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PRESIDENT'S LETTER

Each day at Nashville Electric Service (NES), we work to fulfill our commitment to the city of Nashville – to deliver **safe, reliable** and **affordable** power. In the best of times, that commitment keeps Nashville humming. In the worst of times, some of which we have seen this year, it provides our community with comfort, hope and the power to rebuild.

While those core aspects of our mission are always important, each one took on new significance this fiscal year 2020, expanding the ways in which we serve our city.

Safety is and always has been a priority across our entire organization. Our line of work includes considerable danger, and we are grateful to the many NES employees who put their lives at risk for the benefit of others. By continuing to emphasize the importance of safety, and through careful and diligent work, we successfully met our companywide recordable injury rate goal this fiscal year.

But FY20 brought new safety risks to our work as the COVID-19 pandemic spread across the nation and world. In response, we effectively implemented measures to reduce the spread of the virus in the workplace, including case following, quarantines and contact tracing.

From a customer standpoint, reliability is a metric by which we are frequently judged, and this year, we again delivered. We achieved all reliability targets using the Institute of Electrical and Electronics Engineers (IEEE) methodology as of June 30, 2020.

We received APPA's RP3 Diamond Award for 5th consecutive time, an award that recognizes utilities that demonstrate high proficiency in reliability, safety, workforce development and system improvement.

We also confirmed that we can be relied on to get the job done. We completed our AMI meter deployment project, resulting in the replacement of over 400,000 meters, and over the course of the year, our team trimmed more than 1,427 circuit line miles, an impressive feat by any standard.

The true test of our ability to deliver came on March 3, when a tornado ravaged the Nashville area. We replaced approximately 1,000 poles, 450 distribution transformers and 800 streetlights, while restoring power to more than 60,000 customers over the course of 10 days. Two months later, the second largest storm in NES history hit, resulting in 130,000 outages. The NES team once again stepped up, restoring power to all within 7 days.

For many of our neighbors, those events marked an incredibly dark time, but with the hard work of our team, we helped them begin the process of rebuilding. We kept them informed with a storm response website that received more than 23,000 visitors. We answered 2.1 million calls to field questions and provide assistance. When there was much uncertainty for so many, they could count on NES to be there, a sentiment expressed through an 81 percent customer satisfaction rating.

And while we successfully conducted our work safely and reliably, we did it all in a financially responsible manner. In FY20, we reduced purchased power costs by approximately \$2.7 million through our Peak Load Management program. The construction of our new 11th Avenue substation is on schedule and on budget, and we successfully met all liquidity targets while maintaining an employee count below 1,000.

We also maintained our commitment to being a good corporate citizen that supports the economic and environmental health of our region. This year, as so many of our customers were burdened by storm damage, job loss, medical bills and more, we temporarily stopped disconnections for nonpayment and paused late and credit card payment fees. We also teamed up with TVA to create the Community Care Fund to help the most vulnerable customers pay bills.

We were recognized by the Nashville Bar Association for the 26th straight year for our support and development of minority lawyers and law students. Additionally, we contributed over \$100,000 in annual employee donations to community charities such as the American Heart Association, United Way and the Salvation Army.

It is essential that I note that our ability to accomplish these many successes and fulfill our mission in these trying times is the result of one thing – our team. I am incredibly proud of their accomplishments. I truly believe that this year we have shown Nashville our true colors – our talent, our focus and our pride in being a part of this great city.

Decosta Jenkins
Decosta Jenkins
President & Chief Executive Officer



left:
Robert Campbell, Jr.
NES Board Chair
Partner
Waller Lansden Dortch & Davis, LLP

right:
Decosta Jenkins
NES President & CEO



EXECUTIVE MANAGEMENT



Decosta Jenkins

NES President and
Chief Executive Officer



Teresa Broyles-Aplin

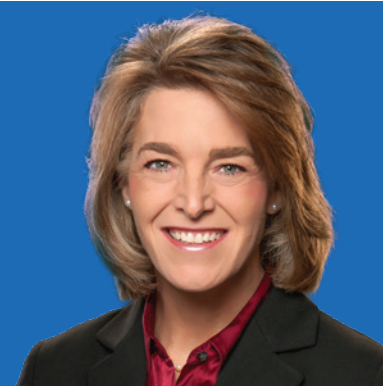
NES Executive Vice President
and Chief Financial Officer

BOARD MEMBERS



Robert Campbell, Jr.

NES Board Chair
Partner
Waller Lansden Dortch & Davis, LLP



Carolyn Schott

NES Board Vice Chair
Partner
Sherrard Roe Voigt & Harbison, PLC



Clint Gray

Owner
Slim & Husky's



Robert McCabe

Chairman
Pinnacle Financial Partners



Irma Paz-Bernstein

Owner
Las Paletas



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, 2020 and 2019, 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, 2020 and 2019, 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.

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



Other Matters

Required Supplementary Information

The accompanying required supplementary information and management's discussion and analysis on pages 61 through 71 and 8 through 19, 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, Tennessee
October 28, 2020

MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)

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, 2020 and 2019 as compared to fiscal years 2019 and 2018, 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 May 2020, the Governmental Accounting Standards Board (GASB) issued Statement No. 95, *Postponement of the effective dates of certain authoritative guidance* (GASB 95). The guidance postponed the effective dates of GASB No. 84, *Fiduciary Activities*; GASB No. 92, *Omnibus 2020*; and GASB No. 93, *Replacement of Interbank Offered Rates*, and any implementation guides for the aforementioned standards by one year. The guidance postponed the implementation date for GASB No. 87, *Leases*, for eighteen months. GASB 95 also permits earlier application of these standards if permitted in the original pronouncement. The Board adopted this standard.

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

MANAGEMENT’S DISCUSSION AND ANALYSIS, Unaudited (continued)

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 \$674.7 million at June 30, 2020, and \$611.3 million at June 30, 2019. This represents an increase of \$63.4 million in 2020 and \$90.0 million in 2019.

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, Unaudited (continued)

STATEMENTS OF NET POSITION (\$000 omitted)

| | June 30, | | |
|--|--------------------|--------------------|--------------------|
| | 2020 | 2019 | 2018 |
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | |
| CURRENT ASSETS | \$ 580,554 | \$ 628,696 | \$ 576,456 |
| INVESTMENT OF RESTRICTED FUNDS | 78,390 | 118,371 | 166,492 |
| UTILITY PLANT, NET | 1,155,628 | 1,055,165 | 1,010,635 |
| OTHER NON-CURRENT ASSETS | <u>8,747</u> | <u>7,337</u> | <u>5,971</u> |
| TOTAL ASSETS | 1,823,319 | 1,809,569 | 1,759,554 |
| DEFERRED OUTFLOWS OF RESOURCES | <u>65,855</u> | <u>79,173</u> | <u>63,152</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$1,889,174</u> | <u>\$1,888,742</u> | <u>\$1,822,706</u> |
| LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | | | |
| CURRENT LIABILITIES | \$ 196,112 | \$ 213,104 | \$ 223,810 |
| CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS | 48,891 | 41,637 | 33,729 |
| LONG-TERM DEBT, LESS CURRENT PORTION | 516,373 | 562,779 | 615,439 |
| NET PENSION LIABILITY | 209,700 | 221,544 | 194,620 |
| NET OPEB LIABILITY | 191,048 | 195,098 | 207,517 |
| OTHER NON-CURRENT LIABILITIES | <u>8,527</u> | <u>8,695</u> | <u>9,256</u> |
| TOTAL LIABILITIES | <u>1,170,651</u> | <u>1,242,857</u> | <u>1,284,371</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>43,850</u> | <u>34,602</u> | <u>17,078</u> |
| NET POSITION | | | |
| Net investment in capital assets | 606,585 | 510,702 | 472,387 |
| Restricted for: | | | |
| Debt service | 74,300 | 72,287 | 71,185 |
| Other purposes | 1,002 | - | - |
| Unrestricted | <u>(7,214)</u> | <u>28,294</u> | <u>(22,315)</u> |
| TOTAL NET POSITION | <u>674,673</u> | <u>611,283</u> | <u>521,257</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | <u>\$1,889,174</u> | <u>\$1,888,742</u> | <u>\$1,822,706</u> |

MANAGEMENT’S DISCUSSION AND ANALYSIS, Unaudited (continued)

Liquidity and Capital Resources

The Board has a \$25.0 million line-of-credit, which matures not later than December 31, 2020. The Board renews the line-of-credit 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, 2020, and will be renewed at December 31, 2020, and annually thereafter.

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.

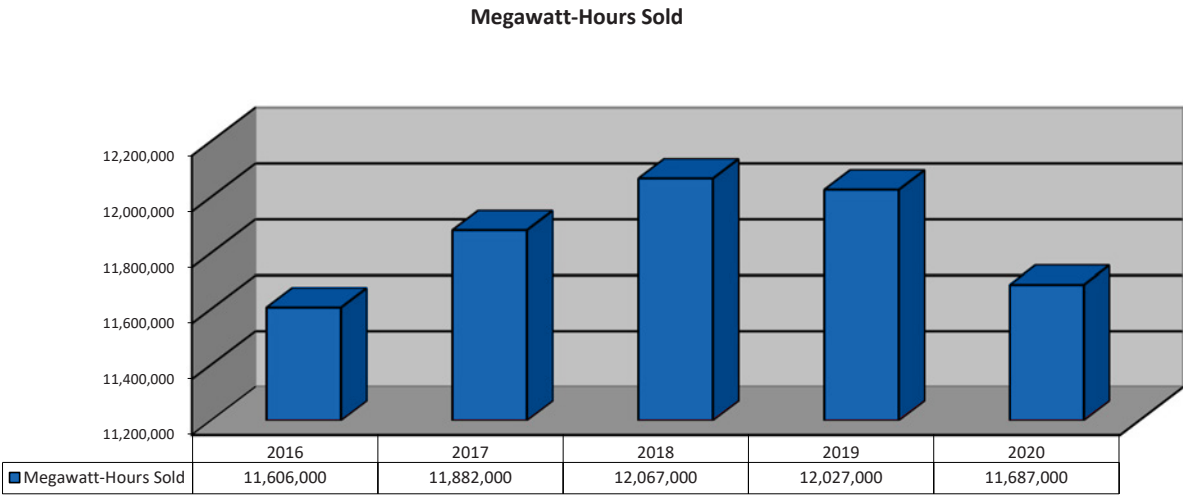
Debt ratings are based, in significant part, on the Board’s performance as measured by certain credit measures. In order to maintain its strong credit ratings, the Board has adopted certain financial goals. Such goals provide a signal to the Board as to the adequacy of rates for funding ongoing cash 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 2020 and 2019. Actual cash and general fund investments as a percentage of purchased power and operating expense was 35.3 percent as of June 30, 2020, and 38.1 percent as of June 30, 2019. 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, 2020, was 2.87 to 1. The Board continues to exceed its goals. The outlook on all debt ratings is stable as of June 30, 2020.

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

| | Year Ended June 30, | | Change in | Year Ended | Change in Net |
|--|---------------------|------------------|-------------------|------------------|-------------------|
| | 2020 | 2019 | Net Position | June 30, 2018 | Position |
| Operating revenues, net | \$1,278,700 | \$1,342,217 | \$(63,517) | \$1,324,224 | \$ 17,993 |
| Purchased power | <u>(887,729)</u> | <u>(949,308)</u> | <u>61,579</u> | <u>(943,511)</u> | <u>(5,797)</u> |
| Operating revenues, net, less Purchased power | 390,971 | 392,909 | (1,938) | 380,713 | 12,196 |
| Operating expenses | (220,035) | (201,037) | (18,998) | (182,932) | (18,105) |
| Depreciation, amortization, and tax equivalents | (98,132) | (94,856) | (3,276) | (89,270) | (5,586) |
| Interest and other non- operating income | 8,229 | 12,649 | (4,420) | 6,700 | 5,949 |
| Interest expense and other, net | <u>(17,643)</u> | <u>(19,639)</u> | <u>1,996</u> | <u>(21,019)</u> | <u>1,380</u> |
| Increase in net position | <u>\$ 63,390</u> | <u>90,026</u> | <u>\$(26,636)</u> | <u>\$ 94,192</u> | <u>\$ (4,166)</u> |

2020 and 2019 Results of Operations

Operating Revenues. Operating revenues, net, decreased by \$63.5 million, or 4.7 percent, when compared to 2019. Total electric sales were \$1.3 billion during both 2020 and 2019. The average realized rate on electric sales was \$0.108 compared to \$0.109 per kilowatt-hour in 2019. Megawatt-hours sold in 2020 decreased by 2.8 percent when compared to 2019. 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 2,158 compared to 2,219 in 2019. Total heating degree-days were 3,015 compared to 3,205 in 2019. Total heating and cooling degree-days were 5,173 compared to 5,424 in 2019, or a decrease of 4.6 percent. Residential revenue decreased \$16.0 million or 2.7 percent compared to the previous year. Residential energy consumption is highly correlated to degree days. Commercial and industrial revenue decreased \$42.1 million or 5.9 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, 2020 increased by 2.0 percent when compared to 2019. Revenue in Excess of Net Bills (Late Charges) decreased by \$1.7 million, and Rentals of Electric Property (primarily pole attachments) decreased by \$3.1 million.



Non-operating Revenues. Interest and other non-operating income was \$8.2 million compared to \$12.7 million in 2019. The average rate of return on the cash and investments for the General Fund was 1.45 percent in 2020 compared to 2.23 percent in 2019. The average investable balance of the General Fund cash and investments was \$392.2 million in 2020 compared to \$384.2 million in 2019, an increase of 2.1 percent. Interest income from the bond funds was \$1.7 million in 2020. Interest income from the construction funds decreased to \$0.6 million from the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Unaudited (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 was automatically extended for an additional one-year period. The contract was subject to earlier termination by either party on not less than 10 years' prior written notice. Effective September 2019, NES entered into a new wholesale power contract with TVA that extended the contract termination notice from 10 years to 20 years. The contract includes a partnership credit equal to 3.1 percent of wholesale standard service demand, non-fuel energy and grid access charge. Purchased power was \$887.7 million for the period compared to \$949.3 million last year. The average realized rate on purchased power was \$0.074 per kilowatt-hour in 2020 compared to \$0.077 in 2019. Megawatt-hours purchased were 12.0 million in 2020 compared to 12.4 million in 2019.

Distribution expenses for the period were \$98.3 million compared to \$74.1 million last year. This is an increase of \$24.2 million or 32.7 percent. The change is primarily attributable to increases in the following expense categories: storms, \$12.2 million; tree trimming, \$10.0 million; supervision and engineering, \$1.1 million; operation and maintenance of station equipment, \$0.7 million; miscellaneous expense, \$0.6 million; load dispatching, \$0.3 million; emergency services, \$0.2 million; operation and maintenance of mapping, \$0.2 million; operation and maintenance of underground lines, \$0.2 million; and private lights, \$0.1 million. These increases were offset by decreases in the following expense categories: line transformers, \$0.7 million; operation and maintenance of meters, \$0.5 million; operation and maintenance of overhead lines, \$0.2 million; and operation and maintenance of street light and signal system, \$0.1 million.

Customer Accounts expenses for the period were \$20.8 million compared to \$20.1 million last year. This is an increase of \$0.7 million or 3.5 percent. The change is primarily attributable to increases in the following expense categories: customer records and collection, \$0.5 million; customer orders and service, \$0.3 million; data processing, \$0.2 million; and miscellaneous expense, \$0.1 million. These increases were offset by decreases in the following expense categories: meter reading, \$0.1 million; and supervision, \$0.1 million.

Customer Service and Information expenses for the period were \$1.4 million compared to \$1.7 million last year. This is a decrease of \$0.3 million or 19.4 percent. The change is primarily attributable to a decrease in the following expense category: customer assistance, \$0.3 million.

Administrative and General expenses for the period were \$99.5 million compared to \$105.1 million last year. This is a decrease of \$5.6 million or 5.3 percent. The change is primarily attributable to decreases in the following expense categories: employee health insurance, \$5.7 million; employee pensions, \$3.3 million; employee welfare, \$0.3 million; injuries and damages, \$0.2 million; and data processing, \$0.1 million. These decreases were offset by increases in the following expense categories: allocated overhead, \$1.0 million; outside services employed, \$0.9 million; miscellaneous general, \$0.8 million; maintenance of general plant, \$0.8 million; duplicate charges-credit, \$0.2 million; administrative and general salaries, \$0.2 million; property insurance, \$0.1 million; and employee life insurance, \$0.1 million.

Depreciation, Amortization, and Tax Equivalents. Depreciation and Amortization, and Tax Equivalents were \$66.3 million and \$31.9 million, respectively, for 2020, compared to \$62.8 million and \$32.1 million, respectively, for 2019. The increase in depreciation and amortization was the result of increased

MANAGEMENT'S DISCUSSION AND ANALYSIS, Unaudited (continued)

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 asset 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 primarily the result of a decrease in the equalization factors and the related tax rate from the Metropolitan Government, offset by an increase in the average gross margin, an increased value of the utility plant assets, and increased rates from surrounding counties.

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.

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.

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.

MANAGEMENT’S DISCUSSION AND ANALYSIS, Unaudited (continued)

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; and customer orders and services, \$0.2 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 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 Equivalents. Depreciation, Amortization, and Tax Equivalents 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 equivalents consist primarily of payments in-lieu-of taxes to the Metropolitan Government and the surrounding counties. Such payments are calculated based on a prescribed formula that takes into consideration utility plant value and the average of the Board’s last three years’ operating margin, which is the operating revenue, net, less purchased power expenses. The increase in payments in-lieu-of taxes was the result of increased investment in the utility plant.

MANAGEMENT’S DISCUSSION AND ANALYSIS, Unaudited (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)

| Description | Fiscal 2020 | Fiscal 2019 | Increase (Decrease) | Fiscal 2018 | Increase (Decrease) |
|--|------------------|------------------|------------------------|------------------|------------------------|
| Total Labor | \$ 75,778 | \$ 70,036 | 8.2% | \$ 68,169 | 2.7% |
| Benefits | 64,095 | 72,113 | (11.1%) | 54,102 | 33.3% |
| Outside Services – Information Technology | 16,670 | 15,803 | 5.5% | 17,589 | (10.2%) |
| Outside Services – Other | 23,928 | 13,589 | 76.1% | 13,293 | 2.2% |
| Tree Trimming | 17,299 | 7,367 | 134.8% | 11,107 | (33.7%) |
| Other | <u>22,265</u> | <u>22,129</u> | 0.6% | <u>18,672</u> | 18.5% |
| Total | <u>\$220,035</u> | <u>\$201,037</u> | 9.5% | <u>\$182,932</u> | 9.9% |

2020 and 2019 Expense

The Board’s total operating expenses increased 9.5 percent from June 30, 2019 to June 30, 2020. Labor for fiscal year 2020 totaled \$75.8 million. The increase was primarily due to greater storm labor. Benefits decreased from fiscal year 2019 primarily due to decreased retirement and medical benefit expenses. The decrease in retirement benefits is primarily attributable to actuarial assumption changes in the pension and other post-employment benefit plans. Medical costs decreased primarily due to less medical claims. Outside Services - Information Technology increased due to a contractual increase. Outside Services - Other increased primarily due to additional contractors required for storm restoration. Tree trimming increased due to more miles trimmed than planned and greater contractor costs. Other expenses contain a wide array of expense categories, none of which is individually over 5% of total expenses.

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

MANAGEMENT’S DISCUSSION AND ANALYSIS, Unaudited (continued)

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.

COVID-19

The 2019 novel coronavirus (COVID-19) pandemic declared by the World Health Organization and the Centers for Disease Control and Prevention has spread globally, including throughout the United States. In response, many states, including Tennessee, have instituted restrictions on travel, public gatherings and certain business operations. These restrictions have significantly disrupted economic activity in the service area of NES, and caused volatility in world capital markets.

NES has taken steps to mitigate potential risks posed by the pandemic. NES provides a critical service to our customers and has taken measures to keep employees who operate the business safe and to minimize unnecessary risk of exposure to the virus, including extra precautions for employees who work in the field. NES has implemented work from home policies where appropriate and imposed travel limitations on employees. Multiple members of the workforce have tested positive for COVID-19. The COVID-19 pandemic has generally not impacted productivity levels. For our customers, NES implemented a temporary suspension of disconnects for non-payment. NES mitigation strategies have provided for coverage of all services throughout the pandemic.

In addition, NES has updated its existing business continuity plans and continues to utilize strong physical and cyber-security measures. These steps ensure that our systems remain functional to both serve our operational needs of the remote workforce and provide uninterrupted electric service to our customers. There have been no changes in internal control over financial reporting as of the report issuance date because of COVID-19 that materially affected, or are reasonably likely to materially affect, any of NES’s internal control over financial reporting.

Management has assessed certain accounting matters that require consideration relative to the impacts of COVID-19 in the formulation of estimates used in the preparation of financial statements. As such, any related impacts are reported within the respective balances, and areas of the Financial Statements and accompanying notes although none were material to the financial statements or results of operations. NES has incurred costs related to COVID-19 primarily for personal protective equipment, cleaning supplies and additional cleaning services. These cost are not material in the current fiscal year and are not expected to be material in future fiscal years.

The aforementioned impacts of COVID-19 largely began in the United States in March 2020. The effects of the continued outbreak of COVID-19 and related government responses could include extended disruptions to supply chains and capital markets, reduced labor availability and productivity, and a prolonged reduction in economic activity. These could in turn have a variety of adverse impacts on NES, including reduced demand for energy (particularly from commercial and industrial customers), the ability of NES to develop and construct facilities, and NES’s ability to access funds from capital markets. NES has not experienced significant margin erosion, nor any interruptions in the delivery of wholesale power purchased from TVA since the outbreak. The duration and the breadth of the effects of COVID-19 are not yet known, and as such the long term economic impact on NES including electric power revenues and cash flows, cannot be determined at this time. NES will continue to monitor developments affecting our

MANAGEMENT’S DISCUSSION AND ANALYSIS, Unaudited (continued)

workforce, our customers, and our suppliers, and will take additional precautions that we determine are necessary in order to mitigate the impacts.

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’s facilities also serve 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, 2020 was \$1.2 billion compared to \$1.1 billion at June 30, 2019. Major projects during fiscal year 2020 included \$39.3 million in equipment and facilities; \$32.4 million in system construction plan capacity; \$31.8 million in unplanned replacements; \$27.6 million in meters and distribution transformers; and \$18.5 million in new business installation.

The Board has outstanding bonds payable of \$554.1 million at June 30, 2020 compared to \$598.8 million at June 30, 2019. The decrease is the result of scheduled debt payments of \$36.0 million and amortization 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, 2020 AND 2019**

| | 2020 | 2019 |
|--|------------------|------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 341,905 | \$ 387,690 |
| Other investments | 50,457 | 50,510 |
| Customer and other accounts receivable, less allowance for doubtful accounts of \$2,181 and \$948 respectively | 145,704 | 152,724 |
| Materials and supplies | 32,519 | 28,119 |
| Other current assets | <u>9,969</u> | <u>9,653</u> |
| TOTAL CURRENT ASSETS | <u>580,554</u> | <u>628,696</u> |
| INVESTMENT OF RESTRICTED FUNDS: | | |
| Cash and cash equivalents – Bond funds | 22,557 | 143 |
| Other investments – Bond funds | 54,831 | 118,228 |
| Cash and cash equivalents – Other funds | <u>1,002</u> | <u>-</u> |
| TOTAL INVESTMENT OF RESTRICTED FUNDS | <u>78,390</u> | <u>118,371</u> |
| UTILITY PLANT: | | |
| Electric plant, at cost | 1,915,916 | 1,781,984 |
| Less: Accumulated depreciation | <u>(760,288)</u> | <u>(726,819)</u> |
| TOTAL UTILITY PLANT, NET | 1,155,628 | 1,055,165 |
| OTHER NON-CURRENT ASSETS | <u>8,747</u> | <u>7,337</u> |
| TOTAL ASSETS | <u>1,823,319</u> | <u>1,809,569</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | | |
| Deferred amount on refunding of debt | 12,132 | 13,870 |
| Difference between projected and actual pension earnings, net | 4,655 | - |
| Difference between projected and actual pension experience | 3,267 | 6,073 |
| Difference between projected and actual pension assumptions | 20,521 | 31,792 |
| Difference between projected and actual OPEB earnings, net | 703 | - |
| Difference between projected and actual OPEB experience | 3,221 | 5,368 |
| Difference between projected and actual OPEB assumptions | <u>21,356</u> | <u>22,070</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 65,855 | 79,173 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>1,889,174</u> | <u>1,888,742</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, 2020 AND 2019 (continued)**

| | 2020 | 2019 |
|---|---------------------|---------------------|
| LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | | |
| CURRENT LIABILITIES: | | |
| Accounts payable for purchased power | 136,855 | 159,577 |
| Trade accounts payable | 23,317 | 18,165 |
| Accrued employee obligations | 9,844 | 9,312 |
| Accrued expenses | 6,334 | 7,284 |
| Customer deposits | <u>19,762</u> | <u>18,766</u> |
| TOTAL CURRENT LIABILITIES | <u>196,112</u> | <u>213,104</u> |
| CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS: | | |
| Construction accounts payable and retainage | 8,113 | 2,330 |
| Accrued interest payable | 3,088 | 3,297 |
| Current portion of long-term debt | <u>37,690</u> | <u>36,010</u> |
| TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS | <u>48,891</u> | <u>41,637</u> |
| LONG-TERM DEBT, LESS CURRENT PORTION | 516,373 | 562,779 |
| NET PENSION LIABILITY | 209,700 | 221,544 |
| NET OPEB LIABILITY | 191,048 | 195,098 |
| OTHER NON-CURRENT LIABILITIES | <u>8,527</u> | <u>8,695</u> |
| TOTAL LIABILITIES | <u>1,170,651</u> | <u>1,242,857</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Difference between projected and actual pension earnings, net | - | 5,024 |
| Difference between projected and actual pension experience | 8,700 | 4,829 |
| Difference between projected and actual pension assumptions | 7,425 | - |
| Difference between projected and actual OPEB earnings, net | - | 1,992 |
| Difference between projected and actual OPEB experience | <u>27,725</u> | <u>22,757</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 43,850 | 34,602 |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | <u>1,214,501</u> | <u>1,277,459</u> |
| NET POSITION | | |
| Net investment in capital assets | 606,585 | 510,702 |
| Restricted for: | | |
| Debt services | 74,300 | 72,287 |
| Other purposes | 1,002 | - |
| Unrestricted | <u>(7,214)</u> | <u>28,294</u> |
| TOTAL NET POSITION | <u>674,673</u> | <u>611,283</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION | <u>\$ 1,889,174</u> | <u>\$ 1,888,742</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, 2020 AND 2019**

| | 2020 | 2019 |
|----------------------------------|-------------------|-------------------|
| OPERATING REVENUES: | | |
| Residential | \$ 569,117 | \$ 585,137 |
| Commercial and industrial | 665,903 | 707,964 |
| Street and highway lighting | 21,119 | 20,525 |
| Other | <u>22,561</u> | <u>28,591</u> |
| Total operating revenues, net | 1,278,700 | 1,342,217 |
| PURCHASED POWER | 887,729 | 949,308 |
| OPERATING EXPENSES | 220,035 | 201,037 |
| TAX EQUIVALENTS | 31,866 | 32,073 |
| DEPRECIATION & AMORTIZATION | <u>66,266</u> | <u>62,783</u> |
| Operating income | <u>72,804</u> | <u>97,016</u> |
| NON-OPERATING REVENUE (EXPENSE): | | |
| Interest income | 8,019 | 12,382 |
| Interest expense, net | (17,643) | (19,639) |
| Other non-operating income | <u>210</u> | <u>267</u> |
| Total non-operating expense | <u>(9,414)</u> | <u>(6,990)</u> |
| INCREASE IN NET POSITION | <u>63,390</u> | <u>90,026</u> |
| NET POSITION, beginning of year | 611,283 | 521,257 |
| NET POSITION, end of year | <u>\$ 674,673</u> | <u>\$ 611,283</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, 2020 AND 2019**

| | 2020 | 2019 |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from customers | \$ 1,285,101 | \$ 1,345,727 |
| Payments to suppliers for goods and services | (1,063,210) | (1,096,837) |
| Payments to employees | (63,081) | (58,055) |
| Payments for tax equivalents | <u>(31,866)</u> | <u>(32,073)</u> |
| Net cash provided by operating activities | <u>126,944</u> | <u>158,762</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquisition and construction of utility plant | (160,461) | (105,356) |
| Utility plant removal costs | (15,659) | (16,213) |
| Salvage received from utility plant retirements | 4,944 | 2,821 |
| Contributions in aid of construction | 10,072 | 10,200 |
| Principal payments on revenue bonds | (36,010) | (27,216) |
| Capital appreciation bond interest | - | (7,959) |
| Interest payments on revenue bonds | (26,380) | (26,723) |
| Other | <u>1,550</u> | <u>225</u> |
| Net cash used in capital and related financing activities | <u>(221,944)</u> | <u>(170,221)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investment securities | (149,493) | (239,965) |
| Proceeds from sales and maturities of investment securities | 212,944 | 234,473 |
| Interest on investments | <u>9,180</u> | <u>11,925</u> |
| Net cash provided by investing activities | <u>72,631</u> | <u>6,433</u> |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (22,369) | (5,026) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>387,833</u> | <u>392,859</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 365,464</u> | <u>\$ 387,833</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, 2020 AND 2019 (continued)**

| | 2020 | 2019 |
|--|-------------------|-------------------|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 72,804 | \$ 97,016 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation & Amortization | 66,266 | 62,783 |
| Accrual for uncollectible accounts | 3,207 | 2,476 |
| Changes in assets and liabilities: | | |
| Decrease in customer and other accounts receivable | 3,813 | 197 |
| (Increase) in materials and supplies | (4,400) | (4,929) |
| (Increase) in other current assets | (1,478) | (942) |
| (Increase) in other non-current assets | (1,410) | (1,366) |
| (Decrease) in accounts payable for purchased power | (22,722) | (11,096) |
| Increase (decrease) in trade accounts payable | 5,152 | (4,138) |
| Increase in accrued employee obligations | 532 | 1,835 |
| Increase (decrease) in accrued expenses | (950) | 1,582 |
| Increase in customer deposits | 996 | 1,111 |
| Increase (decrease) in other non-current liabilities | 200 | (32) |
| (Increase) decrease in net deferred pension investment inflows and outflows | (9,679) | 2,936 |
| (Increase) decrease in net deferred pension actuarial inflows and outflows | 25,373 | (18,796) |
| (Increase) decrease in net deferred OPEB investment inflows and outflows | (2,695) | 2,682 |
| Decrease in net deferred OPEB actuarial inflows and outflows | 7,829 | 12,938 |
| Increase (decrease) in deferred pension liability | (11,844) | 26,924 |
| (Decrease) in deferred OPEB liability | <u>(4,050)</u> | <u>(12,419)</u> |
| Net cash provided by operating activities | <u>\$ 126,944</u> | <u>\$ 158,762</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, 2020 AND 2019 (continued)**

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

Accounts payable associated with the acquisition and construction of utility plant was \$8.1 million in 2020 and \$2.3 million in 2019.

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 2020 and 2019, AFUDC was \$1.7 million and \$0.9 million, respectively.

During 2020 and 2019, NES charged \$23.4 million and \$26.6 million, respectively, to accumulated depreciation representing the cost of removing retired utility plant.

During 2020 and 2019, \$8.7 million and \$9.2 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, 2020 and 2019

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 Net Position and of Cash Flows, the amounts for accrued employee obligations and sick leave were reclassified from accrued expenses to accrued employee obligations and other non-current liabilities, respectively.

Recently Adopted Accounting Pronouncements

In May 2020, the Governmental Accounting Standards Board (GASB) issued Statement No. 95, *Postponement of the effective dates of certain authoritative guidance* (GASB 95). The guidance postponed the effective dates of GASB No. 84, *Fiduciary Activities*; GASB No. 92, *Omnibus 2020*; and GASB No. 93, *Replacement of Interbank Offered Rates*, and any implementation guides for the aforementioned standards by one year. The guidance postponed the implementation date for GASB No. 87, *Leases*, for eighteen months. GASB 95 also permits earlier application of these standards if permitted in the original pronouncement. The Board adopted this standard.

ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY
Notes to the Financial Statements for the years ended June 30, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements

Effective dates noted below have been adjusted to reflect the effects of the adoption of GASB 95, as described above.

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, 2019. 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 a single model for lease accounting based on the foundational principles that leases are financing, and requires the lessee to recognize a lease liability and intangible right-to-use asset. The provisions in GASB 87 are effective for fiscal years beginning after June 15, 2021. The Board is evaluating the effects the adoption of GASB 87 may have on the financial statements and related disclosures. Certain transactions related to leased assets currently reported as operating activities are expected to be recorded as financing transactions upon adoption.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*, (GASB 92) which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The provisions in GASB 92 have various effective dates depending upon the related pronouncements addressed in the standard with the earliest being for fiscal years beginning after June 15, 2021. The practice issues relevant to the Board included clarification of matters related to GASB 84 and GASB 87. The Board is evaluating the effects the adoption of GASB 92 may have on the financial statements and related disclosures.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates* (GASB 93). This standard provides guidance on accounting for changes from interest rates determined using an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR) which is expected to cease to exist in its current form at the end of calendar year 2021. The requirements will become effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. The Board is evaluating the effects of the adoption of GASB 93.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other

ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY
Notes to the Financial Statements for the years ended June 30, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The Board is evaluating the effects of the adoption of GASB 96.

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, monies required to be restricted for debt service, and escrow accounts for construction activity. As of June 30, 2020 and 2019, amounts restricted for debt service were \$77.4 million and \$75.6 million, respectively. NES releases capital debt funds quarterly based on expected draws for that quarter. As of June 30, 2019, capital debt funds restricted for construction were \$42.8 million. NES makes disbursements for all capital projects out of its unrestricted operating funds. When restricted capital debt resources exist, NES reimburses the unrestricted operating fund from the restricted capital debt 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. As of June 30, 2020, amounts held in escrow as required by contracts for on-going construction of the electric system totaled \$1.0 million. Amounts held in escrow for construction activity are released when contract terms are met.

ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY
Notes to the Financial Statements for the years ended June 30, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Utility Plant

Electric plant is stated at original cost. Such cost includes applicable overhead such as general and administrative costs, depreciation of vehicles used in the construction process, and payroll and related costs such as pensions, taxes and other fringe benefits related to plant construction. An allowance for funds used during construction (AFUDC) is recorded for certain plant. The AFUDC rate of 3.1% and 3.0% used in 2020 and 2019, 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, 2020 and 2019:

| | 2020 | 2019 |
|---|-------|-------|
| Distribution plant, 8 to 40 years | 3.6% | 3.7% |
| Structure and improvements, 40 to 50 years | 2.3% | 2.2% |
| Office furniture and equipment, 5 to 16.7 years | 10.8% | 10.6% |
| Transportation equipment, 8 to 10 years | 5.8% | 6.0% |
| Other equipment, 8 to 33.3 years | 6.5% | 6.3% |

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 \$10.6 million in 2020 and \$12.3 million in 2019.

Materials and Supplies

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 accrued employee obligations in the Statement of Net Position.

Net Position

The Net Investment in Capital Assets is the portion of net position that consists of capital assets, net of accumulated depreciation, plus deferred outflows of resources reduced by outstanding debt and construction contracts payable that are attributable to the acquisition, construction, or improvement of those assets. In the event that there are unspent proceeds from a bond issuance for the stated purpose of capital improvement, the debt outstanding is reduced by the amount that has not been used for capital projects as of period end. As of June 30, 2020, no amount of cash and investments was restricted for capital projects. As of June 30, 2019, Net Investment in Capital Assets included \$42.8 million 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, 2020 and 2019, the Restricted net position included investments of \$54.8 million and \$75.6 million, respectively, for debt service. Restricted net position also consisted of Cash of \$22.6 million and \$0.01 million, respectively, reduced by accrued interest payable of \$3.1 million and \$3.3 million in 2020 and 2019, respectively. As of June 30, 2020, Restricted net position included \$1.0 million held in escrow as required by contracts for on-going construction of the electric system. 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, 2020 and 2019, such unbilled revenues were \$48.7 million and \$54.3 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

are presented net of bad debt expense of \$3.1 million and \$1.9 million for the years ended June 30, 2020 and 2019, 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.

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 \$574.3 million and \$612.0 million at June 30, 2020 and 2019, 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.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
Notes to the Financial Statements for the years ended June 30, 2020 and 2019

2. UTILITY PLANT AND ACCUMULATED DEPRECIATION

Utility plant activity for the years ended June 30, 2020 and 2019 was as follows (\$000 omitted):

| | Balance June 30, 2019 | Additions | Transfers & Retirements | Balance June 30, 2020 |
|-----------------------------------|--------------------------|-------------------|----------------------------|--------------------------|
| Distribution plant | \$ 1,526,189 | \$ 87,960 | \$ (21,107) | \$ 1,593,042 |
| Structures and improvements | 74,925 | 1,473 | - | 76,398 |
| Office furniture and equipment | 47,076 | 9,326 | (288) | 56,114 |
| Transportation equipment | 8,462 | 981 | (394) | 9,049 |
| Other equipment | 57,209 | 2,941 | (1,696) | 58,454 |
| Land and land rights | 3,901 | (12) | - | 3,889 |
| Construction work-in-progress (a) | <u>64,222</u> | <u>54,748</u> | <u>-</u> | <u>118,970</u> |
| | <u>\$ 1,781,984</u> | <u>\$ 157,417</u> | <u>\$ (23,485)</u> | <u>\$ 1,915,916</u> |

| | 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> |

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

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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Notes to the Financial Statements for the years ended June 30, 2020 and 2019

2. UTILITY PLANT AND ACCUMULATED DEPRECIATION (continued)

The related activity for accumulated depreciation for the years ended June 30, 2020 and 2019 was as follows (\$000 omitted):

| | Balance June 30, 2019 | Provision | Original Cost | Cost of Removal | Salvage | Balance June 30, 2020 |
|--------------------------------|--------------------------|------------------|--------------------|--------------------|-----------------|--------------------------|
| Distribution plant | \$ 636,388 | \$ 56,291 | \$ (21,107) | \$ (15,659) | \$ 4,505 | \$ 660,418 |
| Structures and improvements | 26,805 | 1,766 | - | - | - | 28,571 |
| Office furniture and equipment | 31,668 | 5,549 | (288) | - | - | 36,929 |
| Transportation equipment | 3,511 | 507 | (394) | - | 220 | 3,844 |
| Other equipment | <u>28,447</u> | <u>3,766</u> | <u>(1,696)</u> | <u>-</u> | <u>9</u> | <u>30,526</u> |
| | <u>\$ 726,819</u> | <u>\$ 67,879</u> | <u>\$ (23,485)</u> | <u>\$ (15,659)</u> | <u>\$ 4,734</u> | <u>\$ 760,288</u> |

| | 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> |

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 both 2020 and 2019.

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OF NASHVILLE AND DAVIDSON COUNTY
Notes to the Financial Statements for the years ended June 30, 2020 and 2019

3. CASH AND INVESTMENTS

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

| 2020 | | | | | | Weighted Average Maturity (Years) |
|--|-------------------|------------------|----------------------------------|------------------------------|-------------------|--|
| | General Fund | Bond Funds | Special Construction Funds | Other Restricted Funds | Total | |
| Cash and cash equivalents | \$ 341,905 | \$ 22,557 | \$ - | \$ 1,002 | \$ 365,464 | n/a |
| U.S. Treasury Investments | - | 54,831 | - | - | 54,831 | 0.35 |
| Securities from Agencies Chartered by Congress | 49,957 | - | - | - | 49,957 | 0.48 |
| Certificates of Deposit | <u>500</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>500</u> | 0.09 |
| | <u>\$ 392,362</u> | <u>\$ 77,388</u> | <u>\$ -</u> | <u>\$ 1,002</u> | <u>\$ 470,752</u> | |

The portfolio weighted average maturity is 0.41 years.

| 2019 | | | | | | Weighted Average Maturity (Years) |
|--|-------------------|------------------|----------------------------------|-------------------|--|--|
| | General Fund | Bond Funds | Special Construction Funds | Total | | |
| 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.

NES categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. NES records all investments at fair value. The fair value of all 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 investments classified as Level 2 are priced using a matrix pricing

ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
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Notes to the Financial Statements for the years ended June 30, 2020 and 2019

3. CASH AND INVESTMENTS (continued)

model. Inputs into these valuation techniques include benchmark yields, reported trades, broker/dealer quotes, and other similar data. NES has no Level 3 investments.

Investments, at fair value, as of June 30, 2020, are categorized as follows:

| | Fair Value Measurement | | |
|--|---------------------------|------------------|-------------------|
| | Level 1 | Level 2 | Total |
| Securities from Agencies Chartered by Congress | \$ - | \$ 49,957 | \$ 49,957 |
| U.S. Treasury Securities | 54,831 | - | 54,831 |
| Total | <u>\$ 54,831</u> | <u>\$ 49,957</u> | <u>\$ 104,788</u> |

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 | <u>\$77,321</u> | <u>\$90,917</u> | <u>\$168,238</u> |

Custodial Credit Risk

As of June 30, 2020 and 2019, NES’ cash and cash equivalents was \$365.5 million and \$387.8 million, respectively. Bank balances for such accounts totaled \$367.5 million and \$390.5 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, 2020 and 2019, 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

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Notes to the Financial Statements for the years ended June 30, 2020 and 2019

3. CASH AND INVESTMENTS (continued)

members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public-fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure. The Tennessee Bank Collateral Pool does not receive ratings from rating agencies.

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 \$5.0 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, 2020 and 2019, 47.4 percent and 58.8 percent, respectively, of NES investments were invested in securities from Agencies Chartered by Congress. In 2020 and 2019, 52.1 percent and 40.9 percent, respectively, were invested in U.S. Treasuries. In 2020 and 2019, the remaining 0.5 percent and 0.3 percent, respectively, were 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
OF NASHVILLE AND DAVIDSON COUNTY
Notes to the Financial Statements for the years ended June 30, 2020 and 2019

4. LONG-TERM DEBT

Long-term debt for the year ended June 30, 2020, is as follows (\$000 omitted):

| | Balance June 30, 2019 | Deductions/ Repayments | Additions/ Amortization/ Accretion | Balance June 30, 2020 |
|--|-----------------------------|---------------------------|--|-----------------------------|
| 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. | 7,594 | (1,750) | (32) | 5,812 |
| 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. | 40,830 | (3,170) | (175) | 37,485 |
| 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. | 53,242 | (12,510) | (867) | 39,865 |
| 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. | 59,770 | - | (365) | 59,405 |
| Electric System Revenue Bonds, 2014 Series A, bear interest at a rate of 5.00%, maturing through May 15, 2039, interest paid semiannually. | 106,841 | (2,915) | (1,048) | 102,878 |
| Electric System Revenue Bonds, 2015 Series A, bear interest at a rate of 5.00%, maturing through May 15, 2033, interest paid semiannually. | 122,176 | (13,205) | (2,593) | 106,378 |
| Electric System Revenue Bonds, 2017 Series A, bear interest at a rate of 5.00%, maturing through May 15, 2042, interest paid semiannually. | 119,319 | (2,460) | (1,455) | 115,404 |
| Electric System Revenue Bonds, 2017 Series B, bear interest at a rate of 5.00%, maturing through May 15, 2031, interest paid semiannually. | <u>89,017</u> | <u>-</u> | <u>(2,181)</u> | <u>86,836</u> |
| | 598,789 | <u>\$ (36,010)</u> | <u>\$ (8,716)</u> | 554,063 |
| Less current portion of long-term debt | <u>(36,010)</u> | | | <u>(37,690)</u> |
| | <u>\$ 562,779</u> | | | <u>\$ 516,373</u> |

ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY
Notes to the Financial Statements for the years ended June 30, 2020 and 2019

4. LONG-TERM DEBT (continued)

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%, matured 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
OF NASHVILLE AND DAVIDSON COUNTY
Notes to the Financial Statements for the years ended June 30, 2020 and 2019

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 |
|----------------------|-------------------|-------------------|
| 2021 | \$ 37,690 | \$ 24,706 |
| 2022 | 38,995 | 22,836 |
| 2023 | 40,920 | 20,911 |
| 2024 | 31,965 | 18,880 |
| 2025 | 33,240 | 17,282 |
| 2026-2030 | 143,510 | 63,617 |
| 2031-2035 | 97,555 | 33,625 |
| 2036-2040 | 63,780 | 11,953 |
| 2041-2042 | <u>14,045</u> | <u>1,062</u> |
| | 501,700 | <u>\$ 214,872</u> |
| Unamortized premium | <u>52,363</u> | |
| Total long-term debt | <u>\$ 554,063</u> | |

The following bond issues have been defeased through advanced refundings; therefore, the balances indicated, which are still outstanding as of June 30, 2020, 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 \$25.0 million unsecured line-of-credit for fiscal year 2020 and 2019 to be used for purchased power in case of a natural disaster. The note is secured by a pledge of revenues, and is subordinate to net revenues pledged for the Board’s revenue bonds. There were no borrowings under this line-of-credit in 2020 or 2019. The line-of-credit is renewable annually. The Board established a new line of credit effective July 1, 2020, with an expiration date not later than December 31, 2020. Future annual credit lines will renew on December 31 of each year. 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,

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OF NASHVILLE AND DAVIDSON COUNTY
Notes to the Financial Statements for the years ended June 30, 2020 and 2019

4. LONG-TERM DEBT (continued)

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, 2020.

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, employee sick leave obligations, and asset retirement obligations. The following table shows the activity for the year (\$000 omitted):

| | Balance June 30, 2019 | Repayments/Earned Contributions | Additions/ Interest | Balance June 30, 2020 |
|--------------------------------------|--------------------------|------------------------------------|------------------------|--------------------------|
| TVA Energy Conservation Loans | \$ 928 | \$ (358) | \$ 68 | \$ 638 |
| Contributions in Aid of Construction | 6,206 | (10,695) | 10,329 | 5,840 |
| Customer Solar Subscriptions | - | (83) | 83 | - |
| Employee Sick Leave Obligation | 1,316 | - | 489 | 1,805 |
| Asset Retirement Obligations | <u>245</u> | <u>(1)</u> | <u>-</u> | <u>244</u> |
| | <u>\$ 8,695</u> | <u>\$ (11,137)</u> | <u>\$ 10,969</u> | <u>\$ 8,527</u> |

| | 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) | - | - |
| Employee Sick Leave Obligation | 916 | - | 400 | 1,316 |
| Asset Retirement Obligations | <u>-</u> | <u>-</u> | <u>245</u> | <u>245</u> |
| | <u>\$ 9,256</u> | <u>\$ (14,053)</u> | <u>\$ 13,492</u> | <u>\$ 8,695</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. Employee sick leave obligations will be paid upon qualifying retirement events of employees participating in the Defined Contribution Plan.

ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY
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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, 2020, the following participants were covered by the benefit terms of the DB Plan:

| | |
|---|------------|
| Inactive plan members or beneficiaries currently receiving benefits | 936 |
| Inactive plan members entitled to but not yet receiving benefits | 139 |
| Active plan members | <u>606</u> |
| | 1,681 |

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 56.0 percent of annual covered payroll. NES contributed 100 percent of the required contribution for both of the DB Plan years 2020 and 2019, 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 31, which was rolled forward to the measurement date of June 30.

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 based on the varying age of participant. 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. Mortality rates used are based on 102 percent of the Pub. G-2010 Mortality Table with adjustments for future mortality improvements utilizing scale MP-2018 projected generationally from the base year 2010.

In 2020, the Plan Sponsor conducted an experience study for fiscal year 2020. Economic and demographic assumptions are key drivers in measuring plan liabilities and allocating funding costs. Actuarial standards and GASB rules require that each assumption be reasonable, taking into account estimates of future experience. The Plan Sponsor has adopted a policy to conduct an experience study every 5 years, starting with this study. The following assumptions changes were made for fiscal year 2020:

- The benefits expected to be taken under the partial lump sum option was updated from 7.5 percent to 15.0 percent.
- The reduced and unreduced retirement and disability rates were updated.
- The salary scale assumption was updated from 4.5 percent per year at all ages to a rate that is varying by participant age.

6. RETIREMENT AND BENEFIT PLANS (continued)

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 2020 or 2019.

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 | 65.0% | 8.0% |
| Fixed Income | 35.0% | 5.2% |

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 |
|----------------------------------|-----------------|---------------------|
| 2020-2024 | 206 | \$ 239,910 |
| 2025-2029 | 155 | 290,881 |
| 2030-2034 | 119 | 335,506 |
| 2035-2039 | 80 | 370,912 |
| 2040-2044 | 36 | 381,218 |
| Total projected benefit payments | | <u>\$ 1,618,427</u> |

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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 | Plan Fiduciary Net Position | Net Pension Liability |
| | (a) | (b) | (a)–(b) |
| Balance at June 30, 2019 | \$ 730,882 | \$ 509,338 | \$ 221,544 |
| Changes for the year: | | | |
| Service Costs | 11,276 | | 11,276 |
| Interest | 54,003 | | 54,003 |
| Experience losses/(gains) | (8,782) | | (8,782) |
| Changes in assumptions | (10,395) | | (10,395) |
| Contributions – employer | | 34,490 | (34,490) |
| Net investment income | | 24,364 | (24,364) |
| Benefit payments / refunds | (40,830) | (40,830) | - |
| Administrative expenses | | (908) | 908 |
| Net Change | 5,272 | 17,116 | (11,844) |
| Balance at June 30, 2020 | \$ 736,154 | \$ 526,454 | \$ 209,700 |

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

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

| | 1% Decrease (6.5%) | Current Rate (7.5%) | 1% Increase (8.5%) |
|---------------------------------------|-----------------------|------------------------|-----------------------|
| Net Pension Liability (\$000 omitted) | \$295,340 | \$209,700 | \$137,983 |

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6. RETIREMENT AND BENEFIT PLANS (continued)

For the year ended June 30, 2020, NES recognized pension expense of \$38.3 million. At June 30, 2020, 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 | \$ 3,267 | \$ 8,700 |
| Changes in assumptions | 20,521 | 7,425 |
| Net difference between projected and actual earnings on pension plan investments | 4,655 | - |
| Total | \$ 28,443 | \$ 16,125 |

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: | |
|-----------------------|----------|
| 2021 | \$ 3,078 |
| 2022 | 6,390 |
| 2023 | 221 |
| 2024 | 2,629 |
| 2025 | - |
| 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. In addition, the DC Plan pays up to 65 percent of unused sick time upon severance for participants with 15 years of service subject to age requirements. 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, 2019, the DC Plan had 299 participants, of which 86 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, 2019 and 2018, the contribution percentage was 15.31 percent. NES contributed \$3.1 million and \$2.6 million to the DC Plan in the fiscal year ended June 30, 2020 and June 30, 2019, respectively. DC Plan expense was \$3.6 million and \$2.9 million for the fiscal year ended June 30, 2020 and June 30, 2019, respectively. NES’ liability for the DC Plan as of June 30, 2020 and 2019, was \$1.9 million and \$1.5 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 \$0.1 million forfeitures for the calendar year ending December 31, 2019. There were no forfeitures for the calendar year ending December 31, 2018.

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, vision, and life insurance benefits to all employees who retire from NES under the provisions of a qualified retirement plan and have completed the minimum of five years of service. Such benefits are also provided to their spouses and eligible beneficiaries. 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 \$0.2 million and \$0.3 million in fiscal 2020 and 2019 respectively. The obligation for the payment of benefits covered by allocated insurance contracts has been transferred to one or more insurance companies.

Participants in the OPEB Plan consisted of the following at April 1, 2020:

| | |
|--|--------------|
| Active plan members (not receiving benefits) | 915 |
| Inactive plan members and beneficiaries receiving benefits | <u>908</u> |
| | <u>1,823</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

6. RETIREMENT AND BENEFIT PLANS (continued)

amounts required to amortize the unfunded accrued liability over closed periods not to exceed 30 years, based on a level percentage of pay. NES expects to continue to fund all projected cash flows.

The current rate is 26.0 percent of covered payroll. NES contributed 100 percent of the required contribution for the OPEB Plan year 2020.

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

Participants have cost sharing through deductibles, copays, and a monthly cost sharing premium. 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 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 based on the varying age of participant and (c) a 5.2 percent medical 4.0 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. The mortality rates used are based on 102 percent of the Pub.H-2010

6. RETIREMENT AND BENEFIT PLANS (continued)

Mortality Table, 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 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.

In 2020, the Plan Sponsor conducted an experience study for fiscal year 2020. Economic and Demographic Assumptions are key drivers in measuring plan liabilities and allocating funding costs. Actuarial standards and GASB rules require that each assumption be reasonable, taking into account estimates of future experience. The Plan Sponsor has adopted a policy to conduct an experience study every 5 years, starting with this study. The following assumptions changes were made for fiscal year 2020:

- The medical claims aging table was updated based on the aging factor in the Yamamoto study released by the Society of Actuaries in Jun 2013.
- The assumed trend rate for medical claims was changed from 5.0 percent level to 5.2 percent remaining flat over the next four years, and following the Getzen model thereafter grading to an ultimate rate of 4.0 percent in the year 2075.
- The reduced and unreduced retirement and disability rates were updated.
- The salary scale assumption was updated from 4.5 percent per year at all ages to a rate that is varying by participant age.
- Withdrawal rate and rate of retirement were updated.

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 2020 or 2019.

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:

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6. RETIREMENT AND BENEFIT PLANS (continued)

| Asset Class | Asset Allocation | Long-Term Expected Rate of Return |
|--------------|------------------|--------------------------------------|
| Equity | 65.0% | 8.0% |
| Fixed Income | 35.0% | 4.5% |

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

| Projected Schedule of Benefit Payments (\$000 omitted) | | |
|---|-----------------|-------------------|
| Years | Number Retiring | Total Payout |
| 2020-2024 | 225 | \$ 98,800 |
| 2025-2029 | 185 | 126,182 |
| 2030-2034 | 170 | 152,363 |
| 2035-2039 | 138 | 181,506 |
| 2040-2044 | 108 | <u>209,843</u> |
| Total projected benefit payments | | <u>\$ 768,694</u> |

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, 2019 | \$329,073 | \$133,975 | \$195,098 |
| Changes for the year: | | | |
| Service Cost | 6,908 | | 6,908 |
| Interest | 24,670 | | 24,670 |
| Experience losses/(gain) | (13,055) | | (13,055) |
| Changes in assumption | 6,744 | | 6,744 |
| Contributions | | 22,587 | (22,587) |
| Net investment income | | 7,129 | (7,129) |
| Benefit payment/ refunds | (14,097) | (14,097) | - |
| Administrative expense | | (399) | 399 |
| Net changes | <u>11,170</u> | <u>15,220</u> | <u>(4,050)</u> |
| Balance at June 30, 2020 | <u>\$340,243</u> | <u>\$149,195</u> | <u>\$191,048</u> |

The above changes in Net OPEB Liability include dividend receivables of \$0.1 million and investment fees payable of \$0.2 million. At June 30, 2020, the OPEB Trust owed NES approximately \$3.0 million for net

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6. RETIREMENT AND BENEFIT PLANS (continued)

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 \$0.4 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 | \$231,658 | \$191,048 | \$157,549 |

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 (4.2%) | Current Rate (5.2%) | 1% Increase (6.2%) |
|--------------------|-----------------------|------------------------|-----------------------|
| Net OPEB Liability | \$157,852 | \$191,048 | \$231,781 |

For the year ended June 30, 2020, NES recognized OPEB expense of \$23.7 million. At June 30, 2020, 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 | \$ 3,221 | \$ 27,725 |
| Changes in assumptions | 21,356 | - |
| Net difference between projected and actual earnings on OPEB plan investments | 703 | - |
| Total | <u>\$ 25,280</u> | <u>\$ 27,725</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: | |
|-----------------------|---------|
| 2021 | \$ 802 |
| 2022 | 851 |
| 2023 | (495) |
| 2024 | (2,552) |
| 2025 | (1,051) |
| 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, 2020 | | |
|--|---------------|----------------------|-----------|
| | Pension | Defined Contribution | OPEB |
| Registered Investment Companies – Mutual Funds | | | |
| SEI S&P 500 Index Fund | \$ 190,052 | \$ 4,108 | \$ 55,214 |
| SEI Small Mid Cap Fund | 21,344 | 446 | 6,224 |
| SEI World Equity EX – US Fund | 110,315 | 2,414 | 31,902 |
| SEI Extended MKT Index - A | 21,293 | 457 | 6,214 |

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 percent 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 percent of its assets will be invested in equity securities of emerging-market issuers. It is expected that the Fund will invest at least 40 percent 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, 2020 | | |
|--|---------------|----------------------|-----------|
| | Pension | Defined Contribution | OPEB |
| Registered Investment Companies – Mutual Funds | | | |
| SEI Core Fixed Income Fund | \$ 131,542 | \$ 2,964 | \$ 37,906 |
| SEI Emerging Markets Debt Fund | 20,820 | 459 | 6,002 |
| SEI High Yield Bond Fund | 31,308 | 684 | 9,024 |

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 percent 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 percent 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 percent 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, 2020:

| <u>Characteristic</u> | <u>Portfolio</u> |
|--------------------------|--|
| Effective duration | 5.8 years |
| Average maturity | 8.0 years |
| Composite Quality Rating | Aa 2, with 62.8 percent of portfolio rated Aa2 or higher |
| Bond duration | 5 years or less, 68.3 percent |

ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY
Notes to the Financial Statements for the years ended June 30, 2020 and 2019

6. RETIREMENT AND BENEFIT PLANS (continued)

The following are risk characteristics for the Emerging Markets Debt Fund as of June 30, 2020:

| <u>Characteristic</u> | <u>Portfolio</u> |
|--------------------------|---|
| Effective duration | 6.7 years |
| Average maturity | 10.8 years |
| Composite Quality Rating | Baa3, with 62.8 percent of portfolio rated Baa3 or higher |

The following are risk characteristics for the High Yield Bond Fund as of June 30, 2020:

| <u>Characteristic</u> | <u>Portfolio</u> |
|--------------------------|---|
| Effective duration | 3.9 years |
| Average maturity | 5.0 years |
| Composite Quality Rating | B1, with 56.0 percent 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 \$4.6 million and \$4.4 million to the plan for the years ended June 30, 2020 and 2019, respectively. Employees using the Roth election contributed \$1.0 million and \$0.6 million to the 457 Plan for the years ended June 30, 2020 and 2019, respectively. NES contributed \$2.5 million and \$2.4 million to the 457 Plan for the years ended June 30, 2020 and June 30, 2019, respectively.

ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY
Notes to the Financial Statements for the years ended June 30, 2020 and 2019

8. LEASES

Total rental expense included in the determination of net position was approximately \$1.6 million and \$1.1 million in 2020 and 2019, 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 \$3.2 million in 2021.

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 for each year ended June 30, 2020 and 2019. Rental income from cable provider pole-attachments totaled \$5.4 million for each year ended June 30, 2020 and 2019. The net book value of the poles for use in the rental activity was \$155.0 million and \$142.9 million at June 30, 2020 and 2019, respectively. Accumulated depreciation on poles was \$100.8 million at June 30, 2020, and \$96.2 million at June 30, 2019.

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. NES added an aggregating specific deductible of \$100,000 in fiscal year 2020. The changes in the insurance reserves for medical, dental and vision benefits for active employees for the years ended June 30, 2020 and 2019 are as follows (\$000 omitted):

| | |
|-------------------------|-----------------|
| Balance – June 30, 2018 | \$ 1,607 |
| Payments | (14,066) |
| Incurred Claims | <u>14,889</u> |
| Balance – June 30, 2019 | \$ 2,430 |
| Payments | (12,689) |
| Incurred Claims | <u>12,106</u> |
| Balance – June 30, 2020 | <u>\$ 1,847</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 2020 and 2019, 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 2020 and 2019, NES paid the Metropolitan Government \$0.7 million and \$1.2 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, 2020, \$0.5 million remained to be paid in fiscal year 2021.

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, 2020 and 2019 are summarized as follows (\$000 omitted):

| | 2020 | 2019 |
|--|----------|----------|
| Balances: | | |
| Accounts receivable | \$ 5,565 | \$ 5,484 |
| Accounts payable | 196 | 184 |
| Transactions: | | |
| Commercial and industrial revenue – Metropolitan Government Entities | 61,073 | 65,008 |
| Street and outdoor lighting revenue – Metropolitan Government Entities | 9,016 | 8,925 |
| Tax equivalents operating expense – Metropolitan Government Entities | 28,968 | 29,470 |
| 800 MHz Radio maintenance expense | 763 | 560 |
| 800 MHz Radio capital upgrade | 735 | 1,182 |
| Reimbursements for work on the System | 683 | 1,280 |
| Other miscellaneous billed services | 298 | 200 |
| Other miscellaneous expenses paid | 284 | 315 |

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 automatically extended for one year. Effective September 2019, the wholesale contract with TVA was amended. Primarily, the termination notice was extended from 10 years to 20 years (agreement is still evergreen with an automatic one-year extension annually), wholesale rates were reduced by 3.1 percent, and TVA committed to providing a solution for local power companies to generate or purchase generation outside of TVA between 3 percent and 5 percent of load.

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.

11. COMMITMENTS (continued)

NES purchased power totaling \$887.7 million and \$949.3 million from TVA during the years ending June 30, 2020 and 2019, respectively. The Power Contract establishes the resale rates that NES and other distributors charge the end-use power consumers. These rates are revised from time to time to reflect changes in costs, including changes in the wholesale cost of power. While the wholesale rates are uniformly applicable to all distributors of TVA power under the present power contracts with distributors such as NES, the retail resale rates will vary among distributors of TVA power depending upon the respective distributor's retail customer distribution costs. The rates of TVA for the sale of electric power in the TVA region and its contracts with distributors, including TVA, are structured with the intent to achieve the TVA Act's objective of the distributors of TVA power, including NES, to operate the respective distribution systems on a nonprofit basis and to provide a wide and ample supply of power at the lowest feasible rates.

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

12. SUBSEQUENT EVENTS

The Board approved a sale of excess land to a third party for \$17.0 million in July 2020. The closing is expected to occur after the site is decommissioned in calendar year 2021 when the replacement substation is completed.

NES has evaluated subsequent events through October 28, 2020, 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, | | | | |
|---|----------------------|-----------------|-----------------|-----------------|-----------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Total Pension Liability | | | | | |
| Service Costs | \$ 11,276 | \$ 10,838 | \$ 10,937 | \$ 12,084 | \$ 10,083 |
| Interest | 54,003 | 50,148 | 48,892 | 47,611 | 43,983 |
| Changes in benefit terms | - | - | - | - | 8,619 |
| Differences between expected and actual experience | (8,782) | (1,568) | (5,102) | (3,306) | 11,291 |
| Changes of assumptions | (10,395) | 32,039 | 1,139 | 1,108 | 17,741 |
| Benefit Payments / Refunds | <u>(40,830)</u> | <u>(40,099)</u> | <u>(37,744)</u> | <u>(41,066)</u> | <u>(38,753)</u> |
| Net Change in Total Pension Liability | \$ 5,272 | \$ 51,358 | \$ 18,122 | \$ 16,431 | \$ 52,964 |
| Total Pension Liability, beginning | <u>730,882</u> | <u>679,524</u> | <u>661,402</u> | <u>644,971</u> | <u>592,007</u> |
| Total Pension Liability, ending (a) | \$ 736,154 | \$ 730,882 | \$ 679,524 | \$ 661,402 | \$ 644,971 |
| Plan Fiduciary Net Position | | | | | |
| Contributions – employer | \$ 34,490 | \$ 31,382 | \$ 30,031 | \$ 30,905 | \$ 24,600 |
| Net investment income | 24,364 | 33,967 | 38,244 | 55,186 | (623) |
| Benefit Payments / Refunds | (40,830) | (40,099) | (37,744) | (41,066) | (38,753) |
| Administrative expenses | <u>(908)</u> | <u>(816)</u> | <u>(836)</u> | <u>(816)</u> | <u>(797)</u> |
| Net Change in Plan Fiduciary Net Position | \$ 17,116 | \$ 24,434 | \$ 29,695 | \$ 44,209 | \$ (15,573) |
| Plan Fiduciary Net Position – beginning | <u>509,338</u> | <u>484,904</u> | <u>455,209</u> | <u>411,000</u> | <u>426,573</u> |
| Plan Fiduciary Net Position – ending (b) | \$ 526,454 | \$ 509,338 | \$ 484,904 | \$ 455,209 | \$ 411,000 |
| Net Pension Liability – ending (a) – (b) | \$ 209,700 | \$ 221,544 | \$ 194,620 | \$ 206,193 | \$ 233,971 |
| Plan Fiduciary Net Position as a % of the Total Pension Liability | 72% | 70% | 71% | 69% | 64% |
| Covered –employee payroll | \$ 61,341 | \$ 62,957 | \$ 62,824 | \$ 63,415 | \$ 69,337 |
| Net Pension Liability as a % of covered-employee payroll | 342% | 352% | 310% | 325% | 337% |

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)

| | Years ended June 30, | |
|---|----------------------|-------------------|
| | 2015 | 2014 |
| Total Pension Liability | | |
| Service Costs | \$ 10,792 | \$ 9,935 |
| Interest | 41,399 | 39,288 |
| Changes in benefit terms | - | - |
| Differences between expected and actual experience | 1,768 | 6,127 |
| Changes of assumptions | - | - |
| Benefit Payments / Refunds | <u>(28,720)</u> | <u>(27,104)</u> |
| Net Change in Total Pension Liability | \$ 25,239 | \$ 28,246 |
| Total Pension Liability, beginning | <u>\$ 566,768</u> | <u>\$ 538,522</u> |
| Total Pension Liability, ending (a) | \$ 592,007 | \$ 566,768 |
| Plan Fiduciary Net Position | | |
| Contributions – employer | \$ 25,746 | \$ 22,813 |
| Net investment income | 12,207 | 63,102 |
| Benefit Payments / Refunds | (28,720) | (27,104) |
| Administrative expenses | <u>(682)</u> | <u>(451)</u> |
| Net Change in Plan Fiduciary Net Position | \$ 8,551 | \$ 58,360 |
| Plan Fiduciary Net Position – beginning | <u>418,022</u> | <u>359,662</u> |
| Plan Fiduciary Net Position – ending (b) | \$ 426,573 | \$ 418,022 |
| Net Pension Liability – ending (a) – (b) | \$ 165,434 | \$ 148,746 |
| Plan Fiduciary Net Position as a % of the Total Pension Liability | 72% | 74% |
| Covered –employee payroll | \$ 68,801 | \$ 69,410 |
| Net Pension Liability as a % of covered-employee payroll | 240% | 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 2020, the Plan Sponsor conducted an experience study for fiscal year 2020. Economic and Demographic Assumptions are key drivers in measuring plan liabilities and allocating funding costs. Actuarial standards and GASB rules require that each assumption be reasonable, taking into account estimates of future experience. The Plan Sponsor has adopted a policy to conduct an experience study every 5 years, starting with this study. The following assumptions changes were made for fiscal year 2020:

- The benefits expected to be taken under the partial lump sum option was updated from 7.5 percent to 15.0 percent.
- The reduced and unreduced retirement and disability rates were updated.
- The salary scale assumption was updated from 4.5 percent per year at all ages to a rate that is varying by participant age.

The overall impact of the experience study was a decrease in the liability of \$10.6 million at June 30, 2020.

In 2019, NES changed from using the RP2000 Combined Mortality Table to 102 percent 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) |
|----------------------|---|--|--|------------------------------|--|
| 2020 | \$33,265 | \$34,490 | \$(1,225) | \$ 61,341 | 56% |
| 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 projected salary increases based on the varying age of the participant. 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 used 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> |
|---------------------------|---------------|
| 2020 | 7.0% |
| 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, | | | | |
|--|----------------------|-------------------|-------------------|-------------------|-------------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Total OPEB Liability | | | | | |
| Service Costs | \$ 6,908 | \$ 6,633 | \$ 6,271 | \$ 6,008 | \$ 5,221 |
| Interest | 24,670 | 24,317 | 22,254 | 21,219 | 18,738 |
| Changes in benefit terms | - | - | - | 736 | - |
| Differences between expected and actual experience | (13,055) | (21,877) | (2,608) | (1,068) | 13,956 |
| Changes of assumptions | 6,744 | 9,245 | 15,157 | 451 | 7,987 |
| Benefit Payments | (14,097) | (13,670) | (14,194) | (13,426) | (13,761) |
| Net Change in Total OPEB Liability | 11,170 | 4,648 | 26,880 | 13,920 | 32,141 |
| Total OPEB Liability, beginning | 329,073 | 324,425 | 297,545 | 283,625 | 251,484 |
| Total OPEB Liability, ending (a) | \$ 340,243 | \$ 329,073 | \$ 324,425 | \$ 297,545 | \$ 283,625 |
| Plan Fiduciary Net Position | | | | | |
| Contributions – employer | \$ 22,587 | \$ 22,038 | \$ 21,760 | \$ 19,168 | \$ 16,835 |
| Net investment income | 7,129 | 9,049 | 8,786 | 11,932 | 296 |
| Benefit Payments | (14,097) | (13,670) | (14,194) | (13,426) | (13,761) |
| Administrative expenses | (399) | (350) | (328) | (176) | (203) |
| Net Change in Plan Fiduciary Net Position | 15,220 | 17,067 | 16,024 | 17,498 | 3,167 |
| Plan Fiduciary Net Position – beginning | 133,975 | 116,908 | 100,884 | 83,386 | 80,219 |
| Plan Fiduciary Net Position – ending (b) | \$ 149,195 | \$ 133,975 | \$ 116,908 | \$ 100,884 | \$ 83,386 |
| Net OPEB Liability—ending (a) – (b) | \$ 191,048 | \$ 195,098 | \$ 207,517 | \$ 196,661 | \$ 200,239 |
| Plan Fiduciary Net Position as a % of the Total OPEB Liability | 44% | 41% | 36% | 34% | 29% |
| Covered –employee payroll | \$ 86,819 | \$ 82,887 | \$ 79,793 | \$ 78,421 | \$ 78,184 |
| Net OPEB Liability as a % of covered-employee payroll | 220% | 235% | 260% | 251% | 256% |

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)

| | 2015 | 2014 | Years ended June 30, | | |
|--|-------------------|-------------------|----------------------|-------------------|-------------------|
| | | | 2013 | 2012 | 2011 |
| Total OPEB Liability | | | | | |
| Service Costs | \$ 4,934 | \$ 4,235 | \$ 4,103 | \$ 4,794 | \$ 4,902 |
| Interest | 18,543 | 18,325 | 18,027 | 20,221 | 20,205 |
| Changes in benefit terms | - | - | - | (30,173) | (9,991) |
| Differences between expected and actual experience | (8,006) | (5,870) | (8,151) | (11,769) | (5,336) |
| Changes of assumptions | - | 12,516 | - | - | - |
| Benefit Payments | (12,598) | (10,845) | (9,929) | (9,683) | (9,273) |
| Net Change in Total OPEB Liability | 2,873 | 18,361 | 4,050 | (26,610) | 507 |
| Total OPEB Liability, beginning | 248,611 | 230,250 | 226,200 | 252,810 | 252,303 |
| Total OPEB Liability, ending (a) | \$ 251,484 | \$ 248,611 | \$ 230,250 | \$ 226,200 | \$ 252,810 |
| Plan Fiduciary Net Position | | | | | |
| Contributions – employer | \$ 16,495 | \$ 15,523 | \$ 18,645 | \$ 18,041 | \$ 18,124 |
| Net investment income | 2,369 | 11,123 | 6,623 | 719 | 5,319 |
| Benefit Payments | (12,598) | (10,845) | (9,929) | (9,683) | (9,273) |
| Administrative expenses | (112) | (134) | (72) | (71) | (55) |
| Net Change in Plan Fiduciary Net Position | 6,154 | 15,667 | 15,267 | 9,006 | 14,115 |
| Plan Fiduciary Net Position – beginning | 74,065 | 58,398 | 43,131 | 34,125 | 20,010 |
| Plan Fiduciary Net Position – ending (b) | \$ 80,219 | \$ 74,065 | \$ 58,398 | \$ 43,131 | \$ 34,125 |
| Net OPEB Liability—ending (a) – (b) | \$ 171,265 | \$ 174,546 | \$ 171,852 | \$ 183,069 | \$ 218,685 |
| Plan Fiduciary Net Position as a % of the Total OPEB Liability | 32% | 30% | 25% | 19% | 13% |
| Covered –employee payroll | \$ 76,725 | \$ 74,625 | 74,489 | 71,339 | 69,473 |
| Net OPEB Liability as a % of covered-employee payroll | 223% | 234% | 231% | 257% | 315% |
| 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 2020, the Plan Sponsor conducted an experience study for fiscal year 2020. Economic and Demographic Assumptions are key drivers in measuring plan liabilities and allocating funding costs. Actuarial standards and GASB rules require that each assumption be reasonable, taking into account estimates of future experience. The Plan Sponsor has adopted a policy to conduct an experience study every 5 years, starting with this study. The following assumptions changes were made for fiscal year 2020:

- The medical claims aging table was updated based on the aging factor in the Yamamoto study released by the Society of Actuaries in June 2013.
- The assumed trend rate for medical claims was changed from 5.0 percent level to 5.2 percent remaining flat over the next four years, and following the Getzen model thereafter grading to an ultimate rate of 4.0 percent in the year 2075.
- The reduced and unreduced retirement and disability rates were updated.
- The salary scale assumption was updated from 4.5 percent per year at all ages to a rate that is varying by participant age.
- Withdrawal rate and rate of retirement were updated.

The overall impact of the experience study and adoption of Yamamoto and Getzen estimation techniques was an overall increase in the liability of \$7.3 million.

In 2019, NES changed from using the RP2000 Combined Mortality Table to 102 percent 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 percent to 7.5 percent.

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) |
| 2020 | \$22,293 | \$22,587 | \$(294) | \$86,819 | 26% |
| 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 | 78,184 | 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% |

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 projected salary increases based on the varying age of the participant. 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 using the Getzen model starting at 5.2 percent for medical and 4.0 percent for dental. For periods prior to 2020, healthcare cost trends were 5.0 percent for medical and 4.0 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 percent 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 |
|---------------------------|--------|
| 2020 | -6.6% |
| 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% |

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NASHVILLE ELECTRIC SERVICE

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