



ISSUE: JUNE 30

ANNUAL REPORT

YEAR NO.

2019



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

Financial Statements for the Years Ended June 30, 2019 & 2018

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PRESIDENT'S LETTER

Nashville Electric Service (NES) is a place with vision. This vision propels us forward and encourages us to evolve, adapt and improve year after year, allowing us to keep pace with a city undergoing its own evolution. We have a vision to be a top performing utility in both reliability and customer satisfaction, and realizing that vision takes thousands of hours of work and commitment from our team.

In our pursuit of being a utility known for its customer satisfaction, we are consistently introducing new ways to meet customer needs. This year, we implemented a 24-hour overflow and after-hours call center to assist with outage and credit and collection calls. We can now provide customer service any time of day, during any circumstance. We installed more than 79,000 AMI (Advanced Metering Infrastructure) meters, providing more accurate readings for 97% of our residential and commercial customers. Additionally, we also completed a major renovation to our customer lobby, enhancing the experience for those who visit us.

During a busy storm season, we worked hard to keep our customers out of the dark. We posted more than 2,000 social media messages on Facebook and Twitter, and responded to 169 media inquiries to release as much information as possible. In total, we achieved more than 4.1 million impressions from our communications.

Customer satisfaction can only be achieved through the efforts of a skilled team, and ours has achieved all of the reliability targets using the Institute of Electrical and Electronics Engineers (IEEE) methodology as of June 30, 2019. And to reinforce that our lineman team is one of the best in the industry, our linemen placed first for the fourth consecutive year at the Tennessee Valley Lineman Rodeo. Because of responsible fiscal management, we successfully met all liquidity targets during the fiscal year and maintained an employee count below 1,000.

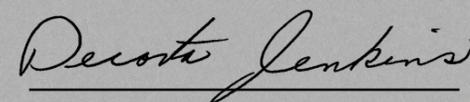
We also recognize that achieving customer satisfaction comes from not simply being an electric service but serving as Nashville's electric service. Whenever possible, we do our part to support the community, both environmentally and socially. This year, we provided energy-efficiency upgrades to more than 100 homes under our Home Energy Uplift partnership with the Tennessee Valley Authority (TVA) and

Metro Nashville. We also partnered with TVA and Milepost Consulting to launch a multi-unit residential weatherization program called the Community Power Challenge. As part of our commitment to provide sustainable energy to Nashville, we hosted a plug-in ceremony for the city's first community solar park at the Music City Solar site.

Our charitable work within the community continues to be a focal point for our organization, and this year, we contributed more than \$75,000 in employee donations to organizations including the American Heart Association, United Way and the Salvation Army. Employees also donated more than 260 units of blood to the American Red Cross. As part of our support of our community's future, we have spent many years helping to develop minority lawyers and law students. And for the 25th consecutive year, we have received an award from the Nashville Bar Association in recognition of these efforts.

As a result of all these efforts, we received an 84 percent rating in the latest customer satisfaction survey.

I am proud of all that we have achieved during these past 12 months and am grateful to our employees who help us implement our vision every single day. Each one of them should stand proud, knowing that we have once again surpassed our goals. I am confident that we will achieve great things in the years to come by continuing to provide service excellence and value to our great city.



Decosta Jenkins
President & Chief Executive Officer



LEFT:
Carolyn Schott
NES Board Chair
Partner
Sherrard Roe Voigt & Harbison, PLC

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



CAROLYN SCHOTT
NES Board Chair
Partner
Sherrard Roe Voigt & Harbison, PLC



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



CLINT GRAY
Owner
Slim & Husky's



ROBERT MCCABE
Chairman
Pinnacle Financial Partners



IRMA PAZ-BERNSTEIN
Owner
Las Paletas

BOARD MEMBERS



Report of Independent Auditors

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

We have audited the accompanying financial statements of the Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Electric Power Board"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, which consist of the statements of net position as of June 30, 2019 and 2018, 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 (the "basic financial statements").

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Electric Power Board as of June 30, 2019 and 2018, and the respective changes in financial position, and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

Required Supplementary Information

The accompanying required supplementary information and management's discussion and analysis on pages 62 through 71 and 8 through 18, respectively are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in 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, TN
September 25, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Board"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal years ended June 30, 2019 and 2018 as compared to fiscal years 2018 and 2017, 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.

In November 2016, the Governmental Accounting Standards Board issued Statement Number 83 *Certain Asset Retirement Obligations*, (GASB 83) which requires governments to recognize certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a capital asset. Governmental entities with obligations to perform future asset retirement activities must recognize a liability and corresponding deferred outflow when the liability is both incurred and reasonably estimable. 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. NES adopted GASB 83 in the year ended June 30, 2019. The amounts were not material to the financial statements.

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 added direct borrowings as debt subject to these disclosure requirements. NES adopted GASB 88 in the year ended June 30, 2019. The adoption of this standard expanded certain disclosures related to debt default events.

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 expense rather than as part of the historical cost of a capital asset. The standard also permits regulated operations to continue to capitalize interest if that process is part of the rate making calculations. The provisions in GASB 89 are effective for reporting periods

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

beginning after December 15, 2019, and may be adopted prior to that date. NES adopted GASB 89 in the year ended June 30, 2019. As permitted by the standard, NES will continue to capitalize interest. The adoption of this standard did not have an impact on the financial statements.

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 \$611.3 million at June 30, 2019, and \$521.3 million at June 30, 2018. This represents an increase of \$90.0 million in 2019 and \$94.2 million in 2018.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

STATEMENTS OF NET POSITION (\$000 omitted)

	June 30,		
	2019	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS	\$628,696	\$576,456	\$513,121
INVESTMENT OF RESTRICTED FUNDS	118,371	166,492	194,181
UTILITY PLANT, NET	1,055,165	1,010,635	973,053
OTHER NON-CURRENT ASSETS	<u>7,337</u>	<u>5,971</u>	<u>5,699</u>
TOTAL ASSETS	1,809,569	1,759,554	1,686,054
DEFERRED OUTFLOWS OF RESOURCES	<u>79,173</u>	<u>63,152</u>	<u>62,571</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$1,888,742</u>	<u>\$1,822,706</u>	<u>\$1,748,625</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
CURRENT LIABILITIES	\$ 214,420	\$ 224,726	\$ 208,699
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	41,637	33,729	30,782
LONG-TERM DEBT, LESS CURRENT PORTION	562,779	615,439	658,867
NET PENSION LIABILITY	221,544	194,620	206,193
NET OPEB LIABILITY	195,098	207,517	196,661
OTHER NON-CURRENT LIABILITIES	<u>7,379</u>	<u>8,340</u>	<u>5,227</u>
TOTAL LIABILITIES	<u>1,242,857</u>	<u>1,284,371</u>	<u>1,306,429</u>
DEFERRED INFLOWS OF RESOURCES	<u>34,602</u>	<u>17,078</u>	<u>15,131</u>
NET POSITION			
Net investment in capital assets	510,702	472,387	424,912
Restricted for debt services	72,287	71,185	70,030
Unrestricted	<u>28,294</u>	<u>(22,315)</u>	<u>(67,877)</u>
TOTAL NET POSITION	<u>611,283</u>	<u>521,257</u>	<u>427,065</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$1,888,742</u>	<u>\$1,822,706</u>	<u>\$1,748,625</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Liquidity and Capital Resources

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, 2019.

The Board's financing cost may be impacted by short-term and long-term debt ratings assigned by independent rating agencies. The Board's revenue bonds are rated AA by Standard & Poor's and AA+ by 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 and general fund investments goal of 16.5 percent of purchased power, and operating expense. This goal was met every month of fiscal years 2019 and 2018. Actual cash and general fund investments as a percentage of purchased power and operating expense was 38.1 percent as of June 30, 2019, and 34.6 percent as of June 30, 2018. 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, 2019, was 3.67 to 1. The Board continues to exceed its goals. The outlook on all debt ratings is stable as of June 30, 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Operations

Summary Revenue & Expense Data
(\$000 omitted)

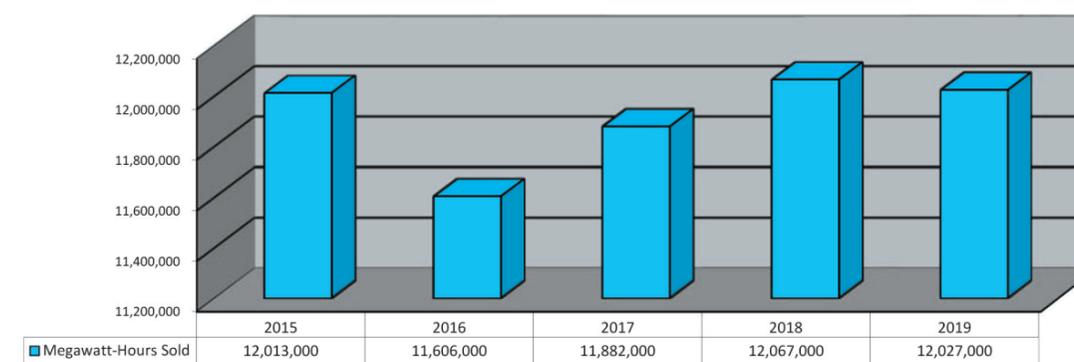
	Year Ended June 30,		Change in	Year Ended		Change in Net
	2019	2018	Net Position	June 30, 2017	Position	Position
Operating revenues, net	\$1,342,217	\$1,324,224	\$17,993	\$1,260,957	\$63,267	
Purchased power	<u>(949,308)</u>	<u>(943,511)</u>	<u>(5,797)</u>	<u>(932,275)</u>	<u>(11,236)</u>	
Operating revenues, net, less Purchased power	392,909	380,713	12,196	328,682	52,031	
Operating expenses	(201,037)	(182,932)	(18,105)	(178,525)	(4,407)	
Depreciation, amortization, and tax equivalents	(94,856)	(89,270)	(5,586)	(88,877)	(393)	
Interest and other non- operating income	12,649	6,700	5,949	2,384	4,316	
Interest expense and other, net	<u>(19,639)</u>	<u>(21,019)</u>	<u>1,380</u>	<u>(22,490)</u>	<u>1,471</u>	
Increase in net position	<u>90,026</u>	<u>94,192</u>	<u>(4,166)</u>	<u>41,174</u>	<u>53,018</u>	
Effect of Adoption of GASB 75	-	-	-	1,365	(1,365)	
Increase in Net Position as Previously Stated	<u>\$ 90,026</u>	<u>\$ 94,192</u>	<u>\$ (4,166)</u>	<u>\$ 42,539</u>	<u>\$ 51,653</u>	

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

2019 and 2018 Results of Operations

Operating Revenues. Operating revenues, net, increased by \$18.0 million, or 1.4 percent, when compared to 2018. Total electric sales were \$1.3 billion during both 2019 and 2018. The average realized rate on electric sales was \$0.1092 compared to \$0.1077 per kilowatt-hour in 2018. Megawatt-hours sold in 2019 decreased by 0.3 percent when compared to 2018. 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 and 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 2,219 compared to 2,077 in 2018. Total heating degree-days were 3,205 compared to 3,387 in 2018. Total heating and cooling degree-days were 5,424 compared to 5,464 in 2018, or a decrease of 0.7 percent. Residential revenue increased \$8.7 million or 1.5 percent compared to the previous year. Residential energy consumption is highly correlated to degree days. Commercial and industrial revenue increased \$7.2 million or 1.0 percent compared to the prior year. Commercial and industrial energy consumption is not as strongly correlated to degree days as is residential. Total number of active customers as of June 30, 2019 increased by 1.2 percent when compared to 2018. Revenue in Excess of Net Bills (Late Charges) decreased by \$0.3 million, and Rentals of Electric Property (primarily pole attachments) increased by \$1.2 million.

Megawatt-Hours Sold



Non-operating Revenues. Interest and other non-operating income was \$12.7 million compared to \$6.7 million in 2018. The average rate of return on the General Fund was 2.23 percent in 2019 compared to 1.37 percent in 2018. The average monthly balance of the General Fund cash and investments was \$394.0 million in 2019 compared to \$335.1 million in 2018, an increase of 17.6 percent. Interest income from the bond funds was \$2.1 million in 2019. Interest income from the construction funds increased to \$1.5 million from the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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, 2019, neither party has made notification of early termination. Purchased power was \$949.3 million for the period compared to \$943.5 million last year. The average realized rate on purchased power was \$0.077 per kilowatt-hour in 2019 compared to \$0.076 in 2018. Megawatt-hours purchased were 12.4 million in 2019 compared to 12.5 million in 2018.

Distribution expenses for the period were \$74.1 million compared to \$73.0 million last year. This is an increase of \$1.1 million or 1.5 percent. The change is primarily attributable to increases in the following expense categories: line transformers, \$1.5 million; operation and maintenance of street lights and signal system, \$0.9 million; supervision and engineering, \$0.9 million; operation and maintenance of meters, \$0.7 million; operation and maintenance of overhead lines, \$0.6 million; storms, \$0.6 million; emergency services, \$0.3 million; load dispatching, \$0.2 million; operation and maintenance of station equipment, \$0.1 million; private lights, \$0.1 million; structures, \$0.1 million; and rents, \$0.04 million. These increases were offset by decreases in the following expense categories: tree trimming, \$4.1 million; miscellaneous expense, \$0.6 million; and operation and maintenance of mapping, \$0.2 million.

Customer Accounts expenses were \$20.1 million for the period compared to \$19.9 million last year or an increase of \$0.2 million or 1.0 percent. The change is primarily attributable to an increase in the following expense category: data processing, \$0.8 million. This increase was offset by decreases in the following expense categories: meter reading, \$0.4 million; customer orders and services, \$0.2 million; and customer records and collections, \$0.03 million.

Customer Service and Information expenses for the period were \$1.7 million compared to \$2.1 million last year. This is a decrease of \$0.4 million or 19.1 percent. The change is primarily attributable to a decrease in the following expense category: customer assistance, \$0.6 million. The decrease was offset by an increase in the following expense category: miscellaneous expense, \$0.2 million.

Administrative and General (A&G) expenses were \$105.1 million for the period compared to \$88.0 million last year. This was an increase of \$17.1 million or 19.4 percent. The change is primarily attributable to increases in the following expense categories: employee pensions, \$15.0 million; employee health insurance, \$8.2 million; office expenses and supplies, \$0.9 million; injuries and damages, \$0.6 million; maintenance of general plant, \$0.5 million; duplicate charges-credit, \$0.4 million; employee welfare, \$0.1 million; outside services employed, \$0.1 million; administrative and general salaries, \$0.1 million; employee life insurance, \$0.1 million; miscellaneous general, \$0.1 million; and property insurance, \$0.03 million. These increases were offset by decreases in the following expense categories: allocated overhead, \$6.0 million; and data processing, \$3.0 million.

Depreciation, Amortization, and Tax Equivalentents. Depreciation, Amortization, and Tax Equivalentents were \$62.8 million and \$32.1 million, respectively, for 2019, compared to \$58.7 million and \$30.6 million, respectively, for 2018. The increase in depreciation and amortization was the result of increased investment in the utility plant. Tax equivalentents consist primarily of payments in-lieu-of taxes to the Metropolitan Government and the surrounding counties. Such payments are calculated based on a

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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 increased investment in the utility plant.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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, Amortization, and Tax Equivalents. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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)

<u>Description</u>	<u>Fiscal 2019</u>	<u>Fiscal 2018</u>	<u>Increase (Decrease)</u>	<u>Fiscal 2017</u>	<u>Increase (Decrease)</u>
Total Labor	\$ 70,036	\$ 68,169	2.7%	\$ 66,172	3.0%
Benefits	72,113	54,102	33.3%	58,847	(8.1%)
Outside Services – Information Technology	15,803	17,589	(10.2%)	14,423	22.0%
Outside Services – Other	13,589	13,293	2.2%	12,614	5.4%
Tree Trimming	7,367	11,107	(33.7%)	10,476	6.0%
Other	<u>22,129</u>	<u>18,672</u>	18.5%	<u>15,993</u>	16.8%
Total	<u>\$201,037</u>	<u>\$182,932</u>	9.9%	<u>\$178,525</u>	2.5%

2019 and 2018 Expense

The Board's total operating expenses increased 9.9% percent from June 30, 2018 to June 30, 2019. Labor for fiscal year 2019 totaled \$70.0 million compared to \$68.2 million for fiscal 2018. The increase was due to increases in cost-of-living and merit adjustments, along with employee step increases. Benefits increased from fiscal year 2018 primarily due to actuarial assumption changes in the pension and other post-employment benefit plans. Medical costs increased primarily due to unanticipated large medical and prescription claims. Outside Services - Information Technology decreased primarily due to greater work on capital projects. Outside Services - Other increased primarily due to increased contractors required for storm and contract engineering. Tree trimming decreased for the period as compared to June 30, 2018, due to less trimming than planned as a result of resource constraints. Other expenses contains a wide array of expense categories, none of which is individually over 5% of total expenses.

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 compared to \$66.2 million in 2017. 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 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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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.

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 expects to have access to funds from future tax-exempt bond issuances to meet these requirements.

The Board's investment in utility plant, less accumulated depreciation, at June 30, 2019 was \$1.1 billion compared to \$1.0 billion at June 30, 2018. Major projects during fiscal year 2019 included capital maintenance, \$23.0 million; meters and transformer purchases, \$19.6 million; new business installations, \$18.4 million; system construction, \$13.2 million; and technology upgrade, \$16.4 million.

The Board has outstanding bonds payable of \$598.8 million at June 30, 2019 compared to \$642.7 million at June 30, 2018. The decrease is the result of scheduled debt payments of \$35.2 million and amortization and accretion of \$8.7 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, 2019 AND 2018**

	2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 387,690	\$ 389,613
Other investments	50,510	-
Customer and other accounts receivable, less allowance for doubtful accounts of \$948 and \$362 respectively	152,724	155,397
Materials and supplies	28,119	23,190
Other current assets	<u>9,653</u>	<u>8,256</u>
TOTAL CURRENT ASSETS	<u>628,696</u>	<u>576,456</u>
INVESTMENT OF RESTRICTED FUNDS:		
Cash and cash equivalents	143	3,246
Other investments	<u>118,228</u>	<u>163,246</u>
TOTAL INVESTMENT OF RESTRICTED FUNDS	<u>118,371</u>	<u>166,492</u>
UTILITY PLANT:		
Electric plant, at cost	1,781,984	1,713,498
Less: Accumulated depreciation	<u>(726,819)</u>	<u>(702,863)</u>
TOTAL UTILITY PLANT, NET	1,055,165	1,010,635
OTHER NON-CURRENT ASSETS	<u>7,337</u>	<u>5,971</u>
TOTAL ASSETS	<u>1,809,569</u>	<u>1,759,554</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amount on refunding of debt	13,870	15,613
Difference between projected and actual pension experience	6,073	8,880
Difference between projected and actual pension assumptions	31,792	11,023
Difference between projected and actual OPEB experience	5,368	7,515
Difference between projected and actual OPEB assumptions	<u>22,070</u>	<u>20,121</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	79,173	63,152
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>1,888,742</u>	<u>1,822,706</u>

See notes to financial statements.

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

**STATEMENTS OF NET POSITION (\$000 OMITTED)
JUNE 30, 2019 AND 2018 (continued)**

	2019	2018
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
CURRENT LIABILITIES:		
Accounts payable for purchased power	159,577	170,673
Trade accounts payable	18,165	22,303
Accrued expenses	17,912	14,095
Customer deposits	<u>18,766</u>	<u>17,655</u>
TOTAL CURRENT LIABILITIES	<u>214,420</u>	<u>224,726</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Construction accounts payable	2,330	3,078
Accrued interest payable	3,297	3,435
Current portion of long-term debt	<u>36,010</u>	<u>27,216</u>
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	<u>41,637</u>	<u>33,729</u>
LONG-TERM DEBT, LESS CURRENT PORTION	562,779	615,439
NET PENSION LIABILITY	221,544	194,620
NET OPEB LIABILITY	195,098	207,517
OTHER NON-CURRENT LIABILITIES	<u>7,379</u>	<u>8,340</u>
TOTAL LIABILITIES	<u>1,242,857</u>	<u>1,284,371</u>
DEFERRED INFLOWS OF RESOURCES		
Difference between projected and actual pension earnings, net	5,024	2,088
Difference between projected and actual pension experience	4,829	5,663
Difference between projected and actual OPEB earnings, net	1,992	1,457
Difference between projected and actual OPEB experience	<u>22,757</u>	<u>7,870</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	34,602	17,078
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>1,277,459</u>	<u>1,301,449</u>
NET POSITION		
Net investment in capital assets	510,702	472,387
Restricted for debt services	72,287	71,185
Unrestricted	<u>28,294</u>	<u>(22,315)</u>
TOTAL NET POSITION	<u>611,283</u>	<u>521,257</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	<u>\$ 1,888,742</u>	<u>\$ 1,822,706</u>

See notes to financial statements.

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

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (\$000 OMITTED)
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
OPERATING REVENUES:		
Residential	\$ 585,137	\$ 576,480
Commercial and industrial	707,964	700,800
Street and highway lighting	20,525	20,126
Other	<u>28,591</u>	<u>26,818</u>
Total operating revenues, net	1,342,217	1,324,224
PURCHASED POWER	<u>949,308</u>	<u>943,511</u>
Operating revenues, net, less purchased power	<u>392,909</u>	<u>380,713</u>
OPERATING EXPENSES	201,037	182,932
TAX EQUIVALENTS	32,073	30,551
DEPRECIATION & AMORTIZATION	<u>62,783</u>	<u>58,719</u>
Operating income	<u>97,016</u>	<u>108,511</u>
NON-OPERATING REVENUE (EXPENSE):		
Interest income	12,382	6,624
Interest expense, net	(19,639)	(21,019)
Other non-operating income	<u>267</u>	<u>76</u>
Total non-operating expense	<u>(6,990)</u>	<u>(14,319)</u>
INCREASE IN NET POSITION	<u>90,026</u>	<u>94,192</u>
NET POSITION, beginning of year	521,257	427,065
NET POSITION, end of year	<u>\$ 611,283</u>	<u>\$ 521,257</u>

See notes to financial statements.

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

**STATEMENTS OF CASH FLOWS (\$000 OMITTED)
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,345,727	\$ 1,303,784
Payments to suppliers for goods and services	(1,096,837)	(1,060,376)
Payments to employees	(58,055)	(57,530)
Payments for tax equivalents	<u>(32,073)</u>	<u>(29,324)</u>
Net cash provided by operating activities	<u>158,762</u>	<u>156,554</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of utility plant	(105,356)	(93,573)
Utility plant removal costs	(16,213)	(8,640)
Salvage received from utility plant retirements	2,821	2,382
Contributions in aid of construction	10,200	9,709
Principal payments on revenue bonds	(27,216)	(27,298)
Capital appreciation bond interest	(7,959)	(7,747)
Interest payments on revenue bonds	(26,723)	(27,132)
Other	<u>225</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(170,221)</u>	<u>(152,299)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities	(239,965)	(138,835)
Proceeds from sales and maturities of investment securities	234,473	157,463
Interest on investments	<u>11,925</u>	<u>6,371</u>
Net cash provided by investing activities	<u>6,433</u>	<u>24,999</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,026)	29,254
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>392,859</u>	<u>363,605</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 387,833</u>	<u>\$ 392,859</u>

See notes to financial statements.

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

**STATEMENTS OF CASH FLOWS (\$000 OMITTED)
YEARS ENDED JUNE 30, 2019 AND 2018 (continued)**

	2019	2018
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 97,016	\$ 108,511
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation & Amortization	62,783	58,719
Accrual for uncollectible accounts	2,476	1,806
Changes in assets and liabilities:		
(Increase) decrease in customer and other accounts receivable	197	(22,902)
(Increase) in materials and supplies	(4,929)	(2,812)
(Increase) in other current assets	(942)	(859)
(Increase) in other non-current assets	(1,366)	(272)
Increase (decrease) in accounts payable for purchased power	(11,096)	11,740
Increase (decrease) in trade accounts payable	(4,138)	3,107
Increase in accrued expenses	3,817	270
Increase in customer deposits	1,111	908
(Decrease) in other non-current liabilities	(432)	(568)
Decrease in net deferred pension investment inflows and outflows	2,936	1,650
(Increase) decrease in net deferred pension actuarial inflows and outflows	(18,796)	8,022
Decrease in net deferred OPEB investment inflows and outflows	2,682	2,397
(Increase) decrease in net deferred OPEB actuarial inflows and outflows	12,938	(12,446)
Increase (decrease) in deferred pension liability	26,924	(11,573)
Increase (decrease) in deferred OPEB liability	<u>(12,419)</u>	<u>10,856</u>
Net cash provided by operating activities	<u>\$ 158,762</u>	<u>\$ 156,554</u>

See notes to financial statements.

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

**STATEMENTS OF CASH FLOWS (\$000 OMITTED)
YEARS ENDED JUNE 30, 2019 AND 2018 (continued)**

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

Accounts payable associated with the acquisition and construction of utility plant was \$2.3 million in 2019 and \$3.1 million in 2018.

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. During 2019 and 2018, AFUDC was \$0.9 million and \$0.7 million, respectively.

During 2019 and 2018, NES charged \$26.6 million and \$19.0 million, respectively, to accumulated depreciation representing the cost of removing retired utility plant.

During 2019 and 2018, \$9.2 million and \$9.6 million, respectively, was credited to interest expense for amortization of net bond premiums and discounts in each year.

See notes to financial statements.

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

Notes to the Financial Statements for the years ended June 30, 2019 and 2018

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 issued by the Governmental Accounting Standard Board (GASB). NES maintains its accounts in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission as required by TVA and follows the reporting and recognition requirements for regulated operation using the economic measurement focus and the accrual basis of accounting. NES is not subject to the jurisdiction of other 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 Revenues, Expenses, and changes in Net Position, the amounts for gain on sale of surplus land were reclassified from interest income to other non-operating income.

Recently Adopted Accounting Pronouncements

In November 2016, the Governmental Accounting Standards Board issued Statement Number 83 *Certain Asset Retirement Obligations*, (GASB 83) which requires governments to recognize certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a capital asset. Governmental entities with obligations to perform future asset retirement activities must recognize a liability and corresponding deferred outflow when the liability is both incurred and reasonably estimable. 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. NES adopted GASB 83 in the year ended June 30, 2019. The amounts were not material to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 added direct borrowings as debt subject to these disclosure requirements. NES adopted

GASB 88 in the year ended June 30, 2019. The adoption of this standard expanded disclosures related to certain debt default events.

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 expense rather than as part of the historical cost of a capital asset. The standard also permits regulated operations to continue to capitalize interest if that process is part of the rate making calculations. Accordingly, NES continues to capitalize interest. The provisions in GASB 89 are effective for reporting periods beginning after December 15, 2019 and may be adopted prior to that date. NES adopted GASB 89 in the year ended June 30, 2019. As permitted by the standard, NES will continue to capitalize interest. The adoption of this standard did not have an impact on the financial statements.

Recent Accounting Pronouncements

In January 2017 GASB issued Statement No. 84, *Fiduciary Activities*, (GASB 84) which addresses the identification and reporting for fiduciary activities of state and local governments. GASB 84 describes four fiduciary funds that should be reported: (1) pension and other employee benefit trust funds, (2) investment trust funds, (3) private trust funds, and (4) custodial trust funds. The requirements of GASB 84 are effective for reporting periods beginning after December 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The significant accounting policies followed by NES are outlined below.

Use of Estimates

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

Cash and cash equivalents

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

Investments in Restricted Funds

Cash and cash equivalents (including restricted assets) consist primarily of short-term U.S. Government securities or 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. Other investments consist primarily of U.S. Government Securities or securities from agencies chartered by Congress. Other investments are reflected at their fair value except certificates of deposit, which are reflected at cost.

Restricted funds of NES represent bond proceeds designated for construction and monies required to be restricted for debt service. As of June 30, 2019 and 2018, amounts restricted for debt service were \$75.6 million and \$74.6 million, respectively. NES releases capital debt funds quarterly based on expected draws for that quarter. As of June 30, 2019 and 2018, amounts restricted for construction were \$42.8 million and \$91.9 million, respectively. NES makes disbursements for all capital projects out of its unrestricted operating funds. When restricted resources for capital projects exist, NES reimburses the unrestricted operating fund from the restricted resources according to a quarterly funding schedule. At that time such funds are considered applied to capital projects. The funding release schedule is based on expected capital expenditures which are typically over a three-year period, or may be based upon specific bond terms.

Utility Plant

Electric plant is stated at original cost. Such cost includes applicable overhead such as general and administrative costs, depreciation of vehicles used in the construction process, and payroll and related costs such as pensions, taxes and other fringe benefits related to plant construction. An allowance for funds used during construction (AFUDC) is recorded for certain plant. The AFUDC rate of 3.0% and 3.3%

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

used in 2019 and 2018, respectively approximates the current weighted average cost of debt net of investment earnings on related restricted construction funds. Contributed assets are recorded at their acquisition value.

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 using straight line methods 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, 2019 and 2018:

	2019	2018
Distribution plant, 8 to 40 years	3.7%	3.6%
Structure and improvements, 40 to 50 years	2.2%	2.2%
Office furniture and equipment, 5 to 16.7 years	10.6%	9.6%
Transportation equipment, 8 to 10 years	6.0%	6.1%
Other equipment, 8 to 33.3 years	6.3%	6.2%

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 when earned. Amounts not yet earned or refundable are recognized as a liability. CIAC earned and recovered in the plant costs was \$12.3 million in 2019 and \$6.0 million in 2018.

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, 2019 and 2018, Net Investment in Capital Assets included \$42.8 million and \$91.9 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, 2019 and 2018, the Restricted net position included investments of \$75.6 million and \$74.2 million, respectively, for debt service. Restricted net position also consisted of Cash of \$0.01 million and \$0.4 million, respectively, reduced by accrued interest payable of \$3.3 million and \$3.4 million in 2019 and 2018, 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, 2019 and 2018, such unbilled revenues were \$54.3 million and \$53.8 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 bad debt expense of \$1.9 million and \$1.8 million for the years ended June 30, 2019 and 2018, 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 other non-operating income. Other non-operating income includes sales of surplus land and recoveries from government agencies not reported as extraordinary gain or loss.

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 \$612.0 million and \$640.5 million at June 30, 2019 and 2018, 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.

2. UTILITY PLANT AND ACCUMULATED DEPRECIATION

Utility plant activity for the years ended June 30, 2019 and 2018 was as follows (\$000 omitted):

	Balance June 30, 2018	Additions	Transfers & Retirements	Balance June 30, 2019
Distribution plant	\$ 1,457,638	\$ 93,101	\$ (24,550)	\$ 1,526,189
Structures and improvements	69,624	5,301	-	74,925
Office furniture and equipment	36,015	11,589	(528)	47,076
Transportation equipment	8,044	719	(301)	8,462
Other equipment	52,342	6,087	(1,220)	57,209
Land and land rights	3,901	-	-	3,901
Construction work-in-progress (a)	<u>85,934</u>	<u>-</u>	<u>(21,712)</u>	<u>64,222</u>
	<u>\$ 1,713,498</u>	<u>\$ 116,797</u>	<u>\$ (48,311)</u>	<u>\$ 1,781,984</u>

	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)	<u>67,029</u>	<u>18,905</u>	<u>-</u>	<u>85,934</u>
	<u>\$ 1,641,382</u>	<u>\$ 91,145</u>	<u>\$ (19,029)</u>	<u>\$ 1,713,498</u>

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

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Notes to the Financial Statements for the years ended June 30, 2019 and 2018

2. UTILITY PLANT AND ACCUMULATED DEPRECIATION (continued)

The related activity for accumulated depreciation for the years ended June 30, 2019 and 2018 was as follows (\$000 omitted):

	Balance June 30, 2018	Provision	Original Cost	Cost of Removal	Salvage	Balance June 30, 2019
Distribution plant	\$ 620,515	\$ 54,041	\$ (24,550)	\$ (16,210)	\$ 2,592	\$ 636,388
Structures and improvements	25,189	1,562	-	-	54	26,805
Office furniture and equipment	27,778	4,418	(528)	-	-	31,668
Transportation equipment	3,191	495	(300)	(2)	127	3,511
Other equipment	<u>26,190</u>	<u>3,473</u>	<u>(1,220)</u>	<u>(2)</u>	<u>6</u>	<u>28,447</u>
	<u>\$ 702,863</u>	<u>\$ 63,989</u>	<u>\$ (26,598)</u>	<u>\$ (16,214)</u>	<u>\$ 2,779</u>	<u>\$ 726,819</u>

	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	<u>24,933</u>	<u>3,175</u>	<u>(1,984)</u>	<u>-</u>	<u>66</u>	<u>26,190</u>
	<u>\$ 668,329</u>	<u>\$ 59,833</u>	<u>\$ (19,041)</u>	<u>\$ (8,640)</u>	<u>\$ 2,382</u>	<u>\$ 702,863</u>

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 \$1.5 million in 2019 and \$1.1 million in 2018.

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Notes to the Financial Statements for the years ended June 30, 2019 and 2018

3. CASH AND INVESTMENTS

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

	2019			Total	Weighted Average Maturity (Years)
	General Fund	Bond Funds	Special Construction Funds		
Cash and cash equivalents	\$ 387,690	\$ 17	\$ 126	\$ 387,833	n/a
U.S. Treasury Investments	-	48,568	20,434	69,002	0.84
Securities from Agencies Chartered by Congress	50,010	27,000	22,226	99,236	0.81
Certificates of Deposit	<u>500</u>	<u>-</u>	<u>-</u>	<u>500</u>	0.09
	<u>\$ 438,200</u>	<u>\$ 75,585</u>	<u>\$ 42,786</u>	<u>\$ 556,571</u>	

The portfolio weighted average maturity is 0.82 years.

	2018			Total	Weighted Average Maturity (Years)
	General Fund	Bond Funds	Special Construction Funds		
Cash and cash equivalents	\$ 389,613	\$ 430	\$ 2,816	\$ 392,859	n/a
U.S. Treasury Investments	-	74,189	19,597	93,786	0.72
Securities from Agencies Chartered by Congress	<u>-</u>	<u>-</u>	<u>69,460</u>	<u>69,460</u>	0.85
	<u>\$ 389,613</u>	<u>\$ 74,619</u>	<u>\$ 91,873</u>	<u>\$ 556,105</u>	

The portfolio weighted average maturity is 0.77 years.

NES categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. All investments classified as Level 1 or Level 2 with a remaining maturity at the time of purchase of one year or less are recorded at amortized cost. The fair value of all other 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 all other investments classified as Level 2 are priced using a matrix pricing model. Inputs into these valuation techniques include benchmark yields, reported trades, broker/dealer quotes, and other similar data. NES has no Level 3 investments.

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Notes to the Financial Statements for the years ended June 30, 2019 and 2018

3. CASH AND INVESTMENTS (continued)

Investments, at fair value, as of June 30, 2019, are categorized as follows:

	Fair Value Measurement		
	Level 1	Level 2	Total
Securities from Agencies Chartered by Congress	\$ 8,319	\$90,917	\$ 99,236
U.S. Treasury Securities	69,002	-	69,002
Total	\$77,321	\$90,917	\$168,238

Investments, at fair value, as of June 30, 2018, are categorized as follows:

	Fair Value Measurement		
	Level 1	Level 2	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

Custodial Credit Risk

As of June 30, 2019 and 2018, NES' cash and cash equivalents was \$387.8 million and \$392.9 million, respectively. Bank balances for such accounts totaled \$390.5 million and \$397.0 million, respectively. Deposits in financial institutions are required by a 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, 2019 and 2018, all of NES' deposits were either held by financial institutions which participate in the bank collateral pool administered by the State Treasurer or covered by the FDIC, the NCUA, or are specifically collateralized in the agreement. 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

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3. CASH AND INVESTMENTS (continued)

insured for purposes of credit risk disclosure. The Tennessee Bank Collateral Pool does not receive ratings from rating agencies.

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. As of June 30, 2019 and 2018, 58.8 percent and 42.5 percent, respectively, of NES investments were invested in securities from Agencies Chartered by Congress. In 2019 and 2018, 40.9 percent and 57.5 percent, respectively, were invested in U.S. Treasuries. The remaining 0.3 percent in 2019 was invested in certificates of deposit.

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.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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Notes to the Financial Statements for the years ended June 30, 2019 and 2018

4. LONG-TERM DEBT

Long-term debt for the year ended June 30, 2019, is as follows (\$000 omitted):

	Balance June 30, 2018	Deductions/ Repayments	Additions/ Amortization/ Accretion	Balance June 30, 2019
Electric System Revenue Bonds, 1998 Series A, bore interest at rates from 5.35% to 5.40%, maturing May 15, 2019, interest paid semiannually.	11,296	(11,835)	539	-
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.	7,627	-	(33)	7,594
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.	44,099	(3,035)	(234)	40,830
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.	66,325	(11,915)	(1,168)	53,242
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.	60,121	-	(351)	59,770
Electric System Revenue Bonds, 2014 Series A, bear interest at a rate of 5.00%, maturing through May 15, 2039, interest paid semiannually.	110,739	(2,805)	(1,093)	106,841
Electric System Revenue Bonds, 2015 Series A, bear interest at a rate of 5.00%, maturing through May 15, 2033, interest paid semiannually.	128,105	(3,220)	(2,709)	122,176
Electric System Revenue Bonds, 2017 Series A, bear interest at a rate of 5.00%, maturing through May 15, 2042, interest paid semiannually.	123,181	(2,365)	(1,497)	119,319
Electric System Revenue Bonds, 2017 Series B, bear interest at a rate of 5.00%, maturing through May 15, 2031, interest paid semiannually.	<u>91,162</u>	<u>-</u>	<u>(2,145)</u>	<u>89,017</u>
	642,655	<u>\$ (35,175)</u>	<u>\$ (8,691)</u>	598,789
Less current portion of long-term debt	<u>(27,216)</u>		<u>(36,010)</u>	
	<u>\$ 615,439</u>		<u>\$ 562,779</u>	

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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Notes to the Financial Statements for the years ended June 30, 2019 and 2018

4. LONG-TERM DEBT (continued)

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 5.35% to 5.40%, maturing through May 15, 2019, 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%, maturing 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.	<u>93,271</u>	<u>-</u>	<u>(2,109)</u>	<u>91,162</u>
	686,165	<u>\$ (35,045)</u>	<u>\$ (8,465)</u>	642,655
Less current portion of long-term debt	<u>(27,298)</u>		<u>(27,216)</u>	
	<u>\$ 658,867</u>		<u>\$ 615,439</u>	

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
Notes to the Financial Statements for the years ended June 30, 2019 and 2018

4. LONG-TERM DEBT (continued)

NES issues Revenue Bonds to provide funds 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
2020	\$ 36,010	\$ 26,380
2021	37,690	24,706
2022	38,995	22,836
2023	40,920	20,911
2024	31,965	18,880
2025-2029	158,095	71,225
2030-2034	98,680	38,531
2035-2039	74,785	15,692
2040-2042	<u>20,570</u>	<u>2,090</u>
	537,710	<u>\$ 241,251</u>
Unamortized premium	<u>61,079</u>	
Total long-term debt	<u>\$ 598,789</u>	

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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Notes to the Financial Statements for the years ended June 30, 2019 and 2018

4. LONG-TERM DEBT (continued)

The following bond issues have been defeased through advanced refundings; therefore, the balances indicated, which are still outstanding as of June 30, 2019, do not appear on the Board's Statements of Net Position:

	Principal Outstanding
2011 Series A Bonds	40,615,000
2011 Series B Bonds	<u>42,115,000</u>
Total	<u>\$ 82,730,000</u>

NES had a \$25 million unsecured line-of-credit for fiscal year 2019 and 2018 to be used for purchased power in case of a natural disaster. There were no borrowings under this line-of-credit in 2019 or 2018. The line-of-credit is renewable annually. The Company established a new line of credit effective July 1, 2019, with an expiration date of June 30, 2020. 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. In the event of default, and if the Board is unable to provide remedy, outstanding amounts may become due and payable immediately by declaration of the fiscal agent or the holders of not less than twenty-five percent in principal amount of the bonds outstanding. NES is not in violation of any covenants at June 30, 2019.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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Notes to the Financial Statements for the years ended June 30, 2019 and 2018

5. OTHER NON-CURRENT LIABILITIES

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

	Balance June 30, 2018	Repayments / Earned Contributions	Additions/ Interest	Balance June 30, 2019
TVA Energy Conservation Loans	\$ 1,362	\$ (507)	\$ 73	\$ 928
Contributions in Aid of Construction	6,887	(13,455)	12,774	6,206
Customer Solar Subscriptions	91	(91)	-	-
Asset Retirement Obligations	-	-	245	245
	<u>\$ 8,340</u>	<u>\$ (14,053)</u>	<u>\$ 13,092</u>	<u>\$ 7,379</u>

	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
	<u>\$ 5,227</u>	<u>\$ (6,574)</u>	<u>\$ 9,687</u>	<u>\$ 8,340</u>

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.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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Notes to the Financial Statements for the years ended June 30, 2019 and 2018

6. RETIREMENT AND BENEFIT PLANS

The Company provides several different retirement benefits, including a defined benefit plan, a defined contribution plan, and a post-employment health benefits plan (collectively, "Retirement and Benefit Plans"). Each benefit is established under a separate plan, and each has its own trust. The following information is a summary of relevant plan terms and information. Full information can be found in the respective plan documents.

Pension Plan

The Nashville Electric Service Retirement Annuity and Survivors' Plan (the "DB 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 DB Plan. Employees hired after June 30, 2012, are eligible to participate in the Nashville Electric Service Defined Contribution Plan.

The DB 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 DB Plan is not required to issue a separate financial report.

As permitted by GASB 68, upon adoption, NES determined that it was impractical to present ten years of data as required by certain disclosures: The DB Plan liability was determined by an actuarial valuation as of March 31 of each year. 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 DB 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 DB 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 DB 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.

6. RETIREMENT AND BENEFIT PLANS (continued)

At April 1, 2019, the following employees were covered by the benefit terms of the DB Plan:

Inactive employees or beneficiaries currently receiving benefits	923
Inactive employees entitled to but not yet receiving benefits	141
Active employees	<u>640</u>
	1,704

The contribution requirements of NES are established and may be amended by NES. The DB 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 50 percent of annual covered payroll. NES contributed 100 percent of the required contribution for both of the DB Plan years 2019 and 2018, 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 March 31st, which was rolled forward to the measurement date of June 30th.

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. The DB 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. In 2019, mortality rates were changed to 102% of the Pub. G-2010 Mortality Table (issued in fiscal year 2019) with adjustments for future Mortality improvements utilizing scale MP-2018 projected generationally from the base year 2010. There were no other assumption changes in fiscal year 2019.

The DB 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 2019 or 2018.

6. RETIREMENT AND BENEFIT PLANS (continued)

The long-term expected rate of returns on DB 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%	11.1%
Fixed Income	34%	6.6%

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

**Projected Schedule of Benefit Payments
 (\$000 omitted)**

Year	Number Retiring	Total Payouts
2019-2023	209	\$ 221,684
2024-2028	160	281,275
2029-2033	126	334,526
2034-2038	88	381,746
2039-2043	44	406,808
	Total projected benefit payments	<u>\$ 1,626,039</u>

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Notes to the Financial Statements for the years ended June 30, 2019 and 2018

6. RETIREMENT AND BENEFIT PLANS (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, 2018	\$ 679,524	\$ 484,904	\$ 194,620
Changes for the year:			
Service Costs	10,838		10,838
Interest	50,148		50,148
Experience losses/(gains)	(1,568)		(1,568)
Changes in assumptions	32,039		32,039
Contributions – employer		31,382	(31,382)
Net investment income		33,967	(33,967)
Benefit payments / refunds	(40,099)	(40,099)	-
Administrative expenses		(816)	816
Net Change	<u>51,358</u>	<u>24,434</u>	<u>26,924</u>
Balance at June 30, 2019	<u>\$ 730,882</u>	<u>\$ 509,338</u>	<u>\$ 221,544</u>

The above changes in Net Pension Liability include dividend receivables of \$0.5 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)	\$310,791	\$221,544	\$147,086

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Notes to the Financial Statements for the years ended June 30, 2019 and 2018

6. RETIREMENT AND BENEFIT PLANS (continued)

For the year ended June 30, 2019, NES recognized pension expense of \$42.4 million. At June 30, 2019, NES reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources (\$000 omitted):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 6,073	\$ 4,829
Changes in assumptions	31,792	-
Net difference between projected and actual earnings on pension plan investments	-	5,024
Total	<u>\$ 37,865</u>	<u>\$ 9,853</u>

Amounts reported as deferred outflows (inflows) of resources related to pensions will be recognized in pension expense as follows (\$000 omitted):

Years Ending June 30:	
2020	\$ 12,513
2021	5,928
2022	9,240
2023	331
2024	-
Thereafter	-

6. RETIREMENT AND BENEFIT PLANS (continued)

Defined Contribution Pension Plan

NES established a single-employer Defined Contribution Retirement Plan (the "DC Plan") in 2012 with a Plan Year of January 1 to December 31. The DC 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. At December 31, 2018, the DC Plan had 242 participants, of which 35 were vested.

The DC Plan is a non-contributory plan. NES is required to make an employer basic contribution to the DC Plan for each Plan Year. The amount of the contribution is calculated by applying a uniform percentage, actuarially determined, to each participant's compensation for the Plan Year. For plan years ended December 31, 2018 and 2017, the contribution percentage was 15.31 percent. NES contributed \$2.6 million and \$1.9 million to the DC Plan in the fiscal year ended June 30, 2019 and June 30, 2018, respectively. DC Plan expense was \$2.9 million and \$2.3 million for the fiscal year ended June 30, 2019 and June 30, 2018, respectively. NES' liability for the DC Plan as of June 30, 2019 and 2018, was \$1.5 million and \$1.2 million, respectively.

Retirement benefits for employees who retire at or after age 65 are paid in a lump sum payment. Participants forfeit contributions made on their behalf if they separate from service before vesting. Forfeitures reduce future employer contributions. There were no forfeitures for the calendar year ending December 31, 2018. Forfeitures were fifteen thousand dollars for the calendar year ending December 31, 2017.

The DC Plan 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.

6. RETIREMENT AND BENEFIT PLANS (continued)

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 Other Post-Employment Benefit Plan (the "OPEB Plan") is a single-employer defined benefit plan funded through an irrevocable trust (the "OPEB Trust") that was established during the year ended June 30, 2008. The name of the OPEB 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 OPEB 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 OPEB Trust and is charged with general administration and the responsibility for proper operation of the OPEB 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 normal or early retirement age, have five years of vested service, and meet a minimum combined years of service plus age of 70 for normal retirement or 80 for early retirement. OPEB 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. Policy payments were approximately \$0.3 million and \$0.2 million in fiscal 2019 and 2018 respectively. The obligation for the payment of benefits covered by allocated insurance contracts has been transferred to one or more insurance companies.

Membership of the OPEB Plan consisted of the following at April 1, 2019:

Active plan members	927
Inactive plan members	<u>888</u>
	<u>1,815</u>

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.

6. RETIREMENT AND BENEFIT PLANS (continued)

The current rate is 26 percent of covered payroll. NES contributed 100 percent of the required contribution for the OPEB Plan year 2019.

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 March 31st of each year. The results are rolled forward to the measurement date of June 30th.

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:

<u>Effective Date</u>	<u>Network Co-Insurance</u>	<u>Out-of-Network Co-Insurance</u>
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 reviews the OPEB 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. In 2019, the mortality rates were changed to 102% of the Pub.H-2010 Mortality Table (issued in fiscal year 2019), headcount weighted with adjustments for future mortality improvement utilizing scale MP-2018 projected generationally from the base year 2010. The OPEB Plan Sponsor conducted an

6. RETIREMENT AND BENEFIT PLANS (continued)

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 2019.

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 2019 or 2018.

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 OPEB Trust's investments as follows:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Equity	67%	11.1%
Fixed Income	33%	6.6%

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:

<u>Projected Schedule of Benefit Payments (\$000 omitted)</u>		
<u>Years</u>	<u>Number Retiring</u>	<u>Total Payout</u>
2019-2023	226	\$ 94,770
2024-2028	184	120,376
2029-2033	164	144,860
2034-2038	141	170,299
2039-2043	109	<u>195,461</u>
Total projected benefit payments		<u>\$ 725,767</u>

ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY
Notes to the Financial Statements for the years ended June 30, 2019 and 2018

6. RETIREMENT AND BENEFIT PLANS (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	OPEB Plan Net Position	Net OPEB Liability
	(a)	(b)	(a)-(b)
Balance at June 30, 2018	\$324,425	\$116,908	\$207,517
Changes for the year:			
Service Cost	6,633		6,633
Interest	24,317		24,317
Experience losses/(gain)	(21,877)		(21,877)
Changes in assumption	9,245		9,245
Contributions		22,038	(22,038)
Net investment income		9,049	(9,049)
Benefit payment/ refunds	(13,670)	(13,670)	-
Administrative expense		(350)	350
Net changes	<u>4,648</u>	<u>17,067</u>	<u>(12,419)</u>
Balance at June 30, 2019	<u>\$329,073</u>	<u>\$133,975</u>	<u>\$195,098</u>

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, 2019, the OPEB Trust owed NES approximately \$3.4 million for claims and claims processing expenses paid by NES on behalf of the OPEB Trust. There were no contributions receivable. Investment and claims processing expenses were \$0.3 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 (\$000 omitted):

	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
Net OPEB Liability	\$234,365	\$195,098	\$162,759

ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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6. RETIREMENT AND BENEFIT PLANS (continued)

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 (\$000 omitted):

	1% Decrease (4.0%)	Current Rate (5.0%)	1% Increase (6.0%)
Net OPEB Liability	\$162,957	\$195,098	\$234,147

For the year ended June 30, 2019, NES recognized OPEB expense of \$25.2 million. At June 30, 2019, NES reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (\$000 omitted):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 5,368	\$ 22,757
Changes in assumptions	22,070	-
Net difference between projected and actual earnings on OPEB plan investments	-	1,992
Total	<u>\$ 27,438</u>	<u>\$ 24,749</u>

Amounts reported as deferred outflows (inflows) of resources related to OPEB will be recognized in OPEB expense as follows (\$000 omitted):

Years Ending June 30:	
2020	\$ 2,295
2021	1,249
2022	1,298
2023	(48)
2024	(2,105)
Thereafter	-

6. RETIREMENT AND BENEFIT PLANS (continued)

Retirement and Benefit Plan Investments

All of the investments for the Retirement and Benefit Plans 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. The assets are all similarly managed with respect to the portfolio investment mix and specific investments. None are subject to substantive redemption restrictions.

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

Investments at fair value Level 1	June 30, 2019		
	Pension	Defined Contribution	OPEB
Registered Investment Companies – Mutual Funds			
SEI S&P 500 Index Fund	\$ 190,260	\$ 2,789	\$ 51,284
SEI Small Mid Cap Fund	20,131	312	5,441
SEI World Equity EX – US Fund	108,590	1,663	29,275
SEI Extended MKT Index - A	21,442	311	5,771

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.

6. RETIREMENT AND BENEFIT PLANS (continued)

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.

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

Investments at fair value Level 1	June 30, 2019		
	Pension	Defined Contribution	OPEB
Registered Investment Companies – Mutual Funds			
SEI Core Fixed Income Fund	\$ 118,651	\$ 1,908	\$ 32,096
SEI Emerging Markets Debt Fund	19,625	312	5,324
SEI High Yield Bond Fund	30,466	459	8,209

Core Fixed Income Fund

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

6. RETIREMENT AND BENEFIT PLANS (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 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 Retirement and Benefit Plans' 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.

6. RETIREMENT AND BENEFIT PLANS (continued)

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

Equity Investments through/in mutual funds

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

Fixed Income Investments through/in mutual funds

The Retirement and Benefit Plans' investment policy mandates that, except for U.S. Treasury and agency obligations, no more than 10 percent of the Retirement and Benefit Plans 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. The Retirement and Benefit Plans derives a composite quality rating for each fund using an internally developed weighted average of the Moody's rating the investment reported in the most recent prospectus of each fund. 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, 2019:

<u>Characteristic</u>	<u>Portfolio</u>
Effective duration	5.6 years
Average maturity	7.9 years
Composite Quality Rating	Aa 2, with 71.4% of portfolio rated Aa2 or higher
Bond duration	5 years or less, 65.5%

6. RETIREMENT AND BENEFIT PLANS (continued)

The following are risk characteristics for the Emerging Markets Debt Fund as of June 30, 2019:

<u>Characteristic</u>	<u>Portfolio</u>
Effective duration	6.0 years
Average maturity	9.4 years
Composite Quality Rating	Baa3, with 66.1% of portfolio rated Baa3 or higher

The following are risk characteristics for the High Yield Bond Fund as of June 30, 2019:

<u>Characteristic</u>	<u>Portfolio</u>
Effective duration	3.1 years
Average maturity	4.6 years
Composite Quality Rating	B1, with 52.7% of portfolio rated B1 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 Retirement and Benefit Plans' investments are not subject to any significant foreign currency risk.

7. DEFERRED COMPENSATION AND RETIREMENT PLANS

NES has a deferred compensation plan (the "457 Plan") created in accordance with Internal Revenue Code ("IRC") Section 457. The 457 Plan, which is available to all full-time employees, permits employees to defer a portion of their salary until future years. Employees may contribute up to the legal limit of their compensation to the 457 Plan with NES providing a matching contribution of up to 3.0 percent of compensation. The 457 Plan also permits employees to submit a portion of their salary as a Roth contribution which is also eligible for the matching contribution. 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 deferred salaries of \$4.4 million and \$4.0 million to the plan for the years ended June 30, 2019 and 2018, respectively. Employees using the Roth election contributed \$0.6 million and \$0.5 million to the 457 Plan for the years ended June 30, 2019 and 2018, respectively. NES contributed \$2.4 million and \$2.2 million to the 457 Plan for the years ended June 30, 2019 and June 30, 2018, respectively.

8. LEASES

Total rental expense included in the determination of net position was approximately \$1.1 million and \$1.0 million in 2019 and 2018, respectively. 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 which generally have renewal terms that are not materially different than their current terms. The majority of these leases are cancelable by either party within six to twelve months. Therefore, future minimum rentals under these leases are \$3.0 million in 2020.

Rental income is received primarily under pole-attachment leases, which are accounted for as operating leases. Rental income from telephone provider pole-attachments totaled \$2.7 million and \$2.6 million for years ended June 30, 2019 and 2018 respectively. Rental income from cable provider pole-attachments totaled \$5.4 million at June 30, 2019, and \$4.9 million at June 30, 2018. The net book value of the poles for use in the rental activity was \$142.9 million and \$131.1 million at June 30, 2019 and 2018, respectively. Accumulated depreciation on poles was \$96.2 million at June 30, 2019, and \$92.3 million at June 30, 2018.

9. RISK MANAGEMENT AND LIABILITY

NES is exposed to various risks of loss related to torts; theft, damage to, or 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, 2019 and 2018 are as follows (\$000 omitted):

Balance – June 30, 2017	\$ 1,867
Payments	(11,814)
Incurred Claims	<u>11,554</u>
Balance – June 30, 2018	\$ 1,607
Payments	(14,066)
Incurred Claims	<u>14,889</u>
Balance – June 30, 2019	<u>\$ 2,430</u>

9. RISK MANAGEMENT AND LIABILITY (continued)

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 two fiscal years.

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

10. 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 2019 and 2018, 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 2019 and 2018, NES paid the Metropolitan Government \$1.2 million and \$0.7 million, respectively, for ongoing 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, 2019, \$1.4 million remained to be paid in fiscal year 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.

10. RELATED PARTY TRANSACTIONS (continued)

These balances and transactions as of and for the years ended June 30, 2019 and 2018 are summarized as follows (\$000 omitted):

	2019	2018
Balances:		
Accounts receivable	\$ 5,484	\$ 6,058
Accounts payable	184	189
Transactions:		
Commercial and industrial revenue – Metropolitan Government Entities	65,008	65,158
Street and outdoor lighting revenue – Metropolitan Government Entities	8,925	8,628
Tax equivalents operating expense – Metropolitan Government Entities	29,470	27,864
800 MHz Radio maintenance expense	560	708
800 MHz Radio capital upgrade	1,182	674
Reimbursements for work on the System	1,280	948
Other miscellaneous billed services	200	46
Other miscellaneous expenses paid	315	313

11. 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 \$949.3 million and \$943.5 million from TVA during the years ending June 30, 2019 and 2018, 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

11. COMMITMENTS (continued)

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.

12. SUBSEQUENT EVENTS

NES has evaluated subsequent events through September 25, 2019, 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,				
	2019	2018	2017	2016	2015
Total Pension Liability					
Service Costs	\$ 10,838	\$ 10,937	\$ 12,084	10,083	\$ 10,792
Interest	50,148	48,892	47,611	43,983	41,399
Changes in benefit terms	-	-	-	8,619	-
Differences between expected and actual experience	(1,568)	(5,102)	(3,306)	11,291	1,768
Changes of assumptions	32,039	1,139	1,108	17,741	-
Benefit Payments / Refunds	<u>(40,099)</u>	<u>(37,744)</u>	<u>(41,066)</u>	<u>(38,753)</u>	<u>(28,720)</u>
Net Change in Total Pension Liability	\$ 51,358	\$ 18,122	\$ 16,431	\$ 52,964	\$ 25,239
Total Pension Liability, beginning	<u>679,524</u>	<u>661,402</u>	<u>644,971</u>	<u>592,007</u>	<u>\$ 566,768</u>
Total Pension Liability, ending (a)	\$ 730,882	\$ 679,524	\$ 661,402	\$ 644,971	\$ 592,007
Plan Fiduciary Net Position					
Contributions – employer	\$ 31,382	\$ 30,031	\$ 30,905	\$ 24,600	\$ 25,746
Net investment income	33,967	38,244	55,186	(623)	12,207
Benefit Payments / Refunds	(40,099)	(37,744)	(41,066)	(38,753)	(28,720)
Administrative expenses	<u>(816)</u>	<u>(836)</u>	<u>(816)</u>	<u>(797)</u>	<u>(682)</u>
Net Change in Plan Fiduciary Net Position	\$ 24,434	\$ 29,695	\$ 44,209	\$ (15,573)	\$ 8,551
Plan Fiduciary Net Position – beginning	<u>484,904</u>	<u>455,209</u>	<u>411,000</u>	<u>426,573</u>	<u>418,022</u>
Plan Fiduciary Net Position – ending (b)	\$ 509,338	\$ 484,904	\$ 455,209	\$ 411,000	\$ 426,573
Net Pension Liability – ending (a) – (b)	\$ 221,544	\$ 194,620	\$ 206,193	\$ 233,971	\$ 165,434
Plan Fiduciary Net Position as a % of the Total Pension Liability	70%	71%	69%	64%	72%
Covered –employee payroll	\$ 62,957	\$ 62,824	\$ 63,415	\$ 69,337	\$ 68,801
Net Pension Liability as a % of covered-employee payroll	352%	310%	325%	337%	240%

See notes to schedule.

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) (continued)

	2014
Total Pension Liability	
Service Costs	\$ 9,935
Interest	39,288
Changes in benefit terms	-
Differences between expected and actual experience	6,127
Changes of assumptions	-
Benefit Payments / Refunds	<u>(27,104)</u>
Net Change in Total Pension Liability	\$ 28,246
Total Pension Liability, beginning	<u>\$ 538,522</u>
Total Pension Liability, ending (a)	\$ 566,768
Plan Fiduciary Net Position	
Contributions – employer	\$ 22,813
Net investment income	63,102
Benefit Payments / Refunds	(27,104)
Administrative expenses	<u>(451)</u>
Net Change in Plan Fiduciary Net Position	\$ 58,360
Plan Fiduciary Net Position – beginning	<u>359,662</u>
Plan Fiduciary Net Position – ending (b)	\$ 418,022
Net Pension Liability – ending (a) – (b)	\$ 148,746
Plan Fiduciary Net Position as a % of the Total Pension Liability	74%
Covered –employee payroll	\$ 69,410
Net Pension Liability as a % of covered-employee payroll	214%

See notes to schedule.

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) (continued)

Notes to Schedule:

In 2019, NES changed from using the RP2000 Combined Mortality Table to 102% of the Pub. G-2010 Mortality Table with adjustments for the future mortality improvements utilizing scale MP-2018 projected generationally from the base year 2010.

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.

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

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)
2019	\$ 30,770	\$31,382	\$(612)	\$ 62,957	50%
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 102% of the Pub. G-2010 Mortality Table with adjustments for future mortality improvements utilizing Scale MP-2018 projected generationally from base year 2010.

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

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

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

<u>Year Ended June 30</u>	<u>Return</u>
2019	9.6%
2018	7.2%
2017	13.6%
2016	-0.2%
2015	3.0%
2014	17.8%

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,				
	2019	2018	2017	2016	2015
Total OPEB Liability					
Service Costs	\$ 6,633	\$ 6,271	\$ 6,008	\$ 5,221	\$ 4,934
Interest	24,317	22,254	21,219	18,738	18,543
Changes in benefit terms	-	-	736	-	-
Differences between expected and actual experience	(21,877)	(2,608)	(1,068)	13,956	(8,006)
Changes of assumptions	9,245	15,157	451	7,987	-
Benefit Payments	(13,670)	(14,194)	(13,426)	(13,761)	(12,598)
Net Change in Total OPEB Liability	4,648	26,880	13,920	32,141	2,873
Total OPEB Liability, beginning	324,425	297,545	283,625	251,484	248,611
Total OPEB Liability, ending (a)	\$ 329,073	\$ 324,425	\$ 297,545	\$ 283,625	\$ 251,484
Plan Fiduciary Net Position					
Contributions – employer	\$ 22,038	\$ 21,760	\$ 19,168	\$ 16,835	\$ 16,495
Net investment income	9,049	8,786	11,932	296	2,369
Benefit Payments	(13,670)	(14,194)	(13,426)	(13,761)	(12,598)
Administrative expenses	(350)	(328)	(176)	(203)	(112)
Net Change in Plan Fiduciary Net Position	17,067	16,024	17,498	3,167	6,154
Plan Fiduciary Net Position – beginning	116,908	100,884	83,386	80,219	74,065
Plan Fiduciary Net Position – ending (b)	\$ 133,975	\$ 116,908	\$ 100,884	\$ 83,386	\$ 80,219
Net OPEB Liability—ending (a) – (b)	\$ 195,098	\$ 207,517	\$ 196,661	\$ 200,239	\$ 171,265
Plan Fiduciary Net Position as a % of the Total OPEB Liability	41%	36%	34%	29%	32%
Covered –employee payroll	\$ 82,887	\$ 79,793	\$ 78,421	\$ 78,184	\$ 76,725
Net OPEB Liability as a % of covered-employee payroll	235%	260%	251%	256%	223%

See notes to schedule.

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,				
	2014	2013	2012	2011	2010
Total OPEB Liability					
Service Costs	\$ 4,235	\$ 4,103	\$ 4,794	\$ 4,902	\$ 4,615
Interest	18,325	18,027	20,221	20,205	19,781
Changes in benefit terms	-	-	(30,173)	(9,991)	-
Differences between expected and actual experience	(5,870)	(8,151)	(11,769)	(5,336)	(9,935)
Changes of assumptions	12,516	-	-	-	-
Benefit Payments	(10,845)	(9,929)	(9,683)	(9,273)	(9,607)
Net Change in Total OPEB Liability	18,361	4,050	(26,610)	507	4,854
Total OPEB Liability, beginning	230,250	226,200	252,810	252,303	247,449
Total OPEB Liability, ending (a)	\$ 248,611	\$ 230,250	\$ 226,200	\$ 252,810	\$ 252,303
Plan Fiduciary Net Position					
Contributions – employer	\$ 15,523	\$ 18,645	\$ 18,041	\$ 18,124	\$ 17,776
Net investment income	11,123	6,623	719	5,319	1,612
Benefit Payments	(10,845)	(9,929)	(9,683)	(9,273)	(9,607)
Administrative expenses	(134)	(72)	(71)	(55)	(34)
Net Change in Plan Fiduciary Net Position	15,667	15,267	9,006	14,115	9,747
Plan Fiduciary Net Position – beginning	58,398	43,131	34,125	20,010	10,263
Plan Fiduciary Net Position – ending (b)	\$ 74,065	\$ 58,398	\$ 43,131	\$ 34,125	\$ 20,010
Net OPEB Liability—ending (a) – (b)	\$ 174,546	\$ 171,852	\$ 183,069	\$ 218,685	\$ 232,293
Plan Fiduciary Net Position as a % of the Total OPEB Liability	30%	25%	19%	13%	8%
Covered –employee payroll	\$ 74,625	74,489	71,339	69,473	68,885
Net OPEB Liability as a % of covered-employee payroll	234%	231%	257%	315%	337%

See notes to schedule.

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)

Notes to Schedule

In 2019, NES changed from using the RP2000 Combined Mortality Table to 102% of the Pub. H-2010 Mortality Table with adjustments for the future mortality improvements utilizing scale MP-2018 projected generationally from the base year 2010.

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

Years Ended June 30,	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered employee payroll	Contribution as percent of covered payroll
(a)	(b)	(a)-(b)	(c)	(b)/(c)	
2019	\$21,765	\$22,038	\$(273)	\$82,887	27%
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%

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 102% of Pub. H-2010, headcount weighted with adjustments for future mortality improvements utilizing scale MP-2018 projected generationally from the base year 2010.

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
2019	4.5%
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%



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