





# president's letter

ith a relentless commitment to continuous improvement, Nashville Electric Service (NES) is undergoing a significant evolution in order to adapt to changes in the industry and exceed customer expectations. We are evaluating every touch point that we have with our customers and are working to make those interactions seamless, efficient and positive for the people we serve.

Throughout this transformation, NES remains well-positioned to facilitate the city's rapid growth as we support the economic and environmental health and infrastructure of our region. Every decision we make is focused on providing safe, reliable and economical power for our customers' comfort and security.

We are carefully investing in technology to further improve reliability and safety across our service area. Intelligent equipment that speeds up restoration time and provides real time feedback on system performance will be installed over the next few years. We're also undergoing a new Information Technology infrastructure that will replace obsolete and aging systems and increase workforce efficiency.

We strive to be good stewards of our funds and have maintained our AA+ bond rating. NES plans to meet the growing needs of Middle Tennessee while also looking for ways to cut costs such as implementing automated meter reading routes with the installation of AMI (Advanced Metering Infrastructure) meters. We've also reduced purchased power costs by \$2.5 million annually through our Peak Load Management program. And since 2000, we've maintained staffing levels even with a 23 percent increase to our customer base.

This year, NES announced its commitment to sustainability by partnering with the Tennessee Valley Authority, Metro and The Community Foundation of Middle Tennessee to launch the city's first community solar program. Music City Solar demonstrates the benefits of local partnerships to meet a growing interest in renewable power, and we are excited about increasing the amount of green energy in

Middle Tennessee. The solar array is expected to generate approximately 2.8 million kilowatt-hours of electricity a year, which is enough to meet the average annual energy needs of 210 households.

Our service standards go beyond simply meeting the needs of our customers. We are striving to exceed expectations with new product offerings and improved self-service features. This year, we maintained an 83 percent customer satisfaction rating. Our website, nespower.com, underwent a redesign to provide a more modern look while improving compatibility and usability on mobile devices. We also strengthened our cybersecurity program to protect against security breaches. Additionally, we launched a multi-faceted promotional campaign to increase program participation in Project Help, a program that provides temporary energy assistance to customers who cannot afford to pay their electric bill. More than 400 customers enrolled during the three-month drive, resulting in \$11,148 donations annually.

Improving our customer experience starts with empowering and motivating our employees to become ambassadors for NES. So it is of the utmost importance to provide opportunities for our team to grow and develop. We have implemented our first training and development program specifically for NES managers and provided training for NES employees on the new hazardous energy control procedure as well as mutual respect and diversity.

This past fiscal year has been an exciting one for NES, but we will keep moving forward to ensure an even brighter year ahead.

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DECOSTA JENKINS
PRESIDENT & CHIEF EXECUTIVE OFFICER



Financial Statements for the years ended JUNE 30, 2017 & 2016

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board members



**DECOSTA JENKINS** NES President and **Chief Executive Officer** 



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



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



ROBERT MCCABE NES Board Vice Chair Chairman



SAMUEL H. HOWARD Chairman Phoenix Holdings, Inc.



**IRMA PAZ-BERNSTEIN** 



**CAROLYN SCHOTT** 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 financial statements of the Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Electric Power Board"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, which consist of the statements of net position as of June 30, 2017 and 2016, 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, 2017 and 2016, and the changes in its financial 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 12 through 21 and supplemental schedules on pages 67 through 70, 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

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2017 on our consideration of the Electric Power Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Electric Power Board's internal control over financial reporting and compliance.

Nashville, Tennessee October 25, 2017

#### 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, 2017 and 2016 as compared to fiscal years 2016 and 2015, 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."

#### **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. This section is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position based on currently known facts, decisions or conditions. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole. A description of recently adopted and recently issued accounting pronouncements and the effects on these financial statements can be found in Note 1.

#### **Basic Financial Statements**

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

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

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

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

### MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### **Summary of Changes in Net Position**

Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$614.0 million at June 30, 2017, and \$571.4 million at June 30, 2016. This represents an increase of \$42.6 million in 2017 and \$28.6 million in 2016.

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,			
	2017	2016	2015	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES CURRENT ASSETS	\$516,874	\$489,629	\$466,859	
INVESTMENT OF RESTRICTED FUNDS	194,181	116,266	145,640	
UTILITY PLANT, NET	973,053	939,159	919,884	
OTHER NON-CURRENT ASSETS	1,946	2,778	<u>3,356</u>	
TOTAL ASSETS	1,686,054	1,547,832	1,535,739	
DEFERRED OUTFLOWS OF RESOURCES	42,189	69,227	25,401	
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$1,728,243</u>	<u>\$1,617,059</u>	<u>\$1,561,140</u>	

#### MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

#### STATEMENTS OF NET POSITION (\$000 omitted) continued

		June 30,	
	2017	2016	2015
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES CURRENT LIABILITIES	\$ 210,190	\$ 206,408	\$ 200,358
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	30,782	29,830	37,283
LONG-TERM DEBT, LESS CURRENT PORTION	658,867	568,384	599,342
NET PENSION LIABILITY	206,193	233,971	165,435
OTHER NON-CURRENT LIABILITIES	5,227	<u>7,030</u>	8,912
TOTAL LIABILITIES	<u>1,111,259</u>	<u>1,045,623</u>	<u>1,011,330</u>
DEFERRED INFLOWS OF RESOURCES	3,009		6,945
NET POSITION			
Net investment in capital assets	424,912	410,691	384,058
Restricted for debt services	70,030	63,953	63,730
Unrestricted	119,033	96,792	95,077
TOTAL NET POSITION	613,975	571,436	542,865
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES			
AND NET POSITION	<u>\$1,728,243</u>	<u>\$1,617,059</u>	<u>\$1,561,140</u>

#### **Liquidity and Capital Resources**

On June 14, 2017, the Board closed on the sale of the Metropolitan Government of Nashville and Davidson County, Electric System Revenue Bonds, 2017 Series A and the Metropolitan Government of Nashville and Davidson County, Electric System Revenue Refunding Bonds, 2017 Series B.

The 2017 Series A Bonds were issued to finance a portion of the costs incurred in connection with the acquisition, expansion and improvement of the Electric System in accordance with the Board's capital improvement plan. The 2017 Series A Bonds have an aggregate principal amount of \$107.0 million, and mature annually on May 15, 2018 through 2042. The 2017 Series A Bonds were issued at a premium totaling \$20.5 million.

The 2017 Series B Bonds were issued to refund 47.6 percent of outstanding 2011 Series A Bonds, and 36.2 percent of outstanding 2011 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 2017 Series B bonds have an aggregate principal amount of \$76.5 million, and mature annually on

#### MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

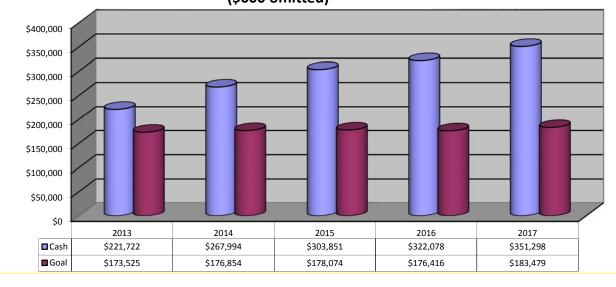
May 15, 2022 through 2031. The 2017 Series B Bonds were issued at a premium totaling \$16.9 million and resulted in future interest expense savings of approximately \$7.4 million.

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. This credit facility was renewed effective July 1, 2017.

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, 2017, 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 2017. That percentage was 31.6 percent as of June 30, 2017, and 30.1 percent as of June 30, 2016. 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, 2017, was 3.4 to 1. The Board continues to exceed its goals. The outlook on all debt ratings is stable as of June 30, 2017.

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



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

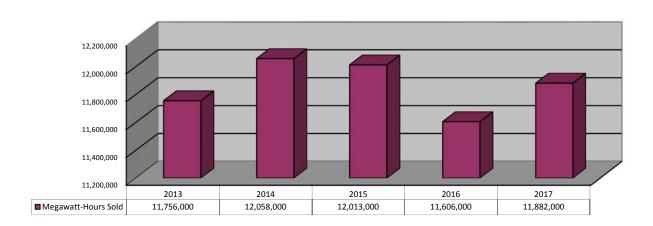
				Year Ended	
	Year En	ided June 30,	Change in	June 30,	Change in
	2017	2016	Net Position	2015	Net Position
Operating revenues, net	\$1,260,957	\$1,201,448	\$59,509	\$1,246,632	\$(45,184)
Purchased power	(932,275)	(884,535)	(47,740)	(929,726)	45,191
Operating revenues, net, less Purchased power	328,682	316,913	11,769	316,906	7
Operating expenses	(177,160)	(181,163)	4,003	(149,512)	(31,651)
Depreciation and tax equivalents	(88,877)	(86,839)	(2,038)	(87,076)	237
Interest income	2,384	1,303	1,081	995	308
Interest expense and other, net	(22,490)	(21,643)	(847)	(25,500)	3,857
Increase in net position	\$ 42,539	<u>\$ 28,571</u>	<u>\$ 13,968</u>	<u>\$ 55,813</u>	<u>\$(27,242)</u>

#### 2017 and 2016 Results of Operations

Operating Revenues. Operating revenues, net, increased by \$59.5 million, or 5.0 percent, when compared to 2016. Total electric sales were \$1.3 billion and \$1.2 billion during 2017 and 2016, respectively. The average realized rate on electric sales was \$0.1043 compared to \$0.1019 per kilowatt-hour in 2016. Megawatt-hours sold in 2017 increased by 2.4 percent when compared to 2016. 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 degreedays were 2,229 compared to 1,916 in 2016. Total heating degree-days were 2,453 compared to 2,735 in 2016. Total heating and cooling degree-days were 4,682 compared to 4,651 in 2016, or an increase of approximately 0.7 percent. Residential revenue increased \$28.3 million or 5.7 percent compared to the previous year. Residential revenue is highly correlated to degree days. Commercial and industrial revenue increased \$29.4 million or 4.4 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 2.3 percent when compared to 2016. Revenue in Excess of Net Bills (Late Charges) increased by \$0.1 million, and Rentals of Electric Property (primarily pole attachments) increased by \$1.4 million.

### MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

#### **Megawatt-Hours Sold**



Non-operating Revenues. Interest Income was \$2.4 million compared to \$1.3 million in 2016. The average rate of return on the General Fund was 0.61 percent in 2017 compared to 0.22 percent in 2016. The average monthly balance of the General Fund was \$316.9 million in 2017 compared to \$290.3 million in 2016, an increase of 9.2 percent. Interest income from the bond sinking funds was \$0.3 million in 2017. Interest income from the construction funds decreased to \$0.1 million from the prior 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 \$932.2 million for the period compared to \$884.5 million last year. The average realized rate on purchased power was \$0.078 per kilowatt-hour in 2017 compared to \$0.076 in 2016. Megawatt-hours purchased were 12.2 million in 2017 compared to 11.9 million in 2016.

Distribution expenses for the period were \$65.9 million compared to \$62.6 million last year. This is an increase of \$3.3 million or 5.3 percent. The change is primarily attributable to increases in the following expense categories: operation and maintenance of overhead lines, \$2.0 million; storms, \$1.2 million; operation and maintenance of meters, \$0.9 million; and operation and maintenance of street light and signal system, \$0.8 million. These increases were offset by decreases in the following expense categories: tree trimming, \$0.6 million; supervision and engineering, \$0.4 million; operation and maintenance of station equipment, \$0.2 million; operation and maintenance of underground lines, \$0.2 million; and load dispatching, \$0.1 million.

Customer Accounts expenses and Customer Service and Information expenses combined were \$23.0 million for the period compared to \$22.9 million last year or an increase of \$0.1 million or 0.4 percent. The change is primarily attributable to increases in the following expense categories: data processing, \$1.1 million; and customer records and collections, \$0.9 million. The increases were offset by decreases in the following expense categories: meter reading, \$1.1 million; customer orders and service, \$0.6 million; and customer assistance, \$0.1 million.

### MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Administrative and General (A&G) expenses were \$88.3 million for the period compared to \$95.6 million last year. This was a decrease of \$7.3 million or 7.7 percent. The change is primarily attributable to decreases in the following expense categories: employee pensions, \$7.0 million; allocated overhead, \$6.1 million; injuries and damages, \$0.4 million; and duplicate charges - credits, \$0.2 million. These decreases were offset by increases in the following expense categories: employee health insurance, \$3.2 million; data processing, \$2.1 million; office supplies and expense, \$0.7 million; employee welfare, \$0.2 million; and maintenance of general plant, \$0.2 million.

Depreciation and Taxes and Equivalents were \$55.4 million and \$33.5 million, respectively, for 2017, compared to \$54.5 million and \$32.4 million, respectively, for 2016. The increase in depreciation was the result of increased investment in the utility plant. Tax equivalents consist primarily of payments in-lieu-of taxes to the Metropolitan Government and the surrounding counties. Such payments are calculated based on a prescribed formula that takes into consideration utility plant value and the average of the Board's last three years' operating margin, which is the operating revenue, net, less purchased power expenses. The increase in payments in-lieu-of taxes was the result of increases in tax rates coupled with increased investment in the utility plant.

#### 2016 and 2015 Results of Operations

Operating Revenues. Operating revenues, net, 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. Interest income from the bond sinking funds increased to \$0.3 million from the prior year. Interest income from the construction funds decreased to \$0.4 million from the prior 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

### MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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 meters, \$0.3 million.

Customer Accounts expenses 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; and customer assistance, \$0.3 million. These increases were offset by a decrease 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.

### MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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

### Major Classifications of Expense (\$000 omitted)

			<u>Increase</u>		<u>Increase</u>
<u>Description</u>	<b>Fiscal 2017</b>	<b>Fiscal 2016</b>	(Decrease)	Fiscal 2015	(Decrease)
Labor	\$ 72,720	\$ 69,046	5.3%	\$ 68,600	0.7%
Benefits	57,481	67,482	(14.8%)	42,613	58.4%
Tree-trimming	10,476	11,254	(6.9%)	6,951	61.9%
Outside Services	12,614	11,454	10.1%	10,571	8.4%
Materials	3,522	2,416	45.8%	2,128	13.5%
Transportation	3,935	4,082	(3.6%)	4,539	(10.1%)
Security/Police	1,475	1,400	5.4%	1,401	(0.1%)
Rentals	989	961	2.9%	999	(3.8%)
Professional Fees	1,631	1,244	31.1%	1,061	17.2%
Insurance Premiums	1,076	1,172	(8.2%)	1,283	(8.7%)
Other	11,241	10,652	5.5%	9,366	13.7%
	<u>\$177,160</u>	<u>\$181,163</u>	(2.2%)	<u>\$149,512</u>	21.2%

### 2017 and 2016 Expense

The Board's total operating expenses decreased 2.2% percent from June 30, 2016 to June 30, 2017. Labor for fiscal year 2017 totaled \$72.7 million, the increase was due to increases in cost-of-living and merit adjustment, along with employee step increases. Benefits decreased from fiscal year 2016 primarily due to decreased Retirement and Survivors. The decrease is primarily attributed to favorable GASB 68 investment market adjustments and capital project allocation adjustments, offset by higher actuarial values. Tree trimming decreased for the period as compared to June 30, 2016, as a result of increased tree trimming in 2016 to accommodate for prior year contractor delays. Outside Services increased primarily due to increased customer engineering and system operations contractor requirements in 2017 and the new technology strategy project. Materials increased due to obsolete inventory adjustments, greater substation and transformer related materials and additional requirements for the North Service Center. Transportation costs decreased due to a reduction in large truck requirements in 2017. Security/Police increased due to more traffic control required for downtown network system projects. Rentals remained stable from 2016 to 2017. Professional fees increased due to increases in professional consulting services for Human Resources, Facilities, Customer Relations and Finance in 2017. Insurance decreased due to more favorable premiums than anticipated. The Other category contains a wide array of smaller expense types. There were no major fluctuation in these categories.

#### MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### 2016 and 2015 Expense

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, 2017 was \$973.1 million compared to \$939.2 million at June 30, 2016. Major projects during fiscal year 2017 included capital maintenance, \$20.4 million; meters and transformer purchases, \$19.3 million; new business installations, \$17.6 million; system construction, \$12.2 million; and technology upgrade, \$7.3 million.

The Board has outstanding bonds payable of \$686.2 million at June 30, 2017 compared to \$593.7 million at June 30, 2016. The increase is due to the issuance of the 2017 Series A and Series B bonds issued June 14, 2017 with associated bonds payable of \$220.8 million. This increase is offset by the refunding of a portion of the 2011 Series A and Series B bonds with associated bonds payable of \$90.1 million, scheduled debt payments of \$25.4 million, and accretion and amortization of \$13.0 million. More details about the Board's capital assets and debt can be found in the notes to the financial statements.

Respectfully submitted,

Deresa Bayla - Golin

Teresa Broyles-Aplin

**Executive Vice President and Chief Financial Officer** 

# STATEMENTS OF NET POSITION (\$000 OMITTED) JUNE 30, 2017 AND 2016

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 351,298	\$ 322,078
Customer and other accounts receivable,		
less allowance for doubtful accounts		
of \$397 and \$427 respectively	138,054	141,589
Materials and supplies	20,378	18,971
Other current assets	7,144	6,991
TOTAL CURRENT ASSETS	516,874	489,629
INVESTMENT OF RESTRICTED FUNDS:		
Cash and cash equivalents	12,307	44,774
Other investments	181,874	71,492
TOTAL INVESTMENT OF RESTRICTED FUNDS	194,181	116,266
UTILITY PLANT:		
Electric plant, at cost	1,641,382	1,570,656
Less: Accumulated depreciation	(668,329)	(631,497)
·		
TOTAL UTILITY PLANT, NET	973,053	939,159
OTHER NON-CURRENT ASSETS	<u>1,946</u>	2,778
TOTAL ASSETS	<u>1,686,054</u>	<u>1,547,832</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amount on refunding of debt	17,358	17,434
Difference between projected and actual pension earnings, net	-	22,288
Difference between projected and actual pension experience	11,687	14,493
Difference between projected and actual pension assumptions	13,144	15,012
Sincreme seemeen projected and detail pension assumptions		
TOTAL DEFERRED OUTFLOWS OF RESOURCES	42,189	69,227
	, -	•
TOTAL ASSETS AND DEFERRED OUTLFOWS OF RESOURCES	1,728,243	1,617,059

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, 2017 AND 2016 (continued)

	2017	2016
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
CURRENT LIABILITIES:		
Accounts payable for purchased power	158,933	153,305
Trade accounts payable	19,196	20,708
Accrued expenses	15,314	16,511
Customer deposits	16,747	<u>15,884</u>
TOTAL CURRENT LIABILITIES	210,190	206,408
CURRENT LIABILITIES PAYABLE FROM		
RESTRICTED ASSETS:		
Construction contracts payable	656	1,425
Accrued interest payable	2,828	3,048
Current portion of long-term debt	27,298	25,357
TOTAL CURRENT HARMITIES DAVARIS FROM		
TOTAL CURRENT LIABILITIES PAYABLE FROM	20.782	20.020
RESTRICTED ASSETS	30,782	29,830
LONG-TERM DEBT, LESS CURRENT PORTION	658,867	568,384
NET PENSION LIABILITY	206,193	233,971
OTHER NON-CURRENT LIABILITIES	5,227	7,030
TOTAL LIABILITIES	1,111,259	1,045,623
DEFERRED INFLOWS OF RESOURCES		
Difference between projected and actual pension earnings, net	438	-
Difference between projected and actual pension experience	2,571	<del>_</del>
TOTAL DEFERRED INFLOWS OF RESOURCES	3,009	-
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	1,114,268	1,045,623
NET POSITION		
Net investment in capital assets	424,912	410,690
Restricted for debt services	70,030	63,954
Unrestricted	119,033	96,792
TOTAL NET POSITION	613,975	571,436
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	<u>\$ 1,728,243</u>	<u>\$ 1,617,059</u>

See notes to financial statements.

# STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (\$000 OMITTED) YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES:		
Residential	\$ 526,804	\$ 498,458
Commercial and industrial	692,152	662,727
Street and highway lighting	19,446	19,275
Other	22,555	20,988
Total operating revenues, net	1,260,957	1,201,448
PURCHASED POWER	932,275	884,535
Operating revenues, net, less purchased power	328,682	316,913
OPERATING EXPENSES	177,160	181,163
TAX EQUIVALENTS	33,468	32,383
DEPRECIATION	55,409	<u>54,456</u>
Operating income	62,645	48,911
NON-OPERATING REVENUE (EXPENSE):		
Interest income	2,384	1,303
Loss on conveyance of property	-	(177)
Interest expense, net	(22,490)	(21,466)
Total non-operating expense	(20,106)	(20,340)
NET INCREASE IN NET POSITION	42,539	28,571
NET POSITION, beginning of year	571,436	542,865
NET POSITION, end of year	\$ 613,975	\$ 571,436

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, 2017 AND 2016

CASH FLOWS FROM OPERATING ACTIVITIES:         \$ 1,266,619         \$ 1,198,453           Payments to suppliers for goods and services         (1,049,872)         (990,103)           Payments to employees         (58,622)         (55,913)           Payments for tax equivalents         (32,296)         (31,332)           Net cash provided by operating activities         125,829         121,105           CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:         93,364         -           Proceeds from sale of revenue bonds         93,364         -           Payment on defeased debt         (83,046)         -           Deferred outflow debt defeasance         (10,122)         -           Net cash provided by non-capital financing activities         196         -           CASH FLOWS FROM CAPITAL AND RELATED         191,306         (77,108)           FINANCING ACTIVITIES:         4,983         (5,824)           Salvage received from utility plant retriements         1,117         758           Contribution in aid of construction         4,703         5,161           Principal payments on revenue bonds         (25,357)         (31,290)           Interest payments on revenue bonds         (25,357)         (25,219)           Net cash used in capital and related financing activities         (20,876)		2017	2016
Payments to suppliers for goods and services         (1,049,872)         (990,103)           Payments to employees         (58,622)         (55,913)           Payments for tax equivalents         (32,296)         (31,332)           Net cash provided by operating activities         125,829         121,105           CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	CASH FLOWS FROM OPERATING ACTIVITIES:		_
Payments to employees   (58,622)   (55,913)   Payments for tax equivalents   (32,296)   (31,332)       Net cash provided by operating activities   125,829   121,105       CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: Proceeds from sale of revenue bonds   93,364   -	Receipts from customers	\$ 1,266,619	\$ 1,198,453
Payments for tax equivalents         (32,296)         (31,332)           Net cash provided by operating activities         125,829         121,105           CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: Proceeds from sale of revenue bonds         93,364         - Payment on defeased debt         (83,046)         - Payment on defeased debt         (83,046)         - Payment on defeased debt         (83,046)         - Payment on defeased debt         - Payment on defeased debt         (83,046)         - Payment on defeased debt         - Payment on defeased debt         (83,046)         - Payment on defeased debt         - Payment defeased debt         <	Payments to suppliers for goods and services	(1,049,872)	(990,103)
Net cash provided by operating activities  CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: Proceeds from sale of revenue bonds Payment on defeased debt (83,046) Deferred outflow debt defeasance (10,122) Net cash provided by non-capital financing activities  CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: Acquisition and construction of utility plant (91,306) Utility plant removal costs (4,983) Salvage received from utility plant retirements 1,117 758 Contributions in aid of construction Proceeds from sale of revenue bonds 127,477 Principal payments on revenue bonds 127,477 Principal payments on revenue bonds (25,357) Interest payments on revenue bonds (25,357) Net cash used in capital and related financing activities  CASH FLOWS FROM INVESTING ACTIVITIES: Purchases of investment securities 131,697 103,820 Transferred into escrow (339) Interest on investments  Net cash (used in) provided by investing activities (108,396)  Net (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR  S 363,605 S 366,852  CASH AND CASH EQUIVALENTS AT END OF YEAR S 363,605 S 366,852	Payments to employees	(58,622)	(55,913)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: Proceeds from sale of revenue bonds 93,364 - Payment on defeased debt (83,046) - Deferred outflow debt defeasance (10,122) - Net cash provided by non-capital financing activities 196 -  CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: Acquisition and construction of utility plant (91,306) (77,108) Utility plant removal costs (4,983) (5,824) Salvage received from utility plant retirements 1,117 758 Contributions in aid of construction 4,703 5,161 Proceeds from sale of revenue bonds 127,477 - Principal payments on revenue bonds (25,357) (31,230) Interest payments on revenue bonds (25,357) (32,230) Interest payments on revenue bonds (20,876) (133,462)  CASH FLOWS FROM INVESTING ACTIVITIES: Purchases of investment securities (242,079) (60,279) Proceeds from sales and maturities of investment securities 131,697 103,820 Transferred into escrow (339) - Interest on investments (108,396) 44,629  Net cash (used in) provided by investing activities (108,396) 44,629  NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS (3,247) 32,272  CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR Sa63,605 Sa66,852	Payments for tax equivalents	(32,296)	(31,332)
Proceeds from sale of revenue bonds 93,364 Payment on defeased debt (83,046) - Deferred outflow debt defeasance (10.122) -  Net cash provided by non-capital financing activities 196 -  CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: Acquisition and construction of utility plant (4,983) (5,824) Utility plant removal costs (4,983) (5,824) Salvage received from utility plant retirements 1,117 758 Contributions in aid of construction 4,703 5,161 Proceeds from sale of revenue bonds 127,477 - Principal payments on revenue bonds (25,357) (31,230) Interest payments on revenue bonds (33,527) (25,219)  Net cash used in capital and related financing activities (20,876) (133,462)  CASH FLOWS FROM INVESTING ACTIVITIES: Purchases of investment securities (242,079) (60,279) Proceeds from sales and maturities of investment securities 131,697 103,820 Transferred into escrow (339) - Interest on investments (108,396) 44,629  NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS  AT BEGINNING OF YEAR 366,852 334,580  CASH AND CASH EQUIVALENTS  AT END OF YEAR \$ 363,605 \$ 366,852	Net cash provided by operating activities	125,829	121,105
Payment on defeased debt Deferred outflow debt defeasance Deferred outflow debt defeasance Net cash provided by non-capital financing activities  CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: Acquisition and construction of utility plant Utility plant removal costs Salvage received from utility plant retirements Contributions in aid of construction Proceeds from sale of revenue bonds It27,477 Principal payments on revenue bonds Interest payments on revenue bonds Interest payments on revenue bonds ICS, 25,357; ICS, 219)  Net cash used in capital and related financing activities ICS, 26,219  Net cash used in capital and related financing activities ICS, 26,219; Interest payments of investment securities ICS, 26,219; Interest on investment securities ICS, 26,219; Interest on investments ICS, 26,219; Interest on investments ICS, 26,219; Interest on investments ICS, 26,219; INCS, 26,219; IN			
Deferred outflow debt defeasance         (10,122)         —           Net cash provided by non-capital financing activities         196         —           CASH FLOWS FROM CAPITAL AND RELATED         Secondary 100         (77,108)           FINANCING ACTIVITIES:         4(983)         (5,824)           Acquisition and construction of utility plant         (91,306)         (77,108)           Utility plant removal costs         (4,983)         (5,824)           Salvage received from utility plant retirements         1,117         758           Contributions in aid of construction         4,703         5,161           Proceeds from sale of revenue bonds         (25,357)         (31,230)           Interest payments on revenue bonds         (25,357)         (31,230)           Interest payments on revenue bonds         (32,527)         (25,219)           Net cash used in capital and related financing activities         (20,876)         (133,462)           CASH FLOWS FROM INVESTING ACTIVITIES:         Purchases of investment securities         (242,079)         (60,279)           Proceeds from sales and maturities of investment securities         131,697         103,820           Transferred into escrow         (339)         -           Interest on investments         (2,325)         1,088			-
Net cash provided by non-capital financing activities 196 —  CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: Acquisition and construction of utility plant (91,306) (77,108) Utility plant removal costs (4,983) (5,824) Salvage received from utility plant retirements 1,117 758 Contributions in aid of construction 4,703 5,161 Proceeds from sale of revenue bonds 127,477 — Principal payments on revenue bonds (25,357) (31,230) Interest payments on revenue bonds (32,527) (25,219)  Net cash used in capital and related financing activities (20,876) (133,462)  CASH FLOWS FROM INVESTING ACTIVITIES: Purchases of investment securities (242,079) (60,279) Proceeds from sales and maturities of investment securities 131,697 103,820 Transferred into escrow (339) — Interest on investments (3,235) 1.088  Net cash (used in) provided by investing activities (108,396) 44,629  NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 366,852 334,580  CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 366,852 \$ 366,852			-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: Acquisition and construction of utility plant Utility plant removal costs (4,983) (5,824) Salvage received from utility plant retirements 1,117 758 Contributions in aid of construction 4,703 5,161 Proceeds from sale of revenue bonds 127,477 - Principal payments on revenue bonds (25,357) (31,230) Interest payments on revenue bonds (32,527) (25,219)  Net cash used in capital and related financing activities (20,876) (133,462)  CASH FLOWS FROM INVESTING ACTIVITIES: Purchases of investment securities (242,079) (60,279) Proceeds from sales and maturities of investment securities 131,697 103,820 Transferred into escrow (339) - Interest on investments 2,325 1,088  Net cash (used in) provided by investing activities (108,396) 44,629  NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS (3,247) 32,272  CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR S63,605 \$ 366,852  CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 363,605 \$ 366,852	Deferred outflow dept defeasance	(10,122)	
FINANCING ACTIVITIES: Acquisition and construction of utility plant (91,306) (77,108)  Utility plant removal costs (4,983) (5,824) Salvage received from utility plant retirements 1,117 758 Contributions in aid of construction 4,703 5,161 Proceeds from sale of revenue bonds 127,477 - Principal payments on revenue bonds (25,357) (31,230) Interest payments on revenue bonds (32,527) (25,219)  Net cash used in capital and related financing activities (20,876) (133,462)  CASH FLOWS FROM INVESTING ACTIVITIES: Purchases of investment securities (242,079) (60,279) Proceeds from sales and maturities of investment securities 131,697 103,820 Transferred into escrow (339) - Interest on investments (339) - Interest on investment (339) - I	Net cash provided by non-capital financing activities	<u> </u>	
Acquisition and construction of utility plant       (91,306)       (77,108)         Utility plant removal costs       (4,983)       (5,824)         Salvage received from utility plant retirements       1,117       758         Contributions in aid of construction       4,703       5,161         Proceeds from sale of revenue bonds       127,477       -         Principal payments on revenue bonds       (25,357)       (31,230)         Interest payments on revenue bonds       (32,527)       (25,219)         Net cash used in capital and related financing activities       (20,876)       (133,462)         CASH FLOWS FROM INVESTING ACTIVITIES:         Purchases of investment securities       (242,079)       (60,279)         Proceeds from sales and maturities of investment securities       131,697       103,820         Transferred into escrow       (339)       -         Interest on investments       2,325       1,088         Net cash (used in) provided by investing activities       (108,396)       44,629         NET (DECREASE) INCREASE IN CASH AND       (3,247)       32,272         CASH AND CASH EQUIVALENTS       366,852       334,580         CASH AND CASH EQUIVALENTS       366,852       334,580         CASH AND CASH EQUIVALENTS       366,852	CASH FLOWS FROM CAPITAL AND RELATED		
Utility plant removal costs       (4,983)       (5,824)         Salvage received from utility plant retirements       1,117       758         Contributions in aid of construction       4,703       5,161         Proceeds from sale of revenue bonds       127,477       -         Principal payments on revenue bonds       (25,357)       (31,230)         Interest payments on revenue bonds       (32,527)       (25,219)         Net cash used in capital and related financing activities       (20,876)       (133,462)         CASH FLOWS FROM INVESTING ACTIVITIES:       Variables       (60,279)         Purchases of investment securities       (242,079)       (60,279)         Proceeds from sales and maturities of investment securities       131,697       103,820         Transferred into escrow       (339)       -         Interest on investments       2,325       1,088         Net cash (used in) provided by investing activities       (108,396)       44,629         NET (DECREASE) INCREASE IN CASH AND       (3,247)       32,272         CASH AND CASH EQUIVALENTS       366,852       334,580         CASH AND CASH EQUIVALENTS       366,852       334,580         CASH AND CASH EQUIVALENTS       \$363,605       \$366,852	FINANCING ACTIVITIES:		
Salvage received from utility plant retirements  Contributions in aid of construction 4,703 5,161 Proceeds from sale of revenue bonds 127,477	Acquisition and construction of utility plant	(91,306)	(77,108)
Contributions in aid of construction 4,703 5,161 Proceeds from sale of revenue bonds 127,477 - Principal payments on revenue bonds (25,357) (31,230) Interest payments on revenue bonds (25,357) (25,219)  Net cash used in capital and related financing activities (20,876) (133,462)  CASH FLOWS FROM INVESTING ACTIVITIES: Purchases of investment securities (242,079) (60,279) Proceeds from sales and maturities of investment securities 131,697 103,820 Transferred into escrow (339) - Interest on investments 2,325 1,088  Net cash (used in) provided by investing activities (108,396) 44,629  NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 366,852 334,580  CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 363,605 \$ 366,852	Utility plant removal costs	(4,983)	(5,824)
Proceeds from sale of revenue bonds         127,477         -           Principal payments on revenue bonds         (25,357)         (31,230)           Interest payments on revenue bonds         (32,527)         (25,219)           Net cash used in capital and related financing activities         (20,876)         (133,462)           CASH FLOWS FROM INVESTING ACTIVITIES:         ***         ***           Purchases of investment securities         (242,079)         (60,279)           Proceeds from sales and maturities of investment securities         131,697         103,820           Transferred into escrow         (339)         -           Interest on investments         2,325         1,088           Net cash (used in) provided by investing activities         (108,396)         44,629           NET (DECREASE) INCREASE IN CASH AND         **         (3,247)         32,272           CASH EQUIVALENTS         (3,247)         32,272           CASH AND CASH EQUIVALENTS         366,852         334,580           CASH AND CASH EQUIVALENTS         \$         366,852         \$           AT END OF YEAR         \$         366,852         \$	Salvage received from utility plant retirements	1,117	758
Principal payments on revenue bonds         (25,357)         (31,230)           Interest payments on revenue bonds         (32,527)         (25,219)           Net cash used in capital and related financing activities         (20,876)         (133,462)           CASH FLOWS FROM INVESTING ACTIVITIES:         Purchases of investment securities           Purchases of investment securities         (242,079)         (60,279)           Proceeds from sales and maturities of investment securities         131,697         103,820           Transferred into escrow         (339)         -           Interest on investments         2,325         1,088           Net cash (used in) provided by investing activities         (108,396)         44,629           NET (DECREASE) INCREASE IN CASH AND         CASH EQUIVALENTS         (3,247)         32,272           CASH EQUIVALENTS         366,852         334,580           CASH AND CASH EQUIVALENTS         \$363,605         \$366,852           AT END OF YEAR         \$363,605         \$366,852	Contributions in aid of construction	4,703	5,161
Interest payments on revenue bonds (32,527) (25,219)  Net cash used in capital and related financing activities (20,876) (133,462)  CASH FLOWS FROM INVESTING ACTIVITIES:  Purchases of investment securities (242,079) (60,279)  Proceeds from sales and maturities of investment securities 131,697 103,820  Transferred into escrow (339) - Interest on investments 2,325 1,088  Net cash (used in) provided by investing activities (108,396) 44,629  NET (DECREASE) INCREASE IN CASH AND  CASH EQUIVALENTS (3,247) 32,272  CASH AND CASH EQUIVALENTS  AT BEGINNING OF YEAR 366,852 334,580  CASH AND CASH EQUIVALENTS  AT END OF YEAR \$363,605 \$366,852	Proceeds from sale of revenue bonds	127,477	-
Net cash used in capital and related financing activities  CASH FLOWS FROM INVESTING ACTIVITIES:  Purchases of investment securities  Proceeds from sales and maturities of investment securities  Transferred into escrow  Interest on investments  Net cash (used in) provided by investing activities  Net cash (used in) provided by investing activities  NET (DECREASE) INCREASE IN CASH AND  CASH EQUIVALENTS  AT BEGINNING OF YEAR  CASH AND CASH EQUIVALENTS  AT END OF YEAR  Sa63,605 \$366,852	Principal payments on revenue bonds	(25,357)	(31,230)
CASH FLOWS FROM INVESTING ACTIVITIES:  Purchases of investment securities (242,079) (60,279)  Proceeds from sales and maturities of investment securities 131,697 103,820  Transferred into escrow (339) - Interest on investments 2,325 1,088  Net cash (used in) provided by investing activities (108,396) 44,629  NET (DECREASE) INCREASE IN CASH AND  CASH EQUIVALENTS (3,247) 32,272  CASH AND CASH EQUIVALENTS  AT BEGINNING OF YEAR 366,852 334,580  CASH AND CASH EQUIVALENTS  AT END OF YEAR \$363,605 \$366,852	Interest payments on revenue bonds	(32,527)	(25,219)
Purchases of investment securities (242,079) (60,279) Proceeds from sales and maturities of investment securities 131,697 103,820 Transferred into escrow (339) - Interest on investments 2,325 1,088  Net cash (used in) provided by investing activities (108,396) 44,629  NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS (3,247) 32,272  CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 366,852 334,580  CASH AND CASH EQUIVALENTS AT EQUIVALENTS \$363,605 \$366,852	Net cash used in capital and related financing activities	(20,876)	(133,462)
Proceeds from sales and maturities of investment securities  Transferred into escrow (339) Interest on investments  Net cash (used in) provided by investing activities  NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS  CASH AND CASH EQUIVALENTS  AT BEGINNING OF YEAR  131,697 103,820 1,088	CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investment securities  Transferred into escrow  Interest on investments  Net cash (used in) provided by investing activities  NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS  CASH AND CASH EQUIVALENTS  AT BEGINNING OF YEAR  131,697  103,820  (339)  - (108,396)  44,629  (108,396)  44,629  (3,247)  32,272  CASH AND CASH EQUIVALENTS  AT BEGINNING OF YEAR  366,852  334,580  CASH AND CASH EQUIVALENTS  AT END OF YEAR  \$363,605  \$366,852	Purchases of investment securities	(242,079)	(60,279)
Transferred into escrow Interest on investments  Net cash (used in) provided by investing activities  NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS  CASH AND CASH EQUIVALENTS  AT BEGINNING OF YEAR  (339)  -1,088  (108,396)  44,629  (3,247)  32,272  CASH AND CASH EQUIVALENTS  AT BEGINNING OF YEAR  366,852  334,580  CASH AND CASH EQUIVALENTS  AT END OF YEAR  \$363,605  \$366,852	Proceeds from sales and maturities of investment securities		
Interest on investments  2,325  1,088  Net cash (used in) provided by investing activities  (108,396)  NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS  (3,247)  CASH AND CASH EQUIVALENTS  AT BEGINNING OF YEAR  (3,247)  32,272  CASH AND CASH EQUIVALENTS  AT END OF YEAR  \$366,852  \$366,852	Transferred into escrow	•	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS  CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR  CASH AND CASH EQUIVALENTS AT END OF YEAR  \$ 366,852 \$ 334,580  \$ 366,852			1,088
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS  CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR  CASH AND CASH EQUIVALENTS AT END OF YEAR  \$ 366,852 \$ 334,580  \$ 366,852	Net cash (used in) provided by investing activities	(108.396)	44.629
CASH EQUIVALENTS       (3,247)       32,272         CASH AND CASH EQUIVALENTS       366,852       334,580         CASH AND CASH EQUIVALENTS       363,605       \$ 363,605       \$ 366,852	, , , , , , , , , , , , , , , , , , , ,	<u></u>	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR  CASH AND CASH EQUIVALENTS AT END OF YEAR  \$ 363,605 \$ 366,852			
AT BEGINNING OF YEAR 366,852 334,580  CASH AND CASH EQUIVALENTS  AT END OF YEAR \$ 363,605 \$ 366,852	CASH EQUIVALENTS	(3,247)	32,272
CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 363,605 \$ 366,852	CASH AND CASH EQUIVALENTS		
AT END OF YEAR \$ 363,605 \$ 366,852	AT BEGINNING OF YEAR	<u>366,852</u>	334,580
	CASH AND CASH EQUIVALENTS		
	AT END OF YEAR	\$ 363,60 <u>5</u>	\$ 366,852
	See notes to financial statements.		

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# STATEMENTS OF CASH FLOWS (\$000 OMITTED) YEARS ENDED JUNE 30, 2017 AND 2016 (continued)

		2017		2016
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$	62,645	\$	48,911
Adjustments to reconcile operating income				
to net cash provided by operating activities:				
Depreciation		55,409		54,456
Accrual for uncollectible accounts		1,871		2,059
Changes in assets and liabilities:				
(Increase) decrease in customer and other accounts receivable		1,664		(7,035)
(Increase) decrease in materials and supplies		(1,407)		512
(Increase) decrease in other current assets		(153)		130
Decrease in other non-current assets		832		578
Increase (decrease) in accounts payable for purchased power		5,628		(7,150)
Increase (decrease) in trade accounts payable		(1,512)		10,102
Increase (decrease) in accrued expenses		(1,197)		1,654
Increase in customer deposits		863		1,444
(Decrease) in other non-current liabilities		(1,024)		(364)
(Increase) decrease in net deferred investment inflows and outflows		22,726	(	(29,233)
(Increase) decrease in net deferred actuarial inflows and outflows		7,262	(	(23,495)
Increase (decrease) in deferred pension liability	_(	<u>27,778)</u>		68,536
Net cash provided by operating activities	\$	<u>125,829</u>	\$	<u>121,105</u>

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

Accounts payable associated with the acquisition and construction of utility plant was \$0.7 million in 2017 and \$1.4 million in 2016.

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 \$0.7 million and \$0.6 million in 2017 and 2016, respectively.

During 2017 and 2016, NES charged \$15.9 million and \$18.1 million, respectively, to accumulated depreciation representing the cost of retired utility plant.

During 2017 and 2016, \$7.1 million and \$7.3 million, respectively, was credited to interest expense for amortization of net bond premiums and discounts in each year. NES expensed debt issuance costs of \$1.2 million in 2017.

During 2017, the 2017 Series B Bonds were issued to refund 47.6 percent and 36.2 percent of the 2011 Series A and 2011 Series B bonds for \$40.6 million and \$42.1 million, respectively. The advance refunding resulted in a deferred outflow of \$2.8 million due to the difference between the reacquisition price and net carrying amount of the debt.

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

#### 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. Board 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. We have reclassified certain amounts of prior-period financial statements to conform to the current period's presentation. On the Statements of Net Position, the difference between projected and actual pension experience and the difference between projected and actual pension assumptions have been reported as separate financial statement line items. On the Statements of Cash Flows, pension expense and pension contributions line items were replaced with the following line items: the change in net deferred investment inflows and outflows, the change in net deferred actuarial inflows and outflows, and the change in deferred pension liability.

#### **Recently Adopted Accounting Pronouncements**

Statement Number 82 of the Governmental Accounting Standards Board, *Pension Issues*, requires among other matters, that amounts related to covered payroll (disclosed in the required supplementary information) be computed as the payroll on which contributions to a pension plan are based. The standard was adopted by NES for the year ended June 30, 2017 and added certain cash flow disclosures.

Statement Number 86 of the Governmental Accounting Standards Board, *Certain Debt Extinguishment Issues*, addresses, among other matters, disclosures for all debt that is defeased in substance. One criteria for determining an in-substance defeasance is that the trust hold only monetary asset that are essentially risk-free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, governments should disclose that fact in the period in which the debt is defeased in substance. In subsequent periods, governments should disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists. The standard was adopted by NES for the year ended June 30, 2017 and had no impact on the reported amounts in the financials.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The significant accounting policies followed by NES are outlined below.

#### **Use of Estimates**

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

#### Cash and cash equivalents

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

#### **Investments in 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 a remaining maturity at time of purchase 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.

Restricted funds of NES represent bond proceeds designated for construction and other monies required to be restricted for debt service. As of June 30, 2017 and 2016, amounts restricted for debt service were \$72.9 million and \$67.0 million, respectively. NES releases capital debt funds quarterly based on expected draws for that quarter. As of June 30, 2017 and 2016, amounts restricted for construction were \$121.3 million and \$49.3 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.

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 5 to 50 years. The composite straight-line rates expressed as a percentage of average depreciable plant were as follows for June 30, 2017 and 2016:

	2017	2016
Distribution plant, 8 to 40 years	3.5%	3.5%
Structure and improvements, 40 to 50 years	2.0%	2.0%
Office furniture and equipment, 5 to 16.7 years	7.6%	10.5%
Transportation equipment, 8 to 10 years	6.2%	6.3%
Other equipment, 8 to 33.3 years	6.1%	5.9%

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 \$5.5 million in 2017 and \$6.7 million in 2016.

### **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.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **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, 2017 and 2016, Net Investment in Capital Assets included \$121.3 million and \$49.3 million, respectively of cash and investments restricted for capital projects.

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, 2017 and 2016, the Restricted net position consisted of Cash of \$9.9 million and \$34.0 million, respectively, reduced by accrued interest payable of \$2.8 million and \$3.0 million in 2017 and 2016, respectively. Restricted net position also included investments of \$63.0 million and \$32.9 million at June 30, 2017 and 2016, 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 solely from customers in the NES distribution network, primarily in Davidson County, TN. As of June 30, 2017 and 2016, such unbilled revenues were \$45.7 million and \$49.0 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 \$1.9 million and \$2.1 million for the years ended June 30, 2017 and 2016, 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.

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Operating and Non-operating Revenues and Expenses

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

#### **Income Taxes**

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

### Fair Value of Financial Instruments

Fair value of financial instruments has been determined by NES using available market information. The carrying amounts of cash and short-term investments, investments of special funds, accounts receivable and accounts payable are a reasonable estimate of their fair value. The fair value of NES' long-term debt is estimated to be \$700.1 million and \$633.4 million at June 30, 2017 and 2016, 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 other postemployment benefits ("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 standard will require retroactive application to the 2017 financial statements. Upon adoption in fiscal year 2018, NES expects to record the effects of adopting GASB 75 through the recognition of a net OPEB liability of approximately \$200.0 million as of July 1, 2016. Additionally, NES will recognize deferred outflows of approximately \$30.0 million and deferred inflows of approximately \$20.0 million. This will result in a net corresponding decrease to unrestricted net position of approximately \$210.0 million. The adoption is not expected to have a material impact on operating expenses or cash flows.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In November 2016 GASB issued Statement No. 83, Certain Asset Retirement Obligations ("GASB 83"), which addresses accounting for certain asset retirement obligations ("ARO"). An ARO is a legally enforceable liability associated with the retirement of a capital asset. Governmental entities with such obligations to perform future asset retirement activities should recognize a liability and corresponding deferred outflow when the liability is both incurred and reasonably estimable based on the guidance of GASB 83. The deferred outflow will then be recognized as an expense over the expected life of the asset, and the liability adjusted to reflect the effects of inflation or deflation. The requirements of GASB 83 are effective for reporting periods beginning after June 15, 2018. The Board is evaluating the impact that this standard may have on the financial statements and related disclosures.

In January 2017 GASB issued Statement No. 84, *Fiduciary Activities* ("GASB 84"), which addresses the identification and reporting for fiduciary activities of state and local governments. GASB 84 describes four fiduciary funds that should be reported: (1) pension and other employee benefit trust funds, (2) investment trust funds, (3) private trust funds, and (4) custodial trust funds. The requirements of GASB 84 are effective for reporting periods beginning after June 15, 2018. The Board is evaluating the impact that this standard may have on the financial statements and related disclosures. It is expected to further expand the disclosures related to its employee benefit plans.

In March 2017 GASB issued Statement No. 85, *Omnibus 2017* ("GASB 85"), which addresses a number of practice issues identified during the implementation and application of certain GASB statements. Certain of the matters will be adopted with the implementation of GASB 75 for OPEB plans. The Board is evaluating the impact that this standard may have on the financial statements and related disclosures.

In June 2017, GASB issued Statement No. 87, *Leases* ("GASB 87"), which establishes a single model for lease accounting based on the foundational principles that leases are financing transactions. GASB 87 requires lessees to recognize a lease liability and intangible right-to-use asset. GASB 87 requires lessors to recognize a lease receivable and a deferred inflow of resources. GASB 87 is intended to enhance the relevance and consistency of information about governments' leasing activities. The provisions in GASB 87 are effective for reporting periods beginning after December 15, 2019. The Board is evaluating the effects of adoption of GASB 87.

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

#### 2. UTILITY PLANT AND ACCUMULATED DEPRECIATION

Utility plant activity for the years ended June 30, 2017 and 2016 was as follows (\$000 omitted):

	Balance June 30, 2016	Additions	Transfers & Retirements	Balance June 30, 2017
Distribution plant	\$ 1,367,527	\$ 55,644	\$ (12,170)	\$ 1,411,001
Structures and improvements	68,443	602	-	69,045
Office furniture and equipment	30,577	2,988	(1,032)	32,533
Transportation equipment	7,504	611	(266)	7,849
Other equipment	47,728	4,698	(2,402)	50,024
Land and land rights	3,901	-	-	3,901
Construction work-in-progress (a)	<u>44,976</u>	22,053	<del>-</del>	67,029
	<u>\$ 1,570,656</u>	\$ 86,596	\$ (15,870)	\$ 1,641,382
	Balance		Transfers &	Balance
	Balance June 30, 2015	Additions	Transfers & Retirements	Balance June 30, 2016
Distribution plant		<b>Additions</b> \$ 47,475		
Distribution plant Structures and improvements	June 30, 2015		Retirements	June 30, 2016
	June <b>30, 2015</b> \$ 1,333,243	\$ 47,475	Retirements	June 30, 2016 \$ 1,367,527
Structures and improvements	\$ 1,333,243 \$ 52,920	\$ 47,475 15,523	\$ (13,191) -	\$ 1,367,527 68,443
Structures and improvements  Office furniture and equipment	\$ 1,333,243 \$ 52,920 29,805	\$ 47,475 15,523 2,383	\$ (13,191) - (1,611)	\$ 1,367,527 68,443 30,577
Structures and improvements  Office furniture and equipment  Transportation equipment	\$ 1,333,243 \$ 52,920 29,805 7,410	\$ 47,475 15,523 2,383 351	\$ (13,191) - (1,611) (257)	\$ 1,367,527 68,443 30,577 7,504
Structures and improvements  Office furniture and equipment  Transportation equipment  Other equipment	\$ 1,333,243 \$ 29,805 7,410 45,246	\$ 47,475 15,523 2,383 351	\$ (13,191) - (1,611) (257)	\$ 1,367,527 68,443 30,577 7,504 47,728

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

# 2. UTILITY PLANT AND ACCUMULATED DEPRECIATION (continued)

The related activity for accumulated depreciation for the years ended June 30, 2017 and 2016 was as follows (\$000 omitted):

	Balance June 30, 2016	Provision	Original Cost	Cost of Removal	Salvage	Balance June 30, 2017
Distribution plant	\$ 558,376	\$ 49,227	\$ (12,167)	\$ (4,979)	\$ 934	\$ 591,391
Structures and improvements	22,148	1,513	-	-	-	23,661
Office furniture and equipment	24,040	2,394	(1,031)	-	-	25,403
Transportation equipment	2,674	477	(264)	-	54	2,941
Other equipment	24,259	2,985	(2,404)		93	24,933
	\$ 631,497	\$ 56,596	<u>\$ (15,866)</u>	<u>\$ (4,979)</u>	<u>\$ 1,081</u>	\$ 668,329
	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	<u>2,731</u>	(3,090)	_	181	24,259
	<u></u>		(0)0001	-		

Depreciation is reported as depreciation expense in the statements of revenues, expenses and changes in net position. Depreciation capitalized as a cost of utility plant for equipment used in the construction of assets was \$1.1 million and \$1.0 million in 2017 and 2016, respectively.

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

# 3. CASH AND INVESTMENTS

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

		2017			
	Cash	Bond Funds	Special Construction	Total	Weighted Average Maturity (Years)
Cash and cash equivalents	\$ 351,298	\$ 9,921	\$ 2,386	\$ 363,605	-
U.S. Treasury Investments	-	62,938	47,857	110,795	0.87
Securities from Agencies Chartered by Congress	<u>-</u> \$ 351,298	<u> </u>	<u>71,079</u> <u>\$ 121,322</u>	71,079 \$ 545,479	1.84

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	<u> </u>	32,987 \$ 67,002	28,682 \$ 49,263	61,669 \$ 438,343	0.52

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. NES has no Level 3 investments.

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NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

### 3. CASH AND INVESTMENTS (continued)

Investments as of June 30, 2017, are categorized as follows:

			Fair Value
			Measurement
	Level 1	Level 2	Total
Securities from Agencies Chartered by Congress	\$ 52,228	\$18,851	\$ 71,079
U.S. Treasury Securities	110,795	-	110,795
Total	\$163,023	\$18,851	\$181,874

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

			Fair Value
			Measurement
	Level 1	Level 2	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

### **Custodial Credit Risk**

As of June 30, 2017 and 2016, NES' cash and cash equivalents was \$363.6 million and \$366.9 million, respectively. Bank balances for such accounts totaled \$365.1 million and \$319.7 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 105.0 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, 2017 and 2016, 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. The Tennessee Bank Collateral Pool does not receive ratings from rating agencies.

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

### 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 2017 and 2016, 39.1 percent and 86.2 percent, respectively, of NES investments were in securities from Agencies Chartered by Congress. The remaining investments were in U.S. Treasuries.

#### **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.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

# 4. LONG-TERM DEBT

Long-term debt for the year ended June 30, 2017, is as follows (\$000 omitted):

			Additions/	
	Balance June 30, 2016	Deductions/ Repayments	Amortization/ Accretion	Balance June 30, 2017
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.	32,161	(11,835)	1,680	22,006
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.	6,372	(6,345)	(27)	-
Electric System Revenue Bonds, 2008 Series A, bear interest at rates from 3.50% to 4.00%, maturing through May 15, 2018, interest paid semiannually.	6,974	(3,415)	(8)	3,551
Electric System Revenue Bonds, 2008 Series B, bear interest at rates from 3.50% to 5.00%, maturing through May 15, 2023, interest paid semiannually.	7,688	-	(30)	7,658
Electric System Revenue Bonds, 2011 Series A, bear interest at rates from 3.00% to 5.00%, maturing through May 15, 2021, interest paid semiannually.	94,988	(43,455)	(4,229)	47,304
Electric System Revenue Bonds, 2011 Series B, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2026, interest paid semiannually.	133,009	(47,995)	(5,860)	79,154
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.	60,786	-	(326)	60,460
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.	118,363	(2,566)	(1,223)	114,574
Electric System Revenue Bonds, 2015 Series A, bear interest at 5.00%, maturing through May 15, 2033, interest paid semiannually.	133,400	-	(2,622)	130,778
Electric System Revenue Bonds, 2017 Series A, bear interest at rates from 3.00% to 5.00%, maturing through May 15, 2042, interest paid semiannually.	-	-	127,409	127,409
Electric System Revenue Bonds, 2017 Series B, bear interest at 5.00%, maturing through May 15, 2031, interest paid semiannually.	<del>-</del>	<del>_</del>	93,271	93,271
		A /44= 011)	4.000.000	200.45-
Land and the second sec	593,741	<u>\$ (115,611)</u>	<u>\$ 208,035</u>	686,165
Less current portion of long-term debt	(25,357)			(27,298)
	<u>\$ 568,384</u>			<u>\$ 658,867</u>

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

# 4. LONG-TERM DEBT (continued)

Long-term debt for the year ended June 30, 2016, is as follows (\$000 omitted):

			Additions/	
	Balance June 30, 2015	Deductions/ Repayments	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)	6,974
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)	94,989
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)	60,785
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	<del>-</del>	(2,573)	133,400
	630,572	<u>\$ (31,230)</u>	<u>\$ (5,601)</u>	593,741
Less current portion of long-term debt	(31,230)			(25,357)
	<u>\$ 599,342</u>			\$ 568,384

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

### 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
2018	\$ 27,298	\$ 35,504
2019	27,216	35,436
2020	36,010	26,380
2021	37,690	24,706
2022	38,995	22,836
2023-2027	169,460	87,016
2028-2032	121,095	50,205
2033-2037	87,370	23,955
2038-2042	47,090	6,152
	592,224	\$ 312,190
Unamortized premium	93,941	
Total long-term debt	\$ 686,165	

On June 14, 2017, the Board issued \$107.0 million in Electric System Revenue Bonds, 2017 Series A, with interest rates of 3.0 percent to 5.0 percent to fund future construction and \$76.5 million Electric System Revenue Refunding Bonds, 2017 Series B to advance refund \$82.7 million of outstanding 2011 Series A and 2011 Series B bonds with interest rates of 3.25 percent to 5.0 percent and 4.5 percent to 5.0 percent, respectively. The 2017 Series B bonds were issued with an interest rate of 5.0 percent. The Board completed the advance refunding to reduce its total debt service payments over the next 18 years. The refunded portion represents 47.6% of the outstanding 2011 Series A Bonds, and 36.2% of outstanding 2011 Series B bonds. Proceeds of \$93.2 million, net of \$0.5 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 2011 A and 2011 B Series Revenue Bonds. Funds deposited with the escrow agent were used to purchase U.S. Treasury Obligations. As a result, \$40.6 million of the 2011 Series A and \$42.1 million of 2011 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, 2017.

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

# 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 \$2.7 million, which is reported as a component of deferred outflows on the Statements of Net Position at June 30, 2017. The 2017 A and 2017 B bonds have an aggregate principal amount of \$183.5 million, were issued at a premium totaling \$37.4 million, and mature annually on May 15, 2018 through 2042.

The following bond issues have been defeased through advanced refundings; therefore, the balances indicated, which are still outstanding as of June 30, 2017, do not appear on the Board's Statements of Net Position:

	Principal
	Outstanding
2008 Series A Bonds	\$ 78,910,000
2008 Series B Bonds	42,355,000
2011 Series A Bonds	40,615,000
2011 Series B Bonds	42,115,000
Total	\$ 203,995,000

NES had a \$25 million unsecured line-of-credit for fiscal year 2017 and 2016 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 2017 or 2016. The line-of-credit is renewable annually. The Company established a new line of credit effective July 1, 2017, with an expiration date of June 30, 2018. 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 of 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, 2017.

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NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 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):

		Repayments /		
	Balance	Earned		Balance
	June 30, 2016	Contributions	Additions	June 30, 2017
TVA Energy Conservation Loans	\$ 2,754	\$ (998)	\$ 174	\$ 1,930
Contributions in Aid of Construction	4,276	(7,370)	6,391	3,297
	<u>\$ 7,030</u>	<u>\$ (8,368)</u>	\$ 6,565	<u>\$ 5,227</u>

	Balance	Repayments / Earned		Balance
	June 30, 2015	Contributions	Additions	June 30, 2016
TVA Energy Conservation Loans	\$ 3,118	\$ (941)	\$ 577	\$ 2,754
Contributions in Aid of Construction	<u>5,794</u>	(7,362)	5,844	4,276
	\$ 8,91 <u>2</u>	\$ (8,303)	<u>\$ 6,421</u>	\$ 7,030

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. 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 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.

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

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

#### 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.

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, 2017, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving benefits	911
Inactive employees entitled to but not yet receiving benefits	139
Active employees	700
	1,750

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. NES expects to meet all future funding requirements.

The current rate is 49 percent of annual covered payroll. NES contributed 100 percent of the required contribution for both of the Plan years 2017 and 2016, 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, 2017, which was rolled forward to the measurement date of June 30, 2017.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 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. There were no other assumption changes in fiscal year 2017.

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, 2017
Registered Investment Companies – Mutual Funds	
SEI S&P 500 Index Fund	\$ 163,737
SEI Small Mid Cap Fund	36,232
SEI World Equity Ex-US Fund	97,799

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

### 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, 2017
Registered Investment Companies – Mutual Funds	
SEI Core Fixed Income Fund	\$ 111,991
SEI Emerging Markets Debt Fund	17,736
SEI High Yield Bond Fund	27,528

#### 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.

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NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

# 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.

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

### 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

Bond duration

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, 2017:

Characteristic	<u>Portfolio</u>
Effective duration	5.8 years
Average maturity	9.2 years
Average Moody's quality	A, with 72.7% of portfolio rated Aa or higher

The following are risk characteristics for the Emerging Markets Debt Fund as of June 30, 2017:

5 years or less, 61.3%

<u>Characteristic</u>	<u>Portfolio</u>
Effective duration	5.0 years
Average maturity	9.4 years
Average Moody's quality	BB, with 78.0% of portfolio rated BB or higher

The following are risk characteristics for the High Yield Bond Fund as of June 30, 2017:

<u>Characteristic</u>	<u>Portfolio</u>
Effective duration	2.6 years
Average maturity	5.0 years
Average Moody's quality	B1, with 74.0% of portfolio rated B or higher

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

# 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:

		Long-Term
Asset Class	Asset Allocation	Expected Rate of Return
Equity	65%	11.3%
Fixed Income	35%	6.7%

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
2017-2021	207	\$ 203,383
2022-2026	168	258,622
2027-2031	135	308,485
2032-2036	104	352,855
2037-2041	60	378,825
Total projecte	d benefit payments	\$ 1,502,170

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

# 6. PENSION PLAN (continued)

# **Changes in Net Pension Liability**

(\$000 omitted)	Increase (Decrease)		
	Total	Plan	Net Pension
	Pension	Fiduciary Net	Liability
	Liability	Position	(a)–(b)
	(a)	(b)	
Balance at June 30, 2016	\$ 644,971	\$411,000	\$ 233,971
Changes for the year:			
Service Costs	12,084		12,084
Interest	47,611		47,611
Experience losses/(gains)	(3,306)		(3,306)
Changes in assumptions	1,108		1,108
Contributions – employer		30,905	(30,905)
Net investment income		55,186	(55,186)
Benefit payments / refunds	(41,066)	(41,066)	
Administrative expenses		(816)	816
Net Change	16,431	44,209	(27,778)
Balance at June 30, 2017	\$ 661,402	\$ 455,209	\$ 206,193

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	Current Rate	1% Increase
	(6.5%)	(7.5%)	(8.5%)
Net Pension Liability (\$000 omitted)	\$283,812	\$206,192	\$140,837

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NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

#### 6. PENSION PLAN (continued)

For the year ended June 30, 2017, NES recognized pension expense of \$33.1 million. At June 30, 2017, 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	\$ 11,687	\$ 2,571
Changes in assumptions	13,144	-
Net difference between projected and actual earnings on pension plan investments		438
Total	\$ 24,831	\$ 3,009

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

Years Ending June 30:	
2018	\$ 2,932
2019	10,249
2020	6,498
2021	(88)
2022	2,233
Thereafter	-

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

# 6. PENSION PLAN (continued)

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

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

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

#### 7. 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. The NES Board 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 a 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, 2016, the DC Plan had approximately 107 participants. For plan years ended December 31, 2017 and 2016, the contribution percentage was 13.12% and 13.16%, respectively. NES contributed \$1.1 million and \$0.7 million to the DC Plan in the fiscal year ended June 30, 2017 and June 30, 2016, respectively. NES' liability for the DC Plan as of June 30, 2017 and 2016, was \$0.7 million and \$0.5 million, respectively.

Participants forfeit contributions made on their behalf if they separate from service before vesting. Forfeitures reduce future employer contributions. Forfeitures were thirteen thousand dollars and eight thousand dollars for the calendar year ending December 31, 2016 and 2015, respectively.

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

#### 7. DEFINED CONTRIBUTION PENSION PLAN (continued)

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)

(4000 0	
Investments by fair value level	June 30, 2017
Registered Investment Companies – Mutual Funds	
SEI S&P 500 Index Fund	\$ 948
SEI Small Mid Cap Fund	206
SEI World Equity Ex-US Fund	540

#### 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.

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

#### 7. DEFINED CONTRIBUTION PENSION PLAN (continued)

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

Investments by fair value level	June 30, 2017
Registered Investment Companies – Mutual Funds	
SEI Core Fixed Income Fund	\$ 548
SEI Emerging Markets Debt Fund	99
SEI High Yield Bond Fund	205

#### 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.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

#### 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 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.

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

### 7. DEFINED CONTRIBUTION PENSION PLAN (continued)

#### 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, 2017:

CharacteristicPortfolioEffective duration5.8 yearsAverage maturity9.2 yearsAverage Moody's qualityA, with 72.7% of portfolio rated Aa or higher

Bond duration 5 years or less, 61.3%

The following are risk characteristics for the Emerging Markets Debt Fund as of June 30, 2017:

CharacteristicPortfolioEffective duration5.0 yearsAverage maturity9.4 years

Average Moody's quality BB, with 78.0% of portfolio rated BB or higher

The following are risk characteristics for the High Yield Bond Fund as of June 30, 2017:

CharacteristicPortfolioEffective duration2.6 yearsAverage maturity5.0 years

Average Moody's quality B1, with 74.0% 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.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

#### 8. OTHER 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, 2017, approximately 695 retirees met the eligibility requirements. The Charter of the Metropolitan Government assigns the authority to establish and amend benefit provisions to NES.

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, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The total expenses that were recognized were \$19.2 million and \$16.8 million during the years ended June 30, 2017 and 2016, respectively. Incurred claims totaled \$13.2 million and \$14.8 million for the years ended June 30, 2017 and 2016, respectively.

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 24.5% percent of annual projected payroll. NES contributed 100 percent of the required contribution for the 2017 and 2016 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 OPEB 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.

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

### 8. OTHER POST-EMPLOYMENT BENEFITS (continued)

Significant methods and assumptions were as follows:

Actuarial valuation date: April 1, 2017

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 an investment rate of return of 7.5 percent, a discount rate of 7.5 percent, and projected salary increases of 4.5 percent. 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	
2017	\$ 19,168	100%	
2016	16,835	100%	
2015	16,493	100%	

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

Actuarial Valuation Date	V	ctuarial 'alue of Assets	L	actuarial Accrued Liability AL) 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
4/1/2017	\$	96,951	\$	294,435	\$	197,484	32.9%	\$ 79,063	249.8%
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%

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.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

### 8. OTHER 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.

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.

Significant concentration guidelines are as follows:

### Equity Investments through/in mutual funds

At June 30, 2017, equity investments consisted of the following mutual funds stated at fair value (in 000's omitted):

Registered Investment Companies – Mutual Funds	
CELCOD FOO Index Fund	

SEI S&P 500 Index Fund	\$ 37,355
SEI Small Mid Cap Fund	8,264
SEI World Equity Ex-US Fund	22,305

### 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.

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

### 8. OTHER POST-EMPLOYMENT BENEFITS (continued)

#### Fixed Income Investments through/in mutual funds

At March 31, 2017, 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	\$ 25,554
SEI Emerging Markets Debt Fund	4,067
SEI High Yield Bond Fund	6,260

#### 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.

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NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

### 8. OTHER 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 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.

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

### 8. OTHER POST-EMPLOYMENT BENEFITS (continued)

#### 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, 2017:

CharacteristicPortfolioEffective duration5.8 yearsAverage maturity9.2 yearsAverage Moody's qualityA, with 72.7% of portfolio rated Aa or higher

Bond duration 5 years or less, 61.3%

The following are risk characteristics for the Emerging Markets Debt Fund as of June 30, 2017:

CharacteristicPortfolioEffective duration5.0 yearsAverage maturity9.4 years

Average Moody's quality BB, with 78.0% of portfolio rated BB or higher

The following are risk characteristics for the High Yield Bond Fund as of June 30, 2017:

<u>Characteristic</u> <u>Portfolio</u>

Effective duration 2.6 years

Average maturity 5.0 years

Average Moody's quality B1, with 74.0% 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.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

#### 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 3.0 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 to the plan for each of the years ended June 30, 2017 and 2016. NES contributed \$2.1 million to the 457 Plan for the each of years ended June 30, 2017 and June 30, 2016.

#### 10. LEASES

Total rental expense entering into the determination of net position amounted to approximately \$1.0 million in both 2017 and 2016. 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 \$3.0 million in 2018.

Rental income is received under pole-attachment leases, which are accounted for as operating leases. Rental income from telephone provider pole-attachments totaled \$2.6 million and \$2.5 million for the years ended June 30, 2017 and 2016, respectively. Rental income from cable provider pole-attachments totaled \$3.3 million at June 30, 2017, and \$2.9 million at June 30, 2016. The net book value of the poles for use in the rental activity was \$131.6 million at June 30, 2016 and 2015, respectively. Accumulated depreciation on poles was \$89.5 million at June 30, 2017 and \$83.3 million at June 30, 2016.

### 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.

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

### 11. RISK MANAGEMENT AND LIABILITY (continued)

NES is self-insured for employee medical, dental and vision claims. NES has secured a stop-loss reinsurance policy for individual medical claims exceeding \$450,000. The changes in the insurance reserves for medical, dental and vision benefits for active employees and retirees for the years ended June 30, 2017 and 2016 are as follows (\$000 omitted):

Balance – June 30, 2015	\$ 3,141
Payments	(24,542)
Incurred Claims	25,193
Balance – June 30, 2016 Payments Incurred Claims	\$ 3,792 (24,221) 
Balance – June 30, 2017	<u>\$ 3,358</u>

NES continues to carry commercial insurance for all other risks of loss, including a retention with excess workers' compensation coverage and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NES is party to various lawsuits filed against it in the normal course of business. Management does not believe that damages, if any, arising from outstanding litigation, will have a material effect on the financial position of NES.

# 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.

NES and the Metropolitan Government (of Davidson County) Department of General Services (Metro) operate an 800 MHz radio system under the terms of a Memorandum of Understanding. Metro and NES have specific and separate portions of the system that are dedicated for their respective daily use. Each entity has the exclusive decision making authority over their portion. Metro maintains the system, and NES pays for its proportionate share of annual maintenance costs.

In 2017 NES paid Metro \$1.1 million for the first phase of upgrades to its part of the radio system. These costs are capitalized in communication equipment and are being depreciated. NES is responsible for additional upgrade costs for future phases of approximately \$4.0 million expected to occur in fiscal 2018 through 2020.

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NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

### 12. RELATED PARTY TRANSACTIONS (continued)

These balances and transactions as of and for the years ended June 30, 2017 and 2016 are summarized as follows (\$000 omitted):

	2017	2016
Balances:		
Accounts receivable	\$ 4,877	\$ 4,587
Accounts payable	152	122
Transactions:		
Commercial and industrial revenue – Metropolitan Government Entities	66,203	63,132
Street and outdoor lighting revenue – Metropolitan Government Entities	8,411	8,217
Tax equivalents operating expense – Metropolitan Government Entities	30,860	29,804
800 MHz Radio maintenance expense	744	486
800 MHz Radio capital upgrade	1,118	-

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.

### 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 to the wholesale rate schedule with corresponding adjustments to resale rate schedules necessary to enable TVA to meet all requirements of the Tennessee Valley Authority Act of 1933, as amended (the "TVA Act"), and the tests and provisions of TVA's bond resolutions.

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

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

### 13. COMMITMENTS (continued)

NES purchased power totaling \$932.3 million and \$884.5 million from TVA during the years ending June 30, 2017 and 2016, respectively. The Power Contract establishes the resale rates that NES and other distributors charge the end-use power consumers. These rates are revised from time to time to reflect changes in costs, including changes in the wholesale cost of power. While the wholesale rates are uniformly applicable to all distributors of TVA power under the present power contracts with distributors such as NES, the retail resale rates will vary among distributors of TVA power depending upon the respective distributor's retail customer distribution costs. The rates of TVA for the sale of electric power in the TVA region and its contracts with distributors, including TVA, are structured with the intent to achieve the TVA Act's objective of the distributors of TVA power, including NES, to operate the respective distribution systems on a nonprofit basis and to provide a wide and ample supply of power at the lowest feasible rates.

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

### 14. SUBSEQUENT EVENTS

NES has evaluated subsequent events through October 25, 2017, the issuance date of the financial statements, and has determined that there are no other subsequent events that require disclosure.

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# REQUIRED SUPPLEMENTARY INFORMATION

# RETIREMENT ANNUITY AND SURVIVORS PLAN (\$000 OMITTED) SCHEDULE OF CHANGES IN NET PENSION LIABILITY (UNAUDITED)

		Years ende	d June 30,	
	2017	2016	2015	2014
Total Pension Liability				
Service Costs	\$ 12,084	\$ 10,083	\$ 10,792	\$ 9,935
Interest	47,611	43,983	41,399	39,288
Changes in benefit terms	-	8,619	-	-
Differences between expected and actual experience	(3,306)	11,291	1,768	6,127
Changes of assumptions	1,108	17,741	-	-
Benefit Payments / Refunds	(41,066)	(38,753)	(28,720)	(27,104)
Net Change in Total Pension Liability	\$ 16,431	\$ 52,964	\$ 25,239	\$ 28,246
Total Pension Liability, beginning	<u>644,971</u>	<u>592,007</u>	\$ 566,768	\$ 538,522
Total Pension Liability, ending (a)	\$ 661,402	\$ 644,971	\$ 592,007	\$ 566,768
Plan Fiduciary Net Position				
Contributions – employer	\$ 30,905	\$ 24,600	\$ 25,746	\$ 22,813
Net investment income	55,186	(623)	12,207	63,102
Benefit Payments / Refunds	(41,066)	(38,753)	(28,720)	(27,104)
Administrative expenses	(816)	(797)	(682)	(451)
Net Change in Plan Fiduciary Net Position	\$ 44,209	(\$ 15,573)	\$ 8,551	\$ 58,360
Plan Fiduciary Net Position – beginning	411,000	426,573	418,022	359,662
Plan Fiduciary Net Position – ending (b)	\$ 455,209	\$ 411,000	\$ 426,573	\$ 418,022
Net Pension Liability – ending (a) – (b)	\$ 206,193	\$ 233,971	\$ 165,434	\$ 148,746
Plan Fiduciary Net Position as a % of the Total				
Pension Liability	69%	64%	72%	74%
Covered –employee payroll	\$ 63,415	\$ 69,337	\$ 68,801	\$ 69,410
Net Pension Liability as a % of covered- employee payroll	325%	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 (\$000 OMITTED) SCHEDULE OF CONTRIBUTIONS (UNAUDITED)

	Years ended June 30,			
	2017	2016	2015	2014
Actuarially determined contribution  Contributions in relation to the actuarially determined	\$30,727	\$24,594	\$25,746	\$22,898
contribution	30,905	24,600	<u>25,746</u>	22,813
Contribution deficiency (excess)	<u>\$ (178)</u>	\$ (6)	<u>\$</u>	<u>\$ 85</u>
Covered employee payroll Contributions as a percentage of covered-employee	\$63,415	\$69,337	\$68,801	\$69,410
payroll	49%	35%	37%	33%

In computing the tables, actuarial assumptions included a 25-year funding level, a 7.5 percent investment rate of return and discount rate, and a projected salary increases of 4.5 percent. Both the investment rate of return and the projected salary increase 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 improvements in the mortality estimates.

# RETIREMENT ANNUITY AND SURVIVORS PLAN SCHEDULE OF INVESTMENT RETURNS (UNAUDITED)

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

Year Ended June 30	<u>Returr</u>
2017	13.60%
2016	-0.15%
2015	2.97%
2014	17.75%

# OTHER POST EMPLOYMENT BENEFIT PLAN (\$000 OMITTED) 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
4/1/2017	\$96,951	\$294,435	\$197,484	32.9%	\$79,063	249.8%
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%

In computing the table, actuarial assumptions included a 30-year closed funding level, a 7.5 percent investment rate of return and discount rate, and projected salary increases of 4.5 percent. Health care inflation is estimated at 5.0 percent, and dental inflation is estimated at 4.0 percent. 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 2.0 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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