	78,069,285	249,211,205	171,141,920	31.3%	78,175,709	218.9%
4/1/2014	66,596,617	245,210,065	178,613,448	27.2%	76,241,228	234.3%

NES

THE POWER OF PEOPLE

NES

nashville electric service
1214 church street
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