POWER FORWARD

2013 Annual Report

Memphis Light, Gas and Water Division

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Power Forward

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About MLGW

Memphis Light, Gas and Water Division is the nation's largest three-service municipal utility. Since 1939, MLGW has met the needs of Memphis and Shelby County residents by delivering reliable and affordable electric, natural gas and water services.

Electricity is supplied to MLGW by the Tennessee Valley Authority (TVA), while natural gas is purchased from a variety of suppliers and transported by three pipeline companies—Texas Gas Transmission Corporation, Trunkline Gas Company and ANR Pipeline Company. Memphis receives its water from one of the largest artesian water systems in the world.

MLGW is led by a President and a five-member Board of Commissioners who are appointed by the Mayor of Memphis and approved by the Memphis City Council.

President’s Message

MLGW President and CEO Jerry R. Collins Jr.

2013 was an eventful and pivotal year in Memphis Light, Gas and Water’s history. The Division embarked on several projects that will change the trajectory of services to and for our customers for years to come. Undertaking the first steps to meter automation, the expansion of liquefied natural gas (LNG) sales, the opening of Shelby County’s first public compressed natural gas (CNG) fueling station, and the initial phase of the replacement of a 26-year-old green-screen-dominated finance, work management, materials and equipment computer operating system known as Project INSPIRE, were among the year’s top priorities.

The projects mentioned above, and all of the Division’s annual objectives rolled into accomplishing one overarching goal: To provide value to our customers, while maintaining the lowest combined rates of any utility in the country. Our 2013 Rates Survey revealed MLGW to be right on target, with an average residential bill well below the national norm.

With that said, the question looming on the horizon is, “How does MLGW maintain low rates in the future?” Through efficiency and innovation. Using technology, MLGW aims to improve our processes to become more efficient. From internal operations to customer service, the net effect of upgrading MLGW systems is to have better, more reliable service at an affordable cost. It doesn’t stop there, however. We are equally committed to strengthening community partnerships to reduce energy consumption and the pursuit of cleaner energy revenue streams. It is a concept not encouraged by private utilities which are driven by profits. In contrast, MLGW, which is accountable to customers, willingly embraces this consumer-centric concept. It is a paradigm shift in the utility industry. It is Power Forward.

Jerry R Collins Jr.

MLGW Board of Commissioners

Darrell T. Cobbins

Rick Masson

Derwin Sisnett

Steve Wishnia

MLGW Executive Leadership

Jerry R. Collins Jr., *President and CEO*

Christopher Bieber, *Vice President of Customer Care*

Von Goodloe, *Vice President of Human Resources*

Dana Jeanes, *Vice President, CFO and Secretary-Treasurer*

Nicholas Newman, *Vice President of Construction and Maintenance*

Cheryl Patterson, *Vice President and General Counsel*

Lashell Vaughn, *Vice President and Chief Technology Officer*

Alonzo Weaver III, *Vice President of Engineering and Operations*

Gale Jones Carson, *Director of Corporate Communications*

Clifford DeBerry, *Director of Analysis, Strategy and Performance*

Lesa Walton, *Director of Internal Audit*

Roland McElrath, *Controller*

Anderson Williams, *Executive Analyst*

Powering Reliability

Reliability can be defined as the ability of a system or component to perform its required functions under stated conditions for a specified period of time. Our crews and staff strive to achieve reliability ALL the time. Therefore, MLGW continues to improve its system in pursuit of that objective by installing automated switches to reduce the number of customers affected by outages; employing dedicated line inspectors who work every day to identify issues with electric lines; replacing older underground cables with newer, more reliable cable; and continuing our tree-trimming program to reduce the possibility of tree-related damage to power lines.

RP3® Award

It often takes a major storm or other catastrophic event for the general public to understand how critical electric services are to our community. For MLGW it's a day-in, day-out responsibility that's not taken lightly. It is the Division's goal to prevent outages and minimize the impact when they do occur. This commitment to reliable service has earned Memphis Light, Gas and Water the American Public Power Association's (APPA) Reliable Public Power Provider (RP3®) Platinum Award for the fourth time in eight years. A utility can only qualify for the award once every two years and only 90 of the nation's 2,000 public power utilities received the recognition in 2013.

NERC Compliance

In addition to earning awards for reliability, MLGW's processes and security measures were rigorously tested during a nine-month-long audit conducted by the North American Electric Reliability Corporation (NERC). NERC is a not-for-profit entity whose mission is to ensure the reliability of the Bulk-Power System in North America. NERC develops and enforces reliability standards approved by the Federal Energy Regulatory Commission (FERC); annually assesses seasonal and long-term reliability; monitors the Bulk-power System through system awareness; and educates, trains and certifies industry personnel.

An almost 80-member MLGW team worked more than nine months to prepare for the first intensive NERC audits since it registered with NERC in 2010. MLGW achieved extremely high marks for its compliance program. Auditors especially commended the Division's culture of compliance and proactive stance toward the reliability and security of the electric grid, citing some of the Division's practices as "best in the industry."

MLGW Earns Top Honors for Data Security

2013 leveled devastating blows to public trust as security breaches at Target and Neiman Marcus were discovered. However, MLGW employees and customers can take comfort knowing MLGW's systems and processes incorporate the best industry practices as recognized by *Security Magazine*. The publication issued its top 500 rankings in the fall and the Division was among the top 30 in the utility industry. The Security 500 survey identifies, ranks, and reports on the 500 biggest and best security organizations across 17 sectors.

Water Quality

MLGW has an enviable commodity flowing right under foot; it is our water. Purified by artesian wells, Memphis drinking water is among the best in the world and naturally pure. However, MLGW goes the extra step and employs a three-phase process that filters and fortifies the water with chlorine. Additionally, MLGW's Water Quality Assurance Laboratory ensures the quality and safety of our water by conducting more than 38,000 tests every year. The Water Lab consistently achieves high marks from state reviewers for quality assurance efforts.

In 2013, the Water Division enrolled two water pumping stations into the EnerNOC Demand Response Program, which improves efficiency and generates non-traditional revenue. Additionally, the Lichterman Wash Water Recovery Basin was installed, reducing the environmental impact of storm water run-off thereby meeting compliance standards. During the year, the Water Division also converted the Allen Water Pumping Station's backwash water treatment system from overhead tanks to a pump system. This makes the pumping station more secure during seismic activity, and makes backwashing filters at Allen more effective.

Powering the Future

Compressed Natural Gas Station Opens to the Public

On July 10, Shelby County's first compressed natural gas (CNG) fueling station opened to the public at the North Service Center, 1130 Tupelo. The station offers drive-up fueling for natural gas vehicles. Across the nation, many companies are turning to natural gas-powered vehicles as a cheaper and more environmentally-friendly alternative that can reduce the reliance on foreign oil. The Division itself has 76 natural gas vehicles and plans to expand the fleet. On average, compressed natural gas is 33 to 50 percent cheaper per gasoline gallon equivalent (gge) than regular gasoline.

Pioneering the opening of a CNG station demonstrates MLGW's leadership in providing customers alternative fuels options.

The area's first public CNG fueling station opened in July 2013. On hand for the ribbon-cutting were (left to right): Paul Rice, West Tennessee Clean Cities Coalition; Alonzo Weaver, VP Engineering and Operations; Michael Taylor, Commercial and Industrial Customer Care; Ray Ward, Gas Engineering; Rich Bohne, Auto Nation and Virgil Deanes, Gas Engineering and Operations.

Liquid Natural Gas Sales

MLGW has an LNG storage facility which allows for the storage of gas during the summer periods of low usage and then as a reserve during winter peak periods. The facility stores 300,000 bbls. (equivalent to one billion cubic feet) in above-ground storage tanks.

Since 2012, the Division has seen expansive LNG sales growth. In 2013, MLGW signed a 10-year contract with United Parcel Service's fleet operation in the Greater Memphis area. UPS is expanding use of LNG as a transportation fuel by replacing many of the company's diesel tractors with LNG-fueled tractors. Under the contract, MLGW's Capleville Plant will supply UPS with an average of 265,000 gallons of LNG per month.

Smart Meters Approved

In August of 2013, the Memphis City Council approved the purchase of 60,000 smart meters, ushering MLGW into the "automation" age. The smart meters—electric, gas and water—will be installed in 24,000 homes in 2014. The new technology communicates with MLGW's systems remotely, opening up an array of choices for customers. Advantages include automatic outage notification, automatic meter tampering notification, lower connection and reconnection fees, no bill estimations, and much more extensive information about energy usage which allows customers to make adjustments to lower bills.

At the conclusion of this initial phase of installation, there will be 61,000 smart meters out of the Division's 1.1 million meters system-wide. There are also 1,000 smart meters in use from a successful three-year residential volunteer Smart Grid Demonstration pilot. MLGW's goal is to fully implement smart meters by 2020.

Grizzlies Power Forward and 2011 MLGW Community Hero Award winner, Zach Randolph, embodies the spirit of community engagement. Since 2009, the player has donated $20,000 annually to MIFA for Plus-1 utility assistance.

Powering the Community

MLGW employees give significant monetary and volunteer contributions to Shelby County agencies every year. Below are 2013 highlights of volunteerism and community involvement:

Mission Accomplished: United Way

For the first time in five years, MLGW's United Way Campaign exceeded its goal by more than $10,000 in 2013. The final sum of $655,150 was presented to United Way of the Mid-South on behalf of MLGW employees. That gift represents dollars raised by employees only – no matching corporate dollars were contributed to the campaign.

Harlem Shake for Plus-1

If it is for a good cause, MLGW's Leadership Team is up to the challenge. To spur employee giving to Plus-1 utility assistance, executive staff members promised to don costumes and create a viral Harlem Shake video if employees pledged $5,000 in new donations. Employees met the threshold, and the executive team showed their lighter side—coming through with a viral video worthy of any YouTube short dedicated to the then Harlem Shake phenomenon. In addition, the stunt garnered more than 1,000 views.

Lifeblood Heroes

Blood donors can save the lives of thousands of people in the Mid-South every year. Understanding the importance of giving blood, the Electric Distribution-North Service Center group donated 135 units and earned Lifeblood's 2013 Government Award.

Plus-1 Telethon

The first-ever Plus-1 Push Telethon was held in April to raise awareness of the great need in Shelby County. MLGW, MIFA and Channel 3 joined forces for the telethon. The event, which started in the early morning hours and lasted until 7 p.m., featured local celebrities, drew a positive response and more than $40,000 in new pledges. Coupled with the Harlem Shake donations, about 238 families benefited from one-time, emergency utility assistance.

“A-Blazing Race” Shed’s Light on Engineering Concepts

In partnership with the Chickasaw Council of Boy Scouts of America and the Girls Scouts Heart of the Mid-South, MLGW hosted the “A-Blazing Race.” Held at the Beale Street Landing Parking Garage roof top, the event promoted MLGW’s interest in solar energy and introduced children to different engineering-related professions.

Encouraging Healthy Lifestyles

The American Heart Association honored MLGW as one of Memphis' pro-health employers. Promoting a wellness culture, offering physical activity support and providing nutrition activities were reasons why MLGW received the award.

MLGW Recognized for Community Efforts

MLGW received Volunteer of the Mid-South's 2013 Corporate Neighbor of the Year Award in the large company category. The award goes to companies and company leaders who stress the importance of community service to employees.

The Division also received the Association of Fundraising Professionals Crystal Outstanding Corporation Award for the Plus-1 Program, support of United Way and other local charities.

Alonzo Weaver, VP Engineering and Operations, accepts Volunteer Mid-South's Corporate Neighbor of the Year Award on behalf of MLGW. Also pictured are Katie Maxwell, President, Corporate Volunteer Council (left) and Lisa Harris, President, Volunteer Mid-South (right).

Brighter Tomorrow

MLGW will continue to lead the charge as a corporate citizen, promoting economic development, ethical leadership, fiscal accountability and civic engagement. Those touchstones have guided the Division for nearly three-quarters of a century and will carry forward in MLGW's quest for service excellence and value creation, ensuring a brighter tomorrow for us all.

Letter of Transmittal

To the Board of Commissioners and Valued Stakeholders:

We are pleased to submit the Annual Report of Memphis Light, Gas and Water Division (MLGW) for the fiscal year ended December 31, 2013, as required by the Charter Provisions of the City of Memphis (City) creating the Memphis Light, Gas and Water Division. This report has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for proprietary funds of governmental entities. MLGW is also subject to the federally mandated Single Audit, and the findings for internal controls and compliance are herein presented.

Responsibility for the accuracy and presentation of the information provided is the full responsibility of the management of MLGW. Disclosures necessary to assist the reader in understanding of the financial statements have been included.

MLGW's financial statements have been audited by Mayer Hoffman McCann P.C. and Jones & Tuggle CPAs, licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of MLGW for the fiscal year ended December 31, 2013, are free from material misstatement. The independent audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements; evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that MLGW's financial statements for the fiscal year ended December 31, 2013, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of the report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. MLGW's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government—MLGW was created by an amendment to the City Charter by Chapter 381 of the Private Acts of the General Assembly of Tennessee, adopted March 9, 1939, as amended (the "Private Act"). MLGW operates three separate utilities, as divisions, providing electricity and gas in the City and Shelby County. Water service is provided by MLGW in the City, and together with other municipal systems, in Shelby County.

Each division operates as a separate entity for accounting and financial purposes in accordance with the Private Act. For economic reasons, activities common to all three divisions are administered jointly and costs are prorated monthly among the divisions. A 1981 amendment to the City Charter permits the establishment of additional divisions to provide other energy services.

MLGW controls the administration of its activities and business affairs. It operates independently, manages its own finances and is responsible for obligations incurred in such operations, including indebtedness payable from operations of the Division. MLGW must have the approval of the City Council before incurring certain obligations, including purchasing real estate and exercising the right of eminent domain; the annual budget is also subject to approval by the City Council.

MLGW is managed by a Board of Commissioners, which consists of five members nominated by the Mayor and approved by the City Council. Under the Private Act, the Board is responsible for doing all things necessary to supply the Division's service area with electricity, gas and water. The members of the Board serve staggered terms of three years each. Every two years, the Board elects a Chairman and a Vice Chairman whose terms begin January 1. The Chairman, Vice Chairman and Board Members continue to serve until a new Chairman, Vice Chairman or Board Member is elected or appointed by the Mayor.

The daily operations of MLGW are managed by the President and Chief Executive Officer, who is nominated for a five-year term by the Mayor and approved by the City Council. Under the Private Act, the President generally supervises the operations of MLGW and its officers and employees.

Local Economy—Memphis, Tennessee, is located in the southwest corner of Tennessee on the Mississippi River, is the county seat for Shelby County and is the nation's 20th largest city. The United States Census Bureau website estimates Shelby County's population at 940,764, of which all households utilize MLGW's services. The nine-county Memphis Metro area provides a diverse range of employers which contributes to the overall stability of the area and to MLGW's customer base.

According to the Greater Memphis Chamber website, in September 2013, the U.S. Chamber of Commerce Foundation recognized Memphis as a model for government focused on job creation, economic growth and crime reduction in its report, Enterprising Cities. Home to three Fortune 500 Company world headquarters, (AutoZone, FedEx and International Paper), Memphis' central location, which is traversed by seven federal and two interstate highways and flanked by the Mississippi River, make it a prime location for distribution. Additionally, MLGW's low utility rates, as well as the city's low cost of living, inexpensive real estate and aggressive corporate incentives have helped foster an environment amenable to the distribution industry.

Moreover, Memphis International Airport is known worldwide as America's Aerotropolis. For more than 20 years, Memphis International has been the busiest cargo airport in North America and the largest economic driver in the state of Tennessee with an economic impact of $23.3 billion annually. Memphis is a vital epicenter of commerce, and MLGW works diligently to maintain reliable power for local industry to run smoothly.

National Economy—The U.S. Department of Commerce reported real gross domestic product (GDP), an overall indicator of economic health, grew by 1.9 percent in 2013 compared with 2.8 percent growth in 2012. Contributing to the economic slowdown was a large decrease in federal government spending—proliferated by the government shutdown in the fourth quarter, a downturn in housing investment and a slowdown in state and local government spending; business investment also slowed.

Financial Policies and Major Initiatives—MLGW maintains a comprehensive cash flow model which assesses the growth of the separate divisions and determines future rate increase and debt issuance requirements. MLGW also incorporates a five-year capital plan in its budgeting process. MLGW's Electric, Gas and Water Engineering Departments develop detailed technical master plans for their respective systems which are then correlated with the financial plan. The five-year capital plans are updated periodically during the year in order to provide the most current possible cash flow projections.

Among the three divisions, MLGW averages around $117 million in capital expenditures annually. Major projects planned within the next five years for all three divisions—electric, gas and water—include the implementation of smart meters.

Other major ongoing Electric Division projects include the installation of Smart Grid technology, installation of new substations in the Southeast Memphis and South Collierville areas to expand MLGW's system capacity, refurbishment of a downtown substation and North American Electric Reliability Corporation (NERC) compliance, involving transmission improvements, such as work involving relay and circuit breaker replacements at various locations, and the changing of metering equipment at transmission system substations.

Significant Gas Division projects planned within the next five years include the completion of Project Inspire which involves the replacement of MLGW's mainframe computer systems, continued investment in our cast iron replacement system project, maintenance of the integrity of our gas pipelines, studying the expansion of LNG (liquefied natural gas) plant capacity, and adding more CNG vehicles to MLGW's fleet along with an additional CNG fueling station.

Significant Water Division projects planned within the next five years include additions and renovations to the MLGW water lab, construction and replacement of wells and motors at various pumping stations, construction of a wash water recovery basin at the Palmer Station and a roof and decking replacement involving the pump, filter buildings and aerator at the Sheahan Pumping Station.

MLGW also has a formal five-year Strategic Plan and engages in joint endeavors with the City of Memphis, the Tennessee Valley Authority and other stakeholders, when possible to streamline costs through collaborative efforts. The plan also addresses MLGW's commitment to cost control which is discussed in other sections of this financial report.

Acknowledgements—The preparation of this report was made possible by the overall dedication of MLGW's Finance Division. We would like to express our appreciation to all members of the Finance Division who contributed to the preparation of this report. Special thanks must also be given to Mayer Hoffman McCann P.C. and Jones & Tuggle CPAs for their efficient and timely completion of this year's audit.

Respectfully submitted,

Jerry R Collins Jr.

Jerry R. Collins Jr.
President and CEO

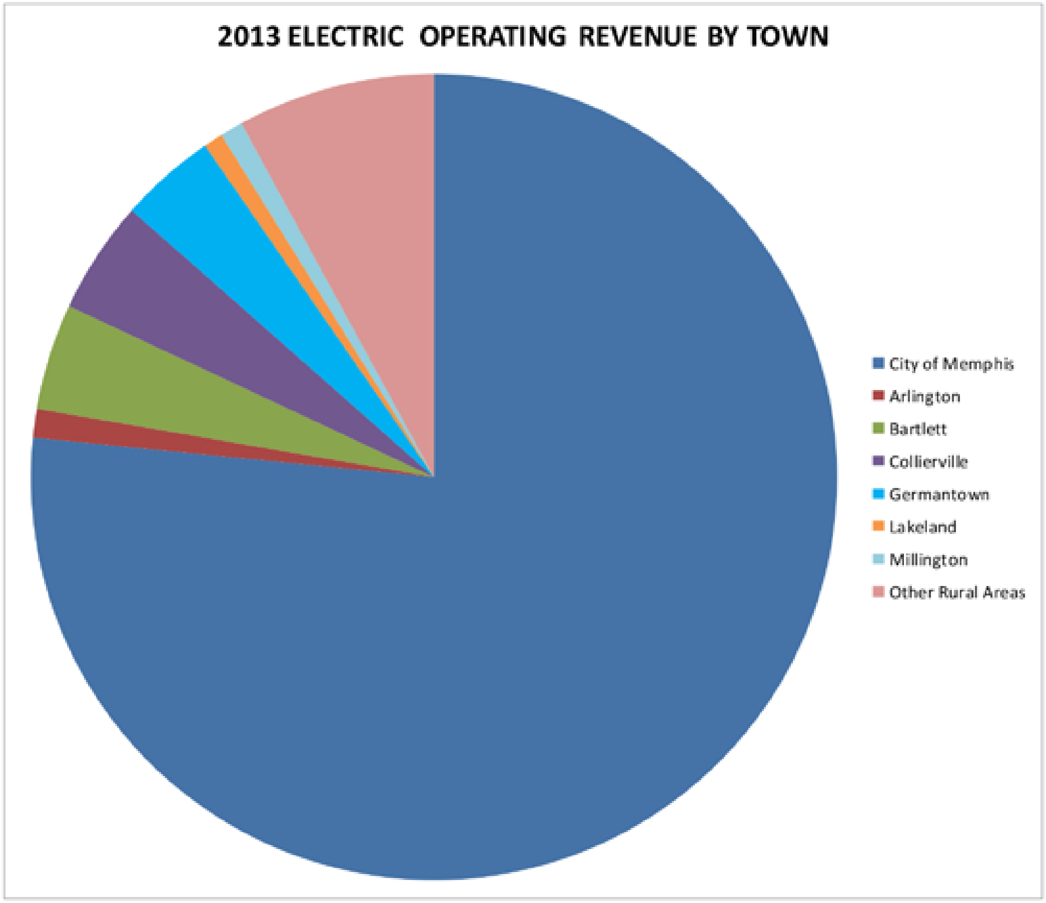
Dana Jeanes

Dana Jeanes
Vice President, CFO and Secretary-Treasurer

FINANCIAL HIGHLIGHTS
FOR THE YEARS ENDED
DECEMBER 31, 2013, 2012, AND 2011
(dollars and consumption in thousands)

Operating Statistics by Towns:

	ELECTRIC AMOUNT			ELECTRIC KWH		
	2013	2012	2011	2013	2012	2011
City of Memphis	$ 954,069	$ 967,153	$ 1,006,255	10,705,452	10,753,992	10,903,638
Arlington	14,323	14,787	14,987	158,301	160,331	162,462
Bartlett	53,117	53,515	54,605	559,096	557,240	564,699
Collierville	56,502	58,815	58,547	612,090	628,159	621,491
Germantown	48,155	50,019	51,888	513,489	527,477	550,578
Lakeland	9,607	9,956	10,355	101,896	104,063	107,962
Millington	11,410	11,276	11,579	118,588	115,592	118,363
Other Rural Areas	98,898	105,045	110,814	1,157,176	1,210,669	1,262,242
Total	$ 1,246,081	$ 1,270,566	$ 1,319,030	13,926,088	14,057,523	14,291,435

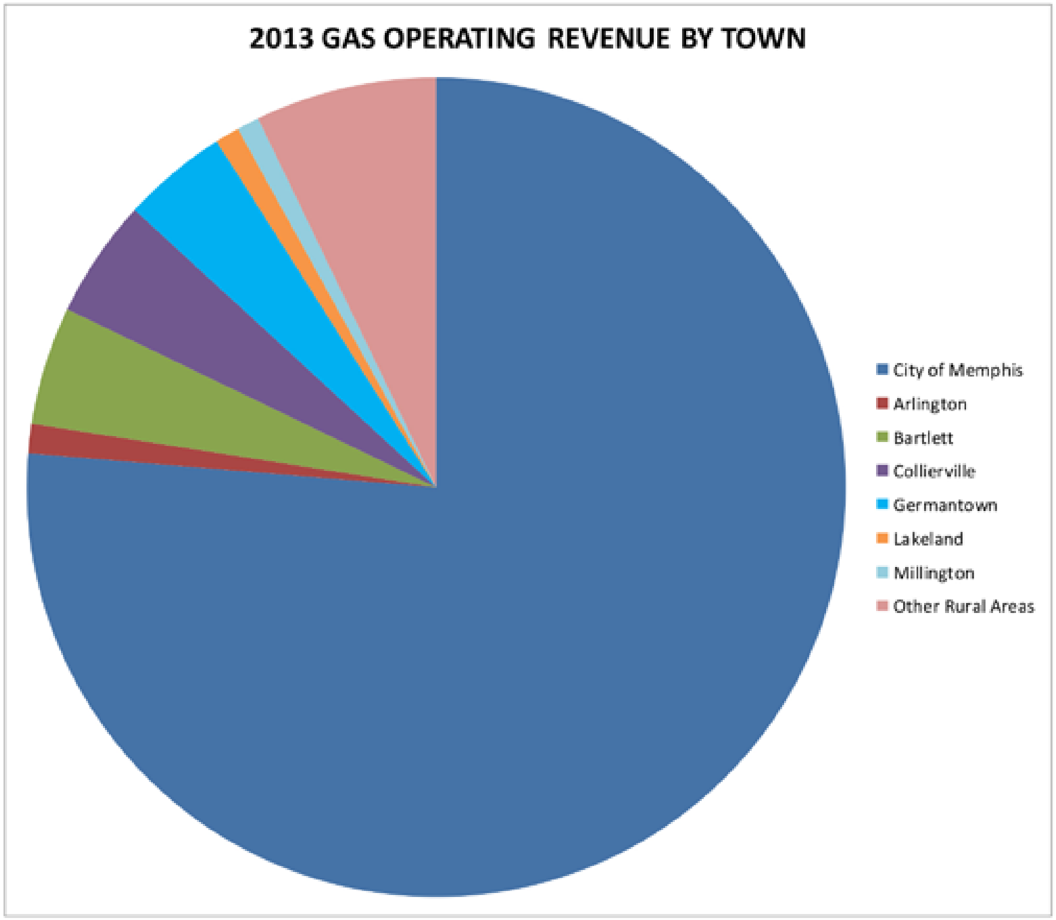


FINANCIAL HIGHLIGHTS
FOR THE YEARS ENDED
DECEMBER 31, 2013, 2012, AND 2011
(dollars and consumption in thousands)

MLGW

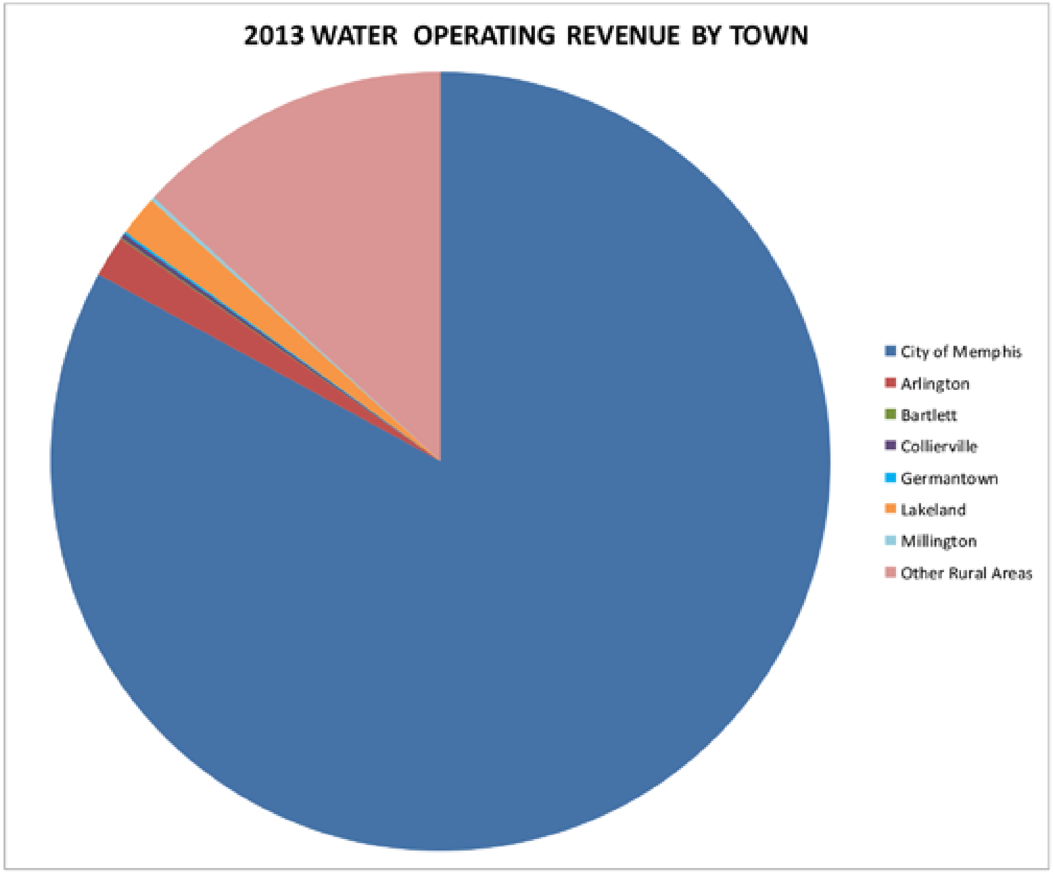
Operating Statistics by Towns:

	GAS AMOUNT			GAS MCF		
	2013	2012	2011	2013	2012	2011
City of Memphis	$ 217,229	$ 172,759	$ 211,006	25,295	20,017	25,503
Arlington	3,304	2,549	3,585	460	339	410
Bartlett	13,296	9,952	13,830	1,725	1,164	1,477
Collierville	13,332	10,266	14,233	1,834	1,309	1,609
Germantown	11,833	9,076	13,095	1,640	1,177	1,505
Lakeland	2,719	2,094	2,932	358	253	319
Millington	2,509	1,962	2,807	319	243	307
Other Rural Areas	20,394	17,149	25,346	2,651	2,068	2,756
Total	$ 284,616	$ 225,807	$ 286,834	34,282	26,570	33,886



Operating Statistics by Towns:

	WATER AMOUNT			WATER CCF		
	2013	2012	2011	2013	2012	2011
City of Memphis	$ 70,334	$ 70,279	$ 71,725	46,562	49,804	49,319
Resale to Other Municipalities:						
Arlington	1,463	1,473	1,384	585	652	604
Bartlett	41	29	27	5	4	2
Collierville	163	160	-	61	65	-
Germantown	79	99	82	29	112	27
Lakeland	1,415	1,459	1,396	564	635	605
Millington	132	72	65	53	52	29
Other Rural Areas	11,153	11,329	11,703	4,648	5,125	5,322
Total	$ 84,780	$ 84,900	$ 86,382	52,507	56,449	55,908



Financial Section

Memphis Light, Gas and Water Division

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Independent Auditor's Report

To the Board of Commissioners and Management
Memphis Light, Gas and Water Division
Memphis, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Electric, Gas and Water Divisions (the "Divisions") of Memphis Light, Gas and Water Division, enterprise funds of the City of Memphis, Tennessee, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Divisions' 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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric, Gas and Water Divisions of Memphis Light, Gas and Water Division as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in note 1, the financial statements present only the Electric, Gas and Water Divisions of Memphis Light, Gas and Water Division, and do not purport to, and do not, present fairly the financial position of the City of Memphis, Tennessee, as of December 31, 2013 and 2012, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis; schedule of funding progress for OPEB; schedule of employer contributions - OPEB; and schedule of funding progress for pension plan, 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 audits 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 audits were conducted for the purpose of forming opinions on the basic financial statements of each Division. The introductory section and supplementary information as shown in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information shown as the schedule of additions and retirements to utility plant; schedule of long term debt, principal, and interest requirements; and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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 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 taken as a whole.

The introductory section and supplementary information shown as the schedule of current utility rates; schedule of insurance; and schedule of unaccounted for water 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 June 5, 2014, on our consideration of the Divisions' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and 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 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 Divisions' internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

Memphis, Tennessee
June 5, 2014

The following management discussion and analysis (MD&A) for the Electric, Gas, and Water Divisions of Memphis Light, Gas and Water Division (MLGW) is intended as an introduction and should be read in conjunction with the financial statements and the notes that follow this section.

Highlights

- ❖ MLGW increased its rates in the Water Division in January 2013 and implemented a Tennessee Valley Authority (TVA) rate increase in the Electric Division effective in October 2013.

- ❖ All three divisions were impacted by the weather: Electric Division experienced a cooler summer with 14.21% fewer cooling degree days than last fiscal year; Gas Division experienced a colder winter with 45.48% more heating degree days than last fiscal year; and Water Division experienced 61.06% more rain than last fiscal year.

- ❖ The Gas Division embarked on two new alternative fuel ventures that will grow revenues. Liquefied Natural Gas (LNG) sales and Compressed Natural Gas (CNG) sales.

  - ▪ MLGW has entered into a 10-year contract to supply LNG for United Parcel Service's (UPS) fleet operation in the Greater Memphis area. UPS is expanding its use of LNG as a transportation fuel by replacing many of its diesel tractors with LNG-fueled tractors to serve the Greater Memphis area. Under the contract, MLGW's Capleville LNG plant will supply UPS with an average of 265,000 gallons of LNG per month for its new fueling station to be built in Memphis by the end of 2014, which UPS will own and operate. MLGW has sold three million gallons of LNG, generating about $2 million in revenues. The Capleville Plant has the capacity to produce 65,000 gallons of LNG per day – with room for expansion.

  - ▪ MLGW opened its first CNG public fueling station in Shelby County at 1130 Tupelo Street on July 10, 2013. The station will provide drivers of natural gas vehicles with the ability to purchase fuel. The price of CNG is driving the market with extreme fuel cost savings and improved air quality. Compressed natural gas is currently $1.50-$2.00 less per Gasoline Gallon Equivalent (GGE). In gasoline vehicles, evaporative and fueling emissions account for a significant portion of the emissions associated with operation. Natural gas vehicles, on the other hand, produce little or no evaporative emissions during fueling and use. MLGW has 76 natural gas vehicles and plans to expand its fleet and build four additional public CNG fueling stations around Shelby County.

- ❖ Fitch Ratings re-affirmed MLGW's AA+ rating on the Electric Division's outstanding debt. Fitch's rationale supporting the rating included MLGW's highly reliable source of power from the TVA, prepay agreement with TVA, stable financial metrics, and affordable rates.

Overview of the Financial Statements

MLGW's financial statements are comprised of the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; the Statements of Cash Flows; and the accompanying Notes. This report also contains required and supplemental information in addition to the basic financial statements.

The Statement of Net Position reports the assets and deferred outflows of resources less liabilities and deferred inflows of resources, with the difference being the net position. Net position will be displayed in three components: net investment in capital assets, restricted, and unrestricted. Over time, increases or decreases in net position may serve as an indicator of whether the financial position is improving or declining. The Statements of Revenues, Expenses and Changes in Net Position show how net position changed during each year based on revenues and expenses. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The Statements of Cash Flows report changes in cash and cash equivalents summarized by net changes from operating, capital and related financing and investing activities. The Notes provide additional detailed information to support the financial statements. The statements present the current year and preceding year for comparison. The report also includes Statistical Highlights; these highlights convey significant data that affords the reader a better historical perspective and assists in assessing the current financial status and trends of MLGW. The highlights present a three-year comparison beginning with the current year and preceding two years for the Electric, Gas, and Water Divisions.

MLGW comprises the utility operations of the City of Memphis. Pursuant to the Memphis City Charter, MLGW is required to maintain separate books and accounts of the electric, gas, and water operations, so that said books and accounts reflect the financial condition of each division separately, to the end that each division shall be self-sustaining.

Costs are allocated to the three divisions in a manner that ensures results of operations and changes in financial position are presented fairly and consistently from year to year.

MLGW's statements are provided to the City of Memphis and reformatted to conform to the City's format for enterprise funds. The City of Memphis incorporates MLGW's statements ending December 31 into its statements ending June 30.

STATISTICAL HIGHLIGHTS-ELECTRIC DIVISION

Years Ended December 31

CATEGORIES	2013	2012	2011
OPERATING REVENUE			
Residential	$ 493,607,631	$ 508,971,517	$ 529,391,733
Commercial - General Service	577,391,147	601,786,489	612,792,482
Industrial	119,870,213	116,010,509	116,452,972
Outdoor Lighting and Traffic Signals	22,827,135	22,669,769	22,634,114
Interdepartmental	9,274,299	10,002,069	9,681,521
Green Power	(283,057)	(639,462)	16,179
Miscellaneous	32,392,981	32,680,892	32,616,766
Accrued Unbilled Revenue	(2,045,502)	(14,329,780)	5,173,234
Revenue Adjustment for Uncollectibles	(6,954,155)	(6,585,758)	(9,728,851)
TOTAL OPERATING REVENUE	$ 1,246,080,692	$ 1,270,566,245	$ 1,319,030,150
CUSTOMERS			
Residential	362,687	361,029	360,353
Commercial - General Service	43,553	43,499	43,467
Industrial	155	142	145
Outdoor Lighting and Traffic Signals	17,037	17,009	16,968
Interdepartmental	47	47	46
Total Customers	423,479	421,726	420,979
KWH SALES (THOUSANDS)			
Residential	5,245,511	5,326,644	5,523,696
Commercial - General Service	6,326,233	6,521,467	6,601,025
Industrial	2,082,289	1,930,759	1,893,117
Outdoor Lighting and Traffic Signals	161,443	161,152	160,197
Interdepartmental	110,612	117,501	113,400
Total KWH Sales (Thousands)	13,926,088	14,057,523	14,291,435
OPERATING REVENUE/CUSTOMER			
Residential	$ 1,360.97	$ 1,409.78	$ 1,469.09
Commercial - General Service	13,257.21	13,834.49	14,097.88
Industrial	773,356.22	816,975.42	803,123.95
Outdoor Lighting and Traffic Signals	1,339.86	1,332.81	1,333.93
Interdepartmental	197,325.52	212,809.98	210,467.84
OPERATING REVENUE/KWH			
Residential	$ 0.094	$ 0.096	$ 0.096
Commercial - General Service	0.091	0.092	0.093
Industrial	0.058	0.060	0.062
Outdoor Lighting and Traffic Signals	0.141	0.141	0.141
Interdepartmental	0.084	0.085	0.085
KWH/CUSTOMER			
Residential	14,462.91	14,754.07	15,328.57
Commercial - General Service	145,253.67	149,922.23	151,862.91
Industrial	13,434,122.58	13,596,894.37	13,055,979.31
Outdoor Lighting and Traffic Signals	9,476.02	9,474.51	9,441.13
Interdepartmental	2,353,446.81	2,500,021.28	2,465,217.39

**See graph on M-6.*

STATISTICAL HIGHLIGHTS-GAS DIVISION

Years Ended December 31

CATEGORIES	2013	2012	2011
OPERATING REVENUE			
Residential	$ 165,155,180	$ 131,143,391	$ 185,615,702
Commercial - General Service	74,570,259	61,388,162	90,241,910
Industrial	2,739,421	3,192,698	6,638,076
Interdepartmental	242,488	190,390	289,998
Transported Gas	6,041,697	5,696,198	4,620,560
Spot Gas	8,751,055	6,435,704	10,700,934
Miscellaneous	18,304,021	29,466,309	(34,725,612)
Accrued Unbilled Revenue	11,073,202	(10,170,756)	25,696,174
Revenue Adjustment for Uncollectibles	(2,261,353)	(1,535,459)	(2,242,672)
TOTAL OPERATING REVENUE	$ 284,615,970	$ 225,806,637	$ 286,835,069
CUSTOMERS			
Residential	290,254	290,147	290,866
Commercial - General Service	22,096	22,289	22,374
Industrial	34	35	38
Interdepartmental	17	17	16
Transported Gas	99	90	84
Spot Gas	40	38	41
Total Customers	312,540	312,616	313,419
MCF SALES			
Residential	20,998,068	15,251,029	19,673,047
Commercial - General Service	10,899,607	8,910,754	10,991,897
Industrial	506,209	736,980	1,140,890
Interdepartmental	38,888	29,088	38,494
Spot Gas	1,839,159	1,641,652	2,041,832
Total MCF Sales	34,281,931	26,569,503	33,886,160
OPERATING REVENUE/CUSTOMER			
Residential	$ 569.00	$ 451.99	$ 638.15
Commercial - General Service	3,374.83	2,754.19	4,033.37
Industrial	80,571.21	91,219.93	177,015.36
Interdepartmental	14,263.98	11,199.40	18,609.48
Transported Gas	61,027.24	63,291.09	55,280.88
Spot Gas	218,776.38	169,360.63	264,220.58
OPERATING REVENUE/MCF			
Residential	$ 7.865	$ 8.599	$ 9.435
Commercial - General Service	6.842	6.889	8.210
Industrial	5.412	4.332	5.818
Interdepartmental	6.236	6.545	7.534
Spot Gas	4.758	3.920	5.241
MCF/CUSTOMER			
Residential	72.34	52.56	67.64
Commercial - General Service	493.28	399.78	491.28
Industrial	14,888.50	21,056.57	30,423.69
Interdepartmental	2,287.53	1,711.06	2,470.22
Spot Gas	45,978.98	43,201.39	50,415.60

**See graph on M-6.*

STATISTICAL HIGHLIGHTS-WATER DIVISION

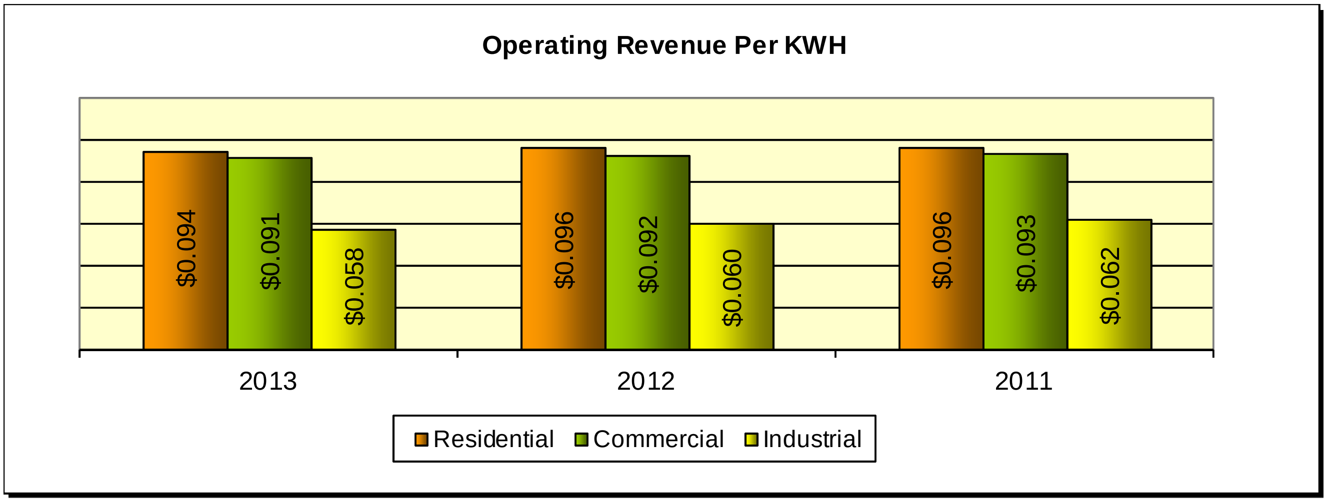
Years Ended December 31

CATEGORIES	2013	2012	2011
OPERATING REVENUE			
Residential	$ 41,225,873	$ 41,439,820	$ 41,676,945
Commercial - General Service	35,375,110	32,843,191	32,316,972
Resale	401,650	369,835	413,589
Fire Protection	3,976,678	3,527,080	3,532,763
Interdepartmental	48,983	50,576	53,328
Miscellaneous	4,766,921	8,418,398	8,307,878
Accrued Unbilled Revenue	51,050	(662,407)	1,289,069
Revenue Adjustment for Uncollectibles	(1,066,112)	(1,086,475)	(1,208,214)
TOTAL OPERATING REVENUE	$ 84,780,153	$ 84,900,018	$ 86,382,330
CUSTOMERS			
Residential	228,047	227,961	228,424
Commercial - General Service	20,823	20,313	20,265
Resale	12	13	13
Fire Protection	5,152	4,879	4,884
Government and Municipal (Free)	53	618	614
Interdepartmental	55	54	54
Total Customers	254,142	253,838	254,254
METERED WATER (CCF)			
Residential	23,707,027	25,647,247	25,813,028
Commercial - General Service	28,325,038	28,609,765	27,925,614
Resale	345,791	439,517	405,808
Government and Municipal (Free)	105,959	1,723,320	1,731,614
Interdepartmental	23,440	29,156	31,640
Total CCF Sales	52,507,255	56,449,005	55,907,704
OPERATING REVENUE/CUSTOMER			
Residential	$ 180.78	$ 181.78	$ 182.45
Commercial - General Service	1,698.85	1,616.86	1,594.70
Resale	33,470.87	28,448.83	32,217.39
Fire Protection	771.87	722.91	723.36
Interdepartmental	890.60	936.59	981.46
OPERATING REVENUE/CCF			
Residential	$ 1.739	$ 1.616	$ 1.615
Commercial - General Service	1.249	1.148	1.157
Resale	1.162	0.841	1.019
Interdepartmental	2.090	1.735	1.685
CCF/CUSTOMER			
Residential	103.96	112.51	113.00
Commercial - General Service	1,360.28	1,408.45	1,378.01
Resale	28,815.92	33,809.00	31,615.79
Government and Municipal (Free)	1,999.23	2,788.54	2,820.19
Interdepartmental	426.18	539.93	582.30

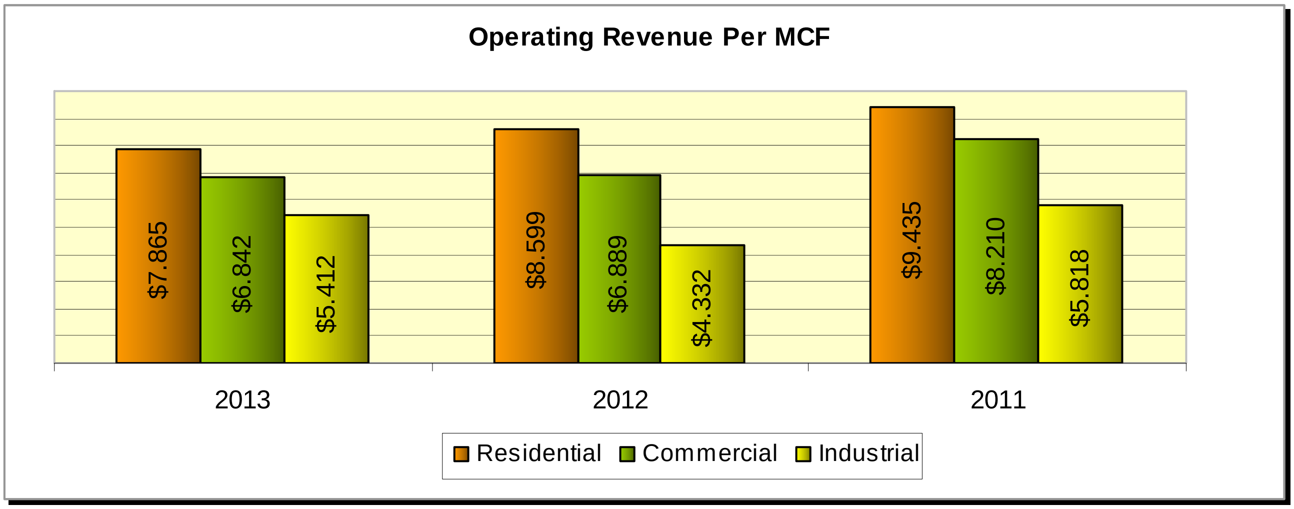
**See graph on M-7.*

GRAPHS

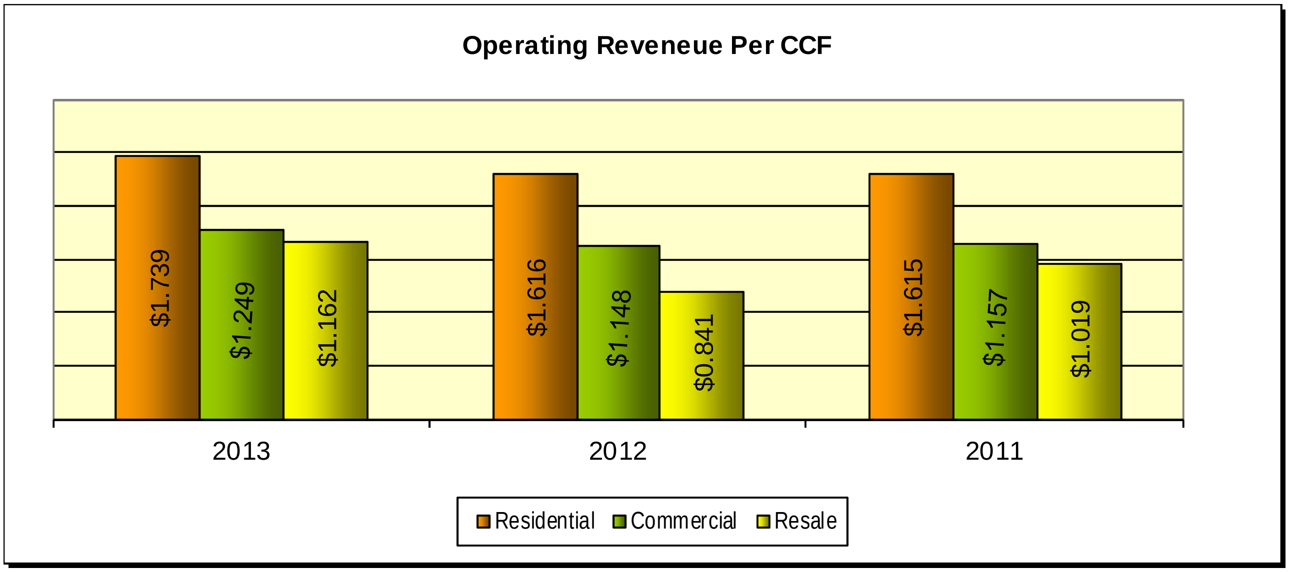
Electric Division



Gas Division



Water Division



Bond Ratings

MLGW's Electric Division continues to maintain strong bond ratings. The Electric Division has debt outstanding of $562,995 as of December 31, 2013. The Water Division bonds were retired in 2012. The Gas Division currently has no debt that is credit rated. In December 2013, Fitch Ratings re-affirmed MLGW's AA+ rating on the Electric Division's outstanding debt. Fitch's rationale supporting the rating included MLGW's highly reliable source of power from the TVA, prepay agreement with TVA, stable financial metrics, and affordable rates. MLGW's debt service coverage is 1.79 and is well above the 1.00 required by the Electric Division bond covenant regarding junior lien debt. When issuing bond ratings, agencies typically look at financial operations, management practices, and rates and debt ratios. Higher ratings result in the ability to issue and refinance debt at favorable rates compared to companies with lower ratings.

The following tables show MLGW bond ratings and debt administration for the Electric Division as of December 31, 2013:

Figure 1: Bond Ratings and Debt Administration for Electric Division

MLGW Bond Ratings			
	S&P	**Moody's**	**Fitch**
Electric			
2003A	AA+	Aa2	AA+
2008	AA+	Aa2	AA+
2010	AA+	Aa2	AA+

Debt Administration (In Thousands)		
	Outstanding Balance	**Coverage**
Electric	$562,995	1.79

Analysis of the Electric Division's Statement of Net Position

Condensed financial information comparing the Electric Division's net position for the past three fiscal years is presented below:

Table 1
Electric Division Condensed Statements of Net Position
December 31
(In Thousands)

	2013	2012	FY13 - FY12 Percentage Change	2011	FY12 - FY11 Percentage Change
Current assets (excluding restricted funds)	$ 456,034	$ 470,208	-3.0%	$ 487,569	-3.6%
Restricted assets	59,571	57,537	3.5%	54,911	4.8%
Other assets	3,051	3,594	-15.1%	5,008	-28.2%
Prepaid power cost - long-term	463,133	573,115	-19.2%	680,894	-15.8%
Utility plant	996,031	977,339	1.9%	948,159	3.1%
Total assets	1,977,820	2,081,793	-5.0%	2,176,541	-4.4%
Deferred outflows of resources					
Unamortized balance of refunded debt	10,137	13,945	-27.3%	17,752	-21.4%
Total assets and deferred outflows	1,987,957	2,095,738	-5.1%	2,194,293	-4.5%
Current liabilities payable from current assets	304,851	307,261	-0.8%	294,165	4.5%
Current liabilities payable from restricted assets	30,008	29,987	0.1%	28,703	4.5%
Long-term debt	491,161	606,217	-19.0%	719,283	-15.7%
Non-current liabilities	27,975	33,099	-15.5%	35,212	-6.0%
Total liabilities	853,995	976,564	-12.6%	1,077,363	-9.4%
Net position:					
Net investment in capital assets	996,031	977,339	1.9%	948,159	3.1%
Restricted	17,287	16,665	3.7%	16,206	2.8%
Unrestricted	120,644	125,170	-3.6%	152,565	-18.0%
Total Net position	$ 1,133,962	$ 1,119,174	1.3%	$ 1,116,930	0.2%

Assets

2013 Compared to 2012:

As of December 31, 2013, total assets and deferred outflows were $1.99 billion, a decrease of $107.8 million, or 5.1%, compared to December 31, 2012. This decrease is primarily due to a decrease in prepaid power cost (long-term) of $110.0 million due to amortization (see Note 12) and a decrease in current assets (excluding restricted funds) of $14.2 million, offset by an increase net utility plant of $18.7 million as a result of additions to electric plant in-service. The decrease in current assets is primarily the result of a decrease in cash and cash equivalents of $20.9 million and unbilled revenue of $2.0 million, offset by increases in investments of $4.9 million, accounts receivable, less allowance for doubtful accounts of $3.5 million, and prepaid power cost of $2.2 million.

2012 Compared to 2011:

As of December 31, 2012, total assets and deferred outflows were $2.10 billion, a decrease of $98.6 million, or 4.5%, compared to December 31, 2011. This decrease is due to a decrease in prepaid power cost of $107.8 million due to amortization (see Note 12), a decrease in current assets of $17.4 million, and a decrease in deferred unamortized balance of refunding debt for Series 2010 Bonds of $3.8 million (see Note 11), partially offset by an increase in net utility plant of $29.2 million resulting from additions to electric plant in-service. The decreases in current assets is primarily the result of decreases in unbilled revenues ($14.3 million), accounts receivable ($10.7 million), investments ($6.1 million), and cash and cash equivalents ($4.5 million), partially offset by increases in collateral held in trust for securities on loan ($12.0 million), prepaid power cost ($3.4 million), and inventories ($2.5 million).

Capital Assets and Construction Activities

2013 Compared to 2012:

The Electric Division's utility plant assets, net of accumulated depreciation were $996.0 million as of December 31, 2013, an increase of 1.9% over fiscal year 2012. During 2013, the Electric Division expended $61.1 million on construction activities and capital purchases, a decrease of $11.3 million, or 15.6%, compared to fiscal year 2012. Major Electric Division construction activities included substation and transmission projects ($18.5 million), extensions to serve new customers ($7.8 million), the purchase of meters and metering equipment ($5.8 million), and the purchase of transformers ($4.5 million). Other significant Electric Division capital expenditures consisted of communication network improvements ($3.8 million), street and leased outdoor lighting ($3.5 million), improvements to the customer information system ($3.4 million), the replacement of feeder and defective cable ($3.0 million), the purchase of transportation and power operated equipment ($2.5 million), Smart Grid, net of reimbursements, ($1.9 million), relocation of facilities to accommodate road improvements ($1.8 million), new circuits out of substations ($1.6 million), mainframe system replacement ($1.2 million), and North American Electric Reliability Corporation (NERC) compliance ($1.0 million).

2012 Compared to 2011:

The Electric Division's utility plant assets, net of accumulated depreciation were $977.3 million as of December 31, 2012, an increase of $29.2 million (3.1%) over fiscal year 2011. During 2012, the Electric Division expended $72.4 million on capital equipment purchases and construction activities, an increase of $11.5 million, or 19.0%, compared to fiscal year 2011. Major Electric Division construction activities included substation and transmission projects ($24.5 million), extensions to serve new customers ($5.6 million), and the purchase of transformers ($5.0 million). Other significant Electric Division capital expenditures consisted of purchase of property ($4.8 million), Smart Grid, net of reimbursements ($3.8 million), street lighting and leased outdoor lighting ($3.8 million), replacement of feeder and defective cable ($3.3 million), purchase of meters and metering equipment ($2.6 million), and the customer information system ($2.2 million).

Liabilities

2013 Compared to 2012:

As of December 31, 2013, total liabilities were $854.0 million, representing a $122.6 million (12.6%) decrease compared to $976.6 million at December 31, 2012. Long-term debt decreased $115.1 million to $491.2 million in fiscal year 2013 from $606.2 million in fiscal year 2012 resulting from a reclassification of a portion of long-term debt to the current portion of debt and premium amortization (see Note 11). Non-current liabilities decreased to $28.0 million, or 15.5%, due, in part, to the remeasurement of pollution remediation obligations (see Note 9). Current liabilities payable from current assets decreased 0.8%, or $2.4 million, primarily due to a decrease in accounts payable-purchased power of $5.8 million and collateral subject to return to borrowers of $0.8 million, offset by increases in bonds payable (current portion) of $2.8 million and other liabilities, accounts payable and accrued expense of $1.3 million.

2012 Compared to 2011:

As of December 31, 2012, total liabilities were $976.6 million, a decrease of $100.8 million, or 9.4%, compared to $1.08 billion as of December 31, 2011. This decrease is due to a $113.1 million decrease (15.7%) in long-term debt resulting from reclassification of a portion of long-term debt to the current portion of debt and premium amortization (see Note 11). Non-current liabilities decreased by $2.1 million due to other deferred credits for long-term pollution. These decreases were partially offset by a $13.1 million increase (4.5%) in current liabilities payable from current assets attributable to a $12.0 million increase in securities on loan under the Division's securities lending program, and bonds payable (current portion) due to principal payments made in 2012, offset by a decrease in accounts payable-purchased power of $3.9 million.

Net Position

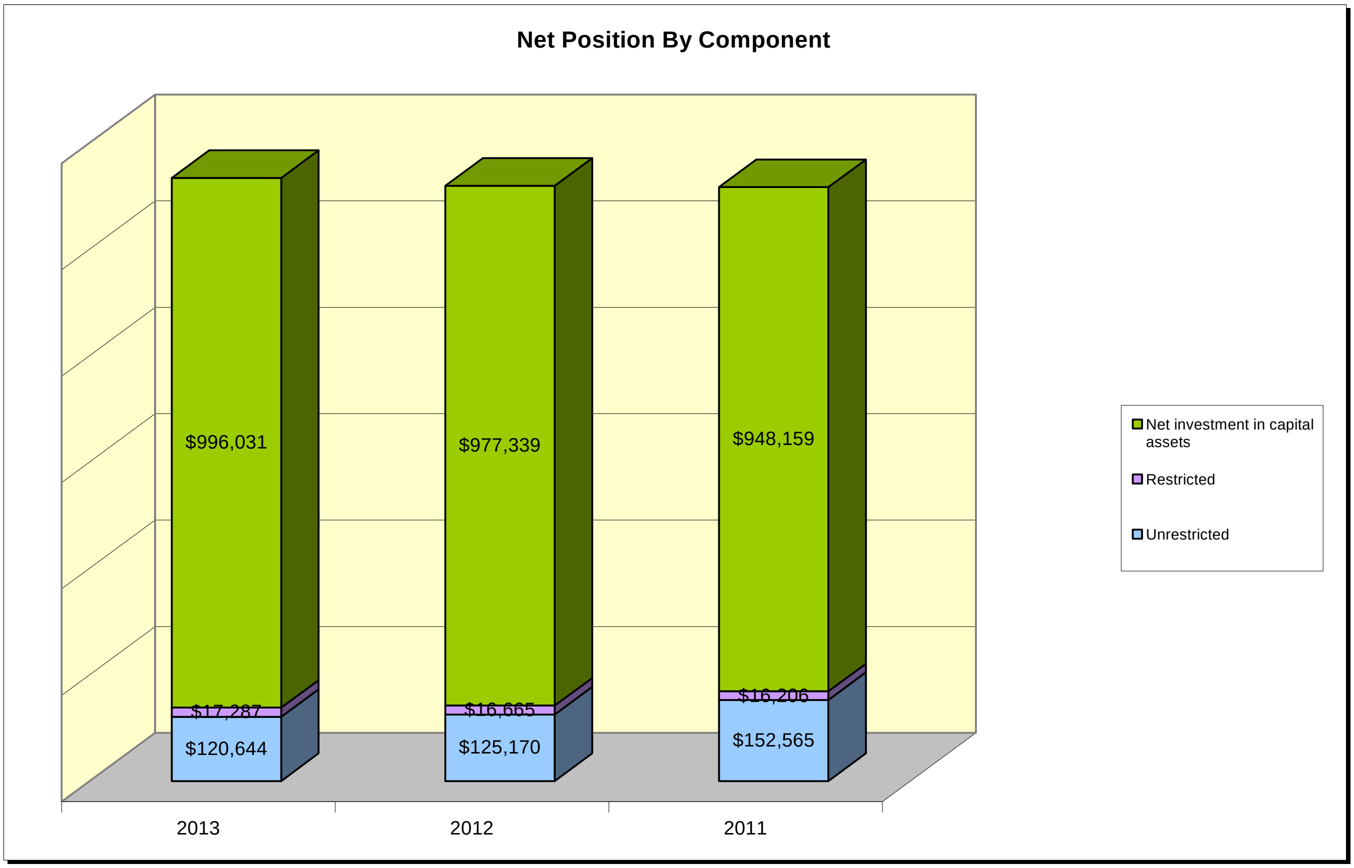
2013 Compared to 2012:

As of December 31, 2013, the Electric Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was $1.13 billion, an increase of $14.8 million, or 1.3%, compared to December 31, 2012. Eighty-eight percent of the net position was related to net investments in capital assets, which accounts for $18.7 million of the increase, partially offset by a decrease in unrestricted net position (used to finance day-to-day operations) of $4.5 million, or 3.6%.

2012 Compared to 2011:

As of December 31, 2012, the Electric Division's total net position was $1.12 billion, an increase of $2.2 million, or 0.2%, compared to December 31, 2011. Eighty-seven percent of the net position was related to net investments in capital assets, which accounts for $29.2 million of the increase. This increase was offset by a decrease in unrestricted net position (used to finance day-to-day operations) of $27.4 million.

Figure 2: Electric Division's Net Position (in thousands):



Analysis of the Electric Division's Statement of Revenues, Expenses and Changes in Net Position

Condensed financial information comparing the Electric Division's revenues, expenses and changes in net position for the past three fiscal years is presented below:

Table 2
Electric Division
Condensed Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2013, 2012, and 2011
(In Thousands)

	2013	2012	FY13 - FY12 Percentage Change	2011	FY12 - FY11 Percentage Change
Revenues:					
Operating revenues	$ 1,246,081	$ 1,270,566	-1.9%	$ 1,319,030	-3.7%
Non-operating revenues	57,238	60,970	-6.1%	66,403	-8.2%
Total revenues	1,303,319	1,331,536	-2.1%	1,385,433	-3.9%
Expenses:					
Depreciation expense	45,240	44,698	1.2%	43,833	2.0%
Purchased power	1,008,460	1,045,362	-3.5%	1,073,538	-2.6%
Other operating expense	172,856	176,407	-2.0%	173,992	1.4%
Non-operating expense	24,061	27,847	-13.6%	31,405	-11.3%
Total expenses	1,250,617	1,294,314	-3.4%	1,322,768	-2.2%
Income before contributions in aid of construction and transfers	52,702	37,222	41.6%	62,665	-40.6%
Contributions in aid of construction	19,715	14,033	40.5%	10,817	29.7%
Reduction of plant costs recovered through contributions in aid of construction	(19,715)	(14,033)	-40.5%	(10,817)	-29.7%
Transfers to City of Memphis	(37,914)	(34,978)	8.4%	(39,439)	-11.3%
Change in net positon	$ 14,788	$ 2,244	559.0%	$ 23,226	-90.3%
Net position, beginning of year	$ 1,119,174	$ 1,116,930	0.2%	$ 1,093,704	2.1%
Change in net position	14,788	2,244	559.0%	23,226	-90.3%
Net position, end of year	$ 1,133,962	$ 1,119,174	1.3%	$ 1,116,930	0.2%

Change in Net Position

2013 Compared to 2012:

The change in net position is $14.8 million, up $12.5 million from $2.2 million at December 31, 2012. This increase is primarily due to an increase in operating margin (operating revenue less power cost) of $12.4 million resulting from higher accrued unbilled revenue. Other contributors to the increase in net position include a decrease in non-operating expenses of $3.8 million and a decrease in other operating expenses of $3.6 million, offset by a decrease in non-operating revenues of $3.7 million, an increase in Transfers to the City of $2.9 million, and an increase in depreciation expense of $0.5 million.

2012 Compared to 2011:

As of December 31, 2012, the change in net position was $2.2 million, representing a $21.0 million, or 90.3% decrease, as compared to December 2011. The decrease is mainly due to a decrease in operating revenues of $48.5 million, non-operating revenues of $5.4 million, and increases in other operating expenses of $2.4 million and depreciation expenses of $0.9 million, offset by a decrease in purchased power of $28.2 million, non-operating expenses of $3.6 million, and Transfers to the City of $4.5 million.

Revenues

2013 Compared to 2012:

Total revenues were $1.30 billion for fiscal year 2013, a decrease of $28.2 million (2.1%) from fiscal year 2012. Operating revenues were $1.25 billion in 2013, a decrease of $24.5 million from 2012. The decrease in operating revenue is due to a 0.9% decrease in 2013 electricity sales, lower power cost per unit that are passed along to customers through the fuel cost adjustor (FCA), and lower sales volume. There was a corresponding decrease in purchased power cost of $36.9 million due to lower purchased volume and lower power cost per unit, offset by the TVA rate increase effective in October 2013. Non-operating revenue decreased $3.7 million to $57.2 million in 2013 from $61.0 million in 2012 as a result of a decrease in other income prepay credit, related to the Electric Prepay Bonds.

2012 Compared to 2011:

Total revenues were $1.33 billion for fiscal year 2012, a decrease of $53.9 million (3.9%) from fiscal year 2011. Operating revenues were $1.27 billion in 2012, decreasing by $48.5 million from 2011. The decrease in operating revenues is due to a 1.6% decrease in 2012 electricity sales, lower power cost per unit that are passed along to customers by a FCA, and a change in the method used to estimate accrued/unbilled revenues. There was a corresponding decrease in purchased power cost of $28.2 million due to lower purchased volumes and lower power cost per unit. Non-operating revenues decreased by 8.2% in 2012 as a result of a $3.6 million decrease in other income prepay credit, related to the Electric Prepay Bonds and a $1.7 million decrease in miscellaneous non-operating income.

Expenses

2013 Compared to 2012:

For fiscal year 2013, total expenses were $1.25 billion, a 3.4% ($43.7 million) decrease from fiscal year 2012 total expenses of $1.29 billion. This decrease was a result of a decrease in purchased power cost of $36.9 million (3.5%), a decrease in non-operating expenses of $3.8 million (13.6%), and a decrease in other operating expenses of $3.6 million (2.0%). The decrease in non-operating expenses is the result of savings realized on interest expenses due to the amortization of the Series 2003A Bonds. The decrease in other operating expenses is due, in part, to a decrease in maintenance expenses of $5.2 million, offset by an increase in operating expenses of $1.4 million and payment in lieu of taxes (PILOT) of $0.3 million. (There was a corresponding increase in PILOT in Transfers to the City.)

2012 Compared to 2011:

For fiscal year 2012, total expenses were $1.29 billion, a decrease of $28.5 million, or 2.2%, compared to fiscal year 2011. This decrease resulted from a $28.2 million decrease (2.6%) in purchased power cost, a decrease in non-operating expenses of $3.6 million (11.3%), offset in part by increases in other operating expense of $2.4 million (1.4%) and depreciation expense of $0.9 million (2.0%). The decrease in non-operating expenses is the result of savings realized on interest expenses due to the amortization of the Series 2003A Bonds. The increase in other operating expenses is the result of an increase in PILOT of $4.9 million, offset in part by a decrease in operating and maintenance expenses of $2.5 million. (The increase in PILOT is offset by a corresponding decrease in Transfer to the City of Memphis.)

Contributions in aid of construction

2013 Compared to 2012:

Contributions in aid of construction (CIAC) were $19.7 million for fiscal year 2013, an increase of $5.7 million (40.5%) from fiscal year 2012. This increase was mainly the result of increases of $3.3 million in grants and economic development, $3.2 million in construction activity, and $2.0 million in cancelled contracts. These increases were partially offset by a $2.8 million decrease in contract adjustments.

2012 Compared to 2011:

CIAC were $14.0 million for fiscal year 2012, an increase of $3.2 million (29.7%) from fiscal year 2011. This increase was mainly the result of increases of $2.7 million in construction activity, $2.4 million in grants and economic development, $1.1 million in property damage claims, and $0.9 million in cancelled contracts. These increases were partially offset by a decrease of $3.9 million in reimbursement from the Federal Emergency Management Agency (FEMA) for natural disasters.

Transfers to the City of Memphis

2013 Compared to 2012:

MLGW's transfer to the City of Memphis is based on the formula provided by the May 29, 1987 TVA Power Contract Amendment (Supp. No. 8). The formula includes a maximum property tax equivalency calculation plus 4% of operating revenue less power cost (three-year average). Transfers to the City represent the Electric Division's in lieu of tax payment. The transfer for 2013 increased by $2.9 million primarily due to increases in the tax rate and net plant investment, offset by a reduction in three-year average revenues.

2012 Compared to 2011:

For the year ended December 31, 2012, transfers to the City were $35.0 million. The transfer amount for 2012 decreased $4.5 million due to the City directing payment of $4.6 million go directly to Shelby County (see corresponding increase discussed above). For 2011, the tax applicable to Shelby County was paid as a Transfer to the City. The Electric Division calculation was based on the formula provided by the State of Tennessee Municipal Electric System Tax Equivalent Law of 1987.

Analysis of the Gas Division's Statement of Net Position

Condensed financial information comparing the Gas Division's net position for the past three fiscal years is presented below:

Table 3
Gas Division Condensed Statement of Net Position
December 31
(In Thousands)

	2013	2012	FY13 - FY12 Percentage Change	2011	FY12 - FY11 Percentage Change
Current assets (excluding restricted funds)	$ 199,053	$ 229,718	-13.3%	$ 233,663	-1.7%
Restricted assets	17,388	16,900	2.9%	13,321	26.9%
Other assets	2,155	3,850	-44.0%	5,280	-27.1%
Utility plant	336,647	306,868	9.7%	306,255	0.2%
Total assets	555,243	557,336	-0.4%	558,519	-0.2%
Deferred outflows of resources					
Accumulated decrease in fair value of hedging derivatives	-	1,439	-100.0%	2,366	-39.2%
Total assets and deferred outflows	555,243	558,775	-0.6%	560,885	-0.4%
Current liabilities payable from current assets	85,260	87,359	-2.4%	87,449	-0.1%
Current liabilities payable from restricted assets	5,220	5,440	-4.0%	5,162	5.4%
Non-current liabilities	6,471	7,779	-16.8%	8,066	-3.6%
Total liabilities	96,951	100,578	-3.6%	100,677	-0.1%
Deferred Inflows of Resources					
Accumulated decrease in fair value of hedging derivatives	494	-	100.0%	-	-
Total liabilities and deferred inflows	97,445	100,578	-3.1%	100,677	-0.1%
Net position:					
Net investment in capital assets	336,647	306,868	9.7%	306,255	0.2%
Restricted	10,247	9,346	9.6%	5,623	66.2%
Unrestricted	110,904	141,983	-21.9%	148,330	-4.3%
Total Net position	$ 457,798	$ 458,197	-0.1%	$ 460,208	-0.4%

Assets

2013 Compared to 2012:

As of December 31, 2013, total assets and deferred outflows were $555.2 million, a decrease of $3.5 million, or 0.6%, compared to December 31, 2012. This decrease is due, in part, to a decrease in current assets (excluding restricted funds) of $30.7 million, a decrease in other assets of $1.7 million, and a decrease in the fair value of hedging derivatives of $1.4 million, offset by an increase in net utility plant of $29.8 million. The decrease in current assets is primarily due to a decrease in cash and cash equivalents of $30.4 million. Other assets decreased primarily as a result of notes receivable and other payments per the scheduled amortization activity associated with the Valero pipeline lease (see Note 3).

2012 Compared to 2011:

As of December 31, 2012, total assets and deferred outflows were $558.8 million, a decrease of $2.1 million, or 0.4%, compared to December 31, 2011. This decrease is due, in part, to a decrease in current assets of $3.9 million, a decrease in other assets of $1.4 million, and a decrease in the fair value of hedging derivatives of $0.9 million, offset by an increase in restricted net assets of $3.6 million. The decrease in current assets is primarily the result of decreases in accounts receivable ($13.8 million), unbilled revenue ($10.2 million), inventory ($9.4 million) and other current assets ($3.3 million), offset by increases in cash and cash equivalents ($10.8 million), investments ($6.1 million), and collateral held in trust for securities on loan ($15.0 million). Restricted net assets increased by $3.6 million for fiscal year 2012 due to increases in insurance reserves – casualties and general ($4.1 million) and insurance reserves – injuries and damages ($0.5 million), partially offset by a decrease in customer deposits ($0.7 million). Other assets decreased by $1.4 million primarily as a result of notes receivable and other payments per the scheduled amortization activity associated with the Valero pipeline lease (see Note 3).

Capital Assets and Construction Activities

2013 Compared to 2012:

The Gas Division's utility plant assets, net of accumulated depreciation were $336.6 million as of December 31, 2013, an increase of 9.7% over fiscal year 2012. During 2013, the Gas Division expended $42.4 million on construction activities and equipment purchases, an increase of $26.4 million, or 165.0%, compared to fiscal year 2012. Major Gas Division construction activities included replacement of the mainframe system ($25.1 million), the purchase of meters and metering equipment ($8.6 million), the purchase of transportation and power operated equipment ($3.2 million), and the retrofitting of cast iron systems and steel taps ($2.2 million). Other significant Gas Division expenditures included buildings and structures ($1.6 million), and pipeline integrity ($1.0 million).

2012 Compared to 2011:

The Gas Division's utility plant assets, net of accumulated depreciation, were $306.9 million as of December 31, 2012, an increase of $0.6 million (0.2%) over December 31, 2011. During 2012, the Gas Division expended $16.0 million on capital equipment purchases and construction activities, a decrease of $4.1 million, or 20.4%, compared to fiscal year 2011. Major Gas Division construction activities include meters and metering equipment ($2.1 million), pipeline integrity ($1.4 million), extensions to serve customers ($1.2 million), and relocation of facilities to accommodate road improvements ($0.2 million). A substantial portion of the Gas Division's expenditures was also attributed to retrofitting of cast iron systems and steel taps ($4.4 million), purchase of transportation and power-operated equipment ($2.7 million), and buildings and structures ($1.5 million).

Liabilities

2013 Compared to 2012:

At December 31, 2013, total liabilities and deferred inflows were $97.4 million, representing a $3.1 million (3.1%) decrease compared to $100.6 million at December 31, 2012. Current liabilities payable from current assets decreased $2.1 million, or 2.4%, primarily due to decreases in collateral subject to return to borrowers ($9.1 million), other liabilities, accounts payable and accrued expenses ($1.5 million), and derivative financial instruments ($1.4 million). This decrease was offset by an increase in accounts payables - purchased gas ($9.9 million). Non-current liabilities payable decreased $1.3 million due to pollution remediation obligations (see Note 9) and customer advances for construction.

2012 Compared to 2011:

Total liabilities and deferred inflows were $100.6 million at December 31, 2012 compared to $100.7 million as of December 31, 2011, a $0.1 million decrease (0.1%). Current liabilities payable from current assets decreased 0.1%, or $0.1 million, as a result of a decrease in other liabilities, accounts payable and accrued expenses ($16.6 million), largely attributable to lower Purchased Gas Adjustment (PGA), and a decrease in derivative financial instruments ($0.9 million). This decrease was partially offset by a $15.0 million increase in collateral subject to return to borrowers and accounts payable-purchased gas of $2.5 million. The $0.3 million increase in current liabilities payable from restricted net assets is due to increases in insurance reserves – injuries and damages ($0.5 million), partially offset by decreases in customer deposits ($0.3 million).

Net Position

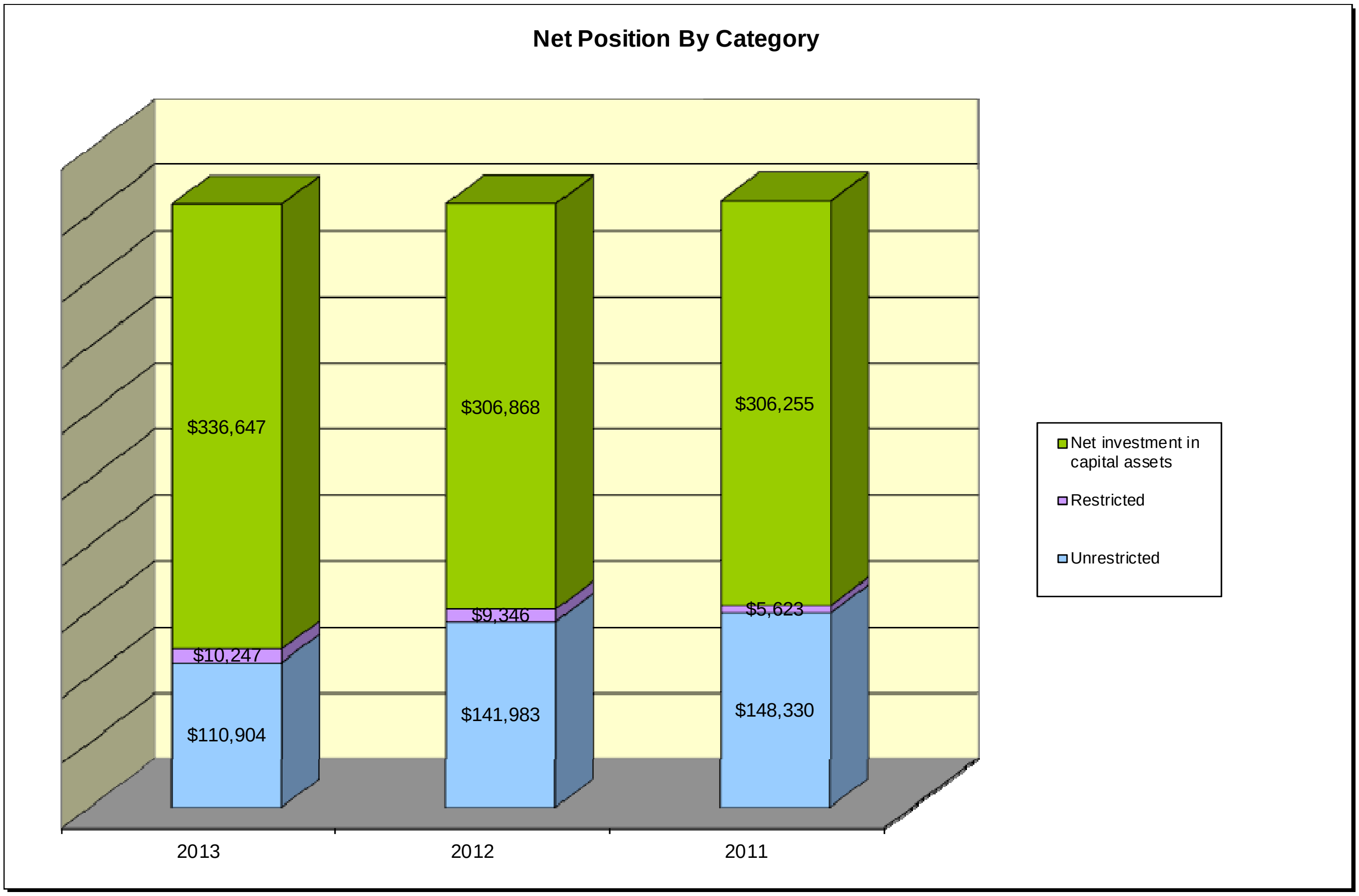
2013 Compared to 2012:

As of December 31, 2013, the Gas Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was $457.8 million, a decrease of $0.4 million, or 0.1% from December 31, 2012. Unrestricted net position (used to finance day-to-day operations) decreased $31.1 million, or 21.9% of the overall decrease in total net position. This decrease was offset by an increase in net investments in capital assets of $29.8 million (9.7%). Seventy-four percent of net position was related to net investments in capital assets.

2012 Compared to 2011:

As of December 31, 2012, the Gas Division's total net position decreased by $2.0 million, or 0.4%, compared to fiscal year 2011. This decrease is due to a decrease in unrestricted net position ($6.3 million), partially offset by an increase in restricted net position of $3.7 million. Net investment in capital assets represents sixty-seven percent of total net position.

Figure 3: Gas Division's Net Position (in thousands):



Analysis of the Gas Division's Statement of Revenues, Expenses and Changes in Net Position

Condensed financial information comparing the Gas Division's revenues, expenses and changes in net position for the past three fiscal years is presented below:

**Table 4
Gas Division
Condensed Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2013, 2012, and 2011**
(In Thousands)

	2013	2012	FY13 - FY12 Percentage Change	2011	FY12 - FY11 Percentage Change
Revenues:					
Sales, service and other operating revenues	$ 277,878	$ 219,444	26.6%	$ 281,124	-21.9%
Transported gas revenue	6,738	6,362	5.9%	5,710	11.4%
Non-operating revenues	(254)	589	-143.1%	1,575	-62.6%
Total revenues	284,362	226,395	25.6%	288,409	-21.5%
Expenses:					
Depreciation expense	13,324	13,261	0.5%	12,709	4.3%
Purchased gas	163,241	112,051	45.7%	168,189	-33.4%
Other operating expense	91,988	88,432	4.0%	82,623	7.0%
Non-operating expense	-	-	-	197	-100.0%
Total expenses	268,553	213,744	25.6%	263,718	-18.9%
Income before contributions in aid of construction and transfers	15,809	12,651	25.0%	24,691	-48.8%
Contributions in aid of construction	2,015	542	271.8%	406	33.5%
Reduction of plant costs recovered through contributions in aid of construction	(2,015)	(542)	-271.8%	(406)	-33.5%
Transfers to City of Memphis	(16,208)	(14,662)	10.5%	(15,666)	-6.4%
Change in net positon	$ (399)	$ (2,011)	80.2%	$ 9,025	-122.3%
Net position, beginning of year	$ 458,197	$ 460,208	-0.4%	$ 451,183	2.0%
Change in net position	(399)	(2,011)	80.2%	9,025	-122.3%
Net position, end of year	$ 457,798	$ 458,197	-0.1%	$ 460,208	-0.4%

Change in Net Position

2013 Compared to 2012:

The change in net position is a loss of $0.4 million, up $1.6 million from a loss of $2.0 million at December 31, 2012. This increase is primarily due to an increase in operating margin (operating revenue less gas cost) of $7.6 million resulting from higher accrued unbilled revenue. This increase was offset by an increase in other operating expenses of $3.6 million, an increase in Transfers to the City of $1.5 million, and a decrease in non-operating revenues of $0.8 million.

2012 Compared to 2011:

As of December 31, 2012, the change in net position was a loss of $2.0 million. This represents an $11.0 million, or 122.3% decrease, compared to $9.0 million change as of December 31, 2011. This decrease is mainly due to a decrease in sales, service and other operating revenues of $61.7 million, an increase in other operating expenses of $5.8 million, offset in part by a decrease in purchased gas cost of $56.1 million.

Revenues

2013 Compared to 2012:

Total revenues were $284.4 million for fiscal year 2013, an increase of 25.6% from fiscal year 2012. Sales, service and other operating revenues were $277.9 million, an increase of $58.4 million (26.6%) from 2012. There was an increase in gas sales and higher gas cost that are passed along to customers by a PGA. There was a corresponding increase in purchased gas cost of $51.2 million (45.7%) due to higher purchased volumes and higher gas cost per unit. The $0.8 million decline in 2013 non-operating revenues is due in part to a decrease in revenues from other Divisions for use of common transportation equipment and interest and other income. Transported gas revenue increased by 5.9% in 2013 compared to last fiscal year.

2012 Compared to 2011:

Total revenues were $226.4 million for fiscal year 2012, a decrease of 21.5% from fiscal year 2011. Sales, service and other operating revenues were $219.4 million, decreasing by $61.7 million (21.9%) from 2011. The decrease in sales, service, and other operating revenues is due to a 21.6% decrease in 2012 gas sales and lower gas cost per unit that are passed along to customers by a PGA. This was partially offset by a change in the method of estimating accrued unbilled revenue. There was a corresponding decrease in purchased gas cost of $56.1 million (33.4%) due to lower purchased volumes and lower gas cost per unit. Transported gas revenue increased by 11.4% in 2012 resulting from a 13.4% increase in volumes transported. The 62.6% decrease in 2012 non-operating revenues is attributed to a decrease in other income.

Expenses

2013 Compared to 2012:

For fiscal year 2013, total expenses were $268.6 million at December 31, 2013, a 25.6% increase over fiscal year 2012 total expenses of $213.7 million. Purchased gas cost was $163.2 million, up 45.7%, from $112.1 million at December 31, 2012, as a result of an increase in natural gas purchases and higher gas cost per unit than last year. Other operating expense was $92.0 million at December 31, 2013, up $3.6 million, or 4.0%, from $88.4 million at December 31, 2012. This increase is primarily attributable to increases in maintenance expenses of $2.7 million resulting from an increase in distribution maintenance expenses and PILOT of $0.2 million. (There was a corresponding increase in PILOT in Transfers to the City.)

2012 Compared to 2011:

For fiscal year 2012, total expenses were $213.7 million, a decrease of $50.0 million, or 18.9%, from fiscal year 2011. This decrease is mainly due to a $56.1 million decrease in purchased gas resulting from a significant decrease in the average cost of natural gas offset, in part, by an increase of $5.1 million in operating and maintenance expenses and an increase in PILOT of $0.8 million. (The increase in PILOT is offset by a corresponding decrease in Transfers to the City.)

Contributions in aid of construction

2013 Compared to 2012:

Contributions in aid of construction (CIAC) were $2.0 million for fiscal year 2013, an increase of $1.5 million (271.8%) from fiscal year 2012. This increase was mainly the result of increases of $1.0 million in Tennessee Department of Transportation reimbursable jobs, $0.4 million in construction activity, and $0.3 million in cancelled contracts. These increases were partially offset by a $0.2 million decrease in contract adjustments.

2012 Compared to 2011:

CIAC were $0.5 million for fiscal year 2012, an increase of $0.1 million (33.5%) from fiscal year 2011, due to increased construction activity by developers and other agencies.

Transfers to the City of Memphis

2013 Compared to 2012:

MLGW's transfer to the City of Memphis is based on the formula provided by the State of Tennessee Municipal Gas System Tax Equivalent Law of 1987. The formula includes a maximum property tax equivalency calculation plus 4% of operating revenue less gas cost (three-year average). Transfers to the City represent the Gas Division's in lieu of tax payment. For fiscal year 2013, Transfers to the City were $16.2 million. This represents a $1.5 million increase from fiscal year 2012. This increase is due primarily to increases in the tax rate and net plant investment.

2012 Compared to 2011:

For the year ended December 31, 2012, Transfers to the City were $14.7 million. The transfer amount for 2012 was a decrease of $1.0 million due to the City directing payment of $0.8 million directly to Shelby County. For 2011, the tax applicable to Shelby County was paid as a transfer to the City.

Analysis of the Water Division's Statement of Net Position

Condensed financial information comparing the Water Division's net position for the past three fiscal years is presented below:

Table 5
Water Division Condensed Statements of Net Position
December 31
(In Thousands)

	2013	2012	FY13 - FY12 Percentage Change	2011	FY12 - FY11 Percentage Change
Current assets (excluding restricted assets)	$ 39,658	$ 42,009	-5.6%	$ 40,043	4.9%
Restricted assets	11,815	11,719	0.8%	17,691	-33.8%
Other assets	2,220	2,095	6.0%	1,682	24.6%
Utility plant	261,895	256,712	2.0%	255,211	0.6%
Total assets	315,588	312,535	1.0%	314,627	-0.7%
Current liabilities payable from current assets	20,933	21,095	-0.8%	18,731	12.6%
Current liabilities payable from restricted asset	3,927	3,935	-0.2%	6,390	-38.4%
Non-current liabilities	6,962	7,947	-12.4%	7,560	5.1%
Total liabilities	31,822	32,977	-3.5%	32,681	0.9%
Net position:					
Net investment in capital assets	261,895	256,712	2.0%	253,585	1.2%
Restricted	7,100	7,100	0.0%	10,663	-33.4%
Unrestricted	14,771	15,746	-6.2%	17,698	-11.0%
Total Net position	$ 283,766	$ 279,558	1.5%	$ 281,946	-0.8%

Assets

2013 Compared to 2012:

As of December 31, 2013, total assets were $315.6 million, an increase of $3.1 million compared to December 31, 2012. The increase is due, in part, to increases in net utility plant in service of $5.2 million, offset by a decrease in current assets (excluding restricted net assets) of $2.4 million. The decrease in current assets is attributable to a decrease in cash and cash equivalents of $2.4 million and other current assets of $0.9 million due to the regulatory asset for pollution remediation, offset by an increase in accounts receivable, less allowance for doubtful accounts of $0.6 million and inventories of $0.5 million.

2012 Compared to 2011:

As of December 31, 2012, total assets were $312.5 million, a decrease of $2.1 million compared to December 31, 2011. The decrease is due, in part, to a decrease in restricted net assets of $6.0 million, or 33.8%, which was primarily the result of decreases in bond reserves and debt service ($3.7 million) and construction reserves ($3.3 million), offset partially by an increase in insurance reserves-injuries and damages ($0.6 million). Additionally, there were increases in current assets ($2 million) due to increases in cash and cash equivalents ($1 million) and collateral held in trust for securities on loan ($1.2 million), and increases in net utility plant in service ($1.5 million) that partially offset the overall decrease in total assets.

Capital Assets and Construction Activities

2013 Compared to 2012:

The Water Division's utility plant assets, net of accumulated depreciation were $261.9 million as of December 31, 2013, an increase of 2.0% over fiscal year 2012. During 2013, the Water Division expended $13.3 million on construction activities and equipment purchases, an increase of $1.1 million, or 9.0%, compared to fiscal year 2012. Major Water Division construction activities included the purchase of meters ($4.4 million), extensions to serve new customers ($1.6 million), relocation of facilities to accommodate road improvements ($1.5 million), upgrades to Allen Pumping Station ($1.0 million), and the purchase of transportation and power operated equipment ($0.8 million).

2012 Compared to 2011:

The Water Division's utility plant assets, net of accumulated depreciation, were $256.7 million as of December 31, 2012, an increase of 1.2% as compared to December 31, 2011. During 2012, the Water Division expended $12.2 million on capital equipment purchases and construction activities, an increase of $0.2 million, or 1.6%, compared to fiscal year 2011. Major Water Division construction activities include extensions to serve new customers ($2.1 million) and upgrades to McCord Pumping Station ($1.5 million). The Water Division's major equipment purchases were meters ($1.5 million), data processing equipment ($1.5 million), and transportation and power-operated equipment ($1.1 million).

Liabilities

2013 Compared to 2012:

As of December 31, 2013, total liabilities were $31.8 million, representing a decrease of $1.2 million, or 3.5%, compared to December 31, 2012. Non-current liabilities decreased $1.0 million, in part, due to a decrease in pollution remediation obligation. Current liabilities payable from current assets decreased $0.2 million, or 0.8%, primarily due to a decrease in collateral subject to return to borrowers.

2012 Compared to 2011:

As of December 31, 2012, total liabilities were $33.0 million, representing an increase of $0.3 million, or 0.9%, compared to December 31, 2011. Total liabilities increased due to an increase in current liabilities payable from current assets, primarily as a result of an increase of $1.3 million in collateral subject to return to borrowers and an increase in other liabilities, accounts payable, and accrued expenses of $1.1 million. These increases were partially offset by a $1.6 million reduction in bonds payable.

Net Position

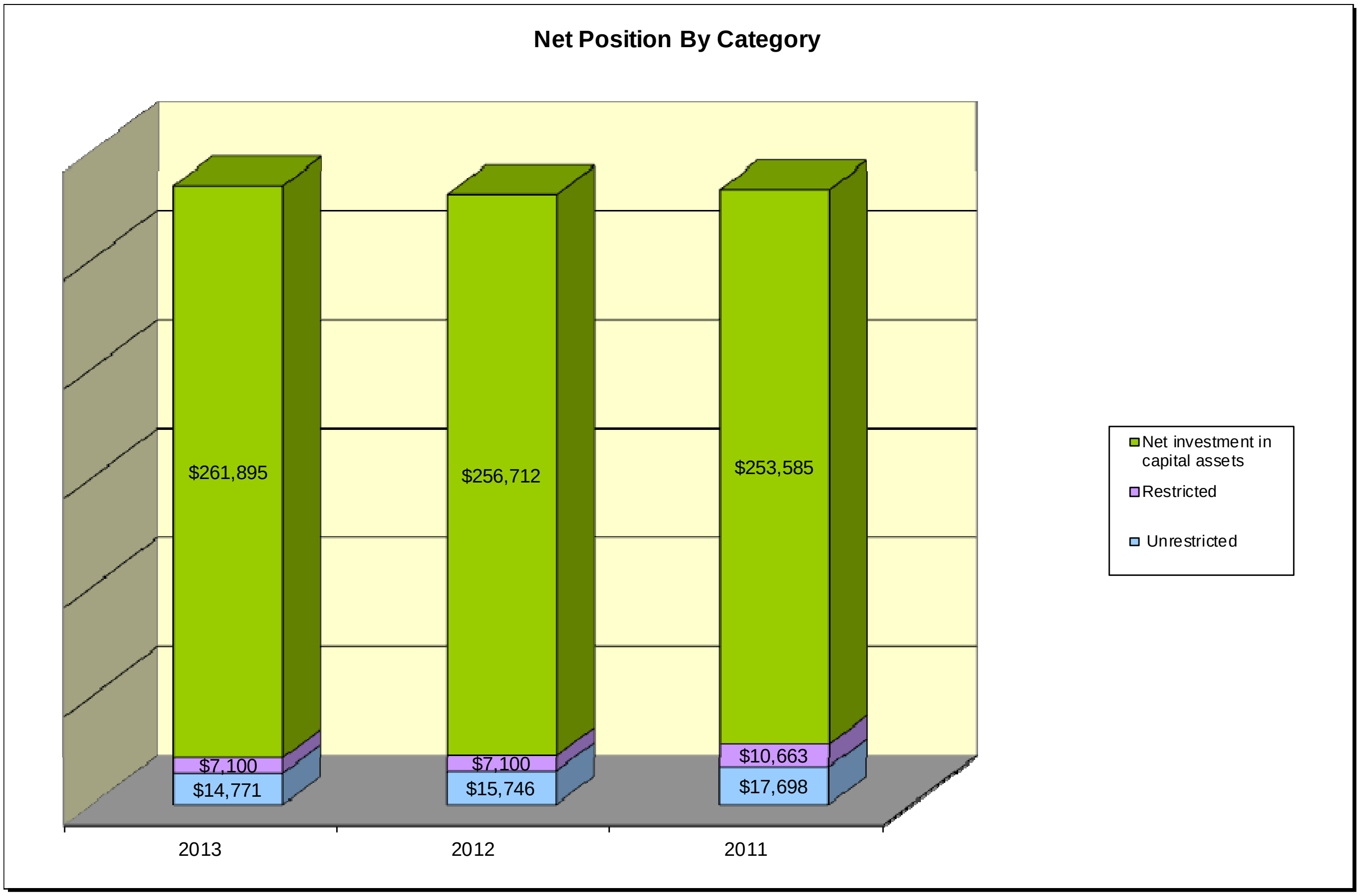
2013 Compared to 2012:

As of December 31, 2013, the Water Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was $283.8 million, an increase of $4.2 million, or 1.5%, from December 31, 2012. Ninety-two percent of the net position was related to net investments in capital assets, which accounts for $5.2 million of the increase, offset by $1.0 million decrease in unrestricted net position (used to finance day-to-day operations).

2012 Compared to 2011:

As of December 31, 2012, total net position decreased by $2.4 million, or 0.8%, to $279.6 million from $281.9 million as of December 31, 2011. Ninety-two percent of the net position was related to net investment in capital assets, net of related debt. The decrease in total net position is reflected as a reduction in restricted net position due to reductions in the master bond reserve ($3.6 million) and unrestricted net position ($2.0 million), offset by an increase of $3.1 million in net investment in capital assets.

Figure 4: Water Division's Net Position (in thousands):



Analysis of the Water Division's Statement of Revenues, Expenses and Changes in Net Position

Condensed financial information comparing the Water Division's revenues, expenses and changes in net position for the past three fiscal years is presented below:

Table 6
Water Division
Condensed Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2013, 2012, and 2011
(In Thousands)

	2013	2012	FY13 - FY12 Percentage Change	2011	FY12 - FY11 Percentage Change
Revenues:					
Operating revenues	$ 84,780	$ 84,900	-0.1%	$ 86,382	-1.7%
Non-operating revenues	650	365	78.1%	505	-27.7%
Total Revenues	85,430	85,265	0.2%	86,887	-1.9%
Expenses:					
Depreciation expense	7,465	10,758	-30.6%	11,274	-4.6%
Other operating expense	69,457	74,395	-6.6%	72,029	3.3%
Non-operating expense	-	-	-	98	-100.0%
Total Expenses	76,922	85,153	-9.7%	83,401	2.1%
Income before contributions in aid of construction and transfers	8,508	112	7496.4%	3,486	-96.8%
Contributions in aid of construction	4,357	3,499	24.5%	1,736	101.6%
Reduction of plant costs recovered through contributions in aid of construction	(4,357)	(3,499)	-24.5%	(1,736)	-101.6%
Transfers to City of Memphis	(4,300)	(2,500)	72.0%	(2,500)	0.0%
Change in net positon	$ 4,208	$ (2,388)	276.2%	$ 986	-342.2%
Net position, beginning of year	$ 279,558	$ 281,946	-0.8%	$ 280,960	0.4%
Change in net position	4,208	(2,388)	276.2%	986	-342.2%
Net position, end of year	$ 283,766	$ 279,558	1.5%	$ 281,946	-0.8%

Change in Net Position

2013 Compared to 2012:

As of December 31, 2013, the change in net position is $4.2 million, up $6.6 million from a loss of $2.4 million (276.2%) at December 31, 2012. This increase is due primarily to decreases in other operating expenses of $4.9 million and depreciation expense of $3.3 million due to the full depreciation of certain assets, and an increase in non-operating revenues of $0.3 million, offset by an increase in Transfers to the City of $1.8 million.

2012 Compared to 2011:

As of December 31, 2012, the change in net position was a loss of $2.4 million, a decrease of $3.4 million (342.2%) compared to fiscal year 2011. This decrease is due primarily to a $2.4 million increase in other operating expenses and a decrease in operating revenues of $1.6 million, offset by a decrease in depreciation expense of $0.5 million and non-operating expenses of $0.1 million.

Revenues

2013 Compared to 2012:

Total revenues were $85.4 million for fiscal year 2013, an increase of $0.2 million compared to December 31, 2012. Non-operating revenues increased $0.3 million, or 78.1%, due to an increase in other income. This increase was offset by a $0.1 million decrease in operating revenues. This decrease is primarily due to a decrease in other revenues as a result of a decrease in interdivisional rent revenue, offset by an increase in sales revenue. The increase in sales revenue was due in part to a MLGW rate increase effective in January 2013 resulting in higher revenue per sales unit, offset by lower sales.

2012 Compared to 2011:

For fiscal year 2012, total revenues were $85.3 million, a decrease of 1.9% from 2011. Operating revenues decreased by 1.7% in 2012 and is primarily attributed to a change in the method of estimating accrued unbilled revenue. This change was offset by a 1.0% increase in water sales. Non-operating revenues decreased by 27.7% in 2012, due to decreases in interest income and Medicare part D refunds.

Expenses

2013 Compared to 2012:

As of December 31, 2013, total expenses for the Water Division were $76.9 million, a decrease of $8.2 million, or 9.7%, compared to fiscal year 2012. The decrease resulted from a decrease of $4.9 million, or 6.6% in other operating expense primarily due to a decrease in operating and production costs and a decrease in depreciation expense of $3.3 million.

2012 Compared to 2011:

As of December 31, 2012, total expenses for the Water Division were $85.2 million, an increase of $1.8 million, or 2.1%, compared to fiscal year 2011. The increase resulted from an increase of 3.3% in other operating expense due to increases in operating and production costs. Non-operating expenses decreased by $0.1 million, or 100.0%, in 2012, which is attributed to no interest expense on long-term debt in 2012, as the last remaining bonds were retired at the end of fiscal year 2011; depreciation expense decreased $0.5 million, or 4.6%.

Contributions in aid of construction

2013 Compared to 2012:

Contributions in aid of construction (CIAC) were $4.4 million for fiscal year 2013, an increase of $0.9 million (24.5%) from fiscal year 2012. This increase was mainly the result of increases of $0.8 million in Tennessee

Department of Transportation reimbursable jobs and $0.4 million in construction activity. These increases were partially offset by a $0.3 million decrease in contract adjustments.

2012 Compared to 2011:

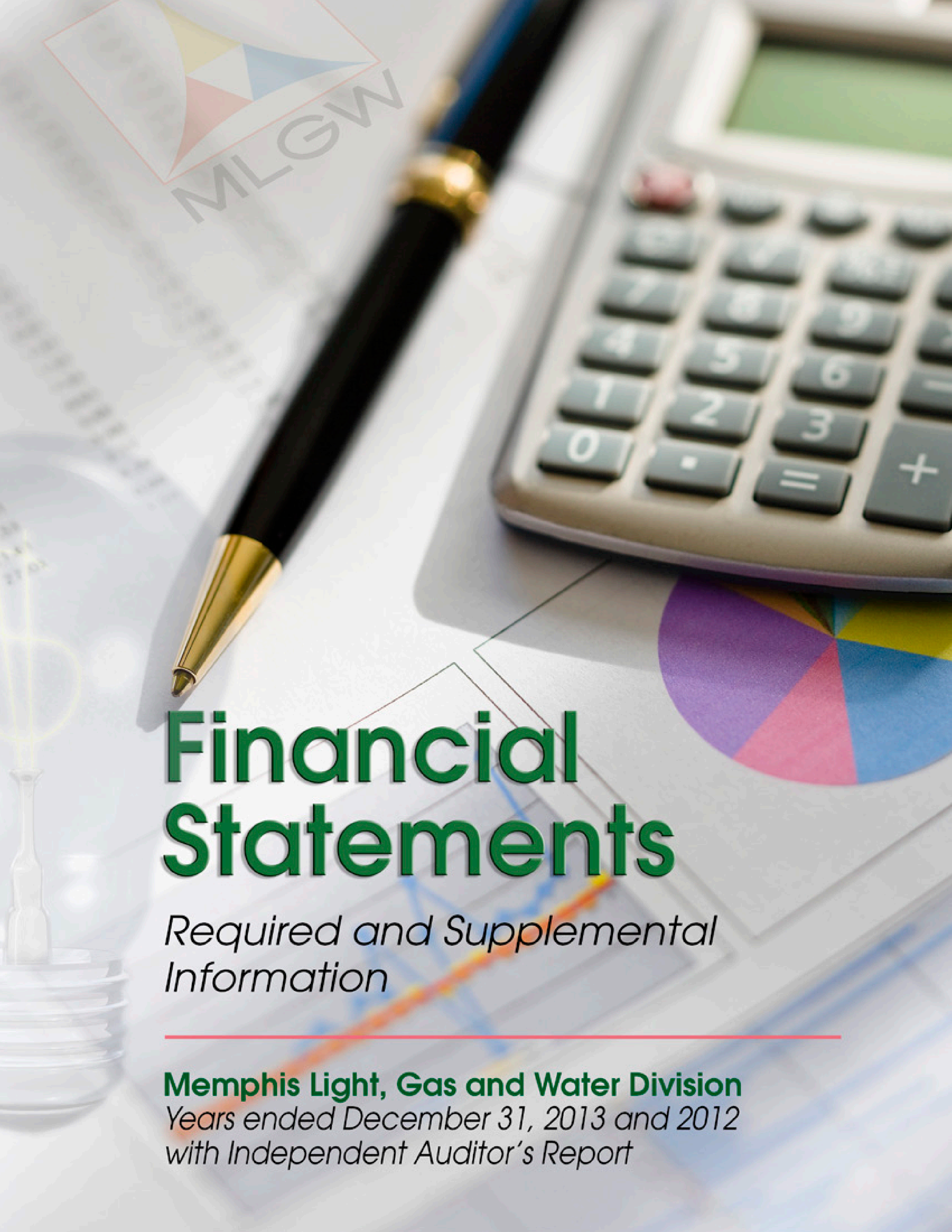
CIAC increased to $3.5 million for the year ended December 31, 2012, representing an increase of $1.8 million as compared to December 31, 2011. This increase was partially due to a $1.2 million increase in water connect fees, claims invoicing and additional service costs, and an increase of $0.6 million in contribution for improvements to the water system located within the Town of Arlington.

Transfers to the City of Memphis

The Water Division through an agreement with the City, transfers a payment in the amount of $2.5 million per year. The agreement is effective through the year 2028. During 2013, per City resolution an additional $1.8 million payment was made in exchange for the release of any rights the City may have had to receive water from the Water Division free of charge under the MLGW Charter.

Additional Financial Information

This discussion is designed to provide MLGW's customers, investors and other interested parties with a general overview of the financial position and results of operations. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Manager of General Accounting, Memphis Light, Gas and Water Division, P.O. Box 430, Memphis, TN 38101, or call 901-528-4221.



Financial Statements

Required and Supplemental Information

Memphis Light, Gas and Water Division

Years ended December 31, 2013 and 2012
with Independent Auditor's Report

STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012
(Dollars in Thousands)

	Electric Division		Gas Division		Water Division	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Assets						
Current assets:						
Cash and cash equivalents	**$ 64,402**	$ 85,317	**$ 42,959**	$ 73,368	**$ 5,710**	$ 8,122
Investments	**74,093**	69,149	**45,843**	56,856	**6,582**	6,597
Derivative financial instruments	**-**	-	**494**	-	**-**	-
Restricted funds - current	**30,008**	29,987	**5,891**	6,021	**3,927**	3,935
Accounts receivable, less allowance for doubtful accounts	**86,260**	82,761	**43,258**	35,494	**15,210**	14,576
Unbilled revenues	**51,604**	53,650	**26,837**	15,764	**3,123**	3,071
Prepaid power cost	**109,982**	107,778	**-**	-	**-**	-
Inventories	**19,835**	20,284	**6,798**	6,441	**2,563**	2,064
Collateral held in trust for securities on loan	**48,947**	49,715	**29,383**	38,483	**6,470**	6,659
Other current assets	**911**	1,554	**3,481**	3,312	**-**	920
Total current assets	**486,042**	500,195	**204,944**	235,739	**43,585**	45,944
Non-current assets:						
Restricted funds:						
Futures margin deposits	**-**	-	**671**	580	**-**	-
Insurance reserves - injuries and damages	**6,728**	6,973	**2,273**	2,103	**2,066**	2,001
Insurance reserves - casualties and general	**17,287**	16,665	**9,576**	8,765	**7,100**	7,100
Medical benefits	**4,581**	5,054	**2,043**	2,254	**1,357**	1,497
Customer deposits	**20,125**	17,845	**2,825**	3,198	**1,292**	1,121
Bond reserve and debt service	**10,850**	11,000	**-**	-	**-**	-
Total restricted funds	**59,571**	57,537	**17,388**	16,900	**11,815**	11,719
Less restricted funds - current	**(30,008)**	(29,987)	**(5,891)**	(6,021)	**(3,927)**	(3,935)
Restricted funds - non-current	**29,563**	27,550	**11,497**	10,879	**7,888**	7,784
Other assets:						
Prepaid power cost - long term	**463,133**	573,115	**-**	-	**-**	-
Prepayment - In Lieu of Taxes	**1,839**	1,835	**42**	43	**-**	-
Unamortized debt expense	**1,212**	1,759	**-**	-	**-**	-
Notes receivable	**-**	-	**2,113**	3,807	**2,220**	2,095
Total other assets	**466,184**	576,709	**2,155**	3,850	**2,220**	2,095
Utility plant	**1,639,485**	1,615,571	**611,058**	585,176	**441,022**	459,512
Less accumulated depreciation	**(643,454)**	(638,232)	**(274,411)**	(278,308)	**(179,127)**	(202,800)
Utility plant, net	**996,031**	977,339	**336,647**	306,868	**261,895**	256,712
Total non-current assets	**1,491,778**	1,581,598	**350,299**	321,597	**272,003**	266,591
Total assets	**1,977,820**	2,081,793	**555,243**	557,336	**315,588**	312,535
Deferred outflows of resources						
Unamortized balance of refunded debt	**10,137**	13,945	**-**	-	**-**	-
Accumulated decrease in fair value of hedging derivatives	**-**	-	**-**	1,439	**-**	-
Total assets and deferred outflows of resources	**$ 1,987,957**	$ 2,095,738	**$ 555,243**	$ 558,775	**$ 315,588**	$ 312,535

See accompanying notes.

STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012
(Dollars in Thousands)
(Continued)

	Electric Division		Gas Division		Water Division	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Liabilities						
Current liabilities:						
Accounts payable - purchased power and gas	**$ 111,118**	$ 116,896	**$ 34,633**	$ 24,725	$ -	$ -
Other liabilities, accounts payable, and accrued expenses	**50,585**	49,259	**21,244**	22,712	**14,463**	14,436
Derivative financial instruments	**-**	-	**-**	1,439	**-**	-
Bonds Payable	**94,201**	91,391	**-**	-	**-**	-
Collateral subject to return to borrowers	**48,947**	49,715	**29,383**	38,483	**6,470**	6,659
Total current liabilities payable from current assets	**304,851**	307,261	**85,260**	87,359	**20,933**	21,095
Current liabilities payable from restricted assets:						
Customer deposits	**7,849**	6,960	**904**	1,083	**504**	437
Medical benefits	**4,581**	5,054	**2,043**	2,254	**1,357**	1,497
Insurance reserves - injuries and damages	**6,728**	6,973	**2,273**	2,103	**2,066**	2,001
Bonds payable - accrued interest	**2,286**	2,691	**-**	-	**-**	-
Bonds payable - principal	**8,564**	8,309	**-**	-	**-**	-
Total current liabilities payable from restricted assets	**30,008**	29,987	**5,220**	5,440	**3,927**	3,935
Total current liabilities	**334,859**	337,248	**90,480**	92,799	**24,860**	25,030
Non-current liabilities:						
Customer advances for construction	**6,791**	8,670	**710**	1,041	**-**	-
Customer deposits	**12,276**	10,885	**1,921**	2,115	**788**	684
Other	**8,908**	13,544	**3,840**	4,623	**6,174**	7,263
Bonds payable	**491,161**	606,217	**-**	-	**-**	-
Total non-current liabilities	**519,136**	639,316	**6,471**	7,779	**6,962**	7,947
Total liabilities	**853,995**	976,564	**96,951**	100,578	**31,822**	32,977
Deferred inflows of resources						
Accumulated increase in fair value of hedging derivatives	**-**	-	**494**	-	**-**	-
Net position						
Net investment in capital assets	**996,031**	977,339	**336,647**	306,868	**261,895**	256,712
Restricted	**17,287**	16,665	**10,247**	9,346	**7,100**	7,100
Unrestricted	**120,644**	125,170	**110,904**	141,983	**14,771**	15,746
Total net position	**1,133,962**	1,119,174	**457,798**	458,197	**283,766**	279,558
Total liabilities, deferred inflows of resources and net position	**$ 1,987,957**	$ 2,095,738	**$ 555,243**	$ 558,775	**$ 315,588**	$ 312,535

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Dollars in Thousands)

	Electric Division		Gas Division		Water Division	
	2013	2012	2013	2012	2013	2012
Operating revenues:						
Sales and service revenues	$1,213,820	$1,237,716	$265,850	$ 207,235	$ 80,014	$ 76,480
Transported gas revenues	-	-	6,738	6,362	-	-
Other revenues	32,261	32,850	12,028	12,209	4,766	8,420
Total operating revenues	1,246,081	1,270,566	284,616	225,806	84,780	84,900
Operating expenses:						
Purchased power and gas for resale	1,008,460	1,045,362	163,241	112,051	-	-
Production	-	-	-	-	15,399	18,596
Operation	128,810	127,447	77,522	76,873	45,909	47,341
Maintenance	38,122	43,354	13,239	10,558	8,149	8,458
Depreciation	45,240	44,698	13,324	13,261	7,465	10,758
Payments in lieu of taxes	5,924	5,606	1,227	1,001	-	-
	1,226,556	1,266,467	268,553	213,744	76,922	85,153
Operating income (loss)	19,525	4,099	16,063	12,062	7,858	(253)
Non-operating revenues (expenses):						
Contributions in aid of construction	19,715	14,033	2,015	542	4,357	3,499
Reduction of plant costs recovered through contributions in aid of construction	(19,715)	(14,033)	(2,015)	(542)	(4,357)	(3,499)
Transmission credits	30,765	29,173	-	-	-	-
Investment and other income	2,412	3,950	(254)	589	650	365
Prepay credit	24,061	27,847	-	-	-	-
Interest expense	(24,061)	(27,847)	-	-	-	-
Total non-operating revenues (expenses)	33,177	33,123	(254)	589	650	365
Income before transfers	52,702	37,222	15,809	12,651	8,508	112
Transfers out - City of Memphis	(37,914)	(34,978)	(16,208)	(14,662)	(4,300)	(2,500)
Change in net position	$ 14,788	$ 2,244	$ (399)	$ (2,011)	$ 4,208	$ (2,388)
Net position, beginning of year	$1,119,174	$1,116,930	$458,197	$ 460,208	$279,558	$ 281,946
Change in net position	14,788	2,244	(399)	(2,011)	4,208	(2,388)
Net position, end of year	$1,133,962	$1,119,174	$457,798	$ 458,197	$283,766	$ 279,558

See accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Dollars in Thousands)

	Electric Division		**Gas Division**		**Water Division**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Cash flows from operating activities:						
Receipts from customers and users	**$1,242,460**	$1,292,752	**$ 256,655**	$ 229,105	**$ 84,795**	$ 80,805
Payments to suppliers	**(901,596)**	(940,873)	**(173,075)**	(118,349)	**(25,000)**	(27,172)
Payments to/on behalf of employees	**(117,125)**	(113,694)	**(65,077)**	(59,854)	**(43,152)**	(42,151)
Payments from (to) other Division funds	**2,323**	(23)	**(857)**	(1,581)	**(1,932)**	1,395
Payments for taxes	**(5,354)**	(5,793)	**(1,227)**	(1,001)	**-**	-
Net cash provided by operating activities	**220,708**	232,369	**16,419**	48,320	**14,711**	12,877
Cash flows from noncapital financing activities:						
Transfers to City of Memphis	**(37,914)**	(34,978)	**(16,208)**	(14,662)	**(4,300)**	(2,500)
Principal payments on long-term debt	**(99,700)**	(95,190)	**-**	-	**-**	-
Interest expense on bonds	**(32,290)**	(37,027)	**-**	-	**-**	-
Net cash used in noncapital financing activities	**(169,904)**	(167,195)	**(16,208)**	(14,662)	**(4,300)**	(2,500)
Cash flows from capital and related financing activities:						
Purchase and construction of utility plant	**(84,785)**	(87,852)	**(45,175)**	(15,309)	**(17,004)**	(15,984)
Contributions in aid of construction	**19,715**	14,033	**2,015**	542	**4,357**	3,499
Principal payments on long-term debt	**-**	-	**-**	-	**-**	(1,625)
Interest payments on debt	**-**	-	**-**	-	**-**	(43)
Net cash used in capital and related financing activities	**(65,070)**	(73,819)	**(43,160)**	(14,767)	**(12,647)**	(14,153)
Cash flows from investing activities:						
Sales and maturities of investments	**32,725**	41,322	**62,382**	40,621	**3,696**	3,872
Purchases of investments	**(39,934)**	(35,459)	**(52,843)**	(48,667)	**(4,511)**	(3,322)
Payments received on notes receivable	**-**	-	**2,483**	1,712	**-**	-
Issuance of notes receivable	**-**	-	**-**	-	**(124)**	(626)
Investment income (loss) earned on investments	**329**	669	**(468)**	(147)	**29**	78
Net cash provided by (used in) investing activities	**(6,880)**	6,532	**11,554**	(6,481)	**(910)**	2
Increase (decrease) in cash and cash equivalents	**(21,146)**	(2,113)	**(31,395)**	12,410	**(3,146)**	(3,774)
Cash and cash equivalents, beginning of year	**132,260**	134,373	**85,398**	72,988	**15,762**	19,536
Cash and cash equivalents, end of year	**$ 111,114**	$ 132,260	**$ 54,003**	$ 85,398	**$ 12,616**	$ 15,762

See accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Dollars in Thousands)
(Continued)

	Electric Division		Gas Division		Water Division	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	**$ 19,525**	$ 4,099	**$ 16,063**	$ 12,062	**$ 7,858**	$ (253)
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:						
Depreciation of utility plant	**46,378**	44,640	**13,382**	14,154	**7,465**	10,982
Transmission credits	**30,765**	29,173	**-**	-	**-**	-
Prepay power credits	**24,061**	27,847	**-**	-	**-**	-
Other income (loss)	**2,082**	3,280	**(511)**	(7)	**621**	288
(Increase) decrease in assets:						
Accounts receivable	**(3,497)**	11,451	**(7,765)**	13,825	**(637)**	166
Unbilled revenues	**2,046**	14,330	**(11,073)**	10,171	**(51)**	663
Prepaid power cost	**107,778**	104,349	**-**	-	**-**	-
Prepayments - In Lieu of Taxes	**(5)**	37	**1**	1	**-**	-
Inventories	**449**	(2,470)	**(359)**	9,448	**(499)**	(10)
Other assets	**531**	(480)	**351**	3,774	**679**	332
Increase (decrease) in liabilities:						
Accounts payable - purchased power and gas	**(5,778)**	(3,920)	**9,908**	2,454	**-**	-
Other accounts payable and accrued expenses	**1,326**	843	**(612)**	(16,626)	**1,898**	1,250
Customer deposits	**2,280**	1,448	**(373)**	(673)	**170**	75
Insurance reserves	**(245)**	574	**170**	457	**65**	624
Medical benefit accrual	**(474)**	164	**(211)**	73	**(140)**	49
Other	**(6,514)**	(2,996)	**(2,552)**	(793)	**(2,718)**	(1,289)
Total adjustments	**201,183**	228,270	**356**	36,258	**6,853**	13,130
Net cash provided by operating activities	**$ 220,708**	$ 232,369	**$ 16,419**	$ 48,320	**$ 14,711**	$ 12,877
Reconciliation of cash and cash equivalents per statements of cash flows to the statements of net position:						
Restricted funds	**$ 59,571**	$ 57,537	**$ 17,388**	$ 16,900	**$ 11,815**	$ 11,719
Less investments included in restricted funds	**(12,859)**	(10,594)	**(6,344)**	(4,870)	**(4,909)**	(4,079)
Cash and cash equivalents included in restricted funds	**46,712**	46,943	**11,044**	12,030	**6,906**	7,640
Current assets - cash and cash equivalents	**64,402**	85,317	**42,959**	73,368	**5,710**	8,122
Total cash and cash equivalents	**$ 111,114**	$ 132,260	**$ 54,003**	$ 85,398	**$ 12,616**	$ 15,762

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

Memphis Light, Gas and Water Division ("MLGW"), a division of the City of Memphis, Tennessee (the "City"), was created by an amendment to the City Charter by Chapter 381 of the Private Acts of the General Assembly of Tennessee (the "Charter"), adopted March 9, 1939, as amended. MLGW is managed by its President and a five member Board of Commissioners that are nominated by the City Mayor and approved by the Memphis City Council (the "Council"). MLGW, through its three divisions, provides electricity, gas and water to customers in Shelby County, Tennessee, which includes the City. MLGW's annual budget and electric, gas and water rates require the approval of the Council. MLGW must also obtain the approval of the Council before incurring certain obligations.

Basis of Presentation

The financial statements present only the Electric, Gas and Water Divisions of MLGW in conformity with accounting principles generally accepted in the United States of America that are applicable to a proprietary fund of a government unit. The accompanying financial statements present the separate financial positions, results of operations, and cash flows of each of the three divisions--Electric, Gas and Water--(the Divisions) of MLGW, but do not present the financial position, results of operations, or cash flows of MLGW, a division of the City of Memphis. Accordingly, the accompanying disclosures relate separately to the Divisions, as applicable, and not collectively to MLGW. Unless expressly stated, each disclosure, including references to "MLGW" herein, applies solely to each of the separate divisions on an individual basis. These statements are not intended to present the financial position of the City, the results of the City's operations or the cash flows of the City's funds, nor do they represent the financial position, results of operations, or cash flows of MLGW's Retirement and Pension System discussed in Note 7 or the Other Postemployment Benefits ("OPEB") discussed in Note 8.

Basis of Accounting

MLGW is required by state statute and the Charter to maintain separate accounting for each division and to allocate among the Divisions, on an equitable basis, joint expenses, including those related to common facilities. MLGW utilizes direct cost methods where applicable. For expenses not directly charged to a specific division, internally developed cost allocation methods are used based on the function performed. Each division is separately financed, and its indebtedness is repayable from its net revenues.

Where applicable, the Federal Energy Regulatory Commission's ("FERC") (Electric and Gas Divisions) and the National Association of Regulatory Utility Commissioners' ("NARUC") (Water Division) Uniform Systems of Accounts are used. MLGW is not subject to the jurisdiction of federal or state regulatory commissions.

1. Summary of Significant Accounting Policies (continued)

Basis of Accounting (continued)

MLGW prepares its financial statements in accordance with the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 476-500, for regulated operations. These paragraphs recognize that accounting for rate regulated enterprises should reflect the relationship of costs and revenues introduced by rate regulation.

Regulatory Accounting

Regulatory accounting allows a regulated utility to defer a cost (a regulatory asset) or recognize an obligation (a regulatory liability) if it is probable that through the rate making process, there will be a corresponding increase or decrease in future revenues. Accordingly, MLGW has recognized certain regulatory assets and regulatory liabilities in the accompanying Statements of Net Position.

In the event MLGW no longer meets the criteria for regulated operations under GASB Statement No. 62, MLGW would be required to recognize the effects of any regulatory change in assets or liabilities in its Statements of Revenues, Expenses and Changes in Net Position. The following are the regulatory assets and liabilities included in the Statements of Net Position:

	Electric Division		**Gas Division**		**Water Division**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Regulatory Assets:						
Current:						
Pollution remediation	**$ -**	$ 176	**$ -**	$ 922	**$ -**	$ 920
Unamortized debt expense	**547**	660	**-**	-	**-**	-
Total current	**547**	836	**-**	922	**-**	920
Non-Current:						
Unamortized debt expense	**1,212**	1,759	**-**	-	**-**	-
Total non-current	**1,212**	1,759	**-**	-	**-**	-
Total Regulatory Assets	**$ 1,759**	$ 2,595	**$ -**	$ 922	**$ -**	$ 920
Regulatory Liabilities:						
Current:						
Purchased gas adjustment	**$ -**	$ -	**$ 451**	$ 6,250	**$ -**	$ -
Total Regulatory Liabilities	**$ -**	$ -	**$ 451**	$ 6,250	**$ -**	$ -

1. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

Fair value is the amount at which an asset could be sold or liability extinguished in a current transaction between willing parties, other than in a forced sale or liquidation. The carrying amounts of cash and cash equivalents, investments, restricted fund investments, accounts receivable and accounts payable are a reasonable estimate of their fair values. The estimated fair values of MLGW's other financial instruments have been determined by MLGW using available market information. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the fair values are not necessarily indicative of the amounts that MLGW could realize in a current market exchange. The use of different market assumptions may have a material effect on the estimated fair value amounts. All investments are carried at fair value and changes in the fair values of investments are included in investment income in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

Cash and cash equivalents

MLGW considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivables result from charges for both utilities and other ancillary services provided by MLGW, and include wholesale, commercial, industrial and government customers in the Shelby County, Tennessee, geographic area. Accounts receivable are potentially exposed to concentrations of credit risk. As a general policy, customer deposits are required for receivables unless or until the customer has established a good credit history. Accounts receivable are stated at the amount management expects to collect from outstanding balances.

As of December 31, 2013 and 2012, accounts receivable and allowances for doubtful accounts were as follows:

	Electric Division		**Gas Division**		**Water Division**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Accounts Receivable	**$ 98,770**	$ 92,459	**$ 44,337**	$ 36,618	**$ 15,943**	$ 15,474
Allowance for doubtful accounts	**(12,510)**	(9,698)	**(1,079)**	(1,124)	**(732)**	(898)
Total A/R, net of allowance	**$ 86,260**	$ 82,761	**$ 43,258**	$ 35,494	**$ 15,211**	$ 14,576

MLGW performs a monthly analysis of outstanding trade receivables to assess the likelihood of collection. For aged receivable balances, MLGW records an allowance to adjust the trade receivable to MLGW's best estimate of the amount it will ultimately collect. Such allowances are netted against operating revenues.

1. Summary of Significant Accounting Policies (continued)

Accounts Receivable (continued)

MLGW's policy is to write off trade receivables after 150 days of non-payment. The bad debt amounts netted against operating revenues are as follows:

	2013	**2012**
Electric	**$ 6,954**	$ 6,586
Gas	**2,261**	1,535
Water	**1,066**	1,086

Unbilled Revenues

MLGW customers are spread across twenty-one different billing cycles. Each cycle can range from twenty-five to thirty-five days. The summation of these twenty-one cycles represents a revenue month. Billing cycles do not correspond to a calendar month and, thus, have days that fall into two or more calendar months. Revenue is reported on a calendar month basis. Unbilled revenue represents management's estimate of the revenue earned for days of service that have not been billed as of year-end.

Prepaid Power Cost

Electric Division prepaid power cost represents the unamortized amount of prepaid power under the prepaid electricity agreement signed with Tennessee Valley Authority ("TVA") on November 19, 2003. Under the prepay agreement, MLGW issued revenue bonds with a face value of $1,392,170 and a premium of $121,247 to make an upfront payment of $1,500,000 to TVA. Under the terms of the agreement, MLGW receives a fixed discount on the monthly power purchased for the fifteen year term of the agreement. The total fixed discount under the agreement is sufficient to meet the debt service requirements and yield approximately $13,000 in annual power cost savings. The monthly fixed discount is allocated to prepaid power cost and other income under the interest method based on the debt service requirements of the associated debt. Total prepaid power cost at December 31, 2013 and 2012 was $573,115 and $680,893, respectively. See Note 11 (Bonds) and Note 12 (Rates and Energy Supplies) for further disclosure of the revenue bonds and subsequent refinancing.

Inventories

Inventories, consisting primarily of materials and supplies inventory and stored natural gas, are valued at cost using the average cost method.

1. Summary of Significant Accounting Policies (continued)

Restricted Funds and Related Reserves

Certain MLGW assets are restricted for specific purposes. Legal and contractual agreements restrict amounts for debt service, refund of customer deposits, futures margin requirements, and capital improvements while Board of Commissioners enacted provisions restrict funds for self-insurance and additional capital improvements. Restricted funds are first used for expenses when available, with the exception of the insurance reserve fund for casualties, which is used at the discretion of management depending on the severity of the catastrophe and the availability of funds.

The Gas Division maintains a cash margin account with its futures clearing member. The clearing member requires that a minimum cash margin be maintained based on the value of the Division's outstanding futures positions. The minimum cash margin requirements are considered restricted and are reflected in restricted assets in the accompanying Statements of Net Position. The amounts of cash in excess of the minimum cash margin requirement are included in cash and cash equivalents.

Construction funds are generally maintained for the purpose of paying certain repairs and capital additions and improvements. The respective bond resolutions of the Electric, Gas and Water Divisions allow for funding for future construction.

The insurance reserves for injuries and damages are maintained for estimated liabilities incurred and risks assumed on claims for injuries and damages. The insurance reserves for casualties are maintained at discretionary amounts to partially cover losses of a catastrophic nature which are not ordinarily insurable or which are not insurable on an economical basis.

Medical benefit reserves are maintained for MLGW's medical insurance program, which serves employees and retirees. The medical benefit reserves represent the estimated costs incurred but not yet paid in providing medical benefits to employees and retirees which are not insured by third party providers.

Since MLGW is self-insured for insurance and medical benefit costs, the Board of Commissioners has authorized the restriction of assets equal to the computed reserves.

Customer deposit funds are maintained for the future repayment of deposits collected from customers without adequate credit history, in accordance with MLGW's policy and the respective customer service agreement.

Bond reserve and debt service funds are restricted under the terms of the respective bond indentures to pay current bond principal and interest as they become due.

Customer Deposits

Customers that do not have adequate credit history are required to make utility deposits before services are provided. Deposits are refunded or applied toward a customer's bill after a 24-month good pay status.

1. Summary of Significant Accounting Policies (continued)

Customer Deposits (continued)

Deposits are allocated to the Electric, Gas and Water Divisions based upon each division's percentage of total sales revenue of the previous year-end.

Utility Plant

The costs of additions and replacements of units of property are capitalized. Costs include contracted work, direct labor and materials, allocable overhead and where applicable, allowances for borrowed funds used during construction. Donated assets are valued at fair market value at time of donation. Costs are reduced by contributions in aid of construction. When property units are retired, original cost, plus removal cost, less salvage is charged to accumulated depreciation. The units of property adopted are related to those suggested by FERC for the Electric and Gas Divisions and NARUC for the Water Division, which allow for the reduction of plant cost recovered through contributions in aid of construction as opposed to recovery of costs through future regulatory rates.

An allowance for borrowed funds used during construction is computed at actual interest rates to the extent that major projects are financed by specific long-term debt. In 2013 and 2012, no construction projects were financed with specific long-term debt. Interest on other debt is not capitalized, as it is recovered through current revenues. The amount of interest cost incurred and charged to expense in 2013 and 2012 totaled $24,061 and $27,847, respectively.

Depreciation is computed using the straight-line method based on estimated service lives of various classes of property at rates equivalent to annual composite rates of approximately 3% for the Electric Division, 2.3% for the Gas Division and 2% for the Water Division. Computations of the estimated service lives are the result of various depreciation studies and comparisons with industry standards.

For assets owned by one division, but jointly used by more than one division, the other divisions share the costs by paying rent to the owning division to cover depreciation, interest, in lieu of taxes, and transfers.

Futures, Options and Swap Contracts

The Gas Division enters into futures contracts, swaps, and options on futures contracts as cash flow hedges to manage the risk of volatility in the market price of natural gas on anticipated purchase transactions. The market values of the open derivative positions are reported on the Statement of Net Position as derivative financial instruments. The changes in fair market value are recognized as deferred inflows (gains) or deferred outflows (losses) until the related gas purchases are recognized in the Statement of Revenues, Expenses and Changes in Net Position.

Bond Premiums, Discounts and Issuance Costs

Bond premiums and discounts, as well as issuance costs, are deferred and amortized using the interest method over the lives of the applicable bond issues. Long-term debt is reported net of the applicable bond

1. Summary of Significant Accounting Policies (continued)

Bond Premiums, Discounts and Issuance Costs (continued)

premium or discount. Unamortized bond issuance costs are accounted for as a regulatory asset. As such, bond issue costs are capitalized and amortized over the term of the related debt.

Net Position

Net position is classified into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. There was no debt related to capital assets in 2013 and 2012.
- Restricted net position – This component of net position consists of restricted assets reduced by restricted liabilities and deferred inflows of resources related to those assets.

- Unrestricted net position – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Revenues and Expenses

Revenues are recognized when earned which generally occurs when power, gas, or water is delivered to the customer. Customer meters are read and bills are rendered monthly. MLGW records an estimate for unbilled revenues earned from the dates its customers were last billed to the end of each month.

MLGW distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal operations. The principal operating revenues of MLGW consist of electric, gas and water sales and related activities. Non-operating revenues consist of transmission credits, the non-power cost portion of the prepaid electricity discount, investment income and other ancillary activities. Transmission credits are fees paid by Tennessee Valley Authority for its use of the Electric Division's transmission facilities in supplying power to MLGW.

Operating expenses include the cost of purchased power and gas, water production costs, operation and maintenance expenses, depreciation on capital assets and payments in lieu of taxes. Expenses not meeting this definition are reported as non-operating expenses.

1. Summary of Significant Accounting Policies (continued)

Related Parties

MLGW conducts business with related parties as "arm's length" transactions: generally, MLGW provides utility and related services to and receives payments from these parties in the same manner as other non-related customers. Major related party entities include the City of Memphis government. For the years ending December 31, 2013 and 2012, receivables from related parties for utility construction, pole rentals and utility related services, excluding utility bills, were $2,273 and $2,252, respectively.

In February 2013, free water service to the City and other governmental entities was eliminated. The value of the free water used by the City was added to the PILOT payments made to the City. The provision to eliminate free water service was approved by the City Council on April 16, 2013 and the MLGW Board of Commissioners on May 17, 2013.

As of December 31, 2013, the only free service provided to the City is water for fire fighting. Free water service provided to the City for public purposes, such as Memphis City Schools and fire hydrants is estimated to be $178 and $2,076 for 2013 and 2012, respectively.

The Electric, Gas and Water Divisions make transfers to the City. See Note 14 (Transfers to City).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Events occurring after reporting date

Management has evaluated events and transactions that have occurred between December 31, 2013 and June 5, 2014, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

1. Summary of Significant Accounting Policies (continued)

Recent Accounting Standards

Effective for fiscal year 2013, MLGW adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The objective of this Statement is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows or inflows of resources.

Effective for fiscal year 2013, MLGW adopted the provisions of GASB Statement No. 66, *Technical Corrections—2012—an Amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments, (2) determining the differences between purchase price of an investment and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27.* The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. The statement requires governments to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2014. This statement will be implemented in 2015. The implementation of this statement will result in the recognition of a net pension liability for the Statements of Net Position; a change in the pension expense calculation for the Statements of Revenues, Expenses and Changes in Net Position; and additional note disclosures and required supplementary information.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68.* The objective of this statement is to clarify accounting and financial reporting for pensions. This statement requires governments to recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date of the beginning net pension liability calculated under GASB Statement No. 68. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2014 and will be applied simultaneously with GASB Statement No. 68 in 2015.

2. Deposits and Investments

The MLGW Statement of Investment Policy has been adopted and approved by the MLGW Board of Commissioners. This policy sets forth the investment and operational policies for the management of the public funds of MLGW. The Board of Commissioners has the power to invest MLGW funds in accordance with the prudent investor rule. The Board members exercise authority and control over MLGW's investment portfolio by setting policies which MLGW's investment staff executes either internally, or through the use of external prudent experts.

Custodial Credit Risk

Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, MLGW will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depository-government's name.

MLGW deposits consist of bank deposits. The bank deposits are insured up to $250 by the Federal Deposit Insurance Corporation ("FDIC") and the remainder is covered by the State of Tennessee Collateral Pool; certificates of deposit must be placed directly with depository institutions.

The depository bank shall provide collateral for MLGW deposits in accordance with requirements for public funds deposits in Tennessee. The market value of the pledged securities in the collateral pool must equal at least 105% of the value of the deposit secured, less the amount protected by federal deposit insurance. As of December 31, 2013, MLGW deposits with financial institutions were $13,047. The bank deposits were maintained in collateralized accounts or covered by federal depository insurance, and was not exposed to custodial credit risk.

Investments

The investment policy governs the overall administration and investment management of the funds held in the MLGW investment portfolio. MLGW is authorized by the Board of Commissioners to invest in the following investments as authorized by state law and as it deems proper: U.S. Treasuries; U.S. government obligations; repurchase agreements; commercial paper with specified ratings; bankers' acceptances with specified ratings; domestic and international corporate bonds/notes with specified ratings; municipal obligations with specified ratings; bank deposits; certificates of deposit; state pool; mutual funds with specified ratings; and asset-backed securities with specified ratings. On February 20, 2014, the State Comptroller inquired about the basis of MLGW's authority to invest in mutual funds. MLGW is in the process of researching this matter and, based on our findings, will take the appropriate action to ensure all investments comply with state statues.

2. Deposits and Investments (continued)

Custodial Credit Risk (continued)

MLGW is prohibited from investing in the following securities: purchases on margin or short sales; investments in reverse repurchase agreements; and "exotic" derivatives such as range notes, dual index notes, inverse floating rate notes and deleveraged notes, or notes linked to lagging indices or to long-term indices.

The following table presents the investments and maturities of MLGW's investment portfolio as of December 31, 2013:

		Remaining Maturities (in Years)		
Investment Type	**Fair Value**	**Maturities < 1 year**	**Maturities 1 to 5 years**	**Maturities 6 to 10 years**
U.S. Treasuries	$ 7,460	$ 6,371	$ 1,089	$ -
Federal Agency (Fixed Rate)	4,909	3,007	1,902	-
Federal Agency (Callable)	2,895	-	2,895 [1]	-
Municipal Obligations	4,147	1,770	2,377	-
Corporate Bonds/Notes (medium term)	16,716	6,404	10,312	-
Asset - Backed Securities	33,552	61	32,561	930
Money Market Mutual Funds	71,073	71,073	-	-
Commercial Paper (Rated AA or higher)	87,592	87,592	-	-
Securities held by Brokers-Dealers under Securities Loans for Cash Collateral:				
U.S. Treasuries	81,995	6,229	75,766	-
Corporate Bonds/Notes (medium term)	756	756	-	-
Total Investments	**$ 311,095**	**$ 183,263**	**$ 126,902**	**$ 930**

[1] $1,000 of these bonds mature in 2015; callable in 2014
$1,401 of these bonds mature in 2016; callable in 2014
$494 of these bonds mature in 2017; callable in 2014

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, MLGW will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty, or the counterparty's trust department or agent but not in the name of MLGW. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risks because their existence is not evidenced by securities that exist in physical or book entry form. The underlying securities for securities on loan are not subject to custodial credit risk because the collateral for those loans is reported in the Statements of Net Position. To limit its exposure, MLGW's investment policy requires that all securities purchased by MLGW shall be held in safekeeping by a third-party

2. Deposits and Investments (continued)

Custodial Credit Risk (continued)

custodial bank or financial institution. None of MLGW's investments at December 31, 2013 were exposed to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment in debt securities. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. MLGW's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

However, the investment policy states no investment will have a maturity of greater than five years from date of purchase, except U.S. Treasury Securities which shall have a maturity not to exceed ten years. As of December 31, 2013, MLGW had purchased no investments in debt securities that were outside of the policy. MLGW uses the segmented time distribution method of disclosure, as shown above, to identify this risk.

Some investments can be highly sensitive to changes in interest rates due to their terms or characteristics. In MLGW's investment portfolio, asset-backed and government mortgage-backed securities are most sensitive to changes in interest rates as their repayments can vary significantly with interest rate changes. These securities represent 11.4% of the total investment portfolio with a fair market value of $35,454 at year-end 2013.

Credit Risk

Credit risk is the risk that an issuer of a debt security will not fulfill its obligation. This credit risk is measured by the credit quality of investments in debt securities as described by nationally recognized statistical rating organizations. Investments in obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk. MLGW debt securities that were subject to credit risk were $142,763, or 45.9% of total investments. Of this amount, $96,583 has a remaining maturity of one year or less.

2. Deposits and Investments (continued)

Credit Risk (continued)

MLGW’s ratings and policy limits as of December 31, 2013 are as follow:

Investment Type	Fair Value	S&P Rating	Moody Rating
Municipal Obligations	$ 994	AAA	Aaa
Municipal Obligations	1,402	AA	Aa3
Municipal Obligations	665	AA	Aa2
Municipal Obligations	250	AA	Aa1
Municipal Obligations	101	AA-	Aa2
Municipal Obligations	735	A+	Aa3
Corporate Bonds/Notes	1,715	AA+	Aaa
Corporate Bonds/Notes	1,956	AA+	A1
Corporate Bonds/Notes	502	AA	Aa2
Corporate Bonds/Notes	1,955	AA	Aa1
Corporate Bonds/Notes	5,066	AA-	Aa3
Corporate Bonds/Notes	3,021	AA-	Aa2
Corporate Bonds/Notes	2,501	A+	A1
Corporate Bonds/Notes	756	A+	Aa3
Asset-Backed Securities	10,912	AAA	Aaa
Asset-Backed Securities	10,649	AAA (sf)	NA
Asset-Backed Securities	930	AA+	Aaa
Asset-Backed Securities	11,061	NA	Aaa (sf)
Commercial Paper	24,598	AAA	Aaa
Commercial Paper	8,099	AA	Aa2
Commercial Paper	15,899	AA	Aa1
Commercial Paper	25,997	AA-	Aa3
Commercial Paper	12,999	AA-	Aa1
Total credit risk debt securities	142,763		
U.S. Treasuries	500	AA+u	Aaa
U.S. Treasuries	10,850 [1]	AAAm	Aaa-mf
U.S. Treasuries (explicitly guaranteed)	88,955	AA+u	Aaa
Federal Agency (Fixed Rate)	3,007	AA+	Aaa
Federal Agency (Fixed Rate)	60,223 [2]	AAAm	Aaa-mf
Federal Agency (Callable)	2,895	AA+	Aaa
Federal Agency (implicitly guaranteed)	1,902	NR	Aaa
U.S. Government and Agencies	168,332		
Total debt securities investments	**$ 311,095**		

Non-Rating Description	
NA	Not Available
NR	Not Rated

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[1] Money Market Treasury Fund primarily consists of U.S. Treasury securities.

[2] Government/Agency Money Market Fund primarily consists of U.S. government/agencies securities.

2. Deposits and Investments (continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer that represent five percent or more of total investments must be disclosed by amount and issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

In accordance with the investment policy, no more than 10% of MLGW's portfolio will be invested in the securities of any single issuer with the following exceptions: U.S. Government Obligations up to 100%; and the amount invested in corporate bonds/notes will not exceed 5% of the portfolio book value for any single issuer at the date of acquisition. In addition, MLGW's investment policy seeks to diversify its portfolio by limiting the percentage of the portfolio that may be invested in any one type of instrument as follows:

U.S. Treasuries	100%	maximum
U.S. Government Obligations Mutual Funds	100%	maximum
Federal Agency (Fixed Rate)	100%	maximum
Federal Agency (Callable)	50%	maximum
Repurchase Agreements	50%	maximum
Commercial Paper (Rated AA or higher)	90%	maximum
Banker's Acceptance (Rated AA or higher)	60%	maximum
Corporate Notes	15%	maximum
Certificates of Deposit	20%	maximum
Municipal Obligations	20%	maximum
Tennessee LGIP and Mutual Funds	40%	maximum
Asset - Backed Securities	50%	maximum

As of December 31, 2013, the investments in any one issuer of corporate bonds, asset-backed securities and commercial paper that represent 5% or more of MLGW's investments are as follows:

Issuer	**Reported Amount**	**Percentage of Portfolio**
Toyota Motor Credit	$ 18,217	5.9%
Total	**$ 18,217**	

2. Deposits and Investments (continued)

Securities Lending

MLGW has authorized The Northern Trust Company ("the Agent") to enter into, on behalf of MLGW, securities lending transactions comprised of loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Initial collateral levels, consisting of cash and securities, must be at least 102% of the market value of borrowed securities, or at least 105% if the borrowed securities and collateral are denominated in different currencies.

As of December 31, 2013, MLGW had no credit risk exposure to borrowers because the amounts MLGW owed the borrowers exceeded the amounts the borrowers owed MLGW. The maturities of the investments made with cash collateral do not necessarily match the maturities of the securities on loan. There are no restrictions on the amount of securities that can be lent at one time or to one borrower. The borrower is required to deliver additional collateral when necessary so that the total collateral held by the Agent for all loans to the borrower will at least equal the market value of the securities without a borrower default. MLGW does not have the ability to pledge or sell collateral securities without a borrower default. The Agent shall issue a safekeeping receipt to MLGW listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the Agent will also provide reports which list all securities held for MLGW, the book value of holdings and the market value as of month-end. Appropriate MLGW officials and representatives of the Agent responsible for, or in any manner involved with, the safekeeping and custody process of MLGW shall be bonded in such a fashion as to protect MLGW from losses from malfeasance and misfeasance. In addition, MLGW will not deposit funds through third parties or money brokers.

Under the terms of the lending agreement, MLGW is indemnified against any losses, damages, costs and expenses should the Agent be unable to recover borrowed securities and distributions due to borrower filing for bankruptcy or similar relief or failure of the Agent to properly evaluate the creditworthiness of the borrower. In addition, MLGW is indemnified against loss should the Agent fail to demand adequate and appropriate collateral on a timely basis.

As of December 31, 2013, MLGW investments held by broker-dealers under securities loans consist of the following:

	Market Value of Securities on Loan *				**Cash Collateral Received**			
Securities on Loan	**Electric Division**	**Gas Division**	**Water Division**	**Total**	**Electric Division**	**Gas Division**	**Water Division**	**Total**
U.S. Government Fixed	$ 47,328	$ 28,411	$ 6,256	$ 81,995	$ 48,500	$ 29,115	$ 6,411	$ 84,026
Corporate Bonds	436	262	58	756	447	268	59	774
Total	**$ 47,764**	**$ 28,673**	**$ 6,314**	**$ 82,751**	**$ 48,947**	**$ 29,383**	**$ 6,470**	**$ 84,800**

* Market value of securities on loan includes accrued interest.

2. Deposits and Investments (continued)

Restricted and Unrestricted Funds

Restricted funds, cash and cash equivalents, and investments consisted of the following as of December 31, 2013 and 2012:

	Electric Division		**Gas Division**		**Water Division**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Restricted funds:						
Cash and cash equivalents	**$ 46,712**	$ 46,943	**$ 11,044**	$ 12,030	**$ 6,906**	$ 7,640
Investments	**12,859**	10,594	**6,344**	4,870	**4,909**	4,079
Total restricted funds	**$ 59,571**	$ 57,537	**$ 17,388**	$ 16,900	**$ 11,815**	$ 11,719
Unrestricted funds:						
Cash and cash equivalents	**$ 64,402**	$ 85,317	**$ 42,959**	$ 73,368	**$ 5,710**	$ 8,122
Investments	**74,093**	69,149	**45,843**	56,856	**6,582**	6,597
Total unrestricted funds	**$ 138,495**	$ 154,466	**$ 88,802**	$ 130,224	**$ 12,292**	$ 14,719

3. Long-Term Receivables

In 2002, MLGW and the Valero Refining Group ("Valero") entered into an agreement, whereby MLGW would provide for the construction of two pipelines and lease them to Valero for the purpose of transporting crude oil and refinery products. The lease provides for monthly payments of principal and interest and has an initial term of 15 years, ending on October 1, 2016.

Scheduled lease payments are as follows for the years ending December 31:

2014	$ 1,414
2015	1,414
2016	963
	$ 3,791

The Valero lease receivable is included in notes receivable in the accompanying 2013 Gas Division's Statement of Net Position, except for the current portion of $1,414, which is included in other current assets.

4. Utility Plant

Utility plant activity for the years ended December 31, 2013 and 2012 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2013				
Electric Division				
Capital assets not being depreciated:				
Land [1]	$ 36,988	$ 1,280	$ -	$ 38,268
Land - Non-utility	15,345	-	-	15,345
Construction in progress	73,357	61,114	(52,101)	82,370
Total capital assets not being depreciated	125,690	62,394	(52,101)	135,983
Capital assets being depreciated or amortized:				
Structures and improvements	59,273	522	(158)	59,637
Transmission and distribution plant equipment	1,268,037	43,555	(9,728)	1,301,864
General plant equipment [2]	162,571	7,747	(28,317)	142,001
Total capital assets being depreciated or amortized	1,489,881	51,824	(38,203)	1,503,502
Less accumulated depreciation and amortization	(638,232)	(46,662)	41,440	(643,454)
Total capital assets being depreciated or amortized, net	851,649	5,162	3,237	860,048
Total capital assets, net	$ 977,339	$ 67,556	$ (48,864)	$ 996,031
Gas Division				
Capital assets not being depreciated:				
Land	$ 7,538	$ -	$ -	$ 7,538
Land - Non-utility	66	-	-	66
Construction in progress	12,377	42,388	(18,913)	35,852
Plant held for future use	212	-	-	212
Total capital assets not being depreciated	20,193	42,388	(18,913)	43,668
Capital assets being depreciated or amortized:				
Structures and improvements	58,601	1,269	(251)	59,619
Processing and distribution plant equipment	438,995	16,043	(14,614)	440,424
General plant equipment [3]	67,187	1,651	(1,691)	67,147
Non-utility plant equipment	200	-	-	200
Total capital assets being depreciated or amortized	564,983	18,963	(16,556)	567,390
Less accumulated depreciation and amortization	(278,308)	(13,504)	17,401	(274,411)
Total capital assets being depreciated or amortized, net	286,675	5,459	845	292,979
Total capital assets, net	$ 306,868	$ 47,847	$ (18,068)	$ 336,647

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[1] Electric Division's increase in Land includes a transfer from the Water Division of $1,003.

[2] Electric Division's decrease in General Plant Equipment includes a transfer to the Gas Division of $51 and $6 to the Water Division.

[3] Gas Division's increase in General Plant Equipment includes a transfer from the Electric Division of $51.

4. Utility Plant (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2013				
Water Division				
Capital assets not being depreciated:				
Land [4]	**$ 3,328**	**$ -**	**$ (1,003)**	**$ 2,325**
Construction in progress	**15,166**	**13,298**	**(14,324)**	**14,140**
Total capital assets not being depreciated	**18,494**	**13,298**	**(15,327)**	**16,465**
Capital assets being depreciated or amortized:				
Structures and improvements	**49,069**	**72**	**-**	**49,141**
Pumping, transmission and distribution plant equipment	**332,206**	**13,286**	**(6,015)**	**339,477**
General plant equipment [5]	**66,003**	**972**	**(25,740)**	**41,235**
Total capital assets being depreciated or amortized	**447,278**	**14,330**	**(31,755)**	**429,853**
Less accumulated depreciation and amortization	**(202,800)**	**(8,444)**	**32,117**	**(179,127)**
Less acquisition adjustment	**(6,260)**	**964**	**-**	**(5,296)**
Total capital assets being depreciated or amortized, net	**238,218**	**6,850**	**362**	**245,430**
Total capital assets, net	**$ 256,712**	**$ 20,148**	**$ (14,965)**	**$ 261,895**
Year ended December 31, 2012				
Electric Division				
Capital assets not being depreciated:				
Land	$ 29,901	$ 7,087	$ -	$ 36,988
Land - Non-utility	15,345	-	-	15,345
Construction in progress	73,787	72,440	(72,870)	73,357
Total capital assets not being depreciated	119,033	79,527	(72,870)	125,690
Capital assets being depreciated or amortized:				
Structures and improvements	57,158	2,180	(65)	59,273
Transmission and distribution plant equipment	1,216,698	58,196	(6,857)	1,268,037
General plant equipment	157,449	5,407	(285)	162,571
Total capital assets being depreciated or amortized	1,431,305	65,783	(7,207)	1,489,881
Less accumulated depreciation and amortization	(602,179)	(48,722)	12,669	(638,232)
Total capital assets being depreciated or amortized, net	829,126	17,061	5,462	851,649
Total capital assets, net	$ 948,159	$ 96,588	$ (67,408)	$ 977,339

[4] Water Division’s decrease in Land includes a transfer to the Electric Division of $1,003.
[5] Water Division’s increase in General Plant Equipment includes a transfer from the Electric Division of $6.

4. Utility Plant (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2012				
Gas Division				
Capital assets not being depreciated:				
Land	$ 7,502	$ 36	$ -	$ 7,538
Land - Non-utility	66	-	-	66
Construction in progress	10,199	16,036	(13,858)	12,377
Plant held for future use	212	-	-	212
Total capital assets not being depreciated	17,979	16,072	(13,858)	20,193
Capital assets being depreciated or amortized:				
Structures and improvements	57,304	1,579	(282)	58,601
Processing and distribution plant equipment	431,429	8,606	(1,040)	438,995
General plant equipment	63,421	3,850	(84)	67,187
Non-utility plant equipment	200	-	-	200
Total capital assets being depreciated or amortized	552,354	14,035	(1,406)	564,983
Less accumulated depreciation and amortization	(264,078)	(16,853)	2,623	(278,308)
Total capital assets being depreciated or amortized, net	288,276	(2,818)	1,217	286,675
Total capital assets, net	$ 306,255	$ 13,254	$ (12,641)	$ 306,868

	Beginning Balance	Increases	Decreases	Ending Balance
Water Division				
Capital assets not being depreciated:				
Land	$ 3,328	$ -	$ -	$ 3,328
Construction in progress	15,592	12,225	(12,651)	15,166
Total capital assets not being depreciated	18,920	12,225	(12,651)	18,494
Capital assets being depreciated or amortized:				
Structures and improvements	48,663	406	-	49,069
Pumping, transmission and distribution plant equipment	324,369	8,840	(1,003)	332,206
General plant equipment	66,952	3,405	(4,354)	66,003
Total capital assets being depreciated or amortized	439,984	12,651	(5,357)	447,278
Less accumulated depreciation and amortization	(196,469)	(12,234)	5,903	(202,800)
Less acquisition adjustment	(7,224)	964	-	(6,260)
Total capital assets being depreciated or amortized, net	236,291	1,381	546	238,218
Total capital assets, net	$ 255,211	$ 13,606	$ (12,105)	$ 256,712

4. Utility Plant (continued)

Total net capital asset changes include additions to construction in progress, transfers to or from other accounts, depreciation and amortization and the effects of sales, retirements, and contribution in aid of construction.

MLGW's planned construction program expenditures for 2014 are estimated as follows (unaudited):

Electric Division	$ 87,493
Gas Division	63,567
Water Division	15,110

In June 1999, the Water Division purchased the Shelby County Water Distribution System and related assets from Shelby County, Tennessee. The difference between the purchase price and the net book value of the assets acquired (the "acquisition adjustment") is being amortized over twenty years by the Water Division.

5. Futures, Options and Swap Contracts

The Gas Division enters into futures contracts, swaps, and options on futures contracts as cash flow hedges to manage the risk of volatility in the market price of natural gas on anticipated purchase transactions. The market values of the open derivative positions are reported on the Statements of Net Position as derivative financial instruments.

The purchase and sale of futures contracts involves highly leveraged and rapidly fluctuating markets that can lead to significant losses for market participants. As such, market participants are required to maintain margin deposits with a Futures Commission Merchant (FCM) in order to trade in the commodity futures market. These margin deposits are required by the FCM as a condition of its contract to provide execution, clearing and bookkeeping services relative to the purchase and sale of commodity futures. MLGW maintained a margin deposit balance of $3,860 and $3,946 with its FCM at December 31, 2013 and 2012, respectively.

The FCM is not subject to state laws which govern financial institutions serving as depositories for municipal funds, but instead is governed by rules and regulations promulgated by the federal Commodity Futures Trading Commission. The Commodity Exchange Act requires the FCM to segregate all customer transactions and assets from the FCM's proprietary activities.

Futures contracts are marked-to-market daily and valued at closing market prices on the valuation date. The fluctuations in the value of the futures contracts are recorded for financial statement purposes as deferred gains or losses.

5. Futures, Options and Swap Contracts (continued)

The schedule below shows the market values and notional amounts of the open futures, swaps, and options on futures contracts for the Gas Division as of December 31, 2013 and 2012.

	December 31, 2013		December 31, 2012	
Type	**Market Value**	**Notional Amount**	Market Value	Notional Amount
Futures	**($415)**	**$3,361**	($955)	$7,933
Swaps	**49**	**3,334**	(484)	4,301
Options	**860**	**10,316**	-	-
Total	**$494**	**$17,011**	($1,439)	$12,234

The schedule below reflects the deferred gains (losses) as of year end associated with recording open derivative positions.

	December 31, 2013	December 31, 2012
Type	**Deferred Gains (Losses)**	Deferred Gains (Losses)
Futures	**($415)**	($955)
Swaps	**49**	(484)
Options	**860**	-
Total	**$494**	($1,439)

Deferred costs as of year end associated with gains (losses) on closed derivative positions are shown below.

	December 31, 2013	December 31, 2012
Type	**Deferred Gains (Losses)**	Deferred Gains (Losses)
Futures	**$610**	($35)
Swaps	**52**	(70)
Total	**$662**	($105)

The deferred gains (losses) as of December 31, 2013 and 2012 for the open derivative positions are reported on the Statement of Net Position as deferred inflows of resources and deferred outflows of resources, respectively. The closed derivative positions are reported as other liabilities.

5. Futures, Options and Swap Contracts (continued)

MLGW's derivative instruments are potentially exposed to concentrations of credit. Management of MLGW does not believe that it has a significant credit risk on its derivative instruments. MLGW's derivatives transactions are mostly conducted directly or indirectly with the NYMEX. Using NYMEX largely minimizes MLGW's exposure to credit risk for such transactions.

6. Deferred Compensation Plan

MLGW offers its employees a deferred compensation plan under Internal Revenue Code Section 457. The plan, available to all MLGW employees, permits them to defer a portion of their salaries until future years. 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 amended plan are held in custodial and annuity accounts for the exclusive benefit of plan participants, the related assets of the plan are not reflected in MLGW's Statements of Net Position.

7. Employee Retirement System

Plan Description

Memphis Light, Gas and Water Retirement and Pension System (the "MLGW Pension Plan") is a single-employer defined benefit pension plan administered by the MLGW Pension Board. The MLGW Pension Plan was established to provide retirement benefits for its plan members and beneficiaries, who meet the eligibility requirements. MLGW issues a separate audited financial report for the MLGW Pension Plan that includes financial statements and required supplementary information. That report may be obtained by writing to Manager, Risk Management, P. O. Box 430, Memphis, TN 38101.

The MLGW Pension Plan provides retirement, disability, and death benefits to participants and their beneficiaries. The MLGW Pension Plan also provides for a cost of living adjustment beginning at age 56 for retired members and surviving spouses, and at any age for disabled members on a graded scale up to 5% per annum based on the National Consumer Price Index. The MLGW Pension Board has the authority to establish and amend benefit provisions of the pension plan.

7. Employee Retirement System (continued)

Plan Description (continued)

The MLGW Pension Plan covers permanent full time employees and appointed officials of MLGW. Membership consisted of the following as of December 31, 2013 and 2012:

	2013	**2012**
Retirees and beneficiaries receiving benefits	**2,567**	2,549
Terminated plan members entitled to but not yet receiving benefits	**48**	42
Active members fully vested	**1,132**	1,146
Active members not vested	**1,424**	1,444
Total	**5,171**	5,181

Funding Policy

The contribution requirements of pension plan members and MLGW are established and may be amended and approved by the MLGW Board of Commissioners and the Memphis City Council. Pension plan members are required to contribute 8% of their annual covered salary. Under Article III, Section 3.2 of the pension plan, MLGW shall contribute to the pension fund such amounts as from time to time are estimated by the actuary. MLGW also funds the 8% pension plan member's contribution on behalf of the president and vice presidents. For 2013, MLGW contributed 19.8% of the annual covered payroll.

7. Employee Retirement System (continued)

Annual Pension Cost and Net Pension Obligation

MLGW's annual pension cost ("APC") and net pension asset for the MLGW Pension Plan consisted of the following for 2013 and 2012:

	2013	2012
Annual required contribution ("ARC")	**$ 30,705**	$ 30,067
Interest on net pension asset	**(1,245)**	(1,226)
Adjustment to annual required contribution	**1,008**	975
Annual pension cost	**30,468**	29,816
Contributions made	**(30,706)**	(30,063)
Change in net pension asset	**(238)**	(247)
Net pension asset at beginning of fiscal year	**(16,595)**	(16,348)
Net pension asset at end of fiscal year	**$ (16,833)**	$ (16,595)

Three-Year Trend Information

Fiscal Year Ending	**Annual Pension Cost**	**Percentage of APC Contributed**	**Net Pension Obligation (Asset)**
December 31, 2013	$ 30,468	100.8%	$ (16,833)
December 31, 2012	29,816	100.8%	(16,595)
December 31, 2011	25,944	101.0%	(16,348)

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the MLGW Pension Plan was 84.8% funded. The actuarial accrued liability ("AAL") for benefits was $1,439,010, and the actuarial value of assets was $1,220,456, resulting in an unfunded actuarial accrued liability ("UAAL") of $218,554. The covered payroll (annual payroll of active employees covered by the pension plan) was $154,759, and the ratio of the UAAL to the covered payroll was 141.2%.

7. Employee Retirement System (continued)

Funded Status and Funding Progress (continued)

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information indicating whether the actuarial value of pension plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the January 1, 2014 actuarial valuation using the entry age normal cost method. Actuarial methods and significant assumptions were as follows:

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll, closed
Remaining Amortization Period	27 years remaining as of January 1, 2014
Asset Valuation Method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the actuarial market value, and is recognized over a five-year period, further adjusted, if necessary, to be within 30% of the market value.
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Inflation Rate	3.25%
Projected Salary Increases	Inflation plus merit increases that vary by age and service
Cost of Living Adjustments	0.98% for ages 56 - 58 1.95% for ages 59 - 61 2.44% for ages 62 and older, and all disabled participants

8. Other Postemployment Benefits

The Memphis Light, Gas and Water Division OPEB Trust ("OPEB Trust") was established for the exclusive benefit of MLGW's retired employees and their dependents (who meet the eligibility requirements) to fund the postemployment benefits provided through the health and welfare benefit plan. Amounts contributed to the OPEB Trust by MLGW are held in trust and are irrevocable and are for the sole and exclusive purpose of funding for health and welfare benefits of the eligible participants, and the cost of operating and administering this Trust. The OPEB Trust is administered by the MLGW OPEB Committee.

Plan Description

Memphis Light, Gas and Water Division, by resolution of its Board of Commissioners, has established, adopted, and maintains a medical benefits (health and welfare) plan (the "Plan") for its retired employees and their eligible dependents. The Plan is a single-employer defined benefit healthcare plan administered by MLGW. MLGW issues a separate audited financial report for the OPEB Trust that includes financial statements and required supplementary information. That report may be obtained by writing to: Manager, General Accounting, P.O. Box 430, Memphis, Tennessee 38101-0430.

The Plan provides postemployment coverage for health care, life insurance, accident/death and dismemberment (AD&D), medical, and prescription drugs to eligible retirees and their dependents. Benefits are payable to retirees and their spouses for their lifetime. Qualified dependents will continue to receive benefits as long as they are qualified under the Plan. Dental, dependent life insurance, cancer, accident, and long-term care benefits are available, but are 100% paid by the retiree.

Employees retired under the MLGW Pension Plan, or disabled with five years of service at any age, or disabled in the line of duty at any age with no years of service restriction, are eligible for OPEB benefits. Health care benefits are also offered to qualifying survivors of active employees who are eligible to retire at the time of death.

Funding Policy

The contribution requirements of plan members and MLGW are established and may be amended by the MLGW Board of Commissioners. Retiree and spouse contribution rates are periodically reset and are currently at 25% of costs for medical and drug benefits. For life insurance and AD&D, retirees contribute 40% of the cost.

The Board of Commissioners has set the employer contribution rate based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Codification Section P50: *Postemployment Benefits Other Than Pension Benefits – Employer Reporting*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. For fiscal years 2013 and 2012, employer contributions were $43,043 and $39,747 to the Plan, respectively. In 2013, plan members receiving benefits contributed $5,751 through their required

8. Other Postemployment Benefits (continued)

Funding Policy (continued)

contribution of $58.96 to $462.88 (dollars) per month depending on the coverage (employee only, employee and spouse, or family) and the health plan selected. In 2012, plan members receiving benefits contributed $5,912 through their required contribution of $67.46 to $620.54 (dollars) per month.

Annual OPEB Cost and Net OPEB Obligation

An actuarial valuation of MLGW's postemployment welfare benefit program was performed for the Plan as of December 31, 2013. MLGW's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC). The following table presents the OPEB cost for the year, the amount contributed to the plan, and changes in the net OPEB obligation as of December 31, 2013 and 2012:

	2013	**2012**
Annual required contribution	**$ 42,854**	$ 42,427
Interest on net OPEB obligation	**-**	(94)
Adjustment to annual required contribution	**-**	78
Annual OPEB cost	**42,854**	42,411
Contributions made	**(43,043)**	(39,747)
Change in net OPEB asset	**(189)**	2,664
Net OPEB liability (asset) at beginning of fiscal year	**1,415**	(1,249)
Net OPEB liability at end of fiscal year	**$ 1,226**	$ 1,415

8. Other Postemployment Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

MLGW's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2013 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
December 31, 2013	$ 42,854	100.4%	$ 1,226
December 31, 2012	42,411	93.7%	1,415
December 31, 2011	44,630	97.6%	(1,249)

Funded Status and Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the plan was 41.2% funded. The actuarial accrued liability (AAL) for benefits was $660,524 and the actuarial value of assets was $272,150, resulting in an unfunded actuarial accrued liability (UAAL) of $388,374. The covered payroll (annual payroll of active employees covered by the Plan) was $154,759, and the ratio of the UAAL to the covered payroll was 251%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information indicating whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

8. Other Postemployment Benefits (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations. Actuarial methods and significant assumptions were as follows:

Valuation Date	December 31, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay, 30 years, closed
Remaining Amortization Period	23 years as of December 31, 2013
Asset Valuation Method	Market value
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Inflation Rate	3.25%
Projected Salary Increases	Ultimately, 7.60% at age 24 graded to 3.25% at age 60 and older
Medical Cost Trend Rate	7.75% graded to 5.00% over 11 years
Drug Cost Trend Rate	6.00% graded to 5.00% over 5 years

9. Pollution Remediation Obligation

MLGW has a contract with a state licensed environmental remediation company. The liabilities to remove asbestos, mold and lead from various substations and equipment because of imminent danger were derived from the environmental remediation contractor's estimate. These estimates assume no expected change orders.

MLGW annually evaluates current conditions, remediation plan updates and changes in legal or regulatory requirements to revise MLGW's estimated liability. In 2013, the Division re-evaluated the pollution remediation liability. As a result of the re-evaluation, the Division determined there was no imminent danger for the removal of the remaining asbestos ($2,810), PCB ($720), and some lead ($1,436) from various substations and equipment, in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The evaluation reduced the pollution remediation obligation by $4,966. At year-end, the Division's pollution remediation liability consists only of lead removal. Regulatory accounts are used to capture the net effect of the changes in estimates for each Division. See Note 1 (Regulatory Accounting).

9. Pollution Remediation Obligation (continued)

The schedule below shows the balances as of December 31, 2013 and 2012 for each pollution liability by Division:

		12/31/2013	12/31/2012
Electric			
	PCB	**$ -**	$ 871
	Asbestos	**-**	1,282
	Lead	**3,295**	8,354
	Storm Water	**-**	30
Total Electric		**3,295**	10,537
Gas			
	Asbestos	**-**	224
	Lead	**2,130**	2,844
Total Gas		**2,130**	3,068
Water			
	Asbestos	**-**	1,304
	Lead	**4,950**	5,116
Total Water		**4,950**	6,420
Total Liability		**$ 10,375**	$ 20,025
Total PCB		**$ -**	$ 871
Total Asbestos		**-**	2,810
Total Lead		**10,375**	16,314
Total Storm Water		**-**	30
Total Liability		**$ 10,375**	$ 20,025

10. Risk Management

MLGW is exposed to various risks of loss related to active and retiree medical claims; injuries to workers; torts; theft of, damage to, and destruction of assets; errors and omissions; environmental damages; and natural disasters.

MLGW is self-insured for health and medical benefits and for injuries and damages including workers compensation and general liability claims. The Tennessee Governmental Tort Liability Act, TCA 29-20-101, et al, (the "Act") applies to all tort actions against MLGW arising in the state of Tennessee. The Act establishes statutory limits of liability and MLGW is immune from any award or judgment for death, bodily injury or property damage in excess of the limits as set forth in the Act.

Pursuant to the Act, the current limits of liability for personal injuries are $300 per person and $700 for two or more persons per accident. The liability for property damage is limited to $100 per accident.

MLGW purchases insurance to address the risks of loss associated with the following: property damage; employee travel; out-of-state automobile travel; employee dishonesty; forgery; computer fraud; counterfeiting; damage to leased or rented equipment; and worker injuries exceeding MLGW's retained risk of loss.

MLGW has established insurance reserves for the estimated liabilities, including an accrual for incurred but not reported claims, resulting from medical benefits and injuries and damages claims as established by a third party administrator and MLGW's Legal Department. The medical benefits reserve and the costs and charges to the reserve are allocated to each division based on a standard administrative and general cost allocation.

MLGW is party to various lawsuits filed against it in the normal course of business (see Note 15).

The changes in the self-insurance reserves for medical benefits and injuries and damages for the years ended December 31, 2013 and 2012 are as follows:

	Medical Benefits			**Injuries and Damages**		
	Electric Division	**Gas Division**	**Water Division**	**Electric Division**	**Gas Division**	**Water Division**
Balance -- December 31, 2011	$ 4,890	$ 2,181	$ 1,448	$ 6,399	$ 1,646	$ 1,377
Payments	(30,663)	(13,676)	(9,081)	(2,672)	(857)	(1,026)
Incurred claims expense	30,827	13,749	9,130	3,246	1,314	1,650
Balance -- December 31, 2012	5,054	2,254	1,497	6,973	2,103	2,001
Payments	**(30,926)**	**(13,793)**	**(9,159)**	**(2,417)**	**(763)**	**(922)**
Incurred claims expense	**30,453**	**13,582**	**9,019**	**2,172**	**933**	**987**
Balance -- December 31, 2013	**$ 4,581**	**$ 2,043**	**$ 1,357**	**$ 6,728**	**$ 2,273**	**$ 2,066**

11. Bonds

Bonds as of December 31, 2013 and 2012 consist of the following:

	Interest Rates	**2013**	2012
Electric Division:			
Electric System Revenue Bonds:			
Series 2003A, due serially 2012-2018	3.40 - 5.00%	**$ 6,015**	$ 105,715
Series 2008, due serially 2017-2018	4.00 - 5.00%	**96,930**	96,930
Series 2010, due serially 2014-2018	2.50 - 5.00%	**460,050**	460,050
Premium on revenue bonds		**30,931**	43,222
Total		**593,926**	705,917
Less: current portion of bonds payable		**(102,765)**	(99,700)
		$ 491,161	$ 606,217

Principal payments on bonds are due annually on January 1 or December 1. Debt service requirements as of December 31, 2013 are as follows:

	Electric Division	
	Principal	**Interest**
2014	$ 102,765	$ 27,431
2015	107,775	22,417
2016	112,935	17,151
2017	117,195	11,554
2018	122,325	5,778
Total	$ 562,995	$ 84,331

MLGW, at its option, may redeem bonds prior to maturity at premiums and prices specified in the indentures. The Series 2003A, Series 2008, and Series 2010 bonds are subject to mandatory redemption upon early termination of the Supplement to the Power Contract ("Supplement") with TVA as discussed in Note 12 (Rates and Energy Supplies).

Bonds are secured by the pledge of the respective division's revenues, by funds established by the bond resolutions and, in certain circumstances, proceeds from the sale of certain division assets.

11. Bonds (continued)

The estimated fair value of long-term debt for the Electric Division based on quoted market prices (including accrued interest) is as follows as of December 31, 2013 and 2012:

	2013	2012
Electric Division	**$ 624,864**	$ 846,171

During 2010, the Electric Division issued $460,050 of Series 2010 bonds to advance refund a portion of the outstanding Electric System Subordinate Revenue Bonds, Series 2003A, and to pay certain costs of issuance of the Series 2010 Bonds. The refunding was undertaken to reduce total future debt service payments. The 2010 Series Bonds have a net present value benefit of $16,541, with a cash savings of $18,809 over the life of the bonds. The first principal payment is to be made December 1, 2014, and thereafter annually with a final maturity date of December 1, 2018. The Series 2010 Bonds bear interest at annual fixed rates ranging from 2.50% to 5.00%. The Series 2010 Bonds are not subject to optional redemption, but will be subject to extraordinary redemption prior to maturity.

During 2008, the Electric Division issued $96,930 in revenue bonds to refund $100,000 of Series 2003B revenue bonds. The refunding was undertaken to convert the 2003B auction rate securities into fixed rate securities of the same maturity. The Series 2008 revenue bonds bear interest at annual fixed rates ranging from 4.00% to 5.00%.

With the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the Electric Division reclassified unamortized deferred cost on bond refunding from bonds payable to deferred outflows of resources in the accompanying Statements of Net Position. Unamortized deferred cost on bond refunding totaled $10,137 and $13,945 as of December 31, 2013 and 2012, respectively. Amortization of deferred cost on bond refunding totaled $3,808 and $3,807 in 2013 and 2012, respectively.

During 2003, the Electric Division issued $1,292,170 of Series 2003A and $100,000 of Series 2003B revenue bonds to prepay future power purchases from TVA under the Supplement. See Note 12. The Series 2003A revenue bonds bear interest at annual fixed rates ranging from 2.00% to 5.00%. The Series 2003B revenue bonds were auction rate securities that bore interest for 35-day auction periods. The Series 2003B revenue bonds were refunded in 2008, as discussed above.

MLGW's Electric Division bond covenants require that for Series 2003A, 2008, and 2010 Bonds the ratio of net revenues in each fiscal year to the debt service requirement for such fiscal year must not be less than 1.00. The composite electric coverage as of December 31, 2013 was 1.79.

11. Bonds (continued)

Long-term debt activity for the years ended December 31, 2013 and 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2013:				
Electric Division				
Bonds payable:				
Revenue bonds	**$ 662,695**	$ -	**$ (99,700)**	**$ 562,995**
Premium on revenue bonds	**43,222**	**-**	**(12,291)**	**30,931**
Total bonds payable	**$ 705,917**	$ -	**$ (111,991)**	**$ 593,926**
Year ended December 31, 2012:				
Electric Division				
Bonds payable:				
Revenue bonds	$ 757,885	$ -	$ (95,190)	$ 662,695
Premium on revenue bonds	56,588	-	(13,366)	43,222
Total bonds payable	$ 814,473	$ -	$ (108,556)	$ 705,917
Water Division				
Bonds payable:				
Revenue bonds	$ 1,625	$ -	$ (1,625)	$ -
Total bonds payable	$ 1,625	$ -	$ (1,625)	$ -

12. Rates and Energy Supplies

Rates

Electric, gas and water rates are established by MLGW and rate changes are subject to approval by the Council. The Council has approved mechanisms for pass-through of wholesale electric rate changes from TVA and natural gas price changes from suppliers without requiring additional specific approval.

TVA implemented a rate adjustment effective with the October 2013 revenue month, increasing the cost of wholesale power (excluding fuel and purchased power) purchased by MLGW by approximately 2.63%. MLGW implemented changes to its retail rate schedules effective with meters read on or after October 1, 2013, to recover the increased cost of wholesale power from its retail customers. The retail effect across all customer classes was approximately 1.60%.

TVA offered wholesale rate options effective with the October 2012 revenue month. MLGW chose TVA's modified time-of-use rate option which had minimal impacts to wholesale power costs. MLGW implemented changes to its retail rate schedules effective with meters read on or after October 1, 2012. As a result of the new rate option, retail bills increased slightly during the summer season and decreased slightly during both the winter and transition seasons, with the overall effect resulting in no annual increase to customers' bills from the retail rate changes.

MLGW retail electric rates are adjusted for TVA’s Fuel Cost Adjustor (“FCA”). The FCA is a variable wholesale energy rate that can fluctuate each month with TVA’s cost of fuel for electricity generation and purchased power costs. The FCA affects energy (per kilowatt-hour) charges for all retail customers.

MLGW gas rate schedules are developed using a projected price of natural gas and related gas storage and transportation charges. Retail natural gas rates are adjusted monthly for the Purchased Gas Adjustment ("PGA") rider. A PGA is applied to customer bills to reflect the difference between the actual cost of gas, storage and transportation in a given month and the projected levels built into the base rate schedule.

A Gas Temporary Credit Rate was approved on November 20, 2012 by the City Council as part of the 2013 MLGW Budget. This temporary credit was applicable to firm gas service customers effective with meters read on or after January 2, 2013 through April 3, 2013. The retail effect was approximately a 2.31% annual decrease for firm gas customers.

In response to price decreases in the natural gas market, MLGW restructured gas rate schedules by lowering the projected base price used for rate development. New retail rate schedules were effective with meters read on or after August 30, 2012. The effect to retail customers' bills was minimal, the most notable result being less fluctuation in the monthly PGA rate.

MLGW revised the language in all gas rate schedules, except the residential rate schedule, effective for meters read on or after January 3, 2012. These language changes added flexibility to commercial and

12. Rates and Energy Supplies (continued)

industrial rate schedules so MLGW could meet customer service needs and foster economic growth. A compressed natural gas refueling rate schedule (CNG) and a liquefied natural gas schedule (LNG) were added. There was no retail effect to customers' bills from these changes.

A water rate increase was approved on November 20, 2012 by the City Council as part of the 2013 MLGW Budget. This rate increase was required due to increased general operating expenses. MLGW implemented new water rate schedules for meters read on or after January 2, 2013. The retail impact was a 7.1% increase for all customer classes.

A water rate increase was approved on November 19, 2013 by the City Council as part of the 2014 MLGW Budget. This rate increase was required due to increased general operating expenses. MLGW implemented new water rate schedules for meters read on or after January 2, 2014. The retail impact was a 2.13% increase for all customer classes.

Energy Supplies

TVA currently supplies all of MLGW’s electric power requirements pursuant to a power contract. On November 19, 2003, MLGW entered into a Supplement to the Power Contract with TVA under which MLGW made a prepayment of $1,500,000 to TVA for capacity and related energy. In exchange for the prepayment and a commitment by MLGW to purchase a minimum amount of electric power from TVA over the term of the Supplement (15 years), TVA will supply a specified amount of electricity and provide a fixed credit to its wholesale power rates otherwise in effect. To finance the prepayment, MLGW issued the Series 2003A and Series 2003B Bonds. Subsequently, MLGW has refinanced portions of the bonds originally issued for the prepayment. In 2008, the Series 2003B bonds were refunded by the Series 2008 bonds. In 2010, the callable portion of the 2003A Series bonds was refunded by the Series 2010 bonds. See also Note 1 (Prepaid Power Cost) and Note 11 (Bonds).

Under the terms of the TVA power contract, MLGW may terminate its supply arrangement with TVA upon five years’ prior written notice. TVA may terminate on not less than ten years’ prior written notice. However, such notice of termination cannot be given by either party before November 19, 2013, under the terms of the Supplement.

MLGW purchases natural gas from multiple suppliers on multiple pipelines in order to minimize operational and performance risk. MLGW has short-term purchase commitments which are normally for one year or less.

MLGW and the Tennessee Energy Acquisition Corporation (“TEAC”) entered into a 20 year gas purchase contract beginning January 1, 2007 with volume commitments for the term. In November 2006, Public Energy Authority of Kentucky, Inc. (“PEAK”) and MLGW entered into a 5 year gas purchase contract with volume commitments for the term. In October 2011, PEAK and MLGW renewed, for a second term, a 5 year gas purchase contract with volume commitments for the term. This purchase contract began

12. Rates and Energy Supplies (continued)

November 1, 2011 and ends June 30, 2016. Both TEAC and PEAK deals are paid monthly after the gas is received by MLGW for its customers, and therefore these deals present no increased cash flow risk compared to normal physical gas purchases.

13. Federal Grant Contributions

In December 2011, FEMA announced approval of the April 4, 2011 Storm Restoration project (Contract Edison #E 34101-0000008735) under the Public Assistance Grant Award for Cost Incurred during the Federal Emergency Management Agency ("FEMA") -1978-DR-TN program. In February 2012, the existing contract was amended to $2,734; all of which is being federally funded to the Electric Division. In December 2013, MLGW adjusted the receivable on this project by $157, representing the grant portion of eligible costs; bringing the total receivable up to $2,689 for this project. The schedule below summarizes the grant activity:

	2013	**2012**	**2011**
Total Expenditures	**$ 209**	$ 87	$ 3,289
Eligible Reimbursement	**157**	65	2,467
Reimbursement Received	**-**	1,850	-
Receivable Balance	**$ (839)**	$ (682)	$ (2,467)

In September 2011, MLGW applied for a disaster assistance grant for the restoration work done after the April 19th storm. In February 2012, FEMA awarded grant contract Edison #E 34101-0000009241 to MLGW under the Public Assistance Grant Award program for cost incurred during FEMA -1979-DR-TN. The award was $2,357, all of which is being federally funded to the Electric Division. There has been no activity on this grant in 2013. The schedule below summarizes the grant activity:

	2013	**2012**	**2011**
Total Expenditures	**$ -**	$ -	$ 3,142
Eligible Reimbursement	**-**	-	2,357
Reimbursement Received	**-**	1,768	-
Receivable Balance	**$ (589)**	$ (589)	$ (2,357)

In September 2011, MLGW applied for a disaster assistance grant for the restoration work done after the April 26th storm. In March 2012, FEMA awarded grant contract Edison #E 34101-0000009498 for the April 26, 2011 Storm Restoration project under the Public Assistance Grant Award program for cost incurred during FEMA -1974-DR-TN. The award was $1,959, all of which is being federally funded; $1,706 to the Electric Division, $236 to the Gas Division and $17 to the Water Division.

13. Federal Grant Contributions (continued)

There has been no activity on this grant in 2013.The schedule below summarizes the grant activity:

Electric	**2013**	**2012**	**2011**
Total Expenditures	**$ -**	$ -	$ 2,274
Eligible Reimbursement	**-**	-	1,706
Reimbursement Received	**-**	1,303	-
Receivable Balance	**$ (403)**	$ (403)	$ (1,706)

Gas	**2013**	**2012**	**2011**
Total Expenditures	**$ -**	$ -	$ 315
Eligible Reimbursement	**-**	-	236
Reimbursement Received	**-**	155	-
Receivable Balance	**$ (81)**	$ (81)	$ (236)

Water	**2013**	**2012**	**2011**
Total Expenditures	**$ -**	$ -	$ 23
Eligible Reimbursement	**-**	-	17
Reimbursement Received	**-**	11	-
Receivable Balance	**$ (6)**	$ (6)	$ (17)

In December 2009, FEMA awarded disaster assistance grant contract Edison #E 34101-0000001983 to MLGW following the June 2009 storm under the Public Assistance Grant Award program for costs incurred during FEMA 1851-DR-TN. The initial award was $5,102, all of which was federally funded to the Electric Division. The grant contract was amended to $5,937 in January 2010 and finally to $5,932 in January 2012. MLGW booked a receivable of $5,932 in 2009, based on eligible reimbursement. The schedule below summarizes the grant activity:

	2012	**2011**	**2010**	**2009**
Total Expenditures	$ -	$ -	$ -	$ 8,505
Eligible Reimbursement	-	-	-	5,932
Reimbursement Received	560	919	4,453	-
Receivable Balance	$ -	$ (560)	$ (1,479)	$ (5,932)

13. Federal Grant Contributions (continued)

In November 2010, FEMA awarded disaster assistance grant contract Edison #E 34101-0000005751 to MLGW following the May 2010 storm under the Public Assistance Grant Award program for costs incurred during FEMA 1909-DR-TN. The award was $543, all of which is federally funded; $538 to the Electric Division and $5 to the Gas Division. In 2012, there was a $2 adjustment to the Electric Division per FEMA closeout of the May 2010 storm. In August 2013, MLGW received a final payment from FEMA of $138, closing the project. The schedule below summarizes the grant activity:

Electric	**2013**	**2012**	**2011**	**2010**
Total Expenditures	**$ -**	$ 2	$ -	$ 598
Eligible Reimbursement	**-**	2	-	538
Reimbursement Received	**137**	-	383	20
Receivable Balance	**$ -**	$ (137)	$ (135)	$ (518)

Gas	**2013**	**2012**	**2011**	**2010**
Total Expenditures	**$ -**	$ -	$ -	$ 5
Eligible Reimbursement	**-**	-	-	5
Reimbursement Received	**1**	-	-	4
Receivable Balance	**$ -**	$ (1)	$ (1)	$ (1)

In October 2008, FEMA announced approval of the High Voltage Transformer Seismic Retrofit Project (Contract Edison #E-18001) under the Pre-Disaster Mitigation Competitive Program. The award was approximately $2,700, of which $2,025 is being federally funded for the Electric Division. The schedule below summarizes the grant activity.

	2012	**2011**	**2010**	**2009**	**2008**
Total Expenditures	$ 1,146	$ 320	$ 522	$ 548	$ 19
Eligible Reimbursement	859	240	392	411	14
Reimbursement Received	919	568	429	-	-
Receivable Balance	$ -	$ (60)	$ (388)	$ (425)	$ (14)

In 2009, MLGW applied for the Smart Grid Investment Grant (Contract# DE-OE0000281) under the American Recovery and Investment Act ("ARRA") for the Department of Energy's Electricity Delivery and Energy Reliability, Research, Development, and Analysis Program. The grant was awarded in 2010. The grant will allow MLGW to install a communications system that will enable the observation and control of its network electric grid.

13. Federal Grant Contributions (continued)

The total grant was for $13,112 with $5,063 being federally funded. The schedule below summarizes the grant activity:

	2013	**2012**	**2011**	**2010**
Total Expenditures	**$ 2,519**	$ 5,048	$ 1,751	$ 711
Eligible Reimbursement	**1,148**	2,423	841	341
Reimbursement Received	**1,568**	2,250	753	164
Receivable Balance	**$ (18)**	$ (438)	$ (265)	$ (177)

In 2010, MLGW applied for the Network System Transformer Seismic Retrofit Grant (Contract# E-29504). The grant was awarded in 2011 under the Pre-Disaster Mitigation Competitive Program. The grant will allow MLGW to retrofit 482 network system transformers. The grant was awarded in the amount of $603 of which $453, or 75%, will be federally funded. The schedule below summarizes the grant activity:

	2013	**2012**	**2011**
Total Expenditures	**$ 183**	$ 5	$ -
Eligible Reimbursement	**138**	3	-
Reimbursement Received	**19**	-	-
Receivable Balance	**$ (122)**	$ (3)	$ -

In 2009, The City of Memphis, in conjunction with MLGW, applied for a grant under the ARRA for the Department of Energy’s Energy Efficiency and Conservation Block Program. The grant was awarded in September 2009. The total grant was for $6,767, with $5,000 allocated to MLGW for direct investment in energy efficiency improvements to customer homes and businesses. As of December 31, 2009, planning began with no funds expended in 2009. As of December 31, 2013, the Energy Efficiency and Conservation Block Grant expended $6,466 of which MLGW expended $4,580 with $4,580 reimbursed and receivables totaling $0. The project is now complete and DOE has fully reimbursed all eligible costs.

14. Transfers to City

The Electric, Gas and Water Divisions make transfers to the City.

The Electric Division transfer is based on the formula provided by the May 29, 1987 TVA Power Contract Amendment (Supp. No. 8). The formula includes a property tax equivalency calculation plus 4 % of operating revenue less power costs (three year average).

The Gas Division transfer is based on the formula provided by the Municipal Gas System Tax Equivalent Law of 1987. The formula includes a property tax equivalency calculation plus 4% of operating revenue less gas costs (three year average).

14. Transfers to City (continued)

The Water Division through an agreement with the City, transfers a payment in the amount of $2,500 per year. The agreement is effective through the year 2028. During 2013, per City resolution, an additional $1,800 payment was made in exchange for the release of any rights the City may have had to receive water from the Water Division free of charge during 2013 under the MLGW Charter.

15. Commitments and Contingencies

The Gas Division has derivative contracts and agreements that are exchange traded exclusively on public exchanges thereby eliminating counterparty credit risk. The counterparty to any derivative transaction on an exchange is either the Chicago Mercantile Exchange (CME), which is the parent of the NYMEX, or the Intercontinental Exchange ("ICE"). The exposure to credit loss in the event of nonperformance by the other party is represented by the fair values of the open derivative contracts. However, there is no counterparty financial risk for contracts transacted through the NYMEX or the ICE.

MLGW pays a Transfer to the City and in lieu of taxes to the incorporated towns of Shelby County for the Electric and Gas Divisions based on the Tennessee Municipal Electric and Gas System Tax Equivalent Laws of 1987. MLGW pays a Transfer to the City for the Water Division based upon an agreement with the City which calls for a payment of $2,500 for each of the fiscal years through 2028.

MLGW is party to various legal proceedings incidental to its business. In the opinion of management, MLGW's liability, if any, in all pending litigation or other proceedings, taken as a whole after consideration of amounts accrued, insurance coverage, or other indemnification arrangements, will not have a material adverse effect on its financial position or results of operations.

See Note 14 for discussions of MLGW's power contract with TVA and gas purchase commitments.

16. Subsequent Event

On March 2, 2014, a severe winter weather front consisting of heavy icing and high winds moved through the Memphis and Shelby County service territory, causing damage to MLGW's electric distribution system. The total estimated cost for the storm is $3,100. The President of the United States issued a major disaster declaration for the State of Tennessee and granted public assistance to utilities. MLGW is currently working with the FEMA in developing these cost estimates. FEMA reimbursement is estimated to be 75% of the eligible costs.

On June 3, 2014, MLGW issued Electric System Revenue Bonds, Series 2014 in the par amount of $71,000 with a final maturity date of December 1, 2034. Also, MLGW issued Water System Revenue Bonds, Series 2014 in the par amount of $15,000 with a final maturity date of December 1, 2034.

REQUIRED SCHEDULE OF FUNDING PROGRESS FOR PENSION PLAN
DECEMBER 31, 2013
(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll* ((b - a) / c)
January 1, 2014	$ 1,220,456	$ 1,439,010	$ 218,554	84.8%	$ 154,759	141.2%
January 1, 2013	1,126,309	1,414,641	288,332	79.6%	154,347	186.8%
January 1, 2012	1,137,615	1,350,812	213,197	84.2%	154,036	138.4%

REQUIRED SCHEDULE OF FUNDING PROGRESS FOR OPEB
DECEMBER 31, 2013
(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
December 31, 2013	$ 272,150	$ 660,524	$ 388,374	41.2%	$ 154,759	251.0%
December 31, 2011	181,211	602,175	420,964	30.1%	154,036	273.3%
December 31, 2009	125,234	591,528	466,294	21.2%	153,117	304.5%

REQUIRED SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
DECEMBER 31, 2013
(Dollars in Thousands)

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed
December 31, 2013	$ 42,854	$ 43,043	100.4%
December 31, 2012	42,411	39,747	93.7%
December 31, 2011	44,630	43,554	97.6%
December 31, 2010	43,651	43,476	99.6%

	Series 2003A		Series 2008		Series 2010	
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
Electric Division:						
2014	$ -	$ 239	$ -	$ 4,564	$ 102,765	$ 22,628
2015	1,845	239	-	4,564	105,930	17,614
2016	-	169	-	4,564	112,935	12,418
2017	2,220	169	31,625	4,564	83,350	6,821
2018	1,950	81	65,305	3,043	55,070	2,653
Total	$ 6,015	$ 898	$ 96,930	$ 21,299	$ 460,050	$ 62,134

Electric Division Rate Class	Base Charge	Customers

All Electric Rate Schedules Are Subject To Adjustment Under The Provisions of the TVA Fuel Cost and Purchased Power Adjustment Rider.

Residential – Schedule RS	Effective meters read on or after October 1, 2013.			361,275
Customer Charge:	$11.20 per month, less Hydro Allocation Credit: $1.60			
Energy Charge:	Summer	Winter	Transition	
First 2,000 kWh per month:	$0.06600	$0.06317	$0.06151	
Additional kWh per month:	$0.07454	$0.07171	$0.07005	

The above rates are subject to adjustment under the provisions of the TVA Fuel Cost and Purchase Power Adjustment Rider.

Time-Of-Use Residential Rate	Effective October 1, 2013.			895
Customer Charge:	$11.20 per month, less Hydro Allocation Credit: $1.60			
Energy Charge:	Summer	Winter	Transition	
On-Peak kWh per month:	$0.11683	$0.07999	$0.05429	
Off-Peak kWh per month:	$0.05361	$0.05470	$0.05429	

The above rates are subject to adjustment under the provisions of the TVA Fuel Cost and Purchase Power Adjustment Rider.

General Service – Schedule GSA Effective meters read on or after October 1, 2013. 43,631

If (a) the higher of (i) the customer’s currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12 month period is not more than 50 kW, and (b) customer’s monthly energy takings for any month during such period do not exceed 15,000 kWh:

Customer Charge:	$15.52 per delivery point per month		
Energy Charge:	Summer	Winter	Transition
	$0.07843	$0.07565	$0.07398

If (a) the higher of (i) the customer’s currently effective contract demand or (ii) its highest billing demand during the latest 12 month period is greater than 50 kW but not more than 1,000 kW, or (b) if the customer’s billing demand is less than 50 kW and its energy takings for any month during such period exceed 15,000 kWh:

Customer Charge: $53.42 per delivery point per month

Electric Division Rate Class (cont.)		**Base Charge**		**Customers**
General Service – Schedule GSA (cont.)				
Demand Charge:	Summer	Winter	Transition	
First 50 kW of billing demand per month:	$0.00000	$0.00000	$0.00000	
Excess over 50 kW of billing demand per month:	$12.67	$11.83	$11.83	
Energy Charge:				
First 15,000 kWh per month:	$0.08427	$0.08149	$0.07982	
Additional kWh per month:	$0.03617	$0.03353	$0.03256	

If the higher of the customer's currently effective contract demand or its highest billing demand during the latest 12 month period is greater than 1,000 kW:

Customer Charge: $191.84 per delivery point per month

Demand Charge:	Summer	Winter	Transition
First 1,000 kW of billing demand per month:	$11.68	$10.84	$10.84
Excess over 1,000 kW of billing demand per month:	$11.52	$10.68	$10.68
Excess of billing demand over the higher of 2,500 kW or the customer's contract demand per month:	$11.52	$10.68	$10.68
Energy Charge:			
All kWh per month:	$0.04116	$0.03852	$0.03754

Electric Division Rate Class (cont.)	Base Charge	Customers
Time-of-Day General Power Rate - Part A (Schedule TGSA)		1

Effective October 1, 2013

	Summer	Non-Summer
Customer Charge:	$198.95	$198.95
On-peak per kW of billing demand charges per month:	$11.92	$11.34
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$1.66	$1.66
Per kW charge per month for each kW, if any, of the amount by which (1) the customer's onpeak billing demand exceeds the higher of 2,500 kW or its onpeak contract demand or (2) the customer's offpeak billing demand exceeds the higher of 2,500 kW or its offpeak contract demand, whichever is higher	$11.92	$11.34
On-peak per kWh energy charge:	$0.05090	$0.04405
Off-peak per kWh energy charge:	$0.03506	$0.03646

		Customers
General Power Rate - TDGSA	Effective October 1, 2013	0

Customer Charge: $1,500.00 per delivery point per month

TVA Administrative Charge: $350.00 per delivery point per month

	Summer	Winter	Transition
On-peak per kW of billing demand charges per month:	$17.28	$10.00	$0.00
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$4.51	$4.51	$4.51

Electric Division Rate Class (cont.)		Base Charge		Customers
General Power Rate - TDGSA (cont.)				
	Summer	Winter	Transition	
Excess per kW charge per month by which billing demand exceeds contract demand:	$17.28	$10.00	$4.51	
On-peak per kWh energy charge:	$0.07576	$0.04429	$0.00000	
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.04016	$0.04016	$0.04016	
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.02102	$0.02102	$0.02102	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00475	$0.00475	$0.00475	
Manufacturing Power Rate - TDMSA	Effective October 1, 2013			1
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			

Electric Division Rate Class (cont.)	**Base Charge**			**Customers**
Manufacturing Power Rate - TDMSA (cont.)				
	Summer	Winter	Transition	
On-peak per kW of billing demand charges per month:	$17.17	$9.89	$0.00	
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$4.40	$4.40	$4.40	
Excess per kW charge per month by which billing demand exceeds contract demand:	$17.17	$9.89	$4.40	
On-peak per kWh energy charge:	$0.05982	$0.02899	$0.00000	
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.02462	$0.02462	$0.02462	
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00546	$0.00546	$0.00546	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	($0.01080)	($0.01080)	($0.01080)	

Electric Division Rate Class (cont.)	Base Charge	Customers
Manufacturing Power Rate - Part A (Schedule MSA)	Effective October 1, 2013	0
Customer Charge:	$198.95 per delivery point per month	

	Summer	Winter	Transition
Per kW coincident billing demand charge per month:	$10.17	$9.30	$9.30
Per kW maximum billing demand charge per month:	$1.57	$1.57	$1.57
Excess per kW charge per month by which billing demand exceeds contract demand:	$11.74	$10.87	$10.87
On-peak per kWh energy charge:	$0.05759	$0.04732	$0.03785
Off-peak per kWh energy charge:	$0.03493	$0.03702	$0.03785

General Power Rate – Part B (Schedule GSB)	Effective October 1, 2013	0
Customer Charge:	$1,500.00 per delivery point per month	
TVA Administrative Charge:	$350.00 per delivery point per month	

	Summer	Winter	Transition
On-peak per kW of billing demand charges per month:	$17.28	$10.00	$0.00
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$4.51	$4.51	$4.51
Excess per kW charge per month by which billing demand exceeds contract demand:	$17.28	$10.00	$4.51
On-peak per kWh energy charge:	$0.07576	$0.04429	$0.00000
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.04016	$0.04016	$0.04016
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.02102	$0.02102	$0.02102

Electric Division Rate Class (cont.)	Base Charge			Customers
General Power Rate – Part B (Schedule GSB) (cont.)	Summer	Winter	Transition	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00475	$0.00475	$0.00475	
General Power Rate – Part C (Schedule GSC)	Effective October 1, 2013			1
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			
	Summer	Winter	Transition	
On-peak per kW of billing demand charges per month:	$16.75	$9.47	$0.00	
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$3.98	$3.98	$3.98	
Excess per kW charge per month by which billing demand exceeds contract demand:	$16.75	$9.47	$3.98	
On-peak per kWh energy charge:	$0.07206	$0.04136	$0.00000	
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.03747	$0.03747	$0.03747	
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.01831	$0.01831	$0.01831	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00204	$0.00204	$0.00204	

Electric Division Rate Class (cont.)		**Base Charge**		**Customers**
General Power Rate – Part D (Schedule GSD)	Effective October 1, 2013			0
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			
	Summer	Winter	Transition	
On-peak per kW of billing demand charges per month:	$16.50	$9.22	$0.00	
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$3.73	$3.73	$3.73	
Excess per kW charge per month by which billing demand exceeds contract demand:	$16.50	$9.22	$3.73	
On-peak per kWh energy charge:	$0.06958	$0.03799	$0.00000	
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.03391	$0.03391	$0.03391	
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.01475	$0.01475	$0.01475	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	($0.00151)	($0.00151)	($0.00151)	

Electric Division Rate Class (cont.)	**Base Charge**	**Customers**
Manufacturing Power Rate – Part B **(Schedule MSB)**	Effective October 1, 2013	3
Customer Charge:	$1,500.00 per delivery point per month	
TVA Administrative Charge:	$350.00 per delivery point per month	

	Summer	Winter	Transition
On-peak per kW of billing demand charges per month:	$17.17	$9.89	$0.00
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$4.40	$4.40	$4.40
Excess per kW charge per month by which billing demand exceeds contract demand:	$17.17	$9.89	$4.40
On-peak per kWh energy charge:	$0.05982	$0.02899	$0.00000
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.02462	$0.02462	$0.02462
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00546	$0.00546	$0.00546
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	($0.01080)	($0.01080)	($0.01080)

Electric Division Rate Class (cont.)		**Base Charge**		**Customers**
Manufacturing Power Rate – Part C (Schedule MSC)	Effective October 1, 2013			0
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			
	Summer	Winter	Transition	
On-peak per kW of billing demand charges per month:	$16.64	$9.36	$0.00	
Per kW charge per month for each kW, if any, by which off peak billing demand exceeds on peak billing demand:	$3.87	$3.87	$3.87	
Excess per kW charge per month by which billing demand exceeds contract demand:	$16.64	$9.36	$3.87	
On-peak per kWh energy charge:	$0.06066	$0.02914	$0.00000	
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.02448	$0.02448	$0.02448	
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00533	$0.00533	$0.00533	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	($0.01093)	($0.01093)	($0.01093)	

Electric Division Rate Class (cont.)		Base Charge	Customers
Manufacturing Power Rate – Part D (Schedule MSD)	Effective October 1, 2013		1
Customer Charge:	$1,500.00 per delivery point per month		
TVA Administrative Charge:	$350.00 per delivery point per month		

	Summer	Winter	Transition
On-peak per kW of billing demand charges per month:	$16.38	$9.10	$0.00
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$3.61	$3.61	$3.61
Excess per kW charge per month by which billing demand exceeds contract demand:	$16.38	$9.10	$3.61
On-peak per kWh energy charge:	$0.05832	$0.02664	$0.00000
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.02218	$0.02218	$0.02218
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00302	$0.00302	$0.00302
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	($0.01323)	($0.01323)	($0.01323)

Electric Division Rate Class (cont.)	Base Charge	Customers
Seasonal Demand And Energy Power Rate – Part B (Schedule SGSB)	Effective October 1, 2013	8
Customer Charge:	$1,500.00 per delivery point per month	
TVA Administrative Charge:	$350.00 per delivery point per month	

	Summer	Winter	Transition
Per kW billing demand charge per month:	$22.61	$16.12	$11.23
Excess per kW charge per month by which billing demand exceeds contract demand:	$22.61	$16.12	$11.23
Energy charge per kWh:	$0.02741	$0.02319	$0.02226

Seasonal Demand And Energy Power Rate – Part C (Schedule SGSC)	Effective October 1, 2013	0
Customer Charge:	$1,500.00 per delivery point per month	
TVA Administrative Charge:	$350.00 per delivery point per month	

	Summer	Winter	Transition
Per kW billing demand charge per month:	$22.08	$15.59	$10.70
Excess per kW charge per month by which billing demand exceeds contract demand:	$22.08	$15.59	$10.70
Energy charge per kWh:	$0.02754	$0.02323	$0.02233

Electric Division Rate Class (cont.)	**Base Charge**			**Customers**
Seasonal Demand And Energy Power Rate – Part D (Schedule SGSD)	Effective October 1, 2013			0
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			
	Summer	Winter	Transition	
Per kW billing demand charge per month:	$25.50	$18.98	$14.12	
Excess per kW charge per month by which billing demand exceeds contract demand:	$25.50	$18.98	$14.12	
Energy charge per kWh:	$0.01936	$0.01561	$0.01478	
Manufacturing Seasonal Demand And Energy Power Rate - Part B (Schedule SMSB)	Effective October 1, 2011			13
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			
	Summer	Winter	Transition	
Per kW billing demand charge per month:	$19.53	$13.04	$8.16	
Excess per kW charge per month by which billing demand exceeds contract demand:	$19.53	$13.04	$8.16	
Energy charge per kWh:	$0.01917	$0.01440	$0.01329	

Electric Division Rate Class (cont.)		**Base Charge**		**Customers**
Manufacturing Seasonal Demand And Energy Power Rate - Part C (Schedule SMSC)	Effective October 1, 2013			2
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			
	Summer	Winter	Transition	
Per kW billing demand charge per month:	$19.00	$12.51	$7.63	
Excess per kW charge per month by which billing demand exceeds contract demand:	$19.00	$12.51	$7.63	
Energy charge per kWh:	$0.01886	$0.01439	$0.01331	
Manufacturing Seasonal Demand And Energy Power Rate Part D (Schedule SMSD)	Effective October 1, 2013			3
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			
	Summer	Winter	Transition	
Per kW billing demand charge per month:	$21.71	$15.22	$10.33	
Excess per kW charge per month by which billing demand exceeds contract demand:	$21.71	$15.22	$10.33	
Energy charge per kWh:	$0.01093	$0.00736	$0.00650	
Drainage Pumping Station Rate (Schedule DPS)	Effective October 1, 2013			11
Customer Charge:	$15.52 per delivery point per month			
Energy Charge:	Summer	Winter	Transition	
All kWh per month:	$0.03433	$0.03154	$0.02988	

Electric Division Rate Class (cont.)	**Base Charge**			**Customers**
Outdoor Lighting Rate (Schedule LS)	Effective October 1, 2013			17,008

Part A – Charges for street and park lighting systems, traffic signal systems, and athletic field lighting installations.

Energy Charge:	Summer	Winter	Transition
All kWh per month:	$0.04483	$0.04201	$0.04034

Outdoor Lighting Facilities Charge:

The annual facility charge shall be 10.41% of the installed cost to the Division's electric system of the facility devoted to street and park lighting service specified in this Part A. Such installed cost shall be recomputed on July 1 of each year, or more often if substantial changes in the facilities are made. Each month, one-twelfth of the then total annual facility charge shall be billed to the customer. If any part of the facilities has not been provided at the electric system's expense or if the installed cost of any portion thereof is reflected on the books of another municipality or agency or department, the annual facility charge shall be adjusted to reflect properly the remaining cost to be borne by the electric system.

Traffic signal systems and athletic field lighting installations shall be provided, owned, and maintained by and at the expense of the customer, except as Division may agree otherwise in accordance with the provisions of the paragraph next following in this section. The facilities necessary to provide service to such systems and installations shall be provided by and at the expense of Division's electric system, and the annual facility charge provided for first above in this section shall apply to the installed cost of such facilities.

When so authorized by policy duly adopted by Division's governing board, traffic signal systems and athletic field lighting installations may be provided, owned and maintained by Division's electric system for the customer's benefit. In such cases Division may require reimbursement from the customer for a portion of the initial installed cost of any such system or installation and shall require payment by the customer of facility charges sufficient to cover all of Division's costs (except reimbursed costs), including appropriate overheads, of providing, owning, and maintaining such system or installation; provided that, for athletic field lighting installations, such facility charge shall in no case be less than 12% per year of such costs. Said facility charge shall be in addition to the annual facility charge on the facilities necessary to provide service to such system or installation as provided for in the preceding paragraphs.

Electric Division Rate Class (cont.)	Base Charge	Customers

Outdoor Lighting Rate - (Schedule LS) (cont.)

Part B – Charges for outdoor lighting for individual customers – charges per fixture per month:

(a) Type of fixture

	Lamp Size (Watts)	Lamp Size (Lumens)	Rated (kWh)	Charge
Mercury Vapor or Incandescent	175	7,650	70	$2.95
	250	10,400	98	3.49
	400	19,100	155	4.42
	700	33,600	266	5.96
	1,000	47,500	378	7.59
Metal Halide	175	8,300	70	$2.95
	250	14,000	98	3.49
	400	22,600	155	4.42
	1,000	88,000	378	7.59
High Pressure Sodium	50	3,285	22	$4.19
	100	8,550	42	4.48
	150	14,400	63	4.61
	200	18,900	82	5.01
	250	23,000	105	5.30
	400	45,000	165	6.29
	1,000	126,000	385	10.05

(b) Energy Charge:

For each lamp size under (a) above per rated kWh per month:

	Summer	Winter	Transition
All rated kWh per month:	$0.04483	$0.04201	$0.04034

Gas Division Rate Class	Base Charge	Customers
Residential G-1 & G-3	Effective meters read on or after August 30, 2012	289,964
	Schedule G-1 is available for domestic use to residential customers in individual private residences or other individual dwelling units situated within the corporate limits of the City of Memphis, Tennessee. Schedule G-3 is available for domestic use to residential customers in individual private residences or other individual dwelling units situated outside the corporate limits of the City of Memphis, Tennessee.	
Service charge:	$ 10.00 per month, plus	
Commodity charge:	First 100 ccf per month @ $0.591 per ccf	
	Excess over 100 ccf per month @ $0.501 per ccf, plus the above rates are subject to adjustment under the provisions of the Purchased Gas Adjustment Rider.	
Minimum bill:	$10.00 per meter per month	
Small General Service G-7	Effective meters read on or after August 30, 2012	21,468
	This rate schedule is available for gas service to all gas customers except residential.	
Service charge:	For 0 to 250 cf meter, $25.00 Over 250 to 1,000 cf meter, $50.00 Over 1,000 cf meter, $100.00 per month plus,	
Commodity charge:	All gas consumed: $0.531 per Ccf per month, plus	
	The above rates are subject to adjustment under the provisions of the Purchased Gas Adjustment Rider.	
Minimum bill:	The minimum monthly bill shall be $0.654 for each Ccf of the higher of:	
	(1) The maximum daily demand during the preceding eleven months, or	
	(2) The daily contract demand, but in no case less than the Service charge listed above.	

Gas Division Rate Class (cont.)	Base Charge	Customers
Large General Service Firm on-peak G-8 and G-9	Effective meters on or after August 30, 2012	479
	This rate schedule is available for gas service to all customers contracting for not less than 100 Ccf of maximum daily demand.	
Demand charge:	$0.251 Ccf per month of contract demand or maximum daily demand during the twelve (12) months ending with the billing month, whichever is higher, plus	
Commodity Charge:	First 200,000 Ccf per month @ $0.488 per ccf	
	Excess over 200,000 Ccf per month @ $0.374 per ccf, plus	
	The above rates are subject to adjustment under the provisions of the Purchased Gas Adjustment Rider.	
Minimum bill:	The minimum bill shall be $0.904 for Ccf of the higher of: (1) the maximum Daily Demand during the twelve (12) months ending with the billing month, or (2) the Daily Contract Demand.	
Large General Service Interruptible Off-peak G-10 and G-12	Effective August 30, 2012	21
	This rate schedule is available for gas service to all customers contracting for not less than 1,500 Ccf of maximum daily demand and providing oil or other alternate fuel facilities approved by the Division as being adequate in design and capacity.	
Service charge:	$500.00 per month, plus	
Commodity Charge:	First 200,000 Ccf per month @ $0.458 per Ccf	
	Excess over 200,000 Ccf per month @ $0.374 per Ccf, plus	
	The above rates are subject to adjustment under the provisions of the Purchased Gas Adjustment Rider.	
Minimum bill:	The minimum monthly bill shall be $0.350 for each Ccf of the higher of (1) the maximum daily demand during the twelve months ending with the billing month, or (2) the daily contract demand, but in no event less than $500.00.	

Water Division Rate Class	Base Charge	Customers
Residential – Inside City Rate	Effective meters read on or after January 2, 2013	185,268
	For water furnished to premises entirely within the corporate limits of the City of Memphis	
Commodity charge:	All water consumed: $1.474 per Ccf per month	
Minimum bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows:	
	5/8" meter $6.23 3/4" meter 8.99 1" meter 15.95 1-1/2" meter 35.89 2" meter 63.79	
Residential – Outside City Rate	Effective meters read on or after January 2, 2013	22,931
	For water furnished to premises outside the corporate limits of the City of Memphis	
Commodity charge:	All water consumed: $2.294 per Ccf per month	
Minimum bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows:	
	5/8" meter $8.68 3/4" meter 12.47 1" meter 22.20 1-1/2" meter 49.92 2" meter 88.74	
General Service – Inside City Rate	Effective meters read on or after January 2, 2013	18,740
	For water service to all customers within the corporate limits of the City of Memphis, except residential customers	
Commodity charge:	Water consumed per month:	
	First 30 Ccf $1.879 per Ccf Next 70 Ccf $1.597 per Ccf Next 100 Ccf $1.215 per Ccf Next 400 Ccf $1.012 per Ccf Next 5,400 Ccf $0.787 per Ccf Excess over 6,000 Ccf $0.821 per Ccf	

Water Division Rate Class (cont.)	Base Charge		Customers
General Service – Inside City Rate (cont.)			
Minimum bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows:		
	5/8" meter	$11.94	
	3/4" meter	13.91	
	1" meter	23.85	
	1-1/2" meter	47.72	
	2" meter	99.46	
	3" meter	198.86	
	4" meter	297.38	
	6" meter	376.20	
	8" meter	455.03	
	10" meter	942.58	
	12" meter	1,315.21	
	14" meter	1,808.43	
	Battery of 2-2" meters	198.86	
	Battery of 3-2" meters	297.38	
General Service – Outside City Rate	Effective meters read on or after January 2, 2013		819
	For water service to all customers outside the corporate limits of the City of Memphis, except residential customers		
Commodity charge:	Water consumed per month:		
	First 30 Ccf	$2.823 per Ccf	
	Next 70 Ccf	$2.373 per Ccf	
	Next 100 Ccf	$1.811 per Ccf	
	Next 400 Ccf	$1.519 per Ccf	
	Next 5,400 Ccf	$1.192 per Ccf	
	Excess over 6,000 Ccf	$1.237 per Ccf	
Minimum bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows:		
	5/8" meter	$18.24	
	3/4" meter	21.29	
	1" meter	36.49	
	1-1/2" meter	72.96	
	2" meter	152.02	
	3" meter	304.07	
	4" meter	454.41	
	6" meter	574.87	
	8" meter	695.31	
	10" meter	1,440.35	
	12" meter	2,009.76	
	14" meter	2,761.54	
	Battery of 2-2" meters	304.07	
	Battery of 3-2" meters	454.41	

Water Division Rate Class (cont.)	Base Charge	Customers
Residential – Shelby County Water Distribution System	Effective meters read on or after January 2, 2013	19,481
	For water service within the area served by the Shelby County Water Distribution System at the time of its acquisition on June 30, 1999, for domestic uses to residential customers in individual private residences or other individual dwelling places.	
Monthly rate:	All water consumed $2.294 per Ccf per month	
Minimum bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows:	

5/8" meter	$8.68
3/4" meter	$12.47
1" meter	$22.20
1-1/2" meter	$49.92
2" meter	$88.74

Residential customers shall be served through a single meter not larger than 2" in size.

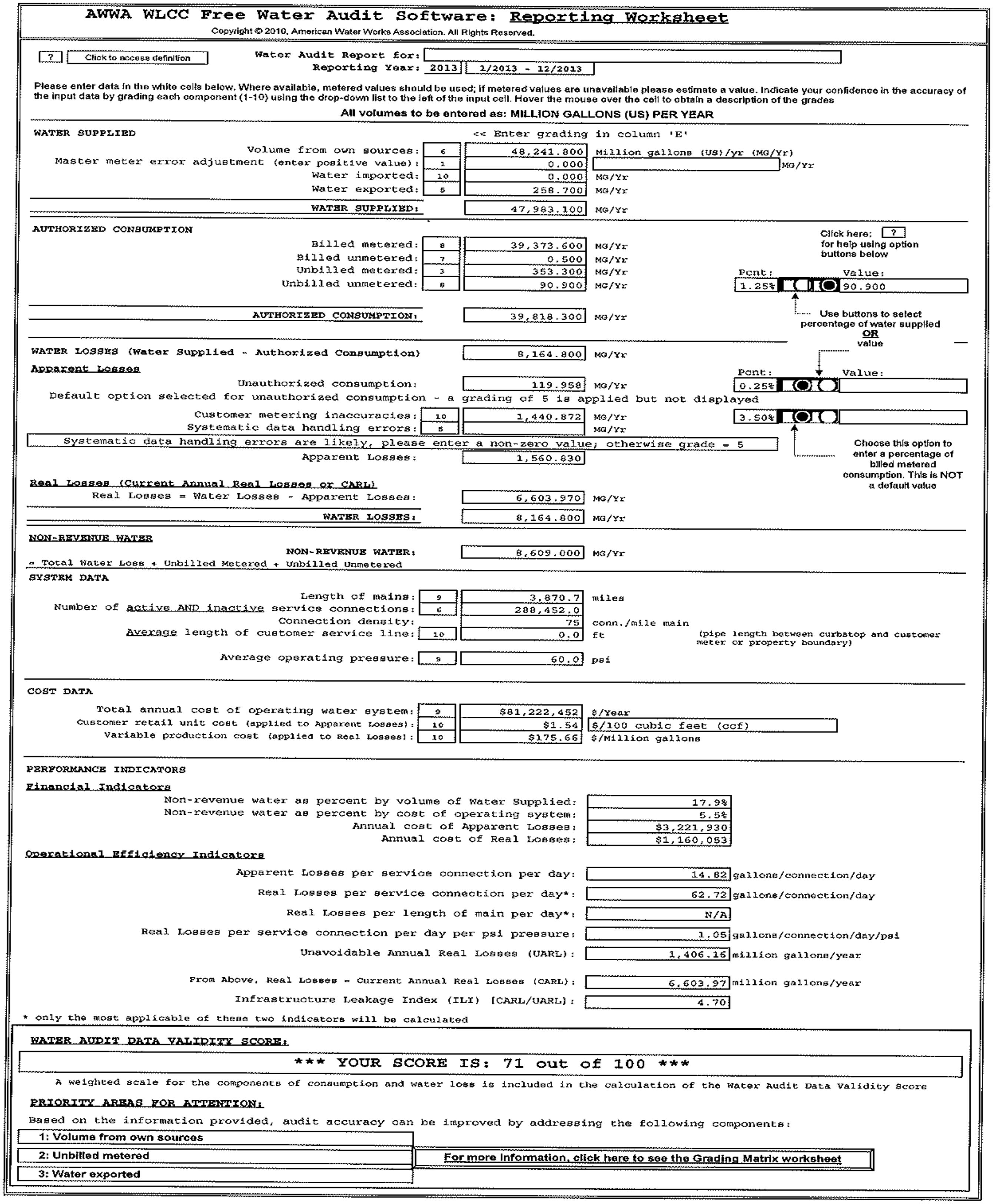
Commercial - Industrial – Shelby County Water Distribution System	Effective meters read on or after January 2, 2013	601
	For water service within the area served by the Shelby County Water Distribution System at the time of its acquisition on June 30, 1999, for all customers except residential customers using service exclusive for domestic use.	
Monthly rate:	Water consumed per month:	

First 30 Ccf	$2.823 per Ccf
Next 70 Ccf	$2.373 per Ccf
Next 100 Ccf	$1.811 per Ccf
Next 400 Ccf	$1.519 per Ccf
Next 5,400 Ccf	$1.192 per Ccf
Excess over 6000 Ccf	$1.237 per Ccf

Minimum bill: The minimum monthly bill shall be determined by the size of the meter installed, as follows:

5/8" meter	$18.24
3/4" meter	21.29
1" meter	36.49
1-1/2" meter	72.96
2" meter	152.02
3" meter	304.07
4" meter	454.41
6" meter	574.87
8" meter	695.31
10" meter	1,440.35
12" meter	2,009.76
14" meter	2,761.54

NON-REVENUE WATER
FOR THE YEAR ENDED DECEMBER 31, 2013
(Dollars in Thousands)



AWWA WLCC Free Water Audit Software: Reporting Worksheet

? Click to access definition

Water Audit Report for:
Reporting Year: 2013 1/2013 - 12/2013

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 (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

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

WATER SUPPLIED << Enter grading in column 'E'

Volume from own sources:	6	48,241.800	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	1	0.000	MG/Yr
Water imported:	10	0.000	MG/Yr
Water exported:	5	258.700	MG/Yr
WATER SUPPLIED:		47,983.100	MG/Yr

AUTHORIZED CONSUMPTION

Click here: ? for help using option buttons below

Billed metered:	8	39,373.600	MG/Yr		
Billed unmetered:	7	0.500	MG/Yr		
Unbilled metered:	3	353.300	MG/Yr	Pcnt:	Value:
Unbilled unmetered:	6	90.900	MG/Yr	1.25% ○	● 90.900
AUTHORIZED CONSUMPTION:		39,818.300	MG/Yr		

Use buttons to select percentage of water supplied **OR** value

WATER LOSSES (Water Supplied - Authorized Consumption)		8,164.800	MG/Yr		
Apparent Losses				Pcnt:	Value:
Unauthorized consumption:		119.958	MG/Yr	0.25% ●	○

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies:	10	1,440.872	MG/Yr	3.50% ●	○
Systematic data handling errors:	5		MG/Yr		

Systematic data handling errors are likely, please enter a non-zero value; otherwise grade = 5

Choose this option to enter a percentage of billed metered consumption. This is NOT a default value

Apparent Losses:		1,560.830	
Real Losses (Current Annual Real Losses or CARL)			
Real Losses = Water Losses - Apparent Losses:		6,603.970	MG/Yr
WATER LOSSES:		8,164.800	MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER:		8,609.000	MG/Yr

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	9	3,870.7	miles
Number of active AND inactive service connections:	6	288,452.0	
Connection density:		75	conn./mile main
Average length of customer service line:	10	0.0	ft (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	9	60.0	psi

COST DATA

Total annual cost of operating water system:	9	$81,222,452	$/Year
Customer retail unit cost (applied to Apparent Losses):	10	$1.54	$/100 cubic feet (ccf)
Variable production cost (applied to Real Losses):	10	$175.66	$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	17.9%
Non-revenue water as percent by cost of operating system:	5.5%
Annual cost of Apparent Losses:	$3,221,930
Annual cost of Real Losses:	$1,160,053

Operational Efficiency Indicators

Apparent Losses per service connection per day:	14.82	gallons/connection/day
Real Losses per service connection per day*:	62.72	gallons/connection/day
Real Losses per length of main per day*:	N/A	
Real Losses per service connection per day per psi pressure:	1.05	gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):	1,406.16	million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	6,603.97	million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]:	4.70	

* only the most applicable of these two indicators will be calculated

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 71 out of 100 *****

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

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: Unbilled metered
3: Water exported

For more information, click here to see the Grading Matrix worksheet

SCHEDULE OF INSURANCE
DECEMBER 31, 2013
(Dollars in Thousands)

Type of Coverage	Amount of Coverage	
Property	$ 600,000	
Crime	2,500	
Excess Insurance for Workers Compensation and Employers Liability	2,000	
Out of State Automobile Travel	1,000	
Travel Accident	1,000	
Commercial Auto	1,000	
Leased Rental Equipment	300	per item
	1,000	coverage limit

	Electric Division	Gas Division	Water Division
Utility plant in service, December 31, 2012	$ 1,526,869	$ 572,321	$ 444,346
Additions- Construction	52,101	18,913	14,324
Additions- Acquisition Adjustment	-	-	964
Retirements	(38,147)	(16,556)	(31,755)
Transfers	947	50	(997)
Utility plant in service, December 31, 2013	**$ 1,541,770**	**$ 574,728**	**$ 426,882**

Note: Utility plant in service balances exclude amounts for construction work in process, non-utility property and land held for future use.

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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*

Independent Auditor's Report

To the Board of Commissioners and Management
Memphis Light, Gas and Water Division
Memphis, 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 Electric, Gas and Water Divisions (the "Divisions") of Memphis Light, Gas and Water Division, enterprise funds of the City of Memphis, Tennessee, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Divisions' basic financial statements, and have issued our report thereon dated June 5, 2014.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Divisions' 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 Divisions' internal control. Accordingly, we do not express an opinion on the effectiveness of the Divisions' 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Divisions' 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 Divisions' financial statements are free from material misstatement, we performed tests of the Divisions' 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 Divisions' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Divisions' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

Memphis, Tennessee
June 5, 2014

Mayer Hoffman McCann P.C.
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Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Independent Auditor's Report

To the Board of Commissioners and Management
Memphis Light, Gas and Water Division
Memphis, Tennessee

Report on Compliance for Each Major Federal Program

We have audited the compliance of the Electric, Gas and Water Divisions (the "Divisions") of Memphis Light, Gas and Water Division, enterprise funds of the City of Memphis, Tennessee, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Divisions' major federal program for the year ended December 31, 2013. The Divisions' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Divisions' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Divisions' compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on the Divisions' compliance.

Opinion on Each Major Federal Program

In our opinion, the Divisions complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the Divisions is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Divisions' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Divisions' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Divisions as of and for the year ended December 31, 2013, and have issued our report thereon dated June 5, 2014, which contained unmodified opinions on those financial statements. Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Mayer Hoffman McCann P.C.

Memphis, Tennessee
June 5, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Dollars in Thousands)

Federal Grantor/Pass-Through Grntor Federal Awards	CFDA Number	Contract Number	Beginning Receivable	Cash Receipts	Expenditures	Ending Receivable
U.S. Department of Homeland Security/ Tennessee Emergency Management	97.036	34101-0000008735	$ (682)	$ -	$ 157	$ (839)
U.S. Department of Homeland Security/ Tennessee Emergency Management	97.036	34101-0000009241	(589)	-	-	(589)
U.S. Department of Homeland Security/ Tennessee Emergency Management	97.036	34101-0000009498	(490)	-	-	(490)
U.S. Department of Homeland Security/ Tennessee Emergency Management	97.036	34101-0000005751	(138)	138	-	-
Total Program 97.036			(1,899)	138	157	(1,918)
U.S. Department of Homeland Security/ Tennessee Emergency Management Pre-Disaster Mitigation	97.047	E-29504	(3)	19	138	(122)
Total Program 97.047			(3)	19	138	(122)
ARRA - U.S. Department of Energy/ Smart Grid Investment Grant	81.122	DE-OE0000281	(438)	1,568	1,148	(18)
Total Program 81.122			(438)	1,568	1,148	(18)
Total Federal Awards			**$ (2,340)**	**$ 1,725**	**$ 1,443**	**$ (2,058)**

BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the grant activity of the federal award programs of the Electric, Gas and Water divisions of Memphis Light, Gas and Water Division, a division of the City of Memphis, Tennessee, for the year ended December 31, 2013. The schedule is prepared on the accrual basis of accounting and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.* Each of the divisions of Memphis Light, Gas and Water Division generally follows the Federal Energy Regulatory Commission's Uniform System of Accounts prescribed for Public Utilities.

MEMPHIS LIGHT, GAS AND WATER DIVISION

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2013

A. Summary of Audit Results

1. The auditor's report expresses unmodified opinions on the financial statements of the Electric, Gas, and Water Divisions (the "Divisions") of Memphis Light, Gas and Water Division.
2. No material weaknesses in internal control were identified relating to the audits of the financial statements as reported in the 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*.
3. No instances of noncompliance material to the financial statements of the Divisions, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audits.
4. No deficiencies relating to the audit of the major federal award program are reported in the Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program for the Divisions expresses an unqualified opinion on the major federal program.
6. There were no audit findings related to the major program that was required to be reported under OMB Circular A-133.
7. The program tested as a major program was:

81.122	ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis

8. The threshold for distinguishing Type A and B programs was $300,000.
9. The Divisions were determined to be a low risk auditee.

B. Financial Statement Findings Section

None.

C. Major Federal Award Findings and Questioned Cost Section

None.

Prior year Findings

None.


MLGW