nashville electric service ANNUAL REPORT

18

MISSION

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

TABLE OF CONTENTS

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

Financial Statements
for the years ended
JUNE 30, 2018 & 2017

president's letter

At Nashville Electric Service (NES), we put our customers at the core of everything we do. They are our reason for being and the driving force behind every project, initiative and change. We accomplished a great deal this past year, and much of it was due to honoring our commitment to these customers.

We recognize that our customers' needs are changing as rapidly as our city, and it is up to us to find ways to meet these needs. There is no better example of this than Music City Solar, Nashville's first community solar park, developed and constructed during this fiscal year. We heard our customers asking for more access to renewable energy, and we took it to heart. Music City Solar has generated huge excitement within our community and is paving the way for advancement in the years ahead.

Our commitment to customers is only successful if it is all-inclusive, so we continued our focus on assisting our lower income customers. This year, we launched NES Home Energy Uplift in partnership with TVA and Metro to provide energy-efficiency opportunities for these customers. Through the program, we can upgrade systems and equipment to reduce energy costs and improve quality of life for the most vulnerable members of our community. Additionally, we launched a multi-faceted campaign to promote Project Help, which provides temporary energy assistance to those who cannot afford to pay their electric bill, ultimately increasing enrollment by more than 300 customers.

Our ability to continue to serve our customers requires a number of operational and infrastructure changes that will have an enduring impact in the years ahead. We implemented a new retail rate structure to include usage tiers to minimize TVA structure change impacts. This will help limit unprecedented rate increases for NES customers. To keep up with growing energy demand, we initiated the design of a new 11th Avenue Substation. This facility will replace the existing 10th Avenue Substation and will be housed on the NES campus.

Perhaps most notable is our multi-year technology transformation project (Encompass), currently underway. This will replace core systems used throughout the organization and will include building and installing an infrastructure of over 40 environments and two clustered database systems to support the new software. Encompass will not only change the way we work, but also how we interact with our customers.

Also on the technology front, we completed a major phone system upgrade for improved reliability, flexibility and cost effectiveness. Finally, we installed 67,100 AMI (Advanced Metering Infrastructure) meters, bringing our total residential and commercial AMI meters to approximately 302,000. This progress will help us automate meter reading routes and revolutionize the way we gather meter data.

Despite all these upgrades and changes, we remained good stewards of our finances, maintaining our AA+ bond rating and sustaining an employee count below 1,000.

These accomplishments have only been realized because of our exceptional team. Over the last 12 months, our team handled 2,413,192 calls, while our outstanding linemen took first and second place in the Tennessee Valley Lineman's Rodeo for the third consecutive year. This hard work has certainly paid off, as NES received an impressive 84 percent rating in the latest customer satisfaction survey.

Our city will continue to change, as will the needs of our people and the ways in which we service those needs, but one thing will always remain constant—our commitment to providing safe, reliable and affordable power to our customers and the community. While this has been a year of significant change, it has also been a landmark one, laying the framework to bring even more exciting additions and improvements to our customers in 2019.

Decosta Jenkins

Decosta Jenkins
President & Chief Executive Officer

Left:
Robert McCabe
NES Board Chair
Chairman,
Pinnacle Financial Partners

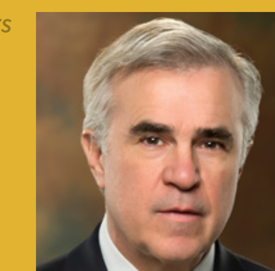
Right:
Decosta Jenkins
NES President & CEO

executive management

DECOSTA JENKINS
NES President and Chief Executive Officer

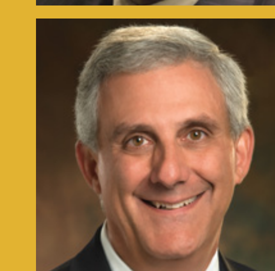
TERESA BROYLES-APLIN
NES Executive Vice President and Chief Financial Officer

board members



ROBERT MCCABE
NES Board Chair
Chairman
Pinnacle Financial Partners

SAMUEL H. HOWARD
NES Board Vice Chair
Chairman
Phoenix Holdings, Inc.



ROBERT CAMPBELL, JR.
Partner
Waller Lansden Dortch & Davis, LLP

IRMA PAZ-BERNSTEIN
Owner
Las Paletas

CAROLYN SCHOTT
Partner
Sherrard Roe Voigt & Harbison, PLC

Report of Independent Auditors

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

Report on the Financial Statements

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, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinions.

PricewaterhouseCoopers LLP, 150 3rd Avenue South, Suite 1400, Nashville, TN 37201
T: (615) 503 2860, F: (615) 503 2870, www.pwc.com/us

Opinions

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, 2018 and 2017, and the changes in financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the Electric Power Board adopted the provisions of Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting For Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

Other Information

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information and management's discussion and analysis on pages 63 through 69 and 8 through 17, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

Nashville, Tennessee
October 24, 2018

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, 2018 and 2017 as compared to fiscal years 2017 and 2016, 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 of the Notes to the Financial Statements.

Statement Number 75 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, (GASB 75) requires governments to report the net liability on the face of the financial statements for the other postemployment benefits ("OPEB") that they provide. The standard requires retroactive application to the most recent preceding year for comparative financial statements. NES recorded the effects of adopting GASB 75 beginning in July of 2017 through the recognition of a net OPEB liability with a corresponding offset to unrestricted net position of $185.5 million. Accordingly, all comparative periods for fiscal year 2018 and fiscal year 2017 reflect results with this new accounting standard.

The most significant impact of the adoption of this standard is the recognition of the OPEB liability of $207.5 million and $196.7 million at June 30, 2018 and 2017, respectively.

Other effects of the adoption of GASB 75 included the following:

The accounting for OPEB activity under the new standard results in deferred outflows and deferred inflows. All deferred investment income changes whether favorable or unfavorable are combined together for a net balance sheet presentation. These changes will be amortized into net OPEB expense over five years for investment related deferrals in the year that the inflow or outflow is initially recognized. Deferred outflows and inflows for actuarially determined deferrals are presented gross and amortized over approximately six years beginning in the year that the inflow or outflow is initially recognized.

Statement Number 85 of the Governmental Accounting Standards Board, *Omnibus 2017*, (GASB 85) addresses a number of practice issues identified during the implementation and application of certain

GASB statements. This standard did not have any impact on net position. The main impact of this standard is expanded disclosures related to postemployment benefits.

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.

Summary of Changes in Net Position

Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $521.3 million at June 30, 2018, and $427.1 million at June 30, 2017. This represents an increase of $94.2 million in 2018 and $41.2 million in 2017.

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, 2018	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS	$576,456	$513,121	$489,629
INVESTMENT OF RESTRICTED FUNDS	166,492	194,181	116,266
UTILITY PLANT, NET	1,010,635	973,053	939,159
OTHER NON-CURRENT ASSETS	5,971	5,699	2,778
TOTAL ASSETS	1,759,554	1,686,054	1,547,832
DEFERRED OUTFLOWS OF RESOURCES	63,152	62,571	69,227
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$1,822,706	$1,748,625	$1,617,059
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
CURRENT LIABILITIES	$ 224,726	$ 208,699	$ 206,408
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	33,729	30,782	29,830
LONG-TERM DEBT, LESS CURRENT PORTION	615,439	658,867	568,384
NET PENSION LIABILITY	194,620	206,193	233,971
NET OPEB LIABILITY	207,517	196,661	-
OTHER NON-CURRENT LIABILITIES	8,340	5,227	7,030
TOTAL LIABILITIES	1,284,371	1,306,429	1,045,623
DEFERRED INFLOWS OF RESOURCES	17,078	15,131	-
NET POSITION			
Net investment in capital assets	472,387	424,912	410,691
Restricted for debt services	71,185	70,030	63,953
Unrestricted	(22,315)	(67,877)	96,792
TOTAL NET POSITION	521,257	427,065	571,436
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$1,822,706	$1,748,625	$1,617,059

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.

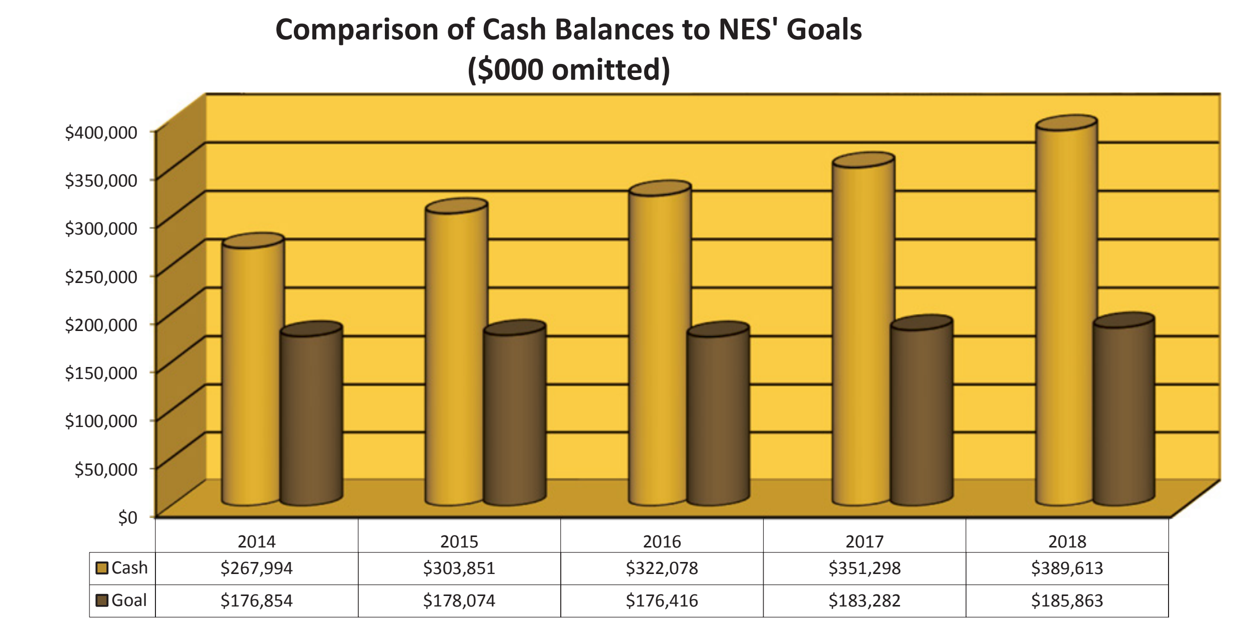
The 2017 Series A Bonds were issued to finance a portion of the costs incurred in connection with the acquisition, expansion and improvement of the Electric System in accordance with the Board's capital improvement plan. The 2017 Series A Bonds have an aggregate principal amount of $107.0 million, and 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 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 $25.0 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, 2018.

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 expense. This goal was met every month of fiscal years 2018 and 2017. Actual cash as a percentage of purchased power and operating expense was 34.6 percent as of June 30, 2018, and 31.7 percent as of June 30, 2017. 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, 2018, was 4.8 to 1. The Board continues to exceed its goals. The outlook on all debt ratings is stable as of June 30, 2018.



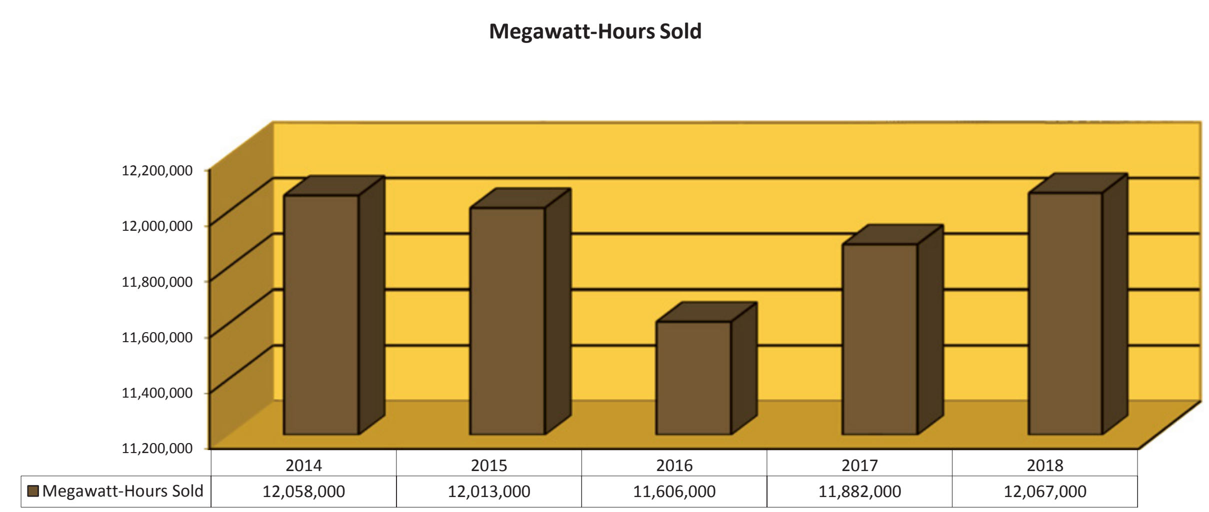
Operations
Summary Revenue & Expense Data
($000 omitted)

	Year Ended June 30, 2018	2017	Change in Net Position	Year Ended June 30, 2016	Change in Net Position
Operating revenues, net	$1,324,224	$1,260,957	$63,267	$1,201,448	$59,509
Purchased power	(943,511)	(932,275)	(11,236)	(884,535)	(47,740)
Operating revenues, net, less Purchased power	380,713	328,682	52,031	316,913	11,769
Operating expenses	(182,932)	(178,525)	(4,407)	(181,163)	2,638
Depreciation and tax equivalents	(89,270)	(88,877)	(393)	(86,839)	(2,038)
Interest income	6,700	2,384	4,316	1,303	1,081
Interest expense and other, net	(21,019)	(22,490)	1,471	(21,643)	(847)
Increase in net position	94,192	41,174	53,018	28,571	12,603
Effect of Adoption of GASB 75	-	1,365	(1,365)	-	1,365
Increase in Net Position as Previously Stated	$ 94,192	$ 42,539	$ 51,653	$ 28,571	$ 13,968

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

2018 and 2017 Results of Operations

Operating Revenues. Operating revenues, net, increased by $63.3 million, or 5.0 percent, when compared to 2017. Total electric sales were $1.3 billion during both 2018 and 2017. The average realized rate on electric sales was $0.1077 compared to $0.1043 per kilowatt-hour in 2017. Megawatt-hours sold in 2018 increased by 1.6 percent when compared to 2017. 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 2,077 compared to 2,229 in 2017. Total heating degree-days were 3,387 compared to 2,453 in 2017. Total heating and cooling degree-days were 5,464 compared to 4,682 in 2017, or an increase of approximately 16.7 percent. Residential revenue increased $49.7 million or 9.5 percent compared to the previous year. Residential revenue is highly correlated to degree days. Commercial and industrial revenue increased $8.7 million or 1.3 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 2.4 percent when compared to 2017. Revenue in Excess of Net Bills (Late Charges) increased by $0.4 million, and Rentals of Electric Property (primarily pole attachments) increased by $3.3 million.



Non-operating Revenues. Interest Income was $6.7 million compared to $2.4 million in 2017. The average rate of return on the General Fund was 1.37 percent in 2018 compared to 0.61 percent in 2017. The average monthly balance of the General Fund was $335.1 million in 2018 compared to $316.9 million in 2017, an increase of 5.8 percent. Interest income from the bond sinking funds was $1.1 million in 2018. Interest income from the construction funds increased to $0.9 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. As of June 30, 2018, neither party has made notification of early termination. Purchased power was

$943.5 million for the period compared to $932.2 million last year. The average realized rate on purchased power was $0.076 per kilowatt-hour in 2018 compared to $0.078 in 2017. Megawatt-hours purchased were 12.5 million in 2018 compared to 12.2 million in 2017.

Distribution expenses for the period were $73.0 million compared to $65.9 million last year. This is an increase of $7.1 million or 10.8 percent. The change is primarily attributable to increases in the following expense categories: miscellaneous expense, $2.9 million; supervision and engineering, $1.5 million; tree trimming, $1.0 million; emergency services, $0.8 million; operation and maintenance of station equipment, $0.7 million; line transformers, $0.4 million; operation and maintenance of underground lines, $0.4 million; operation and maintenance of meters, $0.3 million; structures, $0.1 million. These increases were offset by decreases in the following expense categories: storms, $1.6 million; operation and maintenance of street light and signal system, $0.5 million; operation and maintenance of overhead lines, $0.3 million; and private lights, $0.1 million.

Customer Accounts expenses were $19.9 million for the period compared to $21.2 million last year or a decrease of $1.3 million or 6.1 percent. The change is primarily attributable to decreases in the following expense categories: data processing, $1.3 million; and meter reading, $0.4 million. These decreases were offset by increases in the following expense categories: customer orders and services, $0.3 million; customer records and collections, $0.2 million; and supervision, $0.1 million.

Customer Service and Information expenses for the period were $2.1 million compared to $1.8 million last year. This is an increase of $0.3 million or 16.7 percent. The change is primarily attributable to an increase in the following expense category: customer assistance, $0.5 million. The increase was offset by a decrease in the following expense category: miscellaneous expense, $0.2 million.

Administrative and General (A&G) expenses were $88.0 million for the period compared to $89.6 million last year. This was a decrease of $1.6 million or 1.8 percent. The change is primarily attributable to decreases in the following expense categories: employee pensions, $4.0 million; employee health insurance, $1.3 million; injuries and damages, $0.4 million; duplicate charges-credits, $0.1 million; and employee welfare, $0.1 million. These decreases were offset by increases in the following expense categories: data processing, $1.8 million; allocated overhead, $0.8 million; maintenance of general plant, $0.7 million; office supplies and expenses, $0.5 million; administrative and general salaries, $0.3 million; employee life insurance, $0.1 million.

Depreciation and Taxes and Equivalents were $58.7 million and $30.6 million, respectively, for 2018, compared to $55.4 million and $33.5 million, respectively, for 2017. 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 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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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 degree-days 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.

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: miscellaneous expense, 1.3 million; 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 combined were $21.2 million for the period compared to $21.0 million last year or an increase of $0.2 million or 1.0 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; and customer orders and service, $0.6 million.

Customer Service and Information expenses for the period were $1.8 million compared to $1.9 million last year. This is a decrease of $0.1 million or 5.3 percent. The change is primarily attributable to a decrease in the following expense category: customer assistance, $0.1 million.

Administrative and General (A&G) expenses were $89.6 million for the period compared to $95.6 million last year. This was a decrease of $6.0 million or 6.3 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, $4.5 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.

The following table shows the composition of the expenses (net of amounts capitalized) of the Board by major classifications of expense for the last three years:

Major Classifications of Expense ($000 omitted)

Description	Fiscal 2018	Fiscal 2017	Increase (Decrease)	Fiscal 2016	Increase (Decrease)
Labor	$ 68,169	$ 66,172	3.0%	$ 65,839	0.5%
Benefits	54,102	58,847	(8.1%)	67,482	(12.8%)
Tree-trimming	11,107	10,476	6.0%	11,254	(6.9%)
Outside Services – Information Technology	17,589	14,423	22.0%	11,018	30.9%
Outside Services – Other	13,293	12,614	5.4%	11,454	10.1%
Other	18,672	15,993	16.8%	14,116	13.3%
	$182,932	$178,525	2.5%	$181,163	(1.5%)

2018 and 2017 Expense

The Board's total operating expenses increased 2.5% percent from June 30, 2017 to June 30, 2018. Labor for fiscal year 2018 totaled $68.2 million. The increase was due to increases in cost-of-living and merit adjustments, along with employee step increases. Benefits decreased from fiscal year 2017 primarily due to decreased benefit-related expenses. The decrease is primarily attributable to lower medical costs related to favorable healthcare costs in 2018, favorable GASB 68 and GASB 75 investment market adjustments, and favorable capital project allocation adjustments, offset by higher actuarial values, primarily in the OPEB plan. Tree trimming increased for the period as compared to June 30, 2017, as a result of increased tree trimming activities in 2018. Outside Services - Information Technology increased primarily due to increased software maintenance on existing software and costs related to the Technology Transformation project. Outside Services - Other increased primarily due to increased customer engineering and system operations contractor requirements in 2018. Other expenses contains a wide array of expense categories, none of which is individually over 5% of total expenses.

2017 and 2016 Expense

The Board's total operating expenses decreased 1.5% percent from June 30, 2016 to June 30, 2017. Labor for fiscal year 2017 totaled $66.2 million; the increase was due to increases in cost-of-living and merit adjustments, along with employee step increases. Benefits decreased from fiscal year 2016 primarily due to decreased benefit-related expenses. The decrease is primarily attributable to favorable GASB 68 and GASB 75 investment market adjustments, and favorable capital project allocation adjustments, offset by higher actuarial values, primarily in the OPEB plan. 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 - Information Technology increased primarily due to increased software maintenance on existing software and costs related to the Technology Transformation project. Outside Services – Other increased primarily due to increased customer engineering and system operations contractor requirements in 2017 and the new technology strategy project. Other expenses contains a wide array of expense categories, none of which is individually over 5% of total expenses.

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, 2018 was $1.0 billion compared to $973.1 million at June 30, 2017. Major projects during fiscal year 2018 included capital maintenance, $23.2 million; meters and transformer purchases, $20.1 million; new business installations, $17.3 million; system construction, $12.7 million; and technology upgrade, $9.1 million.

The Board has outstanding bonds payable of $642.7 million at June 30, 2018 compared to $686.2 million at June 30, 2017. The decrease is the result of scheduled debt payments of $35.0 million and accretion and amortization of $8.5 million. More details about the Board's capital assets and debt can be found in the notes to the financial statements.

Respectfully submitted,

Teresa Broyles-Aplin
Executive Vice President and Chief Financial Officer

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

STATEMENTS OF NET POSITION ($000 OMITTED)
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and cash equivalents	$ 389,613	$ 351,298
Customer and other accounts receivable, less allowance for doubtful accounts of $362 and $397 respectively	155,397	134,301
Materials and supplies	23,190	20,378
Other current assets	8,256	7,144
TOTAL CURRENT ASSETS	576,456	513,121
INVESTMENT OF RESTRICTED FUNDS:		
Cash and cash equivalents	3,246	12,307
Other investments	163,246	181,874
TOTAL INVESTMENT OF RESTRICTED FUNDS	166,492	194,181
UTILITY PLANT:		
Electric plant, at cost	1,713,498	1,641,382
Less: Accumulated depreciation	(702,863)	(668,329)
TOTAL UTILITY PLANT, NET	1,010,635	973,053
OTHER NON-CURRENT ASSETS	5,971	5,699
TOTAL ASSETS	1,759,554	1,686,054
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amount on refunding of debt	15,613	17,358
Difference between projected and actual pension experience	8,880	11,687
Difference between projected and actual pension assumptions	11,023	13,144
Difference between projected and actual OPEB experience	7,515	9,662
Difference between projected and actual OPEB assumptions	20,121	10,720
TOTAL DEFERRED OUTFLOWS OF RESOURCES	63,152	62,571
TOTAL ASSETS AND DEFERRED OUTLFOWS OF RESOURCES	1,822,706	1,748,625

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, 2018 AND 2017 (continued)

	2018	2017
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
CURRENT LIABILITIES:		
Accounts payable for purchased power	170,673	158,933
Trade accounts payable	22,303	19,196
Accrued expenses	14,095	13,823
Customer deposits	17,655	16,747
TOTAL CURRENT LIABILITIES	224,726	208,699
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Construction accounts payable	3,078	656
Accrued interest payable	3,435	2,828
Current portion of long-term debt	27,216	27,298
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	33,729	30,782
LONG-TERM DEBT, LESS CURRENT PORTION	615,439	658,867
NET PENSION LIABILITY	194,620	206,193
NET OPEB LIABILITY	207,517	196,661
OTHER NON-CURRENT LIABILITIES	8,340	5,227
TOTAL LIABILITIES	1,284,371	1,306,429
DEFERRED INFLOWS OF RESOURCES		
Difference between projected and actual pension earnings, net	2,088	438
Difference between projected and actual pension experience	5,663	2,571
Difference between projected and actual OPEB earnings, net	1,457	1,207
Difference between projected and actual OPEB experience	7,870	10,915
TOTAL DEFERRED INFLOWS OF RESOURCES	17,078	15,131
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	1,301,449	1,321,560
NET POSITION		
Net investment in capital assets	472,387	424,912
Restricted for debt services	71,185	70,030
Unrestricted	(22,315)	(67,877)
TOTAL NET POSITION	521,257	427,065
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	$ 1,822,706	$ 1,748,625

See notes to financial statements.

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION ($000 OMITTED)
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
OPERATING REVENUES:		
Residential	$ 576,480	$ 526,804
Commercial and industrial	700,800	692,152
Street and highway lighting	20,126	19,446
Other	26,818	22,555
Total operating revenues, net	1,324,224	1,260,957
PURCHASED POWER	943,511	932,275
Operating revenues, net, less purchased power	380,713	328,682
OPERATING EXPENSES	182,932	178,525
TAX EQUIVALENTS	30,551	33,468
DEPRECIATION	58,719	55,409
Operating income	108,511	61,280
NON-OPERATING REVENUE (EXPENSE):		
Interest income	6,700	2,384
Interest expense, net	(21,019)	(22,490)
Total non-operating expense	(14,319)	(20,106)
NET INCREASE IN NET POSITION	94,192	41,174
NET POSITION, beginning of year, as previously stated	427,065	571,436
Cumulative effect of an accounting change	-	(185,545)
NET POSITION, beginning of year	427,065	385,891
NET POSITION, end of year	$ 521,257	$ 427,065

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, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 1,303,784	$ 1,266,619
Payments to suppliers for goods and services	(1,060,376)	(1,049,872)
Payments to employees	(57,530)	(58,622)
Payments for tax equivalents	(29,324)	(32,296)
Net cash provided by operating activities	156,554	125,829
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	(93,573)	(91,306)
Utility plant removal costs	(8,640)	(4,983)
Salvage received from utility plant retirements	2,382	1,117
Contributions in aid of construction	9,709	4,703
Proceeds from sale of revenue bonds	-	127,477
Principal payments on revenue bonds	(27,298)	(25,357)
Capital appreciation bond interest	(7,747)	(7,523)
Interest payments on revenue bonds	(27,132)	(25,004)
Net cash used in capital and related financing activities	(152,299)	(20,876)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities	(138,835)	(242,079)
Proceeds from sales and maturities of investment securities	157,463	131,697
Transferred into escrow	-	(339)
Interest on investments	6,371	2,325
Net cash (used in) provided by investing activities	24,999	(108,396)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	29,254	(3,247)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	363,605	366,852
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 392,859	$ 363,605

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, 2018 AND 2017 (continued)

	2018	2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 108,511	$ 61,280
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	58,719	55,409
Accrual for uncollectible accounts	1,806	1,871
Changes in assets and liabilities:		
(Increase) decrease in customer and other accounts receivable	(22,902)	2,376
(Increase) in materials and supplies	(2,812)	(1,407)
(Increase) in other current assets	(859)	(153)
(Increase) decrease in other non-current assets	(272)	120
Increase in accounts payable for purchased power	11,740	5,628
Increase (decrease) in trade accounts payable	3,107	(1,512)
Increase (decrease) in accrued expenses	270	(588)
Increase in customer deposits	908	863
(Decrease) in other non-current liabilities	(568)	(1,024)
Decrease in net deferred pension investment inflows and outflows	1,650	22,726
Decrease in net deferred pension actuarial inflows and outflows	8,022	7,262
Decrease in net deferred OPEB investment inflows and outflows	2,397	4,322
Decrease in net deferred OPEB actuarial inflows and outflows	(12,446)	12
Increase (decrease) in deferred pension liability	(11,573)	(27,778)
Increase (decrease) in deferred OPEB liability	10,856	(3,578)
Net cash provided by operating activities	$ 156,554	$ 125,829

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

Accounts payable associated with the acquisition and construction of utility plant was $3.1 million in 2018 and $0.7 million in 2017.

Allowances for funds used during construction ("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 in both 2018 and 2017.

During 2018 and 2017, NES charged $19.0 million and $15.9 million, respectively, to accumulated depreciation representing the cost of retired utility plant.

During 2018 and 2017, $9.6 million and $7.1 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.

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 amounts for billable work for customers were reclassified from accounts receivable to other non-current assets.

Recently Adopted Accounting Pronouncements

Statement Number 75 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, (GASB 75) requires governments to report the net liability on the face of the financial statements for the other postemployment benefits ("OPEB") that they provide. The standard required retroactive application to the most recent preceding year for comparative financial statements. NES recorded the effects of adopting GASB 75 beginning in July of 2017 through the recognition of a net OPEB liability with a corresponding offset to unrestricted net position of $185.5 million. Accordingly, all comparative periods for fiscal year 2018 and fiscal year 2017 reflect results with this new accounting standard.

The most significant impact of the adoption of this standard is the recognition of the OPEB liability of $207.5 million and $196.7 million at June 30, 2018 and 2017, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other effects of the adoption of GASB 75 included the following:

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

Statement Number 85 of the Governmental Accounting Standards Board, *Omnibus 2017*, (GASB 85) addresses a number of practice issues identified during the implementation and application of certain GASB statements. This standard did not have any impact on net position. The main impact of this standard is expanded disclosures related to postemployment benefits.

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, 2018 and 2017, amounts restricted for debt service were $74.6 million and $72.9 million, respectively. NES releases capital debt funds quarterly based on expected draws for that quarter. As of June 30, 2018 and 2017, amounts restricted for construction were $91.9 million and $121.3 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Utility Plant

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

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

Depreciation is provided at rates that are designed to amortize the cost of depreciable plant (including estimated removal costs) over the estimated useful lives ranging from 5 to 50 years. The composite straight-line rates expressed as a percentage of average depreciable plant were as follows for June 30, 2018 and 2017:

	2018	2017
Distribution plant, 8 to 40 years	3.6%	3.5%
Structure and improvements, 40 to 50 years	2.2%	2.0%
Office furniture and equipment, 5 to 16.7 years	9.6%	7.6%
Transportation equipment, 8 to 10 years	6.1%	6.2%
Other equipment, 8 to 33.3 years	6.2%	6.1%

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

Contributions in Aid of Construction (CIAC)

Payments are received from customers and TVA for construction costs primarily relating to the expansion or improvement of the capabilities of the Electric System. FERC guidelines are followed in recording CIAC, which direct the reduction of utility plant assets by the amount of contributions received toward the construction of utility plant. CIAC earned and recovered in the plant costs was $6.0 million in 2018 and $5.5 million in 2017.

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.

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, 2018 and 2017, Net Investment in Capital Assets included $91.9 million and $121.3 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, 2018 and 2017, the Restricted net position included investments of $74.2 million and $63.0 million, respectively, for debt service. Restricted net position also consisted of Cash of $0.4 million and $9.9 million, respectively, reduced by accrued interest payable of $3.4 million and $2.8 million in 2018 and 2017, respectively. 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, 2018 and 2017, such unbilled revenues were $53.8 million and $45.7 million, respectively. In addition to a base rate, NES collects and recognizes a variable fuel cost adjustment based upon changing fuel and purchased power costs, which is a pass-through from TVA. NES collects sales tax from a majority of its commercial customers and such amounts are presented net in revenues. Revenues are presented net of allowances for uncollectible accounts of $1.8 million and $1.9 million for the years ended June 30, 2018 and 2017, 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.

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 $640.5 million and $700.1 million at June 30, 2018 and 2017, 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 November 2016 GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, (GASB 83) addresses accounting for certain asset retirement obligations (AROs). 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) 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 trust funds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In June 2017, GASB issued Statement No. 87, *Leases*, (GASB 87) which establishes single model for lease accounting based on the foundational principles that leases are financing, and require lessee to recognize a lease liability and intangible right-to-use asset. 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.

In March 2018, GASB issued Statement No. 88, *Certain disclosures related to Debt, including Direct Borrowing and Direct Placements*, (GASB 88) which expands the disclosures related to debt for matters such as unused lines of credit, assets pledged as collateral for debt, terms specified in debt agreement related to significant events of default significant termination events and significant acceleration clauses. The standard also adds direct borrowings as debt subject to these disclosure requirements. The provisions in GASB 88 are effective for reporting periods beginning after June 15, 2018. The Board is evaluating the effects of adoption of GASB 88 which may expand some disclosures related to debt.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, (GASB 89) which establishes accounting requirements for interest cost incurred before the end of a construction period. GASB 89 requires that interest cost incurred before the end of a construction period be recognized as an expenses rather than as part of the historical cost of a capital asset. The provisions in GASB 89 are effective for reporting periods beginning after December 15, 2019. The Board is evaluating the applicability of and effects of adoption of GASB 89.

2. UTILITY PLANT AND ACCUMULATED DEPRECIATION

Utility plant activity for the years ended June 30, 2018 and 2017 was as follows ($000 omitted):

	Balance June 30, 2017	Additions	Transfers & Retirements	Balance June 30, 2018
Distribution plant	$ 1,411,001	$ 62,293	$ (15,656)	$ 1,457,638
Structures and improvements	69,045	579	-	69,624
Office furniture and equipment	32,533	4,389	(907)	36,015
Transportation equipment	7,849	683	(488)	8,044
Other equipment	50,024	4,296	(1,978)	52,342
Land and land rights	3,901	-	-	3,901
Construction work-in-progress (a)	67,029	18,905	-	85,934
	$ 1,641,382	$ 91,145	$ (19,029)	$ 1,713,498

	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)	44,976	22,053	-	67,029
	$ 1,570,656	$ 86,596	$ (15,870)	$ 1,641,382

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

2. UTILITY PLANT AND ACCUMULATED DEPRECIATION (continued)

The related activity for accumulated depreciation for the years ended June 30, 2018 and 2017 was as follows ($000 omitted):

	Balance June 30, 2017	Provision	Original Cost	Cost of Removal	Salvage	Balance June 30, 2018
Distribution plant	$ 591,391	$ 51,363	$ (15,667)	$ (8,633)	$ 2,061	$ 620,515
Structures and improvements	23,661	1,528	-	-	-	25,189
Office furniture and equipment	25,403	3,282	(907)	-	-	27,778
Transportation equipment	2,941	485	(483)	(7)	255	3,191
Other equipment	24,933	3,175	(1,984)	-	66	26,190
	$ 668,329	$ 59,833	$ (19,041)	$ (8,640)	$ 2,382	$ 702,863

	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	$ (15,866)	$ (4,979)	$ 1,081	$ 668,329

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 in both 2018 and 2017.

3. CASH AND INVESTMENTS

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

2018

	Cash	Bond Funds	Special Construction	Total	Weighted Average Maturity (Years)
Cash and cash equivalents	$ 389,613	$ 430	$ 2,816	$ 392,859	-
U.S. Treasury Investments	-	74,189	19,597	93,786	0.41
Securities from Agencies Chartered by Congress	-	-	69,460	69,460	0.36
	$ 389,613	$ 74,619	$ 91,873	$ 556,105	

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	-	-	71,079	71,079	1.84
	$ 351,298	$ 72,859	$ 121,322	$ 545,479	

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.

3. CASH AND INVESTMENTS (continued)

Investments as of June 30, 2018, are categorized as follows:

	Level 1	Level 2	Fair Value Measurement Total
Securities from Agencies Chartered by Congress	$ 51,751	$17,709	$ 69,460
U.S. Treasury Securities	84,161	9,625	93,786
Total	$135,912	$27,334	$163,246

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

	Level 1	Level 2	Fair Value Measurement 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

Custodial Credit Risk

As of June 30, 2018 and 2017, NES' cash and cash equivalents was $392.9 million and $363.6 million, respectively. Bank balances for such accounts totaled $397.0 million and $365.1 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, 2018 and 2017, 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.

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 2018 and 2017, 42.5 percent and 39.1 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.

4. LONG-TERM DEBT

Long-term debt for the year ended June 30, 2018, is as follows ($000 omitted):

	Balance June 30, 2017	Deductions/ Repayments	Additions/ Amortization/ Accretion	Balance June 30, 2018
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.	22,006	(11,835)	1,125	11,296
Electric System Revenue Bonds, 2008 Series A, bore interest at rates from 3.50% to 4.00%, matured May 15, 2018, interest paid semiannually.	3,551	(3,545)	(6)	-
Electric System Revenue Bonds, 2008 Series B, bear interest at rates from 4.25% to 5.00%, maturing through May 15, 2023, interest paid semiannually.	7,658	-	(31)	7,627
Electric System Revenue Bonds, 2011 Series A, bear interest at rates from 3.00% to 5.00%, maturing through May 15, 2036, interest paid semiannually.	47,304	(2,945)	(260)	44,099
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.	79,154	(11,345)	(1,484)	66,325
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.	60,460	-	(339)	60,121
Electric System Revenue Bonds, 2014 Series A, bear interest at rates from 4.00% to 5.00%, maturing through May 15, 2039, interest paid semiannually.	114,574	(2,670)	(1,165)	110,739
Electric System Revenue Bonds, 2015 Series A, bear interest at 5.00%, maturing through May 15, 2033, interest paid semiannually.	130,778	-	(2,673)	128,105
Electric System Revenue Bonds, 2017 Series A, bear interest at rates from 4.00% to 5.00%, maturing through May 15, 2042, interest paid semiannually.	127,409	(2,705)	(1,523)	123,181
Electric System Revenue Bonds, 2017 Series B, bear interest at 5.00%, maturing through May 15, 2031, interest paid semiannually.	93,271	-	(2,109)	91,162
	686,165	$ (35,045)	$ (8,465)	642,655
Less current portion of long-term debt	(27,298)			(27,216)
	$ 658,867			$ 615,439

ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
Notes to the Financial Statements for the years ended June 30, 2018 and 2017

4. LONG-TERM DEBT (continued)

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

	Balance June 30, 2016	Deductions/ Repayments	Additions/ 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.	-	-	93,271	93,271
	593,741	$ (115,611)	$ 208,035	686,165
Less current portion of long-term debt	(25,357)			(27,298)
	$ 568,384			$ 658,867

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
2019	$ 27,216	$ 35,436
2020	36,010	26,380
2021	37,690	24,706
2022	38,995	22,836
2023	40,920	20,911
2024-2028	158,550	78,856
2029-2033	113,495	44,178
2034-2038	77,895	19,587
2039-2042	34,155	3,798
	564,926	$ 276,688
Unamortized premium/accretion	77,729	
Total long-term debt	$ 642,655	

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.

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, 2018, do not appear on the Board's Statements of Net Position:

	Principal Outstanding
2011 Series A Bonds	40,615,000
2011 Series B Bonds	42,115,000
Total	$ 82,730,000

NES had a $25 million unsecured line-of-credit for fiscal year 2018 and 2017 to be used for purchased power in case of a natural disaster. There were no borrowings under this line-of-credit in 2018 or 2017. The line-of-credit is renewable annually. The Company established a new line of credit effective July 1, 2018, with an expiration date of June 30, 2019. 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, 2018.

5. OTHER NON-CURRENT LIABILITIES

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

	Balance June 30, 2017	Repayments / Earned Contributions	Additions/ Interest	Balance June 30, 2018
TVA Energy Conservation Loans	$ 1,930	$ (675)	$ 107	$ 1,362
Contributions in Aid of Construction	3,297	(5,896)	9,486	6,887
Customer Solar Subscriptions	-	(3)	94	91
	$ 5,227	$ (6,574)	$ 9,687	$ 8,340

	Balance June 30, 2016	Repayments / Earned Contributions	Additions/ Interest	Balance 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
	$ 7,030	$ (8,368)	$ 6,565	$ 5,227

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.

6. PENSION PLAN (continued)

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 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. All plan participants were vested as of June 30, 2017. 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, 2018, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving benefits	914
Inactive employees entitled to but not yet receiving benefits	142
Active employees	668
	1,724

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 48 percent of annual covered payroll. NES contributed 100 percent of the required contribution for both of the Plan years 2018 and 2017, 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, 2018, which was rolled forward to the measurement date of June 30, 2018.

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. All projected contributions and benefit payments used this rate of return and discount rate. The assumptions include cost-of-living post-retirement benefit increases equal to 2 percent per year. Mortality rates are based on the RP-2000 Healthy Combined Mortality Table. The base mortality rates have been adjusted by applying the Projection Scale AA for seven years beyond the valuation date to reflect mortality improvements. The Plan Sponsor conducted an experience study in 2016 on the withdrawal rate and rates of retirement whose effects were included in the 2016 actuarial calculations. There were no other assumption changes in fiscal year 2018.

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 annually to achieve long-term asset allocation targets. There were no changes to investment policies in 2018 or 2017.

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, 2018
Registered Investment Companies – Mutual Funds	
SEI S&P 500 Index Fund	$ 179,859
SEI Small Mid Cap Fund	20,540
SEI World Equity Ex-US Fund	98,391
SEI Extended Mkt Index A	20,215

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.

Extended Market Index Fund

The Extended Market Index Fund aims to produce investment results that correspond to the performance of the FTSE/Russell Small Cap Completeness Index. The fund invests substantially all of its assets in securities of companies that are members of FTSE/Russell Small Cap Completeness Index. The Fund's sub-advisor selects securities, but does not actively manage the Fund in the traditional sense of trying to outperform its benchmark index. Instead, the Fund purchases and maintains a basket of securities in the approximately same proportion as the FTSE/Russell Small Cap Completeness Index.

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

Investments by fair value level	June 30, 2018
Registered Investment Companies – Mutual Funds	
SEI Core Fixed Income Fund	$ 119,763
SEI Emerging Markets Debt Fund	29,038
SEI High Yield Bond Fund	17,624

6. PENSION PLAN (continued)

Core Fixed Income Fund

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

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 government's investment in a single issuer. Significant concentration guidelines are as follows:

ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
Notes to the Financial Statements for the years ended June 30, 2018 and 2017

6. PENSION PLAN (continued)

Equity Investments through/in mutual funds

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

Fixed Income Investments through/in mutual funds

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

Interest rate risk

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

The following are risk characteristics for the Core Fixed Income Fund as of June 30, 2018:

Characteristic	Portfolio
Effective duration	6.3 years
Average maturity	9.3 years
Average Moody's quality	A, with 74.6% of portfolio rated A or higher
Bond duration	5 years or less, 56.0%

The following are risk characteristics for the Emerging Markets Debt Fund as of June 30, 2018:

Characteristic	Portfolio
Effective duration	4.7 years
Average maturity	9.7 years
Average Moody's quality	BB, with 74.4% of portfolio rated BB or higher

The following are risk characteristics for the High Yield Bond Fund as of June 30, 2018:

Characteristic	Portfolio
Effective duration	2.3 years
Average maturity	5.6 years
Average Moody's quality	B, with 78.0% of portfolio rated B or higher

6. PENSION PLAN (continued)

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

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

Asset Class	Asset Allocation	Long-Term Expected Rate of Return
Equity	66%	9.4%
Fixed Income	34%	5.8%

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
2018-2022	208	$ 212,176
2023-2027	161	267,750
2028-2032	133	316,224
2033-2037	95	358,219
2038-2042	53	379,740
Total projected benefit payments		$ 1,534,109

ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
Notes to the Financial Statements for the years ended June 30, 2018 and 2017

6. PENSION PLAN (continued)

The table below presents the changes in the Total Pension Liability, Plan Fiduciary Net Position, and Net Pension Liability.

Changes in Net Pension Liability

($000 omitted)	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)–(b)
Balance at June 30, 2017	$ 661,402	$ 455,209	$ 206,193
Changes for the year:			
Service Costs	10,937		10,937
Interest	48,892		48,892
Experience losses/(gains)	(5,102)		(5,102)
Changes in assumptions	1,139		1,139
Contributions – employer		30,031	(30,031)
Net investment income		38,244	(38,244)
Benefit payments / refunds	(37,744)	(37,744)	-
Administrative expenses		(836)	836
Net Change	18,122	29,695	(11,573)
Balance at June 30, 2018	$ 679,524	$ 484,904	$ 194,620

The above changes in Net Pension Liability include dividend receivables of $0.4 million and investment fees payable of $0.2 million.

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

	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability ($000 omitted)	$273,450	$194,620	$128,172

6. PENSION PLAN (continued)

For the year ended June 30, 2018, NES recognized pension expense of $28.1 million. At June 30, 2018, 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	$ 8,880	$ 5,663
Changes in assumptions	11,023	-
Net difference between projected and actual earnings on pension plan investments	-	2,088
Total	$ 19,903	$ 7,751

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

Years Ending June 30:	
2019	$ 8,317
2020	4,565
2021	(2,021)
2022	1,291
2023	-
Thereafter	-

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

7. DEFINED CONTRIBUTION PENSION PLAN (continued)

percentage, actuarially determined, to each participant's compensation for the Plan Year. At December 31, 2017, the DC Plan had approximately 206 participants. For plan years ended December 31, 2017 and 2016, the contribution percentage was 15.31% and 13.12%, respectively. NES contributed $1.9 million and $1.1 million to the DC Plan in the fiscal year ended June 30, 2018 and June 30, 2017, respectively. DC Plan expense was $2.3 million and $1.3 million for the fiscal year ended June 30, 2018 and June 30, 2017, respectively. NES' liability for the DC Plan as of June 30, 2018 and 2017, was $1.2 million and $0.7 million, respectively.

Participants forfeit contributions made on their behalf if they separate from service before vesting. Forfeitures reduce future employer contributions. Forfeitures were fifteen thousand dollars and thirteen thousand dollars for the calendar year ending December 31, 2017 and 2016, 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 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.

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

Investments by fair value level	June 30, 2018
Registered Investment Companies – Mutual Funds	
SEI S&P 500 Index Fund	$ 1,674
SEI Small Mid Cap Fund	186
SEI World Equity Ex-US Fund	963
SEI Extended MKT Index - A	187

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.

7. DEFINED CONTRIBUTION PENSION PLAN (continued)

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.

Extended Market Index Fund

The Extended Market Index Fund aims to produce investment results that correspond to the performance of the FTSE/Russell Small Cap Completeness Index. The fund invests substantially all of its assets in securities of companies that are members of FTSE/Russell Small Cap Completeness Index. The Fund's sub-advisor selects securities, but does not actively manage the Fund in the traditional sense of trying to outperform its benchmark index. Instead, the Fund purchases and maintains a basket of securities in the approximately same proportion as the FTSE/Russell Small Cap Completeness Index.

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

Investments by fair value level	June 30, 2018
Registered Investment Companies – Mutual Funds	
SEI Core Fixed Income Fund	$ 1,194
SEI Emerging Markets Debt Fund	187
SEI High Yield Bond Fund	286

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.

7. DEFINED CONTRIBUTION 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 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.

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, 2018:

Characteristic	Portfolio
Effective duration	6.3 years
Average maturity	9.3 years
Average Moody's quality	A, with 74.6% of portfolio rated A or higher
Bond duration	5 years or less, 56.0%

The following are risk characteristics for the Emerging Markets Debt Fund as of June 30, 2018:

Characteristic	Portfolio
Effective duration	4.7 years
Average maturity	9.7 years
Average Moody's quality	BB, with 74.4% of portfolio rated BB or higher

The following are risk characteristics for the High Yield Bond Fund as of June 30, 2018:

Characteristic	Portfolio
Effective duration	2.3 years
Average maturity	5.6 years
Average Moody's quality	B, with 78.0% of portfolio rated B or higher

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

8. 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. 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 (the "Trust") that was established during the year ended June 30, 2008. The name of the Trust is the "Electric Power Board of the Metropolitan Government of Nashville and Davidson County Post-Employment Medical and Life Insurance Plan" known as the Nashville Electric Service Post-Employment Medical and Life Insurance Plan Trust. The Trust issues a separate financial report that is provided to the Comptroller of the State of Tennessee. The five member Electric Power Board of NES serves as the governing board of the Trust and is charged with general administration and the responsibility for proper operation of the Trust. Members of the Electric Power Board are appointed by the Mayor of Nashville and serve five year staggered terms without compensation.

Employees become fully eligible for post-employment medical, dental, vision, and life insurance benefits once they reach the earlier of age 65 with 5 years of service, age 55 with 15 years of service, or age 50 with 30 years of service. Plan benefits include reimbursements for medical, dental and vision expenses, prescription drug costs, and term life insurance premiums. Benefit provisions are established and may be amended by NES.

Life insurance benefits for active employees and retirees are provided through allocated insurance contracts with an insurance company.

Membership of the OPEB Plan consisted of the following at April 1, 2018:

Active plan members	907
Disabled plan members	21
Retirees	699
Beneficiaries	179
	1,806

The contribution requirements of NES are established and may be amended by NES. The OPEB Plan is currently non-contributory. Current contribution amounts are made quarterly based on the annual actuarially determined amount. The actuarially determined amount is equal to the normal cost plus the amounts required to amortize the unfunded accrued liability over closed periods not to exceed 30 years, based on a level percentage of pay. NES expects to continue to fund all projected cash flows.

The current rate is 25 percent of covered payroll. NES contributed 100 percent of the required contribution for the Plan year 2018.

The NES net OPEB liability was measured using the Entry Age actuarial cost method. The total OPEB liability was determined by an actuarial valuation as of April 1, 2018, which was rolled forward to the measurement date of June 30, 2018.

8. OTHER POST-EMPLOYMENT BENEFITS (continued)

Effective January 1, 2017, the Medical Plan was amended to provide accident and outpatient surgery coverage at the same level of benefits as for inpatient surgery and other major medical benefits. This provision will be phased in over a 7-year period that began January 1, 2017. None of the covered retirees and survivors on the medical plan as of January 1, 2017, were affected by this change and will continue to have accident and outpatient coverage without a co-pay or deductible in these areas.

Seven Year Phase-in for Accident and Outpatient provisions:

Effective Date	Network Co-Insurance	Out-of-Network Co-Insurance
January 1, 2017	1%	5%
January 1, 2018	3%	10%
January 1, 2019	5%	15%
January 1, 2020	7%	20%
January 1, 2021	9%	25%
January 1, 2022	12%	30%
January 1, 2023*	15%	35%

*Appropriate deductible will also apply.

The Board will review the Plan annually to determine if the Affordable Health Care Act's Cadillac tax provision is imminent. If the tax is imminent when reviewed, appropriate plan adjustments will be made at that time.

The total OPEB 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, (b) projected salary increases of 4.5 percent and (c) a 5 percent medical 4 percent dental healthcare trend cost. An inflation component is included for (a), (b), and (c). 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. All projected contributions and benefit payments used this rate of return and discount rate. The assumptions include cost-of-living post-retirement benefit increases equal to 2 percent per year. Mortality rates are based on the RP-2000 Healthy Combined Mortality Table. The base mortality rates have been adjusted by applying the Projection Scale AA for seven years beyond the valuation date to reflect mortality improvements. The OPEB Plan Sponsor conducted an experience study in 2016 on the withdrawal rate and rates of retirement whose effects were included in the 2016 actuarial calculations. The OPEB Plan Sponsor conducted an experience study on the rebate experience of the prescription activity in 2018 and adopted the results of the study, thereby changing to an explicit assumption for rebates. There were no other assumption changes in fiscal year 2018.

The OPEB 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 annually to achieve long-term asset allocation targets. There were no changes to investment policies in 2018 or 2017.

8. OTHER POST-EMPLOYMENT BENEFITS (continued)

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.

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

Investments by fair value level	June 30, 2018
Registered Investment Companies – Mutual Funds	
SEI S&P 500 Index Fund	$ 44,414
SEI Small Mid Cap Fund	5,075
SEI World Equity EX – US Fund	24,381
SEI Extended MKT Index - A	4,996

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.

Extended Market Index Fund
The Extended Market Index Fund aims to produce investment results that correspond to the performance of the FTSE/ Russell Small Cap Completeness Index. The fund invests substantially all of its assets in securities of companies that are members of FTSE/ Russell Small Cap Completeness Index. The Fund's sub-advisor selects securities, but does not actively manage the Fund in the traditional sense of trying to outperform its benchmark index. Instead, the Fund purchases and maintains a basket of securities in the approximately same proportion as the FTSE/ Russell Small Cap Completeness Index.

8. OTHER POST-EMPLOYMENT BENEFITS (continued)

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

Investments by fair value level	June 30, 2018
Registered Investment Companies – Mutual Funds	
SEI Core Fixed Income Fund	$ 29,608
SEI Emerging Markets Debt Fund	4,365
SEI High Yield Bond Fund	7,181

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 market fluctuation 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 Trust'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.

ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
Notes to the Financial Statements for the years ended June 30, 2018 and 2017

8. OTHER POST-EMPLOYMENT BENEFITS (continued)

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. The Trust's investments are all in mutual funds which are, by their nature, diversified investments. The Trust holds no investment in individual companies. Significant concentration guidelines are as follows:

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

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

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

The following are risk characteristics for the Core Fixed Income Fund as of June 30, 2018:

Characteristic	Portfolio
Effective duration	6.3 years
Average maturity	9.3 years
Average Moody's quality	A, with 74.6% of portfolio rated A or higher
Bond duration	5 years or less, 56.0%

The following are risk characteristics for the Emerging Markets Debt Fund as of June 30, 2018:

Characteristic	Portfolio
Effective duration	4.7 years
Average maturity	9.7 years
Average Moody's quality	BB, with 74.4% of portfolio rated BB or higher

8. OTHER POST-EMPLOYMENT BENEFITS (continued)

The following are risk characteristics for the High Yield Bond Fund as of June 30, 2018:

Characteristic	Portfolio
Effective duration	2.3 years
Average maturity	5.6 years
Average Moody's quality	B, with 78.0% 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 Trust's investments are not subject to any significant foreign currency risk.

The long term expected rate of return on Trust assets was calculated using the Gross Fund Performance 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 the calculations approximate the actual asset class allocation of the Trust's investments as follows:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Equity	66%	9.4%
Fixed Income	34%	6.1%

The discount rate used to measure the total OPEB liability was 7.5 percent. The periods of projected benefit payments used in determining the discount rate were:

Projected Schedule of Benefit Payments
(000 omitted

Years	Number Retiring	Total Payout
2018-2022	224	$ 96,896
2023-2027	182	123,578
2028-2032	162	149,257
2033-2037	140	173,089
Total projected benefit payments		$ 542,820

8. OTHER POST-EMPLOYMENT BENEFITS (continued)

The table below shows the changes in the Total OPEB Liability, OPEB Plan Net Position, and Net OPEB Liability.

Changes in Net OPEB Liability ($000 omitted)	Increase (Decrease)		
	Total OPEB Liability (a)	OPEB Plan Net Position (b)	Net OPEB Liability (a)-(b)
	$297,545	$100,884	$196,661
Service Cost	6,271		6,271
Interest	22,254		22,254
Experience losses/(gain)	(2,608)		(2,608)
Changes in assumption	15,157		15,157
Contributions		21,760	(21,760)
Net investment income		8,786	(8,786)
Benefit payment/ refunds	(14,194)	(14,194)	-
Administrative expense		(328)	328
Net changes	26,880	16,024	10,856
Balance at June 30, 2018	$324,425	$116,908	$207,517

The above changes in Net OPEB Liability include dividend receivables of $0.1 million and investment fees payable of $0.1 million. At June 30, 2018, the Trust owed NES approximately $3.1 million for claims processing expenses paid by NES on behalf of the Trust. There were no contributions receivable. Investment and claims processing expenses were $0.2 million.

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

	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
Net OPEB Liability	$244,251	$207,517	$176,598

The following represents the net OPEB liability calculated using the stated health care costs trend rate assumption, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher than the assumed trend rate:

	1% Decrease (4.0%)	Current Rate (5.0%)	1% Increase (6.0%)
Net OPEB Liability	$176,074	$207,517	$245,330

8. OTHER POST-EMPLOYMENT BENEFITS (continued)

For the year ended June 30, 2018, NES recognized OPEB expense of $22.6 million. At June 30, 2018, NES reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 7,515	$ 7,870
Changes in assumptions	20,121	-
Net difference between projected and actual earnings on OPEB plan investments	-	1,457
Total	$ 27,636	$ 9,327

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

Years Ending June 30:	
2019	$ 4,955
2020	4,435
2021	3,389
2022	3,438
2023	2,092
Thereafter	-

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 $4.0 million and $3.7 million to the plan for the years ended June 30, 2018 and 2017, respectively. NES contributed $2.2 million and $2.1 million to the 457 Plan for the years ended June 30, 2018 and June 30, 2017, respectively.

10. LEASES

Total rental expense included in the determination of net position was approximately $1.0 million in both 2018 and 2017. Rental expense consists primarily of payments for pole attachments and miscellaneous equipment. NES leases these pole attachments and miscellaneous equipment 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 $3.1 million in 2019.

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 for both years ended June 30, 2018 and 2017. Rental income from cable provider pole-attachments totaled $4.9 million at June 30, 2018, and $3.3 million at June 30, 2017. The net book value of the poles for use in the rental activity was $131.1 million and $131.6 million at June 30, 2018 and 2017, respectively. Accumulated depreciation on poles was $92.3 million at June 30, 2018, and $89.5 million at June 30, 2017.

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.

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 for the years ended June 30, 2018 and 2017 are as follows ($000 omitted):

Balance – June 30, 2016	$ 1,693
Payments	(13,694)
Incurred Claims	13,868
Balance – June 30, 2017	$ 1,867
Payments	(11,814)
Incurred Claims	11,554
Balance – June 30, 2018	$ 1,607

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.

11. RISK MANAGEMENT AND LIABILITY (continued)

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 has a memorandum of understanding regarding joint pole attachment fees with the Metropolitan Government. The agreement stipulates that NES does not charge for attachments on NES poles, and in exchange, NES does not pay for various permit fees otherwise required for NES construction work. For 2018 and 2017, the estimated value of attachment fees not billed was $0.2 million in each period.

NES and the Metropolitan Government (of Davidson County) Department of General Services operate an 800 MHz radio system under the terms of a Memorandum of Understanding. The Metropolitan Government 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. The Metropolitan Government maintains the system, and NES pays for its proportionate share of annual maintenance costs.

In 2018 and 2017, NES paid the Metropolitan Government $0.7 million and $1.1 million, respectively, 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 total additional upgrade costs for future phases. At June 30, 2018, $1.9 million remained to be paid in fiscal years 2019 through 2020.

NES receives reimbursements from the Metropolitan Government for work required or requested on the System as a result of requests from the Metropolitan Government. NES also receives service fees in certain circumstances. Such reimbursements and fees are based on standard rates.

These balances and transactions as of and for the years ended June 30, 2018 and 2017 are summarized as follows ($000 omitted):

	2018	2017
Balances:		
Accounts receivable	$ 6,058	$ 4,877
Accounts payable	189	152
Transactions:		
Commercial and industrial revenue – Metropolitan Government Entities	65,158	66,203
Street and outdoor lighting revenue – Metropolitan Government Entities	8,628	8,411
Tax equivalents operating expense – Metropolitan Government Entities	27,864	30,860
800 MHz Radio maintenance expense	708	744
800 MHz Radio capital upgrade	674	1,118
Reimbursements for work on the System	948	563
Other miscellaneous billed services	46	111
Other miscellaneous expenses paid	313	199

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.

NES purchased power totaling $943.5 million and $932.3 million from TVA during the years ending June 30, 2018 and 2017, 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 24, 2018, the issuance date of the financial statements, and has determined that there are no other subsequent events that require disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

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

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

	Years ended June 30,				
	2018	**2017**	**2016**	**2015**	**2014**
Total Pension Liability					
Service Costs	$ 10,937	$ 12,084	$ 10,083	$ 10,792	$ 9,935
Interest	48,892	47,611	43,983	41,399	39,288
Changes in benefit terms	-	-	8,619	-	-
Differences between expected and actual experience	(5,102)	(3,306)	11,291	1,768	6,127
Changes of assumptions	1,139	1,108	17,741	-	-
Benefit Payments / Refunds	(37,744)	(41,066)	(38,753)	(28,720)	(27,104)
Net Change in Total Pension Liability	$ 18,122	$ 16,431	$ 52,964	$ 25,239	$ 28,246
Total Pension Liability, beginning	661,402	644,971	592,007	$ 566,768	$ 538,522
Total Pension Liability, ending (a)	$ 679,524	$ 661,402	$ 644,971	$ 592,007	$ 566,768
Plan Fiduciary Net Position					
Contributions – employer	$ 30,031	$ 30,905	$ 24,600	$ 25,746	$ 22,813
Net investment income	38,244	55,186	(623)	12,207	63,102
Benefit Payments / Refunds	(37,744)	(41,066)	(38,753)	(28,720)	(27,104)
Administrative expenses	(836)	(816)	(797)	(682)	(451)
Net Change in Plan Fiduciary Net Position	$ 29,695	$ 44,209	($ 15,573)	$ 8,551	$ 58,360
Plan Fiduciary Net Position – beginning	455,209	411,000	426,573	418,022	359,662
Plan Fiduciary Net Position – ending (b)	$ 484,904	$ 455,209	$ 411,000	$ 426,573	$ 418,022
Net Pension Liability – ending (a) – (b)	$ 194,620	$ 206,193	$ 233,971	$ 165,434	$ 148,746
Plan Fiduciary Net Position as a % of the Total Pension Liability	71%	69%	64%	72%	74%
Covered –employee payroll	$ 62,824	$ 63,415	$ 69,337	$ 68,801	$ 69,410
Net Pension Liability as a % of covered-employee payroll	310%	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 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,	Actuarially determined contribution (a)	Contributions in relation to the actuarially determined contribution (b)	Contribution deficiency (excess) (a)-(b)	Covered employee payroll (c)	Contribution as percent of covered payroll (b)/(c)
2018	$ 30,118	$30,031	$87	$ 62,824	48%
2017	30,727	30,905	(178)	63,415	49%
2016	24,594	24,600	(6)	69,337	35%
2015	25,746	25,746	-	68,801	37%
2014	22,898	22,813	85	69,410	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	Return
2018	7.16%
2017	13.60%
2016	-0.15%
2015	2.97%
2014	17.75%

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

OTHER POST EMPLOYMENT BENEFITS PLAN ($000 OMITTED)
Schedule of Changes in Net OPEB Liability (Unaudited)

	Years ended June 30, 2018	2017	2016	2015	2014
Total OPEB Liability					
Service Costs	$ 6,271	$ 6,008	$ 5,221	$ 4,934	$ 4,235
Interest	22,254	21,219	18,738	18,543	18,325
Changes in benefit terms	-	736	-	-	-
Differences between expected and actual experience	(2,608)	(1,068)	13,956	(8,006)	(5,870)
Changes of assumptions	15,157	451	7,987	-	12,516
Benefit Payments	(14,194)	(13,426)	(13,761)	(12,598)	(10,845)
Net Change in Total OPEB Liability	26,880	13,920	32,141	2,873	18,361
Total OPEB Liability, beginning	297,545	283,625	251,484	248,611	230,250
Total OPEB Liability, ending (a)	**$ 324,425**	**$ 297,545**	**$ 283,625**	**$ 251,484**	**$ 248,611**
Plan Fiduciary Net Position					
Contributions – employer	$ 21,760	$ 19,168	$ 16,835	$ 16,495	$ 15,523
Net investment income	8,786	11,932	296	2,369	11,123
Benefit Payments	(14,194)	(13,426)	(13,761)	(12,598)	(10,845)
Administrative expenses	(328)	(176)	(203)	(112)	(134)
Net Change in Plan Fiduciary Net Position	16,024	17,498	3,167	6,154	15,667
Plan Fiduciary Net Position – beginning	100,884	83,386	80,219	74,065	58,398
Plan Fiduciary Net Position – ending (b)	**$ 116,908**	**$ 100,884**	**$ 83,386**	**$ 80,219**	**$ 74,065**
Net OPEB Liability–ending (a) – (b)	**$ 207,517**	**$ 196,661**	**$ 200,239**	**$ 171,265**	**$ 174,546**
Plan Fiduciary Net Position as a % of the Total OPEB Liability	36%	34%	29%	32%	30%
Covered –employee payroll	$ 79,793	$ 78,421	$ 78,184	$ 76,725	$ 74,625
Net OPEB Liability as a % of covered-employee payroll	260%	251%	256%	223%	234%

Notes to the Schedule

The Plan Sponsor conducted an experience study on the rebate experience of the prescription activity in 2018 and adopted the results of the study, thereby changing to an explicit assumption for rebates.

The Plan Sponsor conducted an experience study in 2016 on the withdrawal rate and rate of retirement. Effects of the study were incorporated in the net OPEB liability calculation at June 30, 2016.

In 2014, NES changed from using the 1994 Group Annuity Mortality Basic Table to the RP2000 Combined Mortality Table. Also, in 2014, NES changed the discount rate from 8.0% to 7.5%.

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

OTHER POST EMPLOYMENT BENEFITS PLAN ($000 OMITTED)
Schedule of Changes in Net OPEB Liability (Unaudited), continued

	Years ended June 30, 2013	2012	2011	2010	2009
Total OPEB Liability					
Service Costs	$ 4,103	$ 4,794	$ 4,902	$ 4,615	$ 3,947
Interest	18,027	20,221	20,205	19,781	17,160
Changes in benefit terms	-	(30,173)	(9,991)	-	-
Differences between expected and actual experience	(8,151)	(11,769)	(5,336)	(9,935)	20,824
Changes of assumptions	-	-	-	-	-
Benefit Payments	(9,929)	(9,683)	(9,273)	(9,607)	(10,053)
Net Change in Total OPEB Liability	4,050	(26,610)	507	4,854	31,878
Total OPEB Liability, beginning	226,200	252,810	252,303	247,449	215,571
Total OPEB Liability, ending (a)	**$ 230,250**	**$ 226,200**	**$ 252,810**	**$ 252,303**	**$ 247,449**
Plan Fiduciary Net Position					
Contributions – employer	$ 18,645	$ 18,041	$ 18,124	$ 17,776	$ 15,383
Net investment income	6,623	719	5,319	1,612	(957)
Benefit Payments	(9,929)	(9,683)	(9,273)	(9,607)	(10,053)
Administrative expenses	(72)	(71)	(55)	(34)	(16)
Net Change in Plan Fiduciary Net Position	15,267	9,006	14,115	9,747	4,357
Plan Fiduciary Net Position – beginning	43,131	34,125	20,010	10,263	5,906
Plan Fiduciary Net Position – ending (b)	**$ 58,398**	**$ 43,131**	**$ 34,125**	**$ 20,010**	**$ 10,263**
Net OPEB Liability–ending (a) – (b)	**$ 171,852**	**$ 183,069**	**$ 218,685**	**$ 232,293**	**$ 237,186**
Plan Fiduciary Net Position as a % of the Total OPEB Liability	25%	19%	13%	8%	4%
Covered –employee payroll	74,489	71,339	69,473	68,885	65,861
Net OPEB Liability as a % of covered-employee payroll	231%	257%	315%	337%	360%

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

OTHER POST EMPLOYEE BENEFIT PLAN ($000 OMITTED)
Schedule of Employer Contributions (Unaudited)

Years Ended June 30,	Actuarially determined contribution (a)	Contributions in relation to the actuarially determined contribution (b)	Contribution deficiency (excess) (a)-(b)	Covered employee payroll (c)	Contribution as percent of covered payroll (b)/(c)
2018	$ 20,527	21,760	(1,233)	$ 79,793	27%
2017	19,410	19,168	242	78,421	24%
2016	17,418	16,835	583	78,183	22%
2015	17,162	16,495	667	76,725	21%
2014	15,765	15,523	242	74,625	21%
2013	15,401	18,645	(3,244)	74,489	25%
2012	17,371	18,041	(670)	71,339	25%
2011	18,103	18,124	(21)	69,473	26%
2010	17,863	17,776	87	68,885	26%
2009	15,981	15,383	598	65,861	23%

In computing the tables, actuarial assumptions included the use of the Actuarial Entry Age Normal Cost Method with a Level Pay amortization over a 30-year closed period, a 7.5 percent investment rate of return and discount rate, and a projected salary increase 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 healthcare cost trends of 5 percent for Medical and 4 percent for Dental. Projected cash flows were calculated assuming all actuarially determined contributions would be made by NES. Mortality rates used are based on the RP-2000 Healthy Combined Mortality Table, with adjustments for mortality improvements based on the Projection Scale AA.

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

OTHER POST EMPLOYEE BENEFIT PLAN ($000 OMITTED)
Schedule of Investment Returns (Unaudited)
Annual Money-Weighted Rate of Return, net of investment expense:

Plan Year Ended March 31,	Return
2018	11.2%
2017	12.9%
2016	-1.7%
2015	7.4%
2014	13.7%
2013	11.1%
2012	5.4%
2011	11.3%
2010	37.0%
2009	-26.9%

NES

NES

20