

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

**FINANCIAL STATEMENTS FOR THE YEARS ENDED
JUNE 30, 2009 AND 2008**

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

	Page
INDEPENDENT AUDITORS' REPORT	23
MANAGEMENT'S DISCUSSION AND ANALYSIS	24 - 34
FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008:	
Statements of Net Assets	35 - 36
Statements of Revenues, Expenses and Changes in Net Assets	37
Statements of Cash Flows	38 - 39
Notes to Financial Statements	40 - 56



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of the Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Board"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of June 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis as listed in the accompanying table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Crosslin & Associates, P.C.

Nashville, Tennessee
September 22, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Board"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal years ended June 30, 2009 and 2008 as compared to fiscal years 2008 and 2007, 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. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

Overview of the Financial Statements

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

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

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

The statements of cash flows present changes in cash and cash equivalents 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 Assets

Assets exceeded liabilities by \$488.1 million at June 30, 2009, and \$472.1 million at June 30, 2008. This represents an increase of \$16.0 million in 2009 and \$33.5 million for 2008. All of those increases are attributable to operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The largest portion of the Board's net assets 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 assets represents resources that are subject to external restrictions on how they may be used. These restrictions include bond proceeds to be used for construction projects and reserve funds required by bond covenants.

STATEMENTS OF NET ASSETS (\$000 omitted)

	June 30,		
	2009	2008	2007
<u>ASSETS</u>			
CURRENT ASSETS	\$ 231,927	\$ 231,887	\$ 213,612
INVESTMENT OF RESTRICTED FUNDS	125,907	150,776	47,892
UTILITY PLANT, NET	798,405	775,019	742,333
ENERGY CONSERVATION PROGRAMS' NOTES	366	550	789
OTHER NON-CURRENT ASSETS	<u>3,084</u>	<u>3,300</u>	<u>2,703</u>
TOTAL ASSETS	<u>1,159,689</u>	<u>1,161,532</u>	<u>1,007,329</u>
<u>LIABILITIES</u>			
CURRENT LIABILITIES	144,141	144,773	120,326
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	18,075	16,635	16,525
LONG-TERM DEBT	506,027	524,099	428,091
OTHER NON-CURRENT LIABILITIES			
Payable to TVA – energy conservation programs	366	550	789
Other	<u>2,976</u>	<u>3,376</u>	<u>2,978</u>
	<u>3,342</u>	<u>3,926</u>	<u>3,767</u>
COMMITMENTS AND CONTINGENCIES			
TOTAL LIABILITIES	<u>671,585</u>	<u>689,433</u>	<u>568,709</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	350,101	339,793	302,464
Restricted	52,854	48,265	45,532
Unrestricted	<u>85,149</u>	<u>84,041</u>	<u>90,624</u>
TOTAL NET ASSETS	<u>\$ 488,104</u>	<u>\$ 472,099</u>	<u>\$ 438,620</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**Liquidity and Capital Resources**

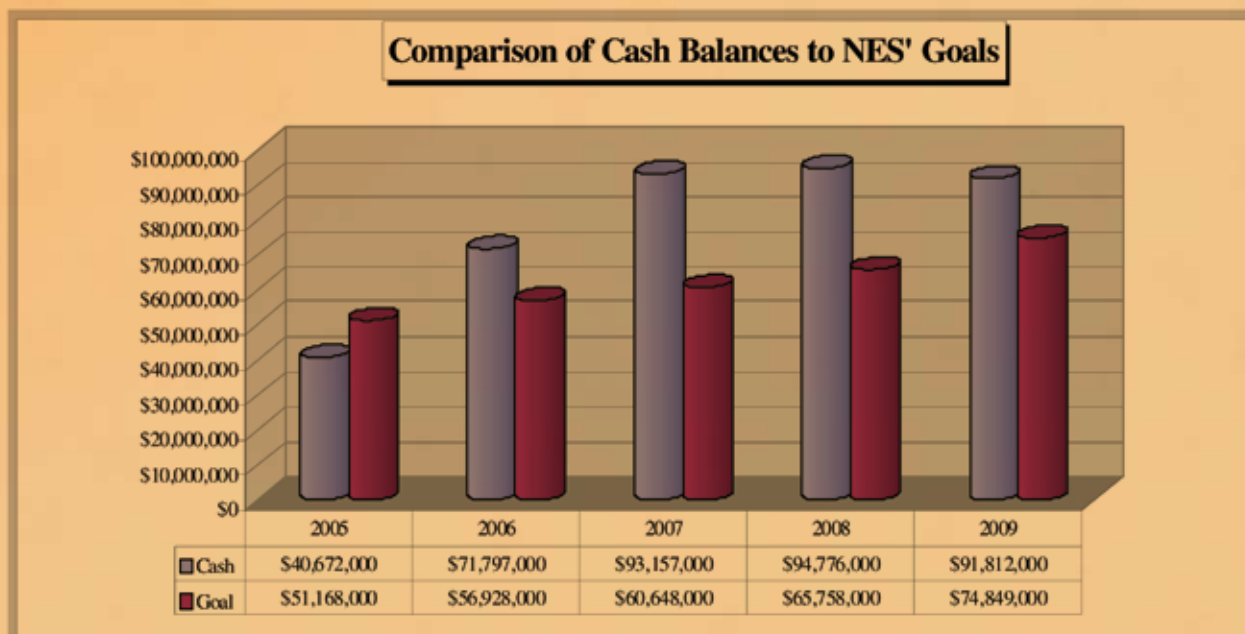
The Board believes it has sufficient debt capacity and a strong financial position. Therefore, the tax-exempt bond market is expected to be a future source of liquidity to supplement the cash flow from operations. On June 27, 2008, the Board closed on the sale of the Metropolitan Government of Nashville and Davidson County, Tennessee, Electric System Revenue Bonds, 2008 Series A and B. The purpose of the 2008 Series A Bonds was to reimburse NES for a portion of the 2008 capital expenditures and to fund approximately 50 percent of NES' projected \$218.9 million Capital Budget for the fiscal years ending June 30, 2009, through June 30, 2011. The remainder will be funded with operating revenues. The par amount of the 2008 Series A Bonds, \$109.2 million, plus original issue premium, less underwriter discount, cost of issuance, and a deposit to the debt service reserve fund netted proceeds in the amount of \$111.8 million of which \$110 million was deposited into the Special Construction Fund, \$1.6 million in the Debt Service Reserve Fund and \$225 thousand into the General Fund. The proceeds in the Special Construction Fund will be drawn down quarterly over the next three years. The 2008 Series B Bonds were being offered to refund \$74,430,000 aggregate principal amount of the 1998 Series A Bonds maturing May 15, 2015, 2016 and 2023, and to refund \$13,240,000 aggregate principal amount of 1998 Series B Bonds maturing on May 15, 2009, 2010 and 2011. During fiscal year 2009, NES drew down \$34.1 million from these funds for capital expenditures. The remaining proceeds will be drawn down quarterly over the next two years.

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

During the fiscal year ended June 30, 2009, the Board's revenue bonds are rated at Aa, AA+, and AA by Moody's, Standard & Poor's, and Fitch, respectively. In issuing bond ratings, agencies typically evaluate financial operations, rate-setting practices, and debt ratios. Higher ratings aid in securing favorable borrowing rates, which results in lower interest costs.

In order to maintain its strong credit ratings, the Board has adopted certain financial goals. Such goals provide a signal to the Board as to the adequacy of rates for funding ongoing cash flows from operations. One such goal is a cash goal of 7 percent of in-lieu-of-tax payments, purchased power, and operating and maintenance expenses. The goal was met every month of the fiscal year 2009. The percentage was 8.6 percent as of June 30, 2009, and 10.1 percent as of June 30, 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)



Operations

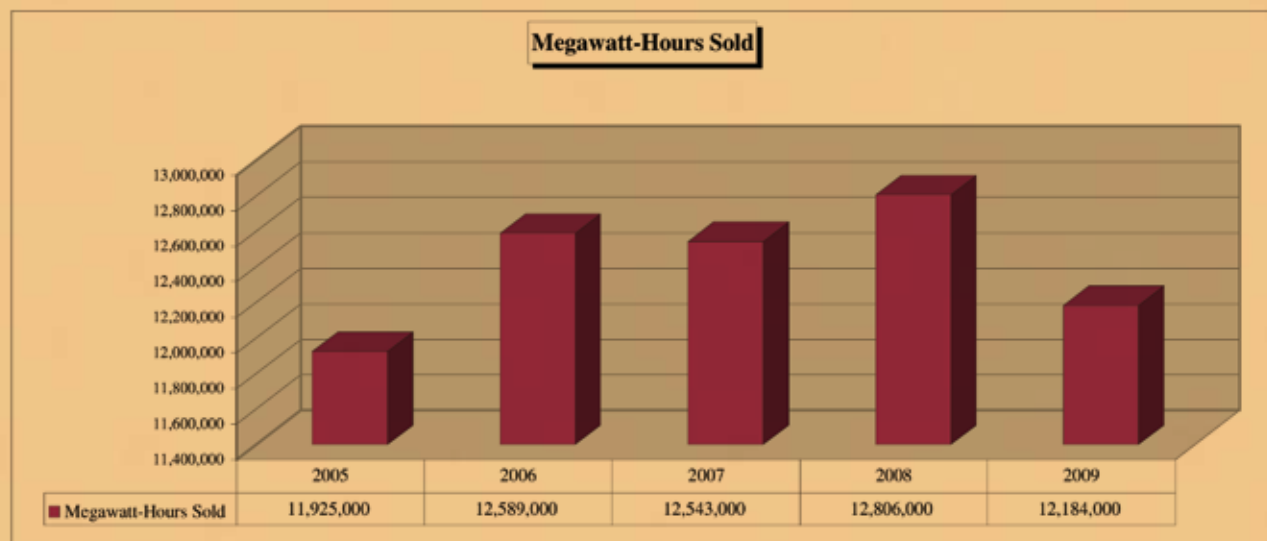
Summary Revenue & Expense Data
(\$'000 omitted)

	Year Ended June 30,		Net Asset	Year Ended	Net Asset
	2009	2008	Effect	June 30, 2007	Effect
Operating Revenues	\$1,146,747	\$1,030,953	\$ 115,794	\$962,828	\$ 68,125
Purchased Power	<u>915,005</u>	<u>794,786</u>	<u>(120,219)</u>	<u>733,735</u>	<u>(61,051)</u>
Margin	<u>231,742</u>	<u>236,167</u>	<u>(4,425)</u>	<u>229,093</u>	<u>7,074</u>
Operating Expenses	128,229	119,835	(8,394)	107,433	(12,402)
Depreciation and Taxes	70,055	65,659	(4,396)	62,242	(3,417)
Interest Income	7,721	5,736	1,985	8,788	(3,052)
Interest Expense	<u>25,174</u>	<u>22,930</u>	<u>(2,244)</u>	<u>24,205</u>	<u>1,275</u>
Increase in Net Assets	<u>\$ 16,005</u>	<u>\$ 33,479</u>	<u>\$ (17,474)</u>	<u>\$ 44,001</u>	<u>\$ (10,522)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

2009 and 2008 Results of Operations

Operating Revenues. Operating revenues increased by \$115.8 million, or 11.2 percent, when compared to 2008. Total electric sales were \$1.1 billion for the period versus \$1.0 billion last year. The average realized rate on electric sales was \$.0926 per kilowatt-hour in 2009 compared to \$.0794 per kilowatt-hour in 2008. The increase in average realized rates in 2009 is the impact of TVA rate adjustments for fuel and the wholesale rate increase that was effective in October 2008. Megawatt-hours sold in 2009 decreased by 4.9 percent when compared to 2008. In October 2008, TVA increased wholesale rates 3.4 percent, which increased retail rates by 2.7 percent. TVA implemented a quarterly Fuel Cost Adjustment (FCA) on all firm energy effective October 2006. The wholesale rate increase and quarterly FCA were implemented as a pass-through to our retail customers. Since the increase in wholesale rates and fluctuations in the wholesale FCA were matched by corresponding adjustments in retail rates, there was no direct impact on NES net income. Weather plays an important part in determining revenue for any year. The impact of weather is reflected in the comparison degree-days from one period to the next. Degree-days represent the difference between the weather's average daily temperatures minus 65 degrees. Temperatures above 65 degrees are considered cooling degree-days; temperatures below 65 degrees are considered heating degree-days. Total cooling degree-days were 1,838 compared to 2,164 in 2008. Total heating degree-days were 3,614 compared to 3,320 in 2008. Total heating and cooling degree-days were 5,452 compared to 5,484 in 2008 or a decrease of approximately 1.0 percent. Total average number of active year-to-date customers increased by .9 percent when compared to 2008.



Non-operating Revenues. Interest Income was \$7.7 million compared to \$5.7 million in 2008. The average rate of return on the General Fund was .75 percent in 2009 compared to 3.82 percent in 2008. The average monthly balance of the General Fund was \$98.0 million in 2009 compared to \$101.2 million in 2008, a decrease of .3 percent. Interest income was more than the previous year due to the additional assets in the Construction Fund that were provided by the June 2008 bond issuance. Revenue in Excess of Net Bills (Late Charge) increased by \$0.4 million, and Rentals of Electric Property (primarily pole attachments) increased by \$0.6 million.

Operating Expenses. The Board purchases all of its power from TVA under an all-requirements contract that had an initial term of 20 years. Beginning on December 19, 1989, and on each subsequent anniversary thereafter, the contract is automatically extended for an additional one-year period. The contract is subject to earlier termination by either party on not less than 10 years' prior written notice. Purchased power was \$915.0 million for the period compared to \$794.8 million last year. The average

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

realized rate on purchased power was \$.079 per kilowatt-hour in 2009 compared to \$.060 per kilowatt-hour in 2008. This increase is due to the pass-through of the FCA and the impact of TVA wholesale rate increases. Megawatt-hours purchased were 12.6 million in 2009 compared to 13.2 million in 2008. Line losses were 2.78 percent in 2009 compared to 3.22 percent in 2008, or a decrease of 13.7 percent.

Distribution expense for the period was \$49.7 million compared to \$46.1 million last year. This is an increase of \$3.6 million or 7.8 percent. The change is primarily attributable to increases in tree trimming of \$2.1 million; operation and maintenance of overhead lines of \$0.9 million; emergency service of \$0.6 million; supervision and engineering of \$0.6; operation and maintenance of station equipment of \$0.6 million; operation and maintenance of underground lines of \$0.4 million; line transformers of \$0.2 million; and structures of \$.1 million, offset by a decrease in miscellaneous expenses of \$1.9 million. Miscellaneous expense decreased as compared to the previous year primarily due to the costs for the pole pulling inventory program that were incurred during fiscal 2008.

Customer Accounts expense and Customer Service and Information expenses combined were \$22.7 million for the period compared to \$19.5 million last year. This is an increase of \$3.2 million or 16.4 percent. This is primarily the result of an increase in the uncollectible accounts accrual of \$1.9 million; data processing of \$0.7 million; and customer orders and service expenses of \$0.3 million; meter reading of \$.2 million; customer records and collection of \$0.1 million.

Administrative and General (A&G) expenses were \$55.8 million for the period compared to \$54.2 million last year. This was an increase of \$1.6 million or 3.0 percent. The increase is primarily the result of an increase in employee pensions of \$1.9 million; data processing of \$0.7 million; outside services employed of \$0.5 million; maintenance of general plant, \$0.4 million; offset by decreases in injuries and damages of \$1.4 million; and employee health insurance of \$0.6 million.

Depreciation and Tax Equivalents were \$44.0 million and \$26.0 million compared to \$40.9 million and \$24.8 million for 2009 and 2008, respectively. The increase in depreciation was the result of increased investment in the utility plant. Tax equivalents consist primarily of payments in-lieu-of taxes to the Metropolitan Government and the surrounding counties. Such payments are calculated based on a prescribed formula that takes into consideration utility plant value and the average of the Board's last three years' operating margin. The increase in payments in-lieu-of taxes was the result of increases in tax rates coupled with increased investment in the utility plant.

2008 and 2007 Results of Operations

Operating Revenues. Operating revenues increased by \$68.1 million, or 7.1 percent, when compared to 2007. Total electric sales were \$1.0 billion for the period versus \$945.8 million last year. The average realized rate on electric sales was \$.0794 per kilowatt-hour in 2008 compared to \$.0756 per kilowatt-hour in 2007. The increase in average realized rates in 2008 was the impact of TVA rate adjustments for fuel and the wholesale rate increase that was effective in April 2008. Megawatt-hours sold in 2008 increased by 2.1 percent when compared to 2007. In April 2008, TVA increased wholesale rates 7.0 percent, which increased retail rates by 5.4 percent. TVA also implemented a quarterly Fuel Cost Adjustment (FCA) on all firm energy effective October 2006. The wholesale rate increase and quarterly FCA were implemented as a pass-through to our retail customers. Since the increase in wholesale rates and fluctuations in the wholesale FCA were matched by corresponding adjustments in retail rates, there was no direct impact on NES net income. Total cooling degree-days were 2,164 compared to 2,020 in 2007. Total heating degree-days were 3,320 compared to 3,248 in 2007. Total heating and cooling degree-days were 5,484 compared to 5,268 in 2007 or an increase of approximately 4 percent. Total average number of active year-to-date customers increased by 1.7 percent when compared to 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Non-operating Revenues. Interest Income was \$5.7 million compared to \$8.8 million in 2007. The average rate of return on the General Fund was 3.82 percent in 2008 compared to 5.40 percent in 2007. The average monthly balance of the General Fund was \$101.2 million in 2008 compared to \$86 million in 2007, an increase of 17.7 percent. Revenue in Excess of Net Bills (Late Charge) increased by \$0.1 million, and Rentals of Electric Property (primarily pole attachments) increased by \$0.1 million.

Operating Expenses. Purchased power was \$794.8 million for the period compared to \$733.7 million last year. The average realized rate on purchased power was \$.060 per kilowatt-hour in 2008 compared to \$.0565 per kilowatt-hour in 2007. This increase is due to the pass-through of the FCA and the impact of TVA wholesale rate increases. Megawatt-hours purchased were 13.2 million in 2008 compared to 13.0 million in 2007. Line losses were 3.2 percent in 2008 compared to 3.3 percent in 2007, or a decrease of 2.4 percent.

Distribution expense for the period was \$46.1 million compared to \$44.0 million last year. This is an increase of \$2.1 million or 4.8 percent. The change is primarily attributable to increases in miscellaneous expenses of \$0.8 million; operation and maintenance of meters of \$0.6 million; operation and maintenance of overhead lines of \$0.6 million; operation and maintenance of underground lines of \$0.6 million; storms of \$0.6 million; and line transformers of \$0.2 million, offset by a decrease in tree-trimming of \$1.3 million.

Customer Accounts expense and Customer Service and Information expenses combined were \$19.5 million for the period compared to \$18.4 million last year or an increase of \$1.1 million or 6.0 percent. This is primarily the result of an increase in the uncollectible accounts accrual of \$0.9 million and customer orders and service expense of \$0.8 million, offset by a decrease in customer records and collection of \$0.5 million.

Administrative and General (A&G) expenses were \$54.2 million for the period compared to \$45.0 million last year. This was an increase of \$9.2 million or 20.4 percent. The increase is primarily the result of an increase in employee health insurance of \$8.0 million, administrative and general salaries, \$0.6 million; and injuries and damages of \$0.6 million. The increase in employee health insurance is due to the annual required contribution for NES' post-retirement benefits other than pensions, which is the result from implementation of GASB Statement No. 45.

Depreciation and Tax Equivalents were \$40.9 million and \$24.8 million compared to \$37.0 million and \$25.2 million for 2008 and 2007, respectively. The increase in depreciation was the result of increased investment in the utility plant. The decrease in in-lieu-of taxes payments was the result of increases in tax rates and investment in the utility plant offset by changes in equalization factors.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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

Major Classifications of Expense (\$000 omitted)

<u>Description</u>	<u>Fiscal 2009</u>	<u>Fiscal 2008</u>	<u>Increase (Decrease)</u>	<u>Fiscal 2007</u>	<u>Increase (Decrease)</u>
Labor, excluding overtime	\$ 49,859	\$ 45,249	10.2%	\$ 41,569	8.9%
Benefits	33,932	32,159	5.5%	24,522	31.1%
Tree-trimming	10,655	9,097	17.1%	9,818	(7.3%)
Outside Services	7,879	8,177	(3.6%)	7,555	8.2%
Materials	4,141	4,609	(10.2%)	4,370	5.5%
Transportation	4,099	3,690	11.1%	3,498	5.5%
Accrual for Uncollectible Accounts	5,012	2,946	70.1%	2,200	33.9%
Postage	1,477	1,532	(3.6%)	1,518	0.9%
Security/Police	1,097	909	20.7%	866	5.0%
Rentals	1,100	961	14.5%	872	10.2%
Professional Fees	1,484	1,054	40.8%	923	14.2%
Insurance Premiums	672	664	1.2%	755	(12.1%)
Other	<u>6,822</u>	<u>8,788</u>	(22.4%)	<u>8,967</u>	(2.0%)
	<u>\$128,229</u>	<u>\$119,835</u>	7.0%	<u>\$107,433</u>	11.5%

The Board's total operating expenses increased 7.0 percent from June 30, 2008, to June 30, 2009. Labor costs increased primarily due to cost of living adjustments, as well as step increases and merit raises. Tree-trimming increased due to circuit trimming carry-over from prior fiscal years. The decrease in Outside Services is primarily due to a decrease in the pole inspection program and contract labor. Material costs were less than last year due to fewer maintenance projects being completed. Transportation costs increased due to the cost of maintaining and operating vehicles. The Board experienced a significant increase in Accrual for Uncollectible Accounts due to difficult economic conditions. Professional fees increased due to additional legal fees.

The Board's total operating expenses increased by 11.5 percent from June 30, 2007, to June 30, 2008. Labor costs increased primarily due to step increases, merit raises and the hiring of additional employees. The total number of employees increased from 983 to 1,012 during the fiscal year or an increase of 2.9%. Tree-trimming decreased due to this being the third year of retrimming areas that were initially trimmed three years ago. The increase in Outside Services is primarily due to the pole-pulling program. Material costs were more than last year due to more maintenance projects being completed. Transportation costs increased as more Operational and Maintenance work was completed and the cost of maintaining and operating vehicles increased. Accrual for Uncollectible Accounts increased as a result of additional write-offs. Professional fees were more primarily due to an increase in legal fees of \$167,000 and strategic plan consulting of \$80,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**Budgetary Highlights**

The Board approves an Operating and Capital Budget each fiscal year. The operating budget remains in effect the entire year and is not revised except to adjust for rate changes.

	Year Ended June 30, 2009 (\$000 omitted)		Over (Under)
	Budget	Actual	
Operating Revenues	\$ 1,200,070	\$ 1,146,747	\$ (53,323)
Purchased Power	<u>964,931</u>	<u>915,005</u>	<u>(49,926)</u>
Margin	235,139	231,742	(3,397)
Operating Expenses	129,832	128,229	(1,603)
Depreciation and Taxes	68,658	70,055	1,397
Interest Income	6,682	7,721	1,039
Interest Expense	<u>30,339</u>	<u>25,174</u>	<u>(5,165)</u>
Increase in Net Assets	<u>\$ 12,992</u>	<u>\$ 16,005</u>	<u>\$ 3,013</u>
Capital Expenditures	<u>\$ 72,976</u>	<u>\$ 69,939</u>	<u>\$ (3,037)</u>

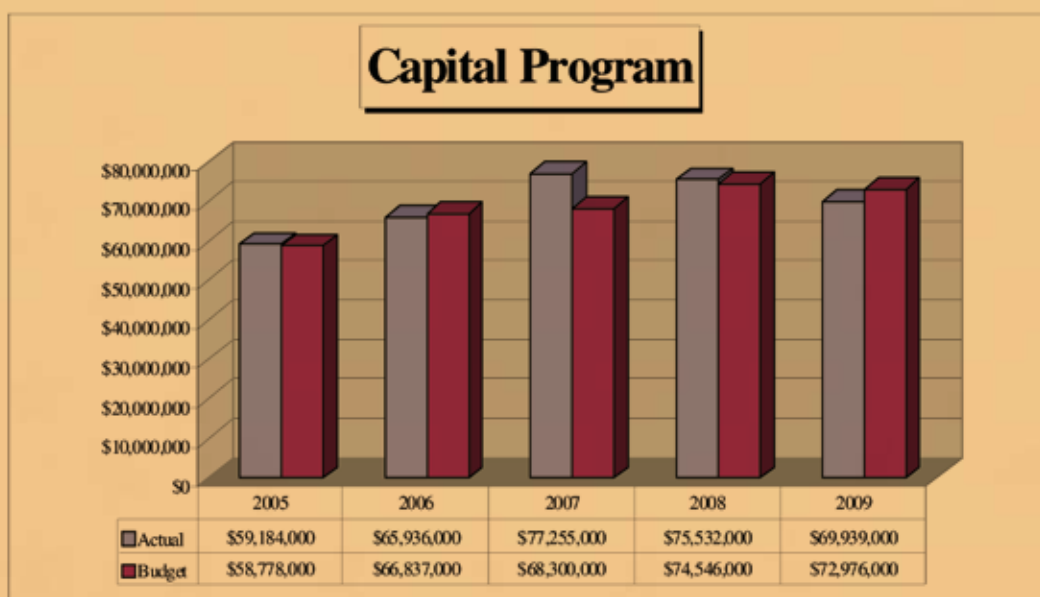
The Board's increase in net assets was \$3.0 million over its budget of \$13.0 million. The increase over budget results from the net of actual margin and expenses being more favorable than budgeted. Interest expense was the largest contributor to the variance. That variance resulted from a more favorable interest rate being obtained on the June 2008 bond issuance than was originally budgeted. Interest income was more than budgeted due to the additional Construction Funds provided by the bond issuance. The major contributors to the variance in operating expenses from budget were decreases in medical of approximately \$2.7 million; outside services, \$0.7 million; injuries and damages, \$0.5 million; materials and supplies, \$0.5 million; and service-connected medical, \$0.4 million; offset by increases in accrual for uncollectible accounts, \$2.0 million; contract data processing, \$1.0 million; and professional fees, \$0.5 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

	Year Ended June 30, 2008 (\$000 omitted)		
	Budget	Actual	Over (Under)
Operating Revenues	\$ 1,021,954	\$ 1,030,953	\$ 8,999
Purchased Power	<u>788,163</u>	<u>794,786</u>	<u>6,623</u>
Margin	233,791	236,167	2,376
Operating Expenses	123,277	119,835	(3,442)
Depreciation and Taxes	66,613	65,659	(954)
Interest Income	9,148	5,736	(3,412)
Interest Expense	<u>28,670</u>	<u>22,930</u>	<u>(5,740)</u>
Increase in Net Assets	<u>\$ 24,379</u>	<u>\$ 33,479</u>	<u>\$ 9,100</u>
Capital Expenditures	<u>\$ 74,546</u>	<u>\$ 75,532</u>	<u>\$ (986)</u>

The Board's increase in net assets was \$9.1 million over its budget of \$24.4 million. The increase over budget results from the actual margin and expenses being more favorable than budgeted. Interest income was less than budgeted due to unfavorable market activity and depletion of the Construction Fund during the previous fiscal year. The major contributors to the variance in operating expenses from budget were favorable variances in medical of approximately \$0.6 million, retirement and survivors expenses of \$0.6 million, and tree-trimming of \$1.7 million.

Interest income and interest expense were less than budgeted as a result of a delay in the timing of the issuance of the 2008 Series A and B Revenue Bonds.



MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The 2009 Capital Budget was \$73.0 million; \$70.0 million was spent. This budget variance is primarily due to expenses associated with serving new and expanding customer load being less than forecasted.

The 2008 Capital Budget was \$74.5 million; \$75.5 million was spent. This budget variance is primarily due to expenses associated with serving new and expanding customer load.

Capital Assets and Debt Administration

The Board's transmission and distribution facilities serve all of the 533 square miles located within the boundaries of the Metropolitan Government of Nashville and Davidson County, Tennessee. The Board serves an additional 167 square miles located in minor 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 flow from operations and proceeds from tax-exempt bonds. The Board's investment in utility plant at June 30, 2009, was \$798.4 million compared to \$775.0 million at June 30, 2008. Major projects during fiscal year 2009 included the installations of substation breakers at Saundersville, Cane Ridge, Murfreesboro Road, and 10th Avenue substations, which totaled \$1.3 million, \$0.7 million, \$0.1 million, and \$0.1 million, respectively. Various bus upgrades were completed with a cost of \$2.6 million.

The Board has outstanding bonds payable of \$520.9 million at June 30, 2009, compared to \$538.0 at June 30, 2008. This decrease was due primarily to the current portion of long-term debt maturing in 2009. The total outstanding bonds payable as of June 30, 2007, were \$440.6 million. This increase was due to the issuance of the 2008 Series A and B Bonds.

The Board's financing cost may be impacted by short-term and long-term debt ratings assigned by independent rating agencies. Debt ratings are based, in significant part, on the Board's performance as measured by certain credit measures such as the aforementioned cash targets and debt coverage ratios. The Board's debt coverage ratio for the 12 months ended June 30, 2009 was 2.7 to 1. The Board continues to exceed its goal of 2 to 1. The Board's revenue bonds are rated Aa, AA+ and AA by Moody's, Standard & Poor's and Fitch, respectively. The outlook on all ratings is stable.

Respectfully submitted,



Teresa Broyles-Aplin
Vice President and Chief Financial Officer

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
**STATEMENTS OF NET ASSETS (\$000 OMITTED)
JUNE 30, 2009 AND 2008**

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and short-term investments	\$ 91,812	\$ 94,776
Customer and other accounts receivable, less allowance for doubtful accounts of \$797 and \$687, respectively	119,139	117,129
Accrued interest receivable	674	836
Materials and supplies	18,379	17,496
Other current assets	<u>1,923</u>	<u>1,650</u>
TOTAL CURRENT ASSETS	<u>231,927</u>	<u>231,887</u>
INVESTMENT OF RESTRICTED FUNDS:		
Cash and cash equivalents	11,050	22,791
Other investments	<u>114,857</u>	<u>127,985</u>
TOTAL RESTRICTED FUNDS	125,907	150,776
UTILITY PLANT:		
Electric plant, at cost	1,267,244	1,213,568
Less: Accumulated depreciation	<u>(468,839)</u>	<u>(438,549)</u>
TOTAL UTILITY PLANT, NET	<u>798,405</u>	<u>775,019</u>
ENERGY CONSERVATION PROGRAMS'		
NOTES RECEIVABLE	366	550
UNAMORTIZED BOND ISSUANCE COSTS	2,743	2,997
OTHER NON-CURRENT ASSETS	<u>341</u>	<u>303</u>
TOTAL ASSETS	<u>1,159,689</u>	<u>1,161,532</u>

See notes to financial statements.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
**STATEMENTS OF NET ASSETS (\$000 OMITTED)
JUNE 30, 2009 AND 2008 (continued)**

	2009	2008
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable for purchased power	107,610	109,640
Other accounts payable and accrued expenses	24,270	23,352
Customer deposits	<u>12,261</u>	<u>11,781</u>
TOTAL CURRENT LIABILITIES	<u>144,141</u>	<u>144,773</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Construction contracts payable	1,469	1,023
Accrued interest payable	1,725	1,737
Current portion of long-term debt	<u>14,881</u>	<u>13,875</u>
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	<u>18,075</u>	<u>16,635</u>
LONG-TERM DEBT, LESS CURRENT PORTION	<u>506,027</u>	<u>524,099</u>
OTHER NON-CURRENT LIABILITIES:		
Payable to TVA—energy conservation programs	366	550
Other	<u>2,976</u>	<u>3,376</u>
TOTAL OTHER NON-CURRENT LIABILITIES	<u>3,342</u>	<u>3,926</u>
COMMITMENTS AND CONTINGENCIES		
TOTAL LIABILITIES	<u>671,585</u>	<u>689,433</u>
NET ASSETS		
Invested in capital assets, net of related debt	350,101	339,793
Restricted	52,854	48,265
Unrestricted	<u>85,149</u>	<u>84,041</u>
TOTAL NET ASSETS	<u>\$ 488,104</u>	<u>\$ 472,099</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 ASSETS (\$000 OMITTED)
YEARS ENDED JUNE 30, 2009 AND 2008**

	2009	2008
OPERATING REVENUES:		
Residential	\$ 468,704	\$ 420,888
Commercial and industrial	643,972	578,317
Street and highway lighting	15,799	14,284
Other	<u>18,272</u>	<u>17,464</u>
Total operating revenues	1,146,747	1,030,953
PURCHASED POWER	<u>915,005</u>	<u>794,786</u>
MARGIN	<u>231,742</u>	<u>236,167</u>
OPERATING EXPENSES:		
Distribution	49,721	46,078
Customer accounts	21,509	18,387
Customer service and information	1,247	1,160
General and administrative	55,752	54,210
Tax equivalents	26,031	24,775
Depreciation	<u>44,024</u>	<u>40,884</u>
Total operating expenses	<u>198,284</u>	<u>185,494</u>
Operating income	<u>33,458</u>	<u>50,673</u>
NON-OPERATING REVENUE (EXPENSE):		
Interest income	7,721	5,736
Interest expense	<u>(25,174)</u>	<u>(22,930)</u>
Total non-operating expense	<u>(17,453)</u>	<u>(17,194)</u>
NET INCREASE IN NET ASSETS	16,005	33,479
NET ASSETS, Beginning of Year	<u>472,099</u>	<u>438,620</u>
NET ASSETS, End of Year	<u>\$ 488,104</u>	<u>\$ 472,099</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, 2009 AND 2008**

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,145,402	\$ 1,014,562
Payments to suppliers for goods and services	(994,098)	(843,756)
Payments to employees	(50,356)	(45,682)
Payments for tax equivalents	<u>(25,535)</u>	<u>(24,343)</u>
Net cash provided by operating activities	<u>75,413</u>	<u>100,781</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of utility plant	(60,861)	(69,189)
Utility plant removal costs	(8,668)	(6,849)
Salvage received from utility plant retirements	398	770
Proceeds from sale of revenue bonds	-	111,850
Principal payments on revenue bonds	(13,875)	(12,491)
Interest paid on revenue bonds	<u>(28,123)</u>	<u>(26,128)</u>
Net cash used in capital and related financing activities	<u>(111,129)</u>	<u>(2,037)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities	(218,064)	(344,842)
Proceeds from sales and maturities of investment securities	242,933	241,958
Interest on investments	<u>7,883</u>	<u>5,759</u>
Net cash provided by (used in) investing activities	<u>32,752</u>	<u>(97,125)</u>
NET (DECREASE) INCREASE IN CASH AND SHORT-TERM INVESTMENTS – UNRESTRICTED	(2,964)	1,619
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR – UNRESTRICTED	<u>94,776</u>	<u>93,157</u>
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR – UNRESTRICTED	<u>\$ 91,812</u>	<u>\$ 94,776</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, 2009 AND 2008 (continued)**

	2009	2008
Reconciliation of operating income to net cash provided		
by operating activities:		
Operating income	\$ 33,458	\$ 50,673
Adjustments to reconcile operating income		
to net cash provided by operating activities:		
Depreciation	45,745	42,582
Changes in assets and liabilities:		
Increase in customer and other accounts receivable	(2,010)	(17,065)
(Increase) decrease in materials and supplies	(883)	571
Increase in other current assets	(273)	(185)
Decrease in energy conservation programs' notes receivable	184	239
(Increase) decrease in other non-current assets	(38)	59
(Decrease) increase in accounts payable for purchased power	(2,030)	17,134
Increase in other accounts payable and accrued expenses	1,364	6,179
Increase in customer deposits	480	435
Decrease in payable to TVA—energy conservation programs	(184)	(239)
(Decrease) increase in other non-current liabilities	(400)	398
Net cash provided by operating activities	<u>\$ 75,413</u>	<u>\$ 100,781</u>

NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:

During 2009 and 2008, NES charged \$7.2 million and \$8.7 million, respectively, to accumulated depreciation representing the cost of retired utility plant.

During 2009 and 2008, \$254,000 and \$214,000, respectively, were charged to interest expense for amortization of bond premiums. Also, \$525,000 and \$599,000 were charged as amortization of the bond-issuance costs in 2009 and 2008, respectively.

During 2008, the 2008 Series B Bonds were offered to refund \$74,430,000 and \$13,240,000 aggregate principal amount of the Board's 1998 Series A and 1998 Series B Bonds, respectively.

See notes to financial statements.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Board") was established in 1939 when the City of Nashville purchased certain properties of the Tennessee Electric Power Company for the purpose of exercising control and jurisdiction over the electric distribution system. In conducting the operations of the electric distribution system, the Board does business as Nashville Electric Service ("NES"). NES is a component unit of The Metropolitan Government of Nashville and Davidson County, Tennessee (the "Metropolitan Government"), and is operated by a five-member board appointed by the Mayor and confirmed by the Council of the Metropolitan Government. Members of NES serve five-year staggered terms without compensation. In accordance with the Charter of the Metropolitan Government, NES exercises exclusive control and management, except NES must obtain the approval of the Council before issuing revenue bonds. The Metropolitan Government does not assume liability for the financial obligations of NES. In addition, the assets of NES 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 hiring of employees.

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

Under Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, NES has elected to apply Financial Accounting Standards Board ("FASB") Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

The significant accounting policies followed by NES are outlined below.

Estimates used in the preparation of financial statements are based on management's best judgments. The most significant estimates relate to allowance for uncollectible accounts receivable, inventory obsolescence, depreciation, intangible asset valuations and useful lives, employee benefit plan obligations, accrued power receivable and payable, unbilled receivables, and unreported medical claims. These estimates may be adjusted as more current information becomes available.

For purposes of the statements of cash flows, cash and cash equivalents include unrestricted cash, commercial paper, U.S. Treasury Bills and certificates of deposit with an original maturity of three months or less.

Restricted Assets of NES represent bond proceeds designated for construction and other monies required to be restricted for debt service.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Utility Plant is stated at original cost. Such cost includes applicable general and administrative costs and payroll and related costs such as pensions, taxes and other fringe benefits related to plant construction. Interest cost incurred during the period of construction of certain plant is capitalized. Capitalized interest was \$575 thousand and \$837 thousand in 2009 and 2008, respectively. Costs of depreciable retired utility plant, plus removal costs, less salvage, are charged to accumulated depreciation.

Depreciation is provided at rates which are designed to amortize the cost of depreciable plant over the estimated useful lives ranging from 5 to 40 years. The composite straight-line rates expressed as a percentage of average depreciable plant were as follows for June 30, 2009 and 2008:

	2009	2008
Distribution Plant, 18.2 to 40 years	3.6%	3.5%
Structure and improvements, 40 to 50 years	2.0%	2.1%
Office furniture and equipment, 7.1 to 16.7 years	13.5%	13.7%
Transportation equipment, 8 to 10 years	6.0%	6.7%
Other equipment, 8 to 33.3 years	6.2%	6.4%

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

Investments and Cash Equivalents (including restricted assets) consist primarily of short-term U.S. Government securities or mortgage-backed securities from agencies chartered by Congress, and certificates of deposit. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reflected at their fair value except those investments that have a remaining maturity at the time of purchase of one year or less and certificates of deposit, which are reflected at cost.

Materials and Supplies are stated at the moving weighted average cost.

Unamortized Bond Issuance costs incurred in connection with the issuance of bonds are being amortized over the respective lives of the bond issues using the effective interest method.

Compensated Absences represent the liability for employees' accumulated vacation days. The general policy of NES permits the accumulation, within certain limitations, of unused vacation days.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues 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.

NES purchases electric power from the Tennessee Valley Authority ("TVA"). The cost of purchased power is calculated based upon retail billing units adjusted for estimated line losses. NES accrues for unbilled purchased power based on retail billing units.

Asset Retirement Obligations are periodically reviewed in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations*, and management has concluded that, at present, NES does not have any such asset retirement obligations.

Operating and Non-operating Revenues and Expenses – Operating revenues include the sale of power and rental of electric property. 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.

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.

Fair Value Measurements – Effective July 1, 2008, NES adopted SFAS No. 157, *Fair Value Measurements*, which established a framework for measuring fair value in accordance with GAAP, and expands disclosures about the use of fair value measures. The adoption of SFAS No. 157 did not have an impact on NES' financial position or operating results. Assets recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by SFAS No. 157, are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect NES' best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

2. UTILITY PLANT AND ACCUMULATED DEPRECIATION

Utility plant activity for the years ended June 30, 2009 and 2008, was as follows (\$000 omitted):

	Balance June 30, 2008	Additions	Transfers & Retirements	Balance June 30, 2009
Distribution plant	\$ 1,026,484	\$ 64,008	\$ (6,016)	\$ 1,084,476
Land and land rights	1,139	-	-	1,139
Structures and improvements	42,974	2,159	-	45,133
Office furniture and equipment	35,434	3,135	(682)	37,887
Transportation equipment	6,785	879	(333)	7,331
Other equipment	35,812	1,409	(154)	37,067
Construction work-in-progress (a)	<u>64,940</u>	<u>-</u>	<u>(10,729)</u>	<u>54,211</u>
	<u>\$ 1,213,568</u>	<u>\$ 71,590</u>	<u>\$ (17,914)</u>	<u>\$ 1,267,244</u>

	Balance June 30, 2007	Additions	Transfers & Retirements	Balance June 30, 2008
Distribution plant	\$ 975,909	\$ 57,720	\$ (7,145)	\$ 1,026,484
Land and land rights	1,139	-	-	1,139
Structures and improvements	41,992	982	-	42,974
Office furniture and equipment	34,788	2,145	(1,499)	35,434
Transportation equipment	6,033	792	(40)	6,785
Other equipment	34,496	1,332	(16)	35,812
Construction work-in-progress (a)	<u>58,709</u>	<u>6,231</u>	<u>-</u>	<u>64,940</u>
	<u>\$ 1,153,066</u>	<u>\$ 69,202</u>	<u>\$ (8,700)</u>	<u>\$ 1,213,568</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
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

2. UTILITY PLANT AND ACCUMULATED DEPRECIATION (continued)

The related activity for accumulated depreciation for the years ended June 30, 2009 and 2008, was as follows (\$000 omitted):

	Balance June 30, 2008	Provision	Original Cost	Cost of Removal	Salvage	Balance June 30, 2009
Distribution plant	\$ 373,888	\$ 37,209	\$ (6,016)	\$ (8,668)	\$ 248	\$ 396,661
Structures and improvements	14,117	894	-	-	-	15,011
Office furniture and equipment	26,238	4,944	(682)	-	-	30,500
Transportation equipment	1,684	425	(333)	-	115	1,891
Other equipment	<u>22,622</u>	<u>2,273</u>	<u>(154)</u>	<u>-</u>	<u>35</u>	<u>24,776</u>
	<u>\$ 438,549</u>	<u>\$ 45,745</u>	<u>\$ (7,185)</u>	<u>\$ (8,668)</u>	<u>\$ 398</u>	<u>\$ 468,839</u>

	Balance June 30, 2007	Provision	Original Cost	Cost of Removal	Salvage	Balance June 30, 2008
Distribution plant	\$ 352,974	\$ 34,251	\$ (7,132)	\$ (6,849)	\$ 644	\$ 373,888
Structures and improvements	13,246	871	-	-	-	14,117
Office furniture and equipment	22,943	4,794	(1,499)	-	-	26,238
Transportation equipment	1,181	432	(40)	-	111	1,684
Other equipment	<u>20,389</u>	<u>2,234</u>	<u>(16)</u>	<u>-</u>	<u>15</u>	<u>22,622</u>
	<u>\$ 410,733</u>	<u>\$ 42,582</u>	<u>\$ (8,687)</u>	<u>\$ (6,849)</u>	<u>\$ 770</u>	<u>\$ 438,549</u>

Depreciation is allocated between general and administrative expense and depreciation expense in the statements of revenues, expenses and changes in net assets.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

3. CASH AND INVESTMENTS

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

2009					
	Cash & Short-term Investments	Bond Funds	Special Construction	Total	Weighted Average Maturity (Years)
Cash	\$ 3,155	\$ 8,036	\$ 3,014	\$ 14,205	-
Securities from Agencies Chartered by Congress	-	46,542	68,315	114,857	1.17
Other Investments	<u>88,657</u>	<u>-</u>	<u>-</u>	<u>88,657</u>	-
	<u>\$ 91,812</u>	<u>\$ 54,578</u>	<u>\$ 71,329</u>	<u>\$ 217,719</u>	<u>0.66</u>
2008					
	Cash & Short-term Investments	Bond Funds	Special Construction	Total	Weighted Average Maturity (Years)
Cash	\$ 3,264	\$ 22,787	\$ 4	\$ 26,055	-
Securities from Agencies Chartered by Congress	-	27,215	100,770	127,985	1.78
Other Investments	<u>91,512</u>	<u>-</u>	<u>-</u>	<u>91,512</u>	-
	<u>\$ 94,776</u>	<u>\$ 50,002</u>	<u>\$ 100,774</u>	<u>\$ 245,552</u>	<u>1.04</u>

Investments of \$91.6 million and \$128.0 million at June 30, 2009 and 2008 respectively, in U.S. Treasury Investments and Securities from Agencies Chartered by Congress are reported at fair value. Investments of \$111.9 million and \$91.5 million at June 30, 2009 and 2008, respectively, in U.S. Treasury investments, Securities from Agencies Chartered by Congress, commercial paper and certificates of deposit are reported at cost.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

3. CASH AND INVESTMENTS (continued)

The net increase in the fair value of investments during fiscal year 2009 was \$927 thousand. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at June 30, 2009 was \$2.3 million.

Custodial Credit Risk – As of June 30, 2009 and 2008, NES' cash held by financial institutions was \$14.2 million and \$26.1 million, respectively. Bank balances for such accounts totaled \$92.7 million and \$97.3 million, respectively. Deposits in financial institutions are required by State of Tennessee ("State") statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and have a total minimum market value of 105 percent of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. Collateral requirements are not applicable for financial institutions that participate in the State's collateral pool. As of June 30, 2009 and 2008, all of NES' deposits were held by financial institutions, which participate in the bank collateral pool administered by the State Treasurer. Participating banks determine the aggregated balance of their public-fund accounts for the Metropolitan Government. The amount of collateral required to secure these public deposits is a certain percentage set by the State, depending on the financial institution, and must be at least that percentage of the average daily balance of public deposits held. Collected securities required to be pledged by the participating banks to protect their public-fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public-fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

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 insured and registered or held by NES or its agent in NES' name.

Concentration of Credit Risk – NES has a policy prohibiting investment of greater than \$5 million or 20 percent of the total investment portfolio in any one issue, except for the U.S. Government or any of its agencies. In 2009 and 2008, more than 5 percent of NES' investments are in Securities from Agencies Chartered by Congress and a Public Fund Trust. In 2009, these investments are 56.4 percent and 43.6 percent respectively, of NES' total investments. These investments are 58.3 percent and 41.4 percent, respectively, of NES' total investments for 2008.

Interest Rate Risk – NES restricts its investments to 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 FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

4. LONG-TERM DEBT

Long-term debt for the year ended June 30, 2009, is as follows (\$000 omitted):

	Balance June 30, 2008	Deductions/ Repayments	Additions/ Amortization/ Accretion	Balance June 30, 2009
Electric System Revenue Bonds, 1996 Series A, bear interest at rates from 5.5% to 6%, maturing through May 15, 2013, interest paid semiannually.	\$ 50,846	\$ 6,265)	\$ (3,939)	\$ 40,642
Electric System Revenue Bonds, 1998 Series A, bear interest at rates from 5.125% to 5.40%, maturing through May 15, 2023, interest paid semiannually.	21,000	-	1,149	22,149
Electric System Revenue Bonds, 1998 Series B, bear interest at rates from 4.75% to 5.50%, maturing through May 15, 2017, interest paid semiannually.	33,069	-	120	33,189
Electric System Revenue Bonds, 2001 Series A, bear interest at rates from 4.50% to 5.125%, maturing through May 15, 2017, interest paid semiannually.	106,767	(1,880)	3	104,890
Electric System Revenue Bonds, 2001 Series B, bear interest at 5.50%, maturing through May 15, 2014, interest paid semiannually.	18,582	-	(17)	18,565
Electric System Revenue Bonds, 2004 Series A, bear interest at rates from 4.50% to 5.00%, maturing through May 15, 2029, interest paid semiannually.	109,372	-	3	109,375
Electric System Revenue Bonds, 2008 Series A, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2033, interest paid semiannually.	112,348	(2,500)	(259)	109,589
Electric System Revenue Bonds, 2008 Series B, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2023, interest paid semiannually.	<u>85,990</u>	<u>(3,230)</u>	<u>(251)</u>	<u>82,509</u>
	537,974	<u>\$ (13,875)</u>	<u>\$ (3,191)</u>	520,908
Less current portion of long-term debt	<u>(13,875)</u>			<u>(14,881)</u>
	<u>\$ 524,099</u>			<u>\$ 506,027</u>

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

4. LONG-TERM DEBT (continued)

Long-term debt for the year ended June 30, 2008, is as follows (\$000 omitted):

	Balance June 30, 2007	Deductions/ Repayments	Additions/ Amortizations/ Accretion	Balance June 30, 2008
Electric System Revenue Bonds, 1996 Series A, bear interest at rates from 5.5% to 6%, maturing through May 15, 2013, interest paid semiannually.	\$ 60,506	\$ (6,716)	\$ (2,944)	\$ 50,846
Electric System Revenue Bonds, 1998 Series A, bear interest at rates from 5.125% to 5.40%, maturing through May 15, 2023, interest paid semiannually.	93,390	(74,430)	2,040	21,000
Electric System Revenue Bonds, 1998 Series B, bear interest at rates from 4.75% to 5.50%, maturing through May 15, 2017, interest paid semiannually.	50,156	(17,225)	138	33,069
Electric System Revenue Bonds, 2001 Series A, bear interest at rates from 4.50% to 5.125%, maturing through May 15, 2017, interest paid semiannually.	108,568	(1,790)	(11)	106,767
Electric System Revenue Bonds, 2001 Series B, bear interest at 5.50%, maturing through May 15, 2014, interest paid semiannually.	18,593	-	(11)	18,582
Electric System Revenue Bonds, 2004 Series A, bear interest at rates from 4.50% to 5.00%, maturing through May 15, 2029, interest paid semiannually.	109,369	-	3	109,372
Electric System Revenue Bonds, 2008 Series A, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2033, interest paid semiannually.	-	-	112,348	112,348
Electric System Revenue Bonds, 2008 Series B, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2023, interest paid semiannually.	-	-	85,990	85,990
	440,582	<u>\$ (100,161)</u>	<u>\$ 197,553</u>	537,974
Less current portion of long-term debt	<u>(12,491)</u>			<u>(13,875)</u>
	<u>\$ 428,091</u>			<u>\$ 524,099</u>

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

4. LONG-TERM DEBT (continued)

NES issues Revenue Bonds to provide funds primarily for capital improvements and for refundings of other bonds. All bond issues are secured by a pledge and lien on the net revenues of NES on parity with the pledge established by all bonds issued. Annual maturities on all long-term debt and related interest are as follows for each of the next five fiscal years and in five-year increments thereafter (\$000 omitted):

	Principal	Interest
2010	\$ 18,933	\$ 24,947
2011	19,826	24,087
2012	20,960	23,134
2013	22,056	22,071
2014	23,020	21,041
2015-2019	130,495	88,675
2020-2024	148,601	55,209
2025-2029	110,112	22,187
2030-2033	26,905	3,295
Total	<u>\$ 520,908</u>	<u>\$ 284,646</u>

The Board has sufficient debt capacity and a strong financial position. Therefore, the tax-exempt bond market is expected to be a future source of liquidity to supplement the cash flow from operations. On June 27, 2008, the Board closed on the sale of the Metropolitan Government of Nashville and Davidson County, Tennessee, Electric System Revenue Bonds, 2008 Series A and B. The purpose of the 2008 Series A Bonds was to reimburse NES for a portion of the 2008 capital expenditures and to fund approximately 50 percent of NES' projected \$219 million Capital Budget for the fiscal years ending June 30, 2009, through June 30, 2011. The remainder will be funded with operating revenues. The par amount of the 2008 Series A Bonds, \$109.2 million, plus original issue premium, less underwriter discount, cost of issuance, and a deposit to the debt service reserve fund netted proceeds in the amount of \$111.8 million of which \$110 million was deposited into the Special Construction Fund, \$1.6 million in the Debt Service Reserve Fund and \$225 thousand into the General Fund. The 2008 Series B Bonds were being offered to refund \$74,430,000 aggregate principal amount of the 1998 Series A Bonds maturing May 15, 2015, 2016 and 2023, and to refund \$13,240,000 aggregate principal amount of 1998 Series B Bonds maturing on May 15, 2009, 2010 and 2011. During fiscal year 2009, NES drew down \$34.1 million from these funds for capital expenditures. The remaining proceeds will be drawn down quarterly over the next two years.

The following bond issues have been defeased through advanced refundings; therefore, the balances indicated, which are still outstanding at June 30, 2009, do not appear as liabilities on the Board's Statement of Net Assets:

	Amounts Outstanding
1998 Series A Bonds	\$ 74,430,000
1998 Series B Bonds	9,030,000

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

4. LONG-TERM DEBT (continued)

NES had a \$25 million unsecured line of credit in 2009 and 2008 to be used for purchased power in case of a natural disaster. Borrowings under this line of credit bear a negotiated interest rate. At June 30, 2009 and 2008, there were no borrowings outstanding under this line of credit.

5. OTHER NON-CURRENT LIABILITIES

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

<u>June 30, 2008</u>	<u>Repayments</u>	<u>Additions</u>	<u>June 30, 2009</u>
<u>\$ 3,926</u>	<u>\$ (3,849)</u>	<u>\$ 3,265</u>	<u>\$ 3,342</u>
<u>June 30, 2007</u>	<u>Repayments</u>	<u>Additions</u>	<u>June 30, 2008</u>
<u>\$ 3,767</u>	<u>\$ (4,617)</u>	<u>\$ 4,776</u>	<u>\$ 3,926</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.

6. PENSION PLAN

The Nashville Electric Service Retirement Annuity and Survivors' Plan (the "Plan") is a single employer defined benefit pension plan administered by NES. The Plan provides retirement and survivors' benefits to members and beneficiaries. Cost-of-living adjustments are provided to members and beneficiaries annually. The Charter of the Metropolitan Government assigns the authority to establish and amend benefit provisions to NES. The Plan is not required to issue a separate financial report.

All full-time regular employees under age 65 are eligible to participate in the Plan. The vesting provision of the Plan provides for five-year cliff vesting. NES employees who retire at or after age 65 are entitled to annual retirement benefits payable monthly for life in an amount equal to 2 percent of final average compensation multiplied by years in the Plan not in excess of 35 years. Final average compensation is the average compensation in the 36 consecutive months in which compensation is highest. Unused sick leave may be used to increase credited service and benefit percentage under certain circumstances. Early retirement is an option beginning at age 55 with 15 years of credited service or at age 50 with 30 years of credited service with an actuarially-reduced monthly benefit.

If the participant has attained age 55, and his/her age plus service is 85 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 \$1,600 per month.

The contribution requirements of NES are established and may be amended by NES. The Plan is currently non-contributory. NES' practice is to typically fund at least the minimum contribution for a 30-year funding level. The current rate is 36.18 percent of annual covered payroll. NES contributed 100 percent of the required contribution for the Plan years 2009 and 2008.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

6. PENSION PLAN (continued)

The annual required contribution for the current year was determined as part of the April 1, 2008, actuarial valuation using the frozen initial liability method. The actuarial assumptions included (a) 8.0 percent investment rate of return and (b) projected salary increases of 4.5 percent. Both (a) and (b) included an inflation component. The assumptions include cost-of-living postretirement benefit increases equal to 2 percent per year. The actuarial value of Plan assets is determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. The unfunded actuarial accrual liability is being amortized over 30 years. The required schedule of funding progress below presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

A change was made in the Plan funding method effective April 1, 2009, whereby the amortization period was reset to a 30-year period beginning April 1, 2009. The result of this funding method change was a decrease in the normal cost of the Plan of \$11.0 million and an increase in the Plan's actuarial accrued liability of \$120.5 million.

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

Plan Year	Annual Required Contribution	Percentage Contributed
2009	\$ 16,614	100%
2008	15,203	100%
2007	14,938	100%

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c
4/1/2009	\$ 222,571	\$ 400,759	\$ 178,188	0.56	\$ 65,694	271.24%
4/1/2008	284,387	343,574	59,187	0.83	61,242	96.65%
4/1/2007	270,549	331,081	60,532	0.82	58,298	103.83%

In 1994, NES established a non-qualified Supplemental Executive Retirement Plan (the "SERP"). The SERP was limited to certain employees of NES. Benefits accrued at the rate of 5 percent of salary for each year of credited service not to exceed 12 years and vests at the rate of 20 percent for each year of service, reduced by the percentage accrued and vested under NES' qualified plan. Effective April 1, 2005, the Board merged the SERP with the NES Retirement Annuity and Survivors' Benefit Plan. Adding the SERP benefits to the Plan increased the funding requirements for the Plan, but the amounts that had accumulated in the SERP Trust were transferred to the Plan in order to offset those increased costs. Future payments that would have been made into the SERP Trust will be directed into the Plan. At the time of conversion, no benefits had been paid from the SERP.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

7. DEFERRED COMPENSATION PLAN

NES has a deferred compensation plan (the “Plan”) created in accordance with Internal Revenue Code (“IRC”) Section 457. The 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 Plan with NES providing a matching contribution of up to 3 percent of compensation. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The Plan provides that assets or income of the Plan shall be used for the exclusive purpose of providing benefits for participants and their beneficiaries or defraying reasonable expenses of administration of the Plan. Since the assets of the Plan are held in custodial and annuity accounts for the exclusive benefit of Plan participants, the related assets of the Plan are not reflected on the statements of net assets. Employees contributed \$3.3 million and \$3.2 million, and NES contributed \$1.8 million and \$1.6 million to the Plan during the years ended June 30, 2009 and 2008, respectively.

8. POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6 and the deferred compensation benefits described in Note 7, NES provides post-retirement medical, dental, and life insurance benefits to all employees who retire from NES under the provisions of the qualified plan and supplemental executive retirement plan. Medical and dental benefits are also provided to their spouses. As of June 30, 2009, approximately 522 retirees meet those eligibility requirements. Expenses for these post-retirement benefits have previously been recognized as retirees report claims. Those incurred claims totaled \$10.1 million and \$8.5 million for the years ended June 30, 2009 and 2008, respectively. During the year ended June 30, 2008, NES implemented the provisions of GASB Statement No. 45 titled “*Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions.*” These provisions were applied prospectively with respect to NES’ Other Post-Employment Benefits (OPEB) Plan. GASB Statement No. 45 requires the accrual of OPEB obligations over the working careers of plan members rather than as claims are incurred. The total expenses that were recognized under these new requirements were \$15.4 million and \$15.6 million for the years ended June 30, 2009 and 2008, respectively.

The NES OPEB Plan is a single-employer defined benefit plan funded through an irrevocable trust that was established during the year ended June 30, 2008. The Charter of the Metropolitan Government assigns the authority to establish and amend benefit provisions to NES. The Plan is not required to issue a separate financial report.

NES’ annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a 30-year period beginning April 1, 2008. The current rate is 25.85 percent of annual covered payroll. NES contributed 100 percent of the required contribution for the Plan year.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of NES are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented below provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

8. POST-EMPLOYMENT BENEFITS (continued)

Projections of benefits are based on the substantive plan (the plan as understood by NES and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between NES and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial valuation date: April 1, 2009

Actuarial cost method: Entry age, normal method

Amortization method: Level percentage of pay, open

Remaining amortization period: 30 years, closed

Asset valuation method: Adjust expected assets on the valuation date toward market value of assets by an amount equal to one-third of the difference between expected and market asset values

The actuarial assumptions included (a) 8.0 percent investment rate of return and (b) projected salary increases of 4.5 percent. Both (a) and (b) included an inflation component. The assumptions include health care cost trend rate increases equal to 5 percent per year.

Schedule of employer contributions for the year is listed below:

Plan Year	Annual Required Contribution	Percentage Contributed
2009	\$ 15,382,816	100%
2008	15,618,849	100%

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded Percentage	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c
4/1/2009	\$ 12,894	\$ 243,925	\$ 231,031	5.30	\$ 68,775	335.9%
4/1/2008	9,031	212,858	203,827	4.20	64,890	314.1%
4/1/2007	-	219,435	219,435	-	61,668	355.8%

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

9. LEASES

Total rental expense entering into the determination of net operating income amounted to approximately \$1.1 million and \$998 thousand in 2009 and 2008, respectively. Rental expense consists primarily of payments for facilities rental and leasing arrangements for software licensing. NES leases these facilities and software under various cancelable lease agreements. Rental income is received under pole-attachment leases, which are accounted for as operating leases. These leases are cancelable. Therefore, future minimum rentals under these leases are not significant. Rental income from this source totaled \$2.4 million and \$2.1 million for the years ended June 30, 2009 and 2008, respectively.

10. RISK MANAGEMENT AND LIABILITY

NES is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. NES is an agency of the Metropolitan Government and is covered under the Tennessee Governmental Tort Liability Act, TCA 29-20-101, et al, (the "Act") and is self-insured under the act for tort liability. NES is immune from any award or judgment for death, bodily injury and/or property damage in excess of the limits as set fourth in the Act. Therefore, NES has not secured insurance coverage in excess of such limits. NES is a participant in the Metropolitan Government Insurance Pool (the "Pool") for coverage of most property losses. The Pool is currently operated as a common risk management and insurance program for several public entities, including NES, the Metropolitan Nashville Airport Authority, the Metropolitan Transit Authority and the Department of Water and Sewerage Services. The Pool is self-sustaining through member premiums. NES subrogates for all losses paid out for the negligence of other parties.

NES is self-insured for employee dental claims and self-insured up to \$100,000 for employee medical claims. The changes in the insurance reserves for medical and dental benefits for the years ended June 30, 2009 and 2008, are as follows (\$000 omitted):

Balance—June 30, 2007	\$ 1,915
Payments	(16,171)
Incurred Claims	<u>16,051</u>
Balance—June 30, 2008	1,795
Payments	(19,973)
Incurred Claims	<u>20,260</u>
Balance—June 30, 2009	<u>\$ 2,082</u>

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

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

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

11. COMMITMENTS AND CONTINGENCIES

NES has entered into an agreement with an outside firm, whereby the firm provides computer hardware services operation for NES' mainframe information system. The agreement will expire in November 2009. NES also has entered into an agreement with an outside firm, whereby the firm provides professional services for the management, operation and support of NES' information and data processing system. The agreement will expire in October 2010. The minimum commitments remaining under these agreements are \$3.5 million (2010) and \$0.9 million (2011).

12. RELATED PARTY TRANSACTIONS

NES had related party balances and transactions as a result of providing electric power to the Metropolitan Government and entities of the Metropolitan Government, as well as making tax-equivalent payments to the Metropolitan Government and other payments to entities of the Metropolitan Government. These balances and transactions as of and for the years ended June 30, 2009 and 2008, are summarized as follows (\$000 omitted):

	2009	2008
Balances:		
Accounts receivable	\$ 2,926	\$ 1,965
Accounts payable	75	98
Transactions:		
Commercial and industrial revenue—Metropolitan Government Entities	55,343	47,562
Street and highway lighting revenue—Metropolitan Government Entities	6,053	5,361
Tax equivalents operating expense—Metropolitan Government Entities	24,334	23,105

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on NES' assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures and measurements at June 30, 2009 (\$000 omitted):

	Carrying Amount	Estimated Fair Value	Assets/ Liabilities Measured at Fair Value	Fair Value Measurements at Reporting Date Using Prices in Active		
				Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash, cash equivalents and investments	\$217,719	\$217,719	\$217,719	\$217,719	\$ -	\$ -
Long-term debt	520,908	548,071	-	-	-	-

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

13. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following methods were used to estimate fair value of each class of significant financial instruments:

Cash and Cash Equivalents (both restricted and nonrestricted), Accounts Receivable, Accounts Payable, and Accrued Expenses - Carrying amount approximates fair value due to the short-term nature of those instruments.

Investments (both restricted and unrestricted) - Fair value is estimated based upon quoted market prices, where available, and on Level 2 inputs.

Long-term Debt - Fair value is estimated based upon market prices, and discounted cash flow analysis based on the current incremental borrowing rate.

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2009. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of the financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

14. SUBSEQUENT EVENTS

NES has evaluated subsequent events through September 22, 2009, the issuance date of the financial statements, and has determined that there are no subsequent events that require disclosure.