# MLGW:

## We don't miss a beat

MLGW

2015 Annual Report
Memphis Light, Gas and Water Division

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# ABOUT MLGW

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

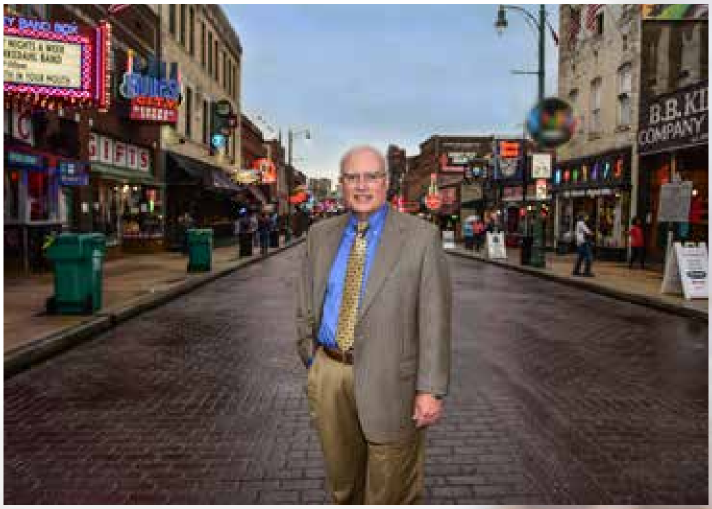
Electricity is supplied to MLGW by the Tennessee Valley Authority (TVA), while natural gas is purchased from a variety of suppliers and transported by three pipeline companies—Texas Gas Transmission Corporation, Trunkline Gas Company and ANR Pipeline Company. Memphis receives its water from one of the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

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

# President's Message

## MLGW President and CEO Jerry R. Collins Jr.

Memphis is known as home of the Blues, the birthplace of Rock 'n' Roll and the start of soul; it's also home to the largest three-service municipal utility in the U.S., with more than 420,000 customers.



Memphis Light, Gas and Water has been in existence since 1939, before Elvis Presley started rocking in the heart of Memphis' thriving blues scene, and before B.B. King came to Memphis and made waves topping the Rhythm and Blues chart. Because of our commitment to provide the best service to our customers, MLGW has provided reliable power, natural gas and drinking water to Memphis and Shelby County for 76 years, while maintaining some of the lowest rates in the nation.

The history of Memphis music is rich. Musicians in the Bluff City have broken cultural barriers and changed the way the world listens to music forever. MLGW is proud to light the way with utility services as a part of that history. The world-famous Beale Street, Sun Studio, Graceland, the Stax Museum of American Soul Music, the Memphis Rock 'n' Soul Museum and the Memphis Music Hall of Fame are a few of the attractions that have more than 10 million people visiting Memphis each year; and our light, gas and water is their gateway to unlocking the city's musical legacy.

Fiscal year 2015 brought many successes to celebrate at MLGW. We are continuously offering services that will benefit our customers and enhance the environment from the implementation of smart meters; to the rising sales of compressed natural gas and liquefied natural gas; and programs such as Project CARE and Plus-1 that benefit those who need it most.

Our Supplier Diversity program is raising the bar and making sure we connect with minority-, women- and locally owned businesses in Memphis. MLGW recorded its highest annual spend in program history of $47 million.

While we are constantly working on areas to improve, our focus on providing great service and low rates has changed the perception of MLGW, and our customer satisfaction scores show it. Our vision is to be the best utility for our customers, and we will work to improve our service each year.

Just as the legacy of Memphis music will live on forever, MLGW is dedicated to living out our legacy and mission to improve the quality of life and economic well-being for all Memphis and Shelby County customers.

Jerry R Collins Jr.

## 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

## MLGW Board of Commissioners

**Derwin Sisnett**, Chair

**Darrell T. Cobbins**, Vice Chair

**Rick Masson**

**Carlee McCullough**

**Steve Wishnia**

# In Tune with Low Costs in Memphis

For the third consecutive year, MLGW topped the list of having the lowest winter residential utility bills. The survey looked at what a typical home would use in terms of electricity, natural gas, water and wastewater services. A Memphis resident would pay $251.06 a month for the four services compared to someone living in Boston,  who would fork out a whopping $603.23 a month. In 2014, a typical Memphis winter residential bill was $278.25. But for 2015, the bill dropped about $27 to $251.06. The savings are largely a result of declining gas prices in the marketplace. When the cost of gas drops, MLGW passes along those savings to the customer.

### Memphis named one of top 10 cheapest places to start a business

For those wanting to start a business, the Bluff City is the place to be. Memphis made the ranking in a study by SmartAsset, which looked at five factors in starting a business in various cities. Memphis gained a spot on the list in part because of the low cost of utilities here.

In addition to utilities, researchers also investigated the cost of office space, filing fees for incorporating, first year legal and accounting costs, and payroll costs for five employees earning the city's median annual salary.

# The Conservation Beat Goes On

We all want to save money where we can and improve the environment at the same time. MLGW wants to help customers reduce their energy usage and has implemented several programs to educate and inform customers about conservation.

### Residential Services department helps customers save energy

MLGW Energy Technicians handed out a total of 12,761 small energy kits and 755 large energy kits filled with energy-saving goodies like compact fluorescent light bulbs, low-flow faucet aerators, credit card-sized water temperature testers and electrical outlet socket gaskets during 48 different conservation events in 2015. MLGW also partnered with MIFA to host 56 EnergySmart workshops, a year-long energy conservation and home improvement initiative.

The Plough Foundation awarded MLGW, Habit for Humanity and Service Over Self (SOS) a $3.9 million grant for its Aging in Place initiative, which seeks to allow seniors to stay in their homes instead of moving to nursing facilities as they grow older. The grant work began this year and will enable 500 low-income families to receive up to $15,000 in home repairs. As part of the grant, MLGW completed 120 pre-renovation and 20 post-renovation inspections.

In 2015, there were 99 Project CARE jobs completed, totaling more than $107,000 ($194,000 since the projects' inception) worth of work. Project CARE is an energy-efficiency program that assists elderly and disabled customers with minor repairs to their homes. Qualified Project CARE recipients receive up to $1,500 for repairs such as replacing broken windows, fixing gas or water leaks, replacing AC condensers or furnaces, upgrading attic insulation and other energy-efficiency measures. Project CARE is funded by Share the Pennies, a program sponsored by MIFA and MLGW, which rounds customers' monthly utility bills to the next whole dollar amount and donates the difference to Project CARE.

MLGW Energy Technicians conducted approximately 1,189 Energy Doctor inspections in 2015. The free audit assesses homes' weatherization, water heating and HVAC to identify energy-saving opportunities.

In 2009, MLGW became the first utility in the nation to seek and successfully have passed an ordinance that targets energy efficiency in rental properties. Through the Rental Ordinance, MLGW energy inspectors work with the landlord and tenant, performing initial audits to determine whether minimum standards are met. If conditions are below standard, MLGW works with the landlord to fix the issues. In 2015, Energy Technicians completed 138 Rental Ordinance inspections. All landlords complied and brought their properties up to quality standards, and none were taken to environmental court.

*In addition to having the lowest combined utility rates in the nation, MLGW has a low amount of debt and high bond ratings, making the utility financially stable. This in turn keeps rates low for customers years into the future.*

## Smart meters benefit utility and customers

Smart meters are another way customers can reduce energy consumption and, subsequently, greenhouse emissions through empowerment of usage data and implementing conservation steps. Phase 1 of the smart meter project is complete with 60,000 electric, gas and water smart meters installed at residential customer homes across Shelby County. MLGW meters were replaced with smart electric, gas and water models, enabling 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.

MLGW moved forward to Phase 2 of the project in 2015. Full deployment of smart meters will happen by the end of 2020. The full-scale deployment of the smart meters was approved by the City Council and is the largest project ever undertaken by the Division. Phase 2 includes smart meters and telecommunications infrastructure for all customers served by MLGW with plans to install 50,000 meters per quarter. Phase 2 also includes installing smart meters at businesses and organizations so that all customers can benefit from smart meter technology and the enhanced services it enables.

*The vision for 2020 is to deliver the operational benefits of smart meters to all customers. Not only will they lower costs, smart meters will enhance the delivery and maintenance of MLGW services and reduce the communities' carbon footprint. Additional smart meter benefits include*

- *Integrated outage management*
- *Reduced labor and transportation costs*
- *Improved safety and security*
- *Virtually eliminated estimated readings*
- *Improved service capabilities (connections, leak detection)*
- *Voluntary dynamic rate and billing options (Time-of-Use, PrePay)*
- *Increased customer awareness and conservation*
- *Customer savings*
- *Future applications (automated switches)*
- *Lower fees for utility service connection*
- *No fee for electric service reconnection*
- *Faster service*
- *24/7 electric service reconnection*

### CNG/LNG improves air quality

MLGW opened its second compressed natural gas (CNG) fueling station in May 2015 at the South Center, located off Brooks Road and U.S. 61. CNG is 30 percent cheaper than diesel fuel and reduces carbon dioxide emissions by up to 30 percent. MLGW is currently operating the only two public-access compressed natural gas stations in Memphis and Shelby County. The fueling stations have permitted local companies to switch out their fleets to compressed natural gas because of easy access. In 2015, the CNG stations sold more than 350,000 units of compressed natural gas, which resulted in reductions of greenhouse gas emissions, particulate matter and other tailpipe air pollutants.

MLGW operates a liquefied natural gas (LNG) storage facility, which allows for the storage of gas during the summer periods of low usage and then is used as a reserve during winter peak periods. The facility stores one billion cubic feet in above-ground storage tanks. MLGW also sells LNG from this plant as vehicle fuel as well as maintains 5.8 billion cubic feet of underground natural gas storage. Sales for LNG have quadrupled over the past few years due to its cheaper and cleaner appeal compared to diesel fuel.

# And the Awards Go To...

## MLGW awarded for clean air contributions, CNG marketing and company fleet

Tennessee Governor Bill Haslam and the Tennessee Department of Environment and Conservation recognized MLGW's efforts and named the utility one of 11 winners of the 2015 Governor's Environmental Stewardship Awards (GESAs). MLGW received a GESA in the Clean Air category for reducing area diesel emissions and improving air quality in Memphis and on state highways by building and assisting in the development of natural gas fueling stations.

MLGW also won the American Public Gas Association's 2015 Marketing & Sales Award for the Compressed Natural Gas (CNG) Program. The annual award recognizes APGA public natural gas systems who have worked hard to market natural gas this past year.

MLGW's company fleet was named in 100 Best Fleets in North America in 2015. The utility was named 46th in the Government Green Fleet Awards, scoring higher than its previous honorable mention award in 2014. The Government Green Fleet Award is open to all federal, state and local government fleets in North America. MLGW owns and operates a diverse fleet of alternative fuel vehicles used by employees for service calls, field inspections and project deployments.

To round off MLGW's recognition for contributions to the environment, the utility was named one of the top three combined energy providers in the South for environmental dedication in a survey by Cogent Energy Reports. One hundred twenty-five of the largest utility companies were included, and MLGW ranked in the top three for environment based on "the extent to which consumers believe providers are supporting environmental causes, commitment to environmentally friendly energy sources, encouraging green initiatives and offering tools to help consumers save money."

# Grooving to the Beat of the Community

## Air conditioners and space heaters for those in need

For many MLGW customers without air, sitting outside can be cooler than inside the house in the summer heat. To help, MLGW teamed with the Neighborhood Christian Center for the annual Play it Cool program to provide 200 window air-conditioning units to qualified low-income seniors and disabled residents of Shelby County.

Likewise in the winter, the utility teamed up with NCC for the Power of Warmth program to give away 100 space heaters and 200 electric blankets.

## Helping a family in crisis keep the lights on

Many times, the first step to homelessness could be a loss of utilities. To prevent this tragedy, the Plus-1 program was created in 1982. Plus-1 is a partnership between MIFA and MLGW and provides utility assistance for individuals and families in financial crisis with MLGW customers adding $1 or more to their monthly bill or by making a one-time gift.

MLGW hosted its third Plus-1 telethon with MIFA and WREG in 2015 and raised about $62,000; enough to help more than 300 families. In 2015, Plus-1 kept the lights on for more than 2,650 families. The Plus-1 program offers one-time assistance and serves as a "stop gap" measure to those in need, not an on going source of assistance.

## Gas Safety Days

Gas safety an integral part of safety at MLGW. In 2015, MLGW partnered with Lowe's stores throughout Shelby County to educate customers about natural gas safety for MLGW's Gas Safety Day and National Safe Digging Month. Volunteers handed out gas safety literature and shared with customers ways to detect leaks and what to do in an emergency. Customers and contractors were encouraged to Call Before You Dig at 811 before any digging project takes place.

### Supplier Diversity program connects with women-, minority- and locally owned businesses

MLGW is serious about supporting business diversity in the community. The Supplier Diversity program reported its highest year-end spending in the history of the program with $47 million – or 37 percent of the utility's $127 million spending for procurement – to minority, women and locally-owned small businesses (MWBE/LSBs) in 2015.

This marks a 13-percent increase from 2014 when the program recorded $33 million – or 24 percent of $144 million – to MWBE/LSBs.

MLGW procurement spending includes the purchasing of products, work and services outside the company.

Through its Sheltered Market program, MLGW spent $9.5 million in 2015. This race- and gender-neutral program, designed to expand small businesses, shelters any purchase under $100,000 by offering three or more certified local small businesses the opportunity to bid on products or services.

The Mid-South Minority Business Council Continuum recognized the great work of the Supplier Diversity program and awarded MLGW the title of 2015 APEX Corporation of the Year for the fifth time. The award recognizes a company that shows leadership in supporting companies and small businesses owned by minorities, women and local residents.

# Rocking 'n' Rolling to Give Back in Memphis

MLGW is not just a utility company that provides the basic necessities for life; it is a group of people working together to make Memphis a better place to live. In 2015, employees made an impact in the Memphis and Shelby County community once again through monetary giving, volunteering and participating in community outreach events.

## United in Service within the Community

MLGW employees raised $606,119 during the 2015 United Way campaign to benefit the United Way of the Mid-South. Funds raised were unmatched and were all from employee fundraisers and contributions. MLGW is one of the largest contributors in the Mid-South to United Way.

## American Heart Association

Employees laced up their walking shoes and raised $8,981 for the American Heart Association and completed the 2015 AHA Heart Walk in November. MLGW employees participated in monthly midday walks at their respective facilities in preparation for the event.

## Junior Achievement

MLGW placed second in the top fundraising companies for the 2015 Junior Achievement Bowling on the River Bowl-A-Thon and raised $21,273. The funds support Junior Achievement of Memphis and the Mid-South's programs throughout the community.

## Juvenile Diabetes Research Foundation

A 10-, 40- and 60-mile bike ride encouraged MLGW employees to raise $5,284 for Juvenile Diabetes Research during the 2015 Tour de Cure in May.

## Employees add $32,500 for Food Bank's Operation Feed

MLGW won second in its division (companies with 1,000 to 4,999 employees) for the 2015 food drive for the Mid-South Food Bank by bringing in $32,511, the most the utility has raised in any previous year.

*I live in an older house in an area with a lot of trees, so I have to occasionally call on MLGW for various problems. Without exception, every person you have ever sent out has not only solved the problem but has just been so courteous, reassuring and just plain nice – way beyond just doing a job and doing it well. I have thought about writing the paper or directly to MLGW each time I have had one of those good experiences. I wish I had collected names along the way. Many thanks to a great bunch of people.*

*Sincerely,*

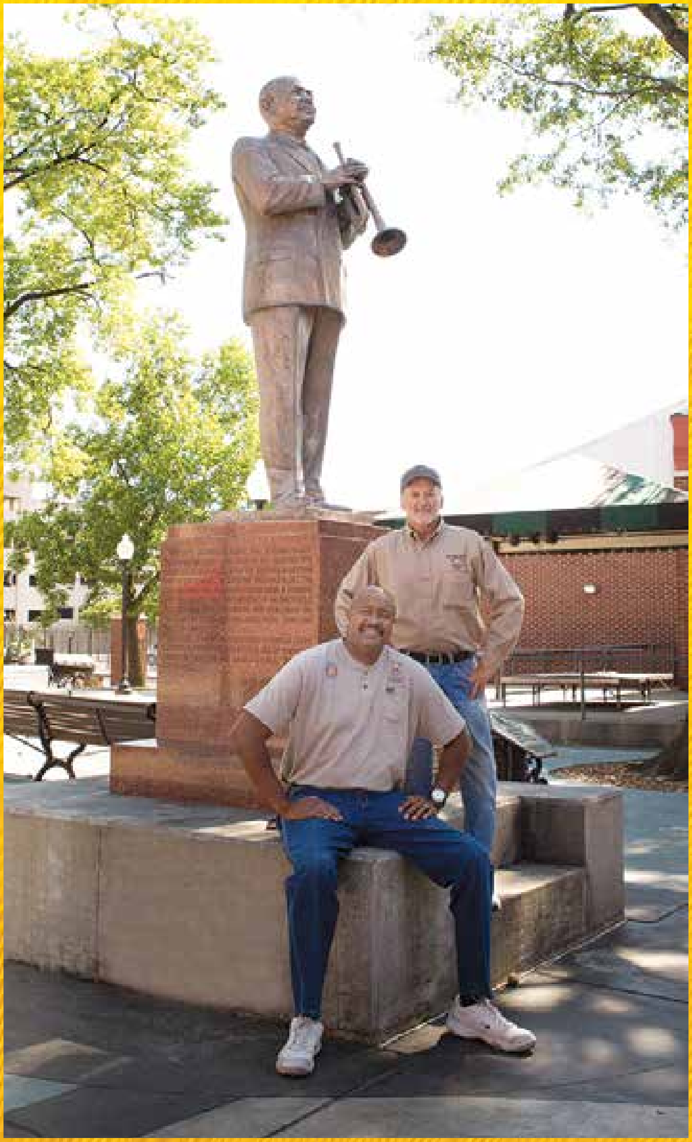
*Memphis Homeowner*

## The Heart and Soul of MLGW

These everyday heroes are some of the frontline employees who work with customers on a daily basis. Their quick actions to help customers, whose lives may have been in danger, earned them the title of MLGW Heroes.

Customer Service Account Investigators Greg Wiley and Mark Love saved a customer from a pit bull attack. The customer was attacked by his own dog as the two were pulling up to the home and heard someone screaming for help. They sprayed the dog with mace and gave the owner a pipe to hit the pit bull, and the owner finally escaped. The customer says he could have been killed if Wiley and Love did not help.

Sammy Davis and Tony Dixon were scheduled to install an A/C unit in a customer's home (as part of MLGW's Play it Cool program). They found a customer unresponsive and bleeding from the mouth and dialed 911. If the two had not found the customer when they did, her blood sugar may have bottomed out. The customer thanked the two for saving her life as she left on the stretcher to the hospital.



## Jamming with the Next Generation

### Engaging students with utility industry careers

MLGW Goes to School is a career awareness program developed to encourage Shelby County School students to explore career opportunities in the utility industry. During a week in April, Division employees exposed students to utility industry careers such as engineering, electronic technicians, electrical linemen, accounting, drafting, customer service and much more through visits to the students' classrooms. The students also participated in summer job shadowing. The program aspires to provide MLGW with a local resource for future and qualified employees.

The Summer Youth Internship Program kicked off in June. Students and graduates from Shelby County Schools and the City of Memphis Ambassadors Program made contributions to many different departments in the Division.

The Memphis Chapter of the American Association of Blacks in Energy (AABE) organization held an event for more than 150 students in the community during Black Energy Awareness Month (BEAM). During the workshop, students were introduced to and encouraged to take interest in Science, Technology, Engineering and Math (STEM) related fields.

*Working together, MLGW employees donate more than $1 million annually in goods and services and continue to strive to make a positive impact in the Memphis and Shelby County communities.*

### 35 years with Adopt-A-School program

Since 1980, MLGW's Adopt-A-School program has empowered MLGW employees to support G.W. Carver High School by providing tutoring, academic awards, job shadowing and donations. MLGW was recognized by the Shelby County School District in 2015 for the ongoing support and 35 years of service.

### A-Blazing Race

MLGW partnered with The University of Memphis and its Engineering Day events and activities for the third annual A-Blazing Model Solar Car Race. Groups of students designed and built their own cars powered only by solar energy and competed in races against each other. The goal is to attract students interested in considering a career in engineering.

# In Harmony with Financial Excellence and Customer Satisfaction

## Pension Plan remains steady

MLGW's Pension Plan is well managed and funded and, historically, has been consistently funded on an annual basis at or above the level recommended by the actuary. As of December 31, 2015, the Plan's market value of assets was $1.3 billion. Market value is what the plan is worth at any given point in time. From a market value standpoint, the Plan's funded ratio is now 90.9 percent.

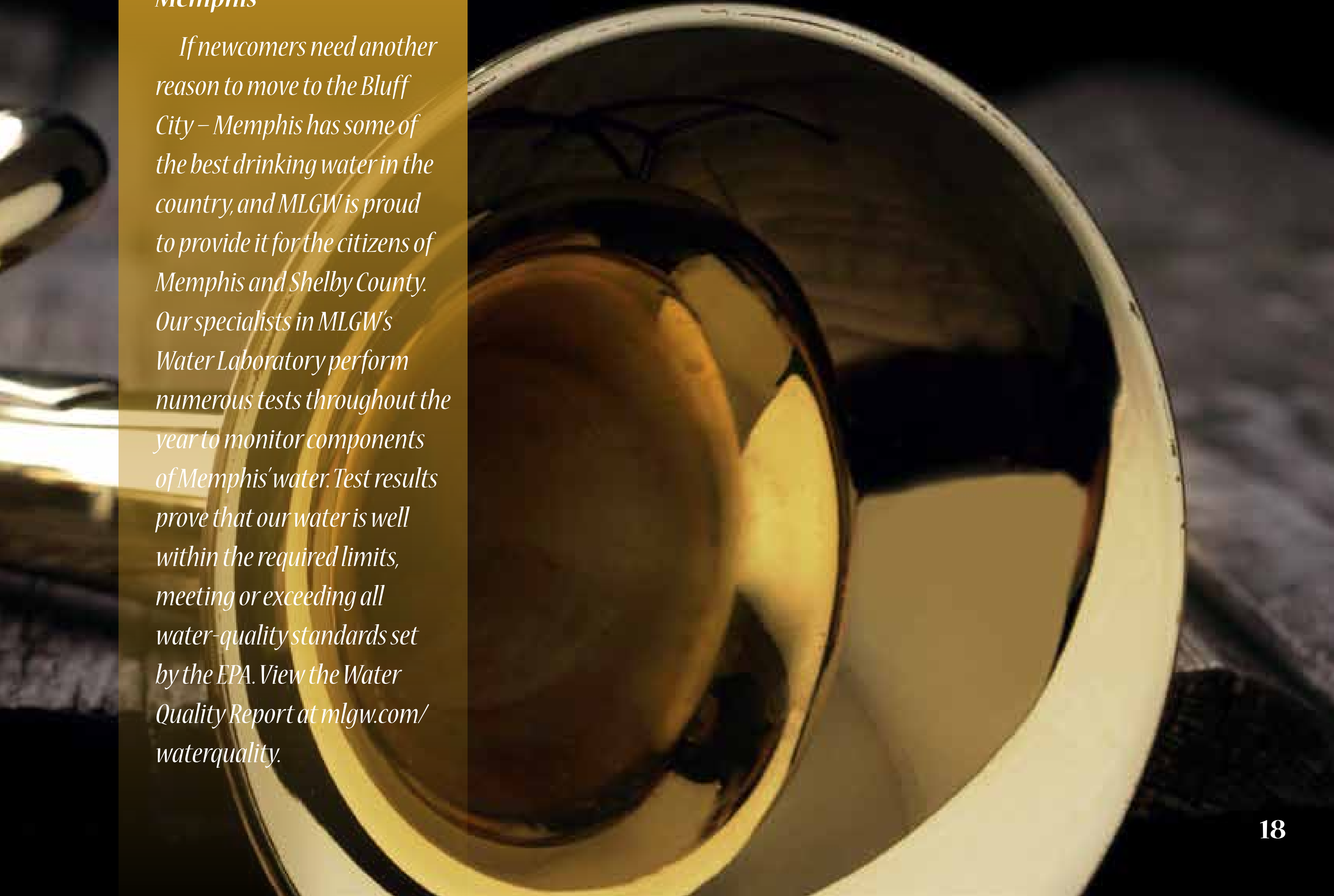
This means the Plan is able to cover 90.9 percent of its expected accrued liabilities, from the stand point of its market value. From an actuarial standpoint, it is approximately 91.9 percent funded, which is well above the national average of most Plans at 74 or 75 percent. The Other Post-Employment Benefits Fund (OPEB) is 41.9 percent funded, making it one of the top OPEB funds in the country.

## Customer satisfaction remains a top priority

For the fifth time, Memphis Light, Gas and Water earned the American Public Power Association's (APPA) Reliable Public Power Provider (RP3®) recognition for providing customers with the highest degree of reliable and safe electric service. However, 2015 marks the first time ever that MLGW earned the highest honor given, the Diamond award. MLGW joins 26 other utilities nationwide who received the Diamond award in 2015.

MLGW saw gains in its J.D. Power Score in 2015 with one report 114 points higher than in the year 2008, making MLGW one of the nation's most improved utility companies for customer satisfaction. In addition, at the mid-point of 2015, MLGW posted the highest year-over-year score increase among midsized utility companies in the J.D. Power & Associates Electric Utility Residential Customer Satisfaction Survey. The Division posted its highest score ever, 672.

Both survey results indicate a positive trend in customers' overall perception of MLGW.



### *Excellent Water Sources in Memphis*

*If newcomers need another reason to move to the Bluff City – Memphis has some of the best drinking water in the country, and MLGW is proud to provide it for the citizens of Memphis and Shelby County. Our specialists in MLGW's Water Laboratory perform numerous tests throughout the year to monitor components of Memphis' water. Test results prove that our water is well within the required limits, meeting or exceeding all water-quality standards set by the EPA. View the Water Quality Report at mlgw.com/waterquality.*

# 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, 2015, 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.

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, 2015, 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, 2015, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of the report.

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

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

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

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

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

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

**Local Economy**— Memphis is the largest city in the state of Tennessee and sits on the southwestern corner alongside the Mississippi River. Memphis is the nation's 23rd largest city with a population of 945,757 in Shelby County with more than 400,000 housing units utilizing MLGW services. Memphis is home to a diverse range of employers including three Fortune 500 world headquarters (FedEx, International Paper and AutoZone) and a host of other franchise companies, and fast growing private companies. According to the U.S. Bureau of Labor Statistics, there were 9,300 new jobs in the Memphis Metro Area in 2015. Professional and business services (15%) comprised the largest percentage of non-farm employment, followed by education and health services (14%); transportation and utilities and retail trade (each adding 11%); and leisure and hospitality (10%).

The central location of the city lined on the Mississippi River, with seven federal and two interstate highways, along with the highest percentage of logistics workers of any other metropolitan area in the country, has earned Memphis its reputation as America's Distribution Center. Memphis International Airport, home to the busiest cargo airport in North America, is the largest economic driver in the state of Tennessee with an economic impact of $23.3 billion annually. Home of the world headquarters and hub of shipping powerhouse FedEx, more than 400 trucking companies and major operations of UPS and USPS, Memphis is uniquely positioned to provide the most cost effective distribution and logistics services in the country. MLGW's low utility rates, as well as the city's low cost of living, inexpensive retail and aggressive corporate incentives have helped foster a business environment suitable to the distribution industry.

Musically, Memphis has been named a city for music lovers and attracts more than 10 million tourists to the city injecting $3 billion into the local economy each year. The city is home to the iconic Beale Street and Elvis Presley was proud to call the Bluff City home. Sun Studio is a National Historic Landmark and is known as the birthplace of rock 'n' roll and Stax Museum is the world's only soul music museum. The annual Memphis in May International Festival, which recorded $8.7 million of revenue in 2015, was named the "Best Southern Event" by a USA Today publication in 2015, and Graceland was voted the "Best Historic Southern Attraction" with Sun Studio right behind at second.

MLGW works diligently to maintain reliable power for all the business operations in the city to ensure they 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 2015, the same rate as 2014. Contributing to the increase in 2015 were increases in residential, nonresidential and private investments, exports, and state and local government spending.

**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 $110 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. The contract was approved in 2015 and MLGW plans to install approximately 50,000 meters per quarter with completion by the end of 2020. MLGW also has plans to continue enhancing its Supplier Diversity program which spent $47 million or 37 percent of its total procurement spend with local small businesses and minority- and women-owned enterprises in 2015.

MLGW has the lowest combined electric, gas and water rates of any other metropolitan city for the third year in a row. The utility has kept the number of rate increases low in recent years with no increase in rates from the Electric Division since 2004 and no Gas rate increases since 2008. Additional Electric Division plans include the Fitch Ratings reaffirmation of the 'AAA' bond rating which reflects MLGW's financial stability, diverse customer base, its ability to pay down debt, quality of management and retail rates that are comparable to other municipal rates in the area.

Gas Division plans include increasing revenue for LNG and transporting natural gas through the TVA Allen Plant project, both which help to keep rates low for our gas customers. MLGW is constructing a 13-mile, 24-inch gas pipeline to feed the TVA Allen Plant which will replace the coal-burning Allen Fossil Plant with a natural gas energy plant. Another plan is the Division's 30-year natural gas cast iron pipe retrofit program. MLGW has worked on this project over the past 24 years to replace more than 330 miles of cast iron pipes with polyethylene or steel pipes. It is scheduled to be completed by 2022. The retrofit program improves natural gas safety for the public and reinforces our infrastructure for MLGW's future natural gas service reliability and integrity, and for earthquake mitigation.

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.**

President and CEO

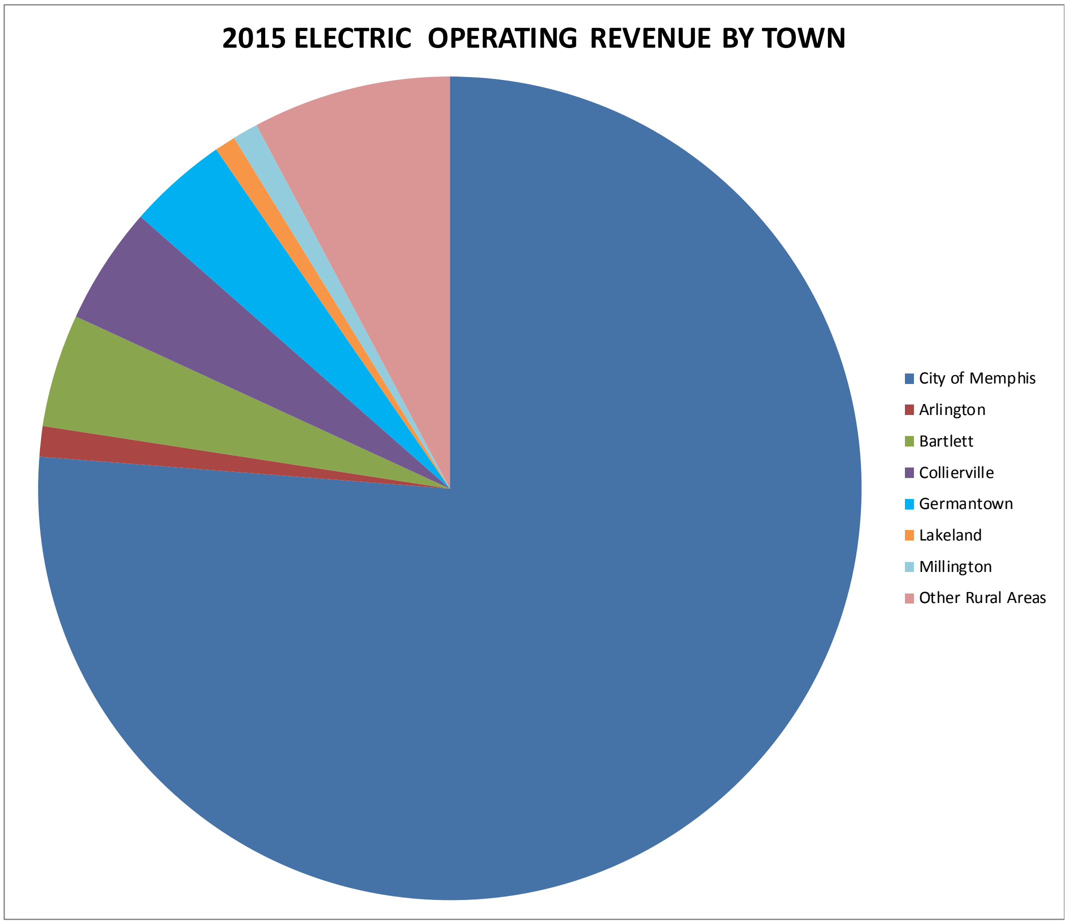
**Dana Jeanes**

Vice President, CFO and Secretary-Treasurer

# FINANCIAL HIGHLIGHTS
# FOR THE YEARS ENDED
# DECEMBER 31, 2015, 2014, AND 2013
# (dollars and consumption in thousands)

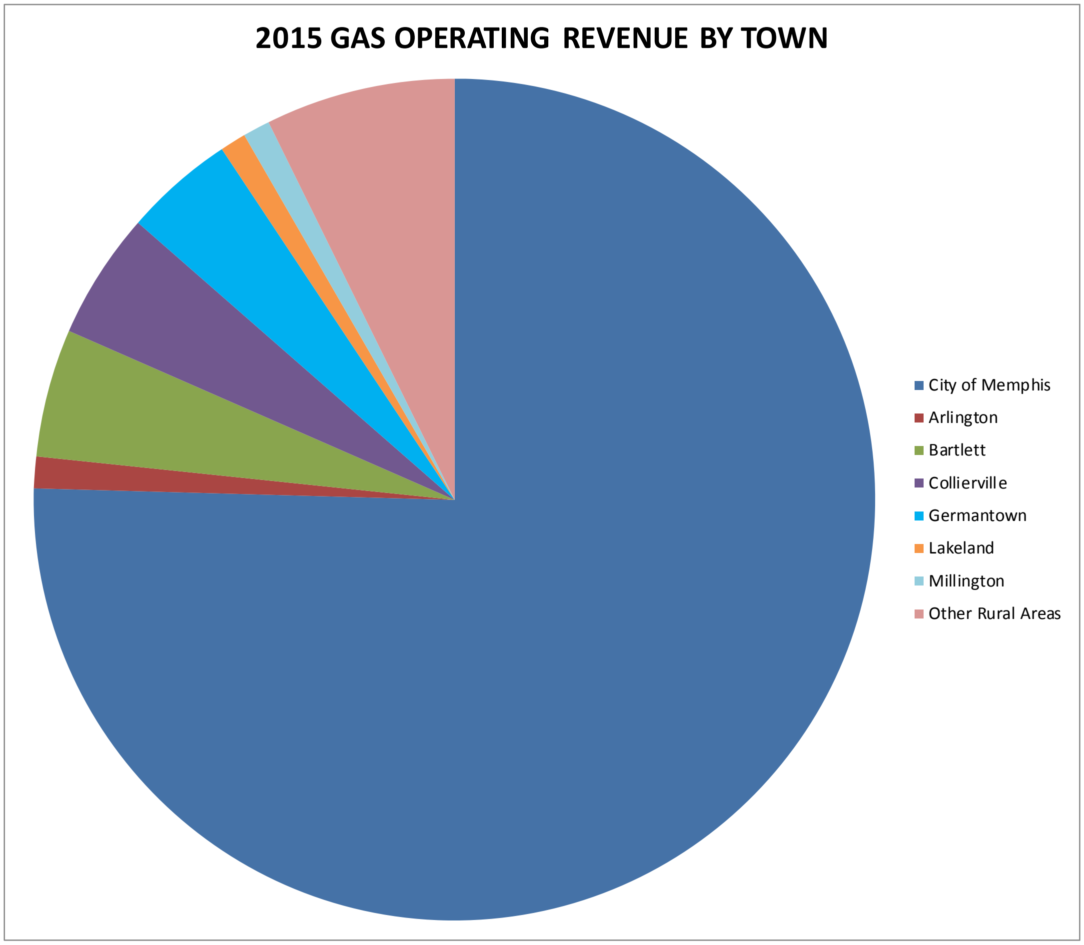
## Operating Statistics by Towns:

| | ELECTRIC AMOUNT | | | ELECTRIC KWH | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| City of Memphis | $ 967,152 | $ 977,962 | $ 954,069 | 10,514,853 | 10,544,122 | 10,705,452 |
| Arlington | 15,134 | 15,011 | 14,323 | 164,884 | 159,589 | 158,301 |
| Bartlett | 56,242 | 55,444 | 53,117 | 575,767 | 561,999 | 559,096 |
| Collierville | 58,423 | 58,349 | 56,502 | 615,079 | 610,401 | 612,090 |
| Germantown | 49,929 | 49,723 | 48,155 | 518,118 | 510,321 | 513,489 |
| Lakeland | 10,288 | 10,075 | 9,607 | 105,900 | 102,603 | 101,896 |
| Millington | 12,720 | 12,466 | 11,410 | 129,797 | 125,000 | 118,588 |
| Other Rural Areas | 98,673 | 101,874 | 98,898 | 1,131,610 | 1,151,404 | 1,157,176 |
| Total | $ 1,268,561 | $ 1,280,904 | $ 1,246,081 | 13,756,008 | 13,765,439 | 13,926,088 |


2015 ELECTRIC OPERATING REVENUE BY TOWN

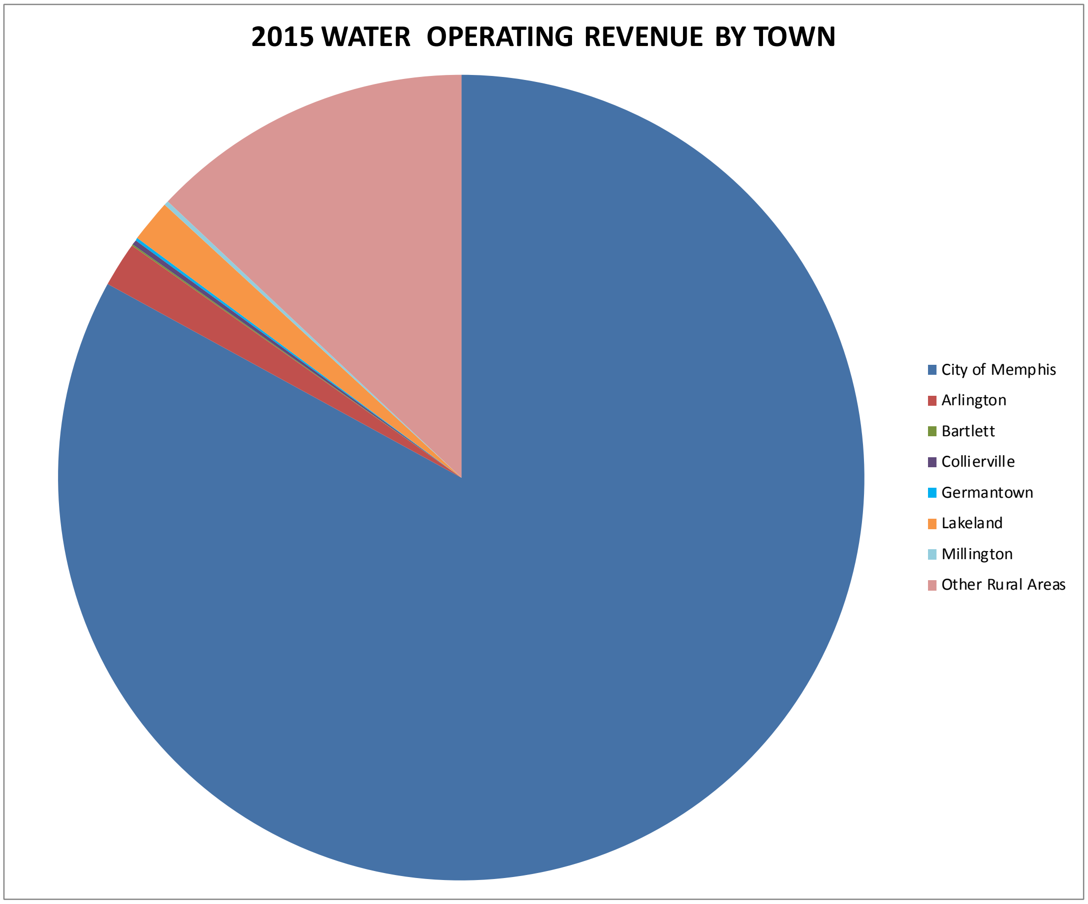
## Operating Statistics by Towns:

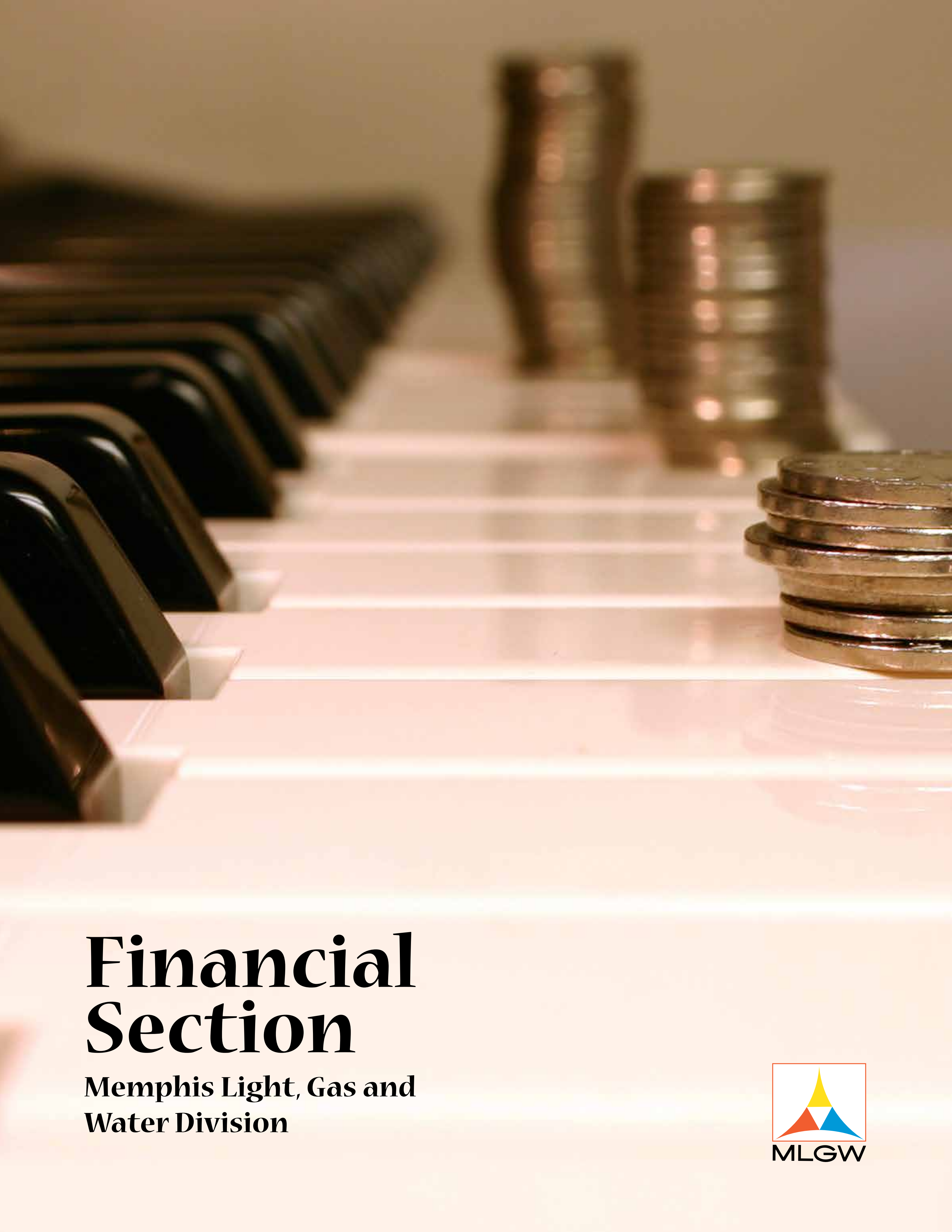
| | GAS AMOUNT | | | GAS MCF | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| City of Memphis | $ 188,488 | $ 248,358 | $ 217,229 | 25,189 | 27,997 | 25,295 |
| Arlington | 3,047 | 4,182 | 3,304 | 448 | 506 | 460 |
| Bartlett | 12,312 | 16,788 | 13,296 | 1,682 | 1,916 | 1,725 |
| Collierville | 12,170 | 16,925 | 13,332 | 1,778 | 2,030 | 1,834 |
| Germantown | 10,584 | 14,850 | 11,833 | 1,568 | 1,792 | 1,640 |
| Lakeland | 2,506 | 3,494 | 2,719 | 351 | 406 | 358 |
| Millington | 2,580 | 3,356 | 2,509 | 372 | 384 | 319 |
| Other Rural Areas | 18,218 | 25,859 | 20,394 | 2,510 | 2,954 | 2,651 |
| Total | $ 249,905 | $ 333,812 | $ 284,616 | 33,898 | 37,985 | 34,282 |



**Operating Statistics by Towns:**

| | WATER AMOUNT | | | WATER CCF | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| City of Memphis | $ 70,107 | $ 71,395 | $ 70,334 | 44,264 | 46,047 | 46,562 |
| Resale to Other Municipalities: | | | | | | |
| Arlington | 1,526 | 1,510 | 1,463 | 590 | 598 | 585 |
| Bartlett | 40 | 46 | 41 | 3 | 7 | 5 |
| Collierville | 161 | 154 | 163 | 59 | 55 | 61 |
| Germantown | 94 | 84 | 79 | 35 | 31 | 29 |
| Lakeland | 1,443 | 1,410 | 1,415 | 556 | 545 | 564 |
| Millington | 162 | 160 | 132 | 60 | 58 | 53 |
| Other Rural Areas | 10,958 | 11,422 | 11,153 | 4,528 | 4,726 | 4,648 |
| Total | $ 84,491 | $ 86,181 | $ 84,780 | 50,095 | 52,067 | 52,507 |





# Financial Section

## Memphis Light, Gas and Water Division

MLGW

MHM

**Mayer Hoffman McCann P.C.**
An Independent CPA Firm

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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, 2015 and 2014, 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*

The Divisions' 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, 2015 and 2014, and the changes in their financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## *Emphasis of Matters*

As discussed in note 1, the financial statements present only the Electric, Gas and Water Divisions of Memphis Light, Gas and Water Division, and do not purport to, and do not, present fairly the financial position of the City of Memphis, Tennessee, as of December 31, 2015 and 2014, 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.

As discussed in note 7, the Divisions adopted the provisions of Governmental Accounting Standards (GASB) No. 68 *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27.* Our opinion is not modified in respect to this matter.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis; schedule of changes in net pension liability; schedule of employer contributions - pension; schedule of funding progress for OPEB; and the schedule of employer contributions - OPEB, on the pages 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 supplemental information on the pages listed 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 federal awards; schedule of bonds, principal and interest requirements; schedule of current utility rates, non-revenue water, and insurance are required by the State of Tennessee Comptroller of the Treasury's *Audit Manual.*

The supplementary information shown as the schedule of expenditures of federal awards, schedule of bonds, principal and interest requirements; and schedule of additions and retirements to utility plant 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, this 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; non-revenue water; and schedule of insurance 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 1, 2016, 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 1, 2016

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

## Highlights

- MLGW received recognition from many organizations throughout the year for its outstanding performance on a number of different fronts. MLGW received the 2015 Governor's Environmental Stewardship Award, the Southern Gas Association award for engineer recruitment and retention, and the Apex Corporation of the Year award for the fifth year by the Mid-south Minority Business Council Continuum. MLGW was also named to the list of 100 Best Fleets in North America, named Environmental Champion by Cogent Energy Reports, and recognized as a top company for data security by Security Magazine. MLGW was awarded the Marketing & Sales Award for the CNG Program by the American Public Gas Association, named a Top Performer for energy savings by the Tennessee Valley Authority ("TVA"), and recognized as a Reliable Public Power Provider by the American Public Power Association for the fifth time.

- In 2015, MLGW's Smart Meter Project contract was approved to begin the full-scale implementation of smart meters that will be completed by the end of 2020. Existing MLGW meters are being 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. MLGW had previously installed approximately 60,000 meters as preliminary phase to full deployment.

- The Gas Division had continued success in MLGW's two alternative fuel ventures in spite of dramatically falling oil and diesel prices.

    - Liquefied Natural Gas ("LNG") sales increased 37% year-over-year, growing from 775,168 MCF in 2014 to 1,062,917 MCF in 2015.

    - Compressed Natural Gas ("CNG") sales rose to 353,000 gallons in 2015, up from 254,000 gallons in 2014 due to the May 2015 opening of MLGW's second fueling station, the South Center CNG station, which serves the growing heavy-duty over-the-road truck segment of the market.

- 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.

- TVA began construction of a new natural gas-fired generating plant in Memphis to replace its existing coal-fired plant. MLGW is constructing a new 13 mile gas transmission pipeline that would be a primary supply for this new gas-fired plant. The pipeline project is due to be completed prior to July 2017 and will generate additional gas transportation revenues for the gas division.

## 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 Statements 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 assist 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 ("the City"). 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 and reformatted to conform to the City's format for enterprise funds. The City incorporates MLGW's statements ending December 31 into its statements ending June 30.

During the fiscal year 2015, MLGW adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. The purpose of this statement is to establish financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures for state and local governmental pensions. The statement requires that unfunded pension benefits be recognized as a liability. The statement also requires additional note disclosures and required supplementary information about the pension plan.

The implementation of GASB Statement No. 68 resulted in a restatement of beginning net position in 2015. The cumulative effect of applying this statement resulted in a reduction in the beginning net position of all three divisions. Beginning net position in the Electric, Gas and Water Divisions declined by $11,356, $5,065 and $3,363, respectively.

## STATISTICAL HIGHLIGHTS-ELECTRIC DIVISION

*Years Ended December 31*

| CATEGORIES | 2015 | 2014 | 2013 |
|---|---|---|---|
| **OPERATING REVENUE** | | | |
| Residential | $ 513,804,077 | $ 512,467,698 | $ 493,607,631 |
| Commercial - General Service | 592,357,531 | 591,269,532 | 577,391,147 |
| Industrial | 108,647,814 | 119,347,528 | 119,870,213 |
| Outdoor Lighting and Traffic Signals | 11,300,413 | 11,354,154 | 10,956,549 |
| Street Lighting Billing | 13,061,894 | 12,958,669 | 11,870,585 |
| Interdepartmental | 9,281,301 | 9,676,904 | 9,274,299 |
| Green Power | (220,049) | (264,636) | (283,057) |
| Miscellaneous | 30,253,807 | 33,769,237 | 32,392,981 |
| Accrued Unbilled Revenue | (3,360,498) | (1,965,202) | (2,045,502) |
| Revenue Adjustment for Uncollectibles | (6,564,675) | (7,709,385) | (6,954,155) |
| **TOTAL OPERATING REVENUE** | $ 1,268,561,615 | $ 1,280,904,499 | $ 1,246,080,692 |
| **CUSTOMERS** | | | |
| Residential | 366,721 | 364,624 | 362,687 |
| Commercial - General Service | 43,761 | 43,589 | 43,553 |
| Industrial | 152 | 154 | 155 |
| Outdoor Lighting and Traffic Signals | 17,110 | 17,048 | 17,037 |
| Interdepartmental | 45 | 47 | 47 |
| **Total Customers** | 427,789 | 425,462 | 423,479 |
| **KWH SALES (THOUSANDS)** | | | |
| Residential | 5,295,187 | 5,221,001 | 5,245,511 |
| Commercial - General Service | 6,326,434 | 6,212,068 | 6,326,233 |
| Industrial | 1,866,238 | 2,053,626 | 2,082,289 |
| Outdoor Lighting and Traffic Signals | 88,441 | 93,395 | 88,209 |
| Street Lighting Billing | 75,321 | 74,690 | 73,234 |
| Interdepartmental | 104,387 | 110,659 | 110,612 |
| **Total KWH Sales (Thousands)** | 13,756,008 | 13,765,439 | 13,926,088 |
| **OPERATING REVENUE/CUSTOMER** | | | |
| Residential | $ 1,401.08 | $ 1,405.47 | $ 1,360.97 |
| Commercial - General Service | 13,536.20 | 13,564.65 | 13,257.21 |
| Industrial | 714,788.25 | 774,983.95 | 773,356.22 |
| Outdoor Lighting and Traffic Signals | 660.46 | 666.01 | 1,339.86 |
| Interdepartmental | 206,251.13 | 205,891.58 | 197,325.52 |
| **OPERATING REVENUE/KWH*** | | | |
| Residential | $ 0.097 | $ 0.098 | $ 0.094 |
| Commercial - General Service | 0.094 | 0.095 | 0.091 |
| Industrial | 0.058 | 0.058 | 0.058 |
| Outdoor Lighting and Traffic Signals | 0.128 | 0.122 | 0.124 |
| Street Lighting Billing | 0.173 | 0.173 | 0.162 |
| Interdepartmental | 0.089 | 0.087 | 0.084 |
| **KWH/CUSTOMER** | | | |
| Residential | 14,439.28 | 14,318.86 | 14,462.91 |
| Commercial - General Service | 144,567.86 | 142,514.58 | 145,253.67 |
| Industrial | 12,277,881.58 | 13,335,233.77 | 13,434,122.58 |
| Outdoor Lighting and Traffic Signals | 5,168.97 | 5,478.36 | 5,177.50 |
| Interdepartmental | 2,319,711.11 | 2,354,446.81 | 2,353,446.81 |

**See graph on M-6.*

## STATISTICAL HIGHLIGHTS-GAS DIVISION

*Years Ended December 31*

| CATEGORIES | 2015 | 2014 | 2013 |
|---|---|---|---|
| **OPERATING REVENUE** | | | |
| Residential | $ 150,174,338 | $ 207,334,707 | $ 165,155,180 |
| Commercial - General Service | 69,815,939 | 95,601,873 | 74,570,259 |
| Industrial | 2,652,791 | 3,765,082 | 2,739,421 |
| Interdepartmental | 315,995 | 464,944 | 242,488 |
| Transported Gas | 5,385,298 | 5,800,804 | 6,041,697 |
| Spot Gas | 7,936,852 | 11,239,189 | 8,751,055 |
| Liquefied Natural Gas (LNG) | 7,892,439 | 7,139,441 | 1,558,796 |
| Compressed Natural Gas (CNG) | 400,439 | 324,971 | 10,698 |
| Miscellaneous | 12,486,159 | 11,748,814 | 16,734,527 |
| Accrued Unbilled Revenue | (5,847,200) | (6,949,921) | 11,073,202 |
| Revenue Adjustment for Uncollectibles | (1,308,386) | (2,657,455) | (2,261,353) |
| **TOTAL OPERATING REVENUE** | $ 249,904,664 | $ 333,812,449 | $ 284,615,970 |
| **CUSTOMERS** | | | |
| Residential | 291,448 | 290,690 | 290,254 |
| Commercial - General Service | 21,931 | 21,917 | 22,096 |
| Industrial | 32 | 34 | 34 |
| Interdepartmental | 12 | 14 | 17 |
| Transported Gas | 113 | 104 | 99 |
| Spot Gas | 44 | 45 | 40 |
| **Subtotal** | 313,580 | 312,804 | 312,540 |
| LNG | 4 | 6 | 3 |
| CNG (Sales Transactions) | 732 | 542 | 45 |
| **Total Customers** | 314,318 | 313,352 | 312,588 |
| **MCF SALES** | | | |
| Residential | 20,326,974 | 23,403,113 | 20,998,068 |
| Commercial - General Service | 10,951,838 | 11,882,928 | 10,899,607 |
| Industrial | 544,046 | 587,953 | 506,209 |
| Interdepartmental | 57,180 | 64,482 | 38,888 |
| Spot Gas | 2,017,649 | 2,046,775 | 1,839,159 |
| **Subtotal** | 33,897,687 | 37,985,251 | 34,281,931 |
| LNG | 1,062,917 | 775,168 | 194,046 |
| CNG | 44,204 | 31,799 | 112 |
| **Total MCF Sales** | 35,004,808 | 38,792,218 | 34,476,089 |
| **OPERATING REVENUE/CUSTOMER** | | | |
| Residential | $ 515.27 | $ 713.25 | $ 569.00 |
| Commercial - General Service | 3,183.44 | 4,362.00 | 3,374.83 |
| Industrial | 82,899.71 | 110,737.70 | 80,571.21 |
| Interdepartmental | 26,332.96 | 33,210.31 | 14,263.98 |
| Transported Gas | 47,657.51 | 55,776.96 | 61,027.24 |
| Spot Gas | 180,383.00 | 249,759.76 | 218,776.38 |
| **OPERATING REVENUE/MCF*** | | | |
| Residential | $ 7.388 | $ 8.859 | $ 7.865 |
| Commercial - General Service | 6.375 | 8.045 | 6.842 |
| Industrial | 4.876 | 6.404 | 5.412 |
| Interdepartmental | 5.526 | 7.210 | 6.236 |
| Spot Gas | 3.934 | 5.491 | 4.758 |
| **MCF/CUSTOMER** | | | |
| Residential | 69.74 | 80.51 | 72.34 |
| Commercial - General Service | 499.38 | 542.18 | 493.28 |
| Industrial | 17,001.44 | 17,292.74 | 14,888.50 |
| Interdepartmental | 4,765.00 | 4,605.86 | 2,287.53 |
| Spot Gas | 45,855.66 | 45,483.89 | 45,978.98 |

**See graph on M-6.*

## STATISTICAL HIGHLIGHTS-WATER DIVISION

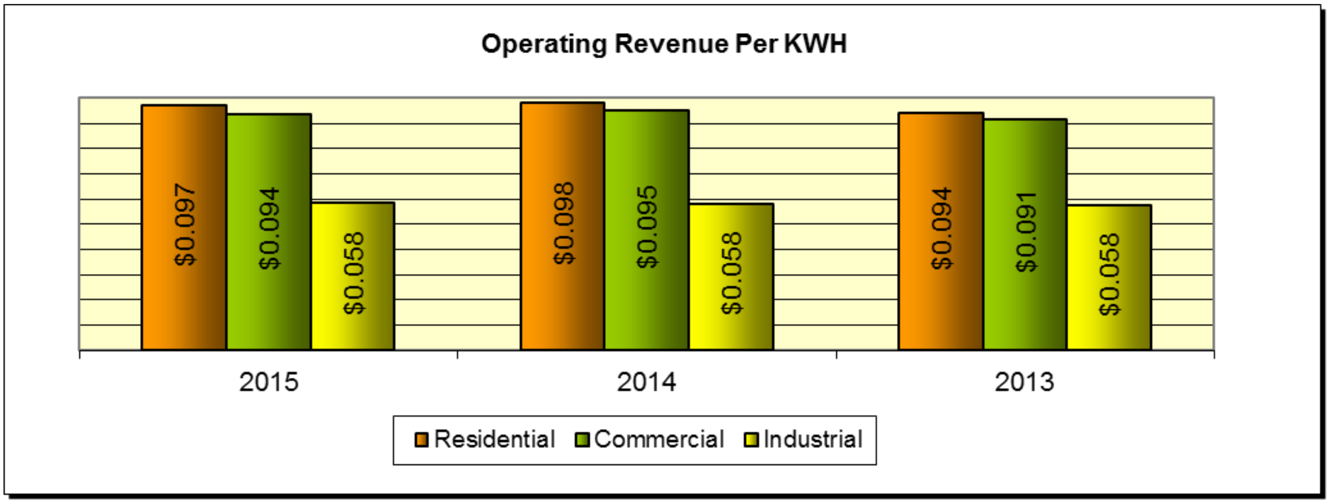
*Years Ended December 31*

| CATEGORIES | 2015 | 2014 | 2013 |
|---|---|---|---|
| **OPERATING REVENUE** | | | |
| Residential | $ 41,072,210 | $ 41,562,047 | $ 41,225,873 |
| Commercial - General Service | 35,036,929 | 36,295,016 | 35,375,110 |
| Resale | 571,067 | 510,950 | 401,650 |
| Fire Protection | 4,152,650 | 4,075,927 | 3,976,678 |
| Interdepartmental | 47,425 | 45,082 | 48,983 |
| Miscellaneous | 3,742,311 | 4,781,049 | 4,766,921 |
| Accrued Unbilled Revenue | 545,218 | (164,704) | 51,050 |
| Revenue Adjustment for Uncollectibles | (676,130) | (924,209) | (1,066,112) |
| **TOTAL OPERATING REVENUE** | $ 84,491,680 | $ 86,181,157 | $ 84,780,153 |
| **CUSTOMERS** | | | |
| Residential | 228,562 | 228,147 | 228,047 |
| Commercial - General Service | 20,844 | 20,792 | 20,823 |
| Resale | 12 | 11 | 12 |
| Fire Protection | 5,270 | 5,171 | 5,152 |
| Government and Municipal (Free) | 0 | 0 | 53 |
| Interdepartmental | 52 | 55 | 55 |
| **Total Customers** | 254,740 | 254,176 | 254,142 |
| **METERED WATER (CCF)** | | | |
| Residential | 22,853,763 | 23,208,066 | 23,707,027 |
| Commercial - General Service | 26,712,414 | 28,355,246 | 28,325,038 |
| Resale | 509,467 | 484,975 | 345,791 |
| Government and Municipal (Free) | 0 | 0 | 105,959 |
| Interdepartmental | 19,318 | 19,175 | 23,440 |
| **Total CCF Sales** | 50,094,962 | 52,067,462 | 52,507,255 |
| **OPERATING REVENUE/CUSTOMER** | | | |
| Residential | $ 179.70 | $ 182.17 | $ 180.78 |
| Commercial - General Service | 1,680.91 | 1,745.62 | 1,698.85 |
| Resale | 47,588.89 | 46,450.00 | 33,470.87 |
| Fire Protection | 787.98 | 788.23 | 771.87 |
| Interdepartmental | 912.02 | 819.67 | 890.60 |
| **OPERATING REVENUE/CCF*** | | | |
| Residential | $ 1.797 | $ 1.791 | $ 1.739 |
| Commercial - General Service | 1.312 | 1.280 | 1.249 |
| Resale | 1.121 | 1.054 | 1.162 |
| Interdepartmental | 2.455 | 2.351 | 2.090 |
| **CCF/CUSTOMER** | | | |
| Residential | 99.99 | 101.72 | 103.96 |
| Commercial - General Service | 1,281.54 | 1,363.76 | 1,360.28 |
| Resale | 42,455.58 | 44,088.64 | 28,815.92 |
| Government and Municipal (Free) | 0.00 | 0.00 | 1,999.23 |
| Interdepartmental | 371.50 | 348.64 | 426.18 |

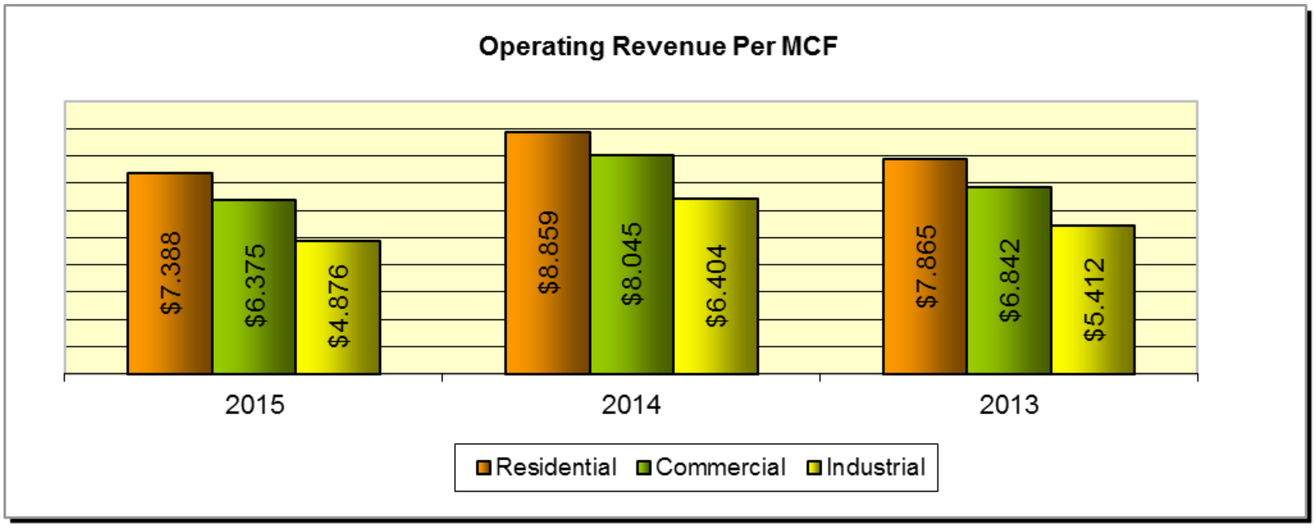
**See graph on M-7.*

## GRAPHS

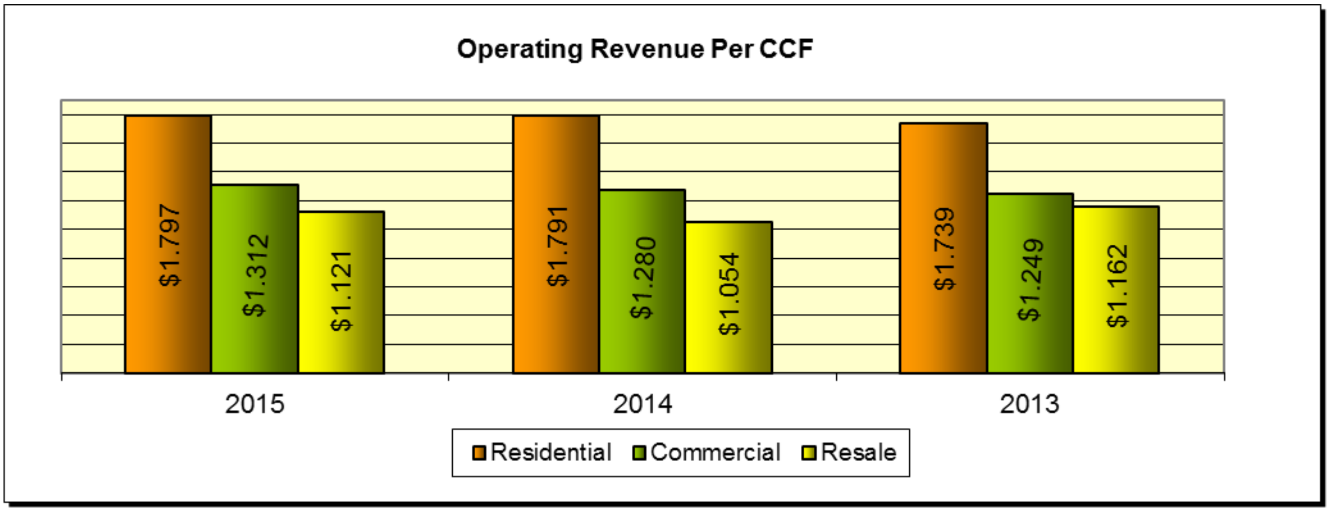
### Electric Division



### Gas Division



### *Water Division*



## *Bond Ratings*

MLGW's Electric Division and Water Division continue to maintain strong bond ratings. The Gas Division currently has no debt, and therefore has no bond rating.

MLGW's electric subordinate lien bonds, related to the electric prepay agreement with TVA, were reaffirmed with their AA+ rating with a stable outlook by Fitch Ratings ("Fitch"). Fitch cited MLGW's large distribution system, reliable power supply, savings from the prepay arrangement and stable financial metrics as the primary reasons for the reaffirmation.

The Electric Division has total debt outstanding of $421,030 as of December 31, 2015. MLGW's debt service coverages are 45.19 and 1.87 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 maintain ratings of Aa1 by Moody's and AAA by S&P. The Water Division has debt outstanding of $14,440 as of December 31, 2015. MLGW's debt service coverage is 9.83. 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, 2015:

## 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 | AA+ |
| **Water Series** | | | |
| 2014 | AAA | Aa1 | |

| Debt Administration (In Thousands) | | |
|---|---|---|
| | **Outstanding Balance** | **Coverage** |
| **Electric Senior** | $68,575 | 45.19 |
| **Electric Subordinate** | $352,455 | 1.87 |
| **Electric Composite Coverage Ratio** | $421,030 | 1.84 |
| **Water** | $14,440 | 9.83 |

On May 20, 2016, S&P lowered its rating on MLGW's Electric subordinate-lien debt to AA (Negative Outlook) from AA+ (Stable Outlook). The revision was a result of a recent change in S&P's criteria for assigning issue credit ratings to operating entities. Under the new criteria, S&P typically rates subordinated debt one notch below the senior-lien rating. In addition, S&P also revised its outlook on MLGW's Electric senior-lien debt to negative from stable and affirmed its AA+ rating on such bonds.

## *Analysis of the Electric Division's Statements 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)*

| | 2015 | 2014 | FY15 - FY14 Percentage Change | 2013 | FY14 - FY13 Percentage Change |
|---|---|---|---|---|---|
| Current assets (excluding restricted funds) | $ 524,914 | $ 453,306 | 15.8% | $ 456,034 | -0.6% |
| Restricted assets | 64,361 | 96,049 | -33.0% | 59,571 | 61.2% |
| Other assets | 4,325 | 4,647 | -6.9% | 3,051 | 52.3% |
| Prepaid power cost - long-term | 232,517 | 349,595 | -33.5% | 463,133 | -24.5% |
| Utility plant | 1,041,753 | 1,018,928 | 2.2% | 996,031 | 2.3% |
| **Total assets** | 1,867,870 | 1,922,525 | -2.8% | 1,977,820 | -2.8% |
| Deferred outflows of resources | | | | | |
| Employer Pension Contribution | 12,271 | - | - | - | - |
| Accumulated decrease in fair value of hedging derivatives | 40 | 305 | -86.9% | - | - |
| Unamortized balance of refunded debt | 3,509 | 6,400 | -45.2% | 10,137 | -36.9% |
| **Total assets and deferred outflows** | 1,883,690 | 1,929,230 | -2.4% | 1,987,957 | -3.0% |
| Current liabilities payable from current assets | 301,365 | 256,756 | 17.4% | 304,851 | -15.8% |
| Current liabilities payable from restricted assets | 33,092 | 31,086 | 6.5% | 30,008 | 3.6% |
| Long-term debt | 325,747 | 450,603 | -27.7% | 491,161 | -8.3% |
| Non-current liabilities | 29,556 | 27,711 | 6.7% | 27,975 | -0.9% |
| **Total liabilities** | 689,760 | 766,156 | -10.0% | 853,995 | -10.3% |
| Deferred inflows of resources | | | | | |
| Pension liability experience | 7,815 | - | - | - | - |
| Pension changes of assumptions | 10,577 | - | - | - | - |
| Pension investment earnings experience | 262 | - | - | - | - |
| **Total liabilities and deferred inflows** | 708,414 | 766,156 | -7.5% | 853,995 | -10.3% |
| **Net position:** | | | | | |
| Net investment in capital assets | 964,812 | 938,844 | 2.8% | 996,031 | -5.7% |
| Restricted | 18,534 | 52,900 | -65.0% | 17,287 | 206.0% |
| Unrestricted | 191,930 | 171,330 | 12.0% | 120,644 | 42.0% |
| **Total Net position** | $ 1,175,276 | $ 1,163,074 | 1.0% | $ 1,133,962 | 2.6% |

## *Assets*

*2015 Compared to 2014:*

As of December 31, 2015, total assets and deferred outflows were $1.88 billion, a decrease of $45.5 million, or 2.4%, compared to December 31, 2014. This decrease is primarily due to a decrease in prepaid power cost (long-term) of $117.1 million due to amortization (see Note 12) and a decrease in restricted assets due to depleting the Series 2014 revenue bond proceeds for capital expenditures of $34.9, partially offset by increases in current assets (excluding restricted funds) of $71.6 million and net utility plant of $22.8 million resulting from additions to electric plant in-service. The increase in current assets is primarily the result of an increase in cash and cash equivalents of $59.1 million due in part to the timing of the in lieu of tax payments and transfers to the City of $21.0 million. These disbursements were not paid until 2016. Other contributors to the increase in current assets include investments of $17.8 million, prepaid power cost (current) of $3.5 million and inventories of $2.1 million, offset in part by decreases in accounts receivable less allowance for doubtful accounts of $7.4 million and unbilled revenues of $3.4 million. The deferred outflows of resources increased $9.1 million due to employer pension contribution of $12.3 million, offset in part by the decrease in the deferred unamortized balance of refunding debt for Series 2010 Bonds of $2.9 million.

*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.

### ***Capital Assets and Construction Activities***

*2015 Compared to 2014:*

The Electric Division's utility plant assets, net of accumulated depreciation were $1.04 billion as of December 31, 2015, an increase of 2.2% over fiscal year 2014. During 2015, the Electric Division expended $70.7 million on construction activities and capital purchases, an increase of $3.6 million, or 5.4%, compared to fiscal year 2014. Major Electric Division construction activities included substation and transmission projects ($13.5 million), smart meter telecommunication infrastructure ($8.6 million), extensions to serve new customers ($7.8 million), the purchase of meters and metering equipment ($7.6 million), the purchase of transportation and power operated equipment ($6.4 million), street and leased outdoor lighting ($5.4 million), the purchase of distribution and network transformers ($4.6 million), replacement of feeder and defective cable ($3.5 million), and utility monitoring systems ($2.9 million). Other significant Electric Division capital expenditures consisted of relocation of facilities to accommodate road improvements ($1.7 million), data processing equipment and upgrades ($1.6 million), communication network improvements ($1.5 million), replacement of poles ($0.9 million), and smart grid ($0.9 million).

*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).

## *Liabilities*

*2015 Compared to 2014:*

As of December 31, 2015, total liabilities and deferred inflows were $708.4 million, representing an $57.7 million (7.5%) decrease compared to $766.2 million at December 31, 2014. These decreases are attributable to decreases in long-term debt of $124.9 million resulting from a reclassification of a portion of long-term debt to the current portion of debt and premium amortization (see Note 11), offset in part by an increase in current liabilities payable from current assets of $44.6 million due to an increase in accrued taxes (payment in lieu of taxes and transfers) of $36.3 million and current liabilities payable from restricted assets of $2.0 million largely due to an increase in medical benefits. The deferred inflows of resources increased $18.7 million due to the pension changes of assumptions of $10.6 million and the pension liability experience of $7.8 million as a result of GASB 68 implementation in 2015.

*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.

## *Net Position*

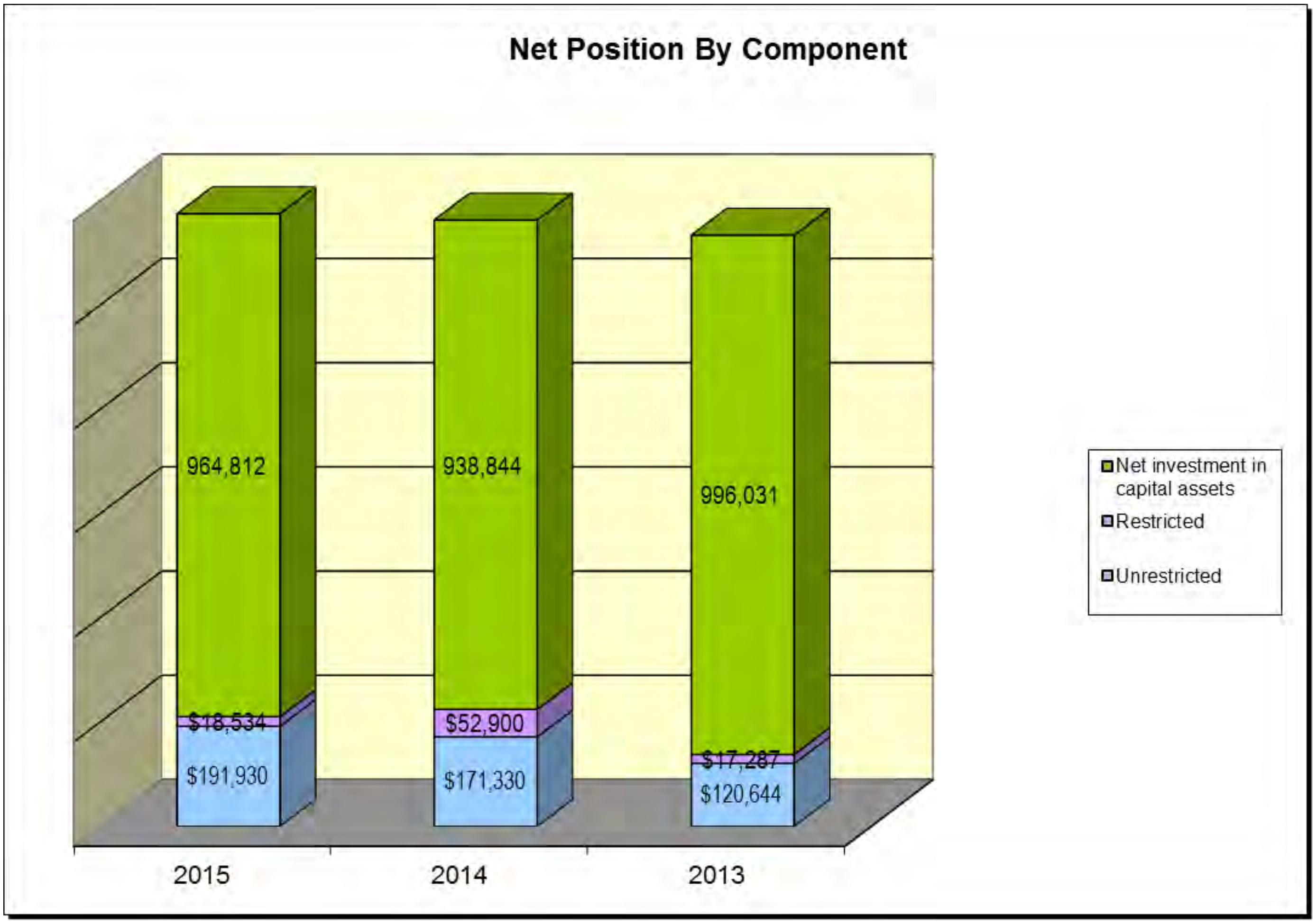
*2015 Compared to 2014:*

As of December 31, 2015, the Electric Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was $1.18 billion, an increase of $12.2 million, or 1.0%, compared to December 31, 2014. The increase was due to increases in unrestricted net position (used to finance day-to-day operations) of $20.6 million and net investment in capital assets of $26.0 million, partially offset by a decrease in restricted net position of $34.4 million. Eighty-two percent of the net position was related to net investments in capital assets.

*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.

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



## Analysis of the Electric Division's Statements 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, 2015, 2014, and 2013**

| | 2015 | 2014 | FY15 - FY14 Percentage Change | 2013 | FY14 - FY13 Percentage Change |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Operating revenues | $ 1,268,561 | $ 1,280,904 | -1.0% | $ 1,246,081 | 2.8% |
| Non-operating revenues | 53,165 | 55,536 | -4.3% | 57,238 | -3.0% |
| Total revenues | 1,321,726 | 1,336,440 | -1.1% | 1,303,319 | 2.5% |
| Expenses: | | | | | |
| Depreciation expense | 48,778 | 45,566 | 7.0% | 45,240 | 0.7% |
| Purchased power | 1,015,978 | 1,029,791 | -1.3% | 1,008,460 | 2.1% |
| Other operating expense | 177,704 | 171,095 | 3.9% | 172,856 | -1.0% |
| Non-operating expense | 19,011 | 21,581 | -11.9% | 24,061 | -10.3% |
| Total expenses | 1,261,471 | 1,268,033 | -0.5% | 1,250,617 | 1.4% |
| Income before contributions in aid of construction and transfers | 60,255 | 68,407 | -11.9% | 52,702 | 29.8% |
| Contributions in aid of construction | 13,837 | 12,827 | 7.9% | 19,715 | -34.9% |
| Reduction of plant costs recovered through contributions in aid of construction | (13,837) | (12,827) | -7.9% | (19,715) | 34.9% |
| Transfers to City of Memphis | (36,697) | (39,295) | -6.6% | (37,914) | 3.6% |
| Change in net position | $ 23,558 | $ 29,112 | -19.1% | $ 14,788 | 96.9% |
| Net position, beginning of year | $ 1,163,074 | $ 1,133,962 | 2.6% | $ 1,119,174 | 1.3% |
| Change in method of accounting for pension | (11,356) | - | - | - | - |
| Change in net position | 23,558 | 29,112 | -19.1% | 14,788 | 96.9% |
| Net position, end of year | $ 1,175,276 | $ 1,163,074 | 1.0% | $ 1,133,962 | 2.6% |

### *Change in Net Position*

*2015 Compared to 2014:*

The change in net position is $23.6 million, down $5.5 million from $29.1 million at December 31, 2014. This decrease is primarily due to an increase in other operating expense of $6.6 million, an increase in depreciation expense of $3.2 million and a decrease in non-operating revenue of $2.4 million, offset by a decrease in Transfer to the City of $2.6 million, a decrease in non-operating expense of $2.6 million (resulting from lower debt expense), and an increase in operating margin (operating revenue less power cost) of $1.5 million.

*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.

## ***Revenues***

*2015 Compared to 2014:*

Total revenues were $1.32 billion for fiscal year 2015, a decrease of $14.7 million, or 1.1%, from fiscal year 2014. Operating revenues were $1.27 billion in 2015, a decrease of $12.3 million from 2014. The decrease in operating revenue is due to lower power costs per unit that are passed along to customers through the fuel cost adjustor, lower sales volume and lower accrued/unbilled revenue, offset in part by the fuel cost adjuster ("FCA") and the TVA 1.50% rate increase effective in October 2015. There was a corresponding decrease in purchased power cost of $13.8 million due to lower power costs per unit, offset in part by the TVA rate increase. Non-operating revenue decreased $2.4 million to $53.2 million in 2015 as a result of a decrease in other income prepay credit, related to the Electric TVA Prepay Bonds of $3.6 million, offset by increases in transmission credits of $1.1 million and allowance for funds used during construction of $0.2 million.

*2014 Compared to 2013:*

Total revenues were $1.34 billion for fiscal year 2014, an increase of $33.1 million, or 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 FCA and the 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.

## ***Expenses***

*2015 Compared to 2014:*

For fiscal year 2015, total expenses were $1.26 billion, a 0.5%, or $6.6 million, decrease from fiscal year 2014 total expenses of $1.27 billion. This decrease was a result of a decrease in purchased power cost of $13.8 million, or 1.3%, and non-operating expense of $2.6 million, offset by increases in other operating expense of $6.6 million and depreciation expense of $3.2 million. The decrease in non-operating expense is primarily the result of lower interest expense associated with the Series 2010 Bonds. The increase in other operating expense is due, in part, to increases in operating expenses of $2.7 million, maintenance expense of $2.3 million and payment in lieu of taxes ("PILOT") of $1.6 million.

*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 PILOT of $0.3 million.

***Contributions in aid of construction***

*2015 Compared to 2014:*

Contributions in aid of construction ("CIAC") were $13.8 million for fiscal year 2015, an increase of $1.0 million, or 7.9%, from fiscal year 2014. This increase was mainly the result of increases in economic development projects of $1.6 million and cancelled contracts of $0.9 million, offset by a decrease in construction activity.

*2014 Compared to 2013:*

CIAC were $12.8 million for fiscal year 2014, a decrease of $6.9 million, or 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 Tennessee Emergency Management Agency ("TNEMA") grants of $1.3 million.

***Transfers to the City of Memphis***

*2015 Compared to 2014:*

MLGW's transfer to the City 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 2015 decreased by $2.6 million due to a $1.9 million reduction in the tax equalization rate, a decrease of $1.5 million resulting from higher PILOT to Shelby County and the City requesting $0.5 million less than the maximum allowed by TVA contract. The decreases are partially offset by an increase of $1.4 million due to increased net plant investment and operating revenue less power costs (three-year average).

*2014 Compared to 2013:*

MLGW's transfer to the City 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.

## Analysis of the Gas Division's Statements 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 Statements of Net Position**
**December 31**
*(In Thousands)*

| | 2015 | 2014 | FY15 - FY14 Percentage Change | 2013 | FY14 - FY13 Percentage Change |
|---|---|---|---|---|---|
| Current assets (excluding restricted funds) | $ 160,636 | $ 152,532 | 5.3% | $ 199,053 | -23.4% |
| Restricted assets | 22,122 | 20,283 | 9.1% | 17,388 | 16.6% |
| Other assets | 745 | 1,591 | -53.2% | 2,155 | -26.2% |
| Utility plant | 363,741 | 350,735 | 3.7% | 336,647 | 4.2% |
| **Total assets** | 547,244 | 525,141 | 4.2% | 555,243 | -5.4% |
| Deferred outflows of resources | | | | | |
| Employer Pension Contribution | 5,473 | - | - | - | - |
| Accumulated decrease in fair value of hedging derivatives | 617 | 774 | -20.3% | - | - |
| **Total assets and deferred outflows** | 553,334 | 525,915 | 5.2% | 555,243 | -5.3% |
| Current liabilities payable from current assets | 58,483 | 44,815 | 30.5% | 85,260 | -47.4% |
| Current liabilities payable from restricted assets | 8,386 | 6,731 | 24.6% | 5,220 | 28.9% |
| Non-current liabilities | 8,618 | 6,699 | 28.6% | 6,471 | 3.5% |
| **Total liabilities** | 75,487 | 58,245 | 29.6% | 96,951 | -39.9% |
| Deferred Inflows of Resources | | | | | |
| Pension liability experience | 3,485 | - | - | - | - |
| Pension changes of assumptions | 4,717 | - | - | - | - |
| Pension investment earnings experience | 117 | - | - | - | - |
| Accumulated decrease in fair value of hedging derivatives | - | - | - | 494 | -100.0% |
| **Total liabilities and deferred inflows** | 83,806 | 58,245 | 43.9% | 97,445 | -40.2% |
| **Net position:** | | | | | |
| Net investment in capital assets | 363,742 | 350,735 | 3.7% | 336,647 | 4.2% |
| Restricted | 10,012 | 10,479 | -4.5% | 10,247 | 2.3% |
| Unrestricted | 95,774 | 106,456 | -10.0% | 110,904 | -4.0% |
| **Total Net position** | $ 469,528 | $ 467,670 | 0.4% | $ 457,798 | 2.2% |

## *Assets*

*2015 Compared to 2014:*

As of December 31, 2015, total assets and deferred outflows were $553.3 million, an increase of $27.4 million, or 5.2%, compared to December 31, 2014. This increase is due, in part, to increases in net utility plant of $13.0 million, current assets (excluding restricted funds) of $8.1 million, deferred outflow of resources related to employer pension contribution of $5.5 million and restricted assets of $1.8 million. The increase in current assets is primarily due to an increase in cash and equivalents of $19.3 million and an increase in investments of $2.6 million, offset in part by a decrease in accounts receivable (less allowance for doubtful accounts) of $7.1 million and a decrease in unbilled revenue of $5.8 million.

*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.

### ***Capital Assets and Construction Activities***

*2015 Compared to 2014:*

The Gas Division's utility plant assets, net of accumulated depreciation were $363.7 million as of December 31, 2015, an increase of 3.7% over fiscal 2014. During 2015, the Gas Division expended $29.3 million on construction activities and equipment purchases, an increase of $1.7 million or 6.3% compared to fiscal year 2014. Major Gas Division construction activities included the replacement of the MLGW mainframe system ($8.9 million), purchase of meters and metering equipment ($4.8 million), purchases of transportation and power operated equipment ($4.6 million), buildings and structures ($2.6 million), and the retrofitting of cast iron and steel taps ($2.4 million). Other significant Gas Division expenditures included pipeline integrity ($2.3 million), extensions to serve new customer ($1.6 million), alternative fueling infrastructure ($0.5 million), and purchase of right-of-way and property ($0.5 million).

*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).

## *Liabilities*

*2015 Compared to 2014:*

At December 31, 2015, total liabilities and deferred inflows were $83.8 million, representing a $25.6 million (43.9%) increase compared to $58.2 million at December 31, 2014. This increase is due, in part, to increases in current liabilities payable from current assets of $13.7 million, non-current liabilities of $1.9 million, and current liabilities payable from restricted assets of $1.7 million, due in part to an increase in medical benefits. The deferred inflows of resources increased due to pension changes of assumptions of $4.7 million and the pension liability experience of $3.5 million as a result of GASB 68 implementation in 2015. The increase in current liabilities payable from current assets is due to other accounts payable and liabilities of $15.1 million and accrued taxes (PILOT and transfers) of $12.3 million, offset in part by a decrease in accounts payables – purchased gas of $13.5 million. Non-current liabilities increased in part due to increases in the net pension liability of $0.9 million and customer deposits of $0.7 million.

*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.

## *Net Position*

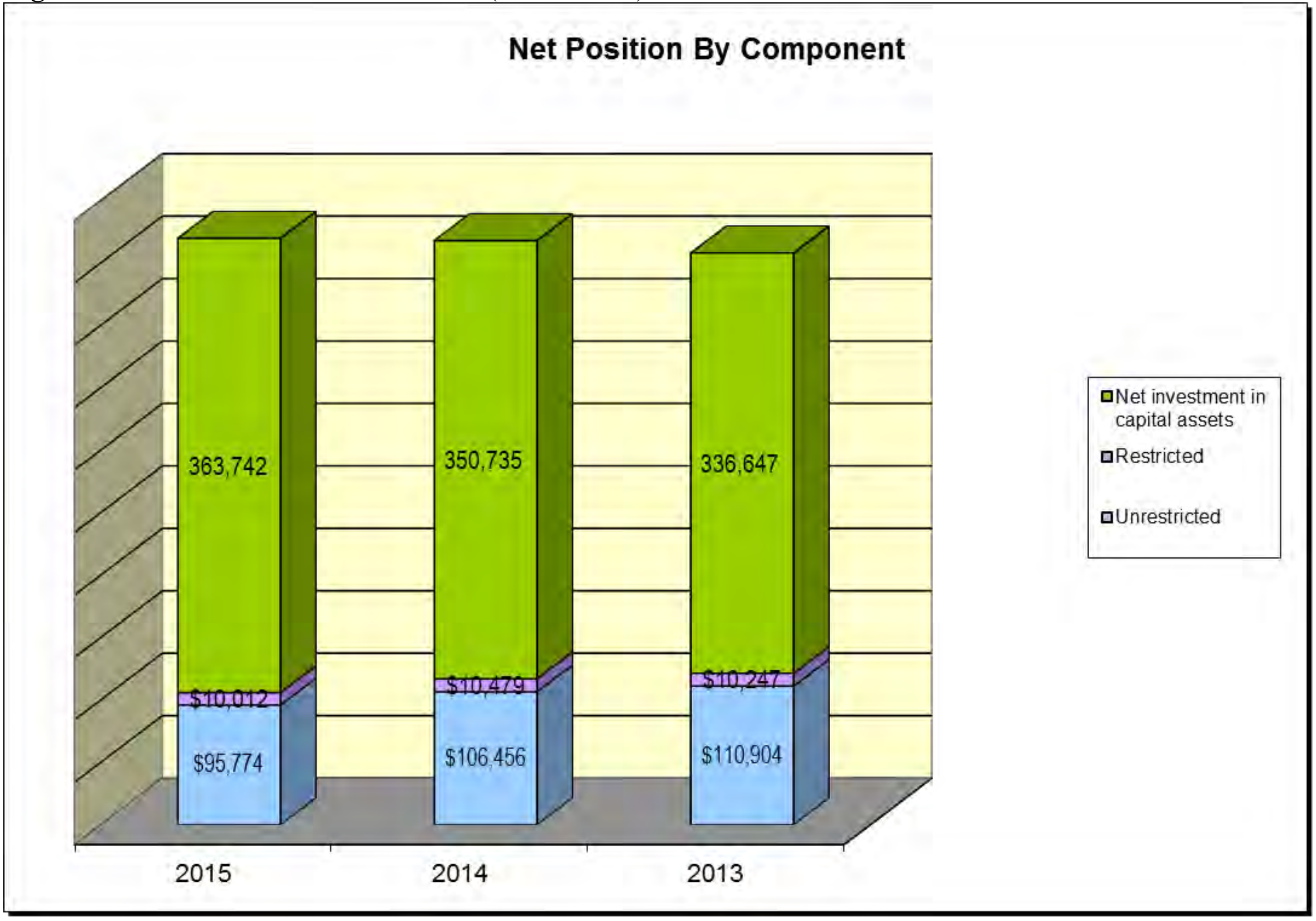
*2015 Compared to 2014:*

As of December 31, 2015, the Gas Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was $469.5 million, an increase of $1.9 million, or 0.4%, from December 31, 2014. Seventy-seven percent of the net position was related to net investments in capital assets, which accounts for $13.0 million of the increase, offset in part by a decrease in unrestricted net position (used to finance day-to-day operations) of $10.7 million, or 10.0%.

*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%.

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



## Analysis of the Gas Division's Statements 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, 2015, 2014, and 2013**
*(In Thousands)*

| | 2015 | 2014 | FY15 - FY14 Percentage Change | 2013 | FY14 - FY13 Percentage Change |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Sales, service and other operating revenues | $ 243,525 | $ 326,693 | -25.5% | $ 277,878 | 17.6% |
| Transported gas revenue | 6,380 | 7,119 | -10.4% | 6,738 | 5.7% |
| Non-operating revenues | 326 | (216) | 250.9% | (254) | 15.0% |
| Total revenues | 250,231 | 333,596 | -25.0% | 284,362 | 17.3% |
| Expenses: | | | | | |
| Depreciation expense | 14,660 | 13,365 | 9.7% | 13,324 | 0.3% |
| Purchased gas | 122,973 | 201,362 | -38.9% | 163,241 | 23.4% |
| Other operating expense | 89,124 | 91,677 | -2.8% | 91,988 | -0.3% |
| Non-operating expense | - | - | - | - | - |
| Total expenses | 226,757 | 306,404 | -26.0% | 268,553 | 14.1% |
| Income before contributions in aid of construction and transfers | 23,474 | 27,192 | -13.7% | 15,809 | 72.0% |
| Contributions in aid of construction | 2,317 | 1,283 | 80.6% | 2,015 | -36.3% |
| Reduction of plant costs recovered through contributions in aid of construction | (2,317) | (1,283) | -80.6% | (2,015) | 36.3% |
| Transfers to City of Memphis | (16,551) | (17,320) | -4.4% | (16,208) | 6.9% |
| Change in net position | $ 6,923 | $ 9,872 | -29.9% | $ (399) | 2574.2% |
| Net position, beginning of year | $ 467,670 | $ 457,798 | 2.2% | $ 458,197 | -0.1% |
| Change in method of accounting for pension | (5,065) | - | - | - | - |
| Change in net position | 6,923 | 9,872 | -29.9% | (399) | 2574.2% |
| Net position, end of year | $ 469,528 | $ 467,670 | 0.4% | $ 457,798 | 2.2% |

### *Change in Net Position*

*2015 Compared to 2014:*

The change in net position is $6.9 million, down $2.9 million from December 31, 2014. This decrease is primarily due to a decrease in operating margin (operating revenue less gas cost) of $5.5 million resulting mainly from lower gas sales volume and an increase in depreciation expense of $1.3 million, offset in part by decreases in other operating expense of $2.6 million and transfers to the City of $0.8 million.

*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.

## *Revenues*

*2015 Compared to 2014:*

Total revenues were $250.2 million for fiscal year 2015, a decrease of 25.0% from fiscal year 2014. Sales, service and other operating revenues were $243.5 million, a decrease of $83.2 million, or 25.5%, from 2014. There was a decrease in gas sales and lower gas costs that are passed along to customers by a purchase gas adjustment ("PGA"). There was a corresponding decrease in purchased gas cost of $78.4 million, or 38.9%, due to lower purchased volumes and lower gas cost per unit. Transported gas revenue decreased $0.7 million, or 10.4%, and non-operating revenue increased $0.5 million, compared to last fiscal year.

*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, or 17.6%, from 2013. 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 $38.1 million, or 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.

## *Expenses*

*2015 Compared to 2014:*

For fiscal year 2015, total expenses were $226.8 million at December 31, 2015, a 26.0% decrease over fiscal year 2014 expenses of $306.4 million. Purchased gas cost was $123.0 million, down 38.9%, from $201.4 million at December 31, 2014, as a result of a decrease in natural gas purchases and lower gas costs per unit than last year. Other operating expense was $89.1 million at December 31, 2015, down $2.6 million , or 2.8%, from $91.7 million at December 31, 2014, primarily attributable to a reduction in operation costs of $2.6 million and PILOT of $0.2 million, offset in part by an increase in maintenance expenses of $0.2 million.

*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.

### *Contributions in aid of construction*

*2015 Compared to 2014:*

CIAC were $2.3 million for fiscal year 2015, an increase of $1.0 million (80.6%) from fiscal year 2014. This increase was mainly the result of increases in economic development projects of $0.5 million, donated easements of $0.4 million and construction activity of $0.3 million, offset by $0.1 million in cancelled contracts.

*2014 Compared to 2013:*

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.

### *Transfers to the City of Memphis*

*2015 Compared to 2014:*

MLGW's transfer to the City 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 PILOT. The transfer for 2015 decreased by $0.8 million due to a decrease of $1.0 million resulting from the City requesting less than the maximum allowed by statute and $0.8 million due to a decrease in the tax equalization rate, offset in part by an increase of $0.8 million due to net plant investment and three-year average revenues and an increase of $0.2 million resulting from lower PILOT to Shelby County.

*2014 Compared to 2013:*

MLGW's transfer to the City 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 PILOT. The transfer for 2014 increased by $1.1 million, primarily due to an increase in net plant investment.

## Analysis of the Water Division's Statements 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)*

| | 2015 | 2014 | FY15 - FY14 Percentage Change | 2013 | FY14 - FY13 Percentage Change |
|---|---|---|---|---|---|
| Current assets (excluding restricted assets) | $ 43,790 | $ 45,234 | -3.2% | $ 39,658 | 14.1% |
| Restricted assets | 13,986 | 14,168 | -1.3% | 11,815 | 19.9% |
| Other assets | 2,693 | 2,653 | 1.5% | 2,220 | 19.5% |
| Utility plant | 270,988 | 266,592 | 1.6% | 261,895 | 1.8% |
| **Total assets** | 331,457 | 328,647 | 0.9% | 315,589 | 4.1% |
| Deferred outflows of resources | | | | | |
| Employer Pension Contribution | 3,634 | - | - | - | - |
| **Total assets and deferred outflows** | 335,091 | 328,647 | 2.0% | 315,589 | 4.1% |
| Current liabilities payable from current assets | 19,140 | 14,134 | 35.4% | 20,933 | -32.5% |
| Current liabilities payable from restricted assets | 6,050 | 5,101 | 18.6% | 3,927 | 29.9% |
| Long-term debt | 14,739 | 15,384 | -4.2% | - | - |
| Non-current liabilities | 6,466 | 5,924 | 9.1% | 6,962 | -14.9% |
| **Total liabilities** | 46,395 | 40,543 | 14.4% | 31,822 | 27.4% |
| Deferred inflows of resources | | | | | |
| Pension liability experience | 2,315 | - | - | - | - |
| Pension changes of assumptions | 3,133 | - | - | - | - |
| Pension investment earnings experience | 78 | - | - | - | - |
| **Total liabilities and deferred inflows** | 51,921 | 40,543 | 28.1% | 31,822 | 27.4% |
| **Net position:** | | | | | |
| Net investment in capital assets | 255,883 | 250,871 | 2.0% | 261,895 | -4.2% |
| Restricted | 7,100 | 8,268 | -14.1% | 7,100 | 16.4% |
| Unrestricted | 20,187 | 28,965 | -30.3% | 14,771 | 96.1% |
| **Total Net position** | $ 283,170 | $ 288,104 | -1.7% | $ 283,766 | 1.5% |

## *Assets*

*2015 Compared to 2014:*

As of December 31, 2015, total assets and deferred outflows were $335.1 million, an increase of $6.4 million compared to December 31, 2014. The increase is due, in part, to an increase in net utility plant of $4.4 million and an increase in deferred outflow of resources related to employer pension contribution of $3.6 million, offset in part by a decrease in current assets (excluding restricted assets) of $1.4 million. The decrease in current assets is attributable to a decrease in investments of $2.5 million, offset in part by an increase in accounts receivable (less allowance for doubtful accounts) of $0.6 million and an increase in unbilled revenue of $0.5 million.

*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).

### ***Capital Assets and Construction Activities***

*2015 Compared to 2014:*

The Water Division's utility plant assets, net of accumulated depreciation were $271.0 million as of December 31, 2015, an increase of 1.6% as compared to December 31, 2014. During 2015, the Water Division expended $11.6 million on construction activities and equipment purchases, a decrease of $0.3 million or 2.5% compared to fiscal year 2014. Major Water Division construction activities included the purchase of meters ($2.6 million), extension to serve new customers ($2.0 million), the relocation of facilities to accommodate road improvements ($1.5 million), and building upgrades to various pumping station buildings ($1.0 million). Other significant expenditures include main installation and improvements ($0.8 million), purchase of transportation and power operated equipment ($0.5 million), upgrades to Mallory Pumping Station ($0.5 million), upgrades to Allen Pumping Station ($0.4 million), upgrades to Shaw Pumping Station ($0.2 million), and upgrades to McCord Pumping Station ($0.2 million).

*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).

## *Liabilities*

*2015 Compared to 2014:*

As of December 31, 2015, total liabilities and deferred inflows were $51.9 million, representing an increase of $11.4 million, or 28.1%, compared to December 31, 2014. The increase is due, in part, to an increase in current liabilities payable from current assets of $5.0 million and an increase in current liabilities payable from restricted assets of $0.9 million due to an increase in medical benefits of $0.8 million. Deferred inflows of resources increased $5.5 million due to the GASB 68 implementation in 2015.

*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).

## *Net Position*

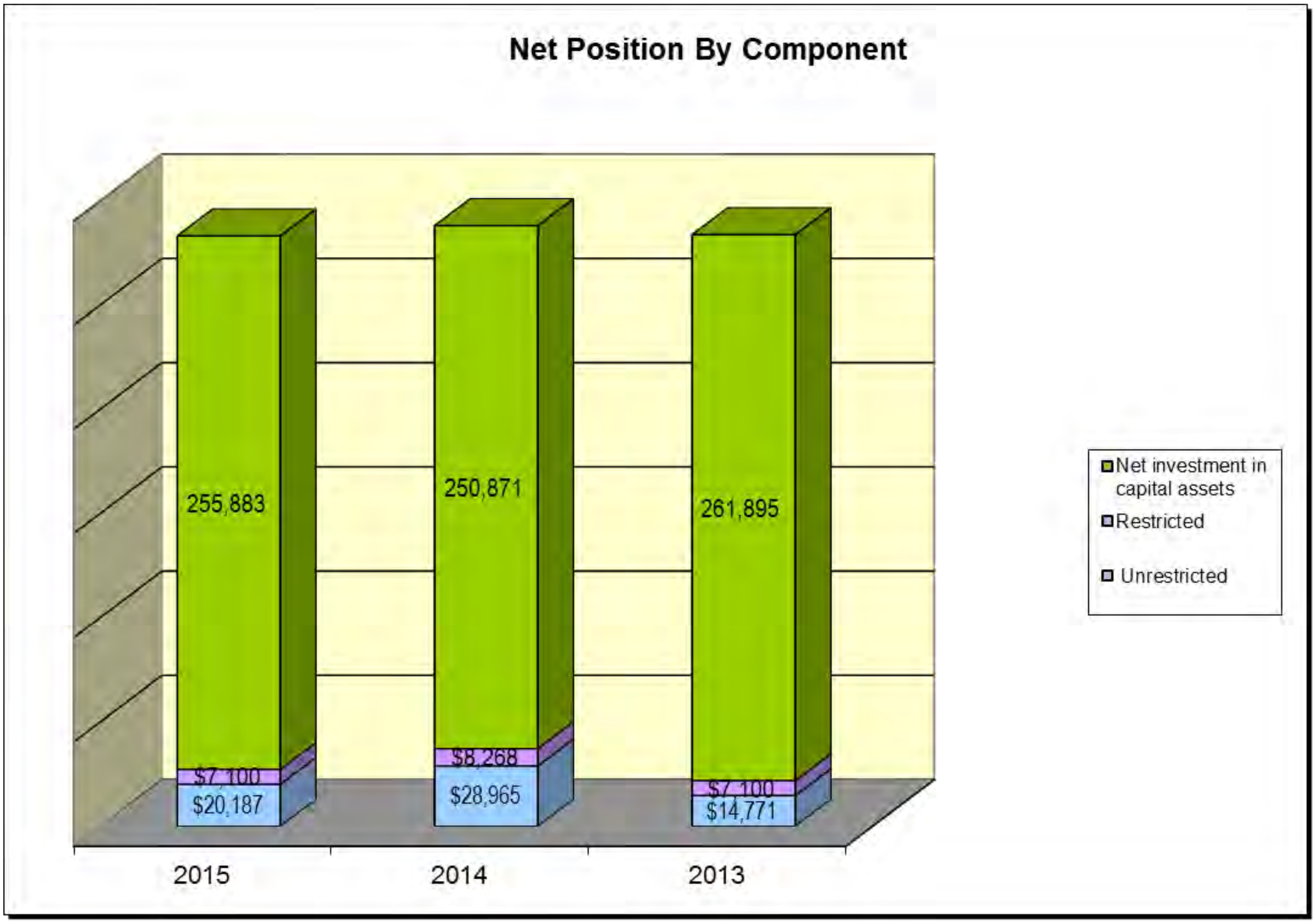
*2015 Compared to 2014:*

As of December 31, 2015, the Water Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was $283.2 million, a decrease of $4.9 million, or 1.7%, from December 31, 2014. The decrease is due to a decrease in unrestricted net position (used to finance day-to-day operations) of $8.8 million, partially offset by an increase in net investment in capital assets of $5.0 million. Ninety percent of the net position was related to net investments in capital assets.

*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.

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



## Analysis of the Water Division’s Statements 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, 2015, 2014, and 2013**
*(In Thousands)*

| | 2015 | 2014 | FY15 - FY14 Percentage Change | 2013 | FY14 - FY13 Percentage Change |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Operating revenues | $ 84,491 | $ 86,181 | -2.0% | $ 84,780 | 1.7% |
| Non-operating revenues | 678 | 722 | -6.1% | 650 | 11.1% |
| Total Revenues | 85,169 | 86,903 | -2.0% | 85,430 | 1.7% |
| Expenses: | | | | | |
| Depreciation expense | 7,279 | 7,522 | -3.2% | 7,465 | 0.8% |
| Other operating expense | 74,604 | 70,379 | 6.0% | 69,457 | 1.3% |
| Non-operating expense | 457 | 264 | 73.1% | - | - |
| Total Expenses | 82,340 | 78,165 | 5.3% | 76,922 | 1.6% |
| Income before contributions in aid of construction and transfers | 2,829 | 8,738 | -67.6% | 8,508 | 2.7% |
| Contributions in aid of construction | 3,128 | 3,161 | -1.0% | 4,357 | -27.5% |
| Reduction of plant costs recovered through contributions in aid of construction | (3,128) | (3,161) | 1.0% | (4,357) | 27.5% |
| Transfers to City of Memphis | (4,400) | (4,400) | 0.0% | (4,300) | 2.3% |
| Change in net position | $ (1,571) | $ 4,338 | -136.2% | $ 4,208 | 3.1% |
| Net position, beginning of year | $ 288,104 | $ 283,766 | 1.5% | $ 279,558 | 1.5% |
| Change in method of accounting for pension | (3,363) | - | - | - | - |
| Change in net position | (1,571) | 4,338 | -136.2% | 4,208 | 3.1% |
| Net position, end of year | $ 283,170 | $ 288,104 | -1.7% | $ 283,766 | 1.5% |

### *Change in Net Position*

*2015 Compared to 2014:*

As of December 31, 2015, the change in net position is a loss of $1.6 million, down $5.9 million from a gain of $4.3 million at December 31, 2014. This decrease is due primarily to an increase in other operating expense of $4.2 million and a decrease in operating margin of $1.7 million.

*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.

## *Revenues*

*2015 Compared to 2014:*

Total revenues were $85.2 million for fiscal year 2015, a decrease of $1.7 million compared to fiscal year 2014. Operating revenues decreased $1.7, or 2.0%, due primarily to a decrease in miscellaneous revenue of $1.0 million due to a decrease in interdivisional rents, connect/reconnect fees, and forfeited discounts and a decrease in sales revenue of $0.9 million due to lower sales volume.

*2014 Compared to 2013:*

Total revenues were $86.9 million for fiscal year 2014, an increase of $1.5 million compared to fiscal year 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.

## *Expenses*

*2015 Compared to 2014:*

As of December 31, 2015, total expenses for the Water Division were $82.3 million, an increase of $4.2 million, or 5.3%, compared to fiscal year 2014. The increase resulted from an increase in other operating expense of $4.2 million and non-operating expense of $0.2 million, offset by a decrease in depreciation expense of $0.2 million. Other operating expenses increased, primarily due to an increase in pollution remediation 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.

### ***Contributions in aid of construction***

*2015 Compared to 2014:*

CIAC were $3.1 million for fiscal year 2015, a decrease of $0.03, or 1.0%, from fiscal year 2014. This decrease was mainly the result of a decrease in construction activity of $0.3 million and claims of $0.05 million, offset by an increase in donated easements of $0.3 million.

*2014 Compared to 2013:*

CIAC were $3.2 million for fiscal year 2014, a decrease of $1.2 million, or 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.

***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 to make an additional annual $1.9 million transfer payment each year through fiscal year 2017.

## 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.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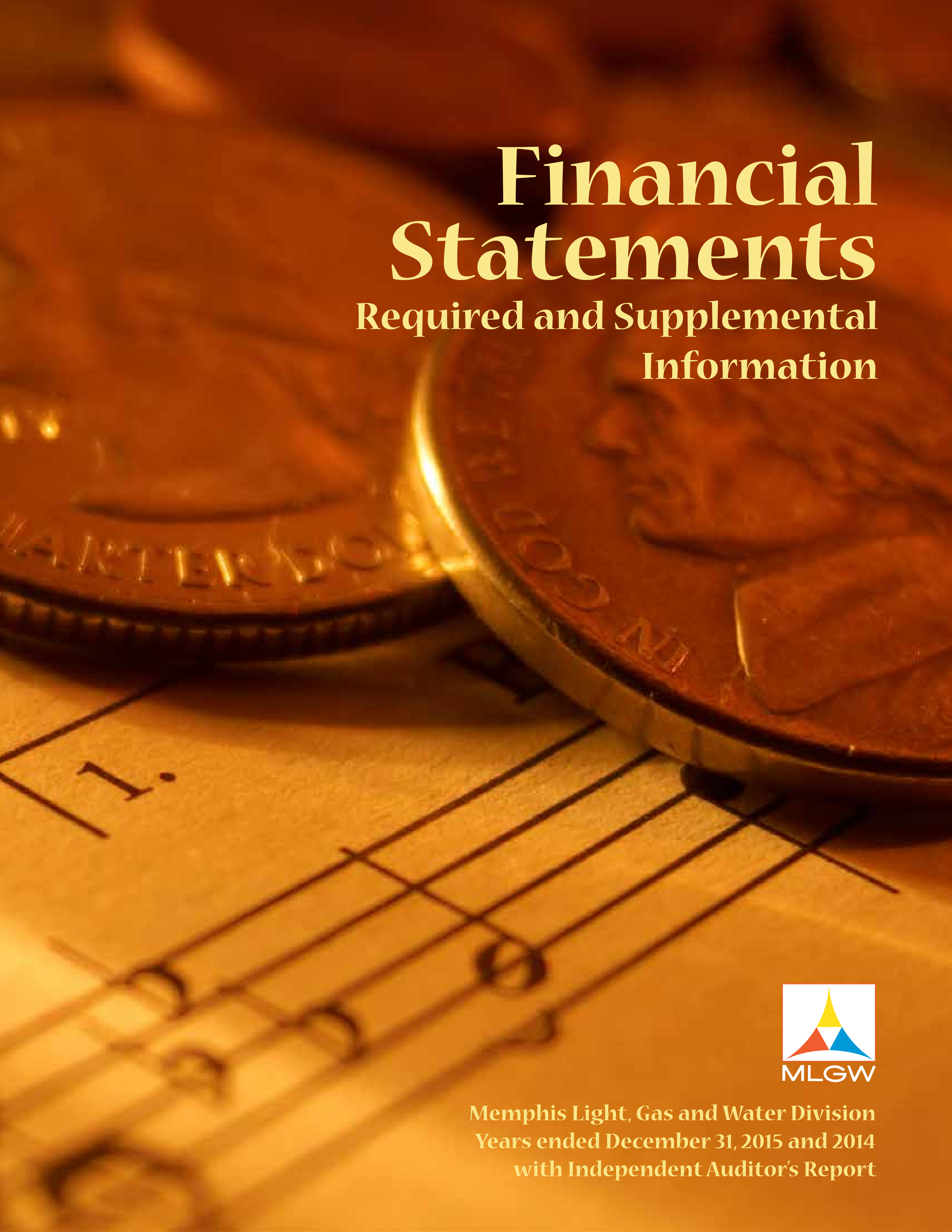


# Financial Statements

## Required and Supplemental Information

MLGW

Memphis Light, Gas and Water Division
Years ended December 31, 2015 and 2014
with Independent Auditor's Report

# STATEMENTS OF NET POSITION
# DECEMBER 31, 2015 AND 2014
# (Dollars in Thousands)

| | Electric Division | | Gas Division | | Water Division | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| **Assets** | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ 160,465 | $ 101,279 | $ 65,814 | $ 46,511 | $ 13,613 | $ 13,837 |
| Investments | 95,299 | 77,451 | 37,458 | 34,896 | 8,083 | 10,599 |
| Restricted funds - current | 33,093 | 66,075 | 8,607 | 7,419 | 6,050 | 6,269 |
| Accounts receivable, less allowance for doubtful accounts | 77,826 | 85,198 | 33,871 | 40,997 | 15,352 | 14,799 |
| Unbilled revenues | 46,278 | 49,639 | 14,040 | 19,888 | 3,503 | 2,958 |
| Prepaid power cost | 117,078 | 113,538 | - | - | - | - |
| Unrecovered purchased power cost | 2,373 | 2,385 | - | - | - | - |
| Gas stored - gas in storage | - | - | 2,156 | 3,409 | - | - |
| Inventories | 24,800 | 22,749 | 4,283 | 3,161 | 3,222 | 3,023 |
| Prepayment - insurance | - | - | 483 | 492 | - | - |
| Other current assets | 795 | 1,067 | 2,531 | 3,178 | 17 | 18 |
| Total current assets | 558,007 | 519,381 | 169,243 | 159,951 | 49,840 | 51,503 |
| Non-current assets: | | | | | | |
| Restricted funds: | | | | | | |
| Futures margin deposits | 1 | 55 | 221 | 688 | - | - |
| Insurance reserves - injuries and damages | 5,413 | 6,435 | 2,653 | 2,639 | 2,988 | 2,835 |
| Insurance reserves - casualties and general | 18,533 | 17,910 | 9,791 | 9,791 | 7,100 | 7,100 |
| Medical benefits | 8,230 | 5,621 | 3,670 | 2,507 | 2,437 | 1,665 |
| Customer deposits | 20,878 | 19,777 | 5,787 | 4,658 | 1,371 | 1,310 |
| Interest fund - revenue bonds - series 2003A | 14 | 20 | - | - | - | - |
| Interest fund - revenue refunding bonds - series 2008 | 380 | 380 | - | - | - | - |
| Interest fund - revenue refunding bonds - series 2010 | 1,035 | 1,469 | - | - | - | - |
| Interest fund - revenue bonds - series 2014 | 254 | 258 | - | - | 42 | 43 |
| Sinking fund - revenue bonds - series 2003A | - | 154 | - | - | - | - |
| Sinking fund - revenue refunding bonds - series 2010 | 9,417 | 8,834 | - | - | - | - |
| Sinking fund - revenue bonds - series 2014 | 206 | 202 | - | - | 48 | 47 |
| Construction fund - revenue bonds - series 2014 | - | 34,934 | - | - | - | 1,168 |
| Total restricted funds | 64,361 | 96,049 | 22,122 | 20,283 | 13,986 | 14,168 |
| Less restricted funds - current | (33,093) | (66,075) | (8,607) | (7,419) | (6,050) | (6,269) |
| Restricted funds - non-current | 31,268 | 29,974 | 13,515 | 12,864 | 7,936 | 7,899 |
| Other assets: | | | | | | |
| Prepaid power cost - long term | 232,517 | 349,595 | - | - | - | - |
| Prepayment - in lieu of taxes | 1,797 | 1,871 | 41 | 41 | - | - |
| Unamortized debt expense | 937 | 1,348 | - | - | 187 | 205 |
| Notes receivable | - | - | - | 913 | 2,038 | 2,025 |
| Other prepayments | 1,591 | 1,428 | 704 | 637 | 468 | 423 |
| Total other assets | 236,842 | 354,242 | 745 | 1,591 | 2,693 | 2,653 |
| Utility plant | | | | | | |
| Plant in service | 1,738,345 | 1,682,188 | 658,913 | 636,609 | 462,612 | 452,596 |
| Plant held for future use | - | - | 212 | 212 | - | - |
| Non-utility plant | 15,345 | 15,345 | 200 | 266 | - | - |
| Total utility plant | 1,753,690 | 1,697,533 | 659,325 | 637,087 | 462,612 | 452,596 |
| Less accumulated depreciation & amortization | (711,937) | (678,605) | (295,584) | (286,352) | (191,624) | (186,004) |
| Utility plant, net | 1,041,753 | 1,018,928 | 363,741 | 350,735 | 270,988 | 266,592 |
| Total non-current assets | 1,309,863 | 1,403,144 | 378,001 | 365,190 | 281,617 | 277,144 |
| Total assets | 1,867,870 | 1,922,525 | 547,244 | 525,141 | 331,457 | 328,647 |
| **Deferred outflows of resources** | | | | | | |
| Unamortized balance of refunded debt | 3,509 | 6,400 | - | - | - | - |
| Employer pension contribution | 12,271 | - | 5,473 | - | 3,634 | - |
| Accumulated decrease in fair value of hedging derivatives | 40 | 305 | 617 | 774 | - | - |
| Total assets and deferred outflows of resources | $1,883,690 | $ 1,929,230 | $ 553,334 | $ 525,915 | $ 335,091 | $ 328,647 |

*See accompanying notes.*

# STATEMENTS OF NET POSITION
# DECEMBER 31, 2015 AND 2014
# (Dollars in Thousands)
# (Continued)

| | Electric Division | | Gas Division | | Water Division | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| **Liabilities** | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable - purchased power and gas | $ 103,227 | $ 108,394 | $ 12,539 | $ 26,091 | $ - | $ - |
| Other accounts payable and liabilities | 47,881 | 38,984 | 29,496 | 14,436 | 14,880 | 11,166 |
| Accrued taxes | 36,347 | - | 12,268 | - | 1,250 | - |
| Accrued vacation | 8,088 | 8,063 | 3,563 | 3,514 | 2,488 | 2,455 |
| Derivative financial instruments | 40 | 305 | 617 | 774 | - | - |
| Bonds payable | 105,782 | 101,010 | - | - | 522 | 513 |
| Total current liabilities payable from current assets | 301,365 | 256,756 | 58,483 | 44,815 | 19,140 | 14,134 |
| Current liabilities payable from restricted assets: | | | | | | |
| Insurance reserves - injuries and damages | 5,413 | 6,435 | 2,654 | 2,639 | 2,988 | 2,835 |
| Medical benefits | 8,230 | 5,621 | 3,670 | 2,507 | 2,437 | 1,665 |
| Customer deposits | 8,143 | 7,713 | 2,062 | 1,585 | 535 | 511 |
| Bonds payable - accrued interest | 1,683 | 2,127 | - | - | 42 | 43 |
| Bonds payable - principal | 9,623 | 9,190 | - | - | 48 | 47 |
| Total current liabilities payable from restricted assets | 33,092 | 31,086 | 8,386 | 6,731 | 6,050 | 5,101 |
| Total current liabilities | 334,457 | 287,842 | 66,869 | 51,546 | 25,190 | 19,235 |
| Non-current liabilities: | | | | | | |
| Customer advances for construction | 7,234 | 7,263 | 578 | 510 | - | - |
| Customer deposits | 12,735 | 12,064 | 3,724 | 3,073 | 836 | 799 |
| LNG deposits | - | - | - | - | - | - |
| Reserve for unused sick leave | 6,715 | 6,704 | 3,101 | 2,991 | 2,200 | 2,141 |
| Revenue bonds - series 2003A | 4,170 | 4,170 | - | - | - | - |
| Revenue refunding bonds - series 2008 | 96,930 | 96,930 | - | - | - | - |
| Revenue refunding bonds - series 2010 | 138,420 | 251,355 | - | - | - | - |
| Revenue bonds - series 2014 | 66,105 | 68,575 | - | - | 13,870 | 14,440 |
| Unamortized debt premium | 20,122 | 29,573 | - | - | 869 | 944 |
| Net pension liability | 2,072 | - | 924 | - | 614 | - |
| Other | 800 | 1,680 | 291 | 125 | 2,816 | 2,984 |
| Total non-current liabilities | 355,303 | 478,314 | 8,618 | 6,699 | 21,205 | 21,308 |
| Total liabilities | 689,760 | 766,156 | 75,487 | 58,245 | 46,395 | 40,543 |
| **Deferred inflows of resources** | | | | | | |
| Pension liability experience | 7,815 | - | 3,485 | - | 2,315 | - |
| Pension changes of assumptions | 10,577 | - | 4,717 | - | 3,133 | - |
| Pension investment earnings experience | 262 | - | 117 | - | 78 | - |
| Total deferred inflows of resources | 18,654 | - | 8,319 | - | 5,526 | - |
| **Net position** | | | | | | |
| Net investment in capital assets | 964,812 | 938,844 | 363,742 | 350,735 | 255,883 | 250,871 |
| Restricted | 18,534 | 52,900 | 10,012 | 10,479 | 7,100 | 8,268 |
| Unrestricted | 191,930 | 171,330 | 95,774 | 106,456 | 20,187 | 28,965 |
| Total net position | 1,175,276 | 1,163,074 | 469,528 | 467,670 | 283,170 | 288,104 |
| Total liabilities, deferred inflows of resources and net position | $1,883,690 | $ 1,929,230 | $ 553,334 | $ 525,915 | $ 335,091 | $ 328,647 |

*See accompanying notes.*

# STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
## FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
## (Dollars in Thousands)

| | Electric Division | | Gas Division | | Water Division | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Operating revenues: | | | | | | |
| Sales and service revenues | **$ 1,238,095** | $ 1,249,274 | **$ 225,388** | $ 307,941 | **$ 80,748** | $ 81,400 |
| Transported gas revenues | **-** | - | **6,380** | 7,119 | **-** | - |
| Other revenues | **30,466** | 31,630 | **18,137** | 18,752 | **3,743** | 4,781 |
| Total operating revenues | **1,268,561** | 1,280,904 | **249,905** | 333,812 | **84,491** | 86,181 |
| Operating expenses: | | | | | | |
| Purchased power and gas for resale | **1,015,978** | 1,029,791 | **122,973** | 201,362 | **-** | - |
| Production | **-** | - | **-** | - | **15,586** | 15,599 |
| Operation | **126,227** | 123,531 | **75,175** | 77,801 | **49,629** | 46,322 |
| Maintenance | **43,650** | 41,377 | **12,988** | 12,720 | **9,389** | 8,458 |
| Depreciation & amortization | **48,778** | 45,566 | **14,660** | 13,365 | **7,279** | 7,522 |
| Payment in lieu of taxes | **7,827** | 6,187 | **961** | 1,156 | **-** | - |
| | **1,242,460** | 1,246,452 | **226,757** | 306,404 | **81,883** | 77,901 |
| Operating income (loss) | **26,101** | 34,452 | **23,148** | 27,408 | **2,608** | 8,280 |
| Non-operating revenues (expenses): | | | | | | |
| Contributions in aid of construction | **13,837** | 12,827 | **2,316** | 1,283 | **3,128** | 3,161 |
| Reduction of plant costs recovered through contributions in aid of construction | **(13,837)** | (12,827) | **(2,316)** | (1,283) | **(3,128)** | (3,161) |
| Transmission credits | **32,565** | 31,483 | **-** | - | **-** | - |
| Investment and other income | **3,730** | 3,800 | **326** | (216) | **674** | 720 |
| Allowance for funds used during construction | **226** | 41 | **-** | - | **4** | 2 |
| Prepay credit | **16,644** | 20,212 | **-** | - | **-** | - |
| Interest expense | **(19,011)** | (21,581) | **-** | - | **(457)** | (264) |
| Total non-operating revenues (expenses) | **34,154** | 33,955 | **326** | (216) | **221** | 458 |
| Income before transfers | **60,255** | 68,407 | **23,474** | 27,192 | **2,829** | 8,738 |
| Transfers out - City of Memphis | **(36,697)** | (39,295) | **(16,551)** | (17,320) | **(4,400)** | (4,400) |
| Change in net position | **$ 23,558** | $ 29,112 | **$ 6,923** | $ 9,872 | **$ (1,571)** | $ 4,338 |
| Net position, beginning of year | **$ 1,163,074** | $ 1,133,962 | **$ 467,670** | $ 457,798 | **$ 288,104** | $ 283,766 |
| Change in method of accounting for pension | **(11,356)** | | **(5,065)** | | **(3,363)** | |
| Change in net position | **23,558** | 29,112 | **6,923** | 9,872 | **(1,571)** | 4,338 |
| Net position, end of year | **$ 1,175,276** | $ 1,163,074 | **$ 469,528** | $ 467,670 | **$ 283,170** | $ 288,104 |

*See accompanying notes.*

# STATEMENTS OF CASH FLOWS
# FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollars in Thousands)

| | Electric Division | | Gas Division | | Water Division | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Cash flows from operating activities: | | | | | | |
| Receipts from customers and users | $1,277,795 | $1,277,858 | $ 263,877 | $ 339,592 | $ 83,157 | $ 85,370 |
| Payments to suppliers | (897,702) | (921,953) | (156,105) | (236,551) | (25,745) | (26,106) |
| Payments to/on behalf of employees | (121,267) | (116,793) | (60,143) | (62,604) | (42,064) | (42,233) |
| Payments from (to) other Division funds | 2,146 | 1,520 | (2,569) | (534) | (2,606) | (1,662) |
| Payments for taxes | (62) | (6,353) | (25) | (1,105) | - | - |
| Net cash provided by operating activities | 260,910 | 234,279 | 45,035 | 38,798 | 12,742 | 15,369 |
| Cash flows from noncapital financing activities: | | | | | | |
| Transfers to City of Memphis | (7,993) | (39,295) | (5,175) | (17,320) | (3,150) | (4,400) |
| Principal payments on long-term debt | (107,336) | (102,765) | - | - | - | - |
| Interest expense on bonds | (22,855) | (27,430) | - | - | - | - |
| Net cash used in noncapital financing activities | (138,184) | (169,490) | (5,175) | (17,320) | (3,150) | (4,400) |
| Cash flows from capital and related financing activities: | | | | | | |
| Purchase and construction of utility plant | (86,429) | (80,415) | (31,467) | (28,675) | (15,086) | (15,380) |
| Contributions in aid of construction | 13,837 | 12,827 | 2,316 | 1,283 | 3,128 | 3,161 |
| Advance contributions in aid of construction (TVA) | - | - | 11,487 | - | - | - |
| Proceeds from issuance of long-term debt | - | 80,499 | - | - | - | 15,755 |
| Principal payments on long-term debt | (2,421) | - | - | - | (559) | - |
| Interest payments on debt | (2,869) | (1,487) | - | - | (513) | (253) |
| Net cash provided by (used in) capital and related financing activities | (77,882) | 11,424 | (17,664) | (27,392) | (13,030) | 3,283 |
| Cash flows from investing activities: | | | | | | |
| Sales and maturities of investments | 74,844 | 108,738 | 34,970 | 62,160 | 13,412 | 15,180 |
| Purchases of investments | (91,055) | (109,796) | (36,776) | (50,260) | (10,345) | (18,598) |
| Payments received on notes receivable | - | - | 1,200 | 1,047 | (13) | 195 |
| Issuance of notes receivable | - | - | - | - | - | - |
| Investment income earned on investments | 503 | 499 | 307 | 367 | 529 | 51 |
| Net cash provided by (used in) investing activities | (15,708) | (559) | (299) | 13,314 | 3,583 | (3,172) |
| Increase in cash and cash equivalents | 29,136 | 75,654 | 21,897 | 7,400 | 145 | 11,080 |
| Cash and cash equivalents, beginning of year | 186,768 | 111,114 | 61,403 | 54,003 | 23,696 | 12,616 |
| Cash and cash equivalents, end of year | $ 215,904 | $ 186,768 | $ 83,300 | $ 61,403 | $ 23,841 | $ 23,696 |

*See accompanying notes.*

# STATEMENTS OF CASH FLOWS
# FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollars in Thousands)
(Continued)

| | Electric Division | | Gas Division | | Water Division | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Reconciliation of operating income to net cash provided by operating activities: | | | | | | |
| Operating income | **$ 26,101** | $ 34,452 | **$ 23,148** | $ 27,408 | **$ 2,608** | $ 8,280 |
| Adjustments to reconcile net operating income to net cash provided by operating activities: | | | | | | |
| Depreciation of utility plant | **49,766** | 44,692 | **16,138** | 13,304 | **7,564** | 7,522 |
| Transmission credits | **32,565** | 31,483 | **-** | - | **-** | - |
| Prepay power credits | **16,644** | 20,212 | **-** | - | **-** | - |
| Other income (loss) | **3,227** | 3,301 | **19** | (584) | **145** | 670 |
| (Increase) decrease in assets: | | | | | | |
| Accounts receivable | **7,372** | 1,062 | **7,126** | 2,261 | **(552)** | 411 |
| Unbilled revenues | **3,360** | 1,965 | **5,847** | 6,950 | **(545)** | 165 |
| Prepaid power cost | **113,538** | 109,982 | **-** | - | **-** | - |
| Prepayments - In Lieu of Taxes | **75** | (32) | **1** | 1 | **-** | - |
| Inventories | **(2,050)** | (2,915) | **131** | 228 | **(199)** | (460) |
| Other assets | **(11,982)** | (4,313) | **(5,009)** | (1,447) | **(3,679)** | (423) |
| Increase (decrease) in liabilities: | | | | | | |
| Accounts payable - purchased power and gas | **(5,166)** | (2,724) | **(13,552)** | (8,542) | **-** | - |
| Other accounts payable and accrued expenses | **8,896** | (3,418) | **3,573** | (3,209) | **3,714** | (772) |
| Accrued Payment In Lieu of Taxes | **7,643** | - | **893** | - | **-** | - |
| Customer deposits | **1,101** | (348) | **1,196** | 1,833 | **61** | 18 |
| Insurance reserves | **(1,022)** | (293) | **14** | 366 | **152** | 769 |
| Medical benefit accrual | **2,609** | 1,040 | **1,163** | 464 | **773** | 308 |
| Other liabilities | **19,589** | 133 | **9,412** | (235) | **6,063** | (1,119) |
| Accounting Adjustment for GASB 68 - Change in beginning Net Position | **(11,356)** | - | **(5,065)** | - | **(3,363)** | - |
| Total adjustments | **234,809** | 199,827 | **21,887** | 11,390 | **10,134** | 7,089 |
| Net cash provided by operating activities | **$ 260,910** | $ 234,279 | **$ 45,035** | $ 38,798 | **$ 12,742** | $ 15,369 |
| Reconciliation of cash and cash equivalents per statements of cash flows to the statements of net position: | | | | | | |
| Restricted funds | **$ 64,361** | $ 96,049 | **$ 22,122** | $ 20,283 | **$ 13,986** | $ 14,168 |
| Less investments included in restricted funds | **(8,922)** | (10,560) | **(4,636)** | (5,391) | **(3,758)** | (4,309) |
| Cash and cash equivalents included in restricted funds | **55,439** | 85,489 | **17,486** | 14,892 | **10,228** | 9,859 |
| Current assets - cash and cash equivalents | **160,465** | 101,279 | **65,814** | 46,511 | **13,613** | 13,837 |
| Total cash and cash equivalents | **$ 215,904** | $ 186,768 | **$ 83,300** | $ 61,403 | **$ 23,841** | $ 23,696 |

*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 62, MLGW would be required to recognize the effects of any regulatory change in assets or liabilities in its Statements of Revenues, Expenses and Changes in Net Position. The following are the regulatory assets and liabilities included in the Statements of Net Position:

| | **Electric Division** | | **Gas Division** | | **Water Division** | |
|---|---|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| Regulatory Assets: | | | | | | |
| Current: | | | | | | |
| Unrecovered purchased power | **$ 2,373** | $ 2,385 | **$ -** | $ - | **$ -** | $ - |
| Unamortized debt expense | **412** | 507 | **-** | - | **17** | 18 |
| Total current | **2,785** | 2,892 | **-** | - | **17** | 18 |
| Non-Current: | | | | | | |
| Unamortized debt expense | **937** | 1,348 | **-** | - | **187** | 205 |
| Total non-current | **937** | 1,348 | **-** | - | **187** | 205 |
| Total Regulatory Assets | **$ 3,722** | $ 4,240 | **$ -** | $ - | **$ 204** | $ 223 |
| Regulatory Liabilities: | | | | | | |
| Current: | | | | | | |
| Purchased gas adjustment | **$ -** | $ - | **$ 2,455** | $ 1,078 | **$ -** | $ - |
| Total Regulatory Liabilities | **$ -** | $ - | **$ 2,455** | $ 1,078 | **$ -** | $ - |

## 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, 2015 and 2014, accounts receivable and allowances for doubtful accounts were as follows:

| | Electric Division | | Gas Division | | Water Division | |
|---|---|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| Accounts Receivable | **$ 95,787** | $ 99,948 | **$ 34,503** | $ 41,818 | **$ 15,746** | $ 15,325 |
| Allowance for doubtful accounts | **(17,961)** | (14,750) | **(632)** | (821) | **(394)** | (526) |
| Total A/R, net of allowance | **$ 77,826** | $ 85,198 | **$ 33,871** | $ 40,997 | **$ 15,352** | $ 14,799 |

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:

| | 2015 | 2014 |
|---|---|---|
| Electric | **$ 6,565** | $ 7,709 |
| Gas | **1,308** | 2,657 |
| Water | **676** | 924 |

### 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, 2015 and 2014 was $349,595 and $463,133 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 Electric and Gas Divisions maintain 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 for 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 these obligations 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 2015, interest of $226 was capitalized for the Electric Division and $4 for the Water Division. In 2014 interest of $41 was capitalized for the Electric Division and $2 for the Water Division. 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 2015 and 2014 totaled $19,011 and $21,581 respectively. The amount of interest cost incurred and charged to water expense in 2015 and 2014 totaled $457 and $264, respectively.

Depreciation and amortization 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, 2.5% 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 Statements 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 Statements 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 electricity, 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 the 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)

### Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Memphis Light, Gas and Water Retirement and Pension System (the "MLGW Pension Plan") and additions to and deductions from the MLGW Pension Plan's fiduciary net position have been determined on the same basis as they are reported by the MLGW Pension Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### 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. As of December 31, 2015 and 2014, receivables from related parties for utility construction, pole rentals and utility related services excluding utility bills were $2,040 and $2,728, respectively.

As of December 31, 2015, 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 for 2015 and $46 for 2014.

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, 2015 and June 1, 2016, 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 2014 financial statements have been reclassified to conform to the 2015 presentation.

## 1. Summary of Significant Accounting Policies (continued)

### Recent Accounting Standards

Effective for fiscal year 2015, MLGW adopted the provisions of GASB 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 implementation of this statement results 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.

Effective for fiscal year 2015, MLGW adopted the provisions of GASB 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.

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 does not expect this statement will have any impact on net position. The main impact will be expanded disclosure around risk characteristics of investments held by MLGW related to bond retirements and capital projects. MLGW also has investments in the MLGW Retirement and Pension System and the MLGW OPEB Trust.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The objective of this statement is to improve the decision-useful information about pensions and related assets in the accounting and financial reporting by state and local governments by establishing requirements for the defined benefit and defined contribution pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This standard also clarifies note disclosures and required supplementary information. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for periods beginning after June 15, 2016. 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.

## 1. Summary of Significant Accounting Policies (continued)

### Recent Accounting Standards (continued)

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans.* This statement replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* Statement No. 57*, OPEB Measurements by Agent Employers and Agent Multiple Employer Plans* and Statement No. 50, *Pension Disclosures* that established uniform financial reporting standards for OPEB plans. This statement establishes new accounting and financial reporting requirements for state and local governments with OPEB plans. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2016. 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.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting For Postemployment Benefits Other Than Pensions.* This statement replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement No. 57*, OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. It also establishes more extensive note disclosures and required supplementary information for accounting and financial reporting requirements for state and local governments with OPEB plans. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2017. 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.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles For State And Local Governments.* This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The GAAP hierarchy is reduced to two categories of authoritative GAAP and the use of authoritative and nonauthoritative literature for transactions is addressed. 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.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants.* This statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The provisions of the 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.

### 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, 2015, MLGW deposits with financial institutions were $115,005. 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, 2015:

| | | Remaining Maturities (in Years) | | |
|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **Maturities < 1 year** | **Maturities 1 to 4 years** | **Maturities > 4 years** |
| U.S. Treasuries | $ 130,326 | $ 12,648 | $ 117,678 | $ - |
| Federal Agency (Fixed Rate) | 49,904 | 33,471 | 16,433 | - |
| Federal Agency (Callable) | 1,914 [1] | 125 [2] | 1,789 [3] | - |
| Certificates of Deposit | 4,999 | 4,999 | - | - |
| Commercial Paper (Rated AA or higher) | 174,912 | 174,912 | - | - |
| **Total Investments** | **$ 362,055** | **$ 226,155** | **$ 135,900** | **$ -** |

[1] These bonds are guaranteed by the Export-Import Bank of the United States

[2] This bond matures in 2016; Callable quarterly until maturity

[3] $745 of these bonds mature in 2018; Callable quarterly until maturity
$1,044 of these bonds mature in 2019; Callable semi-annually until 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, 2015 were exposed to custodial credit risk.

### Interest Rate Risk

*Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment in debt securities. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. MLGW's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the investment policy states no investment will have a maturity of greater than four years from date of purchase. As of December 31, 2015, 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.

## 2. Deposits and Investments (continued)

### Interest Rate Risk (continued)

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 4.3% of the total investment portfolio with a fair market value of $15,476 at year-end 2015.

### 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 $174,912, or 48.3% of total investments. The debt securities mentioned above have 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, 2015 are as follow:

| Investment Type | Fair Value | | S&P Rating | Moody's Rating |
|---|---|---|---|---|
| Commercial Paper | $ 47,388 | | AAA | Aaa |
| Commercial Paper | 19,795 | | AA+ | Aaa |
| Commercial Paper | 10,058 | | AA+ | Aa1 |
| Commercial Paper | 14,997 | | AA | Aa2 |
| Commercial Paper | 63,078 | | AA- | Aa3 |
| Commercial Paper | 19,596 | | AA- | Aa1 |
| **Total credit risk debt securities** | 174,912 | | | |
| U.S. Treasuries | 130,326 | | AA+u | Aaa |
| Federal Agency (Fixed Rate) | 957 | | AA+u | Aaa |
| Federal Agency (Fixed Rate) | 48,947 | | AA+ | Aaa |
| Federal Agency (Callable) | 1,914 | [1] | AA+u | Aaa |
| Certificates of Deposit | 4,999 | | NR | NR |
| U.S. Government, Agencies and Certificates of Deposit | 187,143 | | | |
| **Total debt securities investments** | **$ 362,055** | | | |

| Non-Rating Description | |
|---|---|
| NR | Not Rated |

[1] These bonds are guaranteed by the Export-Import Bank of the United States

## 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, 2015, the investments in any one issuer of commercial paper that represents 5% or more of MLGW's investments are as follows:

| Issuer | Reported Amount | Percentage of Portfolio |
|---|---|---|
| Exxon Mobile Corporation | $ 26,991 | 7.45% |
| National Securities Clearing Corporation | 19,795 | 5.47% |
| Coca-Cola Company | 19,794 | 5.47% |
| Chevron Corporation | 19,596 | 5.41% |
| Koch Resources LLC | 19,495 | 5.38% |
| **Total** | **$ 105,671** | |

## 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, 2015 and 2014:

| | Electric Division | | Gas Division | | Water Division | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Restricted fund: | | | | | | |
| Cash and cash equivalents | **$ 55,439** | $ 85,489 | **$ 17,486** | $ 14,892 | **$10,228** | $ 9,859 |
| Investments | **8,922** | 10,560 | **4,636** | 5,391 | **3,758** | 4,309 |
| Total restricted funds | **$ 64,361** | $ 96,049 | **$ 22,122** | $ 20,283 | **$13,986** | $ 14,168 |

| | Electric Division | | Gas Division | | Water Division | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Unrestricted fund: | | | | | | |
| Cash and cash equivalents | **$ 160,465** | $ 101,279 | **$ 65,814** | $ 46,511 | **$13,613** | $ 13,837 |
| Investments | **95,299** | 77,451 | **37,458** | 34,896 | **8,083** | 10,599 |
| Total unrestricted funds | **$ 255,764** | $ 178,730 | **$103,272** | $ 81,407 | **$21,696** | $ 24,436 |

## 3. Notes 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 for the year ending December 31, 2016 total $963.

The Valero lease receivable is included in the accompanying 2015 Gas Division's Statements of Net Position in other current assets.

## 4. Utility Plant

Utility plant activity for the years ended December 31, 2015 and 2014 is as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Year ended December 31, 2015** | | | | |
| **Electric Division** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 38,392 | $ (2) | $ - | $ 38,390 |
| Land - Non-utility | 15,345 | - | - | 15,345 |
| Construction in progress | 73,423 | 70,702 | (52,695) | 91,430 |
| Total capital assets not being depreciated | 127,160 | 70,700 | (52,695) | 145,165 |
| Capital assets being depreciated or amortized: | | | | |
| Structures and improvements | 61,534 | 903 | (231) | 62,206 |
| Transmission and distribution plant equipment | 1,346,750 | 38,928 | (7,826) | 1,377,852 |
| General plant equipment | 162,089 | 12,605 | (15,017) | 159,677 |
| Intangibles: Software | - | 8,790 | - | 8,790 |
| Total capital assets being depreciated or amortized | 1,570,373 | 61,226 | (23,074) | 1,608,525 |
| Less accumulated depreciation and amortization | (678,605) | (52,432) | 19,100 | (711,937) |
| Total capital assets being depreciated or amortized, net | 891,768 | 8,794 | (3,974) | 896,588 |
| Total capital assets, net | $ 1,018,928 | $ 79,494 | $ (56,669) | $ 1,041,753 |

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Year ended December 31, 2015** | | | | |
| **Gas Division** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 7,545 | $ (12) | $ - | $ 7,533 |
| Land - Non-utility | 66 | - | (66) | - |
| Construction in progress | 49,964 | 29,347 | (18,127) | 61,184 |
| Plant held for future use | 212 | - | - | 212 |
| Total capital assets not being depreciated | 57,787 | 29,335 | (18,193) | 68,929 |
| Capital assets being depreciated or amortized: | | | | |
| Structures and improvements | 61,472 | 4,749 | (1,046) | 65,175 |
| Processing and distribution plant equipment | 445,177 | 7,571 | (553) | 452,195 |
| General plant equipment | 72,451 | 6,865 | (6,490) | 72,826 |
| Intangibles: Software | - | - | - | - |
| Non-utility plant equipment | 200 | - | - | 200 |
| Total capital assets being depreciated or amortized | 579,300 | 19,185 | (8,089) | 590,396 |
| Less accumulated depreciation and amortization | (286,352) | (16,723) | 7,491 | (295,584) |
| Total capital assets being depreciated or amortized, net | 292,948 | 2,462 | (598) | 294,812 |
| Total capital assets, net | $ 350,735 | $ 31,797 | $ (18,791) | $ 363,741 |

## 4. Utility Plant (continued)

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Year ended December 31, 2015** | | | | |
| **Water Division** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | **$ 2,332** | **$ 7** | **$ -** | **$ 2,339** |
| Construction in progress | **10,333** | **11,618** | **(7,662)** | **14,289** |
| Total capital assets not being depreciated | **12,665** | **11,625** | **(7,662)** | **16,628** |
| Capital assets being depreciated or amortized: | | | | |
| Structures and improvements | **49,836** | **489** | **-** | **50,325** |
| Pumping, transmission and distribution plant equipment | **352,030** | **6,524** | **(575)** | **357,979** |
| General plant equipment | **42,397** | **642** | **(4,168)** | **38,871** |
| Intangibles: Software | **-** | **2,177** | **-** | **2,177** |
| Total capital assets being depreciated or amortized | **444,263** | **9,832** | **(4,743)** | **449,352** |
| Less accumulated depreciation and amortization | **(186,004)** | **(8,765)** | **3,145** | **(191,624)** |
| Less acquisition adjustment | **(4,332)** | **964** | **-** | **(3,368)** |
| Total capital assets being depreciated or amortized, net | **253,927** | **2,031** | **(1,598)** | **254,360** |
| Total capital assets, net | **$ 266,592** | **$ 13,656** | **$ (9,260)** | **$ 270,988** |

| **Year ended December 31, 2014** | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **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 |

## 4. Utility Plant (continued)

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Year ended December 31, 2014** | | | | |
| **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 |

| **Year ended December 31, 2014** | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **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 |

## 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 2016 are estimated as follows (unaudited):

| | |
|---|---|
| Electric Division | $ 122,080 |
| Gas Division | 57,811 |
| Water Division | 41,278 |

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 $2,948 and $1,642 with its FCM at December 31, 2015 and 2014, 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, 2015 and 2014.

| | **December 31, 2015** | | December 31, 2014 | |
|---|---|---|---|---|
| Type | **Market Value** | **Notional Amount** | Market Value | Notional Amount |
| Futures | **$ (617)** | **$ 2,989** | $ (217) | $ 507 |
| Swaps | **-** | **-** | (295) | 1,741 |
| Options | **-** | **-** | (262) | 7,958 |
| Total | **$ (617)** | **$ 2,989** | $ (774) | $ 10,206 |

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

| | **December 31, 2015** | December 31, 2014 |
|---|---|---|
| Type | **Deferred Gains (Losses)** | Deferred Gains (Losses) |
| Futures | **($617)** | ($217) |
| Swaps | **-** | (295) |
| Options | **-** | (262) |
| Total | **($617)** | ($774) |

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

| | **December 31, 2015** | December 31, 2014 |
|---|---|---|
| Type | **Deferred Gains (Losses)** | Deferred Gains (Losses) |
| Futures | **($983)** | ($213) |
| Swaps | **-** | (535) |
| Options | **-** | - |
| Total | **($983)** | ($748) |

## 5. Futures, Options and Swap Contracts (continued)

The deferred gains (losses) at December 31, 2015 and 2014 for the open derivative positions are reported on the Statements 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 and diesel fuel on anticipated purchase transactions. The balance in MLGW's FCM fuel margin at December 31, 2015 and 2014 was ($236) and $55, respectively.

Swap contracts as of December 31, 2015 and 2014 are reported at market values of ($40) and ($305), respectively. The market values of these derivative positions are reported on the Statements of Net Position as derivative financial instruments. The notional amounts of the open swaps at December 31, 2015 and 2014 were $90 and $1,079, respectively.

## 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 plan covers permanent, full-time employees and appointed commissioners who opt to participate. 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.

## 7. Employee Retirement System (continued)

### Benefits Provided

The MLGW Pension Plan provides death and disability benefits as well as retirement benefits. MLGW Pension Plan members hired prior to January 1, 2014 who attain the age of fifty-five and retire on or after ten years of creditable service, or attain the age of seventy and retire on or after five years of creditable service, or attain twenty-five years of creditable service regardless of age are entitled to an annual retirement allowance computed by multiplying the applicable percentage for the age of retirement times the number of years of creditable service, which equals the benefit percentage, times the final average compensation.

MLGW Pension Plan members hired on or after January 1, 2014 who attain the age of sixty and retire on or after ten years of creditable service, or attain the age of seventy and retire on or after five years of creditable service, or attain the age of 55 with twenty-five years of creditable service are entitled to an annual retirement allowance computed by multiplying the applicable percentage for the age of retirement times the number of years of creditable service, which equals the benefit percentage, times the final average compensation.

Effective January 1, 2001, the following table is the applicable benefit percentage for each year of creditable service at the applicable retirement age under the MLGW Pension Plan:

| Retirement Age | Benefit Percentage For Each Year of Creditable Service |
|---|---|
| 59 1/2 and less | 2.25% |
| 60 | 2.30% |
| 61 | 2.40% |
| 62 and older | 2.50% |

Final average compensation is the member’s basic earnings (which includes member contributions pursuant to Section 414(h) and Section 457 of the Internal Revenue Code (the “Code”) for the three consecutive years of creditable service if less than 30 years, two consecutive years if more than 30 years and one year if 35 or more years of creditable service during which the compensation was the highest) plus work out of classification pay, shift differential pay, and automobile allowance for such employees designated by Resolution of the Board of Commissioners.

The annual retirement allowance shall not exceed 85.0% of the member’s final average compensation. The 2015 minimum monthly retirement benefit for all members is the greater of $50 per month per year of service or $500.

## 7. Employee Retirement System (continued)

### Cost of Living Adjustments

As of July 1 of each plan year, each retired participant who (1) has attained age 56 on such date and (2) has been terminated from the employment of the Division for at least one year, shall be entitled to an increase in the amount of his monthly benefit under the MLGW Pension Plan equal to the cost of living adjustment.

A surviving spouse receiving death benefits shall be entitled to a cost of living adjustment if the surviving spouse has attained age 56 and the deceased participant has separated from service at least one year prior to July 1.

The cost of living adjustment shall be equal to the product of the monthly benefit payable to the participant or the surviving spouse under the MLGW Pension Plan for the immediately preceding plan year multiplied by the applicable percentage increase in the Consumer Price Index (CPI) for the immediately preceding calendar year.

The applicable percentage increase shall be determined based on the age of the participant or surviving spouse as of the first day of July of the plan year in which the adjustment is made as follows:

| Age | Percentage of CPI Increase |
|---|---|
| 56-58 | 30% |
| 59-61 | 60% |
| 62 and older, and all Disabled Participants | 75% |

The cost of living adjustment for any retired participant or surviving spouse in any plan year shall not exceed 5% of the retired participant's or surviving spouse's benefit under the MLGW Pension Plan for the immediately preceding plan year. Under no circumstances shall the cost of living adjustment result in a decrease in the benefit of a retired participant or surviving spouse.

## 7. Employee Retirement System (continued)

### Employees Covered

Plan membership consisted of the following participants 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 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 |

### Contributions

The contribution requirements of pension plan members and MLGW are established and may be amended and approved by the MLGW Pension Board, 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 contributions on behalf of the president and vice presidents. For 2015, MLGW contributed 14.04% of the annual covered payroll. Employer contributions recognized by the MLGW Pension Plan during 2015 totaled $21,390.

### Net Pension Liability

MLGW's net pension liability was measured as of December 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015.

## 7. Employee Retirement System (continued)

### Actuarial Assumptions

The actuarial assumptions used in the valuation as of December 31, 2014 are based on the results of an experience study for the period January 1, 2009 to December 31, 2013.

| | |
|---|---|
| Inflation | 2.75% |
| Salary increases | Inflation plus merit increases that vary by age and service, ranging from 0.00% to 6.75% |
| Investment rate of return | 7.50% including inflation, net of investment expenses |
| Cost-of-living adjustments | 0.83% for ages 56-58<br>1.65% for ages 59-61<br>2.06% for ages 62 and older, and all disabled participants |

Pre-retirement mortality rates are based on the RP-2014 Employee Mortality Table with sex-distinct rates. Healthy annuitant mortality rates are based on the RP-2014 Healthy Annuitant Mortality Table with sex-distinct rates, adjusted by a factor of 138%. Disabled annuitant mortality rates are based on the RP-2014 Disabled Retiree Mortality Table with sex-distinct rates, also adjusted by a factor of 138%. All mortality tables above are projected generationally with a modified RPEC2014 projection table using a 15-year convergence period for cohort effects and 10-year convergence period for age/period effects.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses.

## 7. Employee Retirement System (continued)

### Actuarial Assumptions (continued)

The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Domestic Equity | 39% | 6.93% |
| International Equity | 12% | 8.21% |
| Fixed Income | 26% | 2.27% |
| Alternatives | 8% | 3.83% |
| Real Estate | 13% | 4.73% |
| Short Term Investments | 2% | 1.23% |
| Total | 100% | |

### Discount Rate

The discount rate used to measure the total pension liability is 7.50% as of December 31, 2014. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current 8.00% of pay contribution rate and that MLGW contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the MLGW Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of December 31, 2014.

### Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of MLGW as of December 31, 2014, calculated using the discount rate of 7.50%, as well as what MLGW's net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.50%) or one percentage-point higher (8.50%) than the current rate:

| | 1% Decrease (6.50%) | Current Discount (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| Net pension liability (asset) as of December 31, 2014 | $ 159,492 | $ 3,610 | $ (126,412) |

## 7. Employee Retirement System (continued)

### Pension Plan's Fiduciary Net Position

Detailed information about the MLGW Pension Plan's fiduciary net position is available in the separately issued plan financial statements. For purposes of measuring the net pension liability, all information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position have been determined on the same basis as they are reported by the MLGW Pension Plan.

The MLGW Pension Plan's financial statements are prepared using the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. Investments are stated at fair value. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the terms on the plan.

### Implementation of GASB 68

In fiscal year 2015, MLGW adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* ("GASB 68"). This statement provides guidance for the measurement and recognition of a net pension liability and pension expense, and includes instruction for balances to be recognized as deferred outflows of resources and deferred inflows of resources. Due to time constraints associated with producing the financial statements and the need to ensure timely filing of such statements with appropriate authorities, MLGW deemed it impractical to restate all prior periods. As such, the cumulative effect of applying this statement is shown in 2015. The impact for MLGW is as follows:

**Net pension liability –** The net pension liability reported under GASB 68 is the difference between the actuarial present value of projected pension benefit payments attributable to employees' past service and the Plan's fiduciary net position. Previous to this new guidance, a liability was recognized only to the extent that contributions made to the plan were exceeded by the actuarially calculated contributions.

**Deferred outflows of resources and deferred inflows of resources –** GASB 68 requires recognition of deferred outflows and inflows of resources associated with the difference between projected and actual earnings on Plan investments, to be amortized to pension expense over a closed five-year period. Also to be recognized as deferred outflows and inflows of resources are differences between expected and actual experience with regard to economic or demographic factors in the measurement of total pension liability, to be amortized to pension expense over a closed period equal to the average of the expected remaining service lives of all employees receiving pension benefits. Employer contributions to the pension trust made between the net pension liability measurement date and the employer's fiscal year end are recognized as deferred outflows of resources related to pensions.

Also, the cumulative effect of applying this statement resulted in a reduction in the beginning net position of all three divisions. Beginning net position in the Electric, Gas, and Water Divisions declined by $11,356, $5,065, and $3,363, respectively.

## 7. Employee Retirement System (continued)

### Schedule of Changes in Net Pension Liability

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
| Balance at December 31, 2013 | $ 1,389,271 | $ 1,342,683 | $ 46,588 |
| Changes for the Year: | | | |
| Service Costs | 31,786 | | 31,786 |
| Interest | 100,436 | | 100,436 |
| Differences Between Expected and Actual Experience | (16,338) | | (16,338) |
| Changes of Assumptions | (22,112) | | (22,112) |
| Contributions – Employer | | 26,804 | (26,804) |
| Contributions – Employee | | 11,729 | (11,729) |
| Net Investment Income | | 98,931 | (98,931) |
| Benefit Payments / Refunds | (100,249) | (100,249) | |
| Administrative Expenses | | (714) | 714 |
| Net Change | (6,477) | 36,501 | (42,978) |
| Balance at December 31, 2014 | $ 1,382,794 | $ 1,379,184 | $ 3,610 |

## 7. Employee Retirement System (continued)

| **Pension expense for the year ended December 31, 2015** | |
|---|---|
| Service cost | $ 31,786 |
| Interest on Total Pension Liability | 100,436 |
| Employee contributions | (11,729) |
| Administrative expenses | 714 |
| Expected return on assets | (98,360) |
| Expensed portion of current year period differences between expected and actual experience in Total Pension Liability | (2,723) |
| Expensed portion of current year period assumption changes | (3,685) |
| Current year plan changes | - |
| Expensed portion of current year period differences between projected and actual investment earnings | (114) |
| Current year recognition of deferred inflows and outflows established in prior years | - |
| Total expense | $ 16,325 |

**Deferred outflows/inflows of resources related to pension**

| | **Deferred Outflows of Resources** | **Deferred Inflows of Resources** |
|---|---|---|
| Contributions subsequent to measurement date | $ 21,378 | $ - |
| Net difference between projected and actual earnings on pension plan investments | - | (457) |
| Net difference between projected and actual experience in total Pension Liability | - | (13,615) |
| Assumption changes | - | (18,427) |
| Total | $ 21,378 | $ (32,499) |

**Note:** The $21,378 contribution made subsequent to the measurement date will be recognized as a reduction of the net pension liability in 2016.

## 7. Employee Retirement System (continued)

**Projected recognition of deferred outflows/(inflows)**

| | | | | | Deferred Outflows/(Inflows) Recognized in Future Years | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Year Established | Outstanding Balance at January 1, 2015 | Amount Recognized During FYE December 31, 2015 | Outstanding Balance at December 31, 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 and Thereafter |
| **Fiscal year Outflows** | - | - | - | - | - | - | - | - | - | - |
| **Total Outflows** | - | - | - | - | - | - | - | - | - | - |
| **Fiscal year Inflows** | | | | | | | | | | |
| Investment | 2015 | $ (571) | $ (114) | $ (457) | $ (114) | $ (114) | $ (114) | $ (114) | - | - |
| Demographic | 2015 | (16,338) | (2,723) | (13,615) | (2,723) | (2,723) | (2,723) | (2,723) | (2,723) | - |
| Assumption | 2015 | (22,112) | (3,685) | (18,427) | (3,685) | (3,685) | (3,685) | (3,685) | (3,685) | - |
| Total Inflows | | $ (39,021) | $ (6,522) | $ (32,499) | $ (6,522) | $ (6,522) | $ (6,522) | $ (6,522) | $ (6,408) | - |
| **Total** | | $ (39,021) | $ (6,522) | $ (32,499) | $ (6,522) | $ (6,522) | $ (6,522) | $ (6,522) | $ (6,408) | |

**Note:** In accordance with Paragraph 71 of GASB Statement 68, the difference between projected and actual earnings on investments is recognized over a closed five-year period. The difference between expected and actual total pension liability experience (noted as "Demographic" in the chart above) and the assumption changes (noted as "Assumption" in the chart above) are each recognized over a closed period equal to the average of the expected remaining service lives of all employees who are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period. For 2015, the period is six years.

## 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 health and welfare benefits of the eligible participants, and the cost of operating and administering the OPEB 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.

## 8. Other Postemployment Benefits (continued)

### Plan Description (continued)

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

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

### Funding Policy

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

The Board of Commissioners has set the employer contribution rate based on the annual required contribution (“ARC”), an amount actuarially determined in accordance with the parameters of GASB Codification Section P50: *Postemployment Benefits Other Than Pension Benefits – Employer Reporting*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. For fiscal years 2015 and 2014, employer contributions were $38,438 and $42,100 to the Plan, respectively. In 2015, plan members receiving benefits contributed $6,848 through their required contribution of $79.70 to $521.42 (dollars) per month depending on the coverage (employee only, employee and spouse, or family) and the health plan selected. In 2014, plan members receiving benefits contributed $6,293 through their required contribution of $72.08 to $499.90 (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, 2015. MLGW’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC).

## 8. Other Postemployment Benefits (continued)

### Annual OPEB Cost and Net OPEB Obligation (continued)

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, 2015 and 2014:

| | **2015** | **2014** |
|---|---|---|
| Annual required contribution | **$ 38,187** | $ 38,386 |
| Interest on net OPEB obligation | **(186)** | - |
| Adjustment to annual required contribution | **175** | - |
| Annual OPEB cost | **38,176** | 38,386 |
| Contributions made | **(38,438)** | (42,100) |
| Change in net OPEB (asset) obligation | **(262)** | (3,714) |
| Net OPEB obligation at beginning of fiscal year | **(2,488)** | 1,226 |
| Net OPEB (asset) obligation at end of fiscal year | **$ (2,750)** | $ (2,488) |

MLGW's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB (asset) obligation for fiscal year 2015 and the two preceding years were as follows:

| **Fiscal Year Ended** | **Annual OPEB Cost** | **Percentage of Annual OPEB Cost Contributed** | **Net OPEB Obligation (Asset)** |
|---|---|---|---|
| December 31, 2015 | $ 38,176 | 100.7% | $ (2,750) |
| December 31, 2014 | 38,386 | 109.7% | (2,488) |
| December 31, 2013 | 42,854 | 100.4% | 1,226 |

### Funded Status and Funding Progress

As of December 31, 2015, the most recent actuarial valuation date, the plan was 41.93% funded. The actuarial accrued liability ("AAL") for benefits was $794,310 and the actuarial value of assets was $333,017, resulting in an unfunded actuarial accrued liability ("UAAL") of $461,293. The covered payroll (annual payroll of active employees covered by the Plan) was $160,641, and the ratio of the UAAL to the covered payroll was 287.16%.

## 8. Other Postemployment Benefits (continued)

### Funded Status and Funding Progress (continued)

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, 2015 |
| **Actuarial Cost Method** | Entry Age Normal |
| **Amortization Method** | Level percent of pay, 30 years |
| **Remaining Amortization Period** | 30 years as of December 31, 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 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 |
| Medical Cost Trend Rate | 7.25% graded to 5.00% over 9 years |
| Drug Cost Trend Rate | 9.50% for the first 4 years, then grading down to 5% over the next 7 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, 2015 and 2014 for the lead pollution liability from various substations and equipment by Division:

| | | **12/31/2015** | 12/31/2014 |
|---|---|---|---|
| Electric | | | |
| | Lead | **$ 968** | $ 1,753 |
| Total Electric | | **968** | 1,753 |
| Gas | | | |
| | Lead | **291** | 709 |
| Total Gas | | **291** | 709 |
| Water | | | |
| | Lead | **4,371** | 4,589 |
| Total Water | | **4,371** | 4,589 |
| Total Liability | | **$ 5,630** | $ 7,051 |

## 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 part 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, 2015 and 2014 are as follows:

| | Medical Benefits | | | Injuries and Damages | | |
|---|---|---|---|---|---|---|
| | Electric Division | Gas Division | Water Division | Electric Division | Gas Division | Water Division |
| 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 |
| Payments | **(40,471)** | **(18,050)** | **(11,986)** | **(2,246)** | **(1,011)** | **(771)** |
| Incurred claims expense | **43,080** | **19,213** | **12,758** | **1,224** | **1,025** | **924** |
| Balance -- December 31, 2015 | **$ 8,230** | **$ 3,670** | **$ 2,437** | **$ 5,413** | **$ 2,653** | **$ 2,988** |

## 11. Bonds

Bonds as of December 31, 2015 and 2014 consist of the following:

| | Interest Rates | 2015 | 2014 |
|---|---|---|---|
| Electric Division: | | | |
| Electric System Revenue Bonds: | | | |
| Series 2003A, due serially 2014-2018 | 3.80 - 5.00% | **$ 4,170** | $ 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% | **251,355** | 357,285 |
| Series 2014, due serially 2015-2034 | 2.00 - 5.00% | **68,575** | 71,000 |
| Premium on revenue bonds | | **20,122** | 29,573 |
| Total | | **441,152** | 560,803 |
| Less: current portion of bonds payable | | **(115,405)** | (110,200) |
| | | **$ 325,747** | $ 450,603 |
| Water Division: | | | |
| Water System Revenue Bonds: | | | |
| Series 2014, due serially 2015-2034 | 2.00 - 5.00% | **$ 14,440** | $ 15,000 |
| Premium on revenue bonds | | **869** | 944 |
| Total | | **15,309** | 15,944 |
| Less: current portion of bonds payable | | **(570)** | (560) |
| | | **$ 14,739** | $ 15,384 |

## 11. Bonds (continued)

Principal payments on bonds are due annually on December 1. Debt service requirements as of December 31, 2015 are as follows:

| | Electric Division | |
|---|---|---|
| | Principal | Interest |
| 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 | $ 421,030 | $ 70,646 |

| | Water Division | |
|---|---|---|
| | Principal | Interest |
| 2016 | 570 | 504 |
| 2017 | 580 | 492 |
| 2018 | 595 | 481 |
| 2019 | 605 | 469 |
| 2020 - 2024 | 3,305 | 2,066 |
| 2025 - 2029 | 3,970 | 1,404 |
| 2030 - 2034 | 4,815 | 562 |
| Total | $ 14,440 | $ 5,978 |

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.

## 11. Bonds (continued)

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.

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, 2015 and 2014:

| | **2015** | 2014 |
|---|---|---|
| Electric Division | **$459,430** | $586,778 |
| Water Division | **$ 15,694** | $ 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 was made December 1, 2015, and thereafter will be made 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 was made December 1, 2015, and thereafter will be made 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 had 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 3.80% 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, 2015 was 1.84.

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, 2015 was 9.83.

Long-term debt activity for the years ended December 31, 2015 and 2014 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Year ended December 31, 2015:** | | | | |
| **Electric Division** | | | | |
| Bonds payable: | | | | |
| Revenue bonds | **$ 531,230** | **$ -** | **$ (110,200)** | **$ 421,030** |
| Premium on revenue bonds | **29,573** | **-** | **(9,451)** | **20,122** |
| Total bonds payable | **$ 560,803** | **$ -** | **$ (119,651)** | **$ 441,152** |
| **Water Division** | | | | |
| Bonds payable: | | | | |
| Revenue bonds | **$ 15,000** | **$ -** | **$ (560)** | **$ 14,440** |
| Premium on revenue bonds | **944** | **-** | **(75)** | **869** |
| Total bonds payable | **$ 15,944** | **$ -** | **$ (635)** | **$ 15,309** |
| **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 |

## 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 2015 revenue month, increasing the cost of wholesale power (excluding fuel and purchased power) purchased by MLGW by approximately 2.50%. MLGW implemented changes to its retail rate schedules effective with meters read on or after October 1, 2015, 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 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%.

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 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)

### *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 December 2014, all work on the last restoration project was completed; and MLGW increased the receivable by $44 in order to realize the entire amount contracted with FEMA in 2011 of $2,733. In 2015 however, MLGW decreased the receivable by $55 representing project under runs that are currently being processed and pending de-obligation by FEMA. The schedule below summarizes the grant activity:

## 13. Federal Grant Contributions (continued)

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Electric Total Expenditures | **$ (74)** | $ 59 | $ 209 | $ 87 | $ 3,289 |
| Eligible Reimbursement | **(55)** | 44 | 157 | 65 | 2,467 |
| Reimbursement Received | **-** | - | - | 1,850 | - |
| Receivable Balance | **$ (828)** | $ (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 subsequently awarded grant contract Edison #E 34101-0000009241 to MLGW under the Public Assistance Grant Award program for costs incurred during FEMA -1979-DR-TN in the amount of $2,357; all of which is being federally funded to the Electric Division. There was no activity on this grant in 2014. In May 2015, FEMA made a final payment to MLGW of $589, thereby closing out this disaster. The schedule below summarizes the grant activity:

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Electric Total Expenditures | **$ -** | **$ -** | **$ -** | **$ -** | $ 3,142 |
| Eligible Reimbursement | **-** | - | - | - | 2,357 |
| Reimbursement Received | **589** | - | - | 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 subsequently awarded grant contract Edison #E 34101-0000009498 for the April 26, 2011 Storm Restoration project under the Public Assistance Grant Award program for costs incurred during FEMA -1974-DR-TN. The award was originally for $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. There was no activity on this grant in 2014. FEMA granted MLGW an additional $19 due to a project over run in the Gas Division. In 2015, therefore, the Gas receivable was increased by $19, in anticipation of the additional fund obligation. The schedule below summarizes the grant activity:

## 13. Federal Grant Contributions (continued)

| **Electric** | **2015** | **2014** | **2013** | **2012** | **2011** |
|---|---|---|---|---|---|
| Electric Total Expenditures | **$ -** | $ - | $ - | $ - | $ 2,274 |
| Eligible Reimbursement | **-** | - | - | - | 1,706 |
| Reimbursement Received | **-** | - | - | 1,303 | - |
| Receivable Balance | **$ (403)** | $ (403) | $ (403) | $ (403) | $ (1,706) |

| **Gas** | **2015** | **2014** | **2013** | **2012** | **2011** |
|---|---|---|---|---|---|
| Electric Total Expenditures | **$ 25** | $ - | $ - | $ - | $ 315 |
| Eligible Reimbursement | **19** | - | - | - | 236 |
| Reimbursement Received | **-** | - | - | 155 | - |
| Receivable Balance | **$ (100)** | $ (81) | $ (81) | $ (81) | $ (236) |

| **Water** | **2015** | **2014** | **2013** | **2012** | **2011** |
|---|---|---|---|---|---|
| Electric Total Expenditures | **$ -** | $ - | $ - | $ - | $ 23 |
| Eligible Reimbursement | **-** | - | - | - | 17 |
| Reimbursement Received | **-** | - | - | 11 | - |
| Receivable Balance | **$ (6)** | $ (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. Total cost of restoration work for this disaster as submitted to FEMA field officer in July, 2015 was $3,111, an increase of $7 from the $3,104 initial estimate. This increase would provide for the grant to total $2,333 an increase of $5. The additional grant obligation is pending processing by FEMA. The schedule below summarizes the grant activity:

| **Electric** | **2015** | **2014** |
|---|---|---|
| Electric Total Expenditures | **$ 7** | $ 3,104 |
| Eligible Reimbursement | **5** | 2,328 |
| Reimbursement Received | **2,095** | - |
| Receivable Balance | **$ (238)** | $ (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 allows 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. In July 2015, DOE made a final payment to MLGW of $246, thereby closing out this grant. The schedule below summarizes the grant activity:

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2011 |
|---|---|---|---|---|---|---|
| Total Expenditures | **$ -** | $ 1,445 | $ 2,519 | $ 5,048 | $ 1,751 | $ 711 |
| Eligible Reimbursement | **-** | 311 | 1,148 | 2,423 | 841 | 341 |
| Reimbursement Received | **246** | 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:

| | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Total Expenditures | **$ 139** | $ 1,122 | $ 183 | $ 5 |
| Eligible Reimbursement | **-** | 312 | 138 | 3 |
| Reimbursement Received | **-** | 294 | 19 | - |
| Receivable Balance | **$ (140)** | $ (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 Division pays the amount requested by the City, up to the maximum limit calculated by the formula.

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 Division pays the amount requested by the City up to the maximum limit calculated by the formula.

## 14. Transfers to City (continued)

The Water Division through an agreement with the City, transfers a payment in the amount of $2,500 per year. This agreement is effective through the year 2028. Per City resolution dated June 3, 2014, an additional $1,800 was requested and approved for payment during MLGW fiscal year 2014. An incremental $100 was requested and approved by the City on July 1, 2014. This resolution also directs MLGW to pay $1,900 to the City's general fund for each of MLGW's fiscal years 2015, 2016 and 2017 on or about April 30th of said years.

## 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.

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 CHANGES IN NET PENSION LIABILITY
DECEMBER 31, 2015
(Dollars in Thousands)

| | 2014 |
|---|---|
| **Total pension liability** | |
| Service cost | $ 31,786 |
| Interest | 100,436 |
| Change of benefit terms | - |
| Differences between expected and actual experience | (16,338) |
| Changes in assumptions | (22,112) |
| Benefit payments, including refunds of employee contributions | (100,249) |
| **Net change in total pension liability** | (6,477) |
| | |
| Total pension liability – beginning | 1,389,271 |
| **Total pension liability – ending (a)** | **$ 1,382,794** |
| | |
| **Plan fiduciary net position** | |
| Contributions – employer | $ 26,804 |
| Contributions – employee | 11,729 |
| Net investment income | 98,931 |
| Benefit payments including refunds of employee contributions | (100,249) |
| Administrative expense | (714) |
| Other | - |
| **Net change in plan fiduciary net position** | $ 36,501 |
| | |
| Plan fiduciary net position – beginning | 1,342,683 |
| **Plan fiduciary net position – ending (b)** | **$ 1,379,184** |
| | |
| **System's net pension liability – ending (a) – (b)** | **$ 3,610** |
| | |
| **Plan fiduciary net position as a percentage of the total pension liability** | **99.74%** |
| **Covered employee payroll** | **$ 152,368** |
| **System's net pension liability as a percentage of covered employee payroll** | **2.37%** |

**Notes to schedule:**

*Benefit changes* : There have been no changes in benefit provisions since GASB 68 implementation.

*Change of assumptions* : The assumptions were updated between December 31, 2013 and December 31, 2014 based on a five-year experience study for the period ending December 31, 2013.

*Historical data:* This Schedule of Changes in Net Position Liability will be expanded in future years to include up to ten years of historical data as the required information becomes available.

# REQUIRED SCHEDULE OF EMPLOYER CONTRIBUTIONS - PENSION
DECEMBER 31, 2015

| Year Ended December 31 | Actuarially Determined Contribution (ADC) | Actual Contribution in Relation to ADC | Contribution Deficiency (Excess) | Covered-Employee Payroll | Contributions as a Percentage of Covered-Employee Payroll |
|---|---|---|---|---|---|
| 2006 | 19,512 | 19,630 | (118) | 143,929 | 13.64% |
| 2007 | 17,217 | 17,230 | (13) | 146,830 | 11.73% |
| 2008 | 10,541 | 18,467 | (7,926) | 150,253 | 12.29% |
| 2009 | 22,401 | 21,388 | 1,013 | 154,057 | 13.88% |
| 2010 | 27,381 | 27,385 | (4) | 153,509 | 17.84% |
| 2011 | 26,208 | 26,213 | (5) | 154,036 | 17.02% |
| 2012 | 30,067 | 30,063 | 4 | 154,347 | 19.48% |
| 2013 | 30,705 | 30,706 | (1) | 154,759 | 19.84% |
| 2014 | 26,812 | 26,804 | 8 | 152,368 | 17.59% |
| 2015 | 21,390 | 21,390 | - | 160,641 | 13.32% |

# SCHEDULE OF NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
## DECEMBER 31, 2015

| | |
|---|---|
| **Valuation date** | January 1, 2015 |
| **Actuarial cost method** | Entry Age Normal Cost Method |
| **Amortization method** | Level percent of payroll, with amortization at 2.50% of pay |
| **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 value , and is recognized over a five-year period, further adjusted, if necessary, to be within 30% of the market value. |

| | |
|---|---|
| **Actuarial Assumptions:** | |
| Inflation | 2.75% |
| Salary increases | Inflation plus merit increases that vary by age and service, ranging from 0.00% to 6.75% |
| Investment rate of return | 7.50%, including inflation, net of investment expenses |
| Cost-of-living adjustments | 0.83% for ages 56-58<br>1.65% for ages 59-61<br>2.06% for ages 62 and older, and all disabled participants |

| | |
|---|---|
| **Other Information:** | Please see the January 1, 2015 actuarial valuation report for a full listing of assumptions. |

# REQUIRED SCHEDULE OF FUNDING PROGRESS FOR OPEB
## DECEMBER 31, 2015
## (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, 2015 | $ 333,017 | $ 794,310 | $ 461,293 | 41.9% | $ 160,641 | 287.2% |
| 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% |

# REQUIRED SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
DECEMBER 31, 2015
(Dollars in Thousands)

| Fiscal Year Ended | Annual OPEB Cost | Employer Contributions | Percentage of Annual OPEB Cost Contributed |
|---|---|---|---|
| December 31, 2015 | $ 38,176 | $ 38,438 | 100.7% |
| December 31, 2014 | 38,386 | 42,100 | 109.7% |
| December 31, 2013 | 42,854 | 43,043 | 100.4% |

# SCHEDULE OF BONDS, PRINCIPAL AND INTEREST REQUIREMENTS

**DECEMBER 31, 2015**

**(Dollars in Thousands)**

| | Series 2003A | | Series 2008 | | Series 2010 | | Series 2014 | |
|---|---|---|---|---|---|---|---|---|
| | **Principal** | **Interest** | **Principal** | **Interest** | **Principal** | **Interest** | **Principal** | **Interest** |
| Electric Division: | | | | | | | | |
| 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 | $ 4,170 | $ 420 | $ 96,930 | $ 12,171 | $ 251,355 | $ 21,892 | $ 68,575 | $ 36,163 |

| | Series 2014 | |
|---|---|---|
| | **Principal** | **Interest** |
| Water Division: | | |
| 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 | $ 14,440 | $ 5,978 |

| 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.**

| Electric Division Rate Class | Base Charge | Customers |
|---|---|---|
| **Residential – Schedule RS** | Effective meters read on or after October 1, 2015. | 365,224 |
| Customer Charge: | $11.20 per month, less Hydro Allocation Credit: $1.60 | |

| Energy Charge: | Summer | Winter | Transition |
|---|---|---|---|
| First 2,000 kWh per month: | $0.06928 | $0.06631 | $0.06455 |
| Additional kWh per month: | $0.07782 | $0.07485 | $0.07309 |

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

| Electric Division Rate Class | Base Charge | Customers |
|---|---|---|
| **Time-Of-Use Residential Rate** | Effective October 1, 2015. | 900 |
| Customer Charge: | $11.20 per month, less Hydro Allocation Credit: $1.60 | |

| Energy Charge: | Summer | Winter | Transition |
|---|---|---|---|
| On-Peak kWh per month: | $0.12065 | $0.08291 | $0.05651 |
| Off-Peak kWh per month: | $0.05786 | $0.05744 | $0.05651 |

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

| Electric Division Rate Class | Base Charge | Customers |
|---|---|---|
| **General Service – Schedule GSA** | Effective meters read on or after October 1, 2015. | 43,731 |

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 |
|---|---|---|---|
| | $0.08193 | $0.07900 | $0.07724 |

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

| 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: | $13.20 | $12.31 | $12.31 |
| Energy Charge: | | | |
| First 15,000 kWh per month: | $0.08777 | $0.08484 | $0.08308 |
| Additional kWh per month: | $0.03798 | $0.03521 | $0.03416 |

| Electric Division Rate Class | Base Charge | Customers |
|---|---|---|

**General Service – Schedule GSA (cont.)**

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: | $12.21 | $11.32 | $11.32 | |
| Excess over 1,000 kW of billing demand per month: | $12.05 | $11.16 | $11.16 | |
| Excess of billing demand over the higher of 2,500 kW or the customer's contract demand per month: | $12.05 | $11.16 | $11.16 | |
| Energy Charge: | | | | |
| All kWh per month: | $0.04307 | $0.04030 | $0.03926 | |

**Time-of-Day General Power Rate - Part A (Schedule TGSA)** 1

Effective October 1, 2015.

| | Summer | Non-Summer |
|---|---|---|
| Customer Charge: | $198.95 | $198.95 |
| On-peak per kW of billing demand charges per month: | $12.55 | $11.95 |
| 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 | $12.55 | $11.95 |
| On-peak per kWh energy charge: | $0.05344 | $0.04649 |
| Off-peak per kWh energy charge: | $0.03761 | $0.03890 |

**Manufacturing Power Rate - Part A** 0

**(Schedule MSA)** Effective October 1, 2015

Customer Charge: $198.95 per delivery point per month

| | Summer | Winter | Transition |
|---|---|---|---|
| Per kW coincident billing demand charge per month: | $10.82 | $9.91 | $9.91 |
| Per kW maximum billing demand charge per month: | $1.57 | $1.57 | $1.57 |

| Electric Division Rate Class (cont.) | Base Charge | Customers |
|---|---|---|

**Manufacturing Power Rate - Part A (Schedule MSA) (cont.)**

| | Summer | Winter | Transition |
|---|---|---|---|
| Excess per kW charge per month by which billing demand exceeds contract demand: | $12.39 | $11.48 | $11.48 |
| On-peak per kWh energy charge: | $0.06021 | $0.04978 | $0.04024 |
| Off-peak per kWh energy charge: | $0.03755 | $0.03948 | $0.04024 |

| Electric Division Rate Class (cont.) | Base Charge | Customers |
|---|---|---|
| **Seasonal Demand And Energy General Service - (Schedule SGS)** | Effective October 1, 2015 | 2 |

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

TVA Administrative Charge: $350.00 per delivery point per month

Excess Demand: Demand amount that exceeds the effective contract demand.

| Rates applicable for delivery at: | Transmission Voltage: 115 kV and up | | | Distribution Voltage: < 115 kV | | |
|---|---|---|---|---|---|---|
| Summer | SGSB | SGSC | SGSD | SGSB | SGSC | SGSD |
| Billing demand per kW: | $19.39 | $18.86 | $18.61 | $19.93 | $19.40 | $19.15 |
| Excess demand per kW: | $19.39 | $18.86 | $18.61 | $19.93 | $19.40 | $19.15 |
| Energy charge per kWh: | $0.02990 | $0.02934 | $0.02618 | $0.03076 | $0.03018 | $0.02695 |
| Winter | | | | | | |
| Billing demand per kW: | $16.40 | $15.87 | $15.62 | $16.85 | $16.32 | $16.07 |
| Excess demand per kW: | $16.40 | $15.87 | $15.62 | $16.85 | $16.32 | $16.07 |
| Energy charge per kWh: | $0.02561 | $0.02495 | $0.02236 | $0.02634 | $0.02566 | $0.02302 |
| Transition | | | | | | |
| Billing demand per kW: | $13.42 | $12.89 | $12.64 | $13.78 | $13.25 | $13.00 |
| Excess demand per kW: | $13.42 | $12.89 | $12.64 | $13.78 | $13.25 | $13.00 |
| Energy charge per kWh: | $0.02464 | $0.02402 | $0.02151 | $0.02534 | $0.02470 | $0.02214 |

| Electric Division Rate Class (cont.) | Base Charge | Customers |
|---|---|---|
| **Seasonal Demand And Energy Manufacturing Service - (Schedule SMS)** | Effective October 1, 2015 | 4 |

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

TVA Administrative Charge: $350.00 per delivery point per month

Excess Demand: Demand amount that exceeds the effective contract demand.

| Electric Division Rate Class (cont.) | Base Charge | Customers |
|---|---|---|

**Seasonal Demand And Energy Manufacturing Service - (Schedule SMS)**

| Rates applicable for delivery at: | Transmission Voltage: 115 kV and up | | | Distribution Voltage: < 115 kV | | |
|---|---|---|---|---|---|---|
| Summer | SMSB | SMSC | SMSD | SMSB | SMSC | SMSD |
| Billing demand per kW: | $16.24 | $15.71 | $18.49 | $16.69 | $16.16 | $19.03 |
| Excess demand per kW: | $16.24 | $15.71 | $18.49 | $16.69 | $16.16 | $19.03 |
| Energy charge per kWh: | $0.02099 | $0.02017 | $0.01210 | $0.02159 | $0.02075 | $0.01245 |
| Winter | | | | | | |
| Billing demand per kW: | $13.26 | $12.73 | $15.50 | $13.62 | $13.09 | $15.95 |
| Excess demand per kW: | $13.26 | $12.73 | $15.50 | $13.62 | $13.09 | $15.95 |
| Energy charge per kWh: | $0.01614 | $0.01562 | $0.00846 | $0.01660 | $0.01606 | $0.00871 |
| Transition | | | | | | |
| Billing demand per kW: | $10.28 | $9.75 | $12.52 | $10.55 | $10.02 | $12.88 |
| Excess demand per kW: | $10.28 | $9.75 | $12.52 | $10.55 | $10.02 | $12.88 |
| Energy charge per kWh: | $0.01500 | $0.01453 | $0.00757 | $0.01542 | $0.01494 | $0.00779 |

| | | |
|---|---|---|
| **Time Of Use General Service (Schedule TGS)** | Effective October 1, 2015 | 7 |
| Service Charge: | $1,500.00 per delivery point per month | |
| TVA Administrative Charge: | $350.00 per delivery point per month | |
| Excess Demand: | Demand amount that exceeds the effective contract demand. | |
| Off-Peak Block 1: | First 200 hours use of on-peak metered demand multiplied by the ratio of metered off-peak energy to metered total energy. | |
| Off-Peak Block 2: | Next 200 hours use of on-peak metered demand multiplied by the ratio of metered off-peak energy to metered total energy. | |
| Off-Peak Block 3: | Last 400 hours use of on-peak metered demand multiplied by the ratio of metered off-peak energy to metered total energy. | |

| Electric Division Rate Class (cont.) | Base Charge | Customers |
|---|---|---|
| **Seasonal Demand And Energy Manufacturing Service - (Schedule SMS) (cont.)** | Effective October 1, 2015 | 4 |

| Rates applicable for delivery at: | Transmission Voltage: 115 kV and up | | | | Distribution Voltage: < 115 kV | | | |
|---|---|---|---|---|---|---|---|---|
| Summer | TDGSA | TGSB | TGSC | TGSD | TDGSA | TGSB | TGSC | TGSD |
| On-peak billing demand per kW: | $9.87 | $9.82 | $9.82 | $9.82 | $10.17 | $10.11 | $10.11 | $10.11 |
| Maximum billing demand per kW: | $5.25 | $5.25 | $4.72 | $4.47 | $5.36 | $5.36 | $4.83 | $4.58 |
| Excess demand per kW: | $9.87 | $9.82 | $9.82 | $9.82 | $10.17 | $10.11 | $10.11 | $10.11 |
| On-peak energy per kWh: | $0.07384 | $0.07079 | $0.07079 | $0.06987 | $0.07602 | $0.07288 | $0.07288 | $0.07196 |
| Off-peak block 1 per kWh: | $0.04362 | $0.04824 | $0.04824 | $0.04732 | $0.04489 | $0.04965 | $0.04965 | $0.04873 |
| Off-peak block 2 per kWh: | $0.00531 | $0.00633 | $0.00633 | $0.00438 | $0.00543 | $0.00648 | $0.00648 | $0.00450 |
| Off-peak block 3 per kWh: | $0.00257 | $0.00325 | $0.00325 | $0.00233 | $0.00261 | $0.00331 | $0.00331 | $0.00239 |
| Winter | | | | | | | | |
| On-peak billing demand per kW: | $9.00 | $8.95 | $8.95 | $8.95 | $9.27 | $9.22 | $9.22 | $9.22 |
| Maximum billing demand per kW: | $5.25 | $5.25 | $4.72 | $4.47 | $5.36 | $5.36 | $4.83 | $4.58 |
| Excess demand per kW: | $9.00 | $8.95 | $8.95 | $8.95 | $9.27 | $9.22 | $9.22 | $9.22 |
| On-peak energy per kWh: | $0.06004 | $0.06050 | $0.06050 | $0.05958 | $0.06180 | $0.06228 | $0.06228 | $0.06136 |
| Off-peak block 1 per kWh: | $0.04630 | $0.05025 | $0.05025 | $0.04933 | $0.04765 | $0.05172 | $0.05172 | $0.05080 |
| Off-peak block 2 per kWh: | $0.00531 | $0.00633 | $0.00633 | $0.00438 | $0.00543 | $0.00648 | $0.00648 | $0.00450 |
| Off-peak block 3 per kWh: | $0.00257 | $0.00325 | $0.00325 | $0.00233 | $0.00261 | $0.00331 | $0.00331 | $0.00239 |
| Transition: | | | | | | | | |
| On-peak billing demand per kW: | $9.00 | $8.95 | $8.95 | $8.95 | $9.27 | $9.22 | $9.22 | $9.22 |
| Maximum billing demand per kW: | $5.25 | $5.25 | $4.72 | $4.47 | $5.36 | $5.36 | $4.83 | $4.58 |
| Excess demand per kW: | $9.00 | $8.95 | $8.95 | $8.95 | $9.27 | $9.22 | $9.22 | $9.22 |
| On-peak energy per kWh: | $0.04737 | $0.04796 | $0.04796 | $0.04704 | $0.04875 | $0.04936 | $0.04936 | $0.04844 |
| Off-peak block 1 per kWh: | $0.04737 | $0.04796 | $0.04796 | $0.04704 | $0.04875 | $0.04936 | $0.04936 | $0.04844 |
| Off-peak block 2 per kWh: | $0.00531 | $0.00633 | $0.00633 | $0.00438 | $0.00543 | $0.00648 | $0.00648 | $0.00450 |
| Off-peak block 3 per kWh: | $0.00257 | $0.00325 | $0.00325 | $0.00233 | $0.00261 | $0.00331 | $0.00331 | $0.00239 |

| | | |
|---|---|---|
| **Time Of Use Manufacturing Service (Schedule TGS)** | Effective October 1, 2015 | 20 |
| Service Charge: | $1,500.00 per delivery point per month | |
| TVA Administrative Charge: | $350.00 per delivery point per month | |
| Excess Demand: | Demand amount that exceeds the effective contract demand. | |
| Off-Peak Block 1: | First 200 hours use of on-peak metered demand multiplied by the ratio of metered off-peak energy to metered total energy. | |
| Off-Peak Block 2: | Next 200 hours use of on-peak metered demand multiplied by the ratio of metered off-peak energy to metered total energy. | |
| Off-Peak Block 3: | Last 400 hours use of on-peak metered demand multiplied by the ratio of metered off-peak energy to metered total energy. | |

| Electric Division Rate Class (cont.) | Base Charge | Customers |
|---|---|---|

**Time Of Use Manufacturing Service (Schedule TGS) (cont.)**

| Rates applicable for delivery at: | Transmission Voltage: 115 kV and up | | | | Distribution Voltage: < 115 kV | | | |
|---|---|---|---|---|---|---|---|---|
| Summer | TDMSA | TMSB | TMSC | TMSD | TDMSA | TMSB | TMSC | TMSD |
| On-peak billing demand per kW: | $9.24 | $9.24 | $9.24 | $9.24 | $9.52 | $9.52 | $9.52 | $9.52 |
| Maximum billing demand per kW: | $3.64 | $2.45 | $1.92 | $1.66 | $3.71 | $2.48 | $1.95 | $1.69 |
| Excess demand per kW: | $9.24 | $9.24 | $9.24 | $9.24 | $9.52 | $9.52 | $9.52 | $9.52 |
| On-peak energy per kWh: | $0.05094 | $0.05299 | $0.05197 | $0.04931 | $0.05244 | $0.05455 | $0.05350 | $0.05078 |
| Off-peak block 1 per kWh: | $0.02839 | $0.03044 | $0.02942 | $0.02676 | $0.02921 | $0.03133 | $0.03028 | $0.02755 |
| Off-peak block 2 per kWh: | $0.00365 | $0.00365 | $0.00493 | $0.00279 | $0.00373 | $0.00373 | $0.00505 | $0.00287 |
| Off-peak block 3 per kWh: | $0.00135 | $0.00135 | $0.00493 | $0.00227 | $0.00136 | $0.00136 | $0.00505 | $0.00233 |
| Winter | | | | | | | | |
| On-peak billing demand per kW: | $8.37 | $8.37 | $8.37 | $8.37 | $8.62 | $8.62 | $8.62 | $8.62 |
| Maximum billing demand per kW: | $3.64 | $2.45 | $1.92 | $1.66 | $3.71 | $2.48 | $1.95 | $1.69 |
| Excess demand per kW: | $8.37 | $8.37 | $8.37 | $8.37 | $8.62 | $8.62 | $8.62 | $8.62 |
| On-peak energy per kWh: | $0.04065 | $0.04270 | $0.04168 | $0.03902 | $0.04184 | $0.04395 | $0.04290 | $0.04018 |
| Off-peak block 1 per kWh: | $0.03040 | $0.03245 | $0.03143 | $0.02877 | $0.03129 | $0.03340 | $0.03235 | $0.02962 |
| Off-peak block 2 per kWh: | $0.00365 | $0.00365 | $0.00493 | $0.00279 | $0.00373 | $0.00373 | $0.00505 | $0.00287 |
| Off-peak block 3 per kWh: | $0.00135 | $0.00135 | $0.00493 | $0.00227 | $0.00136 | $0.00136 | $0.00505 | $0.00233 |
| Transition: | | | | | | | | |
| On-peak billing demand per kW: | $8.37 | $8.37 | $8.37 | $8.37 | $8.62 | $8.62 | $8.62 | $8.62 |
| Maximum billing demand per kW: | $3.64 | $2.45 | $1.92 | $1.66 | $3.71 | $2.48 | $1.95 | $1.69 |
| Excess demand per kW: | $8.37 | $8.37 | $8.37 | $8.37 | $8.62 | $8.62 | $8.62 | $8.62 |
| On-peak energy per kWh: | $0.03119 | $0.03324 | $0.03222 | $0.02956 | $0.03210 | $0.03421 | $0.03316 | $0.03044 |
| Off-peak block 1 per kWh: | $0.03119 | $0.03324 | $0.03222 | $0.02956 | $0.03210 | $0.03421 | $0.03316 | $0.03044 |
| Off-peak block 2 per kWh: | $0.00365 | $0.00365 | $0.00493 | $0.00279 | $0.00373 | $0.00373 | $0.00505 | $0.00287 |
| Off-peak block 3 per kWh: | $0.00135 | $0.00135 | $0.00493 | $0.00227 | $0.00136 | $0.00136 | $0.00505 | $0.00233 |

**Drainage Pumping Station Rate (Schedule DPS)**

| | | |
|---|---|---|
| Customer Charge: | $15.52 per delivery point per month | 8 |

| Energy Charge: | Summer | Winter | Transition |
|---|---|---|---|
| All kWh per month: | $0.03591 | $0.03298 | $0.03122 |

| | | |
|---|---|---|
| **Outdoor Lighting Rate (Schedule LS)** | Effective October 1, 2015 | 17,133 |

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: | $0.04643 | $0.04347 | $0.04169 |

| **Electric Division Rate Class (cont.)** | **Base Charge** | **Customers** |
|---|---|---|

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

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.

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

| Electric Division Rate Class (cont.) | Base Charge | Customers |
|---|---|---|

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

(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: | $0.04643 | $0.04347 | $0.04169 |

| Gas Division Rate Class | Base Charge | Customers |
|---|---|---|
| **Residential G-1 & G-3** | Effective meters read on or after August 30, 2012 | 291,154 |
| | 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<br>This rate schedule is available for gas service to all gas customers except residential. | 21,364 |
| Service charge: | For 0 to 250 cf meter, $25.00<br>Over 250 to 1,000 cf meter, $50.00<br>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. | |
| **Large General Service Firm on-peak G-8 and G-9** | Effective meters on or after August 30, 2012 | 453 |
| | 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 | |

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

| Water Division Rate Class | Base Charge | Customers |
|---|---|---|
| **Residential – Inside City Rate** | Effective meters read on or after January 2, 2014 | 186,420 |
| | 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<br>3/4" meter 9.18<br>1" meter 16.29<br>1-1/2" meter 36.65<br>2" meter 65.15 | |
| **Residential – Outside City Rate** | Effective meters read on or after January 2, 2014 | 23,009 |
| | 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<br>3/4" meter 12.74<br>1" meter 22.67<br>1-1/2" meter 50.98<br>2" meter 90.63 | |
| **General Service – Inside City Rate** | Effective meters read on or after January 2, 2014 | 18,757 |
| | 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<br>Next 70 Ccf 1.631 per Ccf<br>Next 100 Ccf 1.241 per Ccf<br>Next 400 Ccf 1.034 per Ccf<br>Next 5,400 Ccf 0.804 per Ccf<br>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 | 810 |
| | 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 | 18,895 |

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.

| | | |
|---|---|---|
| **Commercial - Industrial – Shelby County Water Distribution System** | Effective meters read on or after January 2, 2014 | 607 |

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.

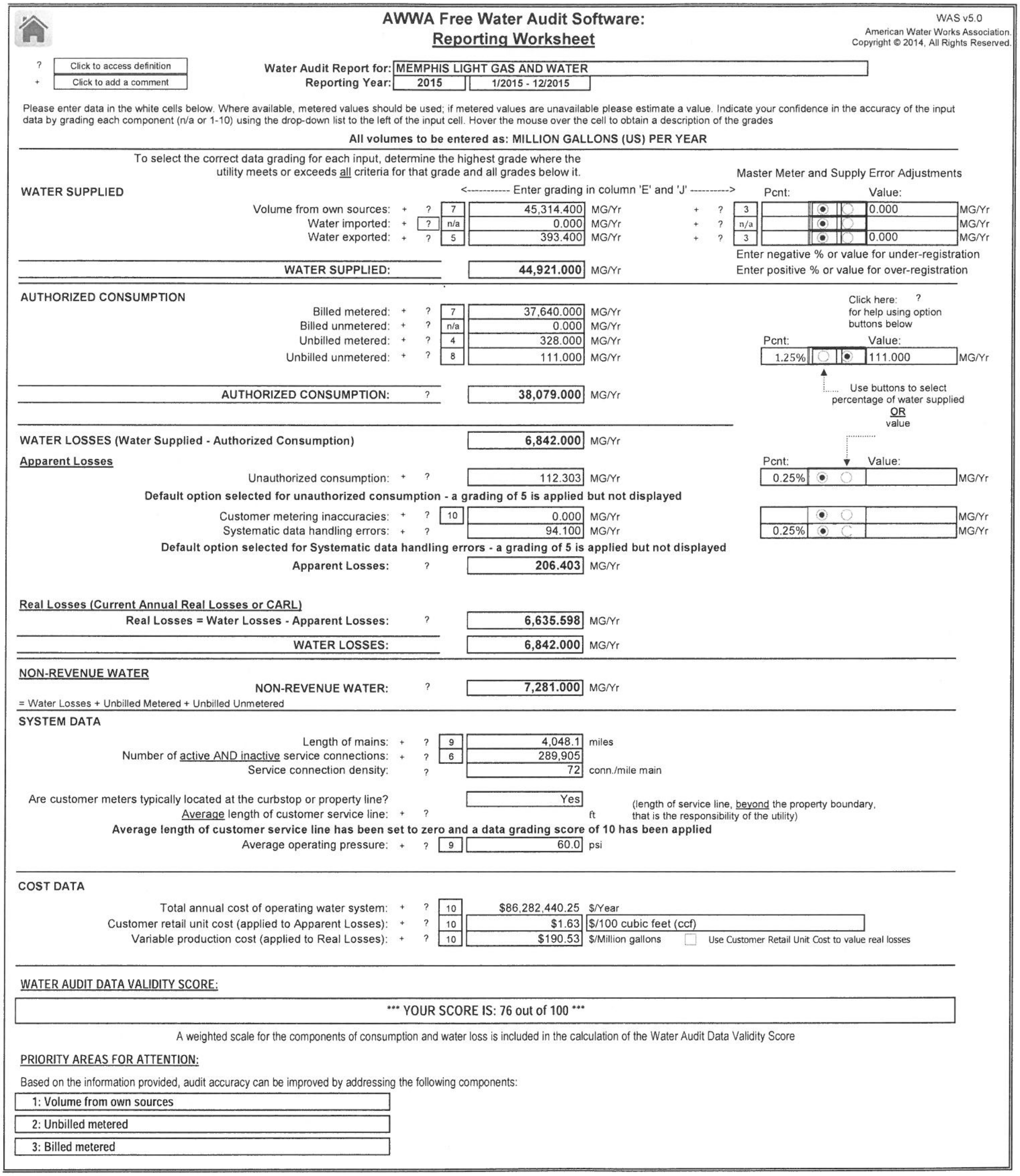
Monthly rate: Water consumed per month:

| | |
|---|---|
| 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 |

| Water Division Rate Class (cont.) | Base Charge | Customers |
|---|---|---|
| **Commercial - Industrial – Shelby County Water Distribution System (cont.)** | | |
| 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 | |



## 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:** 2015 1/2015 - 12/2015

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.

Master Meter and Supply Error Adjustments

**WATER SUPPLIED**

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

| | | | | | | | | Pcnt: | | Value: | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Volume from own sources: | + | ? | 7 | 45,314.400 | MG/Yr | + ? | 3 | | ● ○ | 0.000 | MG/Yr |
| Water imported: | + | ? | n/a | 0.000 | MG/Yr | + ? | n/a | | ● ○ | | MG/Yr |
| Water exported: | + | ? | 5 | 393.400 | MG/Yr | + ? | 3 | | ● ○ | 0.000 | MG/Yr |

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

**WATER SUPPLIED:** **44,921.000** MG/Yr

**AUTHORIZED CONSUMPTION**

Click here: ?
for help using option buttons below

| | | | | | | Pcnt: | | Value: | |
|---|---|---|---|---|---|---|---|---|---|
| Billed metered: | + | ? | 7 | 37,640.000 | MG/Yr | | | | |
| Billed unmetered: | + | ? | n/a | 0.000 | MG/Yr | | | | |
| Unbilled metered: | + | ? | 4 | 328.000 | MG/Yr | | | | |
| Unbilled unmetered: | + | ? | 8 | 111.000 | MG/Yr | 1.25% | ○ ● | 111.000 | MG/Yr |

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

**AUTHORIZED CONSUMPTION:** ? **38,079.000** MG/Yr

**WATER LOSSES (Water Supplied - Authorized Consumption)** **6,842.000** MG/Yr

**Apparent Losses**

| | | | | | | Pcnt: | | Value: | |
|---|---|---|---|---|---|---|---|---|---|
| Unauthorized consumption: | + | ? | | 112.303 | MG/Yr | 0.25% | ● ○ | | MG/Yr |

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

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Customer metering inaccuracies: | + | ? | 10 | 0.000 | MG/Yr | | ● ○ | | MG/Yr |
| Systematic data handling errors: | + | ? | | 94.100 | 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:** ? **206.403** MG/Yr

**Real Losses (Current Annual Real Losses or CARL)**

**Real Losses = Water Losses - Apparent Losses:** ? **6,635.598** MG/Yr

**WATER LOSSES:** **6,842.000** MG/Yr

**NON-REVENUE WATER**

**NON-REVENUE WATER:** ? **7,281.000** MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

**SYSTEM DATA**

| | | | | | |
|---|---|---|---|---|---|
| Length of mains: | + | ? | 9 | 4,048.1 | miles |
| Number of active AND inactive service connections: | + | ? | 6 | 289,905 | |
| Service connection density: | | ? | | 72 | 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**

| | | | | | |
|---|---|---|---|---|---|
| Total annual cost of operating water system: | + | ? | 10 | $86,282,440.25 | $/Year |
| Customer retail unit cost (applied to Apparent Losses): | + | ? | 10 | $1.63 | $/100 cubic feet (ccf) |
| Variable production cost (applied to Real Losses): | + | ? | 10 | $190.53 | $/Million gallons ☐ Use Customer Retail Unit Cost to value real losses |

**WATER AUDIT DATA VALIDITY SCORE:**

*** YOUR SCORE IS: 76 out of 100 ***

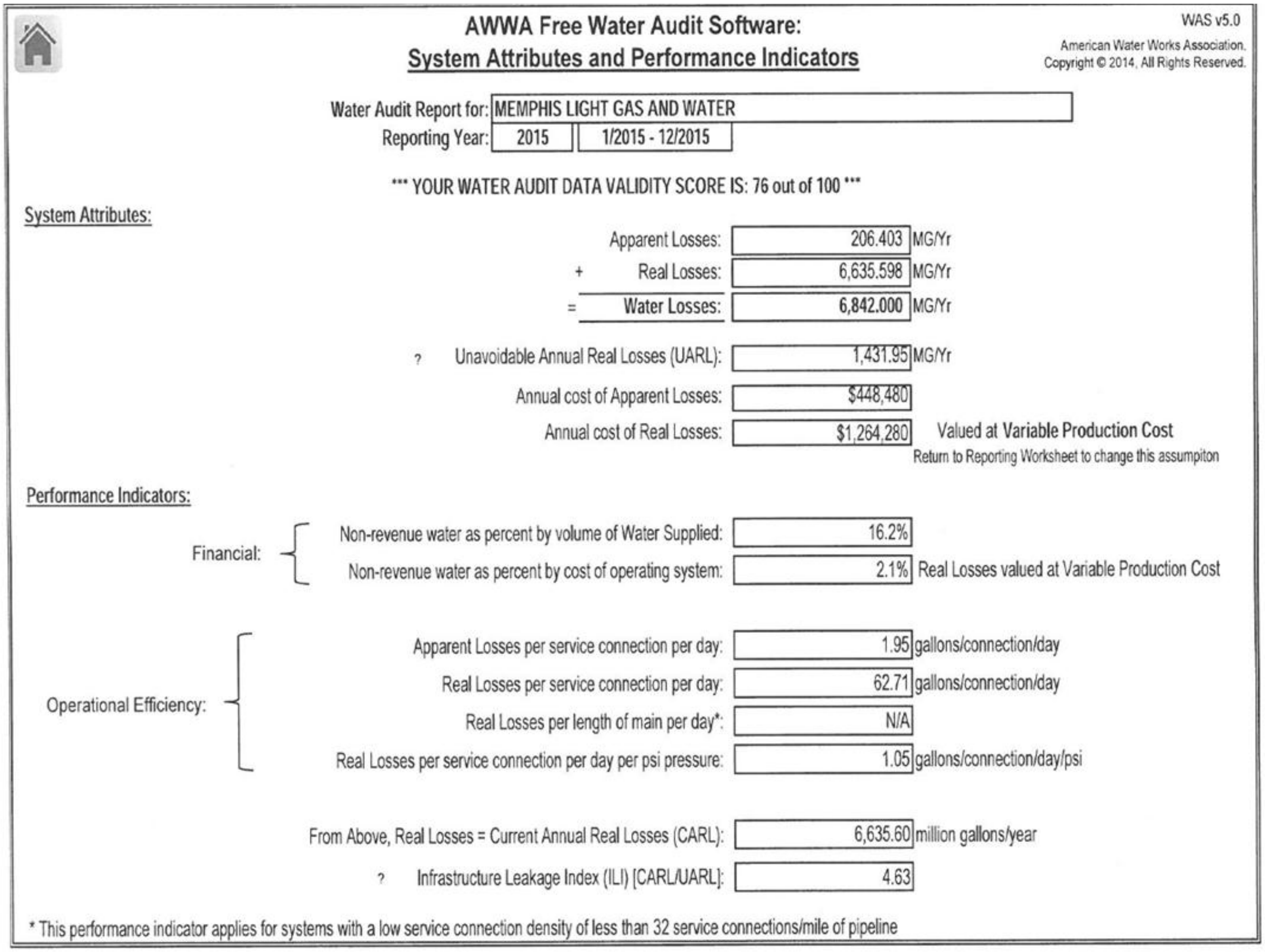
A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

**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

# NON-REVENUE WATER
# DECEMBER 31, 2015
# (Dollars in Thousands)



WAS v5.0

American Water Works Association.
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## AWWA Free Water Audit Software:
## System Attributes and Performance Indicators

Water Audit Report for: MEMPHIS LIGHT GAS AND WATER
Reporting Year: 2015 | 1/2015 - 12/2015

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 76 out of 100 ***

**System Attributes:**

| | | |
|---|---|---|
| Apparent Losses: | 206.403 | MG/Yr |
| + Real Losses: | 6,635.598 | MG/Yr |
| = Water Losses: | **6,842.000** | MG/Yr |
| ? Unavoidable Annual Real Losses (UARL): | 1,431.95 | MG/Yr |
| Annual cost of Apparent Losses: | $448,480 | |
| Annual cost of Real Losses: | $1,264,280 | Valued at **Variable Production Cost**<br>Return to Reporting Worksheet to change this assumpiton |

**Performance Indicators:**

| | | | |
|---|---|---|---|
| Financial: | Non-revenue water as percent by volume of Water Supplied: | 16.2% | |
| | Non-revenue water as percent by cost of operating system: | 2.1% | Real Losses valued at Variable Production Cost |
| Operational Efficiency: | Apparent Losses per service connection per day: | 1.95 | gallons/connection/day |
| | Real Losses per service connection per day: | 62.71 | gallons/connection/day |
| | Real Losses per length of main per day*: | N/A | |
| | Real Losses per service connection per day per psi pressure: | 1.05 | gallons/connection/day/psi |
| | From Above, Real Losses = Current Annual Real Losses (CARL): | 6,635.60 | million gallons/year |
| | ? Infrastructure Leakage Index (ILI) [CARL/UARL]: | 4.63 | |

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

## SCHEDULE OF INSURANCE
## FOR THE YEAR ENDED DECEMBER 31, 2015
(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 Automobile | 1,000 | |
| Leased Rental Equipement | 300 | per item |
| | 1,000 | coverage limit |

# SCHEDULE OF ADDITIONS AND RETIREMENTS TO UTILITY PLANT
## DECEMBER 31, 2015
## (Dollars in Thousands)

| | Electric Division | Gas Division | Water Division |
|---|---|---|---|
| Utility plant in service, December 31, 2014 | $ 1,608,765 | $ 586,645 | $ 442,263 |
| Additions- Construction | 52,695 | 18,127 | 7,662 |
| Additions- Acquisition Adjustment | - | - | 964 |
| Retirements | (14,545) | (7,043) | (2,566) |
| Transfers | - | - | - |
| **Utility plant in service, December 31, 2015** | **$ 1,646,915** | **$ 597,729** | **$ 448,323** |

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

MHM®

Mayer Hoffman McCann P.C.
An Independent CPA Firm

Clark Tower, 5100 Poplar Avenue, 30th Floor ■ Memphis, Tennessee 38137
Main: 901.685.5575 ■ Fax: 901.685.5583 ■ www.mhmcpa.com

# Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audits 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, 2015, and the related notes to the financial statements, which collectively comprise the Divisions' basic financial statements, and have issued our report thereon dated June 1, 2016.

### *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 1, 2016

# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE YEAR ENDED DECEMBER 31, 2015
(Dollars in Thousands)

| Federal Grantor/Pass-Through Grantor Federal Awards | CFDA Number | Contract Number | Expenditures |
|---|---|---|---|
| U.S. Department of Homeland Security/ Tennessee Emergency Management | 97.036 | 34101-0000009498 | $ 19 |
| **Total Federal Awards** | | | **$ 19** |

## 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the federal award activity of MLGW under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a portion of the operations of the MLGW, it is not intended to and does not present the financial position, changes in net assets, or cash flows of MLGW.

## 2. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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MLGW