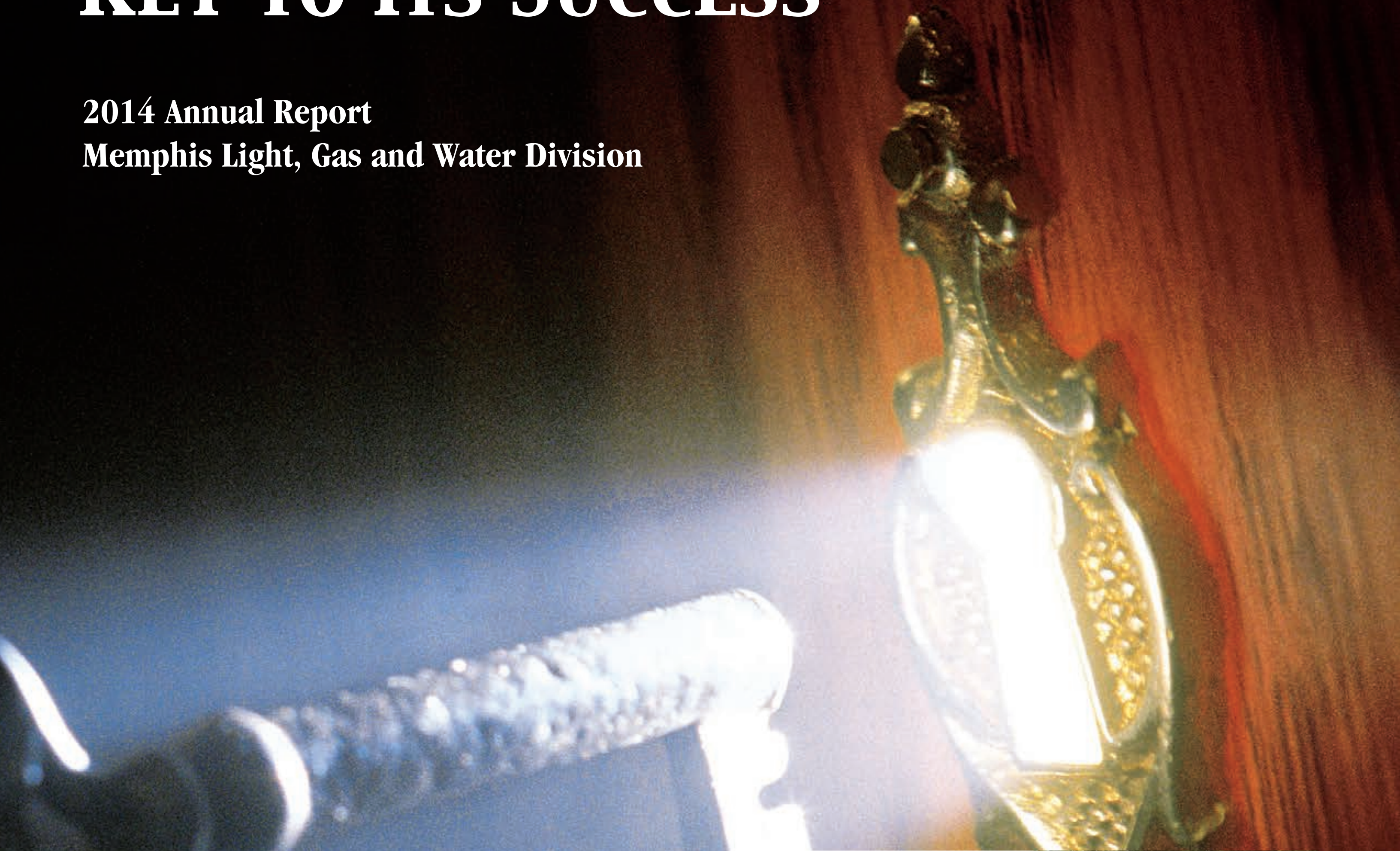
MLGW:

GATEWAY TO OUR COMMUNITY, KEY TO ITS SUCCESS

2014 Annual Report
Memphis Light, Gas and Water Division



75th
Celebrating Brilliant
Service for 75 Years
MLGW
1939-2014

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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.

MLGW Board of Commissioners

Rick Masson, Chair
Derwin Sisnett, Vice Chair
Darrell T. Cobbins
Carlee McCullough
Steve Wishnia

MLGW's Board of Commissioners stand in the shadow of the legendary Pyramid building, at MLGW's Electric Substation No. 4, in front of the substation's stylized gateway at the corner of Jackson Avenue and Front Street downtown.

Back row: Darrell T. Cobbins, Rick Masson

Front row: Carlee McCullough, Steve Wishnia, Derwin Sisnett

MLGW Executive Leadership

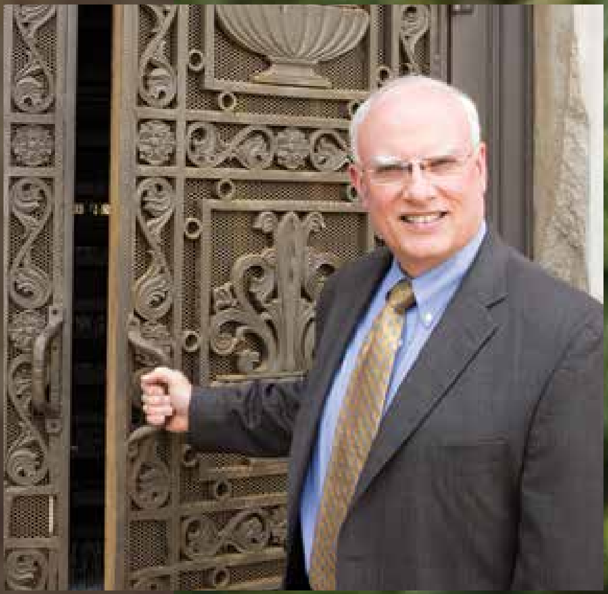
Jerry R. Collins Jr., President and CEO
Christopher Bieber, Vice President of Customer Care
Von Goodloe, Vice President of Human Resources
Dana Jeanes, Vice President, CFO and Secretary-Treasurer
Nicholas Newman, Vice President of Construction and Maintenance
Cheryl Patterson, Vice President and General 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

President’s Message

MLGW President and CEO Jerry R. Collins Jr.

MLGW: Key to a Greater Memphis and Shelby County for 75 years

Whether it’s a new resident or a new company, when relocating to Memphis, MLGW is one of the first vital services encountered. The utility leads the way to many opportunities available in the Mid-South and is a key component to unlocking the area’s potential and providing a catalyst for growth. From helping businesses large and small tap into the economic vibrancy of the area, to assisting recent transplants with settling into their new homes, MLGW is there to illuminate the way. It is a role the utility has coveted and dutifully performed, for the newcomer and native, since 1939.



For 75 years, Memphis Light, Gas and Water has provided reliable power, natural gas and drinking water to Shelby County residents. In 2014, we celebrated our diamond anniversary. Appropriately, we marked this milestone with a continued focus on service. As such, all five community offices were remodeled, thereby enhancing customers’ physical interactions when visiting us in person.

Among the year’s successes were the increased sales growth in liquefied natural gas (LNG) and compressed natural gas (CNG) and the installation of 60,000 smart meters—the beginning of a 2020 vision for full deployment.

External observers took note of MLGW’s efforts as an employer, a corporate neighbor and an industry leader in 2014. We were honored by the Tennessee Society of Professional Engineers as an Outstanding Employer; Tennessee Municipal Electric Power Association awarded MLGW the Community Service Award; American Public Gas Association gave us their SOAR Award for operations excellence and reliability; and Security Magazine named us one of the top 30 utilities for data security.

Positive feedback, like award recognition, is reaffirming to the organization; confirming that we are doing the right thing for our customers, for our employees and for our community. At the Division, corporate integrity is important on every level and doing what’s right is always at the forefront. This commitment has earned the respect of peer utilities and the confidence of stakeholders, making us key to a Greater Memphis and Shelby County now and, hopefully, for the next 75 years.

Jerry R Collins Jr.

Keeping Utility Costs Affordable is a Key Priority

It was the dream of Shelby County political leader and former Memphis Mayor E.H. Crump to have all utilities in the city owned and operated by city government; free from interference from far-off companies and non-local interests. In 1939, that vision became a reality. Since that time, Memphis Light, Gas and Water has continued to focus on the interests of the community it serves.

For example, controlling spending, utilizing technology and creating efficiencies are among the ways MLGW contains costs because keeping utility costs affordable is a key priority—it is in the best interest of our neighbors who are also our customers.

The 2014 “Energy Cost Impacts on American Families” study confirmed lower-income families and seniors are more vulnerable to escalating energy costs than higher-income families because energy represents a larger portion of their household budgets, reducing the amount of income that can be spent on food, housing, health care and other necessities. It is one of the reasons, Memphis Light, Gas and Water, as a public and community-minded utility, is committed to keeping rates low, supporting conservation efforts, promoting programs which assist residents in crisis and helping everyone save on the cost of utilities.

Shelby County home to lowest combined utility rates in the country
For the second straight year, MLGW had the lowest combined residential rates for electricity, natural gas, water and wastewater compared to more than 50 other cities in an annual survey conducted by the utility. The survey is a snapshot of rates in effect as of January 2, 2014. Of the utilities included in the survey, some are geographically close and most are similar in size. Some major metro utilities are also included. The results show MLGW customers’ average residential bills were lower than those in cities like St. Louis, San Antonio, Little Rock, Indianapolis, Nashville, Knoxville and Jacksonville. Lower utility bills for area residents mean they have more dollars that can go for other essentials, and more money stays in our local economy.

Supporting the Community is Key

Neighborhood Christian Center and MLGW team up to “Play it Cool” in summer and for “Power of Warmth” in the winter
The annual initiative provides 200 window-air conditioner units to qualified low-income seniors and disabled residents of Shelby County in June. Neighborhood Christian Center screened applicants. Once approved, MLGW employees installed the window units. Likewise, in December, MLGW donated 100 space heaters and 100 electric blankets for the Power of Warmth program.

Supporting Plus-1: Helping our neighbors when they need it most

Plus-1, the utility assistance program administered by Metropolitan Inter-Faith Association, turned 32 in 2014. By adding a dollar or more to their monthly utility bill, MLGW customers have helped thousands avoid utility disruption. MIFA follows households that receive the stop-gap assistance and surveys show that nine months later most still have their services. This is important because utility loss is a problem that can snowball and eventually lead to homelessness. To support the independence of seniors and families in crisis, MLGW hosted the “I am Plus-1 Telethon” and Plus-1 Jams.

For the second year in a row, MLGW, MIFA and News Channel 3 teamed up to help raise funds for Plus-1, collecting additional assistance for nearly 300 families during the day-long “I am Plus-1 Telethon.” Plus-1 Jams, has become an annual artist showcase, held during Memphis In May. Local musicians, mostly MLGW employees, play tunes to promote Plus-1 and gather donations.

Key to Residents' Quality of Life

Since 1939, MLGW employees have compassionately donated their time and money to causes that are important to our community. Recently, organizations like Lifeblood, the United Way of the Mid-South and the American Heart Association have been recipients of employee generosity. These agencies positively change lives—a goal MLGW wholeheartedly supports.

Community Service Award recognizes quality of life enhancements

The Tennessee Municipal Electric Power Association (TMEPA) presented MLGW with its Community Service Award which recognizes a member system whose achievement or sustained performance shows the commitment of the member or its employees to enhancing the quality of life in its community through activities which address community need or improve the community's social, educational, or economic environment; and provide an opportunity for employee involvement.

True Heroes

Heroism is a choice; exhibiting selflessness in the face of danger takes great courage. MLGW employees exemplify their courage with the care and determination they display as they go about their daily duties; ensuring residents have electricity, gas and drinking water, which in many instances can be inherently dangerous. Far beyond performing their everyday tasks, Division employees often go above and beyond when a situation arises that requires immediate action. Without regard to their own personal safety, while working out in the community, the following employees displayed extraordinary acts of bravery and were honored in 2014.

Bin Holland, Dustin Johnson and Keith Dollahite of the Gas Service Commercial Industrial Department saved a man from his burning home in East Memphis. The three were traveling to a job site when they came upon the fiery scene. Instead of just calling 911, they climbed a fence and pulled the homeowner to safety.

At approximately 12:30 p.m. one afternoon, meter reader Rodney Thompson was on his route when he found a 76-year-old woman in her backyard. She had fallen around 8 a.m. and couldn't get up. Thompson went to a neighbor to call 911 and gave the dehydrated resident water until medics arrived.

During a torrential rain downpour, meter reader Patrick Jones saw a woman in a stalled car. The water was rising quickly, causing a flash flood. She was trapped and noticing her limited mobility, Jones knew she was unable to get out of the vehicle. Jones waded through the cold and fast moving water and carried the driver to safety.

MLGW employees compassionately give of their time and money to causes that are important to our community. From Lifeblood, to United Way, to American Heart Association walks, employees generously give their support.

MLGW Innovation Draws GIS Conference to Memphis

Memphis Light, Gas and Water Division served as this year's host for the 2014 Esri Electric and Gas GIS Conference held at the Cook Convention Center. The conference attracted a record-breaking 628 people, more than any other in the event's 24-year history. Attendees came from as far away as Australia and South Africa — resulting in a six-figure positive economic impact on the city.

The conference gave business leaders from all over the world a closer look at trends and advancements with geographic information system (GIS) technology utilized by MLGW and other utilities. GIS started as paper maps and has transformed into technologically-advanced electronic data profiles. GIS mapping shows both overhead and underground utilities, easements, field data, utility service dates and other information that utility crews need to perform their jobs. GIS mapping impacts the bottom line and our customers; it helps reduce safety risks and saves time and money.

Improving Reliability - Substation Modernized

Making sure customers have uninterrupted power is important. During 2014, work continued on the modernization of an electric substation built in 1939. Electric Substation No. 3 retrofitting neared 98 percent completion. The project includes updates to address power-quality issues, obsolete transmission voltages and equipment end-of-life concerns. Once completed, customers of MLGW's southern electric network should enjoy the high level of reliability and power quality they have come to expect.

(l to r) Patrick Jones, Keith Dollahite, Rodney Thompson, Dustin Johnson and Bin Holland (not pictured) were recognized for their heroism in 2014. They are standing in front of the intricately-designed gateway of MLGW's McCord Pumping Station.

Michael Taylor, Assistant Manager, Commercial and Industrial Care, is pictured with one of MLGW's cost-efficient natural gas trucks in front of the utility's masterly-crafted gateway at the T.H. Allen Pumping Station.

Key to a Greener Tomorrow

Conservation is important to us all. Natural resources are not limitless. Conserving energy and water not only helps to save resources, but can also translate into financial savings. MLGW encourages customers to lower their consumption and reduce their environmental impact with several initiatives; from education, to alternative fuel, to renewable energy, to smart meters, MLGW is championing programs that positively impact the environment.

Reducing emissions, increasing revenue

Natural gas burns cleaner than gasoline or diesel fuels. MLGW uses compressed natural gas (CNG) to power 90 CNG vehicles in its fleet, which is pumped from its own CNG stations. Because natural gas is a low-carbon, clean-burning fuel, switching to natural gas results in substantial reductions of hydrocarbon, carbon monoxide, oxides of nitrogen and greenhouse gas emissions. In addition to having low-emission trucks in service, MLGW has opened its natural gas stations to the public, offering CNG and LNG (liquefied natural gas).

MLGW's sales of natural gas as a vehicle fuel have been on the rise for the past three years, with a significant increase seen last year. In 2014, MLGW's liquefied natural gas (LNG) sales quadrupled over the previous year and generated the revenue equivalent to adding approximately 12,000 new customers. The allure for fleet operators is the low cost. Natural gas is cheaper and cleaner than diesel fuel. Using natural gas saves about $2 per gallon.

Keyed Up for Conservation

MLGW's Residential Services department conducted 1,132 Energy Doctor inspections, identifying weatherization and other energy-saving opportunities. The department also conducted 140 rental ordinance inspections. The ordinance creates and enforces minimum energy efficiency standards for rental properties in Memphis. Each of the cases was resolved successfully, meaning repairs were completed and MLGW did not have to take any landlords to environmental court. Also, 17 new houses were completed to MLGW's voluntary green EcoBUILD standards. Empowering customers through education, 11 Conservation Days and 42 EnergySmart workshops were presented to inform customers how small energy DIY repairs can make a big difference.

Smart meters successfully installed

Following Memphis City Council's approval, MLGW completed the second phase of installations of 60,000 smart meters and the associated telecommunications system. For quality assurance, manual readings continued while remote reads were received from meters after installation to compare usage data and validate billing accuracy. In September 2014, manual meter reads ceased and billing was exclusively from remote reads. Water leak detection and tamper alerts have helped identify problems—including unknown plumbing problems and utility theft—faster than previously possible. In early 2015, outage reporting, online customer access to personalized usage data and prepay will be available. These enhancements will provide greater options for energy reduction and monetary savings.

MLGW named TVA's 2014 Green Power Switch Program Top New Recruiter of the Year

The distinction, Top New Recruiter of the Year, recognizes MLGW's efforts to promote renewable energy by enrolling the most new customers into the Green Power Switch program. The program allows residential and commercial customers to buy Green Power Switch blocks (energy produced from renewable energy like wind, solar and landfill gas). Each block adds an additional $4 on the monthly bill. Although the price of renewable energy is decreasing, it still costs more than energy from traditional sources. Buying Green Power Switch blocks helps cover the cost difference and there's no limit on the number of blocks a consumer can purchase.

As of April 2014, the 14-year-old program helped prevent more than 636,495 tons of carbon dioxide emissions from being released into the atmosphere.

Our doctors make house calls. MLGW Energy Doctors are pictured in front of the beautifully apportioned gateway at Electric Substation No.3, a substation built in 1939.

Master Key: Financial Stability

Over the years, fiscal prudence has led the way at MLGW. A good example of this is the innovative electric pre-pay agreement struck with the Tennessee Valley Authority a little more than a decade ago. At the time, no other utility—public or private—had ever reached such a deal. It has saved about $15 million a year in reduced expenses since it was implemented and MLGW hasn't had an electric rate increase since 2004. It's this forward-thinking, customer-driven philosophy that has guided MLGW's fiscal practices for 75 years.

Low debt, stellar bond ratings

Outside observers have affirmed the utility's fiscal stewardship and management, which keeps rates low and bond ratings high. Two MLGW bond issues received excellent credit ratings in 2014. As part of bond issuances for capital improvements, Standard & Poor's Rating Services rated the Electric Division an excellent AA+ bond rating and the Water Division earned an AAA bond rating, its highest rating. Moody's Rating Services rated the Electric Division as an Aa2 bond rating and the Water Division as an AA1 bond rating. The Gas Division does not have a bond rating because the Gas Division has no debt.

Pension Plan doing well
MLGW's Pension Plan is in good shape. As of December 31, 2014, based on the market value of its assets, the Plan was 95.9 percent funded. Simply stated, the Plan could cover 95.9 percent of its expected accrued liabilities, from the stand point of its market value. From an actuarial standpoint, it is approximately 85 percent funded, which is well above the national average of most Plans of 74 or 75 percent. The Other Post-Employment Benefits Fund (OPEB) is 41 percent funded, making it one of the top OPEB Funds in the country.

Keys to the Future

After 75 years, ethical leadership, fiscal accountability and civic engagement remain core values that continue to guide policy and practice at MLGW. Embracing technology and employing prudent management, we aim to keep costs low for customers now and in the future. Additionally, as a service provider for 420,000 customers, MLGW recognizes its position as a community partner and is invested in the Greater Memphis community. The Division supports supplier diversity and economic development to help our area thrive; knowing the subsequent growth, vitality and success of a Greater Memphis lies in a delicate interdependency, wherein MLGW has an opportunity to play a pivotal role for years to come.

Letter of Transmittal

MEMPHIS LIGHT, GAS AND WATER DIVISION

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, 2014, 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, 2014, 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, 2014, 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 appointed 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 latest estimate for Shelby County's population is 939,465, 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.

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. 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.

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 amenable business environment. Shelby County has emerged as the second largest orthopedic device manufacturing center in the U.S. Orthopedic and medical device leaders such as Medtronic, MicroPort Orthopedics, Smith & Nephew and Wright Medical have divisional or corporate headquarters in the area.

Among the top business announcements for the year, Ikea, a Swedish-based home goods retailer, plans to break ground on a 269,000 square foot facility in fall 2015.

Memphis remains 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 2.4 percent in 2014 compared with 2.2 percent growth in 2013. Contributing to the increase in 2014 were increases in consumer spending, in business investment—especially business equipment and in exports.

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 $105 million in capital expenditures annually. Major projects planned within the next five years for all three divisions—electric, gas and water—include the deployment of smart meters.

Other major ongoing Electric Division projects include the installation of Smart Grid technology, continued investment in substation equipment replacement projects, investment in distribution automation, and North American Electric Reliability Corporation (NERC) compliance, involving transmission improvements, such as work involving relay and circuit breaker replacements at various locations.

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, construction of a pipeline to serve the new TVA Allen natural gas fueled generating facility, 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, 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 J Jeanes

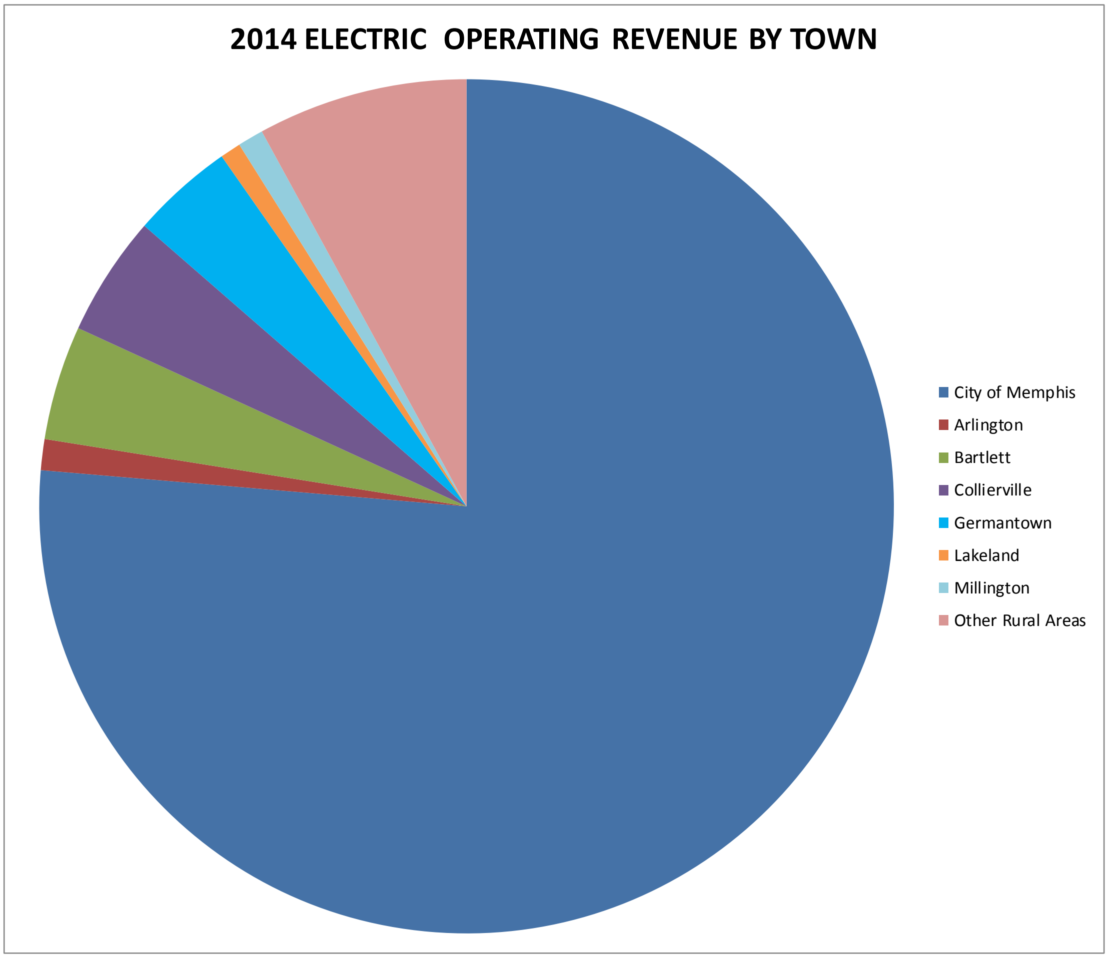
Dana Jeanes

Vice President, CFO and Secretary-Treasurer

FINANCIAL HIGHLIGHTS
FOR THE YEARS ENDED
DECEMBER 31, 2014, 2013, AND 2012
(dollars and consumption in thousands)

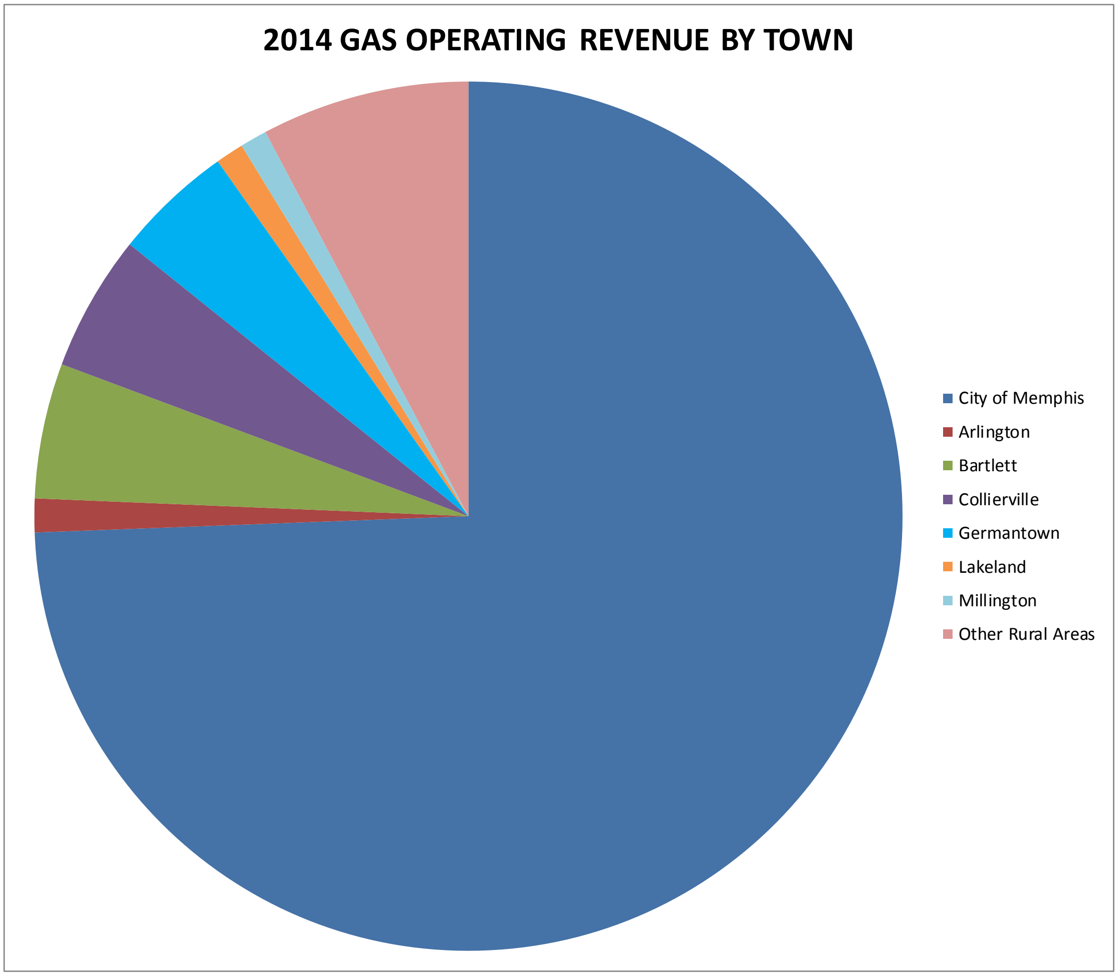
Operating Statistics by Towns:

	ELECTRIC AMOUNT			ELECTRIC KWH		
	2014	2013	2012	2014	2013	2012
City of Memphis	$ 977,962	$ 954,069	$ 967,153	10,544,122	10,705,452	10,753,992
Arlington	15,011	14,323	14,787	159,589	158,301	160,331
Bartlett	55,444	53,117	53,515	561,999	559,096	557,240
Collierville	58,349	56,502	58,815	610,401	612,090	628,159
Germantown	49,723	48,155	50,019	510,321	513,489	527,477
Lakeland	10,075	9,607	9,956	102,603	101,896	104,063
Millington	12,466	11,410	11,276	125,000	118,588	115,592
Other Rural Areas	101,874	98,898	105,045	1,151,404	1,157,176	1,210,669
Total	$ 1,280,904	$ 1,246,081	$ 1,270,566	13,765,439	13,926,088	14,057,523



Operating Statistics by Towns:

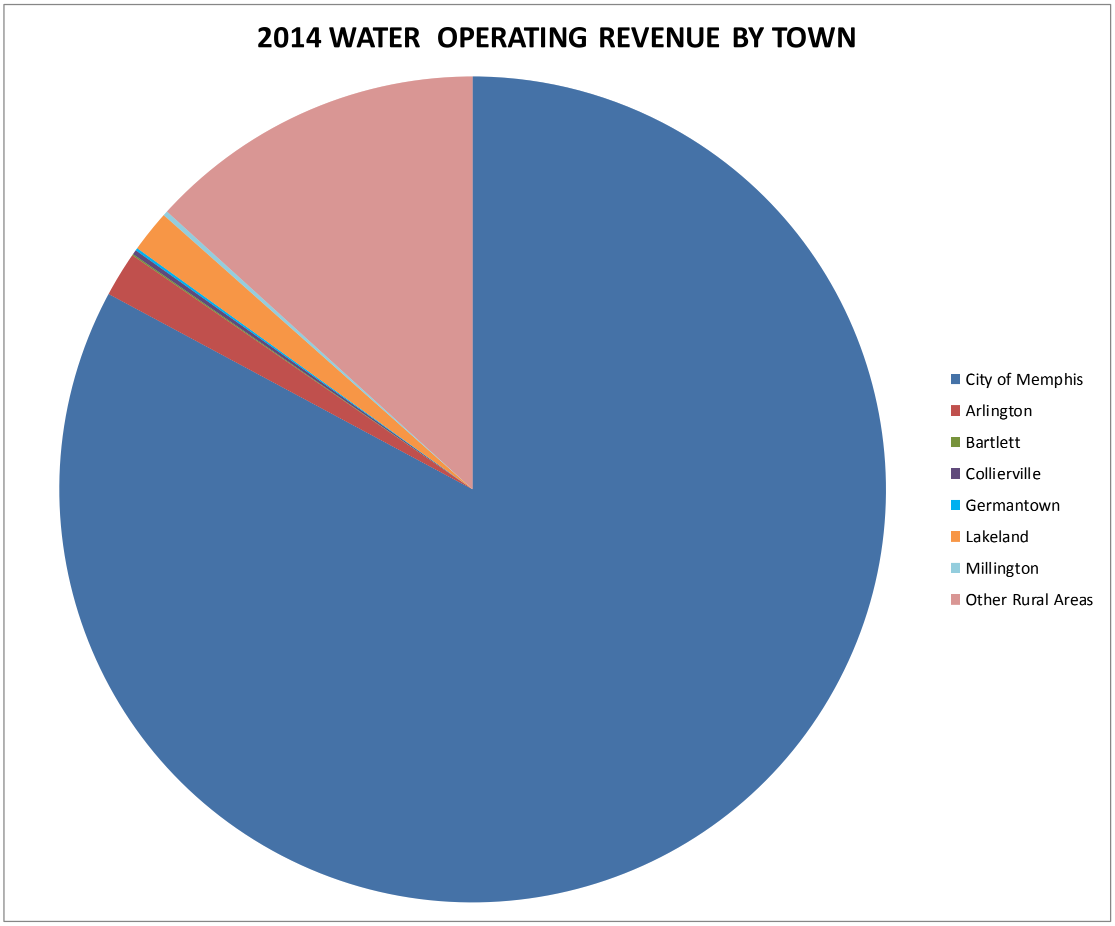
	GAS AMOUNT			GAS MCF		
	2014	2013	2012	2014	2013	2012
City of Memphis	$ 248,358	$ 217,229	$ 172,759	27,997	25,295	20,017
Arlington	4,182	3,304	2,549	506	460	339
Bartlett	16,788	13,296	9,952	1,916	1,725	1,164
Collierville	16,925	13,332	10,266	2,030	1,834	1,309
Germantown	14,850	11,833	9,076	1,792	1,640	1,177
Lakeland	3,494	2,719	2,094	406	358	253
Millington	3,356	2,509	1,962	384	319	243
Other Rural Areas	25,859	20,394	17,149	2,954	2,651	2,068
Total	$ 333,812	$ 284,616	$ 225,807	37,985	34,282	26,570



FINANCIAL HIGHLIGHTS
FOR THE YEARS ENDED
DECEMBER 31, 2014, 2013, AND 2012
(dollars and consumption in thousands)

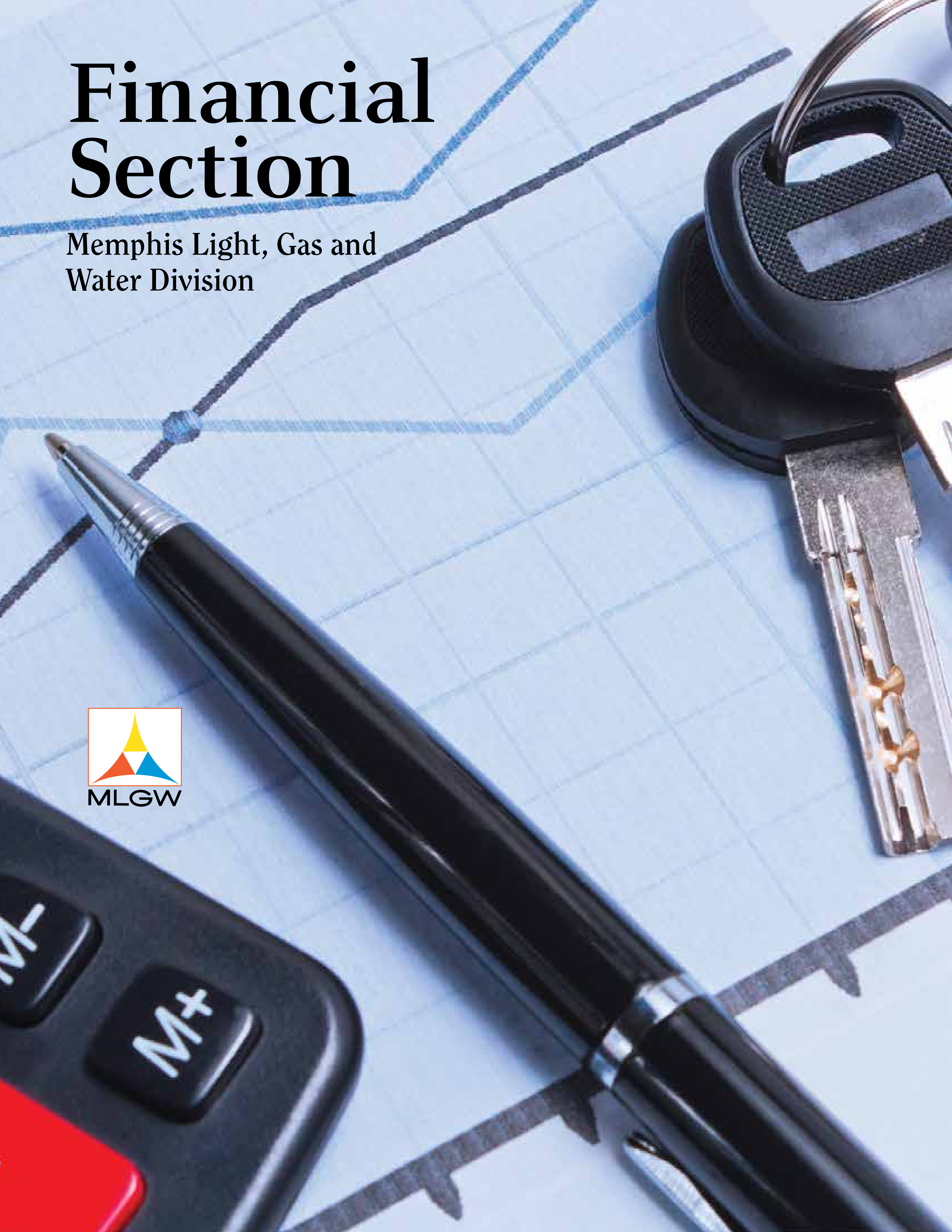
Operating Statistics by Towns:

	WATER AMOUNT			WATER CCF		
	2014	2013	2012	2014	2013	2012
City of Memphis	$ 71,395	$ 70,334	$ 70,279	46,047	46,562	49,804
Resale to Other Municipalities:						
Arlington	1,510	1,463	1,473	598	585	652
Bartlett	46	41	29	7	5	4
Collierville	154	163	160	55	61	65
Germantown	84	79	99	31	29	112
Lakeland	1,410	1,415	1,459	545	564	635
Millington	160	132	72	58	53	52
Other Rural Areas	11,422	11,153	11,329	4,726	4,648	5,125
Total	$ 86,181	$ 84,780	$ 84,900	52,067	52,507	56,449



Financial Section

Memphis Light, Gas and Water Division



MLGW

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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, 2014 and 2013, 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, 2014 and 2013, 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.

Emphasis of Matter

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, 2014 and 2013, 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.

Other Matters

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 pension plan; schedule of funding progress for OPEB; and the schedule of employer contributions - OPEB, 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 schedule of expenditures of federal awards, 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 schedule of expenditures of fedral awards is reguired by OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations.*

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 supplementary information is fairly stated, in all material respects in relation to the basic financial statements as a whole.

The introductory section and supplementary information shown as the schedule of current utility rates; schedule of insurance; and schedule of non-revenue 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 3, 2015, 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 3, 2015

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

- Street light billing changed for the City of Memphis (City), per an initiative of the City Council (Council). MLGW formerly operated, maintained, and repaired more than 100,000 streetlights in Shelby County. MLGW previously billed the City directly for energy and other costs related to street lighting inside the City. The Council approved a schedule of fees for street lighting service for MLGW customers within the City limits. Effective the first billing cycle of January 2014, MLGW began billing street light fees to utility customers within the city limits. During 2014 MLGW collected nearly $13 million pursuant to the fee schedule to operate and maintain Memphis' 83,000 street lights.

- MLGW's systems and processes incorporate the best industry practices as recognized by *Security Magazine*. The publication issued its top 500 rankings 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.

- In 2014, MLGW installed smart meters in approximately 24,000 homes in Phase I of the smart meter deployment plan. MLGW meters were replaced with smart electric, gas, and water models. This enables MLGW to communicate with meters on a daily basis instead of sending a meter reader to each property to collect consumption data once a month. Less than 4% of customers in Phase I smart meter zones opted out, meaning that most customers found benefits from smart meters.

    - Electric smart meters have sensors to determine if the meter has been removed or tampered with, enabling MLGW to investigate utility theft faster and remotely disconnect electric services. As a result, utility theft has decreased since smart meters have been installed.

    - Water meters feature leak detection capability, enabling MLGW to notify customers of emerging problems. Approximately one-third of water smart meters have identified potential leaks thus far, giving customers the opportunity to save on water and sewer costs after making repairs.

- The Gas Division made significant progress in MLGW's two alternative fuel ventures.

    - Liquefied Natural Gas (LNG) sales increased 358% year-over-year, growing from $1.6 million in 2013 to $7.1 million in 2014.

    - Compressed Natural Gas (CNG) production capacity tripled with the construction of MLGW's second fueling station at the South Center. This station will serve the growing heavy-duty over-the-road truck fleets in Memphis including Swift Transportation and Dillon Transport.

- MLGW issued debt for the capital programs for the Electric and Water Divisions in June 2014. The Electric Division's Senior Lien Series 2014 bonds were rated Aa2 by Moody's Investors Service (Moody's) and AA+ by Standard & Poor's Ratings Services (S&P). MLGW's electric subordinate lien bonds, related to the electric prepay agreement with TVA, were reaffirmed with ratings of Aa2 from Moody's and AA+ by S&P. The Water Division's Series 2014 bonds were rated Aa1 by Moody's and AAA by S&P. The AAA is the highest rating given by S&P.

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	2014	2013	2012
OPERATING REVENUE			
Residential	$ 512,467,698	$ 493,607,631	$ 508,971,517
Commercial - General Service	591,269,532	577,391,147	601,786,489
Industrial	119,347,528	119,870,213	116,010,509
Outdoor Lighting and Traffic Signals	11,354,154	10,956,549	10,994,576
Street Lighting Billing	12,958,669	11,870,585	11,675,193
Interdepartmental	9,676,904	9,274,299	10,002,069
Green Power	(264,636)	(283,057)	(639,462)
Miscellaneous	33,769,237	32,392,981	32,680,892
Accrued Unbilled Revenue	(1,965,202)	(2,045,502)	(14,329,780)
Revenue Adjustment for Uncollectibles	(7,709,385)	(6,954,155)	(6,585,758)
TOTAL OPERATING REVENUE	$ 1,280,904,499	$ 1,246,080,692	$ 1,270,566,245
CUSTOMERS			
Residential	364,624	362,687	361,029
Commercial - General Service	43,589	43,553	43,499
Industrial	154	155	142
Outdoor Lighting and Traffic Signals	17,048	17,037	17,009
Interdepartmental	47	47	47
Total Customers	425,462	423,479	421,726
KWH SALES (THOUSANDS)			
Residential	5,221,001	5,245,511	5,326,644
Commercial - General Service	6,212,068	6,326,233	6,521,467
Industrial	2,053,626	2,082,289	1,930,759
Outdoor Lighting and Traffic Signals	93,395	88,209	87,980
Street Lighting Billing	74,690	73,234	73,172
Interdepartmental	110,659	110,612	117,501
Total KWH Sales (Thousands)	13,765,439	13,926,088	14,057,523
OPERATING REVENUE/CUSTOMER			
Residential	$ 1,405.47	$ 1,360.97	$ 1,409.78
Commercial - General Service	13,564.65	13,257.21	13,834.49
Industrial	774,983.95	773,356.22	816,975.42
Outdoor Lighting and Traffic Signals	666.01	1,339.86	1,332.81
Interdepartmental	205,891.58	197,325.52	212,809.98
OPERATING REVENUE/KWH			
Residential	$ 0.098	$ 0.094	$ 0.096
Commercial - General Service	0.095	0.091	0.092
Industrial	0.058	0.058	0.060
Outdoor Lighting and Traffic Signals	0.122	0.124	0.125
Street Lighting Billing	0.173	0.162	0.160
Interdepartmental	0.087	0.084	0.085
KWH/CUSTOMER			
Residential	14,318.86	14,462.91	14,754.07
Commercial - General Service	142,514.58	145,253.67	149,922.23
Industrial	13,335,233.77	13,434,122.58	13,596,894.37
Outdoor Lighting and Traffic Signals	5,478.36	5,177.50	9,474.51
Interdepartmental	2,354,446.81	2,353,446.81	2,500,021.28

**See graph on M-6.*

STATISTICAL HIGHLIGHTS-GAS DIVISION

Years Ended December 31

CATEGORIES	2014	2013	2012
OPERATING REVENUE			
Residential	$ 207,334,707	$ 165,155,180	$ 131,143,391
Commercial - General Service	95,601,873	74,570,259	61,388,162
Industrial	3,765,082	2,739,421	3,192,698
Interdepartmental	464,944	242,488	190,390
Transported Gas	5,800,804	6,041,697	5,696,198
Spot Gas	11,239,189	8,751,055	6,435,704
Liquefied Natural Gas (LNG)	7,139,441	1,558,796	0
Compressed Natural Gas (CNG)	324,971	10,698	0
Miscellaneous	11,748,814	16,734,527	29,466,309
Accrued Unbilled Revenue	(6,949,921)	11,073,202	(10,170,756)
Revenue Adjustment for Uncollectibles	(2,657,455)	(2,261,353)	(1,535,459)
TOTAL OPERATING REVENUE	$ 333,812,449	$ 284,615,970	$ 225,806,637
CUSTOMERS			
Residential	290,690	290,254	290,147
Commercial - General Service	21,917	22,096	22,289
Industrial	34	34	35
Interdepartmental	14	17	17
Transported Gas	104	99	90
Spot Gas	45	40	38
Subtotal	312,804	312,540	312,616
LNG	6	3	0
CNG (Sales Transactions)	542	45	0
Total Customers	313,352	312,588	312,616
MCF SALES			
Residential	23,403,113	20,998,068	15,251,029
Commercial - General Service	11,882,928	10,899,607	8,910,754
Industrial	587,953	506,209	736,980
Interdepartmental	64,482	38,888	29,088
Spot Gas	2,046,775	1,839,159	1,641,652
Subtotal	37,985,251	34,281,931	26,569,503
LNG	775,168	194,046	0
CNG	3,180	112	0
Total MCF Sales	38,763,599	34,476,089	26,569,503
OPERATING REVENUE/CUSTOMER			
Residential	$ 713.25	$ 569.00	$ 451.99
Commercial - General Service	4,362.00	3,374.83	2,754.19
Industrial	110,737.70	80,571.21	91,219.93
Interdepartmental	33,210.31	14,263.98	11,199.40
Transported Gas	55,776.96	61,027.24	63,291.09
Spot Gas	249,759.76	218,776.38	169,360.63
OPERATING REVENUE/MCF			
Residential	$ 8.859	$ 7.865	$ 8.599
Commercial - General Service	8.045	6.842	6.889
Industrial	6.404	5.412	4.332
Interdepartmental	7.210	6.236	6.545
Spot Gas	5.491	4.758	3.920
MCF/CUSTOMER			
Residential	80.51	72.34	52.56
Commercial - General Service	542.18	493.28	399.78
Industrial	17,292.74	14,888.50	21,056.57
Interdepartmental	4,605.86	2,287.53	1,711.06
Spot Gas	45,483.89	45,978.98	43,201.39

**See graph on M-6.*

STATISTICAL HIGHLIGHTS- WATER DIVISION

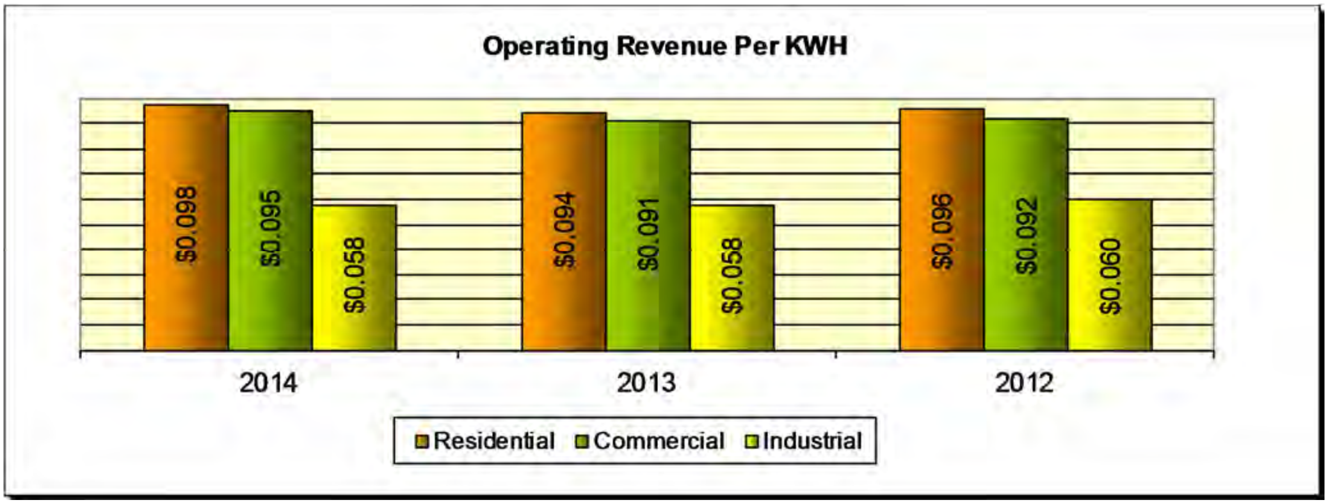
Years Ended December 31

CATEGORIES	2014	2013	2012
OPERATING REVENUE			
Residential	$ 41,562,047	$ 41,225,873	$ 41,439,820
Commercial - General Service	36,295,016	35,375,110	32,843,191
Resale	510,950	401,650	369,835
Fire Protection	4,075,927	3,976,678	3,527,080
Interdepartmental	45,082	48,983	50,576
Miscellaneous	4,781,049	4,766,921	8,418,398
Accrued Unbilled Revenue	(164,704)	51,050	(662,407)
Revenue Adjustment for Uncollectibles	(924,209)	(1,066,112)	(1,086,475)
TOTAL OPERATING REVENUE	$ 86,181,157	$ 84,780,153	$ 84,900,018
CUSTOMERS			
Residential	228,147	228,047	227,961
Commercial - General Service	20,792	20,823	20,313
Resale	11	12	13
Fire Protection	5,171	5,152	4,879
Government and Municipal (Free)	0	53	618
Interdepartmental	55	55	54
Total Customers	254,176	254,142	253,838
METERED WATER (CCF)			
Residential	23,208,066	23,707,027	25,647,247
Commercial - General Service	28,355,246	28,325,038	28,609,765
Resale	484,975	345,791	439,517
Government and Municipal (Free)	0	105,959	1,723,320
Interdepartmental	19,175	23,440	29,156
Total CCF Sales	52,067,462	52,507,255	56,449,005
OPERATING REVENUE/CUSTOMER			
Residential	$ 182.17	$ 180.78	$ 181.78
Commercial - General Service	1,745.62	1,698.85	1,616.86
Resale	46,450.00	33,470.87	28,448.83
Fire Protection	788.23	771.87	722.91
Interdepartmental	819.67	890.60	936.59
OPERATING REVENUE/CCF			
Residential	$ 1.791	$ 1.739	$ 1.616
Commercial - General Service	1.280	1.249	1.148
Resale	1.054	1.162	0.841
Interdepartmental	2.351	2.090	1.735
CCF/CUSTOMER			
Residential	101.72	103.96	112.51
Commercial - General Service	1,363.76	1,360.28	1,408.45
Resale	44,088.64	28,815.92	33,809.00
Government and Municipal (Free)	0.00	1,999.23	2,788.54
Interdepartmental	348.64	426.18	539.93

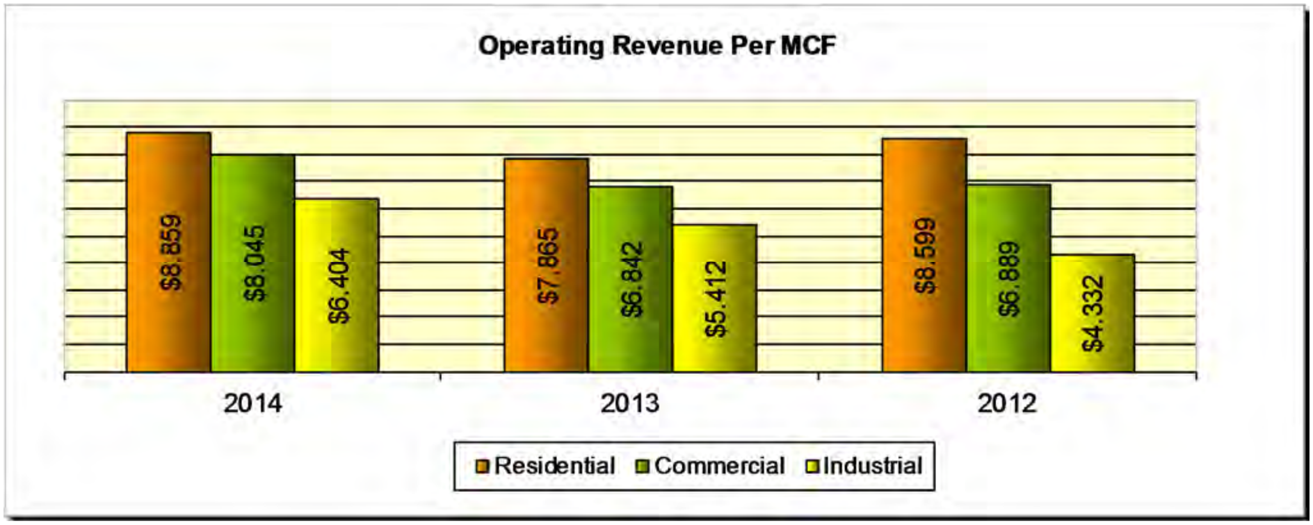
**See graph on M-7.*

GRAPHS

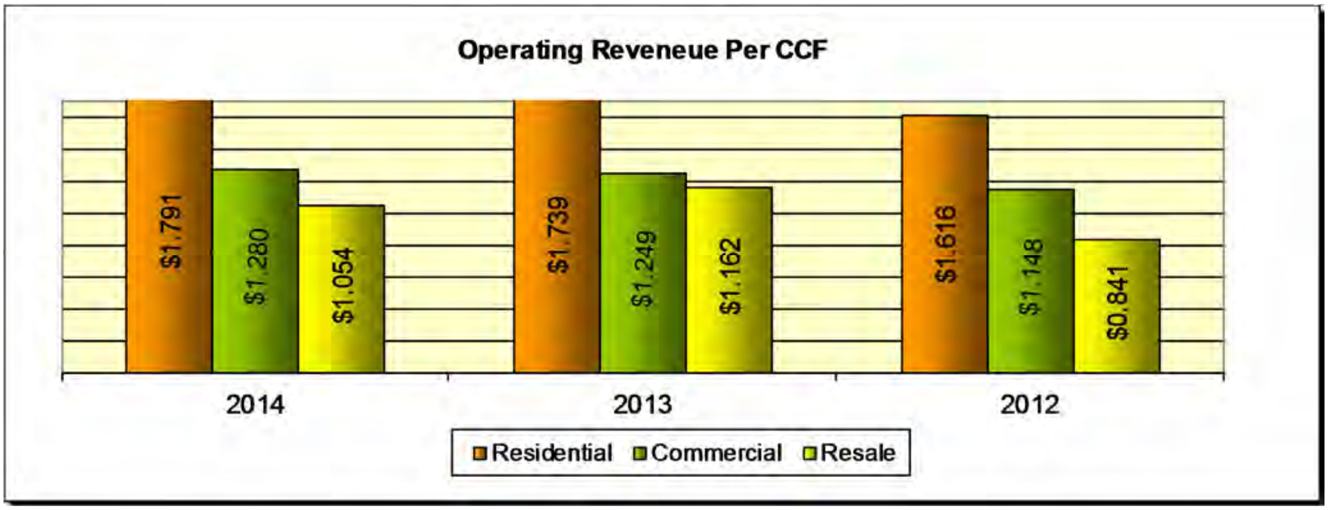
Electric Division



Gas Division



Water Division



Bond Ratings

MLGW issued debt for the capital programs for the Electric and Water Divisions in June 2014. MLGW's Electric Division and Water Division maintain strong bond ratings.

The Electric Division's Senior Lien Series 2014 bonds were rated Aa2 by Moody's Investors Service (Moody's) and AA+ by Standard & Poor's Ratings Services (S&P). MLGW's electric subordinate lien bonds, related to the electric prepay agreement with TVA, were reaffirmed with ratings of Aa2 from Moody's and AA+ by S&P. The Electric Division has debt outstanding of $531,230 as of December 31, 2014. MLGW's debt service coverages are 126.65 and 1.92 for the senior and subordinate liens, respectively. These coverages are well above the 1.2 and the 1.0 required by the Electric Division bond covenant for the senior lien and subordinate lien debt, respectively.

The Water Division's Series 2014 bonds were rated Aa1 by Moody's and AAA by S&P. The AAA is the highest rating given by S&P. In the rating report S&P cited MLGW's extremely strong financial risk profile, no current indebtedness, high-quality and virtually unlimited groundwater supply, and low water rates as significant factors used for the development of the rating. The Water Division has debt outstanding of $15,000 as of December 31, 2014. MLGW's debt service coverage is 48.00. This coverage is well above the 1.2 required by the Water Division bond covenant.

The following tables show MLGW bond ratings and debt administration for the Electric and Water Divisions as of December 31, 2014:

Figure 1: Bond Ratings and Debt Administration for the Electric and Water Divisions

MLGW Bond Ratings			
	S&P	**Moody's**	**Fitch**
Electric Series			
2003A	AA+	Aa2	AA+
2008	AA+	Aa2	AA+
2010	AA+	Aa2	AA+
2014	AA+	Aa2	
Water Series			
2014	AAA	Aa1	

Debt Administration (In Thousands)		
	Outstanding Balance	**Coverage**
Electric Senior	$71,000	126.65
Electric Subordinate	$460,230	1.92
Water	$15,000	48.00

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)

	2014	2013	FY14 - FY13 Percentage Change	2012	FY13 - FY12 Percentage Change
Current assets (excluding restricted funds)	$ 453,306	$ 456,034	-0.6%	$ 470,208	-3.0%
Restricted assets	96,049	59,571	61.2%	57,537	3.5%
Other assets	4,647	3,051	52.3%	3,594	-15.1%
Prepaid power cost - long-term	349,595	463,133	-24.5%	573,115	-19.2%
Utility plant	1,018,928	996,031	2.3%	977,339	1.9%
Total assets	1,922,525	1,977,820	-2.8%	2,081,793	-5.0%
Deferred outflows of resources					
Accumulated decrease in fair value of hedging derivatives	305	-	-	-	-
Unamortized balance of refunded debt	6,400	10,137	-36.9%	13,945	-27.3%
Total assets and deferred outflows	1,929,230	1,987,957	-3.0%	2,095,738	-5.1%
Current liabilities payable from current assets	256,756	304,851	-15.8%	307,261	-0.8%
Current liabilities payable from restricted assets	31,086	30,008	3.6%	29,987	0.1%
Long-term debt	450,603	491,161	-8.3%	606,217	-19.0%
Non-current liabilities	27,711	27,975	-0.9%	33,099	-15.5%
Total liabilities	766,156	853,995	-10.3%	976,564	-12.6%
Net position:					
Net investment in capital assets	938,844	996,031	-5.7%	977,339	1.9%
Restricted	52,900	17,287	206.0%	16,665	3.7%
Unrestricted	171,330	120,644	42.0%	125,170	-3.6%
Total Net position	$ 1,163,074	$ 1,133,962	2.6%	$ 1,119,174	1.3%

Assets

2014 Compared to 2013:

As of December 31, 2014, total assets and deferred outflows were $1.93 billion, a decrease of $58.7 million, or 3.0%, compared to December 31, 2013. This decrease is primarily due to a decrease in prepaid power cost (long-term) of $113.5 million due to amortization (see Note 12) and a decrease in current assets (excluding restricted funds) of $2.7 million, offset by increases in restricted assets of $36.5 million due to an increase in revenue bond proceeds, net utility plant of $22.9 million as a result of additions to electric plant in-service, and other assets of $1.6 million. The decrease in current assets is primarily the result of a decrease in collateral subject to return to borrowers (due to a modification to Division's investment policy) of $48.9 million, unbilled revenues of $2.0 million, accounts receivable less allowance for doubtful accounts of $1.1 million, and a decrease in other current assets of $0.2 million, offset by increases in cash and cash equivalents of $36.9 million, prepaid power cost (current portion) of $3.6 million, investments of $3.4 million, inventories of $2.9 million, and unrecovered purchased power of $2.4 million.

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.

Capital Assets and Construction Activities

2014 Compared to 2013:

The Electric Division's utility plant assets, net of accumulated depreciation were $1.02 billion as of December 31, 2014, an increase of 2.3% over fiscal year 2013. During 2014, the Electric Division expended $67.1 million on construction activities and capital purchases, an increase of $6.0 million or 9.8% compared to fiscal year 2013. Major Electric Division construction activities included substation and transmission projects ($17.6 million), extensions to serve new customers ($8.0 million), the purchase of distribution and network transformers ($5.1 million), the purchase of transportation and power operated equipment ($5.0 million), data processing equipment and upgrades ($4.7 million), and street and leased outdoor lighting ($4.1 million). Other significant Electric Division capital expenditures consisted of storm restoration costs ($3.5 million), replacement of feeder and defective cable ($3.3 million), Smart Grid, net of reimbursements, ($3.1 million), the purchase of meters and metering equipment ($3.0 million), new circuits out of substations ($2.0 million), communication network improvements ($2.0 million), and relocation of facilities to accommodate road improvements ($1.2 million).

2013 Compared to 2012:

The Electric Division's utility plant assets, net of accumulated depreciation were $996 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).

Liabilities

2014 Compared to 2013:

As of December 31, 2014, total liabilities were $766.2 million, representing an $87.8 million (10.3%) decrease compared to $854.0 million at December 31, 2013. These decreases are attributable to decreases in current liabilities payable from current assets of $48.1 million and long-term debt of $40.6 million, offset by an increase in current liabilities payable from restricted assets of $1.1 million. The decrease in current liabilities payable from current assets is primarily due to decreases in collateral subject to return to borrowers (due to a modification to Division's investment policy) of $48.9 million and a decrease in other accounts payable and liabilities of $3.4 million, offset by an increase in bonds payable (current portion) of $6.8 million. Long-term debt decreased $40.6 million to $450.6 million in fiscal year 2014 from $491.2 million in fiscal year 2013 resulting from a reclassification of a portion of long-term debt to the current portion of debt and premium amortization (see Note 11). Current liabilities payable from restricted assets increased 3.6%, or $ 1.1 million, largely due to an increase in medical benefits.

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.

Net Position

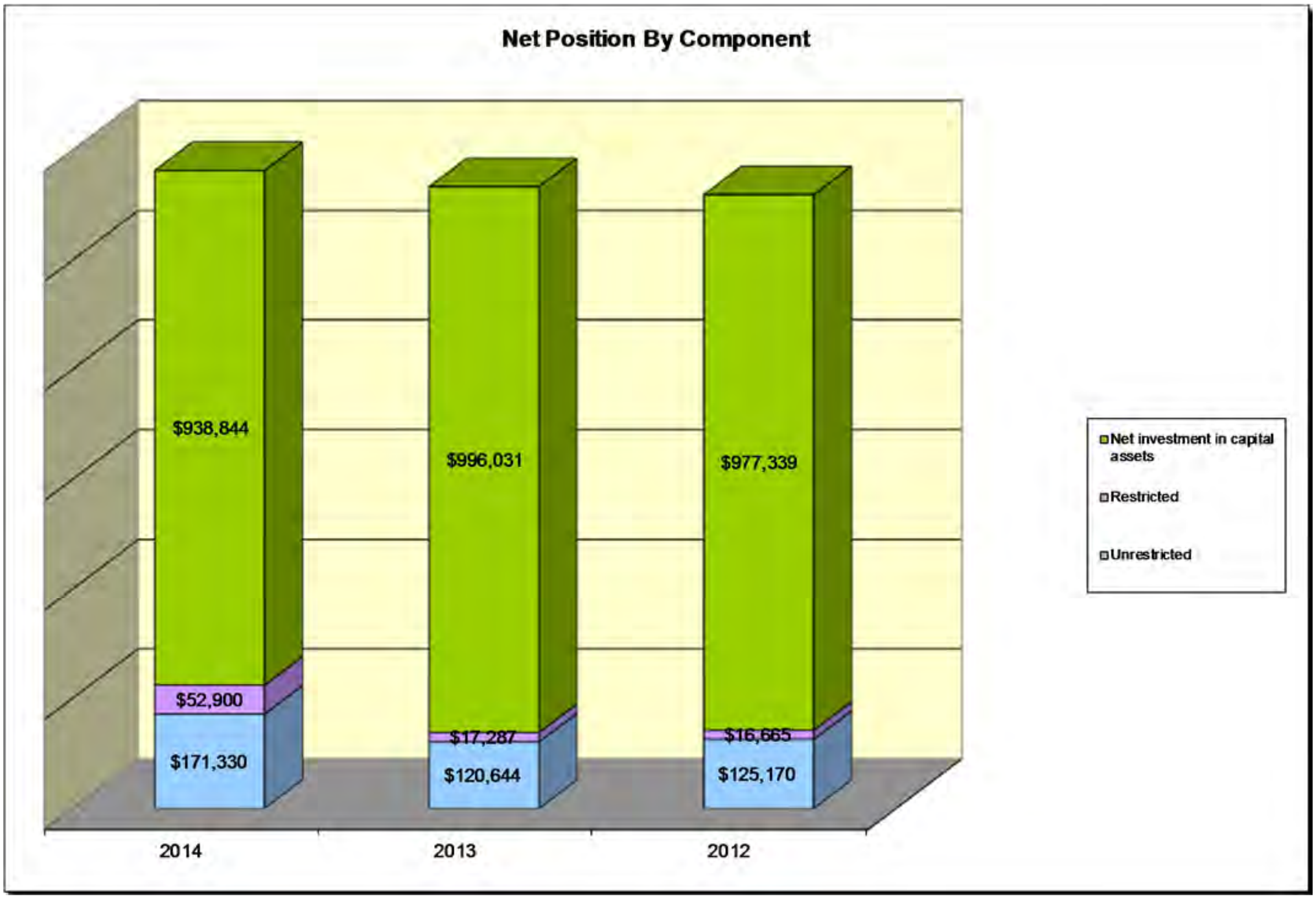
2014 Compared to 2013:

As of December 31, 2014, the Electric Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was $1.16 billion, an increase of $29.1 million, or 2.6%, compared to December 31, 2013. The increase was due to increases in unrestricted net position (used to finance day-to-day operations) of $50.7 million and restricted net position of $35.6 million, partially offset by a decrease in investments in capital assets of $57.2 million. Eighty-one percent of the net position was related to net investments in capital assets.

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%.

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, 2014, 2013, and 2012
(In Thousands)

	2014	2013	FY14 - FY13 Percentage Change	2012	FY13 - FY12 Percentage Change
Revenues:					
Operating revenues	$ 1,280,904	$ 1,246,081	2.8%	$ 1,270,566	-1.9%
Non-operating revenues	55,536	57,238	-3.0%	60,970	-6.1%
Total revenues	1,336,440	1,303,319	2.5%	1,331,536	-2.1%
Expenses:					
Depreciation expense	45,566	45,240	0.7%	44,698	1.2%
Purchased power	1,029,791	1,008,460	2.1%	1,045,362	-3.5%
Other operating expense	171,095	172,856	-1.0%	176,407	-2.0%
Non-operating expense	21,581	24,061	-10.3%	27,847	-13.6%
Total expenses	1,268,033	1,250,617	1.4%	1,294,314	-3.4%
Income before contributions in aid of construction and transfers	68,407	52,702	29.8%	37,222	41.6%
Contributions in aid of construction	12,827	19,715	-34.9%	14,033	40.5%
Reduction of plant costs recovered through contributions in aid of construction	(12,827)	(19,715)	34.9%	(14,033)	-40.5%
Transfers to City of Memphis	(39,295)	(37,914)	3.6%	(34,978)	8.4%
Change in net position	$ 29,112	$ 14,788	96.9%	$ 2,244	559.0%
Net position, beginning of year	$ 1,133,962	$ 1,119,174	1.3%	$ 1,116,930	0.2%
Change in net position	29,112	14,788	96.9%	2,244	559.0%
Net position, end of year	$ 1,163,074	$ 1,133,962	2.6%	$ 1,119,174	1.3%

Change in Net Position

2014 Compared to 2013:

The change in net position is $29.1 million, up $14.3 million from $14.8 million at December 31, 2013. This increase is primarily due to an increase in operating margin (operating revenue less power cost) of $13.5 million, a decrease in non-operating expenses (resulting from lower debt expense) of $2.5 million and a decrease in other operating expense of $1.8 million, offset by a decrease in non-operating revenues of $1.7 million, and an increase in Transfer to the City of $1.4 million.

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, 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.

Revenues

2014 Compared to 2013:

Total revenues were $1.34 billion for fiscal year 2014, an increase of $33.1 million (2.5%) from fiscal year 2013. Operating revenues were $1.28 billion in 2014, an increase of $34.8 million from 2013. The increase in operating revenue is due to higher power costs per unit that are passed along to customers through the fuel cost adjustor (FCA) and the Tennessee Valley Authority (TVA) 1.60% rate increases effective in October 2013 and October 2014, offset, in part by lower sales volume. There was a corresponding increase in purchased power cost of $21.3 million due to higher power costs per unit and TVA rate increases, offset by lower purchase volume. Non-operating revenue decreased $1.7 million to $55.5 million in 2014 from $57.2 million in 2013 as a result of a decrease in other income prepay credit, related to the Electric Prepay Bonds of $3.8 million, offset by increases in investment and other income of $1.4 million and transmission credits of $0.7 million.

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.

Expenses

2014 Compared to 2013:

For fiscal year 2014, total expenses were $1.27 billion, a 1.4% ($17.4 million) increase from fiscal year 2013 total expenses of $1.25 billion. This increase was a result of an increase in purchased power cost of $21.3 million (2.1%), offset by decreases in non-operating expenses of $2.5 million (10.3%) and other operating expense of $1.8 million (1.0%). The decrease in non-operating expenses is the result of savings realized on interest expenses due to the amortization of the Series 2003A Bonds and Series 2008 Bonds, offset by interest expense associated with the Series 2014 Bonds. The decrease in other operating expenses is due, in part, to a decrease in operation expenses of $5.3 million, offset by increases in maintenance expenses of $3.3 million and payment in lieu of taxes (PILOT) of $0.3 million.

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.)

Contributions in aid of construction

2014 Compared to 2013:

Contributions in aid of construction (CIAC) were $12.8 million for fiscal year 2014, a decrease of $6.9 million (34.9%) from fiscal year 2013. This decrease was mainly the result of decreases of $5.7 million in economic development and $2.5 million in cancelled contracts, offset by an increase in TNEMA grants of $1.3 million.

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.

Transfers to the City of Memphis

2014 Compared to 2013:

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 costs (three-year average). Transfers to the city represent the Electric Division's in lieu of tax payment. The transfer for 2014 increased by $1.4 million, primarily due to an increase in net plant investment.

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 costs (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.

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)

	2014	2013	FY14 - FY13 Percentage Change	2012	FY13 - FY12 Percentage Change
Current assets (excluding restricted funds)	$ 152,532	$ 199,053	-23.4%	$ 229,718	-13.3%
Restricted assets	20,283	17,388	16.6%	16,900	2.9%
Other assets	1,591	2,155	-26.2%	3,850	-44.0%
Utility plant	350,735	336,647	4.2%	306,868	9.7%
Total assets	525,141	555,243	-5.4%	557,336	-0.4%
Deferred outflows of resources					
Accumulated decrease in fair value of hedging derivatives	774	-	-	1,439	-100.0%
Total assets and deferred outflows	525,915	555,243	-0.6%	558,775	-0.6%
Current liabilities payable from current assets	44,815	85,260	-47.4%	87,359	-2.4%
Current liabilities payable from restricted assets	6,731	5,220	28.9%	5,440	-4.0%
Non-current liabilities	6,699	6,471	3.5%	7,779	-16.8%
Total liabilities	58,245	96,951	-39.9%	100,578	-3.6%
Deferred Inflows of Resources					
Accumulated decrease in fair value of hedging derivatives	-	494	-100.0%	-	-
Total liabilities and deferred inflows	58,245	97,445	-40.2%	100,578	-3.1%
Net position:					
Net investment in capital assets	350,735	336,647	4.2%	306,868	9.7%
Restricted	10,479	10,247	2.3%	9,346	9.6%
Unrestricted	106,456	110,904	-4.0%	141,983	-21.9%
Total Net position	$ 467,670	$ 457,798	2.2%	$ 458,197	-0.1%

Assets

2014 Compared to 2013:

As of December 31, 2014, total assets and deferred outflows were $525.9 million, a decrease of $29.3 million, or 0.6%, compared to December 31, 2013. This decrease is due, in part, to a decrease in current assets (excluding restricted funds) of $46.5 million, offset by increases in net utility plant of $14.1 million, restricted assets of $2.9 million, and an increase in the fair value of hedging derivatives of $0.8 million. The decrease in current assets is primarily due to decreases in collateral subject to return to borrowers (due to modification to Division's investment policy) of $29.4 million, investments of $10.9 million, and unbilled revenue of $7.0 million, offset by an increase in cash and cash equivalents of $3.6 million.

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 and an increase in restricted assets of $0.5 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).

Capital Assets and Construction Activities

2014 Compared to 2013:

The Gas Division's utility plant assets, net of accumulated depreciation were $350.7 million as of December 31, 2014, an increase of 4.2% over fiscal 2013. During 2014, the Gas Division expended $27.6 million on construction activities and equipment purchases, a decrease of $14.8 million or 34.9% compared to fiscal year 2013. Major Gas Division construction activities included the replacement of the MLGW mainframe system ($10.6 million), purchases of transportation and power operated equipment ($3.5 million), alternative fueling structure improvements ($3.1 million), and the retrofitting of cast iron and steel taps ($2.0 million). Other significant Gas Division expenditures included the purchase of meters and metering equipment ($1.7 million), pipeline integrity ($1.5 million), extensions to serve new customer ($1.4 million), and building and structures ($1.4 million).

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 164.3% 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), pipeline integrity ($1.0 million), extensions to serve new customers ($0.9 million), and relocation of facilities to accommodate road improvements ($0.8 million).

Liabilities

2014 Compared to 2013:

At December 31, 2014, total liabilities and deferred inflows were $58.2 million, representing a $39.2 million (40.2%) decrease compared to $97.4 million at December 31, 2013. Current liabilities payable from current assets decreased $40.4 million, or 47.4%, primarily due to decreases in collateral subject to return to borrowers ($29.4 million), accounts payables – purchased gas ($8.5 million), and other liabilities, accounts payable and accrued expenses ($3.2 million). This decrease was offset by an increase in derivative instruments ($0.8 million). Non-current liabilities payable increased $0.2 million due to an increase in customer deposits-non-current, partially offset by decreases due to pollution remediation obligations (see Note 9), customer advances for construction, and reserve for sick leave.

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.

Net Position

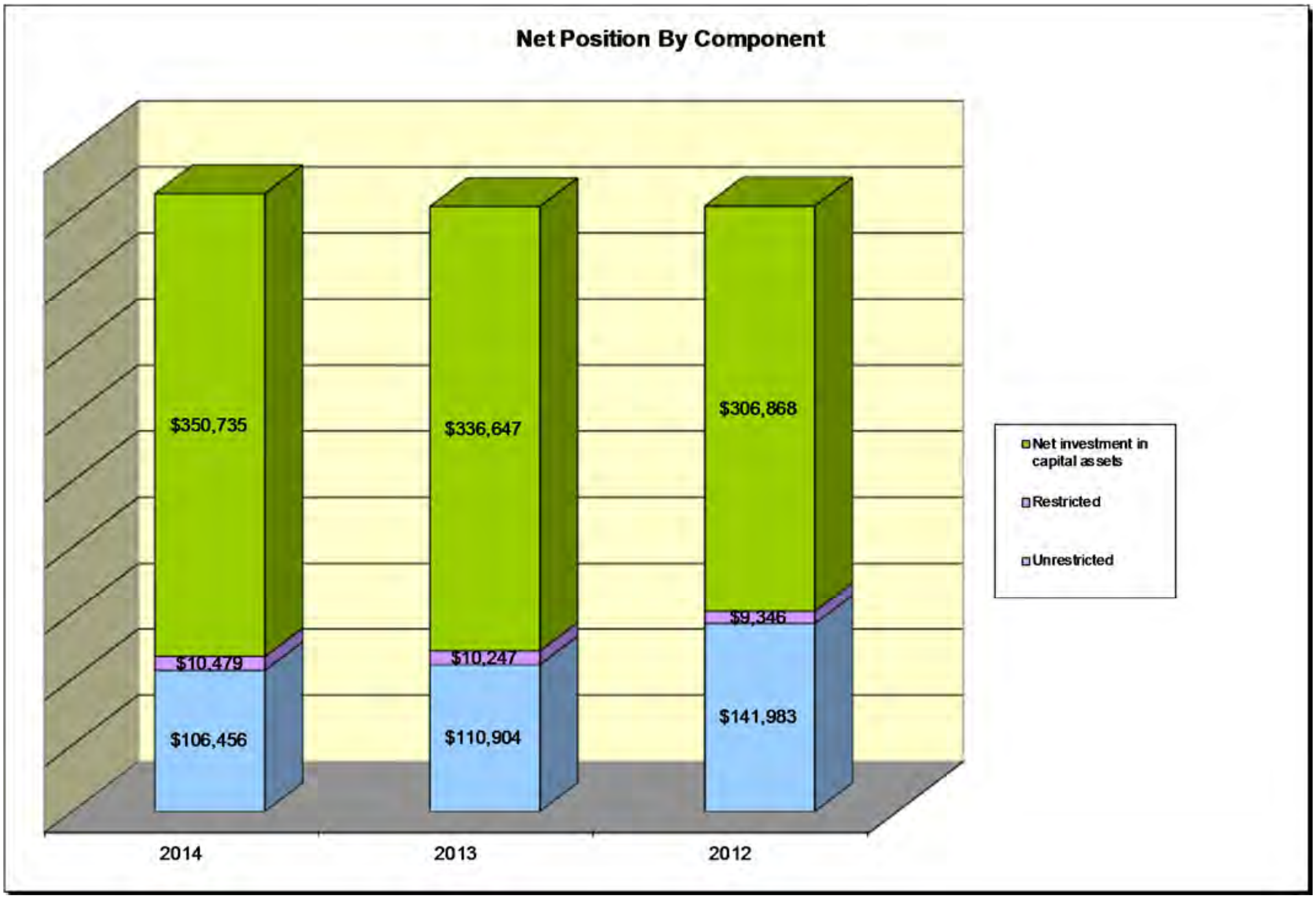
2014 Compared to 2013:

As of December 31, 2014, the Gas Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was $467.7 million, an increase of $9.9 million, or 2.2% from December 31, 2013. Seventy-five percent of the net position was related to net investments in capital assets, which accounts for $14.1 million of the increase, partially offset by a decrease in unrestricted net position (used to finance day-to-day operations) of $4.4 million, or 4.0%.

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.

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, 2014, 2013, and 2012
(In Thousands)

	2014	2013	FY14 - FY13 Percentage Change	2012	FY13 - FY12 Percentage Change
Revenues:					
Sales, service and other operating revenues	$ 326,693	$ 277,878	17.6%	$ 219,444	26.6%
Transported gas revenue	7,119	6,738	5.7%	6,362	5.9%
Non-operating revenues	(216)	(254)	15.0%	589	-143.0%
Total revenues	333,596	284,362	17.3%	226,395	25.6%
Expenses:					
Depreciation expense	13,365	13,324	0.3%	13,261	0.5%
Purchased gas	201,362	163,241	23.4%	112,051	45.7%
Other operating expense	91,677	91,988	-0.3%	88,432	4.0%
Non-operating expense	-	-	-	-	-
Total expenses	306,404	268,553	14.1%	213,744	25.6%
Income before contributions in aid of construction and transfers	27,192	15,809	72.0%	12,651	25.0%
Contributions in aid of construction	1,283	2,015	-36.3%	542	271.8%
Reduction of plant costs recovered through contributions in aid of construction	(1,283)	(2,015)	36.3%	(542)	-271.8%
Transfers to City of Memphis	(17,320)	(16,208)	6.9%	(14,662)	10.5%
Change in net position	$ 9,872	$ (399)	2574.2%	$ (2,011)	80.2%
Net position, beginning of year	$ 457,798	$ 458,197	-0.1%	$ 460,208	-0.4%
Change in net position	9,872	(399)	2574.2%	(2,011)	80.2%
Net position, end of year	$ 467,670	$ 457,798	2.2%	$ 458,197	-0.1%

Change in Net Position

2014 Compared to 2013:

The change in net position is a gain of $9.9 million, up $10.3 million from a loss of $0.4 million at December 31, 2013. This increase is primarily due to an increase in operating margin (operating revenue less gas cost) of $11.1 million resulting from higher accrued unbilled revenue, a decrease in other operating expenses of $0.3 million, and an increase in non-operating revenue of $0.04 million, offset by an increase in Transfers to the City of $1.1 million and an increase in depreciation expense of $0.04 million.

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.

Revenues

2014 Compared to 2013:

Total revenues were $333.6 million for fiscal year 2014, an increase of 17.3% from fiscal year 2013. Sales, service and other operating revenues were $326.7 million, an increase of $48.8 million (17.6%) from 2013. There was an increase in gas sales and higher gas cost that are passed along to customers by a purchase gas adjustment (PGA). There was a corresponding increase in purchased gas cost of $38.1 million (23.4%) due to higher purchased volumes and higher gas cost per unit. The $0.04 million increase in 2014 non-operating revenues is due in part to an increase in interest and other income, offset by a decrease in revenues from pipeline lease. Transported gas revenue increased by 5.7% in 2014 compared to last fiscal year.

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.

Expenses

2014 Compared to 2013:

For fiscal year 2014, total expenses were $306.4 million at December 31, 2014, a 14.1% increase over fiscal year 2013 total expenses of $268.6 million. Purchased gas cost was $201.4 million, up 23.4%, from $163.2 million at December 31, 2013, as a result of an increase in natural gas purchases and higher gas cost per unit than last year. Other operating expense was $91.7 million at December 31, 2014, down $0.31 million, or 0.3%, from $92.0 million at December 31, 2013. This decrease is primarily attributable to decreases in maintenance expenses of $0.5 million resulting from a decrease in distribution maintenance expenses, and a decrease in PILOT expenses of $0.07 million, partially offset by an increase in operating expenses of $0.3 million.

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.)

Contributions in aid of construction

2014 Compared to 2013:

Contributions in aid of construction (CIAC) were $1.3 million for fiscal year 2014, a decrease of $0.7 million (36.3%) from fiscal year 2013. This decrease was mainly the result of decreases of $0.6 million in construction activity and $0.1 million in cancelled contracts.

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.

Transfers to the City of Memphis

2014 Compared to 2013:

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 power costs (three-year average). Transfers to the City represent the Gas Division's in lieu of tax payment. The transfer for 2014 increased by $1.1 million, primarily due to an increase in net plant investment.

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 power costs (three-year average). Transfers to the City represent the Gas Division's in lieu of tax payment. The transfer for 2013 increased by $1.5 million, primarily due to an increase of net plant investment and an increase in the City's tax rate.

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)

	2014	2013	FY14 - FY13 Percentage Change	2012	FY13 - FY12 Percentage Change
Current assets (excluding restricted assets)	$ 45,234	$ 39,658	14.1%	$ 42,009	-5.6%
Restricted assets	14,168	11,815	19.9%	11,719	0.8%
Other assets	2,653	2,220	19.5%	2,095	6.0%
Utility plant	266,592	261,895	1.8%	256,712	2.0%
Total assets	328,647	315,589	4.1%	312,535	1.0%
Current liabilities payable from current assets	14,134	20,933	-32.5%	21,095	-0.8%
Current liabilities payable from restricted assets	5,101	3,927	29.9%	3,935	-0.2%
Long-term debt	15,384	-	-	-	-
Non-current liabilities	5,924	6,962	-14.9%	7,947	-12.4%
Total liabilities	40,543	31,822	27.4%	32,977	-3.5%
Net position:					
Net investment in capital assets	250,871	261,895	-4.2%	256,712	2.0%
Restricted	8,268	7,100	16.4%	7,100	0.0%
Unrestricted	28,965	14,771	96.1%	15,746	-6.2%
Total Net position	$ 288,104	$ 283,766	1.5%	$ 279,558	1.5%

Assets

2014 Compared to 2013:

As of December 31, 2014, total assets were $328.6 million, an increase of $13.1 million compared to December 31, 2013. The increase is due, in part, to increases in current assets (excluding restricted assets) of $5.6 million, net utility plant in service of $4.7 million and restricted assets of $2.4 million. The increase in current assets is attributable to increases in cash and cash equivalents of $8.1 million and investments of $4.0 million, offset by a decrease in collateral subject to return to borrowers of $6.5 million (due to a modification to Division's investment policy).

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.

Capital Assets and Construction Activities

2014 Compared to 2013:

The Water Division's utility plant assets, net of accumulated depreciation were $266.6 million as of December 31, 2014, an increase of 1.8% as compared to December 31, 2013. During 2014, the Water Division expended $11.9 million on construction activities and equipment purchases, a decrease of $1.4 million or 10.5% compared to fiscal year 2013. Major Water Division construction activities included extension to serve new customers ($2.4 million), the purchase of meters ($2.2 million), main installation and improvements ($1.9 million), and upgrades to the Palmer Pumping Station ($1.7 million). Other significant expenditures include the relocation of facilities to accommodate road improvements ($0.7 million), upgrades to the Davis Pumping Station ($0.6 million), purchasing of transportation and power operated equipment ($0.5 million), upgrades to Lichterman Pumping Station ($0.3 million), and upgrades to Allen Pumping Station ($0.2 million).

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 8.8% 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).

Liabilities

2014 Compared to 2013:

As of December 31, 2014, total liabilities were $40.5 million, representing an increase of $8.7 million, or 27.4%, compared to December 31, 2013. Long-term debt increased $15.4 million due to the issuance of Series 2014 bonds. This increase was offset by a decrease in collateral subject to return to borrowers of $6.5 million (due to a modification to Division's investment policy).

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.

Net Position

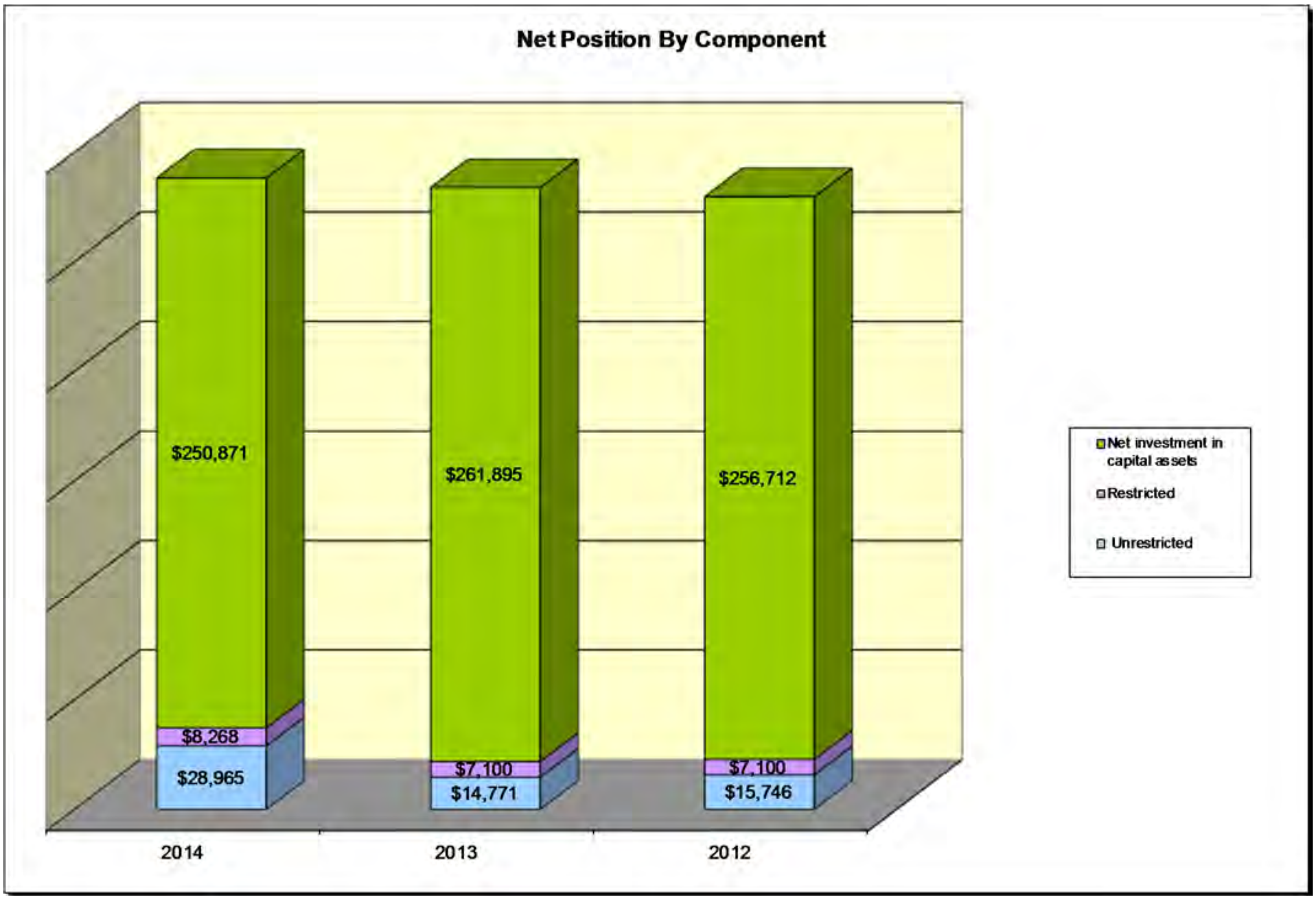
2014 Compared to 2013:

As of December 31, 2014, the Water Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was $288.1 million, an increase of $4.3 million, or 1.5%, from December 31, 2013. The increase is due to an increase in unrestricted net position (used to finance day-to-day operations) of $14.2 million, partially offset by a decrease in investments in capital assets of $11.0 million. Eighty-seven percent of the net position was related to net investments in capital assets.

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).

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, 2014, 2013, and 2012
(In Thousands)

	2014	2013	FY14 - FY13 Percentage Change	2012	FY13 - FY12 Percentage Change
Revenues:					
Operating revenues	$ 86,181	$ 84,780	1.7%	$ 84,900	-0.1%
Non-operating revenues	722	650	11.1%	365	78.1%
Total Revenues	86,903	85,430	1.7%	85,265	0.2%
Expenses:					
Depreciation expense	7,522	7,465	0.8%	10,758	-30.6%
Other operating expense	70,379	69,457	1.3%	74,395	-6.6%
Non-operating expense	264	-	-	-	-
Total Expenses	78,165	76,922	1.6%	85,153	-9.7%
Income before contributions in aid of construction and transfers	8,738	8,508	2.7%	112	7496.4%
Contributions in aid of construction	3,161	4,357	-27.5%	3,499	24.5%
Reduction of plant costs recovered through contributions in aid of construction	(3,161)	(4,357)	27.5%	(3,499)	-24.5%
Transfers to City of Memphis	(4,400)	(4,300)	2.3%	(2,500)	72.0%
Change in net position	$ 4,338	$ 4,208	3.1%	$ (2,388)	276.2%
Net position, beginning of year	$ 283,766	$ 279,558	1.5%	$ 281,946	-0.8%
Change in net position	4,338	4,208	3.1%	(2,388)	276.2%
Net position, end of year	$ 288,104	$ 283,766	1.5%	$ 279,558	1.5%

Change in Net Position

2014 Compared to 2013:

As of December 31, 2014, the change in net position is $4.3 million, up $0.1 million from a gain of $4.2 million at December 31, 2013. This increase is due primarily to an increase in operating margin of $1.4 million and an increase in non-operating revenues of $0.07 million, offset by an increase in other operating expense of $0.9 million, increase in debt expense of $0.3 million, an increase in Transfer to the City of $0.1 million, and an increase in depreciation expense of $0.06 million.

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.

Revenues

2014 Compared to 2013:

Total revenues were $86.9 million for fiscal year 2014, an increase of $1.5 million compared to December 31, 2013. Operating revenues increased $1.4 million, or 1.7%, due primarily to a MLGW 2.13% rate increase effective in January 2014. Other contributors to this increase are increases in miscellaneous service revenue, forfeited discounts, connect/reconnect fees, and third party administrative billing, offset by a decrease in unmetered water usage from the City of Memphis in 2013. Non-operating revenues increased $0.07 million, in part, due to increases in Medicare Part D refund and cellular antenna attachment revenue.

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.

Expenses

2014 Compared to 2013:

As of December 31, 2014, total expenses for the Water Division were $78.2 million, an increase of $1.2 million, or 1.6%, compared to fiscal year 2013. The increase resulted from an increase in other operating expense of $0.9 million and non-operating expense of $0.3 million. Other operating expenses increase is primarily due to increases in operating costs of $0.4 million, maintenance costs of $0.3 million, and production costs of $0.2 million.

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.

Contributions in aid of construction

2014 Compared to 2013:

Contributions in aid of construction (CIAC) were $3.2 million for fiscal year 2014, a decrease of $1.2 million (27.5%) from fiscal year 2013. This decrease was mainly the result of decreases of $0.6 million in the

Tennessee Department of Transportation's reimbursable jobs and contract adjustments of $0.8 million. These increases were partially offset by a $0.2 million increase in Arlington Water project.

2013 Compared to 2012:

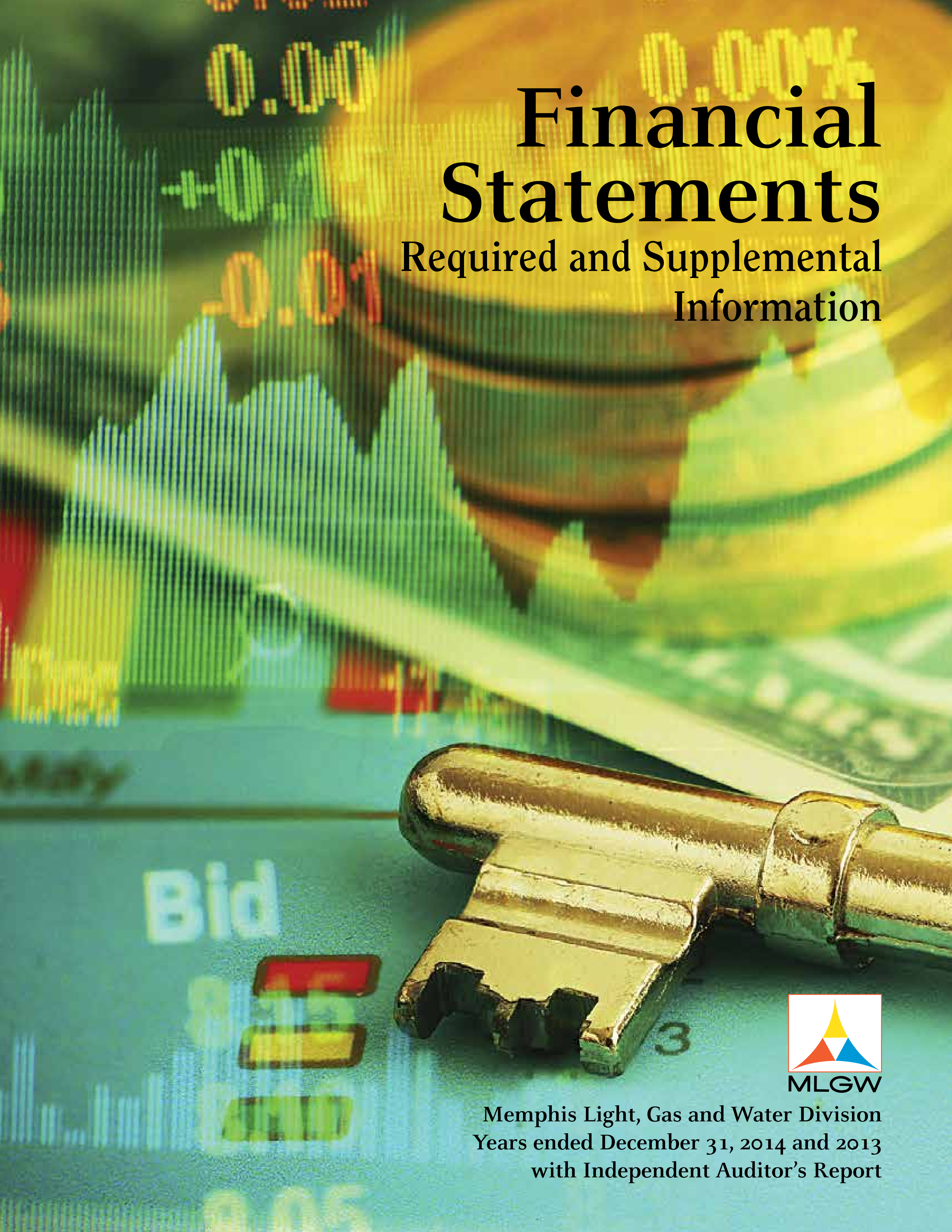
Contributions in aid of construction (CIAC) were $4.4 million for fiscal year 2013, an increase of $0.9 million (24.5%) from fiscal year 2012. This increase was mainly the result of increases of $0.8 million in Tennessee Department of Transportation reimbursable jobs and $0.4 million in construction activity. These increases were partially offset by a $0.3 million decrease in contract adjustments.

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 2014 the Water Division was authorized and directed by City Council, per City resolutions, to make an additional annual $1.9 million transfer payment each year through fiscal year 2017. Transfer payments to the City for 2013 as compared to 2012 increased due to a City resolution authorizing and directing an additional payment of $1.8 million.

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

MLGW

Memphis Light, Gas and Water Division
Years ended December 31, 2014 and 2013
with Independent Auditor's Report

STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013
(Dollars in Thousands)

	Electric Division		Gas Division		Water Division	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Assets						
Current assets:						
Cash and cash equivalents	**$ 101,279**	$ 64,402	**$ 46,511**	$ 42,959	**$ 13,837**	$ 5,710
Investments	**77,451**	74,093	**34,896**	45,843	**10,599**	6,582
Derivative financial instruments	-	-	-	494	-	-
Restricted funds - current	**66,075**	30,008	**7,419**	5,891	**6,269**	3,927
Accounts receivable, less allowance for doubtful accounts	**85,198**	86,260	**40,997**	43,258	**14,799**	15,210
Unbilled revenues	**49,639**	51,604	**19,888**	26,837	**2,958**	3,123
Prepaid power cost	**113,538**	109,982	-	-	-	-
Unrecovered purchased power cost	**2,385**	-	-	-	-	-
Gas stored - gas in storage	-	-	**3,409**	3,763	-	-
Inventories	**22,749**	19,835	**3,161**	3,035	**3,023**	2,563
Prepayment - insurance	-	-	**492**	579	-	-
Collateral held in trust for securities on loan	-	48,947	-	29,383	-	6,470
Other current assets	**1,067**	911	**3,178**	2,902	**18**	-
Total current assets	**519,381**	486,042	**159,951**	204,944	**51,503**	43,585
Non-current assets:						
Restricted funds:						
Futures margin deposits	**55**	-	**688**	671	-	-
Insurance reserves - injuries and damages	**6,435**	6,728	**2,639**	2,273	**2,835**	2,066
Insurance reserves - casualties and general	**17,910**	17,287	**9,791**	9,576	**7,100**	7,100
Medical benefits	**5,621**	4,581	**2,507**	2,043	**1,665**	1,357
Customer deposits	**19,777**	20,125	**4,658**	2,825	**1,310**	1,292
Interest fund - revenue bonds - series 2003A	**20**	20	-	-	-	-
Interest fund - revenue refunding bonds - series 2008	**380**	380	-	-	-	-
Interest fund - revenue refunding bonds - series 2010	**1,469**	1,886	-	-	-	-
Interest fund - revenue bonds - series 2014	**258**	-	-	-	**43**	-
Sinking fund - revenue bonds - series 2003A	**154**	-	-	-	-	-
Sinking fund - revenue refunding bonds - series 2010	**8,834**	8,564	-	-	-	-
Sinking fund - revenue bonds - series 2014	**202**	-	-	-	**47**	-
Construction fund - revenue bonds - series 2014	**34,934**	-	-	-	**1,168**	-
Total restricted funds	**96,049**	59,571	**20,283**	17,388	**14,168**	11,815
Less restricted funds - current	**(66,075)**	(30,008)	**(7,419)**	(5,891)	**(6,269)**	(3,927)
Restricted funds - non-current	**29,974**	29,563	**12,864**	11,497	**7,899**	7,888
Other assets:						
Prepaid power cost - long term	**349,595**	463,133	-	-	-	-
Prepayment - in lieu of taxes	**1,871**	1,839	**41**	42	-	-
Unamortized debt expense	**1,348**	1,212	-	-	**205**	-
Notes receivable	-	-	**913**	2,113	**2,025**	2,220
Other prepayments	**1,428**	-	**637**	-	**423**	-
Total other assets	**354,242**	466,184	**1,591**	2,155	**2,653**	2,220
Utility plant						
Plant in service	**1,682,188**	1,624,140	**636,609**	610,580	**452,596**	441,022
Plant held for future use	-	-	**212**	212	-	-
Non-utility plant	**15,345**	15,345	**266**	266	-	-
Total utility plant	**1,697,533**	1,639,485	**637,087**	611,058	**452,596**	441,022
Less accumulated depreciation & amortization	**(678,605)**	(643,454)	**(286,352)**	(274,411)	**(186,004)**	(179,127)
Utility plant, net	**1,018,928**	996,031	**350,735**	336,647	**266,592**	261,895
Total non-current assets	**1,403,144**	1,491,778	**365,190**	350,299	**277,144**	272,003
Total assets	**1,922,525**	1,977,820	**525,141**	555,243	**328,647**	315,588
Deferred outflows of resources						
Unamortized balance of refunded debt	**6,400**	10,137	-	-	-	-
Accumulated decrease in fair value of hedging derivatives	**305**	-	**774**	-	-	-
Total assets and deferred outflows of resources	**$ 1,929,230**	$ 1,987,957	**$ 525,915**	$ 555,243	**$ 328,647**	$ 315,588

See accompanying notes.

STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013
(Dollars in Thousands)
(Continued)

	Electric Division		Gas Division		Water Division	
	2014	2013	2014	2013	2014	2013
Liabilities						
Current liabilities:						
Accounts payable - purchased power and gas	$ 108,394	$ 111,118	$ 26,091	$ 34,633	$ -	$ -
Other accounts payable and liabilities	38,984	42,402	14,436	17,645	11,166	11,939
Accrued vacation	8,063	8,183	3,514	3,599	2,455	2,524
Derivative financial instruments	305	-	774	-	-	-
Bonds payable	101,010	94,201	-	-	513	-
Collateral subject to return to borrowers	-	48,947	-	29,383	-	6,470
Total current liabilities payable from current assets	256,756	304,851	44,815	85,260	14,134	20,933
Current liabilities payable from restricted assets:						
Insurance reserves - injuries and damages	6,435	6,728	2,639	2,273	2,835	2,066
Medical benefits	5,621	4,581	2,507	2,043	1,665	1,357
Customer deposits	7,713	7,849	1,585	904	511	504
Bonds payable - accrued interest	2,127	2,286	-	-	43	-
Bonds payable - principal	9,190	8,564	-	-	47	-
Total current liabilities payable from restricted assets	31,086	30,008	6,731	5,220	5,101	3,927
Total current liabilities	287,842	334,859	51,546	90,480	19,235	24,860
Non-current liabilities:						
Customer advances for construction	7,263	6,791	510	710	-	-
Customer deposits	12,064	12,276	3,073	1,921	799	788
Reserve for unused sick leave	6,704	6,691	2,991	3,099	2,141	2,164
Other	1,680	2,217	125	741	2,984	4,010
Revenue bonds - series 2003A	4,170	6,015	-	-	-	-
Revenue refunding bonds - series 2008	96,930	96,930	-	-	-	-
Revenue refunding bonds - series 2010	251,355	357,285	-	-	-	-
Revenue bonds - series 2014	68,575	-	-	-	14,440	-
Unamortized debt premium	29,573	30,931	-	-	944	-
Total non-current liabilities	478,314	519,136	6,699	6,471	21,308	6,962
Total liabilities	766,156	853,995	58,245	96,951	40,543	31,822
Deferred inflows of resources						
Accumulated increase in fair value of hedging derivatives	-	-	-	494	-	-
Net position						
Net investment in capital assets, net of related debt	938,844	996,031	350,735	336,647	250,871	261,895
Restricted	52,900	17,287	10,479	10,247	8,268	7,100
Unrestricted	171,330	120,644	106,456	110,904	28,965	14,771
Total net position	1,163,074	1,133,962	467,670	457,798	288,104	283,766
Total liabilities, deferred inflows of resources and net position	$ 1,929,230	$ 1,987,957	$ 525,915	$ 555,243	$ 328,647	$ 315,588

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Dollars in Thousands)

	Electric Division		Gas Division		Water Division	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Operating revenues:						
Sales and service revenues	**$1,249,274**	$1,213,820	**$307,941**	$ 265,850	**$ 81,400**	$ 80,014
Transported gas revenues	**-**	-	**7,119**	6,738	**-**	-
Other revenues	**31,630**	32,261	**18,752**	12,028	**4,781**	4,766
Total operating revenues	**1,280,904**	1,246,081	**333,812**	284,616	**86,181**	84,780
Operating expenses:						
Purchased power and gas for resale	**1,029,791**	1,008,460	**201,362**	163,241	**-**	-
Production	**-**	-	**-**	-	**15,599**	15,399
Operation	**123,531**	128,810	**77,801**	77,522	**46,322**	45,909
Maintenance	**41,377**	38,122	**12,720**	13,239	**8,458**	8,149
Depreciation & amortization	**45,566**	45,240	**13,365**	13,324	**7,522**	7,465
Payment in lieu of taxes	**6,187**	5,924	**1,156**	1,227	**-**	-
	1,246,452	1,226,556	**306,404**	268,553	**77,901**	76,922
Operating income	**34,452**	19,525	**27,408**	16,063	**8,280**	7,858
Non-operating revenues (expenses):						
Contributions in aid of construction	**12,827**	19,715	**1,283**	2,015	**3,161**	4,357
Reduction of plant costs recovered through contributions in aid of construction	**(12,827)**	(19,715)	**(1,283)**	(2,015)	**(3,161)**	(4,357)
Transmission credits	**31,483**	30,765	**-**	-	**-**	-
Investment and other income	**3,800**	2,412	**(216)**	(254)	**720**	650
Allowance for funds used during construction	**41**	-	**-**	-	**2**	-
Prepay credit	**20,212**	24,061	**-**	-	**-**	-
Interest expense	**(21,581)**	(24,061)	**-**	-	**(264)**	-
Total non-operating revenues (expenses)	**33,955**	33,177	**(216)**	(254)	**458**	650
Income before transfers	**68,407**	52,702	**27,192**	15,809	**8,738**	8,508
Transfers out - City of Memphis	**(39,295)**	(37,914)	**(17,320)**	(16,208)	**(4,400)**	(4,300)
Change in net position	**$ 29,112**	$ 14,788	**$ 9,872**	$ (399)	**$ 4,338**	$ 4,208
Net position, beginning of year	**$1,133,962**	$1,119,174	**$457,798**	$ 458,197	**$283,766**	$ 279,558
Change in net position	**29,112**	14,788	**9,872**	(399)	**4,338**	4,208
Net position, end of year	**$1,163,074**	$1,133,962	**$467,670**	$ 457,798	**$288,104**	$ 283,766

See accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Dollars in Thousands)

	Electric Division		Gas Division		Water Division	
	2014	2013	2014	2013	2014	2013
Cash flows from operating activities:						
Receipts from customers and users	$ 1,277,858	$ 1,242,460	$ 339,592	$ 256,655	$ 85,370	$ 84,795
Payments to suppliers	(921,953)	(901,596)	(236,551)	(173,075)	(26,106)	(25,000)
Payments to/on behalf of employees	(116,793)	(117,125)	(62,604)	(65,077)	(42,233)	(43,152)
Payments from (to) other Division funds	1,520	2,323	(534)	(857)	(1,662)	(1,932)
Payments for taxes	(6,353)	(5,354)	(1,105)	(1,227)	-	-
Net cash provided by operating activities	234,279	220,708	38,798	16,419	15,369	14,711
Cash flows from noncapital financing activities:						
Transfers to City of Memphis	(39,295)	(37,914)	(17,320)	(16,208)	(4,400)	(4,300)
Principal payments on long-term debt	(102,765)	(99,700)	-	-	-	-
Interest expense on bonds	(27,430)	(32,290)	-	-	-	-
Net cash used in noncapital financing activities	(169,490)	(169,904)	(17,320)	(16,208)	(4,400)	(4,300)
Cash flows from capital and related financing activities:						
Purchase and construction of utility plant	(80,415)	(84,785)	(28,675)	(45,175)	(15,380)	(17,004)
Contributions in aid of construction	12,827	19,715	1,283	2,015	3,161	4,357
Proceeds from issuance of long-term debt	80,499	-	-	-	15,755	-
Interest payments on debt	(1,487)	-	-	-	(253)	-
Net cash provided by (used in) capital and related financing activities	11,424	(65,070)	(27,392)	(43,160)	3,283	(12,647)
Cash flows from investing activities:						
Sales and maturities of investments	108,738	32,725	62,160	62,382	15,180	3,696
Purchases of investments	(109,796)	(39,934)	(50,260)	(52,843)	(18,598)	(4,511)
Payments received on notes receivable	-	-	1,047	2,483	195	-
Issuance of notes receivable	-	-	-	-	-	(124)
Investment income (loss) earned on investments	499	329	367	(468)	51	29
Net cash provided by (used in) investing activities	(559)	(6,880)	13,314	11,554	(3,172)	(910)
Increase (decrease) in cash and cash equivalents	75,654	(21,146)	7,400	(31,395)	11,080	(3,146)
Cash and cash equivalents, beginning of year	111,114	132,260	54,003	85,398	12,616	15,762
Cash and cash equivalents, end of year	$ 186,768	$ 111,114	$ 61,403	$ 54,003	$ 23,696	$ 12,616

See accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Dollars in Thousands)
(Continued)

	Electric Division		Gas Division		Water Division	
	2014	2013	2014	2013	2014	2013
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	$ 34,452	$ 19,525	$ 27,408	$ 16,063	$ 8,280	$ 7,858
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:						
Depreciation of utility plant	44,692	46,378	13,304	13,382	7,522	7,465
Transmission credits	31,483	30,765	-	-	-	-
Prepay power credits	20,212	24,061	-	-	-	-
Other income (loss)	3,301	2,082	(584)	(511)	670	621
(Increase) decrease in assets:						
Accounts receivable	1,062	(3,497)	2,261	(7,765)	411	(637)
Unbilled revenues	1,965	2,046	6,950	(11,073)	165	(51)
Prepaid power cost	109,982	107,778	-	-	-	-
Prepayments - In Lieu of Taxes	(32)	(5)	1	1	-	-
Inventories	(2,915)	449	228	(359)	(460)	(499)
Other assets	(4,313)	531	(1,447)	351	(423)	679
Increase (decrease) in liabilities:						
Accounts payable - purchased power and gas	(2,724)	(5,778)	(8,542)	9,908	-	-
Other accounts payable and accrued expenses	(3,418)	1,326	(3,209)	(612)	(772)	1,898
Customer deposits	(348)	2,280	1,833	(373)	18	170
Insurance reserves	(293)	(245)	366	170	769	65
Medical benefit accrual	1,040	(474)	464	(211)	308	(140)
Other	133	(6,514)	(235)	(2,552)	(1,119)	(2,718)
Total adjustments	199,827	201,183	11,390	356	7,089	6,853
Net cash provided by operating activities	$ 234,279	$ 220,708	$ 38,798	$ 16,419	$ 15,369	$ 14,711
Reconciliation of cash and cash equivalents per statements of cash flows to the statements of net position:						
Restricted funds	$ 96,049	$ 59,571	$ 20,283	$ 17,388	$ 14,168	$ 11,815
Less investments included in restricted funds	(10,560)	(12,859)	(5,391)	(6,344)	(4,309)	(4,909)
Cash and cash equivalents included in restricted funds	85,489	46,712	14,892	11,044	9,859	6,906
Current assets - cash and cash equivalents	101,279	64,402	46,511	42,959	13,837	5,710
Total cash and cash equivalents	$ 186,768	$ 111,114	$ 61,403	$ 54,003	$ 23,696	$ 12,616

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 Statement of Net Position:

	Electric Division		**Gas Division**		**Water Division**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Regulatory Assets:						
Current:						
Unamortized debt expense	**$ 507**	$ 547	**$ -**	$ -	**$ 18**	$ -
Total current	**507**	547	**-**	-	**18**	-
Non-Current:						
Unamortized debt expense	**1,348**	1,212	**-**	-	**205**	-
Total non-current	**1,348**	1,212	**-**	-	**205**	-
Total Regulatory Assets	**$ 1,855**	$ 1,759	**$ -**	$ -	**$ 223**	$ -
Regulatory Liabilities:						
Current:						
Purchased gas adjustment	**$ -**	$ -	**$ 1,078**	$ 451	**$ -**	$ -
Total Regulatory Liabilities	**$ -**	$ -	**$ 1,078**	$ 451	**$ -**	$ -

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, 2014 and 2013, accounts receivable and allowances for doubtful accounts were as follows:

	Electric Division		Gas Division		Water Division	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Accounts Receivable	**$ 99,948**	$ 98,770	**$ 41,818**	$ 44,337	**$ 15,325**	$ 15,942
Allowance for doubtful accounts	**(14,750)**	(12,510)	**(821)**	(1,079)	**(526)**	(732)
Total A/R, net of allowance	**$ 85,198**	$ 86,260	**$ 40,997**	$ 43,258	**$ 14,799**	$ 15,210

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:

	2014	2013
Electric	**$ 7,709**	$ 6,954
Gas	**2,657**	2,261
Water	**924**	1,066

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, 2014 and 2013 was $463,133 and $573,115, respectively. See Note 11 (Bonds) and Note 12 (Rates and Energy Supplies) for further disclosure of the revenue bonds and subsequent refinancing.

Inventories and Stored Natural Gas

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 derivative 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 long-term debt. In 2014, interest of $43 was capitalized. In 2013, 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 electric expense in 2014 and 2013 totaled $21,581 and $24,061, respectively. The amount of interest cost incurred and charged to water expense in 2014 and 2013 totaled $264 and $0, 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 2.9% for the Electric Division, 2.3% for the Gas Division and 1.9% 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 Electric 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 unleaded gasoline and diesel fuel 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.

1. Summary of Significant Accounting Policies (continued)

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 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. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- 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, 2014 and 2013, receivables from related parties for utility construction, pole rentals and utility related services excluding utility bills were $2,728 and $2,273, 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, 2014, the only free service provided to the City is water for fire fighting. Free water service provided to the City for public purposes is estimated to be $46 and $178 for 2014 and 2013, 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, 2014 and June 3, 2015, 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 2013 financial statements have been reclassified to conform to the 2014 presentation.

1. Summary of Significant Accounting Policies (continued)

Recent Accounting Standards

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.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this statement is to clarify the definition of fair value for financial reporting purposes, establish principles for measuring fair value, providing additional fair value application guidance for certain investments and enhancing disclosures about fair value measurements. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2015. MLGW has not elected early implementation of this standard and has not completed the process of evaluating the impact of this statement on its financial statements.

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.

2. Deposits and Investments (continued)

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, 2014, MLGW deposits with financial institutions were $16,580. All bank deposits were maintained in collateralized accounts or covered by federal depository insurance and were 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; bank deposits; certificates of deposit; state pool; and proceeds of bonds, notes and other obligations issued by MLGW.

MLGW is prohibited from investing in the following securities: purchases on margin or short sales; investments in reverse repurchase agreements; collateralized mortgage obligations; 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.

2. Deposits and Investments (continued)

Investments (continued)

The following table presents the investments and maturities of MLGW's investment portfolio as of December 31, 2014:

		Remaining Maturities (in Years)		
Investment Type	**Fair Value**	**Maturities < 1 year**	**Maturities 1 to 4 years**	**Maturities 6 to 10 years**
U.S. Treasuries	$ 128,430	$ 30,220	$ 98,210	$ -
Federal Agency (Fixed Rate)	24,096	23,161	935	-
Federal Agency (Callable)	497 [1]	-	497 [1]	-
Corporate Bonds	625 [2]	-	625 [2]	-
Asset - Backed Securities	40 [3]	40 [3]	-	-
Bank Deposits	73,828	73,828	-	-
Commercial Paper (Rated AA or higher)	167,988	167,988	-	-
Total Investments	**$ 395,504**	**$ 295,237**	**$ 100,267**	**$ -**

[1] $497 These bonds mature in 2017; Callable in 2015

[2] This is a bond guaranteed by the Export-Import Bank of the United States

[3] This is a federal guaranteed student loans; January 2015 maturity

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 money market funds are not exposed to custodial credit risks because their existence is not evidenced by securities that exist in physical or book entry form. To limit its exposure, MLGW's investment policy requires that all securities purchased by MLGW shall be held in safekeeping by a third-party custodial bank or financial institution. None of MLGW's investments at December 31, 2014 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.

2. Deposits and Investments (continued)

Interest Rate Risk (continued)

However, the investment policy states no investment will have a maturity of greater than four years from date of purchase. As of December 31, 2014, 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 5.1% of the total investment portfolio with a fair market value of $20,198 at year-end 2014.

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 $168,653, or 42.6% of total investments. Of this amount, $168,028 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, 2014 are as follow:

Investment Type	Fair Value		S&P Rating	Moody's Rating
Commercial Paper	$ 35,897		AAA	Aaa
Commercial Paper	19,499		AA+	Aa2
Commercial Paper	2,000		AA+	Aa1
Commercial Paper	5,000		AA+	A1
Commercial Paper	7,699		AA	Aa3
Commercial Paper	1,600		AA	Aa2
Commercial Paper	13,999		AA	Aa1
Commercial Paper	18,299		A	A2
Commercial Paper	31,996		AA-	Aa3
Commercial Paper	15,999		AA-	Aa2
Commercial Paper	16,000		AAAm	Aaa-mf
Corporate Bonds	625	[2]	NA	NA
Asset-Backed Securities	40	[3]	AA+	Aaa (sf)
Total credit risk debt securities	168,653			
U.S. Treasuries	128,430		AA+u	Aaa
Federal Agency (Fixed Rate)	73,828	[1]	NA	NA
Federal Agency (Fixed Rate)	3,002		AA+	Aaa
Federal Agency (Callable)	497		AA+	Aaa
Federal Agency (Fixed Rate)	935		NA	Aaa
Federal Agency (Fixed Rate)	20,159		NA	NA
U.S. Government and Agencies	226,851			
Total debt securities investments	**$ 395,504**			

Non-Rating Description	
NA	Not Available

[1] Primarily consists of Bank Deposits guaranteed by FDIC or collateralized by US governemnt/agencies securities
[2] This is a bond guaranteed by the Export-Import Bank of the United States
[3] This is a federal guaranteed student loans; January 2015 maturity

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 bank deposits, 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% 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
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
Certificates of Deposit	20%	maximum
Municipal Obligations	20%	maximum
Tennessee LGIP	40%	maximum

In accordance with GASB Statement No. 40, governments should provide information about investments in any one issuer that represents 5 percent or more of total investments. As of December 31, 2014, MLGW has one issuer of commercial paper that represents 5% or more of its total investments as follows:

Issuer	**Reported Amount**	**Percentage of Portfolio**
Koch Resources	$ 20,398	5.1%
Total	**$ 20,398**	

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, 2014 and 2013:

	Electric Division		Gas Division		Water Division	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Restricted funds:						
Cash and cash equivalents	**$ 85,489**	$ 46,712	**$ 14,892**	$ 11,044	**$ 9,859**	$ 6,906
Investments	**10,560**	12,859	**5,391**	6,344	**4,309**	4,909
Total restricted funds	**$ 96,049**	$ 59,571	**$ 20,283**	$ 17,388	**$14,168**	$ 11,815
Unrestricted funds:						
Cash and cash equivalents	**$ 101,279**	$ 64,402	**$ 46,511**	$ 42,959	**$13,837**	$ 5,710
Investments	**77,451**	74,093	**34,896**	45,843	**10,599**	6,582
Total unrestricted funds	**$ 178,730**	$ 138,495	**$ 81,407**	$ 88,802	**$24,436**	$ 12,292

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:

2015	$ 1,414
2016	963
	$ 2,377

The Valero lease receivable is included in notes receivable in the accompanying 2014 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, 2014 and 2013 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2014				
Electric Division				
Capital assets not being depreciated:				
Land	$ 38,268	$ 124	$ -	$ 38,392
Land - Non-utility	15,345	-	-	15,345
Construction in progress	82,370	67,100	(76,047)	73,423
Total capital assets not being depreciated	135,983	67,224	(76,047)	127,160
Capital assets being depreciated or amortized:				
Structures and improvements	59,637	1,927	(30)	61,534
Transmission and distribution plant equipment	1,301,864	51,811	(6,925)	1,346,750
General plant equipment	142,001	22,347	(2,259)	162,089
Total capital assets being depreciated or amortized	1,503,502	76,085	(9,214)	1,570,373
Less accumulated depreciation and amortization	(643,454)	(50,115)	14,964	(678,605)
Total capital assets being depreciated or amortized, net	860,048	25,970	5,750	891,768
Total capital assets, net	$ 996,031	$ 93,194	$ (70,297)	$ 1,018,928

	Beginning Balance	Increases	Decreases	Ending Balance
Gas Division				
Capital assets not being depreciated:				
Land	$ 7,538	$ 7	$ -	$ 7,545
Land - Non-utility	66	-	-	66
Construction in progress	35,852	27,611	(13,499)	49,964
Plant held for future use	212	-	-	212
Total capital assets not being depreciated	43,668	27,618	(13,499)	57,787
Capital assets being depreciated or amortized:				
Structures and improvements	59,619	2,498	(645)	61,472
Processing and distribution plant equipment	440,424	5,489	(736)	445,177
General plant equipment	67,147	5,505	(201)	72,451
Non-utility plant equipment	200	-	-	200
Total capital assets being depreciated or amortized	567,390	13,492	(1,582)	579,300
Less accumulated depreciation and amortization	(274,411)	(13,523)	1,582	(286,352)
Total capital assets being depreciated or amortized, net	292,979	(31)	-	292,948
Total capital assets, net	$ 336,647	$ 27,587	$ (13,499)	$ 350,735

4. Utility Plant (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2014				
Water Division				
Capital assets not being depreciated:				
Land	**$ 2,325**	**$ 7**	**$ -**	**$ 2,332**
Construction in progress	**14,140**	**11,867**	**(15,674)**	**10,333**
Total capital assets not being depreciated	**16,465**	**11,874**	**(15,674)**	**12,665**
Capital assets being depreciated or amortized:				
Structures and improvements	**49,141**	**695**	**-**	**49,836**
Pumping, transmission and distribution plant equipment	**339,477**	**13,809**	**(1,256)**	**352,030**
General plant equipment	**41,235**	**1,163**	**(1)**	**42,397**
Total capital assets being depreciated or amortized	**429,853**	**15,667**	**(1,257)**	**444,263**
Less accumulated depreciation and amortization	**(179,127)**	**(8,519)**	**1,642**	**(186,004)**
Less acquisition adjustment	**(5,296)**	**964**	**-**	**(4,332)**
Total capital assets being depreciated or amortized, net	**245,430**	**8,112**	**385**	**253,927**
Total capital assets, net	**$ 261,895**	**$ 19,986**	**$ (15,289)**	**$ 266,592**
Year ended December 31, 2013				
Electric Division				
Capital assets not being depreciated:				
Land	$ 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	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

4. Utility Plant (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2013				
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	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
Year ended December 31, 2013				
Water Division				
Capital assets not being depreciated:				
Land	$ 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	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

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 2015 are estimated as follows (unaudited):

Electric Division	$ 100,552
Gas Division	51,050
Water Division	32,938

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

MLGW uses a range of derivative instruments to hedge commodity risk including futures, options, and swap contracts. The purchase and sale of futures contracts and swap contracts involve 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.

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 and swap 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.

MLGW's derivative instruments could be potentially exposed to concentrations of counterparty credit. MLGW's derivatives transactions are conducted directly or indirectly with the New York Mercantile Exchange ("NYMEX"). By clearing all trades through NYMEX, MLGW's exposure to counterparty credit risk for such transactions is largely minimized.

5. Futures, Options and Swap Contracts (continued)

Gas Division:

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. MLGW maintained a margin deposit balance of $1,642 and $3,860 with its FCM at December 31, 2014 and 2013, respectively.

The schedule below shows the market values and notional amounts of the open futures, swaps, and options on futures contracts as of December 31, 2014 and 2013.

	December 31, 2014		December 31, 2013	
Type	**Market Value**	**Notional Amount**	Market Value	Notional Amount
Futures	**($217)**	**$507**	($415)	$3,361
Swaps	**(295)**	**1,741**	49	3,334
Options	**(262)**	**7,958**	860	10,316
Total	**($774)**	**$10,206**	$494	$17,011

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

	December 31, 2014	December 31, 2013
Type	**Deferred Gains (Losses)**	Deferred Gains (Losses)
Futures	**($217)**	($415)
Swaps	**(295)**	49
Options	**(262)**	860
Total	**($774)**	$494

5. Futures, Options and Swap Contracts (continued)

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

	December 31, 2014	December 31, 2013
Type	**Deferred Gains (Losses)**	Deferred Gains (Losses)
Futures	**($213)**	$610
Swaps	**(535)**	52
Options	**-**	-
Total	**($748)**	$662

The deferred gains (losses) as of December 31, 2014 and 2013 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 deferred gains and losses derived from closed derivative positions are reported as other current assets and liabilities, respectively.

Electric Division:

The Electric Division enters into swap contracts to manage the risk of volatility in the market price of unleaded gasoline and diesel fuel on anticipated purchase transactions. The balance in MLGW's FCM fuel margin at December 31, 2014 was $55.

Swap contracts as of December 31, 2014 are reported at market values of ($305). The market values of these derivative positions are reported on the Statement of Net Position as derivative financial instruments. The notional amounts of the open swaps at December 31, 2014 were $1,079.

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.

The MLGW Pension Plan covers permanent full time employees and appointed officials of MLGW. Membership consisted of the following as of December 31, 2014 and 2013:

	2014	**2013**
Retirees and beneficiaries receiving benefits	**2,597**	2,567
Participants inactive during year ended December 31,2014 with vested rights	**45**	48
Active members fully vested	**1,112**	1,132
Active members not vested	**1,414**	1,424
Total	**5,168**	5,171

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 2014, MLGW contributed 17.3% 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 2014 and 2013:

	2014	2013
Annual Required Contribution ("ARC")	**$ 26,812**	$ 30,705
Interest on net pension asset	**(1,262)**	(1,245)
Adjustment to annual required contribution	**1,043**	1,008
Annual pension cost	**26,593**	30,468
Contributions made	**(26,804)**	(30,706)
Change in net pension asset	**(211)**	(238)
Net pension asset at beginning of fiscal year	**(16,833)**	(16,595)
Net pension asset at end of fiscal year	**$ (17,044)**	$ (16,833)

Three-Year Trend Information

Fiscal Year Ending	**Annual Pension Cost**	**Percentage of APC Contributed**	**Net Pension Obligation (Asset)**
December 31, 2014	$ 26,593	100.8%	$ (17,044)
December 31, 2013	30,468	100.8%	(16,833)
December 31, 2012	29,816	100.8%	(16,595)

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the MLGW Pension Plan was 91.26% funded. The actuarial accrued liability ("AAL") for benefits was $1,420,388, and the actuarial value of assets was $1,296,296, resulting in an unfunded actuarial accrued liability ("UAAL") of $124,092. The covered payroll (annual payroll of active employees covered by the pension plan) was $152,368, and the ratio of the UAAL to the covered payroll was 81.4%.

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, 2015 actuarial valuation using the entry age normal cost method. Actuarial methods and significant assumptions were as follows:

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll
Remaining Amortization Period	26 years remaining as of January 1, 2015
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	2.75%
Projected Salary Increases	Inflation plus merit increases that vary by age and service
Cost of Living Adjustments	0.83% for ages 56 - 58 1.65% for ages 59 - 61 2.06% 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

8. Other Postemployment Benefits (continued)

Funding Policy (continued)

years. For fiscal years 2014 and 2013, employer contributions were $42,100 and $43,043 to the Plan, respectively. In 2014, plan members receiving benefits contributed $6,293 through their required contribution of $72.08 to $499.90 (dollars) per month depending on the coverage (employee only, employee and spouse, or family) and the health plan selected. In 2013, plan members receiving benefits contributed $5,751 through their required contribution of $58.96 to $462.88 (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, 2014 and 2013:

	2014	**2013**
Annual required contribution	**$ 38,386**	$ 42,854
Annual OPEB cost	**38,386**	42,854
Contributions made	**(42,100)**	(43,043)
Change in net OPEB (asset) obligation	**(3,714)**	(189)
Net OPEB obligation at beginning of fiscal year	**1,226**	1,415
Net OPEB (asset) obligation at end of fiscal year	**$ (2,488)**	$ 1,226

MLGW's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB (asset) obligation for fiscal year 2014 and the two preceding years were as follows:

Fiscal Year Ended	**Annual OPEB Cost**	**Percentage of Annual OPEB Cost Contributed**	**Net OPEB (Asset) Obligation**
December 31, 2014	$ 38,386	109.7%	$ (2,488)
December 31, 2013	42,854	100.4%	1,226
December 31, 2012	42,411	93.7%	1,415

8. Other Postemployment Benefits (continued)

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.

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:

8. Other Postemployment Benefits (continued)

Actuarial Methods and Assumptions (continued)

Valuation Date	December 31, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay, closed, 30 years
Remaining Amortization Period	22 years as of December 31, 2014
Asset Valuation Method	Market value of assets less unrecognized returns in each of the last five years (applied prospectively) beginning with 2014). Unrecognized return is equal to the difference between the actual market return and the expected market return, and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Inflation Rate	2.75%
Projected Salary Increases	Ultimately, 7.60% at age 24 graded to 3.25% 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. 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, 2014 and 2013 for the lead pollution liability from various substations and equipment by Division:

		12/31/2014	12/31/2013
Electric			
	Lead	**$ 1,753**	$ 3,295
Total Electric		**1,753**	3,295
Gas			
	Lead	**709**	2,130
Total Gas		**709**	2,130
Water			
	Lead	**4,589**	4,950
Total Water		**4,589**	4,950
Total Liability		**$ 7,051**	$ 10,375

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.

10. Risk Management (continued)

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, 2014 and 2013 are as follows:

	Medical Benefits			Injuries and Damages		
	Electric Division	Gas Division	Water Division	Electric Division	Gas Division	Water Division
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
Payments	**(39,487)**	**(17,611)**	**(11,695)**	**(2,553)**	**(866)**	**(960)**
Incurred claims expense	**40,527**	**18,075**	**12,003**	**2,260**	**1,232**	**1,729**
Balance -- December 31, 2014	**$ 5,621**	**$ 2,507**	**$ 1,665**	**$ 6,435**	**$ 2,639**	**$ 2,835**

11. Bonds

Bonds as of December 31, 2014 and 2013 consist of the following:

	Interest Rates	2014	2013
Electric Division:			
Electric System Revenue Bonds:			
Series 2003A, due serially 2013-2018	3.60 - 5.00%	**$ 6,015**	$ 6,015
Series 2008, due serially 2017-2018	4.00 - 5.00%	**96,930**	96,930
Series 2010, due serially 2014-2018	2.50 - 5.00%	**357,285**	460,050
Series 2014, due serially 2015-2034	2.00 - 5.00%	**71,000**	-
Premium on revenue bonds		**29,573**	30,931
Total		**560,803**	593,926
Less: current portion of bonds payable		**(110,200)**	(102,765)
		$ 450,603	$ 491,161
Water Division:			
Water System Revenue Bonds:			
Series 2014, due serially 2015-2034	2.00 - 5.00%	**$ 15,000**	$ -
Premium on revenue bonds		**944**	-
Total		**15,944**	-
Less: current portion of bonds payable		**(560)**	-
		$ 15,384	$ -

11. Bonds (continued)

Principal payments on bonds are due annually on December 1. Debt service requirements as of December 31, 2014 are as follows:

	Electric Division	
	Principal	Interest
2015	$ 110,200	$ 25,507
2016	115,405	20,192
2017	119,715	14,546
2018	124,945	8,669
2019	2,725	2,786
2020 - 2024	15,245	12,321
2025 - 2029	19,130	8,437
2030 - 2034	23,865	3,695
Total	$ 531,230	$ 96,153

	Water Division	
	Principal	Interest
2015	$ 560	$ 515
2016	570	504
2017	580	492
2018	595	481
2019	605	469
2020 - 2024	3,305	2,066
2025 - 2029	3,970	1,405
2030 - 2034	4,815	561
Total	$ 15,000	$ 6,493

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 and Water Divisions based on quoted market prices (including accrued interest) are as follows as of December 31, 2014 and 2013:

	2014	2013
Electric Division	**$ 586,778**	$ 624,864
Water Division	**$ 16,203**	**$ -**

During 2014, the Electric Division issued $71,000 of Series 2014 revenue bonds to finance the costs of acquiring, expanding and/or improving the Electric Division and to pay certain costs of issuance with respect to the Series 2014 Electric Division Bonds. The first principal payment is to be made December 1, 2015, and thereafter annually with a final maturity date of December 1, 2034. The Series 2014 revenue bonds bear interest at annual fixed rates ranging from 2.00% to 5.00%.

During 2014, the Water Division issued $15,000 of Series 2014 revenue bonds to finance the costs of acquiring, expanding and/or improving the Water Division and to pay certain costs of issuance with respect to the Series 2014 Water Division Bonds. The first principal payment is to be made December 1, 2015, and thereafter annually with a final maturity date of December 1, 2034. The Series 2014 revenue bonds bear interest at annual fixed rates ranging from 2.00% to 5.00%.

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 was made December 1, 2014, and thereafter will be made 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%.

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 3.60% 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.

11. Bonds (continued)

MLGW's Electric Division bond covenants require that for Series 2003A, 2008 and 2010 Bonds the ratio of net revenues to principal and interest for any fiscal year will equal at least 100%. The 2014 Bonds require that the ratio of net revenues to principal and interest for any fiscal year will equal at least 120%. The composite electric bonds debt service coverage as of December 31, 2014 was 1.90.

MLGW's Water Division bond covenants require that for Series 2014 Bonds the ratio of net revenues to principal and interest for any fiscal year will equal at least 120%. The composite water bonds debt service coverage as of December 31, 2014 was 47.99.

Long-term debt activity for the years ended December 31, 2014 and 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2014:				
Electric Division				
Bonds payable:				
Revenue bonds	**$ 562,995**	**$ 71,000**	**$ (102,765)**	**$ 531,230**
Premium on revenue bonds	**30,931**	**10,172**	**(11,530)**	**29,573**
Total bonds payable	**$ 593,926**	**$ 81,172**	**$ (114,295)**	**$ 560,803**
Water Division				
Bonds payable:				
Revenue bonds	**$ -**	**$ 15,000**	**$ -**	**$ 15,000**
Premium on revenue bonds	**-**	**987**	**(43)**	**944**
Total bonds payable	**$ -**	**$ 15,987**	**$ (43)**	**$ 15,944**
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

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 2014 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, 2014, to recover the increased cost of wholesale power from its retail customers. The retail effect across all customer classes was approximately 1.50%.

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%.

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 retail electric rates are also adjusted by a Power Cost Adjustment ("PCA"). The PCA is a component added to the monthly FCA and recovers the shortfall in power cost due to changes in load factor. The PCA is a quarterly fixed rate adjustment applied to energy charges for retail customers with demands less than 5,000 kilowatts. The PCA was approved on November 19, 2013 by the City Council as part of the 2014 MLGW Budget. MLGW implemented the PCA for meters read on or after January 2, 2014.

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.

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.

12. Rates and Energy Supplies (continued)

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.

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.

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 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 $2,733; 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

13. Federal Grant Contributions (continued)

of eligible costs; bringing the total receivable up to $2,689 for this project. In December 2014, all work on this project was completed. Therefore, MLGW adjusted the receivable by $44 in order to realize the entire amount contracted with FEMA in 2011 of $2,733. The schedule below summarizes the grant activity:

	2014	2013	2012	2011
Total Expenditures	**$ 59**	$ 209	$ 87	$ 3,289
Eligible Reimbursement	**44**	157	65	2,467
Reimbursement Received	-	-	1,850	-
Receivable Balance	**$ (883)**	$ (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 or 2014. The schedule below summarizes the grant activity:

	2014	2013	2012	2011
Total Expenditures	**$ -**	$ -	$ -	$ 3,142
Eligible Reimbursement	-	-	-	2,357
Reimbursement Received	-	-	1,768	-
Receivable Balance	**$ (589)**	$ (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 or 2014. The schedule below summarizes the grant activity:

Electric	**2014**	**2013**	**2012**	**2011**
Total Expenditures	**$ -**	$ -	$ -	$ 2,274
Eligible Reimbursement	-	-	-	1,706
Reimbursement Received	-	-	1,303	-
Receivable Balance	**$ (403)**	$ (403)	$ (403)	$ (1,706)

Gas	**2014**	**2013**	**2012**	**2011**
Total Expenditures	**$ -**	$ -	$ -	$ 315
Eligible Reimbursement	-	-	-	236
Reimbursement Received	-	-	155	-
Receivable Balance	**$ (81)**	$ (81)	$ (81)	$ (236)

Water	**2014**	**2013**	**2012**	**2011**
Total Expenditures	**$ -**	$ -	$ -	$ 23
Eligible Reimbursement	-	-	-	17
Reimbursement Received	-	-	11	-
Receivable Balance	**$ (6)**	$ (6)	$ (6)	$ (17)

In June 2014, MLGW applied for a disaster assistance grant for the restoration work done after the March 2, 2014 storm. In April 2015, FEMA awarded grant contract Edison #E 41782-0000017870 for the March 2, 2014 Storm Restoration project under the Public Assistance Grant Award program for costs incurred during FEMA -4171-DR-TN. The award was $2,328, all of which is being federally funded to the Electric Division. The schedule below summarizes the grant activity:

	2014
Total Expenditures	**$ 3,104**
Eligible Reimbursement	**2,328**
Reimbursement Received	**-**
Receivable Balance	**$ (2,328)**

13. Federal Grant Contributions (continued)

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

	2014	2013	2012	2011	2010
Total Expenditures	**$ 1,445**	$ 2,519	$ 5,048	$ 1,751	$ 711
Eligible Reimbursement	**311**	1,148	2,423	841	341
Reimbursement Received	**83**	1,568	2,250	753	164
Receivable Balance	**$ (246)**	$ (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 will be federally funded. The schedule below summarizes the grant activity:

	2014	2013	2012
Total Expenditures	**$ 1,122**	$ 183	$ 5
Eligible Reimbursement	**312**	138	3
Reimbursement Received	**294**	19	-
Receivable Balance	**$ (140)**	$ (122)	$ (3)

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).

The Water Division through an agreement with the City, transfers a payment in the amount of $2,500 per year. This agreement is effective through the year 2028. Per City resolution dated June 3, 2014, an

14. Transfers to City (continued)

additional $1,800 was requested and approved for payment during MLGW fiscal year 2014. An incremental $100 was requested and approved by City resolution on July 1, 2014.

15. Commitments and Contingencies

The Electric and Gas Divisions have 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 Shelby County Government and 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. An additional $1,900 incremental payment to the city has been approved for fiscal years through 2017; bringing the total water payment to the city to $4,400 for fiscal years 2015 through 2017.

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 12 for discussions of MLGW's power contract with TVA and gas purchase commitments.

REQUIRED SCHEDULE OF FUNDING PROGRESS FOR PENSION PLAN
DECEMBER 31, 2014
(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, 2015	$ 1,296,296	$ 1,420,388	$ 124,092	91.3%	$ 152,368	81.4%
January 1, 2014	1,220,456	1,439,010	218,555	84.8%	154,759	141.2%
January 1, 2013	1,126,309	1,414,641	288,332	79.6%	154,347	186.8%

REQUIRED SCHEDULE OF FUNDING PROGRESS FOR OPEB
DECEMBER 31, 2014
(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, 2014
(Dollars in Thousands)

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed
December 31, 2014	$ 38,386	$ 42,100	109.7%
December 31, 2013	42,854	43,043	100.4%
December 31, 2012	42,411	39,747	93.7%

SCHEDULE OF BONDS, PRINCIPAL AND INTEREST REQUIREMENTS
DECEMBER 31, 2014
(Dollars in Thousands)

	Series 2003A		Series 2008		Series 2010		Series 2014	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Electric Division:								
2015	$ 1,845	$ 239	$ -	$ 4,564	$ 105,930	$ 17,614	$ 2,425	$ 3,090
2016	-	169	-	4,564	112,935	12,418	2,470	3,041
2017	2,220	169	31,625	4,564	83,350	6,821	2,520	2,992
2018	1,950	82	65,305	3,043	55,070	2,653	2,620	2,891
2019	-	-	-	-	-	-	2,725	2,786
2020	-	-	-	-	-	-	2,810	2,704
2021	-	-	-	-	-	-	2,920	2,592
2022	-	-	-	-	-	-	3,040	2,475
2023	-	-	-	-	-	-	3,160	2,354
2024	-	-	-	-	-	-	3,315	2,196
2025	-	-	-	-	-	-	3,485	2,030
2026	-	-	-	-	-	-	3,655	1,856
2027	-	-	-	-	-	-	3,840	1,673
2028	-	-	-	-	-	-	3,995	1,519
2029	-	-	-	-	-	-	4,155	1,359
2030	-	-	-	-	-	-	4,320	1,193
2031	-	-	-	-	-	-	4,535	977
2032	-	-	-	-	-	-	4,760	751
2033	-	-	-	-	-	-	5,000	513
2034	-	-	-	-	-	-	5,250	261
Total	$ 6,015	$ 659	$ 96,930	$ 16,735	$ 357,285	$ 39,506	$ 71,000	$ 39,253

	Series 2014	
	Principal	Interest
Water Division:		
2015	$ 560	$ 515
2016	570	504
2017	580	492
2018	595	481
2019	605	469
2020	620	457
2021	635	438
2022	655	419
2023	680	393
2024	715	359
2025	740	338
2026	765	308
2027	790	285
2028	820	253
2029	855	221
2030	890	186
2031	925	151
2032	960	114
2033	1,000	75
2034	1,040	35
Total	$ 15,000	$ 6,493

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, 2014.	362,831

Customer Charge: $11.20 per month, less Hydro Allocation Credit: $1.60

Energy Charge:	Summer	Winter	Transition
First 2,000 kWh per month:	$0.06771	$0.06480	$0.06309
Additional kWh per month:	$0.07625	$0.07334	$0.07163

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, 2014.	957

Customer Charge: $11.20 per month, less Hydro Allocation Credit: $1.60

Energy Charge:	Summer	Winter	Transition
On-Peak kWh per month:	$0.11784	$0.08092	$0.05518
Off-Peak kWh per month:	$0.05652	$0.05637	$0.05518

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, 2014.	43,608

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
	$0.08025	$0.07739	$0.07567

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:	$12.94	$12.08	$12.08	
Energy Charge:				
First 15,000 kWh per month:	$0.08609	$0.08323	$0.08151	
Additional kWh per month:	$0.03713	$0.03442	$0.03341	
	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:	$11.95	$11.08	$11.08	
Excess over 1,000 kW of billing demand per month:	$11.79	$10.92	$10.92	
Excess of billing demand over the higher of 2,500 kW or the customer's contract demand per month:	$11.79	$10.92	$10.92	
Energy Charge: All kWh per month:	$0.04217	$0.03946	$0.03845	

Electric Division Rate Class (cont.)	Base Charge		Customers
Time-of-Day General Power Rate - Part A (Schedule TGSA)			1
Effective October 1, 2014			
	Summer	Non-Summer	
Customer Charge:	$198.95	$198.95	
On-peak per kW of billing demand charges per month:	$12.18	$11.59	
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	$12.18	$11.59	
On-peak per kWh energy charge:	$0.05184	$0.04495	
Off-peak per kWh energy charge:	$0.03600	$0.03735	
General Power Rate - TDGSA Effective October 1, 2014			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:	$17.68	$10.20	$0.00
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$4.58	$4.58	$4.58

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:	$17.68	$10.20	$4.58	
On-peak per kWh energy charge:	$0.07768	$0.04540	$0.00000	
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.04115	$0.04115	$0.04115	
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.02151	$0.02151	$0.02151	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00481	$0.00481	$0.00481	
Manufacturing Power Rate - TDMSA	Effective October 1, 2014			0
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:	$17.57	$10.09	$0.00	
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$4.47	$4.47	$4.47	
Excess per kW charge per month by which billing demand exceeds contract demand:	$17.57	$10.09	$4.47	
On-peak per kWh energy charge:	$0.06133	$0.02970	$0.00000	
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.02522	$0.02522	$0.02522	
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00556	$0.00556	$0.00556	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	($0.01113)	($0.01113)	($0.01113)	

Electric Division Rate Class (cont.)	Base Charge	Customers
Manufacturing Power Rate - Part A (Schedule MSA)	Effective October 1, 2014	0
Customer Charge:	$198.95 per delivery point per month	

	Summer	Winter	Transition
Per kW coincident billing demand charge per month:	$10.43	$9.55	$9.55
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:	$12.00	$11.12	$11.12
On-peak per kWh energy charge:	$0.05857	$0.04822	$0.03872
Off-peak per kWh energy charge:	$0.03591	$0.03792	$0.03872

General Power Rate – Part B (Schedule GSB)	Effective October 1, 2014	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:	$17.68	$10.20	$0.00
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$4.58	$4.58	$4.58
Excess per kW charge per month by which billing demand exceeds contract demand:	$17.68	$10.20	$4.58
On-peak per kWh energy charge:	$0.07768	$0.04540	$0.00000
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.04115	$0.04115	$0.04115
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.02151	$0.02151	$0.02151

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:	$0.00481	$0.00481	$0.00481	
General Power Rate – Part C (Schedule GSC)	Effective October 1, 2014			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:	$17.15	$9.67	$0.00	
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$4.05	$4.05	$4.05	
Excess per kW charge per month by which billing demand exceeds contract demand:	$17.15	$9.67	$4.05	
On-peak per kWh energy charge:	$0.07389	$0.04238	$0.00000	
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.03839	$0.03839	$0.03839	
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.01873	$0.01873	$0.01873	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00203	$0.00203	$0.00203	

Electric Division Rate Class (cont.)	Base Charge			Customers
General Power Rate – Part D **(Schedule GSD)**	Effective October 1, 2014			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:	$16.90	$9.42	$0.00	
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$3.80	$3.80	$3.80	
Excess per kW charge per month by which billing demand exceeds contract demand:	$16.90	$9.42	$3.80	
On-peak per kWh energy charge:	$0.07136	$0.03894	$0.00000	
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.03476	$0.03476	$0.03476	
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.01510	$0.01510	$0.01510	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	($0.00159)	($0.00159)	($0.00159)	

Electric Division Rate Class (cont.)	**Base Charge**			**Customers**
Manufacturing Power Rate – Part B				
(Schedule MSB)	Effective October 1, 2014			4
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:	$17.57	$10.09	$0.00	
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$4.47	$4.47	$4.47	
Excess per kW charge per month by which billing demand exceeds contract demand:	$17.57	$10.09	$4.47	
On-peak per kWh energy charge:	$0.06133	$0.02970	$0.00000	
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.02522	$0.02522	$0.02522	
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00556	$0.00556	$0.00556	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	($0.01113)	($0.01113)	($0.01113)	

Electric Division Rate Class (cont.)	**Base Charge**	**Customers**
Manufacturing Power Rate – Part C (Schedule MSC)	Effective October 1, 2014	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:	$17.04	$9.56	$0.00
Per kW charge per month for each kW, if any, by which off peak billing demand exceeds on peak billing demand:	$3.94	$3.94	$3.94
Excess per kW charge per month by which billing demand exceeds contract demand:	$17.04	$9.36	$3.94
On-peak per kWh energy charge:	$0.06220	$0.02985	$0.00000
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.02506	$0.02506	$0.02506
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00542	$0.00542	$0.00542
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	($0.01126)	($0.01126)	($0.01126)

Electric Division Rate Class (cont.)	Base Charge			Customers
Manufacturing Power Rate – Part D (Schedule MSD)	Effective October 1, 2014			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:	$16.78	$9.30	$0.00	
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$3.68	$3.68	$3.68	
Excess per kW charge per month by which billing demand exceeds contract demand:	$16.78	$9.30	$3.68	
On-peak per kWh energy charge:	$0.05981	$0.02730	$0.00000	
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.02272	$0.02272	$0.02272	
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00306	$0.00306	$0.00306	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	($0.01362)	($0.01362)	($0.01362)	

Electric Division Rate Class (cont.)	Base Charge	Customers

Seasonal Demand And Energy Power Rate – Part B (Schedule SGSB) Effective October 1, 2014 — 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:	$23.14	$16.49	$11.48
Excess per kW charge per month by which billing demand exceeds contract demand:	$23.14	$16.49	$11.48
Energy charge per kWh:	$0.02807	$0.02373	$0.02279

Seasonal Demand And Energy Power Rate – Part C (Schedule SGSC) Effective October 1, 2014 — 1

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	$15.96	$10.95
Excess per kW charge per month by which billing demand exceeds contract demand:	$22.61	$15.96	$10.95
Energy charge per kWh:	$0.02819	$0.02378	$0.02286

Electric Division Rate Class (cont.)	Base Charge	Customers
Seasonal Demand And Energy Power Rate – Part D (Schedule SGSD)	Effective October 1, 2014	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:	$26.14	$19.45	$14.46
Excess per kW charge per month by which billing demand exceeds contract demand:	$26.14	$19.45	$14.46
Energy charge per kWh:	$0.01984	$0.01599	$0.01513

Manufacturing Seasonal Demand And Energy Power Rate - Part B (Schedule SMSB)	Effective October 1, 2014	14
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:	$19.99	$13.33	$8.32
Excess per kW charge per month by which billing demand exceeds contract demand:	$19.99	$13.33	$8.32
Energy charge per kWh:	$0.01963	$0.01473	$0.01359

Electric Division Rate Class (cont.)	**Base Charge**	**Customers**
Manufacturing Seasonal Demand And Energy Power Rate - Part C (Schedule SMSC)	Effective October 1, 2014	1
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:	$19.46	$12.80	$7.79
Excess per kW charge per month by which billing demand exceeds contract demand:	$19.46	$12.80	$7.79
Energy charge per kWh:	$0.01931	$0.01472	$0.01361

Manufacturing Seasonal Demand And Energy Power Rate Part D (Schedule SMSD)	Effective October 1, 2014	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:	$22.24	$15.59	$10.58
Excess per kW charge per month by which billing demand exceeds contract demand:	$22.24	$15.59	$10.58
Energy charge per kWh:	$0.01118	$0.00751	$0.00663

Drainage Pumping Station Rate (Schedule DPS)	Effective October 1, 2014	9
Customer Charge:	$15.52 per delivery point per month	

Energy Charge:	Summer	Winter	Transition
All kWh per month:	$0.03518	$0.03231	$0.03060

Electric Division Rate Class (cont.)	Base Charge	Customers
Outdoor Lighting Rate (Schedule LS)	Effective October 1, 2014	17,012

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:	$0.04569	$0.04279	$0.04107

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		Rated	
	(Watts)	(Lumens)	(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:	$0.04569	$0.04279	$0.04107

Gas Division Rate Class	Base Charge	Customers
Residential G-1 & G-3	Effective meters read on or after August 30, 2012	290,176
	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	21,385
	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	456
	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	15
	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, 2014	186,002
	For water furnished to premises entirely within the corporate limits of the City of Memphis	
Commodity charge:	All water consumed: $1.505 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	$6.36
3/4" meter	9.18
1" meter	16.29
1-1/2" meter	36.65
2" meter	65.15

Water Division Rate Class	Base Charge	Customers
Residential – Outside City Rate	Effective meters read on or after January 2, 2014	22,716
	For water furnished to premises outside the corporate limits of the City of Memphis	
Commodity charge:	All water consumed: $2.343 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	$8.86
3/4" meter	12.74
1" meter	22.67
1-1/2" meter	50.98
2" meter	90.63

Water Division Rate Class	Base Charge	Customers
General Service – Inside City Rate	Effective meters read on or after January 2, 2014	18,580
	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	1.919 per Ccf
Next 70 Ccf	1.631 per Ccf
Next 100 Ccf	1.241 per Ccf
Next 400 Ccf	1.034 per Ccf
Next 5,400 Ccf	0.804 per Ccf
Excess over 6,000 Ccf	0.838 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	$12.19	
	3/4" meter	14.21	
	1" meter	24.36	
	1-1/2" meter	48.74	
	2" meter	101.58	
	3" meter	203.10	
	4" meter	303.71	
	6" meter	384.21	
	8" meter	464.72	
	10" meter	962.66	
	12" meter	1,343.22	
	14" meter	1,846.95	
	Battery of 2-2" meters	203.10	
	Battery of 3-2" meters	303.71	
General Service – Outside City Rate	Effective meters read on or after January 2, 2014		799
	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	$2.883 per Ccf	
	Next 70 Ccf	$2.424 per Ccf	
	Next 100 Ccf	$1.850 per Ccf	
	Next 400 Ccf	$1.551 per Ccf	
	Next 5,400 Ccf	$1.217 per Ccf	
	Excess over 6,000 Ccf	$1.263 per Ccf	
Minimum bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows:		
	5/8" meter	$18.63	
	3/4" meter	21.74	
	1" meter	37.27	
	1-1/2" meter	74.51	
	2" meter	155.26	
	3" meter	310.55	
	4" meter	464.09	
	6" meter	587.11	
	8" meter	710.12	
	10" meter	1,471.03	
	12" meter	2,052.57	
	14" meter	2,820.36	
	Battery of 2-2" meters	310.55	
	Battery of 3-2" meters	464.09	

Water Division Rate Class (cont.)	Base Charge	Customers
Residential – Shelby County Water Distribution System	Effective meters read on or after January 2, 2014	18,814

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 $2.343 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	$8.86
3/4" meter	$12.74
1" meter	$22.67
1-1/2" meter	$50.98
2" meter	$90.63

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

Water Division Rate Class (cont.)	Base Charge	Customers
Commercial - Industrial – Shelby County Water Distribution System	Effective meters read on or after January 2, 2014	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.

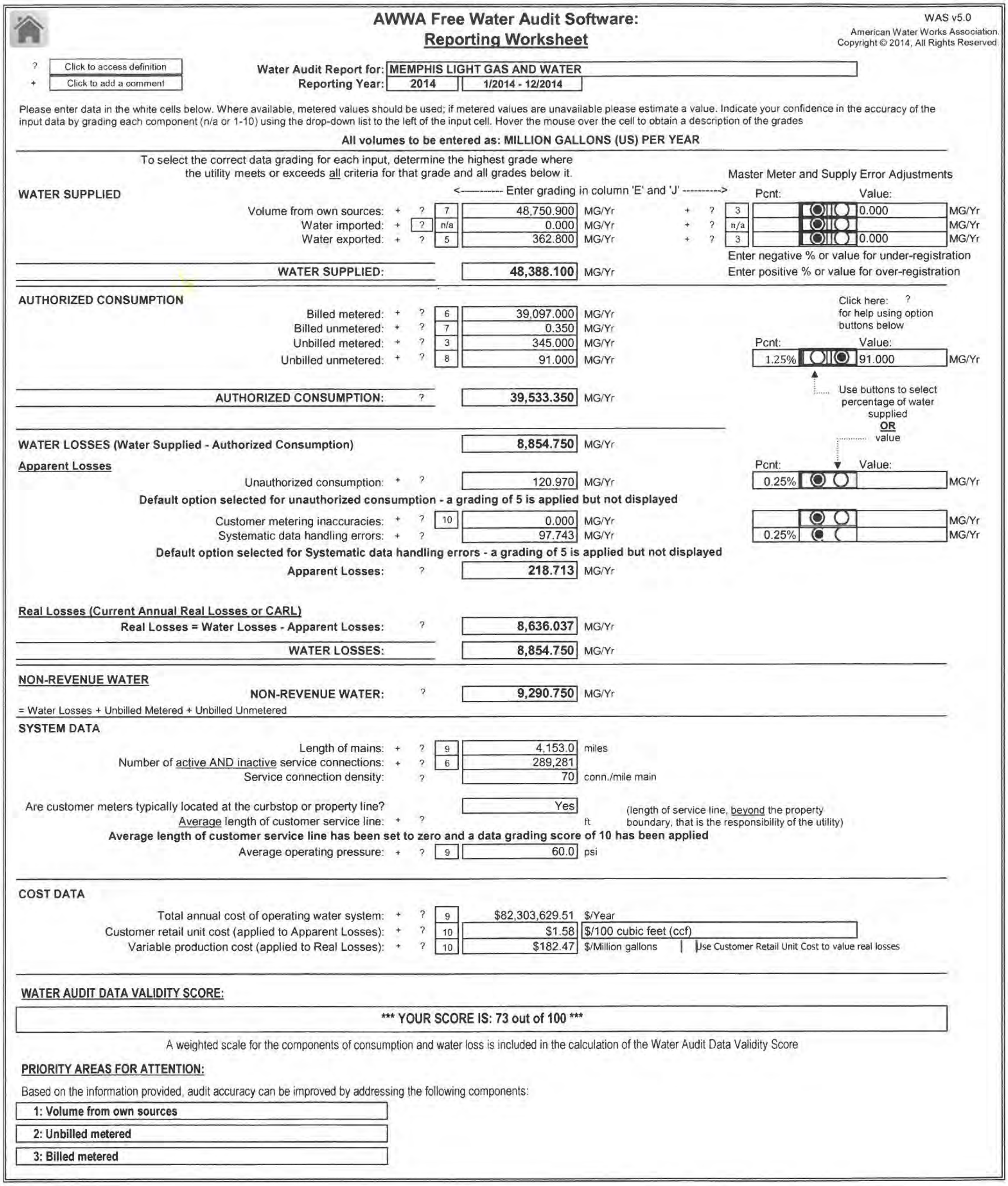
Monthly rate: Water consumed per month:

First 30 Ccf	$2.883 per Ccf
Next 70 Ccf	$2.424 per Ccf
Next 100 Ccf	$1.850 per Ccf
Next 400 Ccf	$1.551 per Ccf
Next 5,400 Ccf	$1.217 per Ccf
Excess over 6000 Ccf	$1.263 per Ccf

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

5/8" meter	$18.63
3/4" meter	21.74
1" meter	37.27
1-1/2" meter	74.51
2" meter	155.26
3" meter	310.55
4" meter	464.09
6" meter	587.11
8" meter	710.12
10" meter	1,471.03
12" meter	2,052.57
14" meter	2,820.36

NON-REVENUE WATER
FOR THE YEAR ENDED DECEMBER 31, 2014
(Dollars in Thousands)



AWWA Free Water Audit Software:
Reporting Worksheet

WAS v5.0
American Water Works Association.
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? Click to access definition
+ Click to add a comment

Water Audit Report for: MEMPHIS LIGHT GAS AND WATER
Reporting Year: 2014 1/2014 - 12/2014

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

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

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

WATER SUPPLIED

<------------ Enter grading in column 'E' and 'J' ---------->

Master Meter and Supply Error Adjustments

		Grade	Volume			Grade	Pcnt:		Value:	
Volume from own sources:	+ ?	7	48,750.900	MG/Yr	+ ?	3		● ○	0.000	MG/Yr
Water imported:	+ ?	n/a	0.000	MG/Yr	+ ?	n/a		● ○		MG/Yr
Water exported:	+ ?	5	362.800	MG/Yr	+ ?	3		● ○	0.000	MG/Yr

Enter negative % or value for under-registration
Enter positive % or value for over-registration

WATER SUPPLIED: 48,388.100 MG/Yr

AUTHORIZED CONSUMPTION

Click here: ?
for help using option buttons below

		Grade	Volume		Pcnt:		Value:	
Billed metered:	+ ?	6	39,097.000	MG/Yr				
Billed unmetered:	+ ?	7	0.350	MG/Yr				
Unbilled metered:	+ ?	3	345.000	MG/Yr				
Unbilled unmetered:	+ ?	8	91.000	MG/Yr	1.25%	○ ●	91.000	MG/Yr

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

AUTHORIZED CONSUMPTION: ? 39,533.350 MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption) 8,854.750 MG/Yr

Apparent Losses

		Grade	Volume		Pcnt:		Value:	
Unauthorized consumption:	+ ?		120.970	MG/Yr	0.25%	● ○		MG/Yr

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

		Grade	Volume		Pcnt:		Value:	
Customer metering inaccuracies:	+ ?	10	0.000	MG/Yr		● ○		MG/Yr
Systematic data handling errors:	+ ?		97.743	MG/Yr	0.25%	● ○		MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: ? 218.713 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: ? 8,636.037 MG/Yr

WATER LOSSES: 8,854.750 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: ? 9,290.750 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

		Grade	Value	
Length of mains:	+ ?	9	4,153.0	miles
Number of active AND inactive service connections:	+ ?	6	289,281	
Service connection density:	?		70	conn./mile main

Are customer meters typically located at the curbstop or property line? Yes

Average length of customer service line: + ? ft (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure: + ? 9 60.0 psi

COST DATA

		Grade	Value	
Total annual cost of operating water system:	+ ?	9	$82,303,629.51	$/Year
Customer retail unit cost (applied to Apparent Losses):	+ ?	10	$1.58	$/100 cubic feet (ccf)
Variable production cost (applied to Real Losses):	+ ?	10	$182.47	$/Million gallons

Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 73 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: Billed metered

SCHEDULE OF INSURANCE
DECEMBER 31, 2014
(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

SCHEDULE OF ADDITIONS AND RETIREMENTS TO UTILITY PLANT
DECEMBER 31, 2014
(Dollars in Thousands)

	Electric Division	Gas Division	Water Division
Utility plant in service, December 31, 2013	$ 1,541,770	$ 574,728	$ 426,882
Additions- Construction	76,047	13,499	15,674
Additions- Acquisition Adjustment	-	-	964
Retirements	(9,214)	(1,420)	(1,257)
Transfers	162	(162)	-
Utility plant in service, December 31, 2014	**$ 1,608,765**	**$ 586,645**	**$ 442,263**

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

MHM

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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, 2014, and the related notes to the financial statements, which collectively comprise the Divisions' basic financial statements, and have issued our report thereon dated June 3, 2015.

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 3, 2015

MHM

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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 each of the Divisions' major federal programs for the year ended December 31, 2014. The Divisions' major federal programs are 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 each of the Divisions' major federal programs 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 each 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 each of its major federal programs for the year ended December 31, 2014.

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 each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 be 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, 2014, and have issued our report thereon dated June 3, 2015, 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 3, 2015

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Dollars in Thousands)

Federal Grantor/Pass-Through Grantor Federal Awards	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
U.S. Department of Homeland Security/ Tennessee Emergency Management	97.036	34101-0000008735	$ (839)	$ -	$ 44	$ (883)
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	34101-0000001015	-	-	2,328	(2,328)
Program 97.036			(1,918)	-	2,372	(4,290)
U.S. Department of Homeland Security/ Tennessee Emergency Management Pre-Disaster Mitigation	97.047	E-29504	(122)	294	312	(140)
Total U.S. Department of Homeland Security/ Tennessee Emergency Management			$ (2,040)	$ 294	$ 2,684	$ (4,430)
ARRA - U.S. Department of Energy/ Smart Grid Investment Grant	81.122	DE-OE0000281	(18)	83	311	(246)
Total Program 81.122			$ (18)	$ 83	$ 311	$ (246)
Total Federal Awards			**$ (2,058)**	**$ 377**	**$ 2,995**	**$ (4,676)**

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, 2014. 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, 2014

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 significant deficiencies or material weaknesses in internal control relating to the audits of the financial statements are 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 significant deficiencies or material weaknesses relating to the audit of the major federal award programs 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 programs for the Divisions expresses an unmodified opinion on its major federal programs.

6. There were no audit findings related to major programs that were required to be reported under OMB Circular A-133.

7. The programs tested as major programs included:

81.122	ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)
97.047	Pre-Disaster Mitigation

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.

Since 1939, MLGW has served as a gateway to Memphis and a key to the city's overall success. By implementing cost controls, providing maximum reliability, empowering customers and supporting the community, the Division aims to help make Memphis a great place to live and work for the next 75 years… and longer. The photos in the 2014 Annual Report showcase MLGW and local properties, specifically several ornate gateways that may be often overlooked, but contribute uniqueness and intrinsic beauty to their surroundings. The gateways are symbolic of MLGW's special station as the nation's only three-service public utility: inviting and welcoming newcomers, industry and innovation while protecting local and customer interests.

MLGW