

**DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY**

**AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

JUNE 30, 2014

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

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Independent Auditor's Report

The Honorable Mayor and Members of Council
The Metropolitan Government of Nashville and
Davidson County, Tennessee

Report on Financial Statements

We have audited the accompanying financial statements of the Department of Water and Sewerage Services (the "Department"), an enterprise fund of The Metropolitan Government of Nashville and Davidson County, Tennessee (the "Metropolitan Government"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Water and Sewerage Services, an enterprise fund of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The Schedule of Utility Rates, Schedule of Number of Customers, Schedule of Unaccounted for Water, Schedule of Pledged Revenue Coverage and Schedule of Noncurrent Restricted Cash and Cash Equivalents are presented for purposes of additional analysis and are not a required part of the basic financial statements.



The Schedule of Noncurrent Restricted Cash and Cash Equivalents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Utility Rates, Schedule of Number of Customers, Schedule of Unaccounted for Water, and Schedule of Pledged Revenue Coverage have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Crosslin + Associates, P.C.

Nashville, Tennessee
October 31, 2014

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

JUNE 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Metropolitan Government of Nashville and Davidson County (the "Government"), Department of Water and Sewerage Services (the "Department") - (an enterprise fund of the Government), offer readers of the Department's financial statements this overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2014. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

The Department provides water and sewerage service to most of Davidson County, Tennessee, and small portions of the surrounding counties. It serves approximately 190,700 water accounts and 198,100 sewer accounts. Its activities are funded entirely from revenues generated from its operations, with no tax revenues from the Government. A covenant with the bondholders provides assurance that there will be adequate funds for necessary major repairs and replacement of facilities, by requiring revenues to equal at least 110% of the sum of the year's operating budget (exclusive of depreciation and certain other expenses) and the debt service on its outstanding revenue bonds. These monies, not required for normal operations, flow into the Extension and Replacement Fund to be used to finance the ongoing capital requirements of the Department, as supplemented with state loans and revenue bonds. Water rates were increased on May 1 of 2009, 2010, and 2011 by 5% each year. Sewerage rates were increased by 9% on May 1, 2009, by 8% on May 1, 2010, and by 7% on May 1, 2011.

At June 30, 2014, assets and deferred outflows of the Department were \$2.2 billion and exceeded liabilities by \$1.3 billion (total net position). This was a decrease of approximately \$9.2 million as compared to 2013, resulting from transfers to other funds of the Government as reflected on the Statement of Revenue, Expenses and Changes in Net Position. In 2014, increases in consumption and development positively affected operating revenues of \$211.0 million resulting in an increase of \$2.5 million as compared to 2013. For 2014, operating expenses were \$171.3 million, a decrease of \$2.1 million from 2013, due to salaries and benefits. Investment income increased by \$1.3 million in 2013 to \$1.5 million in 2014. Capital grants and contributions increased by \$4.6 million to \$16.5 million in 2014. Interest expense increased by \$7.3 million as compared to 2013. The Department ended 2014 \$3.5 million under its operating budget.

In 2014, unrestricted cash and cash equivalents increased by approximately \$12.0 million to \$35.5 million, while restricted cash/cash equivalents decreased by approximately \$61.9 million. For 2014, capital assets increased by approximately \$104.0 million, before depreciation of \$69.6 million, for a net decrease of \$34.4 million. These assets were acquired using revenues of the Department, revenue bonds, grants, contributions, cash, and loans from the State of Tennessee. The Department had construction funds available at June 30, 2014, of approximately \$19.0 million and liabilities of approximately \$11.3 million for a net of \$7.7 million available for capital additions, less outstanding commitments, exclusive of the restricted cash and equivalents mentioned earlier in this paragraph.

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JUNE 30, 2014

The Water System and the Sewer System have gradually been expanded and include: improvements financed by revenues; improvements resulting from capital contributions in aid of construction by private developers; all improvements, additions and extensions financed with the proceeds of outstanding bonds and governmental grants; and facilities acquired from the Nashville Suburban Utility District, the First Suburban Water Utility District of Davidson County, Tennessee, the Parkwood Service Company, the Joelton Water Utility District, the City of Lakewood sewerage system, Rayon City Water Company, the Cumberland Utility District, and the sewerage service of the Nolensville/College Grove Utility District in Williamson County.

Under the Charter and Tennessee Code Annotated §7-3-302, the Metropolitan Government can assume and take over any water and/or sewer utility district located within its boundaries through ordinances adopted by the Metropolitan Council. Several such systems currently operate inside Davidson County and if a decision is made to consolidate these operations into the Department, the Metropolitan Government will take subject to or retire all debts and liabilities of the systems. The economic impact of such an assumption or takeover would be evaluated prior to the submission of any legislation to the Metropolitan Council. By contract dated February 1996, the Metropolitan Government has agreed not to take over the Harpeth Valley Utility District before February 2026.

As prescribed in Resolution No. RS2013-645, effective July 1, 2013 the Department acquired the water and wastewater operations of the Old Hickory Utility District (“OHUD”). OHUD was comprised of 1,637 water customers and 1,599 sewer customers. The impact on the Department’s financial statement was an increase of \$4.3 million to its beginning net position for year ended June 30, 2014.

Historically, the Department managed and partially funded the stormwater operations of the Metropolitan Government. In 2009, the Metropolitan Government established a Stormwater Division of the Department as a stand-alone enterprise fund with its own set of service fees, which are now an itemized part of the water bill. Further funding of stormwater operations will not be required of the Department.

In December 2005, the Department received an inquiry from United States Environmental Protection Agency (“EPA”), pertaining to the Department’s Operations, Capital Plan, and Stormwater Management. The Department’s response was submitted in January 2006. The Department, TDEC and EPA agreed on a recommended consent decree on March 12, 2009 (the “Consent Decree”) to address and correct deficiencies within the Department’s sewer system that have caused violations of the Clean Water Act (“CWA”). The original Consent Decree required that the Department fully develop, in two years, a Corrective Action Plan/Engineering Report (“CAP/ER”) for its separate sewer system and a Long Term Control Plan (“LTCP”) for its combined sewer system to achieve the goals of the CWA. Upon submittal and approval of the plans, the Department would have an additional nine years to complete the work as developed by the plans.

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THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

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On May 14, 2010, the Department petitioned EPA and TDEC for a time extension for the delivery of both plans and the final compliance with the Consent Decree based on the flood of May 2010. EPA and TDEC granted the requested time extensions to the Department. The Department met the current deadline for submittal of the CAP/ER and LTCP of September 11, 2011 and the deadline for final compliance with the Consent Decree is eleven years after the final approval of the plans by EPA and TDEC. As of June 30, 2014, the EPA and TDEC were still reviewing the CAP/ER and LTCP.

Failure to comply with the Consent Decree and meet future established deadlines could result in penalties up to \$3,000 per occurrence, and up to \$5,000 per day for failure to timely implement work. The Department has thus far been successful in meeting all the deadlines established by the Consent Decree, and is currently in compliance with the Consent Decree in all respects.

Over the weekend of May 1 and 2, 2010, the Middle Tennessee region received over 15 inches of rainfall resulting in a flood disaster event that severely impacted several of the Department's facilities. Two wastewater treatment facilities and one water treatment facility received significant damage and over 25 sewer lift stations were flooded and damaged. The cost of repairing and refurbishing the damaged facilities is still expected to be approximately \$70 million. The region was declared a federal disaster area and approved for assistance from the Federal Emergency Management Agency (FEMA). Federal and state assistance was approved for approximately 30% of the damage total and the Department has appealed the eligibility of another 30% of the cost to date.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements consist of the Statements of Net Position, the Statements of Revenue, Expenses, and Changes in Net Position and the Statements of Cash Flows. Data on these statements represent an enterprise fund of the Government as established by the master bond resolution and the Charter of the Government. These funds consist of the Revenue Fund, the Operating Fund, the Operating Reserve Fund, the Debt Service Fund, the Debt Service Reserve Fund, the Revolving Fund, and the Extension and Replacement Fund. All revenues of the Department are required to be used for the benefit of the ratepayers.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

JUNE 30, 2014

| | Condensed Financial Information as of June 30, | |
|---|---|-------------------------|
| | 2014 | 2013 |
| Statements of Net Position | | |
| Total current assets | \$ 76,422,905 | \$ 63,177,885 |
| Total capital and other noncurrent assets | <u>2,111,138,526</u> | <u>2,143,429,733</u> |
| Total assets | <u>2,187,561,431</u> | <u>2,206,607,618</u> |
| Deferred outflows of resources | <u>2,782,856</u> | <u>4,831,280</u> |
| | | |
| Total current liabilities | 78,154,525 | 74,716,123 |
| Total noncurrent liabilities | <u>816,147,127</u> | <u>854,210,011</u> |
| Total liabilities | <u>894,301,652</u> | <u>928,926,134</u> |
| | | |
| Total net position | <u>\$1,296,042,635</u> | <u>\$1,282,512,764</u> |
| Statements of Revenue, Expenses, and Changes in Net Position | | |
| Operating revenues | \$ 211,035,704 | \$ 208,495,674 |
| Depreciation (expense) | (69,639,202) | (69,992,615) |
| Other operating (expenses) | <u>(101,703,327)</u> | <u>(103,422,925)</u> |
| Operating income | 39,693,175 | 35,080,134 |
| | | |
| Nonoperating revenues (expenses): | | |
| Investment income | 1,499,691 | 167,230 |
| Interest expense | (35,811,363) | (28,512,930) |
| Other | 519,534 | 446,651 |
| Capital grants and contributions | 16,477,629 | 11,890,269 |
| Transfers to other funds of the Metropolitan Government, net | <u>(13,160,826)</u> | <u>(36,217,215)</u> |
| | | |
| Changes in net position | 9,217,840 | (17,145,861) |
| | | |
| Net position, beginning of year, as restated | <u>1,286,824,795</u> | <u>1,299,658,625</u> |
| | | |
| Net position, end of year | <u>\$ 1,296,042,635</u> | <u>\$ 1,282,512,764</u> |

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JUNE 30, 2014

In 2014, current assets increased by \$13.2 million to \$76.4 million and current liabilities increased by \$3.4 million to \$78.2 million yielding a current ratio of 0.98. Capital assets, net of accumulated depreciation, increased by \$34.3 million in 2014 to \$1.8 billion. These increases are from a combination of infrastructure deeded to the Department by developers, remaining recovery efforts from the 2010 flood event, and the Department's efforts to maintain and improve the system. The Department has an ongoing program to improve both the water and sewer infrastructure by cleaning and/or relining existing pipes, as well as replacing and extending facilities.

CAPITAL ASSETS AND BONDS AND NOTES PAYABLE

Capital Assets – The Department’s investment in capital assets as of June 30, 2014 is \$1.8 billion, which is an increase of 2% from the year ending June 30, 2013. Depreciation expense for FY 2014 totaled \$69.6 million.

| | <u>June 30, 2014</u> | <u>June 30, 2013</u> |
|------------------------------------|-------------------------|-------------------------|
| Utility plant in service | \$ 2,582,602,654 | \$ 2,457,337,569 |
| Land | 22,509,294 | 22,475,744 |
| Buildings and improvements | 40,907,269 | 40,445,936 |
| Improvements other than buildings | 45,753,326 | 42,494,905 |
| Furniture, machinery and equipment | 42,867,689 | 36,460,555 |
| Construction work in progress | 113,698,124 | 145,160,683 |
| Less accumulated depreciation | <u>(1,069,979,334)</u> | <u>(1,000,353,246)</u> |
| | <u>\$ 1,778,359,022</u> | <u>\$ 1,744,022,146</u> |

During the year ending June 30, 2014, utility plant in service increased \$125 million and construction work in progress decreased \$31.5 million to \$2.6 billion and \$113.7 million, respectively. The primary reason for the increase in utility plant in service was the start of multiple plant related projects and the primary reason for the decrease in construction work in progress was the completion of several large construction projects.

Additional information on the Department’s capital assets can be found in Note D beginning on page 22 of this report.

Bonds and Notes Payable - At June 30, 2014, the Department had total outstanding bond debt, including deferred charges/premiums, net, of \$847.6 million. The revenues of the Department collateralized all bond debt. The Department had one outstanding state economic and development loan totaling \$101,351, with \$49,927 due by June 30, 2015.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

JUNE 30, 2014

| | <u>June 30, 2014</u> | <u>June 30, 2013</u> |
|-------------------------------------|--------------------------|--------------------------|
| Revenue bonds payable | \$796,685,000 | \$827,450,000 |
| Deferred charges / premiums, net | 50,910,703 | 57,423,660 |
| State economic and development loan | <u>101,351</u> | <u>149,823</u> |
| Total | <u>\$847,697,054</u> | <u>\$885,023,483</u> |

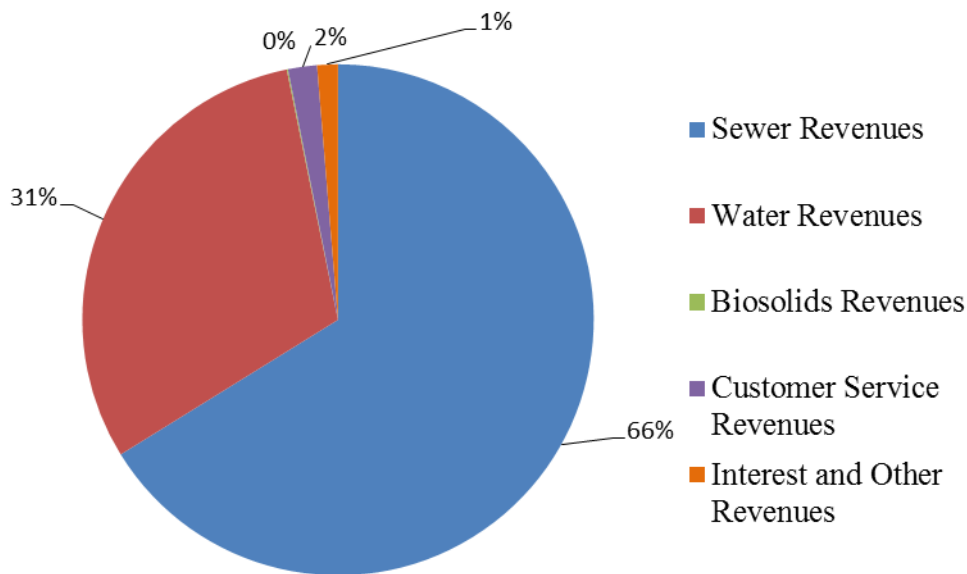
Additional information on the Department’s bonds and note payable can be found in Note E beginning on page 23 of this report.

Commercial Paper – In November 2009, the Metropolitan Government instituted a Water and Sewer revenue bond commercial paper program to provide interim and short-term financing for various authorized capital projects of the Department. There was \$-0- outstanding commercial paper under the Water and Sewer program at June 30, 2014.

OTHER INFORMATION

Sources of Revenues

The Department collects its primary revenues from charges for water and sewerage services provided to customers. In addition, these revenues are invested to earn interest. Customers are charged fees (Customer Service Revenue) to establish service, for late payment and for insufficient funds checks. The Department also charges a fee to tap onto the water system, a similar fee to connect to the sewerage system and a sewer capacity fee. These sources are illustrated on the chart below as a percentage of total revenues:

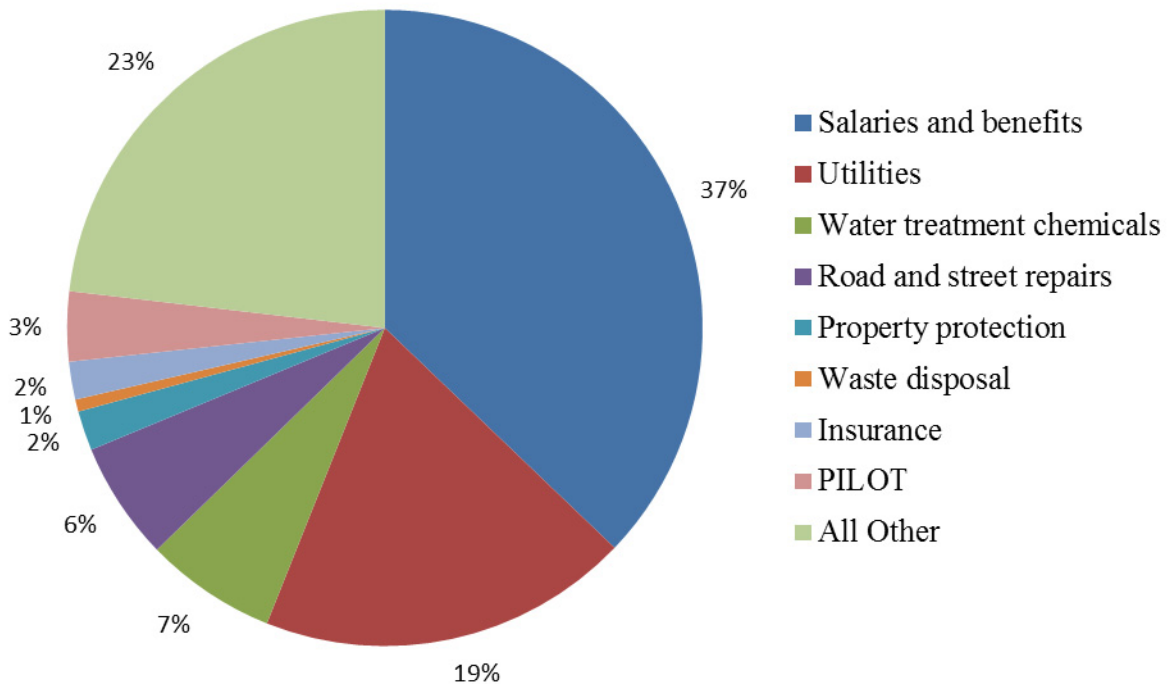


DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

JUNE 30, 2014

Major Expenses

In addition to the salaries and benefits of its employees, the major expenses incurred by the Department include electricity, payment in lieu of taxes to the Government (PILOT), water treatment chemicals, biosolids disposal, insurance, and property protection. Other expenses include the materials, supplies, and outside labor to maintain the system. These expense categories are charted below as a percentage of total operating expenses, excluding Depreciation, and Amortization:



REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Department's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Metropolitan Government of Nashville and Davidson County, Department of Finance, Division of Accounts, <mailto:cafr@nashville.gov>.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS:

Current assets:

| | |
|--|---------------|
| Cash and cash equivalents | \$ 35,450,831 |
| Accounts receivable | 20,322,903 |
| Allowance for doubtful accounts | (2,686,134) |
| Accrued interest receivable | 1,126 |
| Due from other funds of the Government | 845,053 |
| Due from component units | 4,464 |
| Inventories of supplies | 3,145,406 |
| Other current assets | 923 |

Restricted Assets:

| | |
|--|-------------------|
| Cash and cash equivalents | 186,405 |
| Accounts receivable | 63,530 |
| Accrued interest receivable | 880 |
| Due from other funds of the Government | 19,038,104 |
| Other current assets | <u>49,414</u> |
| Total current assets | <u>76,422,905</u> |

Capital and other noncurrent assets:

Capital assets:

| | |
|------------------------------------|------------------------|
| Utility plant in service | 2,582,602,654 |
| Land | 22,509,294 |
| Buildings and improvements | 40,907,269 |
| Improvements other than buildings | 45,753,326 |
| Furniture, machinery and equipment | 42,867,689 |
| Construction in progress | 113,698,124 |
| Less accumulated depreciation | <u>(1,069,979,334)</u> |
| Capital assets, net | 1,778,359,022 |

Restricted assets:

| | |
|---------------------------|-------------------|
| Cash and cash equivalents | 269,908,950 |
| Other noncurrent assets | <u>62,870,554</u> |

Total noncurrent assets 2,111,138,526

Total assets 2,187,561,431

DEFERRED OUTFLOWS OF RESOURCES:

| | |
|--------------------------------------|------------------|
| Deferred charge on refunding | <u>2,782,856</u> |
| Total deferred outflows of resources | <u>2,782,856</u> |

See accompanying notes to financial statements.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
STATEMENT OF NET POSITION - Continued
JUNE 30, 2014

LIABILITIES:

Current liabilities:

| | |
|--------------------------------------|--------------|
| Accounts payable | \$ 5,462,297 |
| Accrued payroll | 1,010,239 |
| Due to other funds of the Government | 1,831,293 |
| Customer deposits | 2,529,211 |
| Other current liabilities | 3,585,878 |

Liabilities payable from restricted assets:

| | |
|-----------------------------------|-------------------|
| Accounts payable | 11,137,552 |
| Accrued payroll | 170,011 |
| Accrued interest | 20,878,117 |
| Current portion of long-term debt | 31,500,000 |
| Current portion of state loans | 49,927 |
| Total current liabilities | <u>78,154,525</u> |

Noncurrent liabilities:

| | |
|------------------------------|--------------------|
| Revenue bonds, net | 816,095,703 |
| State loans | <u>51,424</u> |
| Total noncurrent liabilities | <u>816,147,127</u> |
| Total liabilities | <u>894,301,652</u> |

NET POSITION:

| | |
|----------------------------------|------------------------|
| Net investment in capital assets | 1,190,008,658 |
| Restricted for debt retirement | 63,368,325 |
| Unrestricted | <u>42,665,652</u> |
| Total net position | <u>\$1,296,042,635</u> |

See accompanying notes to financial statements.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014

| | |
|--|-------------------------|
| Operating revenues: | |
| Charges for services | \$ 210,492,836 |
| Other | <u>542,868</u> |
| Total operating revenues | <u>211,035,704</u> |
| | |
| Operating expenses: | |
| Personal services | 42,617,655 |
| Contractual services | 39,908,929 |
| Supplies and materials | 12,597,581 |
| Depreciation | 69,639,202 |
| Other | <u>6,579,162</u> |
| Total operating expenses | <u>171,342,529</u> |
| | |
| Operating income | <u>39,693,175</u> |
| | |
| Nonoperating revenue (expense): | |
| Investment income | 1,499,691 |
| Interest expense | (35,811,363) |
| Gain on sale of capital assets | 183,584 |
| Other | <u>335,950</u> |
| Nonoperating expense, net | <u>(33,792,138)</u> |
| | |
| Income before capital grants and contributions and transfers | <u>5,901,037</u> |
| | |
| Capital grants and contributions | 16,477,629 |
| Transfers from other funds of the Government | 22,083 |
| Transfers to other funds of the Government | <u>(13,182,909)</u> |
| | |
| Change in net position | 9,217,840 |
| | |
| Net position, beginning of year, as restated | <u>1,286,824,795</u> |
| | |
| Net position, end of year | <u>\$ 1,296,042,635</u> |

See accompanying notes to financial statements.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

| | |
|---|-----------------------|
| Cash flows from operating activities: | |
| Receipts from customers and users | \$ 212,382,161 |
| Payments to suppliers | (54,554,540) |
| Payments to employees | (42,324,366) |
| Other payments | <u>(4,754,719)</u> |
| Net cash provided by operating activities | <u>110,748,536</u> |
| Cash flows from noncapital financing activities: | |
| Transfers from other funds of the Government | 22,083 |
| Transfers to other funds of the Government | <u>(13,182,909)</u> |
| Net cash used in noncapital financing activities | <u>(13,160,826)</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | (87,202,423) |
| Proceeds from the sale of capital assets | 183,584 |
| Principal payments on borrowings | (30,813,472) |
| Interest subsidy | 4,952,201 |
| Interest paid | (39,530,088) |
| Capital contributions received | 5,357,233 |
| Advances to other funds of the Government | (3,214,958) |
| Other receipts | <u>1,291,012</u> |
| Net cash used in capital and related financing activities | <u>(148,976,911)</u> |
| Cash flows from investing activities: | |
| Interest received | <u>1,509,622</u> |
| Net cash provided by investing activities | <u>1,509,622</u> |
| Net change in cash and cash equivalents | (49,879,579) |
| Cash and cash equivalents at beginning of year | <u>355,425,765</u> |
| Cash and cash equivalents at end of year | <u>\$ 305,546,186</u> |
| Cash and cash equivalents are classified as: | |
| Current assets | \$ 35,450,831 |
| Current restricted assets | 186,405 |
| Noncurrent restricted assets | <u>269,908,950</u> |
| | <u>\$305,546,186</u> |

See accompanying notes to financial statements.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
 THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
 STATEMENT OF CASH FLOWS - Continued
 YEAR ENDED JUNE 30, 2014

Reconciliation of operating income to net cash
 provided by operating activities:

| | |
|--|-----------------------|
| Operating income | <u>\$ 39,693,175</u> |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 69,639,202 |
| Bad debt expense | (240,000) |
| Other receipts | 335,950 |
| Changes in assets and liabilities: | |
| Accounts receivable | 2,953,411 |
| Due from other funds of the Government | (622,652) |
| Due from component units | 1,659 |
| Inventories of supplies | (889,277) |
| Other current assets | 23,955 |
| Accounts payable | (1,158,753) |
| Accrued payroll | 293,289 |
| Due to other funds of the Government | 1,282,603 |
| Customer deposits | (824,086) |
| Other current liabilities | <u>260,060</u> |
| Total adjustments | <u>71,055,361</u> |
| Net cash provided by operating activities | <u>\$ 110,748,536</u> |
| Supplemental disclosure of non-cash items: | |
| Contributions of the capital assets | <u>\$ 11,649,610</u> |

See accompanying notes to financial statements.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

A. SUMMARY SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements encompass the financial activities of the Department of Water and Sewerage Services (the “Department”). The Department is an enterprise fund of The Metropolitan Government of Nashville and Davidson County, Tennessee (the “Metropolitan Government”) and, accordingly, is included in the basic financial statements of the Metropolitan Government. The accompanying financial statements do not purport to present fairly the financial position of The Metropolitan Government of Nashville and Davidson County, Tennessee and changes in its financial position and its cash flows. The Department provides water and sewerage services to customers in the Metropolitan Nashville area on a self-support basis utilizing a rate structure designed to produce revenues sufficient to fund debt service requirements and operating expenses and maintain adequate working capital.

Basis of Accounting

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Department applies all relevant Government Accounting Standards Board (“GASB”) pronouncements.

Estimates

Estimates used in the preparation of financial statements require management to make assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and highly liquid short-term investments with maturity dates within three months of the date of acquisition. The Department participates in the centrally managed cash and investment pool of the Metropolitan Government, under which the Metropolitan Government remits payments on behalf of the Department. Investment income earned on funds invested in pooled accounts is allocated to the Department by the Metropolitan Government on the basis of relative balances.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

A. SUMMARY SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventories

Inventories, principally materials, supplies and replacement parts, are valued at the lower of cost (average cost method) or market. Inventory items are recorded as expenditures when used under the consumption method.

Capital Assets

Utility plant acquired prior to July 31, 1952, is stated at the estimated cost at that date, as determined by independent engineers, with subsequent additions recorded at cost. Net interest expense incurred during the construction of plant and equipment is capitalized as part of the cost of the related asset. Capitalized interest for the year ended June 30, 2014 was \$2,103,026. Capital assets are generally defined as assets with an individual cost in excess of \$5,000 and a useful life in excess of one year. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives are as follows:

| | |
|-----------------------------------|----------------|
| Utility plant in service | 7 - 100 years |
| Building and improvements | 3 - 50 years |
| Improvements other than buildings | 20 - 100 years |
| Machinery and equipment | 3 - 50 years |

The Department closes completed construction projects to capital assets upon beneficial use.

Bond Premiums and Discounts

Bond premiums and discounts are deferred and amortized on a straight-line basis over the term of the related bond issue.

Compensated Absences

General policy of the Metropolitan Civil Service Commission permits the accumulation, within certain limitations, of unused vacation days and sick leave. Vacation days may accumulate to an amount equal to three times the current vacation accrual rate. Accumulated unpaid vacation pay is recorded as a liability by the Department. Although sick pay may accumulate, no amounts are vested in the event of employee termination; therefore, no liability for sick pay has been accrued.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

A. SUMMARY SIGNIFICANT ACCOUNTING POLICIES - Continued

Restricted Assets

Restricted assets represent amounts which are required to be maintained pursuant to Department bond resolutions relating to bonded indebtedness (construction and sinking funds) and funds received for specific purposes pursuant to U.S. Government grants (related primarily to construction projects).

Deferred outflows of resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. *Deferred outflows of resources* represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resource (expense) until then. The Department has one item that qualifies for reporting in this category. The *deferred charge on refunding* results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Operating and Nonoperating Revenues and Expenses

Operating revenues and expenses generally result from providing services and providing and delivering goods and services in connection with the Department's principal ongoing operations and consist primarily of charges to customers or departments, cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first and then unrestricted resources, as they are needed.

Capital Grants and Contributions

Capital grants and contributions include funds received from federal and state agencies for certain sewer projects by the Department, contributions from local governments and other sources, tap and capacity fees, and deeds of conveyance. Utility plant contributed is recorded/presented in accordance with the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* and GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis' for State and Local Governments*. These statements require that capital contributions be reported in the statement of revenue, expenses and changes in net assets as a separate line item after non-operating revenues and expenses, rather than as direct additions to contributed capital, as under previous standards.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

A. SUMMARY SIGNIFICANT ACCOUNTING POLICIES - Continued

Impairment of Long-Lived Assets

The carrying value of long-lived assets held and used are reviewed whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. For purpose of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted net cash flows before consideration of interest expense. Should the sum of the expected future net cash flows be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The evaluation of asset impairment requires the Department to make assumptions about future cash flows over the life of the asset being evaluated. Assets to be disposed of are reported at the lower of their carrying amount or fair value less costs to sell, and are no longer depreciated. No impairment loss was considered necessary during fiscal year 2014.

Revenue Recognition

Revenues from services provided by the Department are recognized from meters read on a monthly cycle basis. At the end of each month, services rendered from the latest date of each meter-reading cycle to month end is accrued and included as accounts receivable, net of an estimated allowance for uncollectible accounts.

Net Position

The Department's net position classifications are as follows:

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net positions component as the unspent proceeds.
- Restricted - This component consists of net position restricted by grantors, contributors, or laws and regulations of other governments and restrictions imposed by law or through constitutional provisions or enabling legislation, reduced by liabilities and deferred inflows of resources related to those assets.
- Unrestricted - This component consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

A. SUMMARY SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounting Pronouncements

The Department adopted GASB Statement No. 66, *Technical Corrections - 2012-- an amendment of GASB Statements No. 10 and No. 62*, required for fiscal periods beginning after December 15, 2012, in fiscal 2014. This Statement improves accounting and financial reporting by resolving conflicting guidance that resulted from the issuance of Statements No. 54 and No. 62.

The Department adopted GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*, required for fiscal periods beginning after June 15, 2013, in fiscal 2014. This Statement improves financial reporting by state and local government pension plans.

The Department plans to adopt GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, required for fiscal periods beginning after June 15, 2014, in fiscal 2015. This Statement improves accounting and financial reporting by state and local governments for pensions.

The Department plans to adopt GASB Statement No. 69, *Government Operations and Disposals of Government Operations*, required for fiscal periods beginning after December 15, 2013, in fiscal 2015. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations.

The Department adopted GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, required for fiscal periods beginning after June 15, 2013, in fiscal 2014. This Statement improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

The Department plans to adopt GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 60*, required for fiscal periods beginning after June 15, 2014, in fiscal 2015. This Statement improves accounting and financial reporting by state and local governments for pensions by addressing an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement.

Unless otherwise noted, management is in the process of determining the effects that the adoption of these Statements will have on the Department's financial statements.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
 THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
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B. RESTATEMENT OF NET POSITION

The Department acquired the operations of the Old Hickory Utility District effective July 1, 2013, including assumption of its outstanding assets and liabilities. The Department has restated its beginning net position to reflect this transaction. The impact on the financial statements was an increase in beginning net position as follows:

| | |
|---|------------------------|
| Net position - beginning of year, as previously reported | \$1,282,512,764 |
| Net effect of acquisition of Old Hickory Utility District | <u>4,312,031</u> |
| Net position - beginning of year, as restated | <u>\$1,286,824,795</u> |

C. CASH AND CASH EQUIVALENTS

Deposit Policy

The Department is authorized by policy to invest funds that are not immediately needed in: United States Treasury Bills, Bonds and Notes; the State of Tennessee Local Government Investment Pool; bonds issued by the Government; bonds of commercial entities; and other investments such as repurchase agreements and commercial paper. The Department is authorized to invest in these instruments either directly or through the Metro Investment Pool.

Deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% 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 of Tennessee's collateral pool. As of June 30, 2014, most of the Department's deposits were held by financial institutions, which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee or in the State of Tennessee Local Government Investment Pool. Participating banks determine the aggregated balance of their public fund accounts for the Department. The amount of collateral required to secure these public deposits must be at least 105% of the average daily balance of public deposits held. Collateral 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.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

C. CASH AND CASH EQUIVALENTS - Continued

The carrying amount of the cash and cash equivalents totaled \$305,546,186, and the corresponding bank balance was \$303,107,447. The difference between the carrying amounts of cash and cash equivalents and the corresponding bank balances is due primarily to outstanding checks and deposits in transit. The entire balance of cash and cash equivalents was covered by the State collateral pool, federal depository insurance or collateralized with securities held by the government's agent in the government's name.

D. CAPITAL ASSETS

The following summarizes the changes in capital assets during the year ended June 30, 2014.

| | <u>Balance</u> <u>July 1, 2013</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>June 30, 2014</u> |
|------------------------------------|---------------------------------------|----------------------|----------------------|--|
| Depreciable assets: | | | | |
| Utility plant in service | \$2,457,337,569 | \$ 125,265,085 | \$ - | \$2,582,602,654 |
| Buildings and improvements | 40,445,936 | 461,333 | - | 40,907,269 |
| Improvements other than buildings | 42,494,905 | 3,258,421 | - | 45,753,326 |
| Furniture, machinery and equipment | <u>36,460,555</u> | <u>6,420,248</u> | <u>13,114</u> | <u>42,867,689</u> |
| Total depreciable assets | <u>2,576,738,965</u> | <u>135,405,087</u> | <u>13,114</u> | <u>2,712,130,938</u> |
| Nondepreciable assets: | | | | |
| Land | 22,475,744 | 33,550 | - | 22,509,294 |
| Construction in progress | <u>145,160,683</u> | <u>91,267,241</u> | <u>122,729,800</u> | <u>113,698,124</u> |
| Total nondepreciable assets | <u>167,636,427</u> | <u>91,300,791</u> | <u>122,729,800</u> | <u>136,207,418</u> |
| Total at historical cost | <u>2,744,375,392</u> | <u>226,705,878</u> | <u>122,742,914</u> | <u>2,848,338,356</u> |
| Less accumulated depreciation for: | | | | |
| Utility plant in service | 904,871,104 | 66,681,328 | - | 971,552,432 |
| Buildings and improvements | 27,957,604 | 1,126,859 | - | 29,084,463 |
| Improvements other than buildings | 34,390,863 | 830,601 | - | 35,221,464 |
| Furniture, machinery and equipment | <u>33,133,675</u> | <u>1,000,414</u> | <u>13,114</u> | <u>34,120,975</u> |
| Total accumulated depreciation | <u>1,000,353,246</u> | <u>69,639,202</u> | <u>13,114</u> | <u>1,069,979,334</u> |
| Capital assets, net | <u>\$1,744,022,146</u> | <u>\$157,066,676</u> | <u>\$122,729,800</u> | <u>\$1,778,359,022</u> |

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

E. BONDS AND NOTES PAYABLE

Transaction Summary

Bonds and notes payable activity for the year ended June 30, 2014 was as follows:

| | <u>Balance</u> <u>July 1, 2013</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>June 30, 2014</u> | <u>Due Within</u> <u>One Year</u> |
|--|---------------------------------------|------------------|-----------------------|--|--------------------------------------|
| Revenue bonds payable | \$827,450,000 | \$ - | \$(30,765,000) | \$796,685,000 | \$31,500,000 |
| Deferred charges/ premiums, net | 57,423,660 | - | (6,512,957) | 50,910,703 | - |
| State economic and development loan | <u>149,823</u> | <u>-</u> | <u>(48,472)</u> | <u>101,351</u> | <u>49,927</u> |
| Total | <u>\$885,023,483</u> | <u>\$ -</u> | <u>\$(37,326,429)</u> | <u>\$847,697,054</u> | <u>\$31,549,927</u> |

Description of Amounts Payable

Amounts payable at June 30, 2014 are as follows:

| | <u>Interest Rate</u> | <u>Amount</u> |
|---|----------------------|---------------|
| Revenue bonds payable: | | |
| Department of Water and Sewerage Revenue Refunding Bonds, Series 2007, due in varying amounts to January 1, 2016 | 4.25 - 5.00% | \$ 12,870,000 |
| Department of Water and Sewerage Revenue Refunding Bonds, Series 2008A, due in varying amounts to January 1, 2022 | 3.25 - 5.25% | 101,720,000 |
| Department of Water and Sewerage Revenue Refunding Bonds, Series 2010A, due in varying amounts to July 1, 2027 | 3.00 - 5.00% | 104,050,000 |

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

E. BONDS AND NOTES PAYABLE - Continued

Description of Amount Payable - Continued

| | <u>Interest Rate</u> | <u>Amount</u> |
|---|----------------------|----------------------|
| Department of Water and Sewerage Revenue Bonds, Federally Taxable (BAB's), Series 2010B, due in varying amounts to July 1, 2037 | 6.393 - 6.568% | \$135,000,000 |
| Department of Water and Sewerage Revenue Bonds, Federally Taxable, Series 2010C, due in varying amounts to July 1, 2041 | 6.693% | 75,000,000 |
| Department of Water and Sewerage Revenue Refunding Bonds, Federally Taxable, Series 2010D, due in varying amounts to July 1, 2018 | 4.255 - 4.791% | 7,610,000 |
| Department of Water and Sewerage Revenue Refunding Bonds, Series 2012, due in varying amounts to July 1, 2023 | 1.00 - 5.00% | 122,505,000 |
| Department of Water and Sewerage Revenue Refunding Bonds, Series 2013, due in varying amounts to July 1, 2033 | 3.00 - 5.00% | 237,930,000 |
| Deferred charge/premium, net | | <u>50,910,703</u> |
| Total revenue bonds payable | | 847,595,703 |
| State economic and development loan | 3.00% | <u>101,351</u> |
| Total | | <u>\$847,697,054</u> |

The bonds and notes payable are classified in the Statement of Net Position as follows:

| | |
|---|----------------------|
| Current liabilities: | |
| Liabilities payable from restricted assets: | |
| Current portion of revenue bonds, net and state construction loans | \$ 31,549,927 |
| Noncurrent liabilities: | |
| Revenue bonds, net and state loans | <u>816,147,127</u> |
| Total | <u>\$847,697,054</u> |

Collateral

All bonds are collateralized by the revenues of the Department.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
 THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

E. BONDS AND NOTES PAYABLE - Continued

Bond Covenants

The various revenue bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of a flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum revenue bond coverages. As of June 30, 2014, the Department believes it is in compliance with all financial limitations and restrictions.

Annual Debt Service Requirements

The annual requirements to amortize all revenue bonds outstanding as of June 30, 2014 are as follows:

| <u>Year Ending June 30,</u> | <u>Revenue Bonds</u> | |
|-----------------------------|----------------------|----------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2015 | \$ 31,500,000 | \$ 41,367,233 |
| 2016 | 20,275,000 | 40,175,458 |
| 2017 | 28,795,000 | 39,028,808 |
| 2018 | 37,475,000 | 37,476,030 |
| 2019 | 38,225,000 | 35,654,524 |
| 2020 - 2024 | 174,300,000 | 149,491,044 |
| 2025 - 2029 | 87,825,000 | 119,079,112 |
| 2030 - 2034 | 109,575,000 | 91,928,870 |
| 2035 - 2039 | 137,465,000 | 55,814,955 |
| 2040 - 2044 | <u>131,250,000</u> | <u>13,779,454</u> |
| | 796,685,000 | 623,795,488 |
| Deferred premium/(discount) | <u>50,910,703</u> | <u>-</u> |
| Total | <u>\$847,595,703</u> | <u>\$623,795,488</u> |

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

E. BONDS AND NOTES PAYABLE - Continued

Commercial Paper

In November 2009, the Department instituted a revenue commercial paper (bond anticipation note) program. Commercial paper notes are issued to provide interim or short-term financing of various water and sewer capital projects. The notes may be refunded with new notes (rollover notes) until the Department is prepared to issue long-term bonds and thereby provide permanent financing for the capital projects financed under the commercial paper program. The Department entered into Standby Note Purchase Agreements with two banks to provide liquidity for the commercial paper program. If the commercial paper dealer was ever unable to market notes in the amount needed to pay the maturing notes, the liquidity providers would issue bank notes, the proceeds of which are applied to pay the principal of and interest on commercial paper notes on the respective maturity dates.

Revenue commercial paper is issued as federally tax-exempt notes. The commercial paper is sold at par as interest-bearing obligations in minimum denominations of \$100,000 with interest payable at maturity. The commercial paper has varying maturities not to exceed 270 days, and all rollover commercial paper will not have a final maturity more than two years from the initial dates of issuance. The State has waived the two-year final maturity limitation and approved a final maturity not to exceed six years. Interest rates vary depending on the market. At June 30, 2014, the amount of principal outstanding could not exceed \$183.4 million. The balance on the commercial payer obligations on June 30, 2014 was \$-0-.

Defeased Bonds

In the current and prior years, the Department has defeased certain other obligation bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service requirements on the retired bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Department's financial statements. As of June 30, 2014, \$49,845,000 of revenue bonds are considered defeased.

Redemption Options

Certain bonds are subject to redemption prior to maturity at the option of the Department. The stated payments of principal and interest on the Department of Water and Sewerage Services Series 1992 and Series 2010A, B, C and D are insured by municipal bond insurance policies which cannot be canceled.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
 THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

E. BONDS AND NOTES PAYABLE - Continued

State Economic and Development Loan

In January 2009, the Department entered a loan agreement with the Tennessee Department of Economic Development for \$330,000. The proceeds of the loan will be used to fund the installation of variable frequency drives on the raw water pumps at the K.R. Harrington water treatment plant. The energy savings resulting from the ability to gradually increase or decrease pump speeds rather than adding or dropping pumps at full capacity will be used to repay the loan. The loan is for seven years, and interest is calculated on the loan at 3%.

State economic and development loan principal maturities as of June 30, 2014 are summarized below:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|---|------------------|-----------------|
| 2015 | \$ 49,927 | \$3,041 |
| 2016 | <u>51,424</u> | <u>1,543</u> |
| Total state economic and development loan | <u>\$101,351</u> | <u>\$4,584</u> |

F. EMPLOYEE BENEFIT PLANS

Pension Plans

The Department adopted GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, required for fiscal periods beginning after June 15, 2013, in fiscal 2014. This Statement improves financial reporting by state and local government pension plans. The Department plans to adopt GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, required for fiscal periods beginning after June 15, 2014, in fiscal 2015. This Statement improves accounting and financial reporting by state and local governments for pensions. Accordingly, disclosures required for pension plans are presented in accordance with GASB Statement No. 67, and disclosures required for governments are presented in accordance with GASB Statement No. 27.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
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F. EMPLOYEE BENEFIT PLANS - Continued

Pension Plans - Continued

The Government sponsors or guarantees several single-employer pension plans, including (a) the closed City Plan (“City Plan”), (b) the Davidson County Employees’ Retirement Fund (County Plan), both of which were closed to new members on April 1, 1963, and (c) The Metropolitan Employees’ Benefit Trust Fund Division A or B (“Metro Plan”). Division A of the Metro Plan was established at the inception of The Government on April 1, 1963, and was closed to new members on July 1, 1995. Division B of the Metro Plan was established as of July 1, 1995.

All plans of the Government were established by or continue under the authority of the Metropolitan Charter, Article XIII, effective April 1, 1963. Approval of the Metropolitan Council is required to establish and amend benefit provisions. Article XIII also requires that all pension plans be actuarially sound. Administrative costs of the plans are financed by plan assets. The plans are administered by the Metropolitan Employee Benefit Board, an independent board created by the Metropolitan Charter. The financial position and results of operations of the pension plans are reported as fiduciary funds of the Government and, accordingly, are not included in the financial statements of the Department.

Substantially all employees of the Department are members of the Metropolitan Plan. Periodic contributions by the Department to the Metropolitan Plan are at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due. Contributions to closed plans are made on a pay-as-you-go basis whereby contributions are made in amounts sufficient to cover benefits paid during the year. Actuarially required employer contributions are not computed because the plans are closed and there are few active employees. Employees do not contribute to any of the pension plans.

Normal retirement for employees occurs at age 65 – Division A, or 60 – Division B, and entitles employees to a lifetime monthly benefit as determined under the Plan. Benefits fully vest upon completing five years of service for employees employed on or between October 1, 2001 and December 31, 2012, who vest before leaving employment. Benefits fully vest on completing 10 years of service for employees and non-vested employees rehired on or after January 1, 2013.

Amounts of actuarially determined net pension obligation are reported in the government-wide financial statement of the Metropolitan Government. Accordingly, no additional liability has been accrued in the financial statements of the Department.

Contributions to the various pension plans totaled \$5,531,404 for the year ended June 30, 2014.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

F. EMPLOYEE BENEFIT PLANS - Continued

Other Post-Employment Benefit (OPEB) Plans

Retirees in the Metropolitan, City or County Plans may elect to participate in the Metropolitan Employees' Medical Benefit Plan, a single-employer defined benefit healthcare plan. The Metropolitan Plan is administered by the Employee Benefit Board and provides medical, dental and life insurance. The other post-employment benefits for Government employees were authorized by the Government's charter and code. The Metropolitan Plan does not issue a stand-alone financial report.

The post-employment benefits for the Metropolitan plans were authorized by the Government's Charter. As the Government has assumed the responsibility for funding these benefits, the Department has accrued no liability as of June 30, 2014.

The contribution requirements of Metropolitan Employees' Medical Benefit Plan members and the Government are established and may be amended by the Employee Benefit Board. The required contribution is based on projected pay-as-you-go financing requirements under which contributions are made in amounts sufficient to cover benefits paid, administrative costs and anticipated inflationary increases. For health insurance, the Government contributes 75% of all premium payments, and the retirees contribute 25%. The Government also provides a 50% matching contribution on dental insurance for any retiree who elects to participate. Finally, the Government provides life insurance at no charge to the retirees.

Deferred Compensation Plan

The Government offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits deferral of a portion of salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Because the assets are not held in a trustee capacity by the Government, they are not included in the Government's financial statements. No contributions are made to this plan by the Government.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

G. COMMITMENTS AND CONTINGENCIES

Litigation

The Department is a party to various litigation filed in the normal course of business. It is believed that the outcome of these cases will not have a material effect on the financial position of the Department.

Insurance and Benefits

The Department is subject to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; illnesses or injuries to employees; and natural disasters. The Department is a member of the Metropolitan Government's self-insurance program with respect to the first \$3,000,000 of liability claims and casualty losses in any one year. Liabilities for accidents are generally limited under the Governmental Tort Liability Act of the Tennessee Code as follows; bodily injury - \$300,000 per person, \$700,000 per accident; and property damage - \$100,000 per accident. Claims on real and personal property in losses to a \$10,000 deductible.

The Department is also a member of the Government's self-insurance program with respect to medical benefits and employee blanket bond coverage. Premiums paid by the Department to the program were \$6,436,702 for the year ended June 30, 2014.

Federal and State Financial Assistance

The Department has received federal and state financial assistance for specific purposes that is subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the programs, the Department believes that any required reimbursements would not be material to the Department's financial statements. Accordingly, no provision has been made for any potential reimbursements to the grantor agencies.

Prior to the issuance of the Water and Sewer Revenue Refunding Bonds, Series 2010A, on December 16, 2010, the full faith and credit of the Metropolitan Government was pledged for possible deficiencies in the collection of required state sewer user fees established in connection with certain grants received from the State Funding Board (TCA 68-221-202 through 68-221-214). The Department acted as a conduit with respect to sewer user fees imposed by the state. These user fees were set at an amount sufficient to recover the project costs, including related interest expense. A portion of the proceeds from the Series 2010A Bonds was used to fully prepay the Tennessee Local Development Authority ("TLDA") loans. The amount of prepayment is \$62,870,554 at June 30, 2014 and is reported as other noncurrent assets. Subsequent to the issuance of the Bonds, the user fees are considered a general sewer charge and reflected as revenue. The amounts received were recorded as capital grants and contributions by the Department.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

G. COMMITMENTS AND CONTINGENCIES - Continued

At June 30, 2014, the Department had commitments of \$105,655,495 for construction contracts.

The Department, the Metropolitan Council, the State of Tennessee Department of Environment and Conservation (“TDEC”), and the United States Environmental Protection Agency (“EPA”), have agreed on a consent decree to address and correct deficiencies within the Department’s sewer system that have caused violations of the Clean Water Act (“CWA”). The consent decree was approved by the Federal Court in March 2009. Per the original decree, the Department was required to fully develop, in two years, a Corrective Action Plan/Engineering Report (“CAP/ER”) for its sanitary sewer system and a Long-term Control Plan (“LTCP”) for its combined sewer system to achieve the goals of the CWA and meet water quality requirements in the Cumberland River. Upon submittal and approval of the Plans, the Department will have an additional nine years to complete the work as developed by the Plans.

Due to the historic floods that occurred in Nashville in May 2010, the Department petitioned EPA and TDEC for a six-month extension for developing the CAP/ER and LTCP and a two year extension for completing the work (final compliance) under the force majeure clause of the consent decree. Approval has been granted for both extensions. The due date for the CAP/ER and LTCP was September 11, 2011, and the due date for all work coming out of those two plans (final compliance) is eleven years after approval of the plans by EPA and TDEC. The Department submitted both plans on Friday, September 9, 2011, and is waiting for feedback from EPA and TDEC. The Department has hired an internal program director as well as an external program management team composed of engineering consultants to manage planning, design and oversight of the program. The Department has also contracted for a construction management team to protect the investment in construction projects. A group of project set designers has been selected to assist with the design of individual projects. A total of seventeen different design firms were selected for large projects and six additional small business design firms for smaller projects.

The future related capital expenditures are expected to be between \$1 billion and \$1.5 billion. Continuing to have sewer overflows along with failure to comply with the mandate and meet future established deadlines could result in stipulated penalties of up to \$3,000 per occurrence for sanitary sewer overflows, and up to \$5,000 per day for failure to implement the improvements on a timely basis. EPA sent a demand letter for \$147,000 in stipulated penalties for sanitary overflow on September 9, 2011. This was for a negotiated 147 violations for 2010 and the first quarter of 2011. No penalties have been demanded for any delays in submitting reports and deliverables nor from the failure to timely implement work. Proposed plans to fund capital expenditures for the next few years include internally generated cash and borrowings.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

H. RELATED PARTY TRANSACTIONS

The Department supplies water and sewerage services to the other departments of the Government, for which standard rates are charged.

The Government performs certain administrative functions for the Department. The cost of such services included in operating expenses is \$9,719,224 for the year ended June 30, 2014.

In addition, in February 1996, the Metropolitan Government adopted a resolution which requires the Department to make an annual payment to the Government of \$4,000,000, representing a payment in lieu of ad valorem taxes. This payment is included in operating expenses for the year ended June 30, 2014.

I. SUBSEQUENT EVENTS

The Department has evaluated subsequent events through October 31, 2014, the date the financial statements were available for issuance, and has determined that there are no other items requiring disclosure.

SUPPLEMENTARY INFORMATION

DEPARTMENT OF WATER AND SEWERAGE SERVICES
 THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
 SCHEDULE OF UTILITY RATES (UNAUDITED)
 JUNE 30, 2014

The rate structure is composed of a meter charge and a volume charge.

The Department had the following rate structure in effect at June 30, 2014:

| Meter Size | Water | | | | Sewer | | | |
|---------------|-------------|---------------------|----------------------------|---------------------|-------------|---------------------|----------------------------|---------------------|
| | Residential | Small Commercial | Intermediate Commercial | Large Commercial | Residential | Small Commercial | Intermediate Commercial | Large Commercial |
| 5/8" | \$3.13 | \$3.98 | \$13.85 | \$597.23 | \$7.62 | \$8.51 | \$27.89 | \$1,076.37 |
| 3/4" | 10.62 | 11.32 | 19.64 | 603.69 | 21.63 | 24.22 | 39.55 | 1,088.01 |
| 1" | 12.77 | 13.63 | 21.51 | 605.80 | 26.05 | 29.17 | 43.33 | 1,091.79 |
| 1 1/2" | 18.77 | 20.03 | 26.71 | 611.60 | 38.29 | 42.89 | 53.81 | 1,102.25 |
| 2" | 25.29 | 26.97 | 32.63 | 618.22 | 51.57 | 57.75 | 65.73 | 1,114.18 |
| 3" | 33.38 | 35.6 | 140.84 | 624.04 | 68.04 | 76.21 | 82.26 | 1,124.65 |
| 4" | 54.41 | 58.03 | 64.65 | 650.65 | 110.88 | 124.18 | 130.22 | 1,172.65 |
| 6" | 85.42 | 91.12 | 99.81 | 689.96 | 174.12 | 195.01 | 201.05 | 1,243.48 |
| 8" | 133.59 | 142.50 | 155.38 | 755.41 | 272.29 | 304.96 | 312.96 | 1,361.43 |
| 10" | 133.59 | 142.50 | 155.38 | 755.41 | 272.29 | 304.96 | 312.96 | 1,361.43 |

VOLUME:

Water usage charges per 100 cubic feet
 (For usage over 200 cubic feet)

| | | | |
|--------|--------|--------|--------|
| \$2.33 | \$2.48 | \$2.14 | \$1.81 |
|--------|--------|--------|--------|

Sewer usage charges per 100 cubic feet
 (For usage over 200 cubic feet)

| | | | |
|--------|--------|--------|--------|
| \$4.74 | \$5.30 | \$4.32 | \$3.26 |
|--------|--------|--------|--------|

See accompanying auditor's report.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
SCHEDULE OF NUMBER OF CUSTOMERS (UNAUDITED)
JUNE 30, 2014

| | <u>Residential</u> | <u>Commercial</u> | <u>Total</u> |
|-----------------|--------------------|-------------------|----------------|
| Water Customers | 170,754 | 19,941 | 190,695 |
| Sewer Customers | <u>180,511</u> | <u>17,591</u> | <u>198,102</u> |
| Total Customers | <u>351,265</u> | <u>37,532</u> | <u>388,797</u> |

See accompanying auditor's report.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
 THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
 SCHEDULE OF UNACCOUNTED FOR WATER (UNAUDITED)
 JUNE 30, 2014

| AWWA Free Water Audit Software: Reporting Worksheet | | | | WAS v5.0 American Water Works Association Copyright © 2014, All Rights Reserved. |
|--|---|---|--|---|
| <input type="button" value="Click to access definition"/> | | Water Audit Report for: Nashville MWS | | |
| <input type="button" value="Click to add a comment"/> | | Reporting Year: 14 / 7/2013 - 6/2014 | | |
| <small>Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades</small> | | | | |
| All volumes to be entered as: MILLION GALLONS (US) PER YEAR | | | | |
| To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds <u>all</u> criteria for that grade and all grades below it. | | | | |
| WATER SUPPLIED | | <----- Enter grading in column 'E' and 'J' -----> | | Master Meter and Supply Error Adjustments |
| Volume from own sources: | + ? 8 | 31,301.033 | MG/Yr | Pent: 1 Value: 155.274 MG/Yr |
| Water imported: | + ? n/a | | MG/Yr | Pent: 1 Value: 155.274 MG/Yr |
| Water exported: | + ? n/a | 0.000 | MG/Yr | Pent: 1 Value: 155.274 MG/Yr |
| WATER SUPPLIED: | | | 31,301.033 | MG/Yr |
| Enter negative % or value for under-registration Enter positive % or value for over-registration | | | | |
| AUTHORIZED CONSUMPTION | | | | |
| Billed metered: | + ? 7 | 21,918.521 | MG/Yr | Click here: ? for help using option buttons below Pent: 1.25% Value: 155.274 MG/Yr Use buttons to select percentage of water supplied OR value |
| Billed unmetered: | + ? n/a | 0.000 | MG/Yr | |
| Unbilled metered: | + ? 8 | 55.545 | MG/Yr | |
| Unbilled unmetered: | + ? 8 | 155.274 | MG/Yr | |
| AUTHORIZED CONSUMPTION: | | | 22,129.340 | MG/Yr |
| WATER LOSSES (Water Supplied - Authorized Consumption) | | 9,171.693 MG/Yr | | |
| Apparent Losses | | | | |
| Unauthorized consumption: | + ? 7 | 62.396 | MG/Yr | Pent: 0.25% Value: 62.396 MG/Yr |
| Customer metering inaccuracies: | + ? 7 | 559.847 | MG/Yr | Pent: 0.25% Value: 559.847 MG/Yr |
| Systematic data handling errors: | + ? 8 | 4.306 | MG/Yr | Pent: 0.25% Value: 4.306 MG/Yr |
| Apparent Losses: | | | 626.549 | MG/Yr |
| Real Losses (Current Annual Real Losses or CARL) | | | | |
| Real Losses = Water Losses - Apparent Losses: | | 8,545.144 MG/Yr | | |
| WATER LOSSES: | | 9,171.693 MG/Yr | | |
| NON-REVENUE WATER | | | | |
| NON-REVENUE WATER: | | 9,382.512 MG/Yr | | |
| <small>= Water Losses + Unbilled Metered + Unbilled Unmetered</small> | | | | |
| SYSTEM DATA | | | | |
| Length of mains: | + ? 9 | 3,043.7 | miles | |
| Number of active AND inactive service connections: | + ? 9 | 188,021 | | |
| Service connection density: | ? ? | 62 | conn./mile main | |
| Are customer meters typically located at the curbstop or property line? | No | | | |
| Average length of customer service line: | + ? 9 | 12.0 | ft | (length of service line, beyond the property boundary, that is the responsibility of the utility) |
| Average operating pressure: | + ? 8 | 84.0 | psi | |
| COST DATA | | | | |
| Total annual cost of operating water system: | + ? 9 | \$35,766,780 | \$/Year | |
| Customer retail unit cost (applied to Apparent Losses): | + ? 7 | \$7.69 | \$/1000 gallons (US) | |
| Variable production cost (applied to Real Losses): | + ? 10 | \$268.45 | \$/Million gallons | <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses |
| WATER AUDIT DATA VALIDITY SCORE: | | | | |
| *** YOUR SCORE IS: 80 out of 100 *** | | | | |
| <small>A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score</small> | | | | |
| PRIORITY AREAS FOR ATTENTION: | | | | |
| Based on the information provided, audit accuracy can be improved by addressing the following components: | | | | |
| 1: Volume from own sources | | | | |
| 2: Billed metered | | | | |
| 3: Customer metering inaccuracies | | | | |

See accompanying auditor's report.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
 THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
 SCHEDULE OF UNACCOUNTED FOR WATER (UNAUDITED) - Continued
 JUNE 30, 2014

| AWWA Free Water Audit Software: System Attributes and Performance Indicators | | WAS v5.0 American Water Works Association. Copyright © 2014, All Rights Reserved. | | | | | | | | | | | | |
|--|---|--|---|--|------------------------|---|---|--|--|---|--|--|---|----------------------------|
| Water Audit Report for: <input style="width: 70%; border: none;" type="text" value="Nashville MWS"/> | | | | | | | | | | | | | | |
| Reporting Year: <input style="width: 15%; border: none;" type="text" value="14"/> <input style="width: 50%; border: none;" type="text" value="7/2013 - 6/2014"/> | | | | | | | | | | | | | | |
| *** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 80 out of 100 *** | | | | | | | | | | | | | | |
| System Attributes: | | | | | | | | | | | | | | |
| | Apparent Losses: | <input style="width: 150px;" type="text" value="626.549"/> MG/Yr | | | | | | | | | | | | |
| | + Real Losses: | <input style="width: 150px;" type="text" value="8,545.144"/> MG/Yr | | | | | | | | | | | | |
| | = Water Losses: | <input style="width: 150px;" type="text" value="9,171.693"/> MG/Yr | | | | | | | | | | | | |
| | ? Unavoidable Annual Real Losses (UARL): | <input style="width: 150px;" type="text" value="1,467.83"/> MG/Yr | | | | | | | | | | | | |
| | Annual cost of Apparent Losses: | <input style="width: 150px;" type="text" value="\$4,818,914"/> | | | | | | | | | | | | |
| | Annual cost of Real Losses: | <input style="width: 150px;" type="text" value="\$2,293,944"/> Valued at Variable Production Cost | | | | | | | | | | | | |
| Return to Reporting Worksheet to change this assumption | | | | | | | | | | | | | | |
| Performance Indicators: | | | | | | | | | | | | | | |
| Financial: | { | <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Non-revenue water as percent by volume of Water Supplied:</td> <td style="width: 20%; text-align: right;"><input style="width: 100px;" type="text" value="30.0%"/></td> <td></td> </tr> <tr> <td>Non-revenue water as percent by cost of operating system:</td> <td style="text-align: right;"><input style="width: 100px;" type="text" value="20.0%"/></td> <td>Real Losses valued at Variable Production Cost</td> </tr> </table> | Non-revenue water as percent by volume of Water Supplied: | <input style="width: 100px;" type="text" value="30.0%"/> | | Non-revenue water as percent by cost of operating system: | <input style="width: 100px;" type="text" value="20.0%"/> | Real Losses valued at Variable Production Cost | | | | | | |
| Non-revenue water as percent by volume of Water Supplied: | <input style="width: 100px;" type="text" value="30.0%"/> | | | | | | | | | | | | | |
| Non-revenue water as percent by cost of operating system: | <input style="width: 100px;" type="text" value="20.0%"/> | Real Losses valued at Variable Production Cost | | | | | | | | | | | | |
| Operational Efficiency: | { | <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Apparent Losses per service connection per day:</td> <td style="width: 20%; text-align: right;"><input style="width: 100px;" type="text" value="9.13"/></td> <td style="width: 20%;">gallons/connection/day</td> </tr> <tr> <td>Real Losses per service connection per day:</td> <td style="text-align: right;"><input style="width: 100px;" type="text" value="124.51"/></td> <td>gallons/connection/day</td> </tr> <tr> <td>Real Losses per length of main per day*:</td> <td style="text-align: right;"><input style="width: 100px;" type="text" value="NA"/></td> <td></td> </tr> <tr> <td>Real Losses per service connection per day per psi pressure:</td> <td style="text-align: right;"><input style="width: 100px;" type="text" value="1.48"/></td> <td>gallons/connection/day/psi</td> </tr> </table> | Apparent Losses per service connection per day: | <input style="width: 100px;" type="text" value="9.13"/> | gallons/connection/day | Real Losses per service connection per day: | <input style="width: 100px;" type="text" value="124.51"/> | gallons/connection/day | Real Losses per length of main per day*: | <input style="width: 100px;" type="text" value="NA"/> | | Real Losses per service connection per day per psi pressure: | <input style="width: 100px;" type="text" value="1.48"/> | gallons/connection/day/psi |
| Apparent Losses per service connection per day: | <input style="width: 100px;" type="text" value="9.13"/> | gallons/connection/day | | | | | | | | | | | | |
| Real Losses per service connection per day: | <input style="width: 100px;" type="text" value="124.51"/> | gallons/connection/day | | | | | | | | | | | | |
| Real Losses per length of main per day*: | <input style="width: 100px;" type="text" value="NA"/> | | | | | | | | | | | | | |
| Real Losses per service connection per day per psi pressure: | <input style="width: 100px;" type="text" value="1.48"/> | gallons/connection/day/psi | | | | | | | | | | | | |
| | | From Above, Real Losses = Current Annual Real Losses (CARL): <input style="width: 150px;" type="text" value="8,545.14"/> million gallons/year | | | | | | | | | | | | |
| | | ? Infrastructure Leakage Index (ILI) [CARL/UARL]: <input style="width: 100px;" type="text" value="5.82"/> | | | | | | | | | | | | |

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

See accompanying auditor's report.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
SCHEDULE OF PLEDGED REVENUE COVERAGE (UNAUDITED)
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

| Fiscal Year | Gross Revenue(1) | Direct Operating Expense (2) | Net Revenue Available For Debt Service | Debt Service Requirement | | | Coverage |
|-------------|------------------|------------------------------|--|--------------------------|----------|----------|----------|
| | | | | Principal | Interest | Total | |
| 2004-05 | \$156,158 | \$71,410 | \$84,748 | \$25,960 | \$26,407 | \$52,367 | 1.62 |
| 2005-06 | 161,727 | 78,293 | 83,434 | 27,280 | 25,034 | 52,314 | 1.59 |
| 2006-07 | 173,220 | 82,817 | 90,403 | 28,770 | 23,581 | 52,351 | 1.73 |
| 2007-08 | 180,862 | 88,416 | 92,446 | 31,185 | 19,646 | 50,831 | 1.82 |
| 2008-09 | 172,379 | 90,685 | 81,694 | 33,370 | 18,859 | 52,229 | 1.56 |
| 2009-10 | 171,966 | 88,603 | 83,363 | 35,525 | 16,527 | 52,052 | 1.60 |
| 2010-11 | 196,268 | 94,478 | 101,790 | 37,830 | 26,998 | 64,828 | 1.57 |
| 2011-12 | 201,263 | 102,485 | 98,778 | 42,410 | 29,386 | 71,796 | 1.38 |
| 2012-13 | 209,110 | 103,423 | 105,687 | 30,765 | 34,189 | 64,954 | 1.63 |
| 2013-14 | 213,055 | 101,703 | 111,352 | 31,500 | 41,367 | 72,867 | 1.53 |

Note: Details regarding the Department's outstanding debt can be found in the notes to the financial statements.

(1) Includes interest on investments and other income.

(2) Excludes depreciation and amortization expense.

See accompanying auditor's report.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
SCHEDULE OF NONCURRENT RESTRICTED CASH AND CASH EQUIVALENTS
JUNE 30, 2014

Schedule of Noncurrent Restricted Cash and Cash Equivalents

| | |
|--------------------------------|--------------------------|
| Debt Service Fund | \$ 43,944,616 |
| Waterworks revolving fund | 200,000 |
| Extension and replacement fund | 99,995,780 |
| Debt service reserve funds | 40,252,136 |
| Construction funds | <u>85,516,418</u> |
| Total | <u>\$269,908,950</u> |

See accompanying auditor's report.

Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
With *Government Auditing Standards*

The Honorable Mayor and Members of Council
The Metropolitan Government of Nashville and
Davidson County, Tennessee

We have audited, in accordance with the 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, the financial statements of the Department of Water and Sewerage Services (the "Department"), an enterprise fund of the Metropolitan Government of Nashville and Davidson County, Tennessee (the "Metropolitan Government"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crosslin + Associates, P.C.

Nashville, Tennessee
October 31, 2014