



2020 Annual Report

Memphis Light, Gas and Water Division



Community Power

SERVING YOU IS WHAT WE DO

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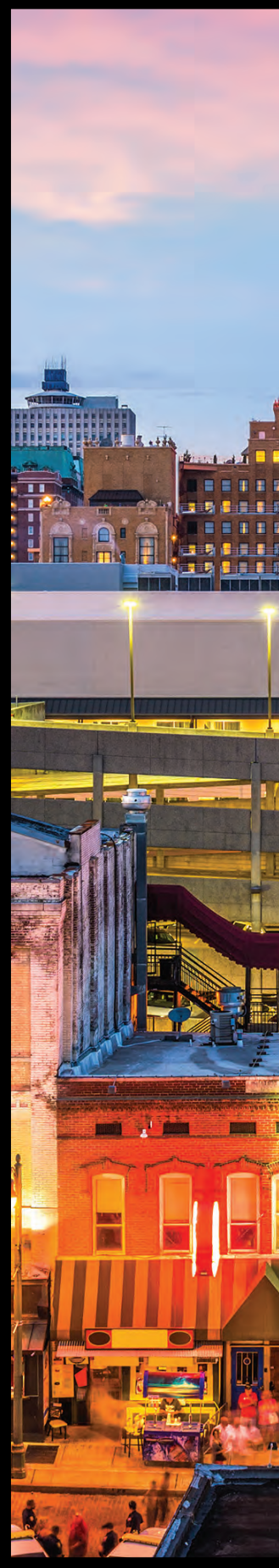
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About MLGW



The responsibility to provide excellent service to the citizens of Memphis and Shelby County inspires us every day, infusing our purpose, principles, and direction. Founded in 1939, Memphis Light, Gas and Water Division is the nation's largest full-service municipal utility company; our services of Electric, Gas and Water are the foundation to the quality of life that more than 433,000 customers enjoy. Each day, we strive to exceed expectations because *"Serving You Is What We Do."*

Our Suppliers

The Tennessee Valley Authority (TVA) provides MLGW with wholesale electricity. MLGW is TVA's largest customer, representing about 11 percent of TVA's total load. MLGW buys its natural gas from a variety of suppliers. It is transported by three pipeline companies – Texas Gas Transmission Corp., Trunkline Gas Co. and ANR Pipeline Co. Memphis and Shelby County receive water from the Memphis Sand and Fort Pillow aquifers which is one of the largest artesian water systems in the world.



Our Leaders

The President and a seven-member Board of Commissioners leads MLGW. Board members serve staggered terms. Two board members, who live outside of Memphis but within Shelby County, serve in an advisory, non-voting capacity. The Memphis Mayor appoints the President and the Board members with the approval of the Memphis City Council.

MLGW Board of Commissioners



Carlee
McCullough,
Chair



Mitch Graves,
Vice Chair



Leon
Dickson Sr.



Steven
Wishnia



Michael E.
Pohlman

Advisory Board Members



Kevin Young



Dwain Kicklighter

Senior Leadership Council

Jarl “J.T.” Young, *President and CEO*

Dana Jeanes, *SVP, CFO and CAO*
Secretary – Treasurer

Alonzo Weaver, *SVP and COO*

Jim West, *VP and Chief Customer Officer*

Gale Jones Carson, *VP of Community*
and External Affairs

Lesa Walton, *Chief Internal Auditing Officer*

Cliff DeBerry Jr., *VP of Design, Construction*
and Delivery

Von Goodloe, *VP of Shared Services*

Nick Newman, *VP of Engineering and Operations*

Cheryl Patterson, *VP and General Counsel*

Lashell Vaughn, *VP and CIO*

Jacqueline Jones, *VP and Chief People Officer*

Roland McElrath, *VP of Accounting*

President's Letter

Our mission is to safely deliver services that create and sustain superior customer experiences and our vision is to be the trusted provider of exceptional customer value in the communities that we are privileged to serve.

In 2020, MLGW employees held close to our mission and vision. We defined what it means to be an essential worker by continuing to provide excellent service to our customers and going above and beyond the call. I cannot highlight every extraordinary moment of service we accomplished in 2020 but here are some key accomplishments in addition to some of our hopes for the future. Despite the challenges of the year, our spirits of philanthropy, community service, and customer service thrived.

As a safety-first organization, when COVID-19 began, MLGW transitioned 800 employees to telecommuting status to prevent the transmission and spread of the virus. Most face-to-face internal meetings and community engagements were changed to virtual meetings and many of our direct-service events were readjusted for drive-through servicing.

To assist our customers during this unprecedented time, we announced a COVID-19 moratorium, waived late fees, and temporarily suspended cut-offs for months to help families in need. We also launched Power Pivot; a regular webinar series aimed at helping small businesses survive during the pandemic.

Our crews were on the frontline and worked on a network transformer vault to bring power to the COVID-19 hospital on Union Ave. We began virtual energy audits to continue to meet customer needs.

In addition to continuing donations to the United Way of the Mid-South, Angel Tree, and the Mid-South Food Bank Feed the Need, employees teamed up with a local organization to fund and create face shields to distribute in hospitals, medical clinics, and doctors' offices.

MLGW also continued hosting Power of Warmth events, shifting operations to drive-thru donations. We hosted several food-distribution events in partnership with the Mid-South Food Bank, serving thousands of families across the city over five events. Additionally, of their own volition, MLGW employees fed and clothed the homeless during their own time.

The future is bright. In 2021, we will continue with our five-year service improvement plan which includes updates to our infrastructure.

We will deploy and commission 112 distribution automation system devices during the planning period. Six hundred wood poles will be replaced, and 200 sites will receive 5G telecommunications equipment.

The cast iron replacement project will be completed in 2021. This is a 30-year project that began in 1992. We exceeded our targeted goal of removing 2.5 miles of cast iron in 2020 and replaced a total of 3.47 miles.

We are also replacing seventeen miles of underground cable and 1,000 water lead lines. Furthermore, we will assess water pumping stations to determine the best course of action at some of our older locations.

Thank you to everyone that helped us have a safe and productive 2020. I look forward to our work for 2021 and beyond.



Jarl "J.T." Young
President and CEO



OUR MISSION

To safely deliver services that create and sustain superior customer experiences.

OUR VISION

To be the trusted provider of exceptional customer value in the communities we are privileged to serve.

OUR VALUES

Safety – We make working safely paramount... it is the most important thing we do. We seek to create and maintain a safe work environment for our people.

Integrity – We seek to do the right things for the right reasons. We build trust among our people and with all of our stakeholders through honesty and ethical behavior.

Ownership – We care about the MLGW enterprise and we act like owners. We treat the MLGW enterprise as we would our own and we operate with MLGW's long-term success in mind. We pursue excellence and innovation and we are accountable for our decisions and behaviors.

Inclusion – We serve customers who represent a variety of backgrounds. We are committed to including and developing a similar diversity among our teams and among those from whom we purchase products and services.

Compassionate Service – We are committed to providing superior customer and people experiences. We do so with empathy, courtesy and efficiency and we serve our community with a similar passion.



Changes in 2020, While Continuing a Standard of Excellence

Electric Rate Increase

In January 2020, the Memphis City Council approved a multi-year rate increase request. The rate plan includes a 3% increase in electric rates effective July 2, 2020, a 2.7% increase effective January 4, 2021 and a 1.5% increase effective January 2022 revenue month. These increases will help fund needed infrastructure replacements and electric reliability improvement projects such as tree trimming, modernizing substation circuit breakers and transformers, pole replacements, distribution automation, strategic underground work, underground cable retrofit work. The goal of the reliability improvements is to reduce the total customer minutes of interruption by 50% when all the improvements are complete.

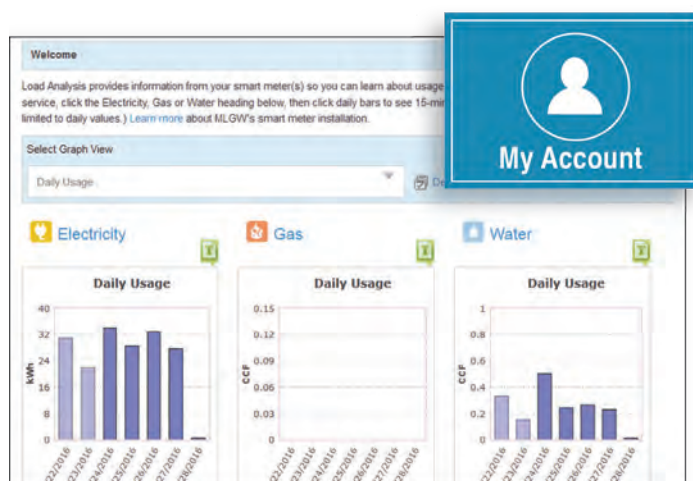
Gas and Water Rate Increases

In December 2019, the Memphis City Council approved a Gas Division rate increase of 2% effective in January 2022 along with a multi-year Water Division rate increase plan. The Water Division rate plan includes a 15% increase effective July 2, 2020, a 7% increase effective January 4, 2021 and a 5% increase effective January 2022 revenue month. The water rate increase will primarily be used to replace aging water production infrastructure throughout the system.

Upgraded My Account

In February 2020, MLGW upgraded our online account management web portal, My Account, to give customers more convenient access and greater control.

New My Account features enable users to (1) report a power outage (2) request a payment arrangement (3) update email address (4) manage text alerts enrollment and (5) manage Share the Pennies enrollment.

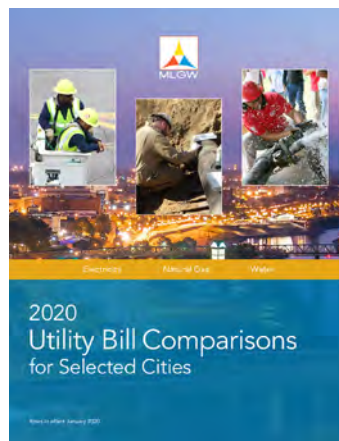


My Account continues to provide its core account management tools to view and pay bills and explore personal usage.

Expanded Bill Payment Locations

In August 2020, MLGW added 100 new locations in Shelby County where customers are able to pay their bills. The expansion of authorized MLGW pay agents now include Dollar General®, Family Dollar® stores and CVS pharmacy locations.

MLGW Still Among Lowest Utility Rates



In June 2020, MLGW completed its annual Utility Bill Comparisons survey which compares Memphis' combined electric, gas and water utility rates with other cities around the U.S. MLGW's combined rates continue to be among the lowest in the country.

The report is available online at mlgw.com/ratesurvey.

MLGW started collecting data on rates in the early 1990s. Memphis continues to outperform many

cities in terms of what customers pay for electricity, natural gas and water services. We surveyed 38 cities, including many that are geographically close to Memphis. All costs covered in this survey are based on published rates effective January 2020. A typical winter residential bill in January 2020 was \$226.88. In 2019, it was \$260.54.

For 28 years, Memphis customers have spent less for their winter utility bills than their counterparts in many metro areas. MLGW has captured the top ranking 16 times since 1992. The 2020 ranking includes what a homeowner would pay for 1,000 kilowatt-hours of electricity, 200 hundred cubic feet (CCF) of gas and 10 CCF of water.



Water Quality Report

Specialists in MLGW's Water Laboratory perform numerous tests throughout the year to monitor components of Memphis' water.

After the water is collected and processed, MLGW's Water Quality Assurance Laboratory ensures our water's quality and safety through a battery of tests, close to 40,000 tests per year. In addition to our testing, MLGW is funding a five-year, \$5 million water study with the Center for Applied Earth Science and Engineering Research (CAESER). The study is part of the long-term relationship MLGW has enjoyed since 1992 when MLGW and the U of M formed the Ground Water Institute (now known as CAESER). CAESER's staff and students will search for breaches in the clay layer, map the aquifer and study how water use impacts any contamination found.

Released in May 2020, the 2019 Water Quality Report highlights some of the 205 entries MLGW received from its annual poster art contest for students. The students designed a "Water Mane" superhero whose mission is to save the aquifer.

Our water comes from an underground aquifer known as the Memphis Aquifer. The reservoir is located 350 to 1,100 feet below ground.

MLGW's Water System Scores 99% on State Inspection of Public Drinking Water

In October 2020, MLGW received a score of 99 percent on a sanitary survey of its water system by the Tennessee Department of Environment and Conservation (TDEC).

According to TDEC, a sanitary survey is an unannounced onsite evaluation and documentation of a water system's capabilities, operations, sources, facilities, treatment process, equipment, distribution network, monitoring, reporting and data verification, pump facilities, controls and overall management to continually provide safe drinking water.

The TDEC survey is conducted once every two years; the latest survey took place from September 8 – 22. MLGW's previous score was also 99 percent.

The 2020 survey noted no significant deficiencies



and MLGW's water supply system was placed among the state's "approved" water supplies.

APGA Congratulates Memphis Light, Gas and Water for Operational Excellence

American Public Gas Association (APGA) presented MLGW with the prestigious APGA System Operational Achievement Recognition (SOAR) for excellence in operating its natural gas utility. Public natural gas systems are entrusted by their customers to deliver clean and affordable natural gas through a safe and reliable distribution pipeline system.

Out of approximately 750 APGA members, MLGW was selected for a Bronze SOAR award by its peers on the APGA Operations and Safety Committee. The selection was based on demonstrated excellence in four areas: system integrity, system improvement, employee safety and workforce development.

System integrity refers to the natural gas distribution system performing its overall intended function safely, efficiently and effectively

distributing energy to all customers without being degraded or impaired by its internal or external environment. System improvement refers to keeping the natural gas system well maintained and up to date through a self-improvement program that includes both an eye on the future through research and development, technology integration and a commitment to system improvement programs. Systems that exhibit excellence in employee safety include adopting a safety program that includes policies and procedures for education involvement and accountability for all employees, as well as tracking safety performance. Lastly, workforce development focuses on creative recruitment, training, education, and development practices that provide a return on investment through increased employee loyalty, motivation, safety, and productivity.

MLGW was one of twenty-five SOAR recipients recognized in 2020, joining the 39 previous SOAR award recipients. The system also received a plaque signifying MLGW's excellence in operating a natural gas utility system.



COVID-19 Response

MLGW Implements Pandemic Plan

In March 2020, Memphis Light, Gas and Water implemented its Pandemic Plan.

To better serve our customers, the plan included the suspension of disconnections for non-payment for all customers until further notice. Although bills continued to accrue, we encouraged customers to make payments if possible. Customers were able to request payment arrangements by contacting our Customer Service department.

Many employees were assigned to work from home



and community offices were closed, except for drive-thru services that allowed customer payment to be accepted through the drive-thru.

Additionally, MLGW leadership called for a special meeting of the MLGW Board of Commissioners to approve \$200,000 for a COVID community care fund created by The Tennessee Valley Authority (TVA).

MLGW selected the following Memphis-area, 501(c)(3) organizations to receive grants:

- Plus-1 (MIFA): \$75,000
- Mid-South Food Bank: \$75,000
- United Way of the Mid-South: \$25,000
- Mid-South COVID-19 Regional Fund: \$25,000

All MLGW funds were matched by TVA for a total donation of \$400,000 to local non-profits.



To stop the spread of COVID-19, the Transportation dept. worked on dividers to separate employees riding together in trucks. The partitions are made of galvanized steel. They are single-piece partitions with a Lexan window and foam seal to secure the partition between the front and back seat areas.



MLGW crew members work together in the COVID-19 hospital.

Creating Space: MLGW Employees Find a Way to Work Safe

COVID-19 created a new normal for everyone in both their personal spaces and workspaces. Memphis Light, Gas and Water employees were no exception to the rule with many working from home and Community Offices operating with drive-thru and drop box services only. However, utility poles still needed to be repaired, gas lines checked and water quality reviewed. MLGW crews creatively developed ways to do their work safely and efficiently.

When employees and customers voiced concern for crews who work within close proximity of each other or ride in work trucks together with no space to sit six feet apart, Kevin Jackson, Manager, Transportation and Fleet Services, assembled a team to develop a solution.

He and 10-12 foremen and supervisors created a design to cut and construct their own partitions. By the second week of April, they were being installed into 150 crew trucks.

The partitions are made from galvanized steel.

They are single-piece partitions with a Lexan window and foam seal to secure the partition between the front and back seat areas.

(According to the Missouri Glass Co, “Lexan is a polycarbonate resin thermoplastic. It has a variety of applications and is notable for its superior impact resistance. Lexan is often used, like acrylic, in situations that call for more durable versions of “glass-like” surfaces.”)

The partition gives definitive space in the work trucks, preventing crew members from sharing the same air and effectively implementing social distancing.

Making a Difference, Years of Training Prepare MLGW Crews to Make an Impact During COVID-19

Henry Smith, Crew Leader, Cable Splicing, Network and General Construction, has worked for Memphis Light, Gas and Water Division for 23 years, but he counts the work he and his team did on the COVID-19 hospital, located at 495 Union Avenue, as

one of his most significant career moments.

Smith's regular duties includes guiding and directing the splicing crews during the maintenance of underground network distribution. In July 2020, when the crews went to work on the transformer in the old Commercial Appeal Building, he excitedly explained why the assignment was unique.

The transformer that the crew worked on was inside of the building, inside of its own room. Huge, black, and coated in dust, the equipment stood taller than any of the men.

Smith and team worked on the transformer's protector and the lead sheathed cable. The cable going into the protector was a rubber jacketed secondary.

The protector, a piece of the machinery that the Lab and Tests department came out to assist with, maintains and protects the wires connected to the transformer.

After the protector was changed out, the crew worked on the secondary cable leads on top of the transformer. The transformer controls the voltage by breaking down the electricity to something useable. For example, when a machine is plugged in at the new hospital, the electricity powering the machine will be just enough as opposed to overpowering it.

"That transformer is not the average transformer you

see on the pole," Smith said.

Not only is the transformer in the hospital a lot bigger and more complicated than one that would be outside, the lead sheathe is difficult to maintain.

"To my knowledge there are only two companies that make (the cables for the lead sheathe). One is in New Jersey and one is in Mexico. When we order them, it's a six month turn around," Smith said.

Learning how to work the cable in the sheathe requires 4.5 years of training through MLGW's Journeyman apprenticeship program. To put into perspective just how challenging the job is, during Journeyman training you can only fail two tests in 4.5 years. There are about 18 crew leaders, journeyman and apprentices that could do the work performed on the transformer in the COVID-19 hospital in the entire Division.

The effects of COVID-19 across the world, nation and locally have continued to remind Smith of the importance of his role as an essential worker.

"We know we are essential workers, but seeing a facility like this being built in such a short amount of time and knowing that getting that transformer on to power ventilators, and other machines that will help doctors and nurses save lives makes us feel like we've gone beyond being an essential worker," he said.





MLGW's United Way Campaign presented United Way President and CEO Rev. Kenneth Robinson with a check for the total amount raised for MLGW's United Way Campaign. MLGW met and beat its campaign goal of \$665,000. MLGW Campaign co-chairs Kevin Watkins and Chantal Lairy presented the check to United Way.

Above and Beyond, Community Impact

United Way Campaign Success

The MLGW United Way team presented a check during a February 2020 Board meeting for the total employee contributions of the 2019 MLGW United Way fundraising campaign.

MLGW employee giving surpassed the goal of \$665,000 for a total of \$670,860.

MLGW Workers Fight the Coronavirus One Medical Face Shield at a Time

At the beginning of the pandemic, Reuben Hull, Electric Maintenance, Gerald Jameson, Gas Pressure and Regulations, and Steven A. Robbins, IT, used a 3-D printer to make medical face shield frames with a group called Midsouth Makers.

With MLGW's emphasis on safety, Robbins, who in 2020, announced his retirement after 33 years, found



MLGW employees volunteered to create masks and face shields for medical workers during the start of the pandemic.

the group's mission a good fit for him professionally as well as personally.

Hull found his niche when he saw a news article in late March 2020 about the medical face shields that Midsouth Makers were printing. The first week

he made 217 face mask frames. The second week, he churned out 375 frames.

Jameson got involved after his wife, a seamstress, saw a post on her Facebook page.

The three were among many volunteers across the city that worked nights and weekends to fill an immediate need.

In the beginning days of COVID, the Midsouth Makers group made and delivered more than 7,000 medical face shields to medical front line workers.

The nonprofit group gave the face shields to the Memphis Medical Society to distribute among local hospitals, medical clinics and doctor's offices. On Sunday afternoons, Hull and Jameson joined other volunteers with Midsouth Makers in Bartlett. Volunteers (limited to no more than 10) sanitized and packaged up frames, face shields and instructions.

MLGW Receives a 2020 Volunteer Memphis Award

In July 2020, MLGW won the Corporate Impact Memphis Volunteer Project Award. The honor is given to a business or company that has created or driven a unique volunteer project that has made a meaningful difference by mobilizing its staff.

In 2019, MLGW volunteers focused on Orange Mound. In addition to cleaning and distributing energy kits, volunteers did some minor home weatherization, and held two energy conservation and financial education workshops. In 2020, volunteers focused on the community surrounding the Dave Wells Community Center in North Memphis off Chelsea. They walked the neighborhood distributing energy-saving kits to residents, and gathered trash from the streets, parks, and sidewalks.







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 ending on December 31, 2020, as required by the Charter Provisions of the City of Memphis (City) creating 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 Clifton Larson Allen LLP, 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 ending on December 31, 2020 are free from material misstatement. The 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 ending on December 31, 2020 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 auditor's report.

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 forming 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 City Council's approval for its annual budget and before incurring certain obligations, including purchasing real estate and exercising the right of eminent domain.

MLGW is managed by a Board of Commissioners, which consists of five voting members nominated by the Mayor and approved by the City Council and two advisory, non-voting members which were added in 2017. The Board is responsible for supplying the Division's service areas with electricity, gas, and water. Board members serve staggered terms of three years each.

Every two years, the Board elects a Chairman and a Vice Chair, whose terms begin January 1. Board members continue to serve until a new board member is appointed by the Mayor and confirmed by the City Council.

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 MLGW's operations and its officers and employees.

Local Economy— Memphis sits on the banks of the Mississippi River in the southwestern corner of Tennessee. The Bluff City ranks as the second largest city in the state and, with a population of 651,073, is the hub of the 42nd largest metropolitan statistical area in the nation. According to the Greater Memphis Chamber, in 2020, the city landed 14 major projects, retained 582 jobs, and created nearly 2,563 more jobs. More than \$812 million in investments were made in 2020.

Three Fortune 500 world headquarters— FedEx, International Paper and AutoZone call Memphis home. In addition, Nike, Hilton, Coca-Cola, and Medtronic have major offices or distribution facilities in Memphis. In 2019, Memphis was named as the Number 1 city in America for black businesses.

MLGW has a major impact on the local economy. Through the third quarter of 2020 the Division spent 28% of \$92 million total procurement of goods, supplies and services with certified minority firms.. That accounts for \$25 million spent with minority-owned, women-owned, and local small businesses.

For 28 years, Memphis customers have spent less for their winter utility bills than their counterparts in many metro areas, capturing the top ranking 16 times since 1992. Lower rates and pristine water help attract companies to the area.

National Economy– According to the Bureau of Economic Analysis (BEA), a division of the U.S. Department of Commerce, real gross domestic product (GDP), a key indicator of economic growth, increased 4.0 percent for all of 2020.

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.

In 2020, MLGW invested over \$104 million in capital assets and system infrastructure.

MLGW continues to see an overall decrease in utility bills for customers over the years while maintaining low winter rates for our customers over the past 10 years. Also, MLGW experienced an increase in new customers across all three utilities (+1% for electric, +0.5% for gas and +0.8% for water).

MLGW commenced the Way Forward initiative which includes a five-year, \$1 billion service improvement plan across the three divisions.

Within the Electric Division, four substation transformers and 12 circuit breakers were replaced. These replacements exceeded the targeted goal for the 2020 year and are also part of the five-year infrastructure improvement plan. During the year 226 wood distribution poles were replaced along with the installation of 18 distribution automation devices and more than 6.2 miles of underground cable were replaced.

Within the Gas Division, MLGW upgraded three gas regulator stations in 2020 and designed three more to be replaced, satisfying the 2020 goal for the five-year infrastructure replacement plan. Additionally, 3.47 miles of cast iron main and 196 steel taps were replaced during the year.

Within the Water Division, MLGW replaced 1,057 lead water service lines and added two new water production wells.

Additionally, MLGW completed a series of capital projects in 2020 which include the Amazon Distribution Center, Elvis Presley Street Improvement Project LED streetlights and completed upgrading 94 streetlights to 5G standards. We also completed four of five pilot LED projects for the City of Memphis.

In 2020, the Gas Portfolio Management area increased savings on natural gas purchases by 25% for an unprecedented annual savings of \$9.3 million utilizing prepay natural gas contracts. In addition, 57% of all MLGW gas needs were met by prepaid natural gas.

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 Finance Division members who helped prepare this report. Special thanks must also be given to Clifton Larson Allen LLP, for their efficient and timely completion of this year's audit.

Respectfully submitted,



Jarl "J.T." Young
President and CEO

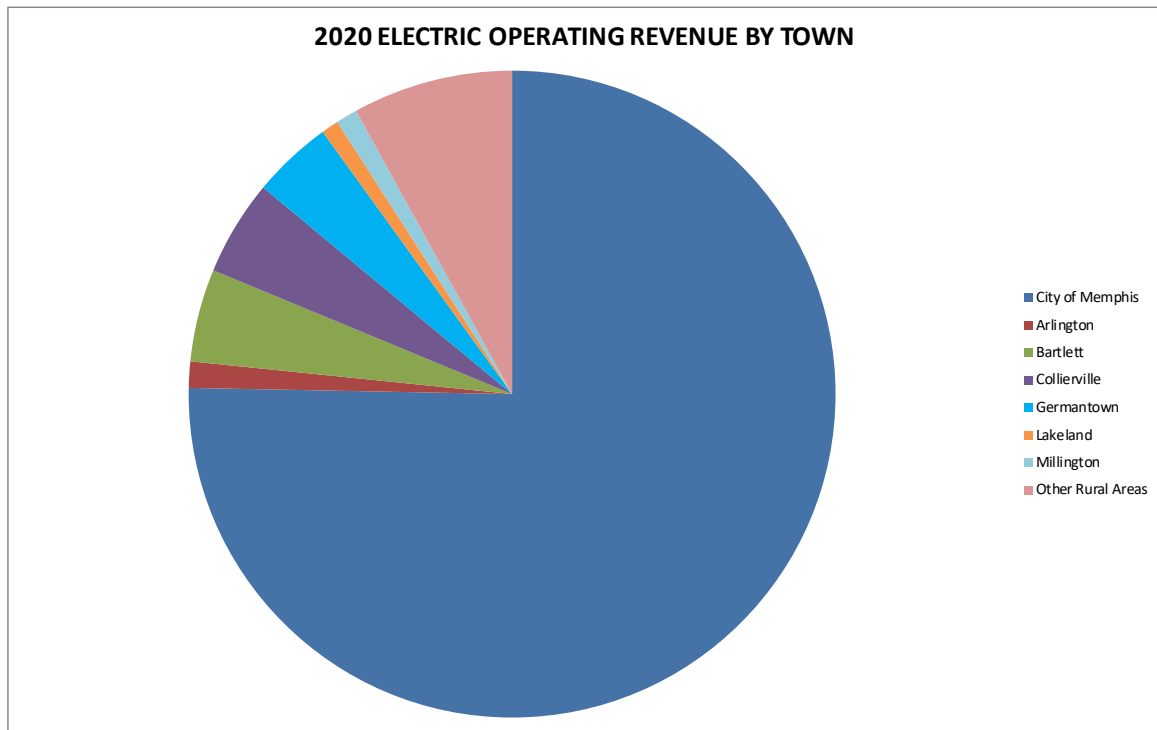


Dana J. Jeanes
SVP, CFO & CAO (Secretary - Treasurer)

**FINANCIAL HIGHLIGHTS
FOR THE YEARS ENDED
DECEMBER 31, 2020, 2019 AND 2018
(dollars and consumption in thousands)**

Operating Statistics by Towns:

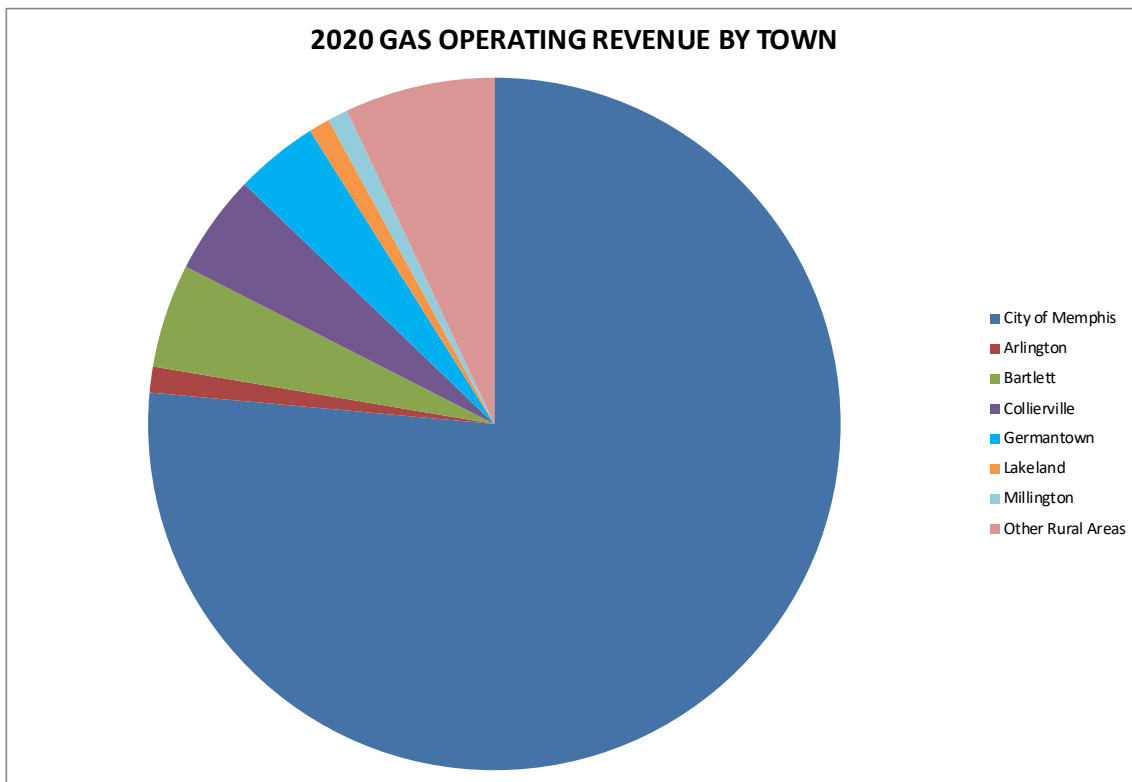
	ELECTRIC AMOUNT			ELECTRIC KWH		
	2020	2019	2018	2020	2019	2018
City of Memphis	\$ 899,347	\$ 971,766	\$ 976,456	9,672,364	10,208,674	10,604,732
Arlington	15,647	16,474	15,915	163,367	172,251	173,569
Bartlett	55,326	59,155	59,161	547,709	582,052	604,446
Collierville	57,034	61,211	60,549	591,849	627,717	641,313
Germantown	48,010	51,645	51,230	485,149	520,145	535,716
Lakeland	10,370	10,954	10,943	104,312	109,790	113,885
Millington	12,761	13,709	13,722	125,002	134,109	138,915
Other Rural Areas	95,774	101,062	101,931	1,084,426	1,132,205	1,180,513
Total	\$ 1,194,269	\$ 1,285,976	\$ 1,289,907	12,774,178	13,486,943	13,993,089



**FINANCIAL HIGHLIGHTS
FOR THE YEARS ENDED
DECEMBER 31, 2020, 2019 AND 2018
(dollars and consumption in thousands)**

Operating Statistics by Towns:

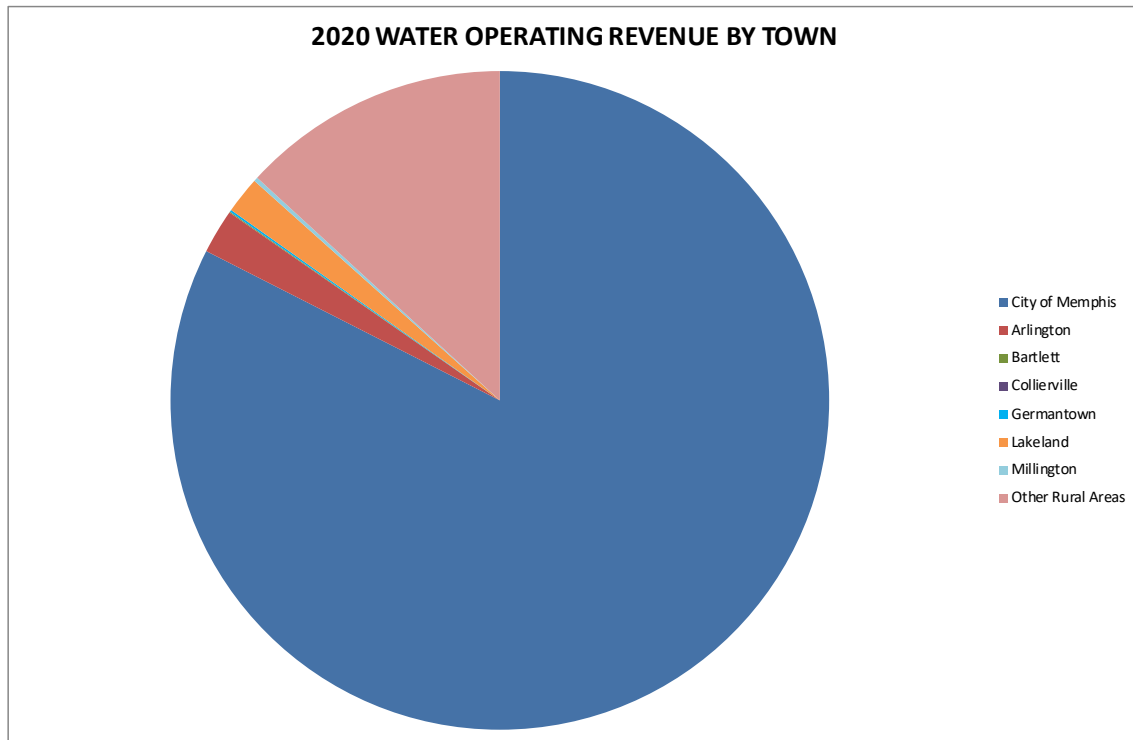
	GAS AMOUNT			GAS MCF		
	2020	2019	2018	2020	2019	2018
City of Memphis	\$ 162,634	\$ 196,820	\$ 206,081	22,870	25,466	26,731
Arlington	2,572	3,106	3,284	417	446	474
Bartlett	10,316	13,142	14,137	1,584	1,818	1,969
Collierville	9,929	12,513	13,233	1,620	1,818	1,929
Germantown	8,288	10,809	11,610	1,387	1,609	1,726
Lakeland	2,096	2,677	2,829	333	380	404
Millington	2,011	2,540	2,723	331	366	390
Other Rural Areas	14,895	19,021	20,291	2,295	2,638	2,834
Total	\$ 212,741	\$ 260,628	\$ 274,188	30,837	34,541	36,457



**FINANCIAL HIGHLIGHTS
FOR THE YEARS ENDED
DECEMBER 31, 2020, 2019 AND 2018
(dollars and consumption in thousands)**

Operating Statistics by Towns:

	WATER AMOUNT			WATER CCF		
	2020	2019	2018	2020	2019	2018
City of Memphis	\$ 91,276	\$ 87,916	\$ 85,851	42,674	44,460	44,103
Resale to Other Municipalities:						
Arlington	2,410	2,162	2,054	673	646	640
Bartlett	49	51	49	4	3	3
Collierville	4	3	1	-	-	-
Germantown	108	108	99	25	27	24
Lakeland	1,995	1,869	1,789	564	563	553
Millington	223	215	206	54	57	56
Other Rural Areas	14,589	13,355	13,091	4,136	4,033	4,064
Total	\$ 110,654	\$ 105,679	\$ 103,140	48,130	49,789	49,443





MLGW

SERVING YOU IS
WHAT WE DO



Financial Section



INDEPENDENT AUDITORS' 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 enterprise funds and the aggregate remaining fund information of Memphis Light, Gas and Water Division ("MLGW"), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Memphis Light, Gas and Water Division Retirement and Pension System and the Memphis Light, Gas and Water Division Other Post Employment Benefits Trust, which represent 100% of the assets, net position and revenues of the aggregate remaining fund information. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Memphis Light, Gas and Water Division Retirement and Pension System and the Memphis Light, Gas and Water Division Other Post Employment Benefits Trust, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 MLGW'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 MLGW'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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Memphis Light, Gas and Water Division as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only MLGW and do not purport to, and do not present fairly the financial position of the City of Memphis, Tennessee, as of December 31, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements of MLGW. The introductory section and supplemental information, as 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 bonds, principal and interest requirements; schedule of changes in long-term debt by individual issue; schedule of current utility rates; schedule of non-revenue water, schedule of additions and retirements to utility plant; and schedule of insurance are required by the State of Tennessee Comptroller of the Treasury's *Audit Manual*.

The supplementary information shown as a the schedule of bonds, principal and interest requirements; schedule of changes in long-term debt by individual issue; and schedule of additions and retirements to utility plant is the responsibility of management and were derived from and relates 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 audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and other information shown as the schedule of current utility rates, schedule of 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 it.

Prior Period Financial Statements

The 2019 financial statements of the Memphis Light, Gas and Water Division were audited by other auditors whose report dated June 3, 2020, expressed an unmodified opinions on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2021, on our consideration of MLGW's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Divisions' 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 MLGW's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Nashville, Tennessee
June 2, 2021

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)**



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

- ❖ In 2020, MLGW was impacted by the COVID-19 pandemic. There was a reduction of employees in offices, as 800 employees transitioned to telecommuting. Most face-to-face internal meetings and community engagements were changed to virtual meetings.
- ❖ MLGW replaced a total of 1,057 lead water lines.
- ❖ MLGW received a 99 out of 100 score on the Tennessee Department of Environmental and Conservation sanitary survey.
- ❖ MLGW increased savings on natural gas purchases by 25% for an unprecedented annual savings of \$9.3 million utilizing prepay natural gas contracts.
- ❖ MLGW implemented a Pandemic Plan to better serve our customers during a time of crisis, the plan included the suspension of disconnections and waiver of late fees for non-payment for all customers until September.
- ❖ In late September 2020, MLGW launched Power Pivot, a regular webinar series aimed at helping small businesses survive during the COVID-19 pandemic.
- ❖ MLGW expanded authorized MLGW pay agents that now include Dollar General and Family Dollar stores and CVS Pharmacy locations. Customers are now able to pay their bill at over 100 new locations in Shelby County.
- ❖ MLGW also added a new service, VanillaDirectPay. Customers can now pay their bill using a secure and unique barcode that appears at the bottom and back of the utility bill.
- ❖ MLGW continues to be intentional in its efforts to encourage the growth of minority, women, and locally owned small business enterprises by providing opportunities for MWBE/LSBs to furnish goods and services through MLGW’s Supplier Diversity Program. MLGW spent \$37.3 million with MWBE/LSBs during 2020.

Overview of the Financial Statements

MLGW's financial statements are comprised of Management's Discussion and Analysis (MD&A); the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; the Statements of Cash Flows; the accompanying Notes; and required supplementary information. This report also contains supplemental information required by the State in addition to the basic financial statements.

MLGW's basic financial statements were expanded in fiscal year 2020 to meet the requirements of GASB Statement No. 84. Therefore, in addition to the financial statements of the Electric, Gas and Water Divisions discussed above, the financial statements of MLGW's fiduciary activities are also presented in conformity accounting principles generally accepted in the United States of America. The fiduciary activities of MLGW include the Memphis Light, Gas and Water Retirement and Pension System (the "MLGW Pension Plan") and the Memphis Light, Gas and Water OPEB Trust ("OPEB Trust").

The Statements of Net Position report 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 of the organization 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 afford 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 encompassing the current year and the preceding two years for the Electric, Gas, and Water Divisions.

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

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Continued)**



STATISTICAL HIGHLIGHTS-ELECTRIC DIVISION

Years Ended December 31

CATEGORIES	2020	2019	2018
OPERATING REVENUE			
Residential	\$ 511,955,144	\$ 537,759,445	\$ 540,654,354
Commercial - General Service	548,906,983	599,341,312	597,183,375
Industrial	90,996,097	93,352,160	94,610,010
Outdoor Lighting and Traffic Signals	12,011,400	11,888,094	11,616,880
Street Lighting Billing	13,521,840	13,380,628	13,296,087
Interdepartmental	9,381,691	9,108,399	8,879,495
Green Power	(318,619)	(256,569)	(273,991)
Miscellaneous	13,682,377	27,674,100	35,180,634
Accrued Unbilled Revenue	(2,137,521)	(2,157,405)	(6,504,269)
Revenue Adjustment for Uncollectibles	(3,730,264)	(4,113,919)	(4,736,014)
TOTAL OPERATING REVENUE	\$ 1,194,269,128	\$ 1,285,976,245	\$ 1,289,906,561

CUSTOMERS

Residential	375,625	371,771	368,848
Commercial - General Service	43,695	43,392	43,319
Industrial	105	112	118
Outdoor Lighting and Traffic Signals	17,182	17,166	17,171
Interdepartmental	37	41	43
Total Customers	436,644	432,482	429,499

KWH SALES (THOUSANDS)

Residential	5,109,124	5,359,163	5,596,144
Commercial - General Service	5,615,566	6,076,707	6,264,086
Industrial	1,780,161	1,785,888	1,865,158
Outdoor Lighting and Traffic Signals	87,684	89,241	88,940
Street Lighting Billing	78,000	77,233	76,823
Interdepartmental	103,643	98,711	101,938
Total KWH Sales (Thousands)	12,774,178	13,486,943	13,993,089

OPERATING REVENUE/CUSTOMER

Residential	\$ 1,362.94	\$ 1,446.48	\$ 1,465.79
Commercial - General Service	12,562.24	13,812.25	13,785.71
Industrial	866,629.49	833,501.43	801,779.75
Outdoor Lighting and Traffic Signals	699.07	692.54	676.54
Interdepartmental	253,559.21	222,156.06	206,499.87

OPERATING REVENUE/KWH*

Residential	\$ 0.100	\$ 0.100	\$ 0.097
Commercial - General Service	0.098	0.099	0.095
Industrial	0.051	0.052	0.051
Outdoor Lighting and Traffic Signals	0.137	0.133	0.131
Street Lighting Billing	0.173	0.173	0.173
Interdepartmental	0.091	0.092	0.087

KWH/CUSTOMER

Residential	13,601.66	14,415.23	15,171.95
Commercial - General Service	128,517.36	140,042.12	144,603.66
Industrial	16,953,914.29	15,945,428.57	15,806,423.73
Outdoor Lighting and Traffic Signals	5,103.25	5,198.71	5,179.66
Interdepartmental	2,801,162.16	2,407,585.37	2,370,651.16

*See graph on M-6.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Continued)**



STATISTICAL HIGHLIGHTS-GAS DIVISION

Years Ended December 31

CATEGORIES	2020	2019	2018
OPERATING REVENUE			
Residential	\$ 121,563,699	\$ 153,114,037	\$ 163,500,978
Commercial - General Service	53,839,115	69,686,174	74,766,266
Industrial	1,369,181	1,713,205	2,051,696
Interdepartmental	161,353	242,423	202,083
Transported Gas	11,268,581	12,037,019	10,002,561
Spot Gas	6,677,553	8,327,329	7,711,270
Liquefied Natural Gas (LNG)	3,621,673	4,337,503	6,302,664
Compressed Natural Gas (CNG)	45,408	192,880	263,091
Miscellaneous	11,083,356	18,489,374	13,668,952
Accrued Unbilled Revenue	3,645,460	(6,355,767)	(2,935,049)
Revenue Adjustment for Uncollectibles	(534,818)	(1,156,659)	(1,346,852)
TOTAL OPERATING REVENUE	\$ 212,740,561	\$ 260,627,518	\$ 274,187,660
CUSTOMERS			
Residential	293,675	292,017	290,918
Commercial - General Service	21,553	21,556	21,525
Industrial	30	31	33
Interdepartmental	14	14	14
Transported Gas	39	40	41
Spot Gas	21	21	21
Subtotal	315,332	313,679	312,552
LNG	4	6	5
CNG (Sales Transactions)	155	528	388
Total Customers	315,491	314,213	312,945
MCF SALES			
Residential	18,402,121	20,779,764	22,439,731
Commercial - General Service	9,880,512	11,232,469	11,640,262
Industrial	362,159	368,249	423,747
Interdepartmental	35,496	42,980	35,649
Spot Gas	2,156,360	2,117,238	1,917,677
Subtotal	30,836,648	34,540,700	36,457,066
LNG	570,753	601,804	847,645
CNG	4,831	19,415	19,819
Total MCF Sales	31,412,232	35,161,919	37,324,530
OPERATING REVENUE/CUSTOMER			
Residential	\$ 413.94	\$ 524.33	\$ 562.02
Commercial - General Service	2,497.99	3,232.80	3,473.46
Industrial	45,639.37	55,264.66	62,172.61
Interdepartmental	11,525.20	17,315.90	14,434.47
Transported Gas	288,937.97	300,925.46	243,964.90
Spot Gas	317,978.72	396,539.48	367,203.35
OPERATING REVENUE/MCF*			
Residential	\$ 6.606	\$ 7.370	\$ 7.290
Commercial - General Service	5.449	6.200	6.420
Industrial	3.781	4.650	4.840
Interdepartmental	4.546	5.640	5.670
Spot Gas	3.097	3.930	4.020
MCF/CUSTOMER			
Residential	62.66	71.16	77.13
Commercial - General Service	458.43	521.08	540.78
Industrial	12,071.97	11,879.00	12,840.82
Interdepartmental	2,535.43	3,070.00	2,546.36
Spot Gas	102,683.81	100,820.86	91,317.95

*See graph on M-6.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Continued)**



STATISTICAL HIGHLIGHTS-WATER DIVISION

Years Ended December 31

CATEGORIES	2020	2019	2018
OPERATING REVENUE			
Residential	\$ 53,945,546	\$ 49,915,645	\$ 50,118,689
Commercial - General Service	46,227,709	45,732,682	43,511,198
Resale	138,298	137,683	133,409
Fire Protection	5,778,257	5,427,009	5,221,165
Interdepartmental	79,779	71,923	66,316
Miscellaneous	4,320,718	5,198,870	5,462,018
Accrued Unbilled Revenue	806,638	43,598	(473,184)
Revenue Adjustment for Uncollectibles	(642,974)	(848,050)	(899,523)
TOTAL OPERATING REVENUE	\$ 110,653,971	\$ 105,679,360	\$ 103,140,088
CUSTOMERS			
Residential	231,864	229,683	228,471
Commercial - General Service	20,629	20,484	20,422
Resale	10	12	11
Fire Protection	5,381	5,322	5,263
Interdepartmental	59	57	55
Total Customers	257,943	255,558	254,222
METERED WATER (CCF)			
Residential	22,206,588	21,670,184	22,596,541
Commercial - General Service	25,877,822	28,076,862	26,806,056
Resale	14,075	14,085	14,736
Interdepartmental	31,495	27,595	25,180
Total CCF Sales	48,129,980	49,788,726	49,442,513
OPERATING REVENUE/CUSTOMER			
Residential	\$ 232.66	\$ 217.32	\$ 219.37
Commercial - General Service	2,240.91	2,232.61	2,130.60
Resale	13,829.85	11,473.58	12,128.13
Fire Protection	1,073.83	1,019.73	992.05
Interdepartmental	1,352.19	1,261.80	1,205.74
OPERATING REVENUE/CCF*			
Residential	\$ 2.429	\$ 2.303	\$ 2.218
Commercial - General Service	1.786	1.629	1.623
Resale	9.826	9.775	9.053
Interdepartmental	2.533	2.606	2.634
CCF/CUSTOMER			
Residential	95.77	94.35	98.90
Commercial - General Service	1,254.44	1,370.67	1,312.61
Resale	1,407.50	1,173.75	1,339.64
Interdepartmental	533.81	484.12	457.82

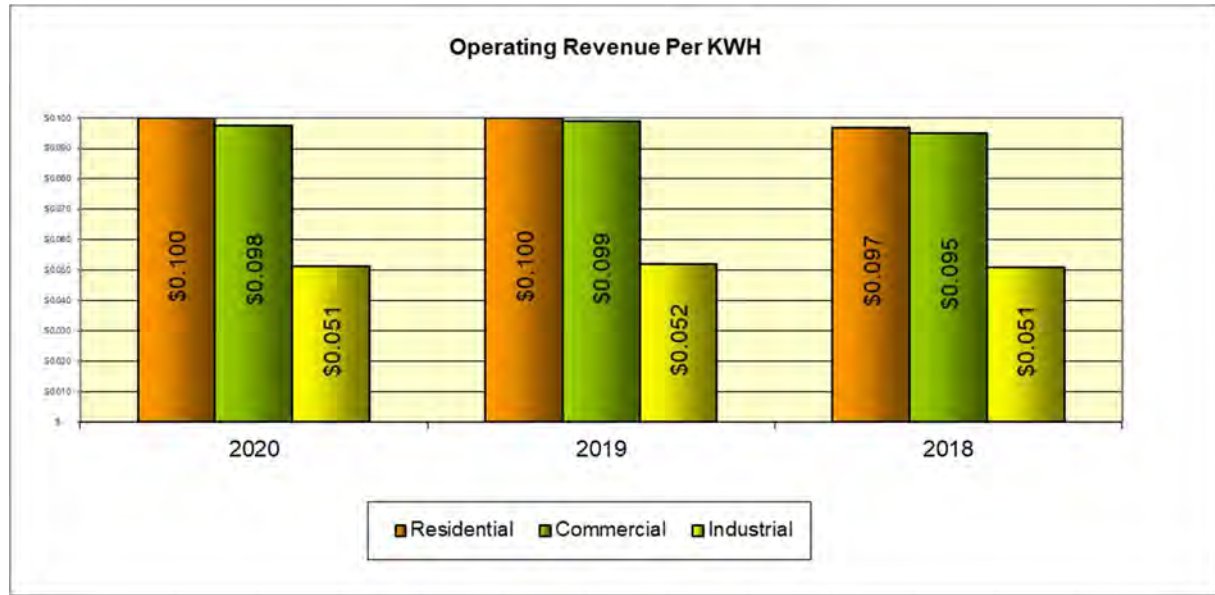
**See graph on M-7.*

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Continued)

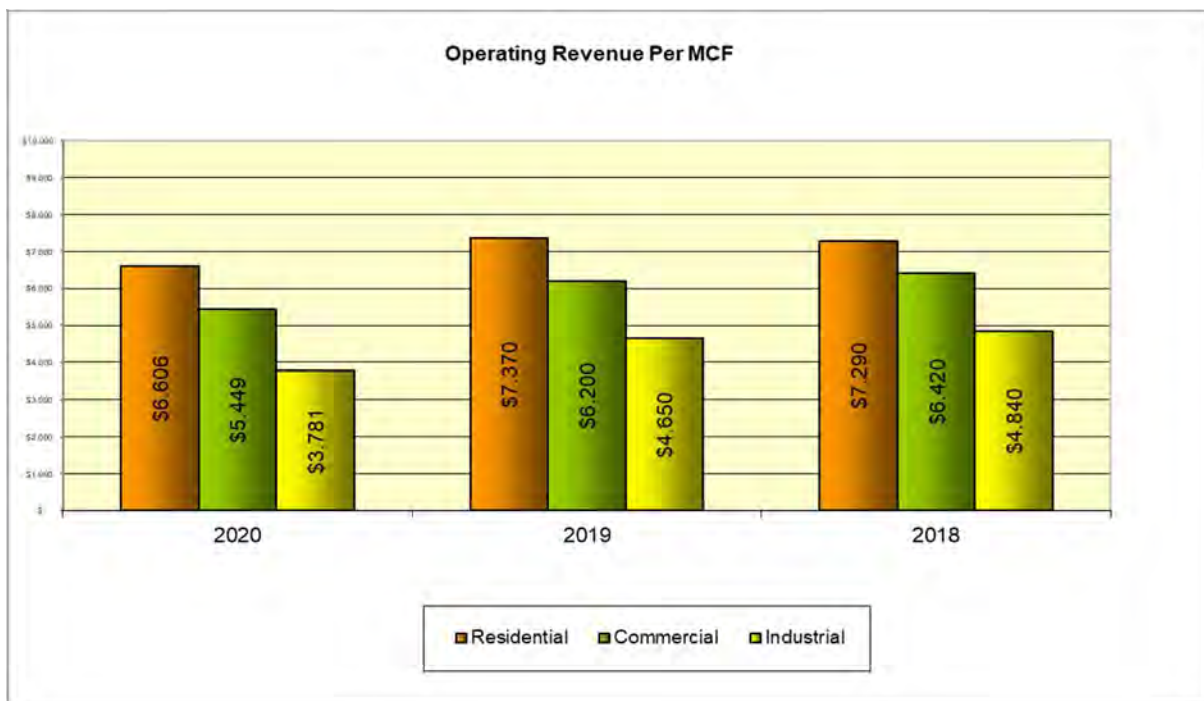


GRAPHS

Electric Division



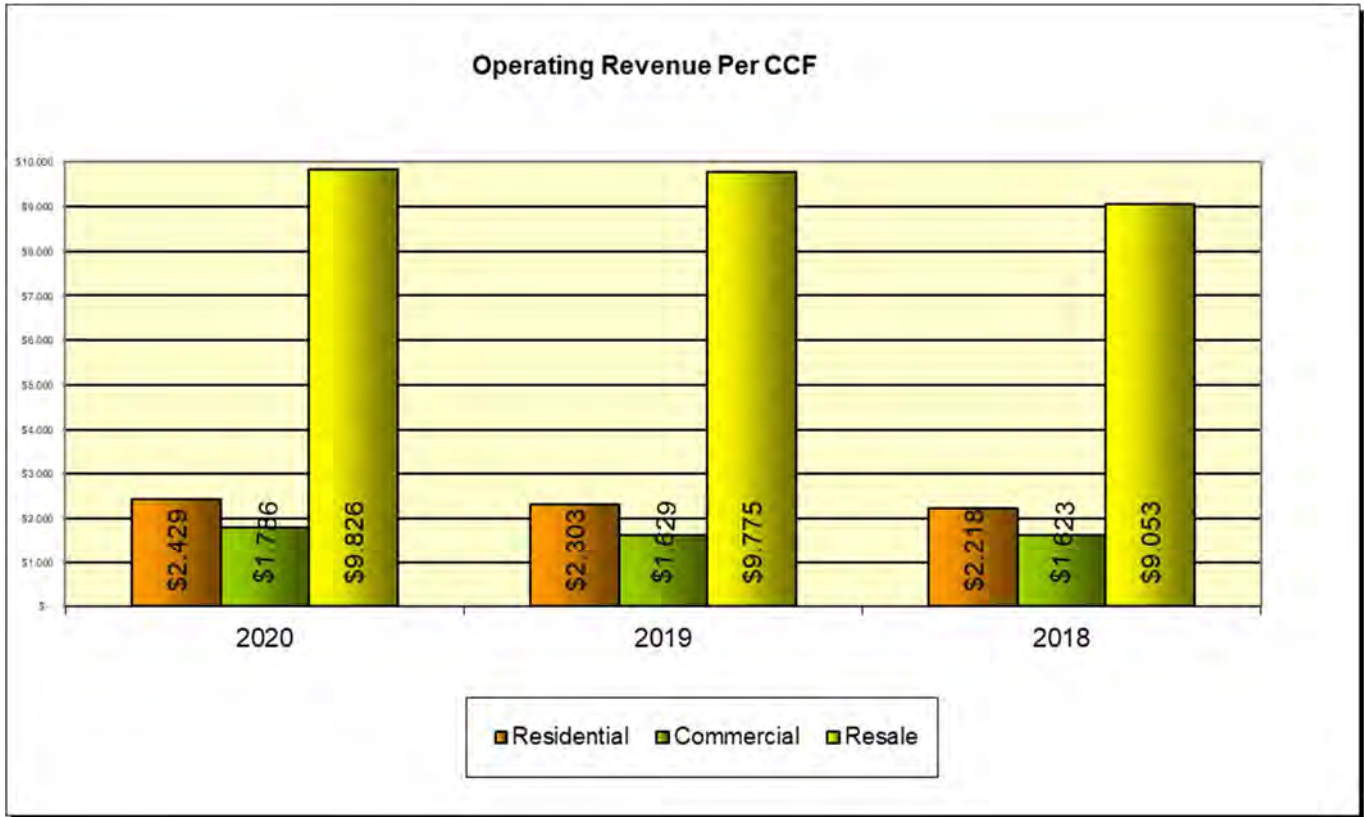
Gas Division



MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Continued)



Water Division



Bond Ratings

MLGW's Electric, Gas, and Water Divisions continue to maintain strong bond ratings. In September 2020 MLGW issued a total of three new series of bonds and one refunding series across the three divisions. The bond offerings were well received by the markets.

The Electric Division has total debt outstanding of \$324,320 as of December 31, 2020. MLGW's debt service coverage is 7.12. This coverage is well above the 1.2 required by the Electric Division bond covenant for the senior lien debt. In September 2020 the Electric Division issued new 2020A Series debt with total proceeds of \$175,803. The Electric Division also issued taxable revenue refunding bond 2020B Series debt with total proceeds of \$29,298. The refunding resulted in a net present value interest savings of \$3,656 for the Electric Division.

The Gas Division has total debt outstanding of \$133,735 as of December 31, 2020. The Gas Division's debt service coverage is 8.08. This coverage is well above the 1.2 required by the Gas Division bond covenant. In September 2020, the Gas Division issued new 2020 Series debt with total proceeds of \$75,146.

The Water Division has debt outstanding of \$127,110 as of December 31, 2020. The Water Division's debt service coverage is 6.08. This coverage is well above the 1.2 required by the Water Division bond covenant. In September 2020 the Water Division issued new 2020 Series debt with total proceeds of \$80,489.

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

MLGW Bond Ratings			Debt Administration (In Thousands)		
	S&P	Moody's		Outstanding Balance	Coverage
Electric Series			Electric	\$324,320	7.12
2014	A+	Aa2			
2016	A+	Aa2			
2017	A+	Aa2			
2020A	A+	Aa2			
2020B	A+	Aa2			
Gas Series			Gas	\$133,735	8.08
2016	AA-	Aa1			
2017	AA-	Aa1			
2020	AA-	Aa1			
Water Series			Water	\$127,110	6.08
2014	AAA	Aa1			
2016	AAA	Aa1			
2017	AAA	Aa1			
2020	AAA	Aa1			

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Continued)



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)					
	<u>2020</u>	<u>2019</u>	<u>FY20 - FY19 Percentage Change</u>	<u>2018</u>	<u>FY19 - FY18 Percentage Change</u>
Current assets (excluding restricted funds)	\$ 396,103	\$ 367,660	7.7%	\$ 428,680	-14.2%
Restricted assets	195,035	70,583	176.3%	66,423	6.3%
Other assets	35,209	17,090	106.0%	38,584	-55.7%
Utility plant	1,138,651	1,131,047	0.7%	1,129,626	0.1%
Total assets	<u>1,764,998</u>	<u>1,586,380</u>	<u>11.3%</u>	<u>1,663,313</u>	<u>-4.6%</u>
Deferred outflows of resources					
Employer pension contribution	14,702	13,088	12.3%	13,305	-1.6%
Employer OPEB contribution	20,937	20,370	2.8%	29,383	-30.7%
Pension liability experience	3,190	4,281	-25.5%	3,137	36.5%
OPEB liability experience	8,778	1,470	497.1%	1,837	-20.0%
Pension investment earnings experience	-	37,847	-	-	-
OPEB investment earnings experience	-	11,128	-	-	-
Unamortized balance of refunded debt	1,366	-	-	-	-
Total assets and deferred outflows	<u>1,813,971</u>	<u>1,674,564</u>	<u>8.3%</u>	<u>1,710,975</u>	<u>-2.1%</u>
Current liabilities payable from current assets	172,035	176,528	-2.5%	217,830	-19.0%
Current liabilities payable from restricted assets	28,006	25,238	11.0%	28,958	-12.8%
Long-term debt	356,713	192,580	85.2%	202,189	-4.8%
Non-current liabilities	156,250	264,306	-40.9%	183,606	44.0%
Total liabilities	<u>713,004</u>	<u>658,652</u>	<u>8.3%</u>	<u>632,583</u>	<u>4.1%</u>
Deferred inflows of resources					
Pension liability experience	4,779	5,023	-4.9%	7,787	-35.5%
OPEB liability experience	1,253	1,567	-20.0%	-	-
Pension changes of assumptions	87	2,211	-96.1%	4,422	-50.0%
OPEB changes of assumptions	83,403	80,148	4.1%	100,185	-20.0%
Pension investment earnings experience	40,230	-	-	39,486	-
OPEB investment earnings experience	12,108	-	-	14,931	-
Total liabilities and deferred inflows	<u>854,864</u>	<u>747,601</u>	<u>14.3%</u>	<u>799,394</u>	<u>-6.5%</u>
Net position:					
Net investment in capital assets	891,294	932,380	-4.4%	921,736	1.2%
Restricted	31,068	27,893	11.4%	20,400	36.7%
Unrestricted	36,745	(33,310)	210.3%	(30,555)	-9.0%
Total Net position	<u>\$ 959,107</u>	<u>\$ 926,963</u>	<u>3.5%</u>	<u>\$ 911,581</u>	<u>1.7%</u>

Assets

2020 Compared to 2019:

As of December 31, 2020, total assets and deferred outflows were \$1.8 billion, an increase of \$139.4 million, or 8.3%, compared to December 31, 2019. This increase is primarily due to an increase in restricted assets of \$124.5 million, an increase in current assets of \$28.4 million, an increase in other assets of \$18.1 million, an increase in net utility plant of \$7.6 million and an increase in deferred outflows related to OPEB liability experience of \$7.3 million, partially offset by a decrease in deferred outflows related to pension investment earnings experience of \$37.8 million and a decrease in OPEB investment earnings experience of \$11.1 million. The increase in restricted assets is due, in part, to an increase in construction fund – revenue bonds – series 2020A of \$116.6 million, an increase in medical benefits of \$3.8 million, and an increase in customer deposits of \$3.2 million.

2019 Compared to 2018:

As of December 31, 2019, total assets and deferred outflows were \$1.7 billion, a decrease of \$36.4 million, or 2.1%, compared to December 31, 2018. This decrease is primarily due to a decrease in current assets of \$61.0 million, a decrease in other assets of \$21.5 million, a decrease in employer OPEB contribution of \$9.0 million and a decrease in OPEB liability experience of \$0.4 million, partially offset by an increase in deferred outflows related to pension investment earnings of \$37.8 million, an increase in OPEB investment earnings experience of \$11.1 million, an increase in restricted assets of \$4.2 million, an increase in utility plant of \$1.4 million, and an increase in pension liability experience of \$1.1 million. The decrease in current assets is due, in part, to a decrease in cash and cash equivalents of \$53.7 million, a decrease in investments of \$13.4 million, partially offset by an increase in inventories of \$9.9 million.

Capital Assets and Construction Activities

2020 Compared to 2019:

The Electric's Division's utility plant assets, net of accumulated depreciation, were \$1.14 billion as of December 31, 2020, an increase of 0.7% over fiscal year 2019. During 2020, the Electric Division expended \$69.5 million on construction activities and capital purchases, an increase of \$5.9 million or 9.3% compared to fiscal year 2019. Major Electric Division construction expenditures include substation and transmission projects (\$21.4 million), extensions to serve new customers (\$14.3 million), storm restoration (\$5.9 million), the purchase of transformers (\$5.5 million), street light maintenance and installation (\$5.2 million), distribution automation (\$3.3 million), information technology upgrades (\$2.9 million), telecommunication network upgrades (\$2.1 million), security automation upgrades (\$1.6 million), line reconstruction (\$1.5 million), replacement of feeder and defective cable (\$1.4 million), purchase of meters (\$1.2 million), new circuits out of substations (\$1.2 million), the purchase of transportation equipment (\$0.9 million), distribution pole replacement (\$0.8 million), and building upgrades (\$0.2 million).

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Continued)**



2019 Compared to 2018:

The Electric Division's utility plant assets, net of accumulated depreciation were \$1.13 billion as of December 31, 2019, an increase of 0.1% over fiscal year 2018. During 2019, the Electric Division expended \$63.5 million on construction activities and capital purchases, a decrease of \$20.3 million or 24.2% compared to fiscal year 2018. Major Electric Division construction expenditures include routine maintenance of the electric distribution system (\$9.2 million), storm restoration (\$8.2 million), extensions to serve new customers (\$7.9 million), substation and transmission projects (\$7.7 million), the purchase of transportation and power operated equipment (\$4.5 million), new circuits out of substations (\$3.9 million), purchase of meters and metering equipment (\$3.9 million), purchase of distribution transformers (\$3.8 million), street light maintenance and installation (\$3.2 million), information technology upgrades (\$2.0 million), line reconstruction (\$2.0 million), replacement of feeder and defective cable (\$2.0 million), building upgrades (\$1.0 million), relocation of extensions (\$1.3 million), telecommunication communication and communication tower projects (\$1.1 million), and security automation (\$2.0 million).

Liabilities

2020 Compared to 2019:

As of December 31, 2020, total liabilities and deferred inflows were \$854.9 million, an increase of \$107.3 million, or 14.3% compared to December 31, 2019. These increases are due to an increase in long-term debt of \$164.1 million, an increase in pension investment earnings experience of \$40.2 million, an increase in OPEB investment earnings experience of \$12.1 million, an increase in OPEB changes of assumption of \$3.3 million, and an increase in current liabilities payable from restricted assets of \$2.8 million, offset in part by, a decrease in non-current liabilities of \$108.1 million, a decrease in current liabilities payable from current assets of \$4.5 million, and a decrease in pension changes of assumptions of \$2.1 million. The increases in long-term debt is due in part to an increase in electric revenue bonds, series 2020A of \$145.5 million, an increase in revenue refunding bonds - series 2020B of \$28.6 million, and an increase in unamortized premium on long-term debt - series 2020A of \$27.4 million, partially offset by a decrease in revenue bonds – series 2014 of \$26.8 million, a decrease in unamortized premium on long term debt – series 2014 of \$4.2 million, a decrease in revenue bonds – series 2017 of \$3.2 million, and a decrease in revenue bonds – series 2016 of \$1.5 million.

2019 Compared to 2018:

As of December 31, 2019, total liabilities and deferred inflows were \$747.6 million, a decrease of \$51.8 million, or 6.5% compared to December 31, 2018. These decreases are due to the decrease in current liabilities payable from current assets of \$41.3 million, a decrease in pension investment earnings experience of \$39.5 million, a decrease in OPEB changes of assumptions of \$20.0 million, a decrease in OPEB investment earnings experience of \$14.9, and a decrease in long-term debt of \$9.6 million, offset in part by an increase in non-current liabilities of \$80.7 million. The decrease in current liabilities payable from current assets is due to the decrease of taxes accrued in lieu of tax payments to city of \$39.8 million.

Net Position

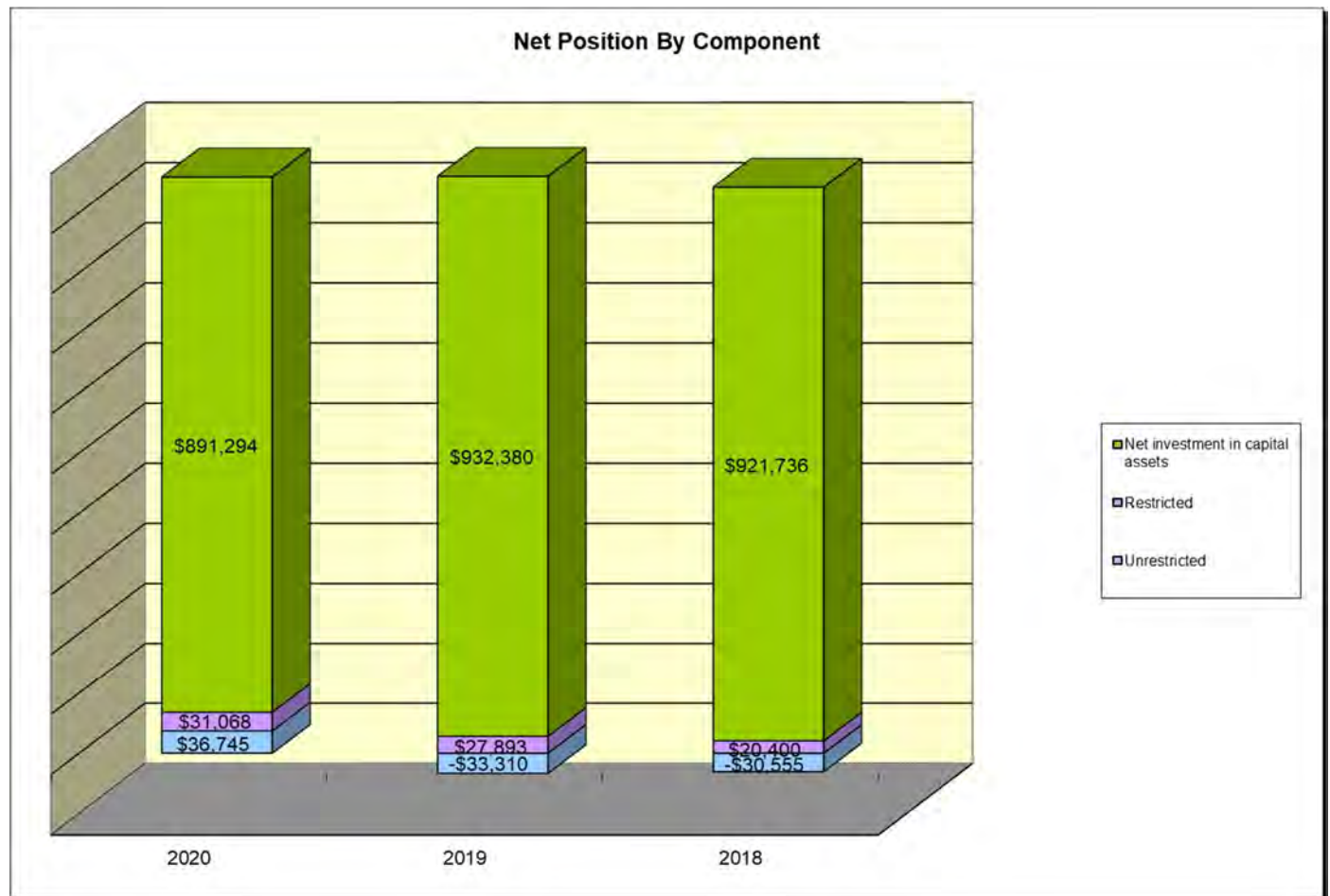
2020 Compared to 2019:

As of December 31, 2020, the Electric Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was \$959.1 million, an increase of \$32.1 million, or 3.5%, compared to December 31, 2019. The increase was due to an increase in unrestricted net position of \$70.1 million and an increase in restricted funds of \$3.2 million, partially offset by a decrease in net investment in capital assets of \$41.1 million as a result of the issuance of the Series 2020A bonds. Ninety-three percent of the net position was related to net investment in capital assets.

2019 Compared to 2018:

As of December 31, 2019, the Electric Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was \$927.0 million, an increase of \$15.4 million, or 1.7%, compared to December 31, 2018. The increase was due to an increase in net investment in capital assets of \$10.6 million due to the retirement of long-term debt issued for capital projects and an increase of \$7.5 million in restricted net position due primarily to an increase in restricted assets, offset by a decrease in unrestricted net position of \$2.7 million. One hundred and one percent of the net position was related to net investment 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, 2020, 2019, and 2018 <i>(In Thousands)</i>					
	<u>2020</u>	<u>2019</u>	<u>FY20 - FY19</u> <u>Percentage</u> <u>Change</u>	<u>2018</u>	<u>FY19 - FY18</u> <u>Percentage</u> <u>Change</u>
Revenues:					
Operating revenues	\$ 1,194,269	\$ 1,285,976	-7.1%	\$ 1,289,906	-0.3%
Non-operating revenues	41,251	43,528	-5.2%	47,951	-9.2%
Total revenues	<u>1,235,520</u>	<u>1,329,504</u>	<u>-7.1%</u>	<u>1,337,857</u>	<u>-0.6%</u>
Expenses:					
Depreciation expense	57,996	56,599	2.5%	55,844	1.4%
Purchased power	939,781	1,036,442	-9.3%	1,035,898	0.1%
Other operating expense	160,176	176,692	-9.3%	146,021	21.0%
Non-operating expense	6,887	5,981	15.1%	10,357	-42.3%
Total expenses	<u>1,164,840</u>	<u>1,275,714</u>	<u>-8.7%</u>	<u>1,248,120</u>	<u>2.2%</u>
Income before contributions in aid of construction and transfers	70,680	53,790	31.4%	89,737	-40.1%
Contributions in aid of construction	17,502	17,243	1.5%	17,315	-0.4%
Reduction of plant costs recovered through contributions in aid of construction	(17,502)	(17,243)	-1.5%	(17,315)	0.4%
Transfers to City of Memphis	(38,536)	(38,408)	-0.3%	(40,393)	4.9%
Change in net position	<u>\$ 32,144</u>	<u>\$ 15,382</u>	<u>109.0%</u>	<u>\$ 49,344</u>	<u>-68.8%</u>
Net position, beginning of year	\$ 926,963	\$ 911,581	1.7%	\$ 1,152,467	-20.9%
Change in method of accounting for OPEB	-	-		(290,230)	
Change in net position	<u>32,144</u>	<u>15,382</u>	<u>109.0%</u>	<u>49,344</u>	<u>-68.8%</u>
Net position, end of year	<u>\$ 959,107</u>	<u>\$ 926,963</u>	<u>3.5%</u>	<u>\$ 911,581</u>	<u>1.7%</u>

Change in Net Position

2020 Compared to 2019:

The change in net position is \$32.1 million, up \$16.8 million from \$15.4 million at December 31, 2019. This increase is primarily due to a decrease in operations maintenance expense of \$16.7 million and an increase in operating margin (operating revenue less power cost) of \$5.0 million, offset in part by a decrease in other income of \$2.3 million, an increase in other operating expense of \$1.7 million, an increase in long term debt interest of \$1.1 million due to the Series 2020A bonds, and a decrease in amortization of debt discount and expense of \$0.2 million.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Continued)**



2019 Compared to 2018:

The change in net position is \$15.4 million, down \$34.0 million from \$49.3 million at December 31, 2018. This decrease is primarily due to an increase in operations maintenance expense of \$33.8 million, primarily due to an increase in non-cash OPEB expenses, a decrease in operating margin (operating revenue less power cost) of \$4.5 million, offset in part by a decrease in interest on long-term debt of \$5.5 million.

Revenues

2020 Compared to 2019:

Total revenues were \$1.24 billion for fiscal year 2020, a decrease of \$94.0 million, or 7.1%, from fiscal year 2019. Operating revenues were \$1.19 billion in 2020, a decrease of \$91.7 million from 2019. The decrease in operating revenue is due primarily to sales volume decreasing by 5.28% compared to 2019. There was a decrease in purchased power cost of \$96.7 million driven primarily by decreased purchases, reduced Fuel Cost Adjustment rates and the Pandemic Relief Credit from TVA. Non-operating revenue decreased \$2.3 million to \$41.3 million in 2020 due to a decrease in other income revenues from sinking & other funds-interest income of \$2.5 million.

2019 Compared to 2018:

Total revenues were \$1.33 billion for fiscal year 2019, a decrease of \$8.4 million, or 0.6%, from fiscal year 2018. Operating revenues were \$1.29 billion in 2019, a decrease of \$3.9 million from 2018. The decrease in operating revenue is due primarily to sales volume decreasing by 3.6% compared to 2018. There was an increase in purchased power cost of \$0.4 million driven primarily by higher power cost due to the loss of the prepay credit and the October 2018 TVA rate increase. Non-operating revenue decreased \$4.4 million to \$43.5 million in 2019 as a result of a decrease in other income TVA prepay credit of \$4.4 million and offset by an increase in other income TVA transmission credit of \$0.6 million.

Expenses

2020 Compared to 2019:

For fiscal year 2020, total expenses were \$1.16 billion, an 8.7%, or \$110.9 million decrease from fiscal year 2019 total expenses. This decrease is primarily due to a decrease in purchase power of \$96.7 million and a decrease in other operating expense of \$16.5 million, offset by an increase in depreciation expense of \$1.4 million. Purchase power is down due to a decrease in purchase volumes of 4.82% and lower fuel cost adjustments.

2019 Compared to 2018:

For fiscal year 2019, total expenses were \$1.28 billion, a 2.2%, or \$27.6 million increase from fiscal year 2018 total expenses. This increase is primarily due to other operating expense of \$30.7 million offset by a decrease in non-operating expense of \$4.4 million. The increase in other operating expense is due to cumulative impact of the implementation of GASB No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“GASB 75”) in 2018. The decrease in non-operating expense is primarily related to retiring of Series 2008 and 2010 Bonds. The increase in purchased power is primarily due to higher power costs, as a result of the loss of the prepay credit and the October 2018 TVA rate increase.

Contributions in aid of construction

2020 Compared to 2019:

Contributions in aid of construction (“CIAC”) were \$17.5 million for fiscal year 2020, an increase of \$0.26 million (1.5%) from fiscal year 2019. This increase was mainly the result of increases in cancelled contracts of \$0.17 million and donated easements of \$1.1 million, offset by decreases in construction contributions of \$0.83 million and claims of \$0.20 million.

2019 Compared to 2018:

Contributions in aid of construction (“CIAC”) were \$17.2 million for fiscal year 2019, a decrease of \$0.07 million (0.4%) from fiscal year 2018. This decrease was mainly the result of decreases in donated easements of \$2.1 million and claims of \$0.13 million, offset by increases in construction contributions of \$2.2 million and cancelled contracts of \$0.02 million.

Transfers to the City of Memphis

2020 Compared to 2019:

MLGW’s transfer to the City of Memphis is based on the formula provided by the May 29, 1987 TVA Power Contract Amendment (Supp. No. 8). The formula includes a maximum property tax equivalency calculation plus 4% of operating revenue less power costs (three-year average). Transfers to the City represent the Electric Division’s in lieu of tax payment. The 2020 transfer increased by \$0.1 million as a result of an increase in net plant investment.

2019 Compared to 2018:

MLGW’s transfer to the City of Memphis is based on the formula provided by the May 29, 1987 TVA Power Contract Amendment (Supp. No. 8). The formula includes a maximum property tax equivalency calculation plus 4% of operating revenue less power costs (three-year average). Transfers to the City represent the Electric Division’s in lieu of tax payment. The 2019 transfer decreased by \$2.0 million as a result of a decrease in the assessment ratio.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Continued)



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 <i>(In Thousands)</i>					
	<u>2020</u>	<u>2019</u>	<u>FY20 - FY19</u> <u>Percentage</u> <u>Change</u>	<u>2018</u>	<u>FY19 - FY18</u> <u>Percentage</u> <u>Change</u>
Current assets (excluding restricted funds)	\$ 189,606	\$ 160,192	18.4%	\$ 162,398	-1.4%
Restricted assets	87,526	25,019	249.8%	22,904	9.2%
Other assets	31,302	23,731	31.9%	29,288	-19.0%
Utility plant	410,395	415,522	-1.2%	421,246	-1.4%
Total assets	718,829	624,464	15.1%	635,836	-1.8%
Deferred outflows of resources					
Employer pension contribution	5,636	5,017	12.3%	5,100	-1.6%
Employer OPEB contribution	8,026	7,808	2.8%	11,264	-30.7%
Pension liability experience	1,224	1,642	-25.5%	1,203	36.5%
OPEB liability experience	3,365	564	496.6%	704	-19.9%
Pension investment earnings experience	-	14,508		-	
OPEB investment earnings experience	-	4,265		-	
Total assets and deferred outflows	737,080	658,268	12.0%	654,107	0.6%
Current liabilities payable from current assets	44,402	36,931	20.2%	63,335	-41.7%
Current liabilities payable from restricted assets	8,862	7,770	14.1%	9,548	-18.6%
Long-term debt	152,017	82,161	85.0%	86,111	-4.6%
Non-current liabilities	60,623	101,935	-40.5%	68,557	48.7%
Total liabilities	265,904	228,797	16.2%	227,551	0.5%
Deferred inflows of resources					
Pension liability experience	1,832	1,926	-4.9%	2,985	-35.5%
OPEB liability experience	480	601	-20.1%	-	
Pension changes of assumptions	33	848	-96.1%	1,695	-50.0%
OPEB changes of assumptions	31,971	30,723	4.1%	38,404	-20.0%
Pension investment earnings experience	15,422	-		15,136	
OPEB investment earnings experience	4,641	-		5,724	
Accumulated decrease in fair value of hedging derivative instruments	3,293	1,630	102.0%	1,546	5.4%
Total liabilities and deferred inflows	323,576	264,525	22.3%	293,041	-9.7%
Net position:					
Net investment in capital assets	315,032	331,206	-4.9%	333,148	-0.6%
Restricted	14,284	13,057	9.4%	9,760	33.8%
Unrestricted	84,188	49,480	70.1%	18,158	172.5%
Total Net position	\$ 413,504	\$ 393,743	5.0%	\$ 361,066	9.1%

Assets

2020 Compared to 2019:

As of December 31, 2020, total assets and deferred outflows were \$737.1 million, an increase of \$78.8 million, or 12.0%, compared to December 31, 2019. This increase is due, in part, to increases in restricted assets of \$62.5 million, current assets (excluding restricted funds) of \$29.4 million, other assets of \$7.6 million and OPEB liability experience of \$2.8 million, offset, in part, by decreases in pension investment earnings experience of \$14.5 million, net utility plant of \$5.1 million and OPEB investment earnings experience of \$4.3 million. Restricted assets increased \$59.6 million due to receiving proceeds from the issuance of Series 2020 bonds. Current assets (excluding restricted funds) increased due to cash and cash equivalents of \$15.1 million, accounts receivable – MLGW services (less allowance for doubtful accounts) of \$9.3 million and unbilled revenue of \$3.6 million. Other assets increased due to net pension asset – long term of \$6.1 million and meter replacement – long term of \$1.2 million.

2019 Compared to 2018:

As of December 31, 2019, total assets and deferred outflows were \$658.3 million, an increase of \$4.2 million, or 0.6%, compared to December 31, 2018. This increase is due, in part, to increases in pension investment earnings experience of \$14.5 million, an increase in OPEB investment earnings experience of \$4.3 million, and an increase in restricted assets of \$2.1 million, offset, in part, by decreases in, net utility plant of \$5.7 million, other assets of \$5.6 million, employer OPEB contribution – annual funding of \$3.5 million and current assets less restricted funds of \$2.2 million. Other assets decreased due to net pension asset-long term of \$9.4 million as a result of the impact of GASB 68, offset by an increase in meter replacement-long term of \$3.3 million. Current assets (excluding restricted funds) decreased due to decrease in net accounts receivable-MLGW services of \$6.0 million and unbilled revenues of \$6.4 million, offset by an increase in investments of \$10.2 million.

Capital Assets and Construction Activities

2020 Compared to 2019:

The Gas Division's utility plant assets, net of accumulated depreciation were \$410.4 million as of December 31, 2020, a decrease of 1.2% over fiscal 2019. During 2020, the Gas Division expended \$20.6 million on construction activities and equipment purchases, a decrease of \$1.0 million or 4.5% compared to fiscal year 2019. Major Gas Division expenditures include gas main service replacement (\$5.8 million), routine distribution maintenance (\$3.8 million), the purchase of transportation equipment (\$2.7 million), extensions to serve new customers (\$2.3 million), the purchase of gas meters and metering equipment (\$1.2 million), transmission pipeline and facilities (\$1.1 million), street improvements (\$1.0 million), new gas main (\$0.9 million), building upgrades (\$0.8 million), the purchase of tools and equipment (\$0.6 million), LNG facility upgrades (\$0.2 million), information technology upgrades (\$0.1 million), and capital security upgrades (\$0.05 million).

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Continued)**



2019 Compared to 2018:

The Gas Division's utility plant assets, net of accumulated depreciation were \$415.5 million as of December 31, 2019, a decrease of 1.4% over fiscal 2018. During 2019, the Gas Division expended \$21.5 million on construction activities and equipment purchases, a decrease of \$26.5 million or 55.15% compared to fiscal year 2018. Major Gas Division expenditures include the purchase of gas meters (\$9.6 million), gas main service replacement (\$4.1 million), routine maintenance of the gas distribution system (\$4.3 million), extensions to serve new customers (\$2.5 million), and the purchase of transportation equipment (\$1.1 million).

Liabilities

2020 Compared to 2019:

At December 31, 2020, total liabilities and deferred inflows were \$323.6 million, representing an increase of \$59.1 million, or 22.3%, compared to \$264.5 million at December 31, 2019. This increase is due, in part, to the increases in long-term debt of \$69.9 million due to the issuance of Series 2020 Revenue Bonds of \$61.9 million and unamortized premium of \$10.8 million, pension investment earnings experience of \$15.4 million, current liabilities payable from current assets of \$7.5 million due, in part, to accounts payable – purchased gas of \$4.4 million and OPEB investment earnings experience of \$4.6 million, offset by a decrease in non-current liabilities of \$41.3 million due to net pension liability of \$24.8 million and net OPEB liability of \$16.8 million.

2019 Compared to 2018:

At December 31, 2019, total liabilities and deferred inflows were \$264.5 million, representing a decrease of \$28.5 million, or 9.7%, compared to \$293.0 million at December 31, 2018. This decrease is due, in part, to decreases in current liabilities payable from current assets of \$26.4 million due to accounts payable-purchased gas of \$12.3 million and accrued PILOT in 2018 of \$15.1 million, a decrease in pension investment earnings experience of \$15.1 million, a decrease in deferred inflows related to OPEB changes of assumptions of \$7.7 million, a decrease in OPEB investment earnings experience of \$5.7 million, and a decrease in long-term debt of \$4.0 million, offset in part, by increases in non-current liabilities of \$33.4 million due to net pension liability-long term of \$24.8 million and net OPEB liability-long term of \$6.5 million and an increase in OPEB liability experience of \$0.6 million.

Net Position

2020 Compared to 2019:

As of December 31, 2020, the Gas Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was \$413.5 million, an increase of \$19.8 million, or 5.0%, from December 31, 2019. The increase is due, in part, to an increase in unrestricted net position of \$34.7 million and an increase in restricted net position of \$1.2 million, offset in part, by a decrease in net investments in capital assets of \$16.2 million as a result of the issuance of the Series 2020 bonds. Seventy-six percent of the net position was related to net investment in capital assets.

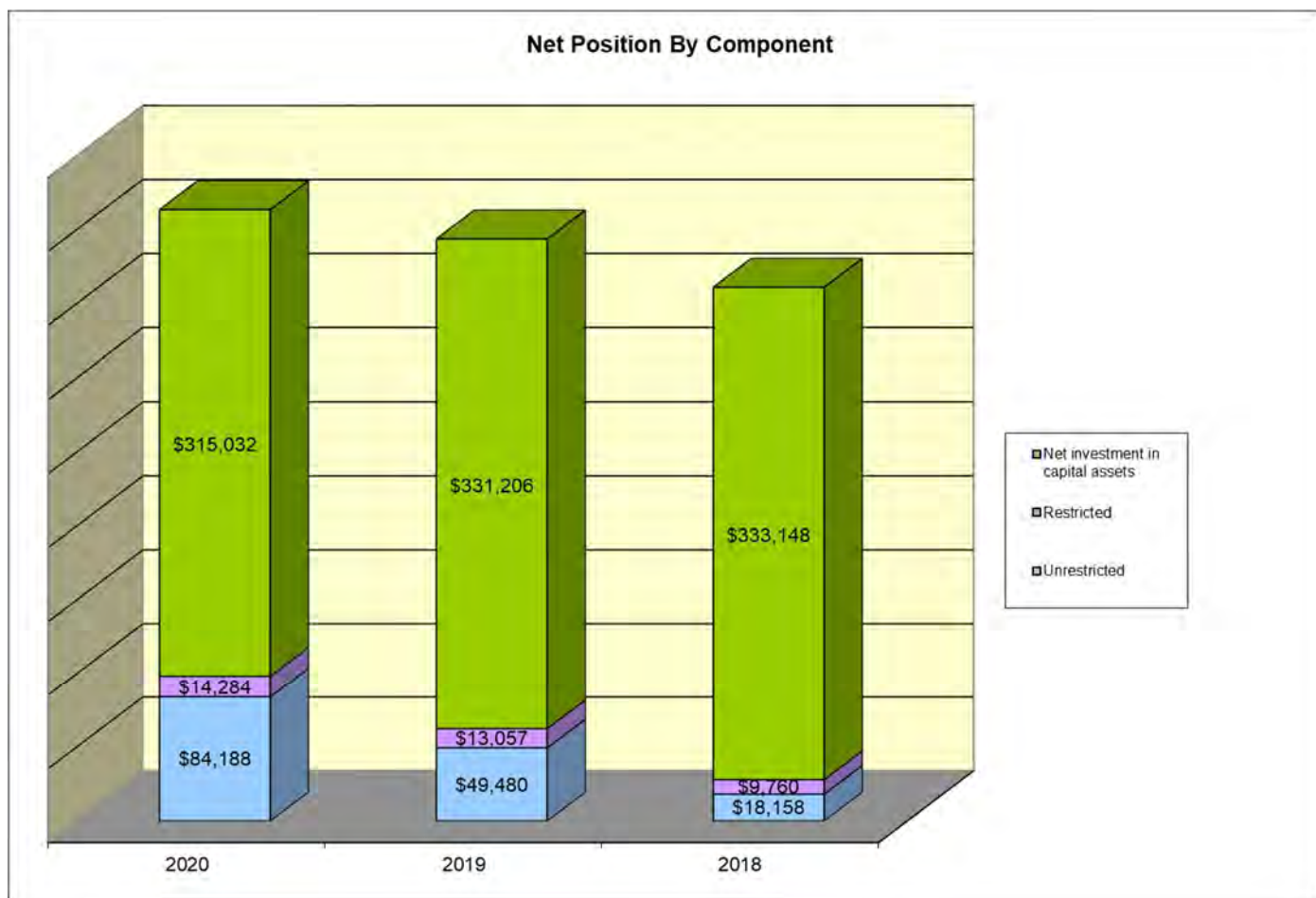
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Continued)**



2019 Compared to 2018:

As of December 31, 2019, the Gas Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was \$393.7 million, an increase of \$32.7 million, or 9.1%, from December 31, 2018. The increase is due, in part, to an increase in unrestricted net position of \$31.3 million and an increase in restricted net position of \$3.3 million due primarily to an increase in restricted assets. Eighty-four percent of the net position was related to net investment in capital assets.

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, 2020, 2019, and 2018 <i>(In Thousands)</i>					
	<u>2020</u>	<u>2019</u>	<u>FY20 - FY19 Percentage Change</u>	<u>2018</u>	<u>FY19 - FY18 Percentage Change</u>
Revenues:					
Sales, service and other operating revenues	\$ 201,243	\$ 248,056	-18.9%	\$ 263,069	-5.7%
Transported gas revenue	11,498	12,571	-8.5%	11,119	13.1%
Non-operating revenues	390	1,336	-70.8%	899	48.6%
Total revenues	<u>213,131</u>	<u>261,963</u>	<u>-18.6%</u>	<u>275,087</u>	<u>-4.8%</u>
Expenses:					
Depreciation expense	22,688	22,500	0.8%	21,483	4.7%
Purchased gas	75,183	110,555	-32.0%	138,107	-19.9%
Other operating expense	74,278	75,890	-2.1%	64,921	16.9%
Non-operating expense	2,780	2,339	18.9%	2,400	-2.5%
Total expenses	<u>174,929</u>	<u>211,284</u>	<u>-17.2%</u>	<u>226,911</u>	<u>-6.9%</u>
Income before contributions in aid of construction and transfers	38,202	50,679	-24.6%	48,176	5.2%
Contributions in aid of construction	2,470	1,518	62.7%	3,018	-49.7%
Reduction of plant costs recovered through contributions in aid of construction	(2,470)	(1,518)	-62.7%	(3,018)	49.7%
Transfers to City of Memphis	(18,441)	(18,002)	-2.4%	(19,152)	6.0%
Change in net position	<u>\$ 19,761</u>	<u>\$ 32,677</u>	<u>-39.5%</u>	<u>\$ 29,024</u>	<u>12.6%</u>
Net position, beginning of year	\$ 393,743	\$ 361,066	9.1%	\$ 443,223	-18.5%
Change in method of accounting for OPEB	-	-		(111,181)	
Change in net position	<u>19,761</u>	<u>32,677</u>	<u>-39.5%</u>	<u>29,024</u>	<u>12.6%</u>
Net position, end of year	<u>\$ 413,504</u>	<u>\$ 393,743</u>	<u>5.0%</u>	<u>\$ 361,066</u>	<u>9.1%</u>

Change in Net Position

2020 Compared to 2019:

The change in net position is \$19.8 million, down \$12.9 million from December 31, 2019. This decrease is primarily due to a decrease in operating margin (operating revenue less gas cost) of \$12.5 million.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Continued)**



2019 Compared to 2018:

The change in net position is \$32.7 million, up \$3.7 million from December 31, 2018. This increase is primarily due to an increase in operating margin (operating revenue less gas cost) of \$14.0 million, offset, in part, by an increase in other operating expenses of \$11.0 million. The increase in other operating expenses relates primarily to an increase in OPEB expenses of \$10.0 million.

Revenues

2020 Compared to 2019:

Total revenues were \$213.1 million for fiscal year 2020, a decrease of \$46.8 million or 18.6% from fiscal year 2019. Sales, service, and other operating revenues were \$201.2 million, a decrease of \$46.8 million, or 18.9%, from 2019 due to a decrease in sales volume and lower natural gas prices. Purchased gas cost decreased \$35.4 million, or 32.0%, due to decrease in natural gas purchases and lower unit cost. Transported gas revenues decreased \$1.1 million, or 8.5%, and non-operating revenue decreased \$0.9 million, compared to fiscal year 2019.

2019 Compared to 2018:

Total revenues were \$262.0 million for fiscal year 2019, a decrease of \$13.1 million or 4.8% from fiscal year 2018. Sales, service, and other operating revenues were \$248.1 million, a decrease of \$15.0 million, or 5.7%, from 2018 due to a decrease in sales volume, offset by a 2% retail rate increase effective July 2018. Purchased gas cost decreased \$27.6 million, or 19.9%, due to lower gas sales volume and lower unit cost. Transported gas revenues increased \$1.5 million, or 13.1%, and non-operating revenue increased \$0.4 million, compared to fiscal year 2018.

Expenses

2020 Compared to 2019:

For fiscal year 2020, total expenses were \$174.9 million at December 31, 2020, a decrease of \$36.4 million from fiscal year 2019 expenses of \$211.3 million. Purchased gas cost was \$75.2 million, down 32.0%, or \$35.4 million from \$110.6 million at December 31, 2019, as a result of lower gas sales volume and lower unit cost than 2019. Other operating expense was \$74.3 million at December 31, 2020, a decrease of \$1.6 million, or 2.1%. Non-operating expense was \$2.8 million at December 31, 2020, an increase of \$0.4 million due to higher interest expense associated with the issuance of Series 2020 Revenue Bonds and depreciation expense was \$22.7 million at December 31, 2020, up \$0.2 million, or 0.8%, from December 31, 2019.

2019 Compared to 2018:

For fiscal year 2019, total expenses were \$211.3 million at December 31, 2019, a decrease of 15.6 million versus fiscal year 2018 expenses of \$226.9 million. Purchased gas cost was \$110.6 million, down 19.9%, or \$27.6 million from \$138.1 million at December 31, 2018, as a result of lower gas sales volume and lower gas costs per unit than 2018. Other operating expense was \$75.9 million at December 31, 2019, an increase of \$11.0 million, or 16.9%, due to the OPEB expenses determined by the actuarial valuation. Depreciation expense was \$22.5 million at December 31, 2019, up \$1.0 million, or 4.7%, from \$21.5 million at December 31, 2018 and non-operating expense was \$2.3 million at December 31, 2019, a decrease of \$0.6 million due to lower interest expense associated with the Series 2016 Bonds.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Continued)**



Contributions in aid of construction

2020 Compared to 2019:

Contributions in aid of construction (“CIAC”) were \$2.5 million for fiscal year 2020, an increase of \$0.95 million (62.7%) from fiscal year 2019. This increase was mainly the result of increases in construction contributions of \$0.04 million, donated easements of \$0.83 million, and cancelled contracts of \$0.08 million.

2019 Compared to 2018:

Contributions in aid of construction (“CIAC”) were \$1.5 million for fiscal year 2019, a decrease of \$1.5 million (49.7%) from fiscal year 2018. This decrease was mainly the result of a decrease in donated easements of \$1.6 million, offset by increases in construction contributions of \$0.08 million and cancelled contracts of \$0.02 million.

Transfers to the City of Memphis

2020 Compared to 2019:

MLGW’s transfer to the City of Memphis is based on the formula provided by the State of Tennessee Municipal Gas System Tax Equivalent Law of 1987. The formula includes a maximum property tax equivalency calculation plus 4% of operating revenue less power costs (three-year average). Transfers to the City represent the Gas Division’s in lieu of tax payment. The 2020 transfer increased by \$0.4 million as a result of an increase in the three-year average revenues.

2019 Compared to 2018:

MLGW’s transfer to the City of Memphis is based on the formula provided by the State of Tennessee Municipal Gas System Tax Equivalent Law of 1987. The formula includes a maximum property tax equivalency calculation plus 4% of operating revenue less power costs (three-year average). Transfers to the City represent the Gas Division’s in lieu of tax payment. The 2019 transfer decreased by \$1.2 million as a result of a decrease in the assessment ratio.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Continued)



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 <i>(In Thousands)</i>					
	<u>2020</u>	<u>2019</u>	<u>FY20 - FY19 Percentage Change</u>	<u>2018</u>	<u>FY19 - FY18 Percentage Change</u>
Current assets (excluding restricted assets)	\$ 69,576	\$ 44,287	57.1%	\$ 40,305	9.9%
Restricted assets	86,521	17,239	401.9%	16,211	6.3%
Other assets	12,350	6,230	98.2%	12,335	-49.5%
Utility plant	355,836	354,205	0.5%	349,254	1.4%
Total assets	524,283	421,961	24.2%	418,105	0.9%
Deferred outflows of resources					
Employer pension contribution	4,166	3,708	12.4%	3,769	-1.6%
Employer OPEB contribution	5,932	5,771	2.8%	8,325	-30.7%
Pension liability experience	904	1,215	-25.6%	889	36.7%
OPEB liability experience	2,487	417	496.4%	520	-19.8%
Pension investment earnings experience	-	10,723		-	
OPEB investment earnings experience	-	3,153		-	
Total assets and deferred outflows	537,772	446,948	20.3%	431,608	3.6%
Current liabilities payable from current assets	20,603	17,607	17.0%	19,928	-11.6%
Current liabilities payable from restricted assets	6,290	5,175	21.5%	6,666	-22.4%
Long-term debt	139,639	63,803	118.9%	67,040	-4.8%
Non-current liabilities	41,521	72,649	-42.8%	49,679	46.2%
Total liabilities	208,053	159,234	30.7%	143,313	11.1%
Deferred inflows of resources					
Pension liability experience	1,354	1,423	-4.8%	2,206	-35.5%
OPEB liability experience	355	444	-20.0%	-	
Pension changes of assumptions	25	627	-96.0%	1,253	-50.0%
OPEB changes of assumptions	23,631	22,709	4.1%	28,386	-20.0%
Pension investment earnings experience	11,398	-		11,188	
OPEB investment earnings experience	3,431	-		4,230	
Total liabilities and deferred inflows	248,247	184,437	34.6%	190,576	-3.2%
Net position:					
Net investment in capital assets	280,188	288,272	-2.8%	280,220	2.9%
Restricted	11,771	10,698	10.0%	8,194	30.6%
Unrestricted	(2,434)	(36,459)	93.3%	(47,382)	23.1%
Total Net position	\$ 289,525	\$ 262,511	10.3%	\$ 241,032	8.9%

Assets

2020 Compared to 2019:

As of December 31, 2020, total assets and deferred outflows were \$537.8 million, an increase of \$90.8 million compared to December 31, 2019. The increase is due, in part, to restricted assets of \$69.3 million due to the issuance of Series 2020 Bonds, an increase in current assets of \$25.3 million, an increase in other assets of \$6.1 million, OPEB liability experience of \$2.1 million, and an increase in net utility plant of \$1.6 million, offset in part by a decrease in pension investment earnings of \$10.7 million and a decrease in OPEB investment earnings of \$3.2 million.

2019 Compared to 2018:

As of December 31, 2019, total assets and deferred outflows were \$446.9 million, an increase of \$15.3 million or 3.6% compared to December 31, 2018. The increase is due, in part, to an increases in pension investment earnings of \$10.7 million, net utility plant of \$5.0 million, current assets of \$4.0 million, OPEB investment earnings of \$3.2 million, restricted assets of \$1 million, offset in part by a decrease in other assets of \$6.1 million and a decrease in employer OPEB contribution of \$2.6 million.

Capital Assets and Construction Activities

2020 Compared to 2019:

The Water Division's utility plant assets, net of accumulated depreciation were \$355.8 million as of December 31, 2020, an increase of 0.5% over fiscal year 2019. During 2020, the Water Division expended \$14.9 million on construction activities and equipment purchases, a decrease of \$2.3 million or 13.27% compared to fiscal year 2019. Major Water Division construction expenditures include extensions to serve new customers (\$4.2 million), planned improvements of the water distribution system (\$2.9 million), emergency distribution capital improvements (\$2.5 million), rehabilitation of various pumping stations (\$2.5 million), the maintenance and construction of various production wells (\$2.4 million), installation and replacement of water main (\$1.5 million), and the purchase of transportation and power operated equipment (\$1.4 million).

2019 Compared to 2018:

The Water Division's utility plant assets, net of accumulated depreciation were \$354.2 million as of December 31, 2019, an increase of 1.4% as compared to December 31, 2018. During 2019, the Water Division expended \$17.2 million on construction activities and equipment purchases, a decrease of \$15.1 million or 46.8% compared to fiscal year 2018. Major Water Division construction expenditures include extensions to serve new customers (\$3.9 million), planned improvements of the water distribution system (\$2.8 million), the purchase of water meters (\$2.8 million), rehabilitation of various pumping stations (\$2.8 million), the maintenances and construction of various production wells (\$1.3 million), the installation of water main (\$1.1 million), water production building upgrades (\$1.0 million), and street improvements (\$0.7 million).

Liabilities

2020 Compared to 2019:

As of December 31, 2020, total liabilities and deferred inflows were \$248.2 million, representing an increase of \$63.8 million, or 34.6%, compared to December 31, 2019. These increases is due in part to an increase in long-term debt of \$75.8 million due to the issuance of Series 2020 Bonds, an increase in pension investment earnings of \$11.4 million, an increase in current liabilities of \$4.1 million, an increase of OPEB investment earnings of \$3.4 million, and an increase in OPEB changes in assumptions of \$0.9 million, offset in part by a decrease in non-current liabilities of \$31.1 million (due largely to decreases in net pension liability and net OPEB liability), and a decrease in pension changes of assumptions of \$0.6 million.

2019 Compared to 2018:

As of December 31, 2019, total liabilities and deferred inflows were \$184.4 million, representing a decrease of \$6.1 million, or 3.2%, compared to December 31, 2018. This decrease is due in part to a decrease in pension investment earnings of \$11.2 million, decrease in OPEB changes in assumptions of \$5.7 million, a decrease of OPEB investment earnings of \$4.2 million, decrease in current liabilities of \$3.8 million, a decrease in long-term debt of \$3.2 million, and a decrease in pension changes of assumptions of \$0.6 million, offset in part by an increase in non-current liabilities of \$23.0 million (due largely to increases in net pension liability and net OPEB liability).

Net Position

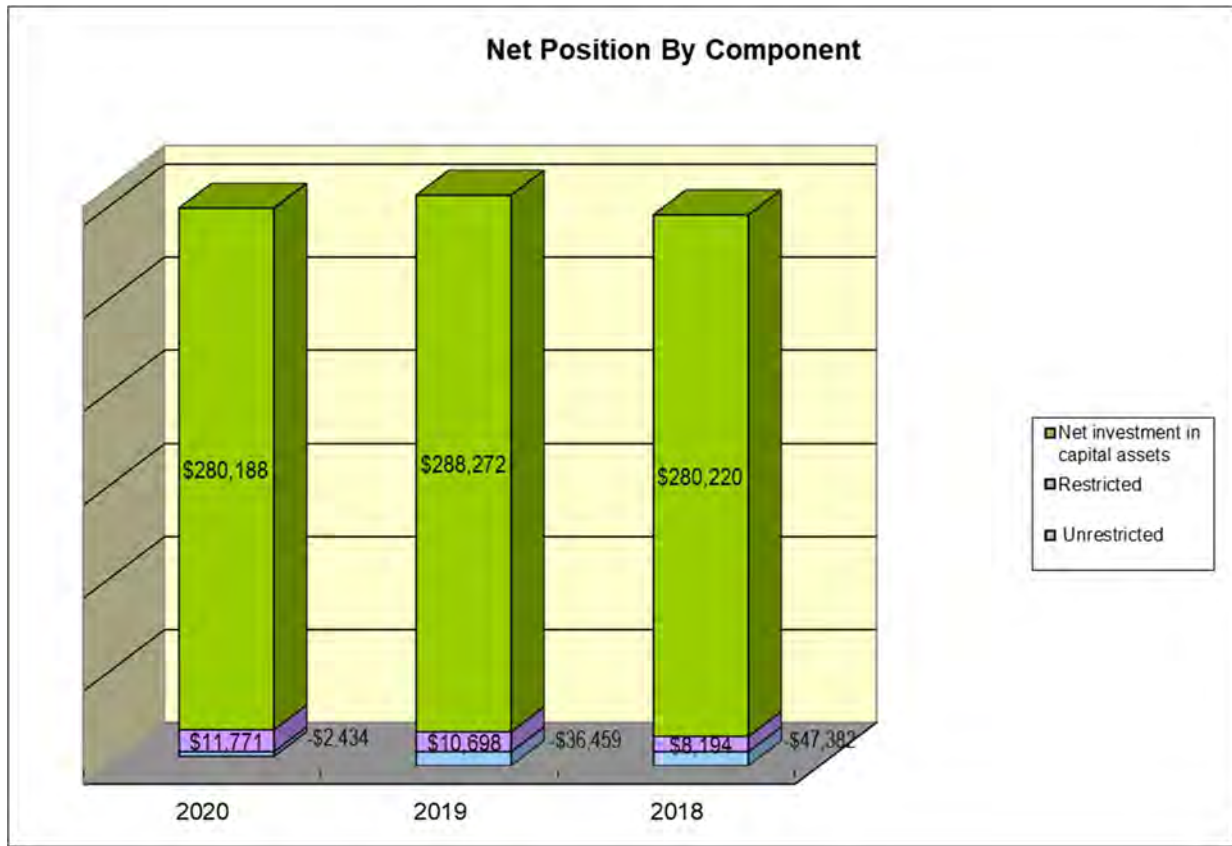
2020 Compared to 2019:

As of December 31, 2020, the Water Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was \$289.5 million, an increase of \$27.0 million, or 10.3%, from December 31, 2019. The increase is due primarily to an increase in unrestricted net position of \$34.0 million and an increase in restricted net position of \$1.1 million, partially offset by a decrease in net investment in capital assets of \$8.1 million as a result of the issuance of the Series 2020 bonds. Ninety-seven percent of the net position was related to net investment in capital assets.

2019 Compared to 2018:

As of December 31, 2019, the Water Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was \$263.0 million, an increase of \$21.5 million, or 8.9%, from December 31, 2018. The increase is due primarily to an increase in unrestricted net position of \$10.9 million, an increase in net investment in capital assets of \$8.1 million, and an increase in restricted net position of \$2.5 million. One hundred and ten percent of the net position was related to net investment 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, 2020, 2019, and 2018
(In Thousands)

	<u>2020</u>	<u>2019</u>	<u>FY20 - FY19</u> <u>Percentage</u> <u>Change</u>	<u>2018</u>	<u>FY19 - FY18</u> <u>Percentage</u> <u>Change</u>
Revenues:					
Operating revenues	\$ 110,654	\$ 105,679	4.7%	\$ 103,140	2.5%
Non-operating revenues	882	1,054	-16.3%	1,177	-10.5%
Total revenues	<u>111,536</u>	<u>106,733</u>	<u>4.5%</u>	<u>104,317</u>	<u>2.3%</u>
Expenses:					
Depreciation expense	11,353	10,635	6.8%	9,653	10.2%
Other operating expense	68,367	70,299	-2.7%	65,118	8.0%
Non-operating expense	2,302	1,820	26.5%	1,864	-2.4%
Total expenses	<u>82,022</u>	<u>82,754</u>	<u>-0.9%</u>	<u>76,635</u>	<u>8.0%</u>
Income before contributions in aid of construction and transfers	29,514	23,979	23.1%	27,682	-13.4%
Contributions in aid of construction	4,087	3,345	22.2%	4,364	-23.4%
Reduction of plant costs recovered through contributions in aid of construction	(4,087)	(3,345)	-22.2%	(4,364)	23.4%
Transfers to City of Memphis	(2,500)	(2,500)	-	(2,500)	
Change in net position	<u>\$ 27,014</u>	<u>\$ 21,479</u>	<u>25.8%</u>	<u>\$ 25,182</u>	<u>-14.7%</u>
Net position, beginning of year	\$ 262,511	\$ 241,032	8.9%	\$ 298,066	-19.1%
Change in method of accounting for OPEB	-	-		(82,216)	
Change in net position	<u>27,014</u>	<u>21,479</u>	<u>25.8%</u>	<u>25,182</u>	<u>-14.7%</u>
Net position, end of year	<u>\$ 289,525</u>	<u>\$ 262,511</u>	<u>10.3%</u>	<u>\$ 241,032</u>	<u>8.9%</u>

Change in Net Position

2020 Compared to 2019:

As of December 31, 2020, the change in net position is \$27.0 million, up \$5.5 million from \$21.5 million at December 31, 2019. This increase is due to an increase in operating revenues of \$5.0 million and decrease in other operating expenses of \$1.9 million, offset by an increase in depreciation expenses of \$0.7 million.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Continued)**



2019 Compared to 2018:

As of December 31, 2019, the change in net position is \$21.5 million, down \$3.7 million from \$25.2 million at December 31, 2018. This decrease is due to an increase in other operating expenses of \$5.2 million, and an increase in depreciation expense of \$1.0 million, offset by increases in operating revenues of \$2.5 million.

Revenues

2020 Compared to 2019:

Total revenues were \$111.5 million for fiscal year 2020, an increase of \$4.8 million compared to fiscal year 2019. This increase is due to an increase in sales and service revenues of \$5.9 million due primarily to an overall 15% retail rate increase implemented in July 2020, offset in part by a decrease in other revenues of \$0.2 million.

2019 Compared to 2018:

Total revenues were \$106.7 million for fiscal year 2019, an increase of \$2.4 million compared to fiscal year 2018. This increase is due to an increase in sales and service revenues of \$2.8 million due primarily to an overall 3% rate increase implemented in March 2019, offset in part by a decrease in other revenues of \$0.3 million.

Expenses

2020 Compared to 2019:

As of December 31, 2020, total expenses for the Water Division were \$82.0 million, a decrease of \$0.7 million, or 0.9%, compared to fiscal year 2019. This resulted from a decrease in operating expense of \$1.9 million, offset by an increase in depreciation expense of \$0.7 million and an increase in non-operating expense of \$0.5 million.

2019 Compared to 2018:

As of December 31, 2019, total expenses for the Water Division were \$82.8 million, an increase of \$6.1 million, or 8.0%, compared to fiscal year 2018. This resulted from an increase in operating expense of \$5.2 million and an increase in depreciation expense of \$0.9 million.

Contributions in aid of construction

2020 Compared to 2019:

Contributions in aid of construction ("CIAC") were \$4.1 million for fiscal year 2020, an increase of \$0.7 million (22.2%) from fiscal year 2019. This increase was mainly the result of increases in donated easements of \$0.7 million.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Continued)**



2019 Compared to 2018:

Contributions in aid of construction (“CIAC”) were \$3.3 million for fiscal year 2019, a decrease of \$1.0 million (23.4%) from fiscal year 2018. This decrease was mainly the result of a decrease in donated easements of \$1.2 million, offset by an increase in construction contributions of \$0.2 million.

Transfers to the City of Memphis

2020 Compared to 2019:

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.

2019 Compared to 2018:

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.

Additional Financial Information

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



Financial Statements

Required and Supplemental Information

Memphis Light, Gas and Water Division
Years ended December 31, 2020 and 2019
with Independent Auditor's Report

STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)



	Electric Division		Gas Division		Water Division	
	2020	2019	2020	2019	2020	2019
Assets						
Current assets:						
Cash and cash equivalents	\$ 124,761	\$ 84,272	\$ 58,673	\$ 43,562	\$ 21,456	\$ 8,029
Investments	90,085	86,964	40,159	41,902	15,527	8,301
Derivative instruments	-	-	3,293	1,630	-	-
Restricted funds - current	154,002	32,108	72,743	10,905	77,400	8,462
Accrued interest receivable	-	-	2	66	-	-
Accounts receivable - MLGW services (less allowance for doubtful accounts)	76,579	88,236	39,917	30,627	10,656	8,728
Accounts receivable - billing on behalf of other entities	-	-	11,376	9,940	10,153	9,734
Unbilled revenues	45,653	47,791	17,025	13,380	4,477	3,670
Unrecovered purchased power/gas cost	5,285	11,021	-	683	-	-
Gas stored - gas in storage	-	-	1,968	2,049	-	-
Inventories	49,113	44,336	11,022	9,416	5,647	4,892
Prepayment - insurance	-	-	908	625	-	-
Unamortized debt expense - current	175	127	86	61	91	63
Meter replacement - current	1,192	1,018	1,423	1,271	452	337
Other current assets	3,260	3,895	3,754	4,980	1,117	533
Total current assets	550,105	399,768	262,349	171,097	146,976	52,749
Non-current assets:						
Restricted funds:						
Insurance reserves - injuries and damages	4,667	5,082	1,667	1,547	1,890	1,586
Insurance reserves - casualties and general	21,645	21,022	10,011	9,948	7,569	7,412
Medical benefits	18,391	14,588	8,389	6,654	5,485	4,351
Customer deposits	31,783	28,611	7,055	6,355	2,544	2,239
Interest fund - revenue bonds - series 2014	120	227	-	-	37	38
Interest fund - revenue bonds - series 2016	133	136	133	136	67	70
Interest fund - revenue bonds - series 2017	291	302	141	146	73	75
Interest fund - revenue bonds - series 2020A	493	-	210	-	219	-
Interest fund - revenue refunding bonds - series 2020B	47	-	-	-	-	-
Sinking fund - revenue bonds - series 2014	248	237	-	-	54	52
Sinking fund - revenue bonds - series 2016	126	120	126	120	106	102
Sinking fund - revenue bonds - series 2017	273	258	120	113	80	77
Sinking fund - revenue bonds - series 2020A	208	-	89	-	97	-
Sinking fund - revenue refunding bonds - series 2020B	37	-	-	-	-	-
Construction fund - revenue bonds - series 2020A	116,573	-	59,585	-	66,908	-
Groundwater reserve fund	-	-	-	-	1,392	1,237
Total restricted funds	195,035	70,583	87,526	25,019	86,521	17,239
Less restricted funds - current	(154,002)	(32,108)	(72,743)	(10,905)	(77,400)	(8,462)
Restricted funds - non-current	41,033	38,475	14,783	14,114	9,121	8,777

See accompanying notes.

STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)
(Continued)



	Electric Division		Gas Division		Water Division	
	2020	2019	2020	2019	2020	2019
Other assets:						
Prepayment - in lieu of taxes	1,650	1,671	38	38	-	-
Unamortized debt expense	1,802	1,080	938	548	977	557
Notes receivable	-	-	3,632	3,713	1,750	1,727
Meter replacement - long term	15,859	14,339	20,600	19,432	5,118	3,946
Net pension asset - long term	15,898	-	6,094	-	4,505	-
Total other assets	35,209	17,090	31,302	23,731	12,350	6,230
Utility plant						
Plant in service	2,018,497	1,966,265	782,982	767,060	580,479	568,142
Plant held for future use	-	-	212	212	-	-
Non-utility plant	15,345	15,345	200	200	-	-
Total utility plant	2,033,842	1,981,610	783,394	767,472	580,479	568,142
Less accumulated depreciation & amortization	(895,191)	(850,563)	(372,999)	(351,950)	(224,643)	(213,937)
Utility plant, net	1,138,651	1,131,047	410,395	415,522	355,836	354,205
Total non-current assets	1,214,893	1,186,612	456,480	453,367	377,307	369,212
Total assets	1,764,998	1,586,380	718,829	624,464	524,283	421,961
Deferred outflows of resources						
Unamortized balance of refunded debt	1,366	-	-	-	-	-
Employer pension contribution	14,702	13,088	5,636	5,017	4,166	3,708
Employer OPEB contribution	20,937	20,370	8,026	7,808	5,932	5,771
Pension liability experience	3,190	4,281	1,224	1,642	904	1,215
OPEB liability experience	8,778	1,470	3,365	564	2,487	417
Pension investment earnings experience	-	37,847	-	14,508	-	10,723
OPEB investment earnings experience	-	11,128	-	4,265	-	3,153
Total deferred outflows of resources	48,973	88,184	18,251	33,804	13,489	24,987
Total assets and deferred outflows of resources	\$ 1,813,971	\$ 1,674,564	\$ 737,080	\$ 658,268	\$ 537,772	\$ 446,948

See accompanying notes.

STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)
(Continued)



	Electric Division		Gas Division		Water Division	
	2020	2019	2020	2019	2020	2019
Liabilities						
Current liabilities:						
Accounts payable - purchased power and gas	\$ 125,721	\$ 137,467	\$ 21,062	\$ 16,669	\$ -	\$ -
Accounts payable - other payables and liabilities	25,450	23,043	5,655	5,915	3,884	3,728
Accounts payable - billing on behalf of other entities	-	-	9,761	8,164	9,916	8,783
Accrued vacation	11,196	9,338	4,303	3,651	3,155	2,578
Bonds payable	9,668	6,680	3,621	2,532	3,648	2,518
Total current liabilities payable from current assets	172,035	176,528	44,402	36,931	20,603	17,607
Current liabilities payable from restricted assets:						
Insurance reserves - injuries and damages	4,667	5,082	1,667	1,547	1,890	1,586
Medical benefits	8,968	7,718	4,091	3,520	2,675	2,302
Customer deposits	12,395	11,158	2,285	2,188	992	873
Bonds payable - accrued interest	1,084	665	484	282	396	183
Bonds payable - principal	892	615	335	233	337	231
Total current liabilities payable from restricted assets	28,006	25,238	8,862	7,770	6,290	5,175
Total current liabilities	200,041	201,766	53,264	44,701	26,893	22,782
Non-current liabilities:						
Customer advances for construction	2,537	4,421	170	406	-	-
Customer deposits	19,388	17,453	4,770	4,167	1,552	1,366
LNG deposits	-	-	25	25	-	-
Reserve for unused sick leave	7,584	7,200	2,999	3,013	1,964	1,903
Revenue bonds - series 2014	28,645	55,430	-	-	10,835	11,470
Revenue bonds - series 2016	33,135	34,615	33,135	34,615	24,080	25,330
Revenue bonds - series 2017	77,925	81,140	34,710	36,120	21,370	22,310
Revenue bonds - series 2020A	145,500	-	61,935	-	66,840	-
Revenue refunding bonds - series 2020B	28,555	-	-	-	-	-
Unamortized debt premium	42,953	21,395	22,237	11,426	16,514	4,693
Net pension liability	-	64,687	-	24,797	-	18,328
Net OPEB liability	125,135	168,882	47,968	64,738	35,455	47,850
Other	1,606	1,663	4,691	4,789	2,550	3,202
Total non-current liabilities	512,963	456,886	212,640	184,096	181,160	136,452
Total liabilities	713,004	658,652	265,904	228,797	208,053	159,234
Deferred inflows of resources						
Pension liability experience	4,779	5,023	1,832	1,926	1,354	1,423
OPEB liability experience	1,253	1,567	480	601	355	444
Pension changes of assumptions	87	2,211	33	848	25	627
OPEB changes of assumptions	83,403	80,148	31,971	30,723	23,631	22,709
Pension investment earnings experience	40,230	-	15,422	-	11,398	-
OPEB investment earnings experience	12,108	-	4,641	-	3,431	-
Accumulated increase in fair value of hedging derivative instruments	-	-	3,293	1,630	-	-
Total deferred inflows of resources	141,860	88,949	57,672	35,728	40,194	25,203
Net position						
Net investment in capital assets	891,294	932,380	315,032	331,206	280,188	288,272
Restricted	31,068	27,893	14,284	13,057	11,771	10,698
Unrestricted	36,745	(33,310)	84,188	49,480	(2,434)	(36,459)
Total net position	959,107	926,963	413,504	393,743	289,525	262,511
Total liabilities, deferred inflows of resources and net position	\$ 1,813,971	\$ 1,674,564	\$ 737,080	\$ 658,268	\$ 537,772	\$ 446,948

See accompanying notes.

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)**



	Electric Division		Gas Division		Water Division	
	2020	2019	2020	2019	2020	2019
Operating revenues:						
Sales and service revenues	\$ 1,174,817	\$ 1,259,550	\$ 184,305	\$ 227,553	\$ 106,330	\$ 100,480
Transported gas revenues	-	-	11,498	12,571	-	-
Other revenues	19,452	26,426	16,938	20,503	4,324	5,199
Total operating revenues	1,194,269	1,285,976	212,741	260,627	110,654	105,679
Operating expenses:						
Purchased power and gas for resale	939,781	1,036,442	75,183	110,555	-	-
Production	-	-	-	-	15,915	14,919
Operation	112,047	121,450	65,617	67,946	40,948	44,386
Maintenance	41,509	48,746	7,641	6,883	11,504	10,994
Depreciation & amortization	57,996	56,599	22,688	22,500	11,353	10,635
Payment in lieu of taxes	6,620	6,496	1,020	1,061	-	-
Total operating expenses	1,157,953	1,269,733	172,149	208,945	79,720	80,934
Operating income	36,316	16,243	40,592	51,682	30,934	24,745
Non-operating revenues (expenses):						
Contributions in aid of construction	17,502	17,243	2,470	1,518	4,087	3,345
Reduction of plant costs recovered through contributions in aid of construction	(17,502)	(17,243)	(2,470)	(1,518)	(4,087)	(3,345)
Transmission credits	36,192	35,737	-	-	-	-
Investment and other income	5,059	7,791	390	1,336	882	1,054
Interest expense	(6,887)	(5,981)	(2,780)	(2,339)	(2,302)	(1,820)
Total non-operating revenues (expenses)	34,364	37,547	(2,390)	(1,003)	(1,420)	(766)
Income before transfers	70,680	53,790	38,202	50,679	29,514	23,979
Transfers out - City of Memphis	(38,536)	(38,408)	(18,441)	(18,002)	(2,500)	(2,500)
Change in net position	\$ 32,144	\$ 15,382	\$ 19,761	\$ 32,677	\$ 27,014	\$ 21,479
Net position, beginning of year	\$ 926,963	\$ 911,581	\$ 393,743	\$ 361,066	\$ 262,511	\$ 241,032
Change in net position	32,144	15,382	19,761	32,677	27,014	21,479
Net position, end of year	\$ 959,107	\$ 926,963	\$ 413,504	\$ 393,743	\$ 289,525	\$ 262,511

See accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)



	Electric Division		Gas Division		Water Division	
	2020	2019	2020	2019	2020	2019
Cash flows from operating activities:						
Receipts from customers and users	\$ 1,219,574	\$ 1,291,625	\$ 198,798	\$ 271,619	\$ 109,817	\$ 106,746
Payments to suppliers	(975,201)	(1,069,430)	(93,055)	(141,326)	(30,440)	(29,273)
Payments to/on behalf of employees	(117,831)	(119,731)	(58,481)	(59,441)	(42,531)	(42,700)
Payments from (to) other Division funds	(6,697)	(7,390)	(1,559)	(1,588)	(4,011)	(4,201)
Payments for taxes	(6,577)	(14,422)	(1,019)	(2,132)	-	-
Net cash provided by operating activities	113,268	80,652	44,684	67,132	32,835	30,572
Cash flows from noncapital financing activities:						
Transfers to City of Memphis	(38,536)	(70,348)	(18,441)	(32,007)	(2,500)	(3,750)
Net cash used in noncapital financing activities	(38,536)	(70,348)	(18,441)	(32,007)	(2,500)	(3,750)
Cash flows from capital and related financing activities:						
Purchase and construction of utility plant	(86,003)	(80,849)	(22,525)	(23,271)	(19,295)	(20,125)
Contributions in aid of construction	17,502	17,243	2,470	1,518	4,087	3,345
Proceeds from issuance of long-term debt	198,805	-	74,662	-	79,971	-
Principal payments on long-term debt	(31,160)	(7,040)	(2,765)	(2,660)	(2,750)	(2,680)
Interest payments on debt	(8,861)	(8,186)	(3,847)	(3,470)	(2,686)	(2,247)
Net cash provided by (used in) capital and related financing activities	90,283	(78,832)	47,995	(27,883)	59,327	(21,707)
Cash flows from investing activities:						
Sales and maturities of investments	34,671	63,883	23,861	14,224	8,422	2,890
Purchases of investments	(105,296)	(52,671)	(77,837)	(25,089)	(66,970)	(7,096)
Payments received on notes receivable	-	-	-	-	(23)	20
Investment income earned on investments	3,047	5,556	1,634	2,319	295	500
Net cash provided by (used in) investing activities	(67,578)	16,768	(52,342)	(8,546)	(58,276)	(3,686)
Increase (decrease) in cash and cash equivalents	97,437	(51,760)	21,896	(1,304)	31,386	1,429
Cash and cash equivalents, beginning of year	141,585	193,345	62,738	64,042	20,065	18,636
Cash and cash equivalents, end of year	\$ 239,022	\$ 141,585	\$ 84,634	\$ 62,738	\$ 51,451	\$ 20,065

See accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)
(Continued)



	Electric Division		Gas Division		Water Division	
	2020	2019	2020	2019	2020	2019
Reconciliation of operating income to net cash provided by operating activities:						
Operating income	\$ 36,316	\$ 16,243	\$ 40,592	\$ 51,682	\$ 30,934	\$ 24,745
Adjustments to reconcile net operating income to net cash provided by operating activities:						
Pension expense - non-cash	(5,405)	6,055	(2,072)	2,321	(1,523)	1,716
OPEB expense - non-cash	(25,445)	(18,283)	(9,754)	(7,009)	(7,209)	(5,180)
Depreciation of utility plant	59,721	58,169	24,374	24,212	11,704	10,997
Transmission credits	36,192	35,737	-	-	-	-
Other income (loss)	2,014	2,234	(1,180)	(969)	589	555
(Increase) decrease in assets:						
Accounts receivable - MLGW services	11,661	3,670	(12,157)	5,362	(1,928)	(150)
Accounts receivable - billing on behalf of other entities	-	-	1,435	340	(419)	535
Unbilled revenues	2,138	2,157	(3,645)	6,354	(807)	(44)
Prepayments - in lieu of taxes	21	19	-	1	-	-
Unrecovered purchased power and gas costs	5,736	(1,248)	683	(683)	-	-
Inventories	(4,777)	(9,917)	(1,607)	(887)	(755)	160
Other assets	116	(18)	(1,173)	71	-	-
Increase (decrease) in liabilities:						
Accounts payable - purchased power and gas	(11,745)	(839)	4,393	(12,279)	-	-
Accounts payable - other payables and liabilities	2,417	(1,104)	(257)	413	146	(1,041)
Accounts payable - billing on behalf of other entities	-	-	1,597	457	1,133	(97)
Accrued payment in lieu of taxes	-	(7,884)	-	(1,070)	-	-
Customer deposits	3,172	635	700	1,017	305	24
Insurance reserves	(415)	(843)	119	(774)	304	(568)
Medical benefit accrual	1,250	(3,120)	571	(1,423)	373	(930)
Other liabilities	301	(1,011)	2,065	(4)	(12)	(150)
Total adjustments	76,952	64,409	4,092	15,450	1,901	5,827
Net cash provided by operating activities	\$ 113,268	\$ 80,652	\$ 44,684	\$ 67,132	\$ 32,835	\$ 30,572
Reconciliation of cash and cash equivalents per statements of cash flows to the statements of net position:						
Restricted funds	\$ 195,035	\$ 70,583	\$ 87,526	\$ 25,019	\$ 86,521	\$ 17,239
Less investments included in restricted funds	(80,774)	(13,270)	(61,565)	(5,843)	(56,526)	(5,203)
Cash and cash equivalents included in restricted funds	114,261	57,313	25,961	19,176	29,995	12,036
Current assets - cash and cash equivalents	124,761	84,272	58,673	43,562	21,456	8,029
Total cash and cash equivalents	\$ 239,022	\$ 141,585	\$ 84,634	\$ 62,738	\$ 51,451	\$ 20,065

See accompanying notes.

STATEMENTS OF FIDUCIARY NET POSITION – PENSION TRUST PLAN
DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)



	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 28,735	\$ 78,498
Receivables:		
Interest, dividends and real estate receivable	3,306	4,013
Receivable for securities sold	22,883	20,283
Miscellaneous receivable	1	1
Employer and employee contributions receivable	519	513
Collateral held in trust for securities on loan	48,872	82,967
Total receivables	75,581	107,777
Investments:		
Equity Funds:		
Common stock - domestic	291,200	321,329
Common stock - international	100,222	48,478
Common stock index - domestic	456,292	238,564
Rights/warrants	6	-
Preferred stock - international	1,944	2,033
Equity ETF - domestic	-	142,021
Fixed Income Funds:		
Corporate bonds - domestic	46,375	48,991
Corporate bonds - international	40,634	46,898
Corporate convertible bond - international	314	393
Government bonds - domestic	4,483	4,213
Government bonds - international	50,864	49,021
Global bond - international	62,347	76,030
U.S. government agencies	10,829	8,600
Global government agencies	6,696	7,603
Asset backed securities - domestic	10,038	11,159
Asset backed securities - international	3,922	4,018
Mortgage backed securities - domestic	20,603	19,245
Securitized asset fund	57,574	16,723
Special Strategies Funds:		
Private equity - domestic *	65,508	61,485
Private equity - international	5,156	3,028
Distressed debt - domestic	59,177	35,762
Distressed debt - international	67,151	40,505
Multi-asset - domestic	14,373	13,860
Life settlement funds - domestic	73,203	67,513
Real Estate Funds:		
Real estate	200,776	206,164
Short-Term Investment	5,080	2,633
Total investments	1,654,767	1,476,269
Total assets	1,759,083	1,662,544
Liabilities		
Collateral subject to return to borrowers	48,872	82,967
Liability for securities purchased	32,964	20,512
Accrued liabilities	1,710	1,693
Total liabilities	83,546	105,172
Net position restricted for Pensions	<u>\$ 1,675,537</u>	<u>\$ 1,557,372</u>

* Private equity-domestic includes a private equity firm, GPB Holdings II, LP, valued at \$20.0 million as of December 31, 2020 and 2019, the fair market value as of June 30, 2019, the most recent available. As of the date of this report, the Pension Plan has not received the fair market value statements from GPB Holdings II, LP for the years ended December 31, 2020 and 2019. In March 2020, GPB Holdings II, LP issued a distribution of \$1.3 million which did not impact its market value.

**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION – PENSION TRUST PLAN
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)**



	<u>2020</u>	<u>2019</u>
Additions		
Contributions		
Employer	\$ 24,504	\$ 21,813
Member	13,828	13,461
Total contributions	<u>38,332</u>	<u>35,274</u>
Investment Activities Income		
Net appreciation of investments	174,507	207,512
Interest income	11,562	18,490
Dividend income	6,462	9,704
Real estate income	4,076	5,652
Other income	10	10
Recovery of losses - class action suit	-	4
Total investment activities income	<u>196,617</u>	<u>241,372</u>
Less investment activities expenses	<u>4,433</u>	<u>4,573</u>
Net investment activities income	192,184	236,799
Securities Lending Activities:		
Securities lending income	533	2,550
Securities lending expenses:		
Borrower rebates	(216)	(1,906)
Management fees	(63)	(129)
Total securities lending expenses	<u>(279)</u>	<u>(2,035)</u>
Net securities lending activities income	<u>254</u>	<u>515</u>
Total investment activities income	<u>192,438</u>	<u>237,314</u>
Total additions	<u>230,770</u>	<u>272,588</u>
Deductions		
Benefit payments:		
Retired members	91,118	86,872
Survivors (spouse, minors, and dependents)	16,857	16,535
Disabled members	430	450
Deferred vested members	302	250
Alternate payees	115	183
Total benefit payments	<u>108,822</u>	<u>104,290</u>
Contributions refund	3,004	3,440
Administrative expenses	779	931
Total deductions	<u>112,605</u>	<u>108,661</u>
Change in net position	<u>118,165</u>	<u>163,927</u>
Net position restricted for Pensions		
Beginning of year	1,557,372	1,393,445
End of year	<u>\$ 1,675,537</u>	<u>\$ 1,557,372</u>

STATEMENTS OF FIDUCIARY NET POSITION – OPEB TRUST
DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)



	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 4,774	\$ 13,597
Investments, at Fair Value:		
Equity Funds:		
Common stock - domestic	120,369	105,545
Common stock - international	539	817
Equity mutual fund - international	32,146	34,112
Equity collective fund - domestic	41,341	-
Equity collective fund - international	43,881	34,000
Equity commingled fund - international	17,260	-
Equity mutual index fund - domestic	72,137	72,102
Equity hedge fund - domestic	10,554	-
Equity ETF	-	32,599
Fixed Income Funds:		
Corporate bond mutual funds - domestic	34,977	30,022
Convertible bond mutual fund - domestic	16,047	10,782
Global bond fund - international	28,234	25,284
Special Strategies Funds:		
Private equity funds - domestic*	53,010	51,656
Private equity funds - international	6,459	5,114
Private debt fund - domestic	2,058	1,828
Distressed debt funds - domestic	20,415	7,875
Distressed debt funds - international	27,336	20,158
Life settlement funds	15,029	12,367
Real Estate Funds	52,750	46,894
Total investments	<u>594,542</u>	<u>491,155</u>
Receivables:		
Employer	710	662
Interest and dividends	603	180
Securities sold and accrued income	164	106
Total receivables	<u>1,477</u>	<u>948</u>
Collateral held in trust for securities on loan	<u>215</u>	<u>11,449</u>
Total assets	601,008	517,149
Liabilities		
Employer	710	662
Securities purchased and accrued expenses	6,539	691
Collateral subject to return to borrowers	215	11,449
Total liabilities	<u>7,464</u>	<u>12,802</u>
Net position restricted for other post employment benefits	<u>\$ 593,544</u>	<u>\$ 504,347</u>

* Private equity-domestic includes a private equity firm, GPB Holdings II, LP, valued at \$8.0 million as of December 31, 2020 and 2019, the fair market value as of June 30, 2019, the most recent available. As of the date of this report, the OPEB Trust has not received the fair market value statements from GPB Holdings II, LP for the years ended December 31, 2020 and 2019. In March 2020, GPB Holdings II, LP issued a distribution of \$0.5 million which did not impact its market value.

**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION – OPEB TRUST
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)**



	<u>2020</u>	<u>2019</u>
Additions		
Contributions:		
Employer	\$ 34,895	\$ 33,949
Total contributions	<u>34,895</u>	<u>33,949</u>
Investment Activities Income:		
Net appreciation in fair value of investments	79,814	70,270
Interest income	3,183	2,663
Real estate income	1,007	530
Dividend income	2,645	4,389
Other income	<u>3</u>	<u>35</u>
Investment activities income	<u>86,652</u>	<u>77,887</u>
Less investment activities expense	<u>1,777</u>	<u>1,357</u>
Net investment activities income	<u>84,875</u>	<u>76,530</u>
Securities Lending Activities:		
Securities lending income	25	52
Securities Lending Expenses:		
Borrower rebates	(5)	(8)
Management fees	<u>(4)</u>	<u>(9)</u>
Total securities lending expenses	<u>(9)</u>	<u>(17)</u>
Net securities lending activities income	<u>16</u>	<u>35</u>
Total investment activities income	<u>84,891</u>	<u>76,565</u>
Total additions	<u>119,786</u>	<u>110,514</u>
Deductions		
Benefit payments	29,776	31,146
Administrative expense	<u>813</u>	<u>769</u>
Total deductions	<u>30,589</u>	<u>31,915</u>
Change in net position	<u>89,197</u>	<u>78,599</u>
Net position restricted for other post employment benefits		
Beginning of year	504,347	425,748
End of year	<u>\$ 593,544</u>	<u>\$ 504,347</u>



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, a five member Board of Commissioners, and two non-voting countywide Advisory Board members 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 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. The Divisions collectively pool resources for investing purposes and collectively participate in a pension plan and OPEB trust. Accordingly, certain disclosures for investments, the employee retirement system and other post employment benefits are presented on a combined 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”) Trust discussed in Note 8.

MLGW’s basic financial statements were expanded in fiscal year 2020 to meet the requirements of GASB Statement No. 84. Therefore, in addition to the financial statements of the Electric, Gas and Water Divisions discussed above, the financial statements of MLGW’s fiduciary activities are also presented in conformity with accounting principles generally accepted in the United States of America. The fiduciary activities of MLGW include the Memphis Light, Gas and Water Retirement and Pension System (the “MLGW Pension Plan”) and the Memphis Light, Gas and Water OPEB Trust (“OPEB Trust”). The financial statements, note disclosures, and required supplementary information for these fiduciary activities are presented herein and can also be found in separately issued reports.



1. Summary of Significant Accounting Policies (continued)

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.

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:

1. Summary of Significant Accounting Policies (continued)

Regulatory Accounting (continued)

	<u>Electric Division</u>		<u>Gas Division</u>		<u>Water Division</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Regulatory Assets:						
Current:						
Unrecovered purchased power/gas cost	\$ 5,285	\$ 11,021	\$ -	\$ 683	\$ -	\$ -
Meter replacement	1,192	1,018	1,423	1,271	452	337
Unamortized debt expense	175	127	86	61	91	63
Total current	<u>6,652</u>	<u>12,166</u>	<u>1,509</u>	<u>2,015</u>	<u>543</u>	<u>400</u>
Non-Current:						
Meter replacement	15,859	14,339	20,600	19,432	5,118	3,946
Unamortized debt expense	1,802	1,080	938	548	977	557
Total non-current	<u>17,661</u>	<u>15,419</u>	<u>21,538</u>	<u>19,980</u>	<u>6,095</u>	<u>4,503</u>
Total Regulatory Assets	<u>\$ 24,313</u>	<u>\$ 27,585</u>	<u>\$ 23,047</u>	<u>\$ 21,995</u>	<u>\$ 6,638</u>	<u>\$ 4,903</u>
Regulatory Liabilities:						
Current:						
Purchased gas adjustment	\$ -	\$ -	\$ 1,481	\$ 2,522	\$ -	\$ -
Total Regulatory Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,481</u>	<u>\$ 2,522</u>	<u>\$ -</u>	<u>\$ -</u>

Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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. 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.

1. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

MLGW categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

MLGW had the following recurring fair value measurements as of December 31, 2020:

- U.S. Treasury Securities of \$139,024 (Level 1 inputs)
- Commercial Paper of \$148,778; Government Mortgage-backed Securities of \$29,728; and U.S. Government Agencies of \$73,921 (Level 2 inputs)

MLGW had the following recurring fair value measurements as of December 31, 2019:

- U.S. Treasury Securities of \$123,174 (Level 1 inputs)
- Commercial Paper of \$109,601; Government Mortgage-backed Securities of \$33,291 and U.S. Government Agencies of \$5,007 (Level 2 inputs)

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.



1. Summary of Significant Accounting Policies (continued)

Accounts Receivable (continued)

As of December 31, 2020 and 2019, accounts receivable and allowances for doubtful accounts were as follows:

	Electric Division		Gas Division		Water Division	
	2020	2019	2020	2019	2020	2019
Accounts Receivable	\$ 88,184	\$ 98,977	\$ 52,047	\$ 41,350	\$ 21,715	\$ 19,327
Allowance for doubtful accounts	(11,605)	(10,741)	(754)	(783)	(906)	(865)
Total A/R, net of allowance	<u>\$ 76,579</u>	<u>\$ 88,236</u>	<u>\$ 51,293</u>	<u>\$ 40,567</u>	<u>\$ 20,809</u>	<u>\$ 18,462</u>

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.

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:

	2020	2019
Electric	\$ 3,730	\$ 4,114
Gas	535	1,157
Water	643	848

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.

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.

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.

1. Summary of Significant Accounting Policies (continued)

Restricted Funds and Related Reserves (continued)

The 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 injuries and damages and medical benefit, MLGW's charter requires each division to restrict funds to cover the future cost of injuries and damage and medical benefit claims

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

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

The Water Division maintains a ground water reserve fund in accordance with a five year Agreement entered into on July 1, 2018 by and between MLGW and the University of Memphis (University) on behalf of the Herff College of Engineering's Center for Applied Earth Science and Engineering Research (CAESER). The University was awarded \$1,000 a year to study clay breaches in the Memphis aquifer and their impacts to water quality. A resolution was approved by the City Council on January 9, 2018 to increase water annual sales revenue of 1.05% to be effective with meters read on Cycle 1 of the January 2018 revenue month to fund the aquifer research. The funds will be used to cover the deliverables in accordance to the Agreement for the groundwater study.



1. Summary of Significant Accounting Policies (continued)

Restricted Funds and Related Reserves (continued)

The following table presents restricted net position by each major category at December 31, 2020 and 2019:

	Electric		Gas		Water	
	2020	2019	2020	2019	2020	2019
Injuries and damages	\$ 21,645	\$ 21,023	\$ 10,011	\$ 9,948	\$ 7,569	\$ 7,413
Medical Benefits and other	9,423	6,870	4,273	3,109	4,202	3,285
Total	<u>\$ 31,068</u>	<u>\$ 27,893</u>	<u>\$ 14,284</u>	<u>\$ 13,057</u>	<u>\$ 11,771</u>	<u>\$ 10,698</u>

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. 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 acquisition value at the acquisition date. Costs are reduced by contributions in aid of construction. Upon retirement of property units, the original cost, plus removal cost, minus salvage is charged to either accumulated depreciation or accumulated amortization. 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.

Interest on debt is not capitalized, as it is recovered through current revenues. The amount of interest cost incurred and charged to electric expense in 2020 and 2019 totaled \$6,887 and \$5,981 respectively. The amount of interest cost incurred and charged to gas expense in 2020 and 2019 totaled \$2,780 and \$2,339, respectively. The amount of interest cost incurred and charged to water expense in 2020 and 2019 totaled \$2,302 and \$1,820, respectively.

Depreciation and amortization are computed using the straight-line method based on estimated service lives of various classes of depreciable property at rates equivalent to annual composite rates of approximately 2.9% for the electric division, 2.8% 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.

1. Summary of Significant Accounting Policies (continued)

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

Bond Premiums, Discounts and Issuance Costs

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



1. Summary of Significant Accounting Policies (continued)

Revenues and Expenses (continued)

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, 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.

Deferred Outflows and Inflows of Resources

MLGW adheres to generally accepted accounting principles as it relates to the recognition of deferred outflows of resources and deferred inflows of resources. A deferred outflow of resources is defined as a consumption of net assets that is applicable to a future reporting period and a deferred inflow of resources is defined as an acquisition of net assets that is applicable to a future reporting period.

In accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, MLGW recognizes deferred outflows and inflows of resources associated with the biennial measurement and recognition of MLGW's net OPEB liability (asset) and OPEB expense.

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pension – an Amendment of GASB Statement No. 27*, MLGW recognizes deferred outflows and inflows of resources associated with the annual measurement and recognition of MLGW's net pension liability (asset) and pension expense.

Also, in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, MLGW recognizes deferred outflows and inflows of resources associated with reporting the fair value change in derivative instruments purchased as a hedge against commodity price risk.

Pensions

For purposes of measuring the net pension liability (asset), 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 Pension Plan. For that purpose, benefits payments

1. Summary of Significant Accounting Policies (continued)

Pensions (continued)

(including refunds of employee contribution) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits

For purposes of measuring the Net OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB benefits, OPEB expense, information about the fiduciary net position of the Memphis Light, Gas and Water OPEB Trust (“OPEB Trust”) and additions to and deductions from the MLGW OPEB Trust fiduciary net position have been determined on the same basis as they are reported by the MLGW OPEB Trust. 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. For the years ending December 31, 2020 and 2019, receivables from related parties for utility construction, pole rentals and utility related services excluding utility bills were \$1,658 and \$2,018, respectively.

As of December 31, 2020, the only free service provided to the City is water for firefighting. Free water service provided to the City for public purposes is estimated to be \$77 for 2020 and \$57 for 2019.

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, 2020 and June 2, 2021, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

1. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation.

Recent Accounting Standards

Effective for fiscal year 2020, MLGW adopted the provisions of GASB Statement No. 83, *Certain Asset Retirement Obligations*, originally effective for reporting periods beginning after June 15, 2018. GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance (GASB 95)*, which postponed the effective date to reporting periods beginning after June 15, 2019. This Statement defines asset retirement obligations (AROs) as a legally enforceable liability associated with the retirement of a tangible capital asset and requires a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this statement. Adoption of this Statement did not have a material impact on the Divisions' financial statements.

Effective for fiscal year 2020, MLGW adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, originally effective for reporting periods beginning after December 15, 2018. GASB 95 postponed the effective date to reporting periods beginning after December 15, 2019. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The criteria for identifying fiduciary activities are established and the focus for the criteria is on (1) whether a government is controlling the assets of the activity and (2) the beneficiaries with whom a fiduciary relationship exists. After adoption of Statement No. 84, MLGW began reporting the fiduciary activities in the financial statements. The following are fiduciary activities of MLGW: MLGW Retirement and Pension Plan and OPEB Trust.

Effective for fiscal year 2020, MLGW adopted the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, originally effective for reporting periods beginning after June 15, 2018. GASB 95 postponed the effective date to reporting periods beginning after June 15, 2019. This Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. As a result of implementing Statement No. 88, MLGW will disclose information about terms specified in debt agreements related to significant (1) events of default with finance-related consequences, (2) termination events with finance-related consequences, and (3) subjective acceleration clauses.

Effective for fiscal year 2020, MLGW adopted the provisions GASB Statement No. 92, *Omnibus 2020*, originally effective for reporting periods beginning after June 15, 2020. GASB 95 postponed the effective date to reporting periods beginning after June 15, 2021. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during the implementation and application of certain GASB Statements. It establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions,

1. Summary of Significant Accounting Policies (continued)

Recent Accounting Standards (continued)

risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The terms derivative and derivatives in National Council on Government Accounting and GASB pronouncements should be replaced with derivative instrument and derivative instruments, respectively. As a result of implementing Statement No. 92, MLGW changed the terminology used to refer to derivative instruments.

In June 2017, GASB issued Statement No. 87, *Leases*, originally effective for reporting periods beginning after December 15, 2019. GASB 95 postponed the effective date to reporting periods beginning after June 15, 2021. This Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. MLGW has not elected early implementation of this standard and has not completed the process of evaluating the impact of the statement on its financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The primary objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset -an intangible asset- and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITAs; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The provisions of the Statement are effective for financial statements for periods beginning after June 15, 2022. 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 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenues Code Section 457 Deferred Compensation Plans* -an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The provisions of the Statement are effective for financial statements for periods beginning after June 15, 2021. 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 depositor-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. MLGW deposits with financial institutions were \$321,509 and \$107,916 for December 31, 2020 and 2019, respectively. For 2020 and 2019, 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.

2. Deposits and Investments (continued)

Custodial Credit Risk (continued)

Investments (continued)

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 leveraged notes, or notes linked to lagging indices or to long-term indices.

The following table presents the investments and maturities of MLGW’s investment portfolio as of December 31, 2020:

Investment Type	Fair Value	Remaining Maturities (in Years)		
		Maturities < 1 year	Maturities 1 to 4 years	Maturities > 4 years
U.S. Treasuries	\$ 139,024	\$ 61,238	\$ 77,786	\$ -
Federal Agency (Fixed Rate)	103,649	59,011	44,638	-
Commercial Paper (Rated AA or higher)	148,778	148,778	-	-
Total Investments	\$ 391,451	\$ 269,027	\$ 122,424	\$ -

The following table presents the investments and maturities of MLGW’s investment portfolio as of December 31, 2019:

Investment Type	Fair Value	Remaining Maturities (in Years)		
		Maturities < 1 year	Maturities 1 to 4 years	Maturities > 4 years
U.S. Treasuries	\$ 123,174	\$ 23,147	\$ 100,027	\$ -
Federal Agency (Fixed Rate)	38,298	17,095	21,203	-
Commercial Paper (Rated AA or higher)	109,601	109,601	-	-
Total Investments	\$ 271,073	\$ 149,843	\$ 121,230	\$ -

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

2. Deposits and Investments (continued)

Custodial Credit Risk (continued)

Investments (continued)

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, 2020 and 2019 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. MLGW had purchased no investments in debt securities that were outside of the policy as of December 31, 2020 and 2019. MLGW uses the segmented time distribution method of disclosure, as shown above, to identify this risk. Some investments can be highly sensitive to changes in interest rates due to their terms or characteristics. In MLGW's investment portfolio, asset-backed and government mortgage-backed securities are most sensitive to changes in interest rates as their repayments can vary significantly with interest rate changes. As of December 31, 2020, these securities represent 7.6% of the total investment portfolio with a fair market value of \$29,728. As of December 31, 2019, these securities represent 12.3% of the total investment portfolio with a fair market value of \$33,291.

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. As of December 31, 2020, MLGW debt securities that were subject to credit risk were \$148,778, or 38% of total investments. These debt securities have a remaining maturity of less than one year.

2. Deposits and Investments (continued)

Credit Risk (continued)

MLGW's ratings and policy limits as of December 31, 2020 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>S&P Rating</u>	<u>Moody's Rating</u>
Commercial Paper	\$ 25,197	AAA	Aaa
Commercial Paper	1,500	AA+	Aa1
Commercial Paper	10,000	A+	A1
Commercial Paper	21,796	AA	Aa1
Commercial Paper	24,296	AA	Aa2
Commercial Paper	18,998	AA	Aa3
Commercial Paper	23,795	AA-	Aa1
Commercial Paper	16,798	AA-	(P)Aa3
Commercial Paper	6,398	AA-	Aa3
Total credit risk debt securities	148,778		
U.S. Treasuries	139,024	AA+u	Aaa
Federal Agency (Fixed Rate)	<u>103,649</u>	AA+	Aaa
U.S. Government and Agencies	242,673		
Total debt securities investments	<u>\$ 391,451</u>		

2. Deposits and Investments (continued)

Credit Risk (continued)

As of December 31, 2019, MLGW debt securities that were subject to credit risk were \$109,601, or 40.4% of total investments. These debt securities have a remaining maturity of one year or less.

MLGW's ratings and policy limits as of December 31, 2019 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>S&P Rating</u>	<u>Moody's Rating</u>
Commercial Paper	\$ 9,782	AAA	Aaa
Commercial Paper	38,970	AA+	Aaa
Commercial Paper	7,465	AA+	Aa1
Commercial Paper	3,983	AA	Aa2
Commercial Paper	2,297	AA	Aa3
Commercial Paper	9,984	AA-	Aa1
Commercial Paper	12,564	AA-	(P)Aa3
Commercial Paper	20,559	AA-	Aa3
Commercial Paper	3,997	A	A2
Total credit risk debt securities	109,601		
U.S. Treasuries	123,174	AA+u	Aaa
Federal Agency (Fixed Rate)	5,007	AA+	Aaa
Federal Agency (Fixed Rate)	33,291	AA+u	Aaa
U.S. Government and Agencies	161,472		
Total debt securities investments	\$ 271,073		

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 represent 5 percent or more of total investments. As of December 31, 2020, 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
Chevron Corp.	\$ 24,296	6.21%
Exxon Mobil Corp.	21,796	5.57%
Toronto Dominion Bank	23,795	6.08%
Total	\$ 69,887	

2. Deposits and Investments (continued)

Concentration of Credit Risk (continued)

As of December 31, 2019, 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 Mobil Corp	\$ 20,125	7.42%
Koch Industries Inc	13,574	5.01%
National Security Clearing Corp	18,845	6.95%
Total	\$ 52,544	

Restricted and Unrestricted Funds

Restricted funds, cash and cash equivalents, and investments consisted of the following as of December 31, 2020 and 2019.

	Electric Division		Gas Division		Water Division	
	2020	2019	2020	2019	2020	2019
Restricted fund:						
Cash and cash equivalents	\$ 183,988	\$ 57,313	\$ 82,623	\$ 19,176	\$ 81,965	\$ 12,037
Investments	11,047	13,270	4,903	5,843	4,556	5,203
Total restricted funds	<u>\$ 195,035</u>	<u>\$ 70,583</u>	<u>\$ 87,526</u>	<u>\$ 25,019</u>	<u>\$ 86,521</u>	<u>\$ 17,240</u>

	Electric Division		Gas Division		Water Division	
	2020	2019	2020	2019	2020	2019
Unrestricted fund:						
Cash and cash equivalents	\$ 124,761	\$ 84,272	\$ 58,673	\$ 43,562	\$ 21,456	\$ 8,029
Investments	90,085	86,964	40,159	41,902	15,527	8,301
Total unrestricted funds	<u>\$ 214,846</u>	<u>\$ 171,236</u>	<u>\$ 98,832</u>	<u>\$ 85,464</u>	<u>\$ 36,983</u>	<u>\$ 16,330</u>



3. Notes Receivable

In 2002, MLGW and the Valero Refining Group (“Valero”) entered into an agreement, whereby MLGW provided for the construction of two pipelines (14” and 20”) and leased them to Valero for the purpose of transporting crude oil and refinery products. The lease provided for monthly payments of principal and interest and had an initial term of 15 years, which ended October 31, 2016 and July 31, 2016, for the 14” Pipeline and the 20” Pipeline, respectively.

In November 2016, MLGW and the Valero Refining Group (“Valero”) executed the secondary agreement of the expired 15 year initial term lease agreement, whereby Valero will continue to provide monthly payments under a secondary term of 30 years, ending October 31, 2046 for the 14” Pipeline and July 31, 2046 for the 20” Pipeline, subject to any early termination pursuant to the terms of the Pipeline Agreements.

Scheduled lease payments for January – June 2021 total \$392. Effective July 1, 2021 and each July 1 thereafter throughout the Secondary Term, the monthly fee applicable for the previous year for the 20” Pipeline and 14” Pipeline, respectively, shall be adjusted based on the Producer Price Index for Finished Goods (“PPI-FG”) formula per the contract.

The Valero lease receivable is included in notes receivables in the accompanying 2020 Gas Division’s Statements of Net Position, except for the current portion of \$784, which is included in other current assets.

In 1997, MLGW and the Town of Arlington (“Arlington”) entered into an agreement, whereby Arlington conveyed ownership, operation, maintenance, construction, and improvement and expansion of the Arlington water facilities and system to MLGW. The agreement provided Arlington to bill and collect water development fees to remit payment to MLGW for water facilities and system improvement costs incurred plus 6% annual accrued interest. The agreement provided for Arlington to remit to MLGW on the 15th day of each succeeding month the fees collected during the month less its service fee until MLGW is paid in full.

The Arlington note receivable is included in notes receivables in the accompanying 2020 Water Division’s Statements of Net Position.

4. Utility Plant

Utility plant activity for the years ended December 31, 2020 and 2019 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2020				
Electric Division				
Capital assets not being depreciated:				
Land	\$ 38,537	\$ (10)	\$ -	\$ 38,527
Land - Non-utility	15,345	-	-	15,345
Construction in progress	83,461	64,123	(68,799)	78,785
Total capital assets not being depreciated	137,343	64,113	(68,799)	132,657
Capital assets being depreciated or amortized:				
Structures and improvements	69,881	2,712	-	72,593
Transmission and distribution plant equipment	1,577,455	57,275	(10,236)	1,624,494
General plant equipment	184,846	8,208	(1,656)	191,398
Intangibles: Software	12,085	615	-	12,700
Total capital assets being depreciated or amortized	1,844,267	68,810	(11,892)	1,901,185
Less accumulated depreciation and amortization	(850,563)	(61,792)	17,164	(895,191)
Total capital assets being depreciated or amortized, net	993,704	7,018	5,272	1,005,994
Total capital assets, net	<u>\$ 1,131,047</u>	<u>\$ 71,131</u>	<u>\$ (63,527)</u>	<u>\$ 1,138,651</u>

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4. Utility Plant (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Year ended December 31, 2020				
Gas Division				
Capital assets not being depreciated:				
Land	\$ 7,312	\$ -	\$ -	\$ 7,312
Construction in progress	30,673	20,396	(27,590)	23,479
Plant held for future use	212	-	-	212
Total capital assets not being depreciated	<u>38,197</u>	<u>20,396</u>	<u>(27,590)</u>	<u>31,003</u>
Capital assets being depreciated or amortized:				
Structures and improvements	68,940	1,183	-	70,123
Processing and distribution plant equipment	531,671	23,950	(4,060)	551,561
General plant equipment	71,279	2,494	(451)	73,322
Intangibles: Software	57,185	-	-	57,185
Non-utility plant equipment	200	-	-	200
Total capital assets being depreciated or amortized	<u>729,275</u>	<u>27,627</u>	<u>(4,511)</u>	<u>752,391</u>
Less accumulated depreciation and amortization	<u>(351,950)</u>	<u>(25,730)</u>	<u>4,681</u>	<u>(372,999)</u>
Total capital assets being depreciated or amortized, net	<u>377,325</u>	<u>1,897</u>	<u>170</u>	<u>379,392</u>
Total capital assets, net	<u>\$ 415,522</u>	<u>\$ 22,293</u>	<u>\$ (27,420)</u>	<u>\$ 410,395</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Year ended December 31, 2020				
Water Division				
Capital assets not being depreciated:				
Land	\$ 2,372	\$ -	\$ -	\$ 2,372
Construction in progress	45,391	13,800	(16,283)	42,908
Total capital assets not being depreciated	<u>47,763</u>	<u>13,800</u>	<u>(16,283)</u>	<u>45,280</u>
Capital assets being depreciated or amortized:				
Structures and improvements	53,986	608	-	54,594
Pumping, transmission and distribution plant equipment	428,483	15,049	(1,111)	442,421
General plant equipment	35,733	626	(352)	36,007
Intangibles: Software	2,177	-	-	2,177
Total capital assets being depreciated or amortized	<u>520,379</u>	<u>16,283</u>	<u>(1,463)</u>	<u>535,199</u>
Less accumulated depreciation and amortization	<u>(213,937)</u>	<u>(13,194)</u>	<u>2,488</u>	<u>(224,643)</u>
Less acquisition adjustment	-	-	-	-
Total capital assets being depreciated or amortized, net	<u>306,442</u>	<u>3,089</u>	<u>1,025</u>	<u>310,556</u>
Total capital assets, net	<u>\$ 354,205</u>	<u>\$ 16,889</u>	<u>\$ (15,258)</u>	<u>\$ 355,836</u>

4. Utility Plant (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2019				
Electric Division				
Capital assets not being depreciated:				
Land	\$ 38,537	\$ -	\$ -	\$ 38,537
Land - Non-utility	15,345	-	-	15,345
Construction in progress	83,887	54,052	(54,478)	83,461
Total capital assets not being depreciated	137,769	54,052	(54,478)	137,343
Capital assets being depreciated or amortized:				
Structures and improvements	68,232	1,849	(200)	69,881
Transmission and distribution plant equipment	1,553,422	39,446	(15,413)	1,577,455
General plant equipment	174,906	13,235	(3,295)	184,847
Intangibles: Software	12,085	-	-	12,085
Total capital assets being depreciated or amortized	1,808,645	54,530	(18,908)	1,844,267
Less accumulated depreciation and amortization	(816,788)	(62,589)	28,814	(850,563)
Total capital assets being depreciated or amortized, net	991,857	(8,059)	9,906	993,704
Total capital assets, net	\$ 1,129,626	\$ 45,993	\$ (44,572)	\$ 1,131,047

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2019				
Gas Division				
Capital assets not being depreciated:				
Land	\$ 7,312	\$ -	\$ -	\$ 7,312
Construction in progress	31,282	21,308	(21,917)	30,673
Plant held for future use	212	-	-	212
Total capital assets not being depreciated	38,806	21,308	(21,917)	38,197
Capital assets being depreciated or amortized:				
Structures and improvements	68,087	853	-	68,940
Processing and distribution plant equipment	521,710	14,581	(4,620)	531,671
General plant equipment	68,328	6,477	(3,526)	71,279
Intangibles: Software	57,179	6	-	57,185
Non-utility plant equipment	200	-	-	200
Total capital assets being depreciated or amortized	715,504	21,917	(8,146)	729,275
Less accumulated depreciation and amortization	(333,064)	(27,562)	8,676	(351,950)
Total capital assets being depreciated or amortized, net	382,440	(5,645)	530	377,325
Total capital assets, net	\$ 421,246	\$ 15,662	\$ (21,387)	\$ 415,522



4. Utility Plant (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Year ended December 31, 2019				
Water Division				
Capital assets not being depreciated:				
Land	\$ 2,372	\$ -	\$ -	\$ 2,372
Construction in progress	39,842	16,051	(10,502)	45,391
Total capital assets not being depreciated	42,214	16,051	(10,502)	47,763
Capital assets being depreciated or amortized:				
Structures and improvements	53,984	2	-	53,986
Pumping, transmission and distribution plant equipment	421,864	8,558	(1,939)	428,483
General plant equipment	35,264	1,942	(1,473)	35,733
Intangibles: Software	2,177	-	-	2,177
Total capital assets being depreciated or amortized	513,289	10,502	(3,412)	520,379
Less accumulated depreciation and amortization	(205,773)	(12,730)	4,567	(213,937)
Less acquisition adjustment	(476)	476	-	-
Total capital assets being depreciated or amortized, net	307,040	(1,752)	1,155	306,442
Total capital assets, net	<u>\$ 349,254</u>	<u>\$ 14,299</u>	<u>\$ (9,347)</u>	<u>\$ 354,205</u>

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 2021 are estimated as follows (unaudited):

Electric Division	\$ 120,181
Gas Division	33,651
Water Division	35,636

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. In June 2019, the acquisition adjustment was fully amortized.

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 are largely minimized.

Gas Division:

The Gas Division enters into futures contracts, swap, 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 \$3,180 and \$3,036 with its FCM at December 31, 2020 and 2019, respectively.

The schedule below shows the market values and notional amounts of the open futures contracts and options on futures contracts as of December 31, 2020 and 2019.

Type	<u>December 31, 2020</u>		<u>December 31, 2019</u>	
	<u>Market Value</u>	<u>Notional Amount</u>	<u>Market Value</u>	<u>Notional Amount</u>
Futures	\$ -	\$ -	\$ -	\$ -
Options	<u>3,293</u>	<u>342,986</u>	<u>1,630</u>	<u>476,450</u>
Total	<u>\$ 3,293</u>	<u>\$ 342,986</u>	<u>\$ 1,630</u>	<u>\$476,450</u>



5. Futures, Options and Swap Contracts (continued)

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

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Type	<u>Deferred Gains (Losses)</u>	<u>Deferred Gains (Losses)</u>
Futures	\$ -	\$ -
Options	<u>1,669</u>	<u>(715)</u>
Total	<u><u>\$1,669</u></u>	<u><u>(\$715)</u></u>

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

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Type	<u>Deferred Gains (Losses)</u>	<u>Deferred Gains (Losses)</u>
Options	<u>(\$326)</u>	<u>(\$299)</u>
Total	<u><u>(\$326)</u></u>	<u><u>(\$299)</u></u>

The deferred gains (losses) at year end for the open derivative positions are reported on the Statement of Net Position as deferred inflows of resources and deferred outflows of resources, respectively. The deferred gains and losses derived from closed derivative positions are reported as other current assets and liabilities, respectively.

Electric Division:

The Electric Division enters into swap contracts to manage the risk of volatility in the market price of unleaded and diesel fuel on anticipated purchase transactions. The balance in MLGW's FCM fuel margin at December 31, 2020 and 2019 was (\$0) and (\$0), respectively.

6. Deferred Compensation Plan

MLGW offers its employees a voluntary compensation plan under Internal Revenue Code Section 457. The plan, available to all full-time MLGW employees, permits them to defer a portion of their salaries until future years. The deferred compensation paid through payroll deduction 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



6. Deferred Compensation Plan (continued)

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 of Insurance Wellness Benefits Risk Management Pension, P. O. Box 430, Memphis, TN 38101.

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 fifty-five 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.

7. Employee Retirement System (continued)

Benefits Provided (continued)

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:

<u>Retirement Age</u>	<u>Benefit Percentage For Each Year of Creditable Service</u>
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% of the member's final average compensation. The 2020 and 2019 minimum monthly retirement benefit for all members is the greater of \$50 times the number of full years of service, or \$500.

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 or handicapped child receiving death benefits shall be entitled to a cost of living adjustment if the surviving spouse or handicapped child 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, the surviving spouse, or handicapped child 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.

7. Employee Retirement System (continued)

Cost of Living Adjustments (continued)

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

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

The cost of living adjustment for any retired participant, surviving spouse, or handicapped child in any plan year shall not exceed 5% of the retired participant's, surviving spouse's or handicapped child'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, surviving spouse, or handicapped child.

Net Pension Liability (Asset)

The net pension liability (asset) 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. For 2020, MLGW's net pension liability was measured as of December 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020.

For 2019, MLGW's net pension liability (asset) was measured as of December 31, 2018 and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of January 1, 2019.

7. Employee Retirement System (continued)

Employees Covered

Plan membership consisted of the following participants as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Retirees and beneficiaries receiving benefits	2,680	2,677
Participants inactive during year ended December 31 with vested rights	37	38
Active members fully vested	1,058	1,055
Active members not vested	1,485	1,566
Total	<u>5,260</u>	<u>5,336</u>

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 2019, MLGW contributed 12.76% of the annual covered payroll. Employer contributions recognized by the MLGW Pension Plan during 2019 totaled \$21,813. For 2018, MLGW contributed 13.33% of the annual covered payroll. Employer contributions recognized by the MLGW Pension Plan during 2018 totaled \$22,174.

Actuarial Assumptions

The actuarially determined contribution (ADC) is calculated using a January 1 valuation date as of the beginning of the fiscal year prior to the year in which contributions are reported. Therefore, the ADC for the year ended December 31, 2019 is based on the January 1, 2018 actuarial valuation.

7. Employee Retirement System (continued)

Actuarial Assumptions (continued)

The actuarial assumptions used in the valuation as of January 1, 2020 are based on the results of an experience study for the period January 1, 2014 to December 31, 2018.

Inflation	2.50%
Salary increases	Inflation plus merit increases that vary by age and service, ranging from 0.00% to 8.50%
Investment rate of return	7.25% including inflation, net of investment expenses
Cost-of-living adjustments	0.75% for ages 56-58 1.50% for ages 59-61 1.875% for ages 62 and older, and all disabled participants

Pre-retirement mortality rates are based on the PRI-2012 Employee Mortality Table. Healthy annuitant mortality rates are based on 120% of PRI-2012 Healthy Annuitant Mortality Table. Disabled annuitant mortality rates are based on 120% of PRI-2012 Disabled Retiree Mortality Table. All mortality tables above are projected generationally with Scale SSA-2019.

The ADC for the year ended December 31, 2018 is based on the January 1, 2017 actuarial valuation. The actuarial assumptions used in the valuation as of January 1, 2019 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 1.65% for ages 59-61 2.06% for ages 62 and older, and all disabled participants

7. Employee Retirement System (continued)

Actuarial Assumptions (continued)

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 ranges 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.

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 as of December 31, 2019:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	39%	6.40%
International Equity	12%	7.54%
Fixed Income	29%	1.62%
Alternatives	8%	3.32%
Real Estate	10%	4.50%
Short Term Investments	2%	0.65%
Total	100%	

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 as of December 31, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	39%	6.41%
International Equity	12%	7.69%
Fixed Income	29%	2.38%
Alternatives	8%	3.83%
Real Estate	10%	4.76%
Short Term Investments	2%	1.16%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability is 7.25% and 7.50% as of December 31, 2019 and 2018, respectively. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current 8.00% of pay contribution rate and that MLGW contributions will equal the actuarially determined contribution. For this purpose, only employee and employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. 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 plan members. 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, 2019 and 2018.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following table presents the net pension liability (asset) of MLGW as of December 31, 2019, calculated using the discount rate of 7.25%, as well as what MLGW's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage-point lower (6.25%) or one percentage-point higher (8.25%) than the current rate:

7. Employee Retirement System (continued)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate (continued)

	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
Net pension liability (asset) as of December 31, 2019	\$ 140,146	\$ (26,497)	\$ (166,270)

The following table presents the net pension liability (asset) of MLGW as of December 31, 2018, calculated using the discount rate of 7.50%, as well as what MLGW's net pension liability (asset) 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, 2018	\$ 274,083	\$ 107,812	\$ (31,167)

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 of the plan.

7. Employee Retirement System (continued)

Net Pension Liability (Asset)

The following table presents the Changes in Net Pension Liability (Asset) for the year-ended December 31, 2019.

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance at December 31, 2018	\$ 1,501,257	\$ 1,393,445	107,812
Changes for the Year:			
Service Costs	31,636		31,636
Interest	110,927		110,927
Differences Between Expected and Actual Experience	(5,040)		(5,040)
Changes of Assumptions	(174)		(174)
Contributions – Employer		21,813	(21,813)
Contributions – Employee		13,462	(13,462)
Net Investment Income		237,314	(237,314)
Benefit Payments / Refunds	(107,731)	(107,731)	
Administrative Expenses		(931)	931
Net Change	\$ 29,618	\$ 163,927	(134,309)
Balance at December 31, 2019	\$ 1,530,875	\$ 1,557,372	\$ (26,497)

7. Employee Retirement System (continued)

Net Pension Liability (Asset) (continued)

The following table presents the Changes in Net Pension Liability (Asset) for the year-ended December 31, 2018.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance at December 31, 2017	\$ 1,471,230	\$ 1,512,237	\$ (41,007)
Changes for the Year:			
Service Costs	31,185		31,185
Interest	108,432		108,432
Differences Between Expected and Actual Experience	3,726		3,726
Changes of Assumptions	-		-
Contributions – Employer		22,174	(22,174)
Contributions – Employee		13,217	(13,217)
Net Investment Income (Loss)		(39,996)	39,996
Benefit Payments / Refunds	(113,316)	(113,316)	-
Administrative Expenses		(871)	871
Net Change	\$ 30,027	\$ (118,792)	\$ 148,819
Balance at December 31, 2018	\$ 1,501,257	\$ 1,393,445	\$ 107,812

7. Employee Retirement System (continued)

Pension Expense

The following table presents the pension expense for the year-ended December 31, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Service cost	\$ 31,636	\$ 31,185
Interest on Total Pension Liability	110,927	108,432
Employee contributions	(13,462)	(13,217)
Administrative Expenses	931	871
Expected return on assets	(101,756)	(110,463)
Expensed portion of current year period differences between expected and actual experience in Total Pension Liability	(840)	621
Expensed portion of current year period assumptions changes	(29)	-
Current year plan changes	-	-
Expensed portion of current year period differences between projected and actual investment earnings	(27,111)	30,092
Current year recognition of deferred inflows and outflows established in prior years	15,209	(15,617)
Total expense	<u>\$ 15,505</u>	<u>\$ 31,904</u>

7. Employee Retirement System (continued)

Projected Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

The following table presents the projected deferred outflows of resources and deferred inflows of resources related to pension for the year-ended December 31, 2020.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 24,504	\$ -
Net difference between projected and actual earnings on pension plan investments	-	(67,050)
Net difference between expected and actual experience in Total Pension Liability	5,318	(7,965)
Assumption changes	-	(145)
Total	\$ 29,822	\$ (75,160)

Note: The \$24,504 contribution made subsequent to the measurement date will be recognized as a reduction of the net pension liability in 2021.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)
(Continued)



7. Employee Retirement System (continued)

Projected Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (continued)

Projected recognition of deferred outflows/(inflows)							Deferred Outflows/(Inflows) Recognized in Future Years					
	Year	Original	Original	Outstanding	Amount	Outstanding						
	Established	Balance	Amortization	Balance at	Recognized	Balance at						
			Period (Years)	December 31,	During FYE	December 31,						
				2019	2020	2020		2021	2022	2023	2024	2025 and
												Thereafter
Fiscal year Outflows												
Demographic	2016	\$ 2,275	6.00	\$ 761	\$ 381	\$ 380	\$ 380	\$ -	\$ -	\$ -	\$ -	\$ -
Demographic	2018	4,908	6.00	3,272	818	2,454	818	818	818	-	-	-
Demographic	2019	3,726	6.00	3,105	621	2,484	621	621	621	621	-	-
Total Outflows				\$ 7,138	\$ 1,820	\$ 5,318	\$ 1,819	\$ 1,439	\$ 1,439	\$ 621	\$ -	-
Fiscal year Inflows												
Demographic	2015	\$ (16,338)	6.00	\$ (2,723)	\$ (2,723)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assumption	2015	(21,112)	6.00	(3,686)	(3,686)	-	-	-	-	-	-	-
Investment	2016	85,673	5.00	17,135	17,135	-	-	-	-	-	-	-
Investment	2017	(11,042)	5.00	(4,417)	(2,208)	(2,209)	(2,209)	-	-	-	-	-
Demographic	2017	(11,298)	6.00	(5,649)	(1,884)	(3,765)	(1,883)	(1,882)	-	-	-	-
Investment	2018	(116,677)	5.00	(70,006)	(23,335)	(46,671)	(23,335)	(23,336)	-	-	-	-
Investment	2019	150,459	5.00	120,366	30,091	90,275	30,092	30,092	30,091	-	-	-
Assumption	2020	(174)	6.00	-	(29)	(145)	(29)	(29)	(29)	(29)	(29)	(29)
Demographic	2020	(5,040)	6.00	-	(840)	(4,200)	(840)	(840)	(840)	(840)	(840)	(840)
Investment	2020	(135,557)	5.00	-	(27,112)	(108,445)	(27,111)	(27,111)	(27,111)	(27,112)	-	-
Total Inflows				\$ 51,020	\$ (14,591)	\$ (75,160)	\$ (25,315)	\$ (23,106)	\$ 2,111	\$ (27,981)	\$ (869)	(869)
Total				\$ 58,158	\$ (12,771)	\$ (69,842)	\$ (23,496)	\$ (21,667)	\$ 3,550	\$ (27,360)	\$ (869)	(869)

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7. Employee Retirement System (continued)

Projected Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (continued)

The following table presents the projected deferred outflows of resources and deferred inflows of resources related to pension for the year-ended December 31, 2019.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 21,813	\$ -
Net difference between projected and actual earnings on pension plan investments	63,078	-
Net difference between projected and actual experience in Total Pension Liability	7,138	(8,372)
Assumption changes	-	(3,686)
Total	\$ 92,029	\$ (12,058)

Note: The \$21,813 contribution made subsequent to the measurement date will be recognized as a reduction of the net pension liability in 2020.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)
(Continued)



7. Employee Retirement System (continued)

Projected Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (continued)

Projected recognition of deferred outflows/(inflows)							Deferred Outflows/(Inflows) Recognized in Future Years				
Year	Original	Original	Outstanding	Amount	Outstanding						
Established	Balance	Amortization	Balance at	Recognized	Balance at		2020	2021	2022	2023	2024 and
		Period	December 31,	During FYE	December						Thereafter
		(Years)	2018	31, 2019	31, 2019						
Fiscal year											
Outflows											
Investment	2015	\$ (571)	5.00	\$ (114)	\$ (114)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment	2016	85,673	5.00	34,270	17,135	17,135	17,135	-	-	-	-
Demographic	2016	2,275	6.00	1,139	378	761	380	381	-	-	-
Investment	2017	(11,042)	5.00	(6,625)	(2,208)	(4,417)	(2,208)	(2,209)	-	-	-
Demographic	2018	4,908	6.00	4,090	818	3,272	818	818	818	818	-
Investment	2018	(116,677)	5.00	(93,341)	(23,335)	(70,006)	(23,335)	(23,335)	(23,336)	-	-
Demographic	2019	3,726	6.00	-	621	3,105	621	621	621	621	621
Investment	2019	150,459	5.00	-	30,093	120,366	30,092	30,092	30,092	30,090	-
Total Outflows				\$ (60,581)	\$ 23,388	\$ 70,216	\$ 23,503	\$ 6,368	\$ 8,195	\$ 31,529	\$ 621
Fiscal year											
Inflows											
Demographic	2015	\$ (16,338)	6.00	\$ (5,446)	\$ (2,723)	\$ (2,723)	\$ (2,723)	\$ -	\$ -	\$ -	\$ -
Assumption	2015	(21,112)	6.00	(7,370)	(3,684)	(3,686)	(3,686)	-	-	-	-
Demographic	2017	(11,298)	6.00	(7,532)	(1,883)	(5,649)	(1,883)	(1,883)	(1,883)	-	-
Total Inflows				\$ (20,348)	\$ (8,290)	\$ (12,058)	\$ (8,292)	\$ (1,883)	\$ (1,883)	\$ -	\$ -
Total				\$ (80,929)	\$ 15,098	\$ 58,158	\$ 15,211	\$ 4,485	\$ 6,312	\$ 31,529	\$ 621

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 Trust Investment Committee.

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.

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



8. Other Postemployment Benefits (continued)

Plan Description (continued)

and their eligible dependents. The Plan is a single-employer defined benefit healthcare plan administered by MLGW.

The Board of Commissioners of Memphis Light, Gas and Water Division serves as the “Trustee” and establishes the policies of the MLGW OPEB Trust. The Trustee shall fulfill the duties of the fiduciary responsible for MLGW OPEB Trust’s administration and shall have overall control of the administration of the OPEB Trust, with all powers and discretion necessary to enable it to properly carry out its duties. The Trustee delegated the responsibility and authority to administer the assets of the OPEB Trust to the OPEB Trust Investment Committee.

The OPEB Trust Investment Committee is comprised of one member of the Board of Commissioners of the Division (who serves as Chairman), the President and CEO of the Division, the Sr. Vice President, CFO, CAO and Secretary-Treasurer of the Division, two Employee Members, one Retiree Member, and one Citizen Member.

The Plan provides postemployment coverage for health care, life insurance, accidental 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 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 Retirement and 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.

Members of the Plan consisted of the following at December 31, 2019 (valuation date):

	Medical	Life
Retired members currently receiving benefits	2,006	2,006
Beneficiaries currently receiving benefits	1,726	-
Vested terminated members entitled to, but not yet receiving benefits	-	-
Active members	2,543	2,543
Total	<u>6,275</u>	<u>4,549</u>

8. Other Postemployment Benefits (continued)

Plan Description (continued)

Members of the Plan consisted of the following at December 31, 2017 (valuation date):

	Medical	Life
Retired members currently receiving benefits	1,977	1,977
Beneficiaries currently receiving benefits	1,719	-
Vested terminated members entitled to, but not yet receiving benefits	-	-
Active members	2,639	2,639
Total	<u>6,335</u>	<u>4,616</u>

Funding Policy and Contributions

The contribution requirements of plan members and MLGW are established and may be amended by the MLGW Board of Commissioners. Contribution rates for retired plan members and beneficiaries currently receiving benefits 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 Actuarially Determined Contribution ("ADC"). The ADC 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. The ADC is based on the prior year's valuation, then adjusted forward at an assumed payroll growth rate.

MLGW contributed \$34,895 and \$33,949 for the years ended December 31, 2020 and 2019, respectively to the OPEB Trust.

Actuarial Assumptions

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2014 to December 31, 2018.

8. Other Postemployment Benefits (continued)

Actuarial Assumptions (continued)

Inflation	2.50%
Salary increases	Inflation plus merit increases based on age and service.
Discount Rate	7.25%
Healthcare costs trend rates	
Medical	7.00% grading to 4.50% over 10 years
Prescription drug	8.00% grading to 4.50% over 14 years
Administrative costs	3.00%
Mortality rates	PRI-2012 Healthy Annuitant Mortality Table, Headcount-Weighted, for males and females, as appropriate, with adjustments for mortality improvement using Scale SSA-2019.

Pre-retirement mortality rates are based on PRI-2012 Employee Mortality Table with sex-distinct rates. Healthy annuitant mortality rates are based on the PRI-2012 Healthy Annuitant Mortality Table with sex-distinct rates, plus a 20% load. Disabled annuitant mortality rates are based on PRI-2012 Disabled Retiree Mortality Table with sex-distinct rates, plus a 20% load. All mortality tables above are projected generationally with Scale SSA-2019.

8. Other Postemployment Benefits (continued)

Actuarial Assumptions (continued)

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2009 to December 31, 2013.

Inflation	2.75%
Salary increases	Inflation plus merit increases based on age and service.
Discount Rate	7.50%
Healthcare costs trend rates	
Medical	7.00% grading to 4.50% over 10 years
Prescription drug	9.00% grading to 4.50% over 10 years
Administrative costs	3.00%
Mortality rates	Based on RP - 2014 Mortality Tables for males and females, as appropriate, adjusted by a factor of 138%, and with mortality improvement using a modified RPEC 2014 scale.

Pre-retirement mortality rates are based on 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 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.

8. Other Postemployment Benefits (continued)

Investment Rates of Return

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which best estimate ranges of expected future rates of return (expected returns, net of 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 subtracting expected investment expenses and a risk margin.

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 as of December 31, 2019:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	39%	6.40%
International Equity	12%	7.54%
Fixed Income	29%	1.63%
Alternatives	8%	3.32%
Real Estate	10%	4.50%
Short Term Investments	2%	0.65%
Total	100%	

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 as of December 31, 2018:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	39%	6.41%
International Equity	12%	7.69%
Fixed Income	29%	2.38%
Alternatives	8%	3.83%
Real Estate	10%	4.76%
Short Term Investments	2%	1.16%
Total	100%	



8. Other Postemployment Benefits (continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 7.25% and 7.50% for December 31, 2019 and December 31, 2018, respectively. The projection of cash flows used to determine the discount rate assumed that MLGW contributions would be made at rates equal to the actuarially determined contribution rates. Based on these assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members hired on or before December 31, 2019 and 2018.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Cost Trend

The following table presents the Net OPEB Liability (NOL) of MLGW as of December 31, 2019, calculated using the discount rate of 7.25%, as well as what the Division's NOL would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate. Also, shown is the NOL as if it were calculated using healthcare cost trend rates that were 1-percentage point lower or 1-percentage point higher than the current healthcare trend rates:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net OPEB Liability (Asset)	\$305,052	\$208,558	\$129,283
	1% Decrease in Health Care Cost Trend Rates	Current Health Care Cost Trend Rates	1% Increase in Health Care Cost Trend Rates
Net OPEB Liability (Asset)	\$131,411	\$208,558	\$303,385

8. Other Postemployment Benefits (continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Cost Trend (continued)

The following table presents the Net OPEB Liability (NOL) of MLGW as of December 31, 2019, calculated using the discount rate of 7.50%, as well as what the Division's NOL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate. Also, shown is the NOL as if it were calculated using healthcare cost trend rates that were 1-percentage point lower or 1-percentage point higher than the current healthcare trend rates:

	1% Decrease in Discount Rate (6.50%)	Current Discount Rate (7.50%)	1% Decrease in Discount Rate (8.50%)
Net OPEB Liability (Asset)	\$379,236	\$281,470	\$201,582
	1% Decrease in Trend Rates	Current Trend Rates	1% Decrease in Trend Rates
Net OPEB Liability (Asset)	\$197,340	\$281,470	\$385,998

OPEB Plan's Fiduciary Net Position

Detailed information about the MLGW OPEB Trust's fiduciary net position is available in the separately issued plan financial statements. For purposes of measuring the net OPEB liability, all information about the OPEB 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 OPEB Trust.

The MLGW OPEB Trust'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 are recognized when due and payable in accordance with the terms of the plan.



8. Other Postemployment Benefits (continued)

Net OPEB Liability

The following table presents the Changes in Net OPEB Liability for the year-ended December 31, 2019.

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balance at December 31, 2018	\$ 707,218	\$ 425,748	\$ 281,470
Changes for the Year:			
Service Costs	15,804	-	15,804
Interest	53,030	-	53,030
Differences Between Expected and Actual Experience	15,351	-	15,351
Contributions – Employer	-	33,949	(33,949)
Net Investment Income	-	76,564	(76,564)
Changes of Assumptions	(46,584)	-	(46,584)
Benefit Payments / Refunds	(31,146)	(31,146)	-
Administrative Expenses	(770)	(770)	-
Net Change	\$ 5,685	\$ 78,597	\$ (72,912)
Balance at December 31, 2019	\$ 712,903	\$ 504,345	\$ 208,558

8. Other Postemployment Benefits (continued)

Net OPEB Liability (continued)

Plan Changes Since Prior Valuation

Benefit Changes:

- There were no material changes in benefit provisions.

Assumption changes:

- The Inflation assumption was changed from 2.75% to 2.50%.
- The Investment Return assumption was lowered from 7.50% to 7.25%.
- The demographic assumptions were updated for the December 31, 2019 OPEB liability based on the five-year experience study ending December 31, 2018.

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8. Other Postemployment Benefits (continued)

Net OPEB Liability (continued)

The following table presents the Changes in Net OPEB Liability for the year-ended December 31, 2018.

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balance at December 31, 2017	\$ 673,088	\$ 419,726	\$ 253,362
Changes for the Year:			
Service Costs	15,381		15,381
Interest	50,559		50,559
Differences Between Expected and Actual Experience	(3,134)		(3,134)
Contributions – Employer		48,972	(48,972)
Net Investment Income (Loss)		(14,274)	14,274
Benefit Payments / Refunds	(27,876)	(27,876)	-
Administrative Expenses	<u>(800)</u>	<u>(800)</u>	<u>-</u>
Net Change	<u>\$ 34,130</u>	<u>\$ 6,022</u>	<u>\$ 28,108</u>
Balance at December 31, 2018	<u>\$ 707,218</u>	<u>\$ 425,748</u>	<u>\$ 281,470</u>

8. Other Postemployment Benefits (continued)

Net OPEB Liability (continued)

Plan Changes Since Prior Valuation

Effective April 1, 2018 and reflected for the December 31, 2018 reporting date:

- Deductible increased from \$100/200 (single/family) to \$500/\$1,000 for In-Network and from \$400/\$1,200 to \$600/1,200 for Out-of-Network
- In-Network OOP maximum increased from \$1,650/\$14,700 to \$3,200/\$13,700
- Office visit copay increased from \$15/\$25 (PCP/Specialist) to \$25/\$35 and ER copay increased from \$100 to \$120
- Prescription drug benefits changes are shown in the table below:

	Pre April 1, 2018	Post April 1, 2018
Regular and Maintenance Medications:		
<u>Retail</u>		
Generic	\$5.00	\$10.00
Preferred Brand	30% with \$25 maximum	30% with \$30 maximum
Non-Preferred Brand	30% with \$25 maximum	30% with \$50 maximum
<u>Mail Order</u>		
Generic	\$10.00	\$20.00
Preferred Brand	\$50.00	\$60.00
Non-Preferred Brand	\$60.00	\$100.00
Specialty Medications:		
<u>Retail</u>		
Generic	\$5.00	\$10.00
Preferred Brand	\$25.00	\$30.00
Non-Preferred Brand	\$40.00	\$100.00
<u>Mail Order</u>		
Generic	\$10.00	\$20.00
Preferred Brand	\$50.00	\$100.00
Non-Preferred Brand	\$60.00	\$200.00

Assumption changes:

- Medical and Prescription Drug trends were updated
- Expected claims were updated

8. Other Postemployment Benefits (continued)

OPEB Expense

The following table presents the OPEB expense for the year-ended December 31, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Service cost	\$ 15,804	\$ 15,381
Interest on the Total OPEB Liability	53,030	50,560
Expensed portion of current-period difference between expected and actual experience in the Total OPEB Liability	2,558	(522)
Expensed portion of current-period changes of assumptions or other inputs	(7,764)	-
Projected earnings on plan investments	(32,007)	(32,241)
Expensed portion of current-period differences between actual and projected earnings on plan investments	(8,911)	9,303
Recognition of beginning of year deferred outflows of resources as OPEB expense	9,915	612
Recognition of beginning of year deferred inflows of resources as OPEB expense	(40,139)	(39,616)
Total OPEB expense	<u>\$ (7,514)</u>	<u>\$ 3,477</u>

8. Other Postemployment Benefits (continued)

Projected Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The following table presents the projected deferred outflows of resources and deferred inflows of resources related to OPEB for the year-ended December 31, 2020.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 34,895	\$ -
Changes of assumptions or other inputs	-	(139,005)
Net difference between projected and actual earnings on OPEB plan investments	-	(20,180)
Difference between expected and actual experience in the Total OPEB Liability	14,630	(2,088)
Total	\$ 49,525	\$ (161,273)

NOTE: \$34,895 contribution made subsequent to the measurement date will be recognized as a reduction of net OPEB liability in 2021.

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(Continued)



8. Other Postemployment Benefits (continued)

Projected Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

Projected Recognition of Deferred Outflows/(Inflows)							Deferred Outflows/(Inflows) Recognized in Future Years				
Year Established	Original Balance	Original Amortization Period (Years)	Outstanding Balance at December 31, 2019	Amount Recognized During FYE December 31, 2020	Outstanding Balance at December 31, 2020		2021	2022	2023	2024	2025
Fiscal year Outflows											
Demographic	2018	\$ 3,674	6.00	\$ 2,451	\$ 612	\$ 1,839	\$ 612	\$ 612	\$ 615	\$ -	\$ -
Demographic	2020	15,351	6.00	-	2,560	12,791	2,559	2,559	2,559	2,559	2,555
Total Outflows				\$ 2,451	\$ 3,172	\$ 14,630	\$ 3,171	\$ 3,171	\$ 3,174	\$ 2,559	\$ 2,555
Fiscal year Inflows											
Investment	2018	\$ (31,107)	5.00	\$ (18,664)	\$ (6,221)	\$ (12,443)	\$ (6,221)	\$ (6,222)	\$ -	\$ -	\$ -
Assumption	2018	(200,370)	6.00	(133,580)	(33,395)	(100,185)	(33,395)	(33,395)	(33,395)	-	-
Demographic	2019	(3,133)	6.00	(2,612)	(524)	(2,088)	(522)	(522)	(522)	(522)	-
Investment	2019	46,514	5.00	37,211	9,303	27,908	9,303	9,303	9,302	-	-
Investment	2020	(44,557)	5.00	-	(8,912)	(35,645)	(8,911)	(8,911)	(8,911)	(8,912)	-
Assumption	2020	(46,584)	6.00	-	(7,764)	(38,820)	(7,764)	(7,764)	(7,764)	(7,764)	(7,764)
Total Inflows				\$ (117,645)	\$ (47,513)	\$ (161,273)	\$ (47,510)	\$ (47,511)	\$ (41,290)	\$ (17,198)	\$ (7,764)
Total				\$ (115,194)	\$ (44,341)	\$ (146,643)	\$ (44,339)	\$ (44,340)	\$ (38,116)	\$ (14,639)	\$ (5,209)

Note: In accordance with Paragraph 43 of GASB Statement No. 75, the difference between projected and actual earnings on OPEB plan investments should be recognized over a closed five-year period. The difference between expected and actual total OPEB 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 OPEB through the OPEB plan (active employees and inactive employees) determined as of the beginning of the measurement period.

8. Other Postemployment Benefits (continued)

Projected Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

The following table presents the projected deferred outflows of resources and deferred inflows of resources related to OPEB for the year-ended December 31, 2019.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 33,949	\$ -
Changes of assumptions or other inputs	-	(133,580)
Net difference between projected and actual earnings on OPEB plan investments	18,546	-
Difference between expected and actual experience in the Total OPEB Liability	2,451	(2,612)
Total	<u>\$ 54,946</u>	<u>\$ (136,192)</u>

NOTE: \$33,949 contribution made subsequent to the measurement date will be recognized as a reduction of net OPEB liability in 2020.

8. Other Postemployment Benefits (continued)

Projected Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

Projected Recognition of Deferred Outflows/(Inflows)							Deferred Outflows/(Inflows) Recognized in Future Years				
Year Established	Original Balance	Original Amortization Period (Years)	Outstanding Balance at December 31, 2018	Amount Recognized During FYE December 31, 2019	Outstanding Balance at December 31, 2019		2020	2021	2022	2023	2024
Fiscal year Outflows											
Demographic	2018	\$ 3,674	6.00	\$ 3,061	\$ 610	\$ 2,451	\$ 612	\$ 612	\$ 612	\$ 615	\$ -
Investment	2018	(31,107)	5.00	(24,885)	(6,221)	(18,665)	(6,221)	(6,222)	(6,222)	-	-
Investment	2019	46,514	5.00	-	9,303	37,211	9,303	9,303	9,303	9,302	-
Total Outflows				\$ (21,824)	\$ 3,692	\$ 20,997	\$ 3,694	\$ 3,693	\$ 3,693	\$ 9,917	\$ -
Fiscal year Inflows											
Assumption	2018	\$ (200,370)	6.00	\$ (166,975)	\$ (33,395)	\$ (133,580)	\$ (33,395)	\$ (33,395)	\$ (33,395)	\$ (33,395)	\$ -
Demographic	2019	(3,133)	6.00	-	(521)	(2,612)	(522)	(522)	(522)	(522)	(524)
Total Inflows				\$ (166,975)	\$ (33,916)	\$ (136,192)	\$ (33,917)	\$ (33,917)	\$ (33,917)	\$ (33,917)	\$ (524)
Total				\$ (188,799)	\$ (30,224)	\$ (115,195)	\$ (30,223)	\$ (30,224)	\$ (30,224)	\$ (24,000)	\$ (524)

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).

The schedule below shows the balances as of December 31, 2020 and 2019 for the lead pollution liability from various substations and equipment by Division:

9. Pollution Remediation Obligation (continued)

	<u>2020</u>	<u>2019</u>
Electric		
Lead	<u>\$ 719</u>	<u>\$ 719</u>
Total Electric	<u>719</u>	<u>719</u>
Gas		
Lead	<u>276</u>	<u>276</u>
Total Gas	<u>276</u>	<u>276</u>
Water		
Lead	<u>3,200</u>	<u>3,200</u>
Total Water	<u>3,200</u>	<u>3,200</u>
Total Liability	<u><u>\$ 4,195</u></u>	<u><u>\$ 4,195</u></u>

10. Risk Management

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

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

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

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

10. Risk Management (continued)

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

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

The changes in the self-insurance reserves for medical benefits and injuries and damages for the years ended December 31, 2020 and 2019 are as follows:

	<u>Medical Benefits</u>			<u>Injuries and Damages</u>		
	<u>Electric Division</u>	<u>Gas Division</u>	<u>Water Division</u>	<u>Electric Division</u>	<u>Gas Division</u>	<u>Water Division</u>
Balance -- December 31, 2018	\$ 10,838	\$ 4,943	\$ 3,232	\$ 5,925	\$ 2,321	\$ 2,154
Payments	(42,221)	(19,259)	(12,592)	(1,341)	(707)	(776)
Incurred claims expense	39,101	17,836	11,662	498	(67)	208
Balance -- December 31, 2019	\$ 7,718	\$ 3,520	\$ 2,302	\$ 5,082	\$ 1,547	\$ 1,586
Payments	(40,486)	(18,466)	(12,074)	(2,155)	(654)	(560)
Incurred claims expense	41,736	19,037	12,447	1,740	774	864
Balance -- December 31, 2020	<u>\$ 8,968</u>	<u>\$ 4,091</u>	<u>\$ 2,675</u>	<u>\$ 4,667</u>	<u>\$ 1,667</u>	<u>\$ 1,890</u>

11. Bonds

Bonds as of December 31, 2020 and 2019 consist of the following:

	Interest Rates	2020	2019
Electric Division:			
Electric System Revenue Bonds:			
Series 2014, due serially 2019-2034	3.00 - 5.00%	\$ 31,565	\$ 58,240
Series 2016, due serially 2019-2036	4.00 - 5.00%	34,615	36,040
Series 2017, due serially 2019-2037	4.00 - 5.00%	81,140	84,200
Series 2020A, due serially 2021-2050	3.00 - 5.00%	148,000	-
Series 2020B, due serially 2021-2034	0.43 - 1.97%	29,000	-
Premium on revenue bonds		42,953	21,395
Total		367,273	199,875
Less: current portion of bonds payable		(10,560)	(7,295)
		<u>\$ 356,713</u>	<u>\$ 192,580</u>
Gas Division:			
Gas System Revenue Bonds:			
Series 2016, due serially 2019-2036	4.00 - 5.00%	\$ 34,615	\$ 36,040
Series 2017, due serially 2019-2037	4.00 - 5.00%	36,120	37,460
Series 2020, due serially 2021-2050	3.00 - 5.00%	63,000	-
Premium on revenue bonds		22,237	11,426
Total		155,972	84,926
Less: current portion of bonds payable		(3,955)	(2,765)
		<u>\$ 152,017</u>	<u>\$ 82,161</u>
Water Division:			
Water System Revenue Bonds:			
Series 2014, due serially 2019-2034	2.00 - 5.00%	\$ 11,470	\$ 12,090
Series 2016, due serially 2019-2036	2.00 - 4.00%	25,330	26,545
Series 2017, due serially 2019-2037	2.00 - 5.00%	22,310	23,225
Series 2020, due serially 2021-2050	3.00 - 5.00%	68,000	-
Premium on revenue bonds		16,514	4,693
Total		143,624	66,553
Less: current portion of bonds payable		(3,985)	(2,749)
		<u>\$ 139,639</u>	<u>\$ 63,804</u>

11. Bonds (continued)

Principal payments on bonds are due annually on December 1. Debt service requirements as of December 31, 2020 are as follows:

	<u>Electric Division</u>	
	<u>Principal</u>	<u>Interest</u>
2021	10,560	12,825
2022	11,020	12,371
2023	11,490	11,896
2024	12,045	11,342
2025	12,625	10,759
2026 - 2030	72,720	44,204
2031 - 2035	83,270	28,404
2036 - 2040	42,135	16,325
2041 - 2045	30,975	11,121
2046 - 2050	37,480	4,615
Total	<u>\$ 324,320</u>	<u>\$ 163,862</u>

	<u>Gas Division</u>	
	<u>Principal</u>	<u>Interest</u>
2021	3,955	5,759
2022	4,140	5,572
2023	4,335	5,376
2024	4,555	5,159
2025	4,780	4,932
2026 - 2030	27,730	20,825
2031 - 2035	35,055	13,505
2036 - 2040	20,045	7,083
2041 - 2045	13,185	4,734
2046 - 2050	15,955	1,965
Total	<u>\$ 133,735</u>	<u>\$ 74,910</u>

11. Bonds (continued)

	<u>Water Division</u>	
	<u>Principal</u>	<u>Interest</u>
2021	3,985	4,730
2022	4,105	4,612
2023	4,250	4,470
2024	4,425	4,294
2025	4,595	4,125
2026 - 2030	26,025	17,568
2031 - 2035	30,845	11,673
2036 - 2040	17,745	6,859
2041 - 2045	14,260	4,684
2046 - 2050	16,875	2,078
Total	<u>\$ 127,110</u>	<u>\$ 65,093</u>

MLGW, at its option, may redeem bonds prior to maturity at premiums and prices specified in the indentures.

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.

Upon the occurrence of an Event of Default and upon the request of the holders of not less than twenty-five percent (25%) of then Outstanding Senior Lien Revenue Obligations, the Paying Agent shall, in addition to all other remedies and rights upon or under the Resolution, have the right, by appropriate proceedings in any court of competent jurisdiction, to obtain the appointment of a receiver for the System, which receiver may enter upon and take possession of the System, operate and maintain the System, fix rates and collect all revenue arising therefrom in as full a manner and to the same extent as MLGW itself might do.

The estimated fair value of long-term debt for the Electric, Gas, and Water Divisions based on quoted market prices (including accrued interest) are as follows as of December 31, 2020 and 2019:

11. Bonds (continued)

	<u>2020</u>	<u>2019</u>
Electric Division	<u>\$410,392</u>	<u>\$ 205,016</u>
Gas Division	<u>\$161,749</u>	<u>\$ 86,230</u>
Water Division	<u>\$149,516</u>	<u>\$ 68,328</u>

During 2020, the Electric Division issued \$148,000 of Series 2020A 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 2020A Electric Division Bonds. The first principal payment will be made December 1, 2021, and thereafter will be made annually with a final maturity date of December 1, 2050. The Series 2020A revenue bonds bear interest at annual fixed rates ranging from 3.00% to 5.00%.

During 2020, the Electric Division issued \$29,000 of Series 2020B revenue refunding bonds to advance refund on a federally taxable basis, a portion of the outstanding Electric System Revenue Bonds, Series 2014 (the "Refundable Bonds") and to pay certain costs of issuance with respect to the Series 2020B Electric System Refunding Bonds. The refunding was undertaken to reduce total future debt service payments. The principal amount of the Refundable Bonds outstanding at December 31, 2020 was \$23,865. The 2020 Series Bonds have a net present value benefit of \$3,362, with a cash savings of \$3,799 over the life of the bonds. The first principal payment will be made December 1, 2021, and thereafter will be made annually with a final maturity date of December 1, 2034. The Series 2020B revenue bonds bear interest at annual fixed rates ranging from 0.43% to 1.97%.

During 2020, the Gas Division issued \$63,000 of Series 2020 revenue bonds to finance the costs of acquiring, expanding and/or improving the Gas Division and to pay certain costs of issuance with respect to the Series 2020 Gas Division Bonds. The first principal payment will be made December 1, 2021, and thereafter will be made annually with a final maturity date of December 1, 2050. The Series 2020 revenue bonds bear interest at annual fixed rates ranging from 3.00% to 5.00%.

During 2020, the Water Division issued \$68,000 of Series 2020 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 2020 Water Division Bonds. The first principal payment will be made December 1, 2021, and thereafter will be made annually with a final maturity date of December 1, 2050. The Series 2020 revenue bonds bear interest at annual fixed rates ranging from 3.00% to 5.00%.

During 2018, the remaining principal balance of \$65,305 of Electric Division Series 2008 revenue bonds reached final maturity. During 2018, the remaining principal balance of Series 2010 revenue bonds reached final maturity.

11. Bonds (continued)

During 2017, the Electric Division issued \$90,000 of Series 2017 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 2017 Electric Division Bonds. The first principal payment was made December 1, 2018, and thereafter will be made annually with a final maturity date of December 1, 2037. The Series 2017 revenue bonds bear interest at annual fixed rates ranging from 3.00% to 5.00%.

During 2017, the Gas Division issued \$40,000 of Series 2017 revenue bonds to finance the costs of acquiring, expanding and/or improving the Gas Division and to pay certain costs of issuance with respect to the Series 2017 Gas Division Bonds. The first principal payment was made December 1, 2018, and thereafter will be made annually with a final maturity date of December 1, 2037. The Series 2017 revenue bonds bear interest at annual fixed rates ranging from 3.00% to 5.00%.

During 2017, the Water Division issued \$25,000 of Series 2017 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 2017 Water Division Bonds. The first principal payment was made December 1, 2018, and thereafter will be made annually with a final maturity date of December 1, 2037. The Series 2017 revenue bonds bear interest at annual fixed rates ranging from 2.00% to 5.00%.

During 2016, the Electric Division issued \$40,000 of Series 2016 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 2016 Electric Division Bonds. The first principal payment was made December 1, 2017, and thereafter will be made annually with a final maturity date of December 1, 2036. The Series 2016 revenue bonds bear interest at annual fixed rates ranging from 3.00% to 5.00%.

During 2016, the Gas Division issued \$40,000 of Series 2016 revenue bonds to finance the costs of acquiring, expanding and/or improving the Gas Division and to pay certain costs of issuance with respect to the Series 2016 Gas Division Bonds. The first principal payment was made December 1, 2017, and thereafter will be made annually with a final maturity date of December 1, 2036. The Series 2016 revenue bonds bear interest at annual fixed rates ranging from 3.00% to 5.00%.

During 2016, the Water Division issued \$30,000 of Series 2016 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 2016 Water Division Bonds. The first principal payment was made December 1, 2017, and thereafter will be made annually with a final maturity date of December 1, 2036. The Series 2016 revenue bonds bear interest at annual fixed rates ranging from 2.00% to 4.00%.

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%.

11. Bonds (continued)

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%.

MLGW's Electric Division bond covenants require that for Series 2014, 2016, and 2017 Bonds 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, 2020 was 7.12.

MLGW's Gas Division bond covenants require that for Series 2016 and 2017 Bonds the ratio of net revenues to principal and interest for any fiscal year will equal at least 120%. The composite gas bonds debt service coverage as of December 31, 2020 was 8.08.

MLGW's Water Division bond covenants require that for Series 2014, 2016 and 2017 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, 2019 was 6.08.

Long-term debt activity for the years ended December 31, 2020 and 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2020:				
Electric Division				
Bonds payable:				
Revenue bonds	\$ 178,480	\$ 177,000	\$ (31,160)	\$ 324,320
Premium on revenue bonds	21,395	27,803	(6,245)	42,953
Total bonds payable	<u>\$ 199,875</u>	<u>\$ 204,803</u>	<u>\$ (37,405)</u>	<u>\$ 367,273</u>
Gas Division				
Bonds payable:				
Revenue bonds	\$ 73,500	\$ 63,000	\$ (2,765)	\$ 133,735
Premium on revenue bonds	11,426	12,146	(1,335)	22,237
Total bonds payable	<u>\$ 84,926</u>	<u>\$ 75,146</u>	<u>\$ (4,100)</u>	<u>\$ 155,972</u>
Water Division				
Bonds payable:				
Revenue bonds	\$ 61,860	\$ 68,000	\$ (2,750)	\$ 127,110
Premium on revenue bonds	4,693	12,489	(668)	16,514
Total bonds payable	<u>\$ 66,553</u>	<u>\$ 80,489</u>	<u>\$ (3,418)</u>	<u>\$ 143,624</u>

11. Bonds (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2019:				
Electric Division				
Bonds payable:				
Revenue bonds	\$ 185,520	\$ -	\$ (7,040)	\$ 178,480
Premium on revenue bonds	23,709	-	(2,314)	21,395
Total bonds payable	<u>\$ 209,229</u>	<u>\$ -</u>	<u>\$ (9,354)</u>	<u>\$ 199,875</u>
Gas Division				
Bonds payable:				
Revenue bonds	\$ 76,160	\$ -	\$ (2,660)	\$ 73,500
Premium on revenue bonds	12,611	-	(1,185)	11,426
Total bonds payable	<u>\$ 88,771</u>	<u>\$ -</u>	<u>\$ (3,845)</u>	<u>\$ 84,926</u>
Water Division				
Bonds payable:				
Revenue bonds	\$ 64,540	\$ -	\$ (2,680)	\$ 61,860
Premium on revenue bonds	5,180	-	(487)	4,693
Total bonds payable	<u>\$ 69,720</u>	<u>\$ -</u>	<u>\$ (3,167)</u>	<u>\$ 66,553</u>

12. Rates and Energy Supplies

Rates

Electric, gas and water rates are established by MLGW and rate changes are subject to approval by the City Council. The City 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 temporary wholesale rate adjustment effective with the November 2020 revenue month, decreasing the cost of wholesale power (excluding fuel and purchased power) purchased by MLGW by approximately 2.50% in response to the COVID-19 pandemic. The TVA Pandemic Relief Credit will be applicable for a period of 12 months. MLGW implemented changes to retail rate schedules effective with meters read on or after October 29, 2020 to pass along reduced costs of wholesale power to its retail customers. The retail effect across all customer classes was a decrease of approximately 1.55%.

A MLGW electric rate increase was approved on January 21, 2020, by the City Council as part of the 2020 MLGW Budget. This increase was required due to increased operating and capital expenses. MLGW implemented new electric rate schedules for meters read on or after July 2, 2020. The impact was a 3.0% increase for all customer classes.



12. Rates and Energy Supplies (continued)

Rates (continued)

MLGW adjusted rates effective with meters read on or after January 3, 2019 to recover the increased cost of wholesale power from its retail customers due the loss of the prepayment credit with TVA. The retail effect across all customer classes was approximately 1.20%.

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 that 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.

There were no gas rate actions for the 2019-2020 period; however, the Council approved a gas rate increase of 2.00% effective in January 2022.

A water rate increase was approved on December 17, 2019 by the City Council as part of the 2020 MLGW Budget. This increase was required due to increased operating and capital expenses. MLGW implemented new water rate schedules for meters read on or after July 2, 2020. The retail impact was a 15.00% increase for all customer classes.

A temporary, one-year water rate increase was approved on February 19, 2019 by the City Council as part of the 2019 MLGW Budget. This increase was required due to increased operating and capital expenses. MLGW implemented new water rate schedules for meters read on or after March 4, 2019. The retail impact was a 3.00% increase for all customer classes. This increase expired and retail rates returned to their previous levels with meter readings on or after March 3, 2020.

TVA currently supplies all of MLGW's electric power requirements pursuant to a power contract. 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.



12. Rates and Energy Supplies (continued)

Rates (continued)

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

Energy Supplies

MLGW has long-term natural gas purchase commitments as listed below:

MLGW entered into a natural gas purchase contract with the Tennessee Energy Acquisition Corporation (TEAC) on December 1, 2006 in order to participate in a prepay natural gas opportunity. Natural gas began flowing to MLGW effective January 1, 2007. Effective January 1, 2007 through June 30, 2016, purchase volume for MLGW was 15,000 MMBtu/day for the November through March periods and 16,500 MMBtu/day for the April through October periods. Gas volumes were offered to MLGW for this period at Panhandle Eastern Pipeline Field Zone Index pricing minus \$0.530. Effective July 1, 2016 through December 31, 2026, purchase volume for MLGW increased to 35,000 MMBtu/day for the November through March periods and 26,500 MMBtu/day for the April through October periods. Gas volumes are offered to MLGW at Panhandle Eastern Pipeline Field Zone and Texas Gas Zone 1 Index pricing minus \$0.530. This contract will expire December 31, 2049.

MLGW entered into a natural gas purchase contract with the Municipal Gas Authority of Georgia (MGAG) on July 24, 2018 in order to participate in a prepay natural gas opportunity. Gas volumes are offered to MLGW at Texas Gas Zone 1 Index minus \$0.4235. Natural gas began flowing to MLGW effective October 1, 2018 at a volume of 3,000 MMBtu/day. The gas volume will increase to 6,000 MMBtu/day effective January 1, 2024. This contract will expire September 1, 2048.

MLGW entered into a natural gas purchase contract with the Public Energy Authority of Kentucky (PEAK) on December 4, 2018 in order to participate in a prepay natural gas opportunity. Gas volumes are offered to MLGW at Texas Gas Zone 1 Index minus \$0.3350. Natural gas began flowing to MLGW effective July 1, 2019. Purchase volume for MLGW is 7,800 MMBtu/day for the November through March periods and 3,900 MMBtu/day for the April through October periods of the contract. This contract will expire October 31, 2049.

MLGW entered into a natural gas purchase contract with the Tennergy Energy Acquisition Corporation (Tennergy) on February 1, 2019 in order to participate in a prepay natural gas opportunity. Gas volumes are offered to MLGW at Texas Gas Zone 1 Index minus \$0.27. Natural gas began flowing to MLGW effective January 1, 2020. Purchase volume for MLGW is 10,000 MMBtu/day for the November through March periods and 5,000 MMBtu/day for the April through October periods of the contract. This contract will expire December 31, 2049.



12. Rates and Energy Supplies (continued)

Energy Supplies (continued)

MLGW entered into a natural gas purchase contract with the Public Energy Authority of Kentucky (PEAK) on February 14, 2019 in order to participate in a prepay natural gas opportunity. Gas volumes are offered to MLGW at Texas Gas Zone 1 Index minus \$0.32. Natural gas began flowing to MLGW effective July 1, 2019. Purchase volume for MLGW is 2,200 MMBtu/day for the November through March periods and 1,100 MMBtu/day for the April through October periods of the contract. This contract will expire October 31, 2049.

MLGW entered into a natural gas purchase contract with the Public Energy Authority of Kentucky (PEAK) on December 1, 2019 in order to participate in a prepay natural gas opportunity. Gas volumes are offered to MLGW at Texas Gas Zone 1 and Trunkline Z1A Index pricing minus \$0.2750. Natural gas began flowing to MLGW effective November 1, 2020. Effective November 1, 2020, purchase volume for MLGW is approximately 39,300 MMBtu/day for the November through March periods. Effective November 1, 2027, the November through March purchase volume will increase to approximately 47,000 MMBtu/day. Effective April 1, 2027, the purchase volume is 850 MMBtu/day for the April through October periods of the contract. This contract will expire December 31, 2049.

13. Federal Grant Contributions

In April 2020, MLGW applied for a Port Security Grant for Security Automation. In September 2020, on behalf of the Department of Homeland Security, FEMA awarded grant contract #EMW-2020-PU-00507 for the Electric Division Security Automation System project under the Port Security Grant Program. The award amount is \$1,000 of which MLGW must contribute a cost match of \$333 of non-Federal funds or 25 percent of the total approved project costs of \$1,333. Eligible costs for the Electric Division Security Automation System project were submitted to the FEMA grant officer for the 2020 fourth quarter reporting period. A FEMA payment in the amount of \$201 was received February 2021.

Electric	2020
Total Expenditures	\$ 201
Eligible Reimbursement	201
Reimbursement Received	-
Receivable Balance	\$ (201)

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

14. Transfers to City (continued)

4% of operating revenue less power costs (three-year average). The Division pays the amount requested by the City not exceeding this 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 not exceeding this formula.

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.

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.

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 (ASSET)
DECEMBER 31, 2020
(Dollars in Thousands)



	2019	2018	2017	2016	2015	2014	2013
Total pension liability							
Service cost	\$ 31,636	\$ 31,185	\$ 31,977	\$ 32,591	\$ 30,139	\$ 31,786	\$ 33,122
Interest	110,927	108,432	103,731	102,248	99,940	100,436	98,818
Differences between expected and actual experience	(5,040)	3,726	4,908	(11,298)	2,275	(16,338)	(14,280)
Changes in assumptions	(174)	-	-	-	-	(22,112)	-
Benefit payments, including refunds of employee contributions	(107,731)	(113,316)	(104,919)	(102,628)	(100,528)	(100,249)	(91,931)
Net change in total pension liability	29,618	30,027	35,697	20,913	31,825	(6,477)	25,730
Total pension liability – beginning	1,501,257	1,471,230	1,435,533	1,414,620	1,382,794	1,389,271	1,363,542
Total pension liability – ending (a)	\$ 1,530,875	\$ 1,501,257	\$ 1,471,230	\$ 1,435,533	\$ 1,414,620	\$ 1,382,794	\$ 1,389,271
Plan fiduciary net position							
Contributions – employer	\$ 21,813	\$ 22,174	\$ 22,390	\$ 21,390	\$ 21,390	\$ 26,804	\$ 30,706
Contributions – employee	13,462	13,217	12,959	12,513	12,310	11,729	12,000
Net investment income	237,314	(39,996)	216,498	108,008	15,231	98,931	185,707
Benefit payments including refunds of employee contributions	(107,731)	(113,316)	(104,919)	(102,628)	(100,528)	(100,249)	(91,931)
Administrative expense	(931)	(871)	(860)	(730)	(759)	(714)	(657)
Other	-	-	-	-	-	-	-
Net change in plan fiduciary net position	\$ 163,927	\$ (118,792)	\$ 146,068	\$ 38,553	\$ (52,356)	\$ 36,501	\$ 135,825
Other Adjustments	-	-	-	-	788	-	-
Plan fiduciary net position – beginning	\$ 1,393,445	\$ 1,512,237	\$ 1,366,169	\$ 1,327,616	\$ 1,379,184	\$ 1,342,683	\$ 1,206,858
Plan fiduciary net position – ending (b)	\$ 1,557,372	\$ 1,393,445	\$ 1,512,237	\$ 1,366,169	\$ 1,327,616	\$ 1,379,184	\$ 1,342,683
System's net pension liability (asset) – ending (a) – (b)	\$ (26,497)	\$ 107,812	\$ (41,007)	\$ 69,364	\$ 87,004	\$ 3,610	\$ 46,588
Plan fiduciary net position as a percentage of the total pension liability	101.73%	92.82%	102.79%	95.17%	93.85%	99.74%	96.65%
Covered employee payroll	\$ 170,946	\$ 169,605	\$ 167,221	\$ 161,926	\$ 160,641	\$ 152,368	\$ 154,759
System's net pension liability (asset) as a percentage of covered employee payroll	-15.50%	63.57%	-24.52%	42.84%	54.16%	2.37%	30.10%

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 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, 2020
(Dollars in Thousands)



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
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%
2016	21,390	21,390	-	161,926	13.21%
2017	22,390	22,390	-	167,221	13.39%
2018	22,174	22,174	-	169,605	13.07%
2019	21,813	21,813	-	170,946	12.76%
2020	24,504	24,504	-	174,270	14.06%

**SCHEDULE OF NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION
DECEMBER 31, 2020**



Valuation date	January 1, 2020
Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level percent of payroll, using 1.00% annual increases
Remaining amortization period	23 years remaining as of January 1, 2018
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:

Inflation	2.75%
Salary increases	Inflation plus merit increases that vary by age and service, ranging from 0.00% to 8.50%
Investment rate of return	7.50%, including inflation, net of pension plan investment expense
Cost-of-living adjustments	0.83% for ages 56-58 1.65% for ages 59-61 2.06% for ages 62 and older, and all disabled participants

Other Information:

The actuarially determined contribution (ADC) is calculated using January 1 valuation date as of the beginning of the fiscal year prior to the year in which contributions are reported. Therefore, the ADC for the year ended December 31, 2019 is based on the January 1, 2018 actuarial valuation.

Please see the January 1, 2020 actuarial valuation report for a full listing of assumptions.

REQUIRED SCHEDULE OF CHANGES IN NET OPEB LIABILITY
DECEMBER 31, 2020
(Dollars in Thousands)



	2019	2018	2017
Total OPEB Liability			
Service cost	\$ 15,804	\$ 15,381	\$ 19,520
Interest	53,030	50,559	64,666
Change of benefit terms	-	-	(61,896)
Differences between expected and actual experience	15,351	(3,134)	3,674
Changes of assumptions	(46,584)	-	(200,370)
Benefit payments, including refunds of member contributions	(31,916)	(28,676)	(29,457)
Net change in Total OPEB Liability	\$ 5,685	\$ 34,130	\$ (203,863)
 Total OPEB Liability - beginning	 707,218	 673,088	 876,951
(a) Total OPEB Liability - ending	\$ 712,903	\$ 707,218	\$ 673,088
 Plan Fiduciary Net Position			
Contributions - employer	33,949	48,972	45,184
Net investment income	76,564	(14,273)	57,671
Benefit payments, including refunds of member contributions	(31,146)	(27,876)	(28,765)
Administrative expense	(770)	(801)	(692)
Net change in Plan Fiduciary Net Position	\$ 78,597	\$ 6,022	\$ 73,398
 Plan Fiduciary Net Position - beginning	 425,748	 419,726	 346,328
(b) Plan Fiduciary Net Position - ending	\$ 504,345	\$ 425,748	\$ 419,726
(c) Net OPEB Liability - ending (a) - (b)	\$ 208,558	\$ 281,470	\$ 253,362
 Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	 70.75%	 60.20%	 62.36%
Covered employee payroll	\$ 170,946	\$ 169,605	\$ 167,221
Plan Net OPEB Liability as percentage of covered employee payroll	122.00%	165.96%	151.51%

Note: Historical data: This schedule will be expanded to include up to ten years of historical data as the data becomes available.

REQUIRED SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
DECEMBER 31, 2020
(Dollars in Thousands)



Year Ended December 31	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions*	Contribution Deficiency / (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2011	44,666	43,554	1,112	154,036	28.28%
2012	42,427	39,747	2,680	154,347	25.75%
2013	42,854	43,043	(189)	154,759	27.81%
2014	38,386	42,100	(3,713)	152,368	27.63%
2015	38,187	38,438	(251)	160,641	23.93%
2016	45,289	42,496	2,793	161,926	26.24%
2017	46,978	45,184	1,794	167,221	27.02%
2018	48,270	48,972	(702)	169,605	28.87%
2019	31,701	33,949	(2,248)	170,946	19.86%
2020	32,111	34,895	(2,784)	174,270	20.02%

*Starting with 2016, contributions are shown on an accrual basis.

Valuation date	Actuarially determined contribution rates are calculated as of January 1, one year prior to the end of the fiscal year in which contributions are reported
Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	30-year closed, level salary
Remaining amortization period	26 years remaining as of December 31, 2019
Asset valuation method	The market value of assets less unrecognized returns in each of the last four years. Unrecognized return is equal to the difference between actual and expected returns on a market value basis and is recognized over a five-year period. The deferred return is further adjusted, if necessary, so that the actuarial value of assets will stay within 20% of the market value of assets.



MLGW

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WHAT WE DO



Supplemental Information

**SCHEDULE OF BONDS,
PRINCIPAL AND INTEREST REQUIREMENTS
DECEMBER 31, 2020
(Dollars in Thousands)**



	Series 2014		Series 2016		Series 2017	
	Principal	Interest	Principal	Interest	Principal	Interest
Electric Division:						
2021	2,920	1,399	1,480	1,571	3,215	3,446
2022	3,040	1,282	1,555	1,497	3,375	3,285
2023	3,160	1,160	1,630	1,419	3,545	3,117
2024	3,315	1,002	1,715	1,337	3,720	2,938
2025	3,485	837	1,800	1,252	3,905	2,753
2026	3,655	662	1,890	1,162	4,100	2,558
2027	3,840	480	1,985	1,067	4,305	2,353
2028	3,995	326	2,085	968	4,520	2,138
2029	4,155	166	2,185	864	4,750	1,912
2030	-	-	2,295	755	4,985	1,674
2031	-	-	2,410	640	5,235	1,425
2032	-	-	2,510	543	5,420	1,242
2033	-	-	2,610	443	5,605	1,052
2034	-	-	2,710	339	5,805	858
2035	-	-	2,820	230	6,005	653
2036	-	-	2,935	117	6,215	443
2037	-	-	-	-	6,435	226
Total	<u>\$ 31,565</u>	<u>\$ 7,314</u>	<u>\$ 34,615</u>	<u>\$ 14,204</u>	<u>\$ 81,140</u>	<u>\$ 32,073</u>

**SCHEDULE OF BONDS,
PRINCIPAL AND INTEREST REQUIREMENTS
DECEMBER 31, 2020
(Dollars in Thousands)
(Continued)**



	Series 2020A		Series 2020B	
	Principal	Interest	Principal	Interest
Electric Division:				
2021	2,500	5,919	445	490
2022	2,600	5,819	450	488
2023	2,705	5,715	450	486
2024	2,840	5,579	455	483
2025	2,980	5,437	455	480
2026	3,130	5,288	460	476
2027	3,285	5,132	465	471
2028	3,450	4,968	470	465
2029	3,625	4,795	480	458
2030	3,805	4,614	4,805	451
2031	3,995	4,424	4,885	373
2032	4,195	4,224	4,965	289
2033	4,405	4,014	5,060	199
2034	4,625	3,794	5,155	102
2035	4,855	3,563	-	-
2036	5,000	3,417	-	-
2037	5,150	3,267	-	-
2038	5,305	3,113	-	-
2039	5,465	2,953	-	-
2040	5,630	2,789	-	-
2041	5,800	2,621	-	-
2042	5,970	2,447	-	-
2043	6,150	2,267	-	-
2044	6,400	2,021	-	-
2045	6,655	1,765	-	-
2046	6,920	1,499	-	-
2047	7,195	1,222	-	-
2048	7,485	935	-	-
2049	7,785	635	-	-
2050	8,095	324	-	-
Total	<u>\$ 148,000</u>	<u>\$ 104,560</u>	<u>\$ 29,000</u>	<u>\$ 5,711</u>

**SCHEDULE OF BONDS,
PRINCIPAL AND INTEREST REQUIREMENTS
DECEMBER 31, 2020
(Dollars in Thousands)
(Continued)**



	Series 2016		Series 2017		Series 2020	
	Principal	Interest	Principal	Interest	Principal	Interest
Gas						
Division:						
2021	1,480	1,571	1,410	1,669	1,065	2,519
2022	1,555	1,497	1,480	1,598	1,105	2,477
2023	1,630	1,419	1,555	1,525	1,150	2,433
2024	1,715	1,337	1,630	1,446	1,210	2,375
2025	1,800	1,252	1,710	1,365	1,270	2,315
2026	1,890	1,162	1,800	1,280	1,330	2,251
2027	1,985	1,067	1,885	1,190	1,400	2,185
2028	2,085	968	1,980	1,096	1,470	2,115
2029	2,185	864	2,080	996	1,540	2,041
2030	2,295	755	2,185	892	1,620	1,964
2031	2,410	640	2,295	783	1,700	1,883
2032	2,510	543	2,410	669	1,785	1,798
2033	2,610	443	2,530	548	1,875	1,709
2034	2,710	339	2,630	447	1,970	1,615
2035	2,820	230	2,735	342	2,065	1,517
2036	2,935	117	2,845	233	2,130	1,455
2037	-	-	2,960	118	2,195	1,391
2038	-	-	-	-	2,260	1,325
2039	-	-	-	-	2,325	1,257
2040	-	-	-	-	2,395	1,187
2041	-	-	-	-	2,470	1,116
2042	-	-	-	-	2,540	1,041
2043	-	-	-	-	2,620	965
2044	-	-	-	-	2,725	860
2045	-	-	-	-	2,830	751
2046	-	-	-	-	2,945	638
2047	-	-	-	-	3,065	520
2048	-	-	-	-	3,185	398
2049	-	-	-	-	3,315	270
2050	-	-	-	-	3,445	138
Total	<u>\$ 34,615</u>	<u>\$ 14,204</u>	<u>\$ 36,120</u>	<u>\$ 16,197</u>	<u>\$ 63,000</u>	<u>\$ 44,509</u>

**SCHEDULE OF BONDS,
PRINCIPAL AND INTEREST REQUIREMENTS
DECEMBER 31, 2020
(Dollars in Thousands)
(Continued)**



	Series 2014		Series 2016		Series 2017	
	Principal	Interest	Principal	Interest	Principal	Interest
Water Division:						
2021	635	438	1,250	795	940	866
2022	655	419	1,275	770	970	838
2023	680	393	1,315	732	1,000	808
2024	715	359	1,355	693	1,040	768
2025	740	338	1,395	652	1,080	726
2026	765	308	1,435	610	1,135	673
2027	790	285	1,465	581	1,190	616
2028	820	253	1,525	523	1,250	557
2029	855	221	1,585	462	1,300	506
2030	890	186	1,645	398	1,355	455
2031	925	151	1,715	333	1,405	400
2032	960	114	1,765	281	1,455	351
2033	1,000	75	1,820	228	1,515	294
2034	1,040	35	1,870	174	1,575	232
2035	-	-	1,930	117	1,640	169
2036	-	-	1,985	60	1,705	103
2037	-	-	-	-	1,755	54
Total	<u>\$ 11,470</u>	<u>\$ 3,575</u>	<u>\$ 25,330</u>	<u>\$ 7,409</u>	<u>\$ 22,310</u>	<u>\$ 8,416</u>

**SCHEDULE OF BONDS,
PRINCIPAL AND INTEREST REQUIREMENTS
DECEMBER 31, 2020
(Dollars in Thousands)
(Continued)**



	Series 2020	
	Principal	Interest
Water Division:		
2021	1,160	2,631
2022	1,205	2,585
2023	1,255	2,537
2024	1,315	2,474
2025	1,380	2,408
2026	1,450	2,339
2027	1,525	2,267
2028	1,600	2,191
2029	1,680	2,111
2030	1,765	2,027
2031	1,850	1,938
2032	1,945	1,846
2033	2,040	1,749
2034	2,145	1,647
2035	2,250	1,539
2036	2,315	1,472
2037	2,385	1,402
2038	2,460	1,331
2039	2,530	1,257
2040	2,610	1,181
2041	2,685	1,103
2042	2,765	1,022
2043	2,850	939
2044	2,935	854
2045	3,025	766
2046	3,115	675
2047	3,240	550
2048	3,370	421
2049	3,505	286
2050	3,645	145
Total	<u>\$ 68,000</u>	<u>\$ 45,693</u>

**SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE
DECEMBER 31, 2020**



Description	Original Amount of Issue	Interest Rate	Date of Issue	Final Maturity Date	Outstanding 2019	Issued 2020	Payments/ Matured 2020	Refunded 2020	Outstanding 2020
Electric System Revenue Bonds - Series 2014	\$ 71,000,000	2.0 to 5.0%	6/3/2014	12/1/2029	\$ 58,240,000	\$ -	\$ 2,810,000	\$ 23,865,000	\$ 31,565,000
Electric System Revenue Bonds - Series 2016	\$ 40,000,000	3.0 to 5.0%	9/1/2016	12/1/2036	\$ 36,040,000	\$ -	\$ 1,425,000	\$ -	\$ 34,615,000
Electric System Revenue Bonds - Series 2017	\$ 90,000,000	3.0 to 5.0%	9/28/2017	12/1/2037	\$ 84,200,000	\$ -	\$ 3,060,000	\$ -	\$ 81,140,000
Electric System Revenue Bonds - Series 2020A	\$ 148,000,000	3.0 to 5.0%	9/22/2020	12/1/2050	\$ -	\$ 148,000,000	\$ -	\$ -	\$ 148,000,000
Electric System Revenue Refunding Bonds - Series 2020B	\$ 29,000,000	.43 to 1.97%	9/22/2020	12/1/2034	\$ -	\$ 29,000,000	\$ -	\$ -	\$ 29,000,000
Total Electric System Bonds					\$ 178,480,000	\$ 177,000,000	\$ 7,295,000	\$ 23,865,000	\$ 324,320,000

Description	Original Amount of Issue	Interest Rate	Date of Issue	Final Maturity Date	Outstanding 2019	Issued 2020	Payments/ Matured 2020	Refunded 2020	Outstanding 2020
Gas System Revenue Bonds - Series 2016	\$ 40,000,000	3.0 to 5.0%	9/1/2016	12/1/2036	\$ 36,040,000	\$ -	\$ 1,425,000	\$ -	\$ 34,615,000
Gas System Revenue Bonds - Series 2017	\$ 40,000,000	3.0 to 5.0%	9/28/2017	12/1/2037	\$ 37,460,000	\$ -	\$ 1,340,000	\$ -	\$ 36,120,000
Gas System Revenue Bonds - Series 2020	\$ 63,000,000	3.0 to 5.0%	9/22/2020	12/1/2050	\$ -	\$ 63,000,000	\$ -	\$ -	\$ 63,000,000
Total Electric System Bonds					\$ 73,500,000	\$ 63,000,000	\$ 2,765,000	\$ -	\$ 133,735,000

Description	Original Amount of Issue	Interest Rate	Date of Issue	Final Maturity Date	Outstanding 2019	Issued 2020	Payments/ Matured 2020	Refunded 2020	Outstanding 2020
Water System Revenue Bonds - Series 2014	\$ 15,000,000	2.0 to 5.0%	6/3/2014	12/1/2034	\$ 12,090,000	\$ -	\$ 620,000	\$ -	\$ 11,470,000
Water System Revenue Bonds - Series 2016	\$ 30,000,000	2.0 to 4.0%	9/1/2016	12/1/2036	\$ 26,545,000	\$ -	\$ 1,215,000	\$ -	\$ 25,330,000
Water System Revenue Bonds - Series 2017	\$ 25,000,000	2.0 to 5.0%	9/28/2017	12/1/2037	\$ 23,225,000	\$ -	\$ 915,000	\$ -	\$ 22,310,000
Water System Revenue Bonds - Series 2020	\$ 68,000,000	3.0 to 5.0%	9/22/2020	12/1/2050	\$ -	\$ 68,000,000	\$ -	\$ -	\$ 68,000,000
Total Electric System Bonds					\$ 61,860,000	\$ 68,000,000	\$ 2,750,000	\$ -	\$ 127,110,000

SCHEDULE OF CURRENT UTILITY RATES DECEMBER 31, 2020



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

Residential – Schedule RS Effective meters read on or after October 29, 2020 374,650

Service Charge: \$13.93 per month, less Hydro Allocation Credit: \$1.60

Energy Charge:	Summer	Winter	Transition
First 500 kWh per month:	\$0.07528	\$0.07194	\$0.06998
Additional kWh per month:	\$0.07431	\$0.07098	\$0.06902

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

Time-Of-Use Residential Rate Schedule RSTOU Effective November 1, 2020 72

Service Charge: \$13.93 per month, less Hydro Allocation Credit: \$1.60

Energy Charge:	Summer	Winter	Transition
On-Peak kWh per month:	\$0.13310	\$0.09017	\$0.06006
Off-Peak kWh per month:	\$0.06006	\$0.06006	\$0.06006

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

General Service – Schedule GSA Effective meters read on or after October 29, 2020 43,576

Part 1) 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:

Service Charge: \$26.56 per delivery point per month

Energy Charge:	Summer	Winter	Transition
	\$0.08356	\$0.08026	\$0.07828

Part 2) 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:

Service Charge: \$79.75 per delivery point per month

Demand Charge:	Summer	Winter	Transition
First 50 kW of billing demand per month:	\$0.00	\$0.00	\$0.00
Excess over 50 kW of billing demand per month:	\$14.59	\$13.60	\$13.60

Energy Charge:	Summer	Winter	Transition
First 15,000 kWh per month:	\$0.09685	\$0.09358	\$0.09158
Additional kWh per month:	\$0.04381	\$0.04072	\$0.03955

SCHEDULE OF CURRENT UTILITY RATES
DECEMBER 31, 2020
(Continued)



Electric Division Rate Class (cont.)	Base Charge			Customers
General Service – Schedule GSA				
(cont.)				
Part 3)	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:			
Service Charge:	\$319.16 per delivery point per month			
Demand Charge:	Summer	Winter	Transition	
First 1,000 kW of billing demand per month:	\$13.54	\$12.56	\$12.56	
Excess over 1,000 kW of billing demand per	\$13.38	\$12.37	\$12.37	
Excess of billing demand over the higher of 2,500 kW or the customer’s contract demand per month:	\$13.38	\$12.37	\$12.37	
Energy Charge:				
All kWh per month:	\$0.04915	\$0.04605	\$0.04488	
Manufacturing Power Rate - Part A				
Schedule MSA	Effective October 1, 2020			0
Service Charge:	\$319.16 per delivery point per month			
	Summer	Winter	Transition	
Per kW coincident billing demand charge per	\$8.30	\$7.35	\$7.35	
Per kW maximum billing demand charge per	\$5.35	\$5.29	\$5.29	
	Summer	Winter	Transition	
Excess per kW charge per month by which billing demand exceeds contract demand:	\$13.73	\$12.72	\$12.72	
On-peak per kWh energy charge:	\$0.06596	\$0.05503	\$0.04538	
Off-peak per kWh energy charge:	\$0.04385	\$0.04498	\$0.04538	
Time-of-Use General Service				
Schedule TGS	Effective October 1, 2020			10
Service Charge:	\$1,600.00 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:	Over 400 hours use of on-peak metered demand multiplied by the ratio of metered off-peak energy to metered total energy			

**SCHEDULE OF CURRENT UTILITY RATES
DECEMBER 31, 2020
(Continued)**



Electric Division Rate Class (cont.)	Base Charge				Customers
Time-of-Use General Service					
Schedule TGS					
(cont.)					
Rates applicable for delivery at:	Transmission Voltage: 115 kV and up				
	TDGSA	TGSB	TGSC	TGSD	
Summer					
On-peak billing demand per kW:	\$10.97	\$10.89	\$10.89	\$10.89	
Maximum billing demand per kW:	\$5.78	\$5.77	\$5.22	\$4.95	
Excess demand per kW:	\$10.97	\$10.89	\$10.89	\$10.89	
On-peak energy per kWh:	\$0.08312	\$0.06804	\$0.06804	\$0.06706	
Off-peak block 1 per kWh:	\$0.04957	\$0.04308	\$0.04308	\$0.04211	
Off-peak block 2 per kWh:	\$0.00702	\$0.00814	\$0.00814	\$0.00603	
Off-peak block 3 per kWh:	\$0.00399	\$0.00473	\$0.00473	\$0.00376	
Winter					
On-peak billing demand per kW:	\$10.01	\$9.91	\$9.91	\$9.91	
Maximum billing demand per kW:	\$5.78	\$5.77	\$5.22	\$4.95	
Excess demand per kW:	\$10.01	\$9.91	\$9.91	\$9.91	
On-peak energy per kWh:	\$0.06781	\$0.05665	\$0.05665	\$0.05568	
Off-peak block 1 per kWh:	\$0.05254	\$0.04530	\$0.04530	\$0.04432	
Off-peak block 2 per kWh:	\$0.00702	\$0.00814	\$0.00814	\$0.00603	
Off-peak block 3 per kWh:	\$0.00399	\$0.00473	\$0.00473	\$0.00376	
Transition					
On-peak billing demand per kW:	\$10.01	\$9.91	\$9.91	\$9.91	
Maximum billing demand per kW:	\$5.78	\$5.77	\$5.22	\$4.95	
Excess demand per kW:	\$10.01	\$9.91	\$9.91	\$9.91	
On-peak energy per kWh:	\$0.05373	\$0.04275	\$0.04275	\$0.04178	
Off-peak block 1 per kWh:	\$0.05373	\$0.04275	\$0.04275	\$0.04178	
Off-peak block 2 per kWh:	\$0.00702	\$0.00814	\$0.00814	\$0.00603	
Off-peak block 3 per kWh:	\$0.00399	\$0.00473	\$0.00473	\$0.00376	
Rates applicable for delivery at:	Distribution Voltage: < 115 kV				
	TDGSA	TGSB	TGSC	TGSD	
Summer					
On-peak billing demand per kW:	\$11.44	\$11.35	\$11.35	\$11.35	
Maximum billing demand per kW:	\$5.98	\$5.97	\$5.41	\$5.14	
Excess demand per kW:	\$11.44	\$11.35	\$11.35	\$11.35	
On-peak energy per kWh:	\$0.08660	\$0.07087	\$0.07087	\$0.06988	
Off-peak block 1 per kWh:	\$0.05162	\$0.04484	\$0.04484	\$0.04386	
Off-peak block 2 per kWh:	\$0.00725	\$0.00842	\$0.00842	\$0.00624	
Off-peak block 3 per kWh:	\$0.00408	\$0.00485	\$0.00485	\$0.00387	
Winter					
On-peak billing demand per kW:	\$10.43	\$10.33	\$10.33	\$10.33	
Maximum billing demand per kW:	\$5.98	\$5.97	\$5.41	\$5.14	
Excess demand per kW:	\$10.43	\$10.33	\$10.33	\$10.33	
On-peak energy per kWh:	\$0.07063	\$0.05899	\$0.05899	\$0.05801	
Off-peak block 1 per kWh:	\$0.05471	\$0.04716	\$0.04716	\$0.04617	
Off-peak block 2 per kWh:	\$0.00725	\$0.00842	\$0.00842	\$0.00624	
Off-peak block 3 per kWh:	\$0.00408	\$0.00485	\$0.00485	\$0.00387	
Transition					
On-peak billing demand per kW:	\$10.43	\$10.33	\$10.33	\$10.33	
Maximum billing demand per kW:	\$5.98	\$5.97	\$5.41	\$5.14	
Excess demand per kW:	\$10.43	\$10.33	\$10.33	\$10.33	
On-peak energy per kWh:	\$0.05595	\$0.04449	\$0.04449	\$0.04351	
Off-peak block 1 per kWh:	\$0.05595	\$0.04449	\$0.04449	\$0.04351	
Off-peak block 2 per kWh:	\$0.00725	\$0.00842	\$0.00842	\$0.00624	
Off-peak block 3 per kWh:	\$0.00408	\$0.00485	\$0.00485	\$0.00387	

SCHEDULE OF CURRENT UTILITY RATES
DECEMBER 31, 2020
(Continued)



Electric Division Rate Class (cont.)	Base Charge	Customers
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Time-of-Use Manufacturing Service Effective October 1, 2020 25
Schedule TMS

Service Charge: \$1,600.00 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: Over 400 hours use of on-peak metered demand multiplied by the ratio of metered off-peak energy to metered total energy

Rates applicable for delivery at:	Transmission Voltage: 115 kV and up			
	TDMSA	TMSB	TMSC	TMSD
Summer				
On-peak billing demand per kW:	\$10.25	\$10.25	\$10.25	\$10.25
Maximum billing demand per kW:	\$4.01	\$2.69	\$2.13	\$1.86
Excess demand per kW:	\$10.25	\$10.25	\$10.25	\$10.25
On-peak energy per kWh:	\$0.05771	\$0.05999	\$0.05886	\$0.05594
Off-peak block 1 per kWh:	\$0.03268	\$0.03495	\$0.03381	\$0.03091
Off-peak block 2 per kWh:	\$0.00522	\$0.00522	\$0.00662	\$0.00428
Off-peak block 3 per kWh:	\$0.00266	\$0.00266	\$0.00662	\$0.00370
Winter				
On-peak billing demand per kW:	\$9.29	\$9.29	\$9.29	\$9.29
Maximum billing demand per kW:	\$4.01	\$2.69	\$2.13	\$1.86
Excess demand per kW:	\$9.29	\$9.29	\$9.29	\$9.29
On-peak energy per kWh:	\$0.04628	\$0.04857	\$0.04743	\$0.04451
Off-peak block 1 per kWh:	\$0.03492	\$0.03719	\$0.03604	\$0.03311
Off-peak block 2 per kWh:	\$0.00522	\$0.00522	\$0.00662	\$0.00428
Off-peak block 3 per kWh:	\$0.00266	\$0.00266	\$0.00662	\$0.00370
Transition				
On-peak billing demand per kW:	\$9.29	\$9.29	\$9.29	\$9.29
Maximum billing demand per kW:	\$4.01	\$2.69	\$2.13	\$1.86
Excess demand per kW:	\$9.29	\$9.29	\$9.29	\$9.29
On-peak energy per kWh:	\$0.03579	\$0.03805	\$0.03692	\$0.03399
Off-peak block 1 per kWh:	\$0.03579	\$0.03805	\$0.03692	\$0.03399
Off-peak block 2 per kWh:	\$0.00522	\$0.00522	\$0.00662	\$0.00428
Off-peak block 3 per kWh:	\$0.00266	\$0.00266	\$0.00662	\$0.00370

Rates applicable for delivery at:	Distribution Voltage: < 115 kV			
	TDMSA	TMSB	TMSC	TMSD
Summer				
On-peak billing demand per kW:	\$10.69	\$10.69	\$10.69	\$10.69
Maximum billing demand per kW:	\$4.13	\$2.77	\$2.20	\$1.92
Excess demand per kW:	\$10.69	\$10.69	\$10.69	\$10.69
On-peak energy per kWh:	\$0.06012	\$0.06249	\$0.06131	\$0.05829
Off-peak block 1 per kWh:	\$0.03402	\$0.03638	\$0.03520	\$0.03219
Off-peak block 2 per kWh:	\$0.00538	\$0.00538	\$0.00684	\$0.00442
Off-peak block 3 per kWh:	\$0.00271	\$0.00271	\$0.00684	\$0.00381

**SCHEDULE OF CURRENT UTILITY RATES
DECEMBER 31, 2020
(Continued)**



Electric Division Rate Class (cont.)	Base Charge	Customers
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**Time Of Use Manufacturing Service
Schedule TMS
(cont.)**

Rates applicable for delivery at:

	Distribution Voltage: < 115 kV			
	TDMSA	TMSB	TMSC	TMSD
Winter				
On-peak billing demand per kW:	\$9.68	\$9.68	\$9.68	\$9.68
Maximum billing demand per kW:	\$4.13	\$2.77	\$2.20	\$1.92
Excess demand per kW:	\$9.68	\$9.68	\$9.68	\$9.68
On-peak energy per kWh:	\$0.04819	\$0.05058	\$0.04940	\$0.04636
Off-peak block 1 per kWh:	\$0.03635	\$0.03872	\$0.03752	\$0.03449
Off-peak block 2 per kWh:	\$0.00538	\$0.00538	\$0.00684	\$0.00442
Off-peak block 3 per kWh:	\$0.00271	\$0.00271	\$0.00684	\$0.00381
Transition				
On-peak billing demand per kW:	\$9.68	\$9.68	\$9.68	\$9.68
Maximum billing demand per kW:	\$4.13	\$2.77	\$2.20	\$1.92
Excess demand per kW:	\$9.68	\$9.68	\$9.68	\$9.68
On-peak energy per kWh:	\$0.03727	\$0.03962	\$0.03843	\$0.03540
Off-peak block 1 per kWh:	\$0.03727	\$0.03962	\$0.03843	\$0.03540
Off-peak block 2 per kWh:	\$0.00538	\$0.00538	\$0.00684	\$0.00442
Off-peak block 3 per kWh:	\$0.00271	\$0.00271	\$0.00684	\$0.00381

**Drainage Pumping Station Rate
Schedule DPS**

Effective meters read on or after October 29, 2020

6

Service Charge:

\$26.56 per delivery point per month

Energy Charge:

All kWh per month:

Summer	Winter	Transition
\$0.03963	\$0.03760	\$0.03531

Outdoor Lighting Rate - Schedule LS

Effective meters read on or after October 29, 2020

17,071

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

Energy Charge:

All kWh per month:

Summer	Winter	Transition
\$0.05027	\$0.05027	\$0.05027

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.

**SCHEDULE OF CURRENT UTILITY RATES
DECEMBER 31, 2020
(Continued)**



Electric Division Rate Class (cont.)	Base Charge	Customers
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**Outdoor Lighting Rate - Schedule LS
(cont.)**

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

Customers may lease outdoor lighting fixtures from the Division, subject to Rules and Regulations of Division. Fixture types and associated monthly costs are available in the Schedule of Charges. The schedule will be reviewed and updated from time-to-time due to changes in costs, fixture availability, etc., at the discretion of the Division.

SCHEDULE OF CURRENT UTILITY RATES
DECEMBER 31, 2020
(Continued)



Gas Division Rate Class	Base Charge	Customers
All Gas Rate Schedules Are Subject To Adjustment Under The Provisions of the Purchased Gas Adjustment Rider.		
Residential - Schedules G-1 & G-3	Effective for meters read on or after July 2, 2018	292,274
	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:	\$10.22 per month, plus	
Commodity Charge:	First 100 ccf per month @ \$0.599 per ccf	
	Excess over 100 ccf per month @ \$0.507 per ccf, plus the above rates are subject to adjustment under the provisions of the Purchased Gas Adjustment Rider.	
Minimum Bill:	\$10.22 per meter per month	
Small General Service - Schedule G-7	Effective for meters read on or after July 2, 2018	20,939
	This rate schedule is available for gas service to all gas customers except residential.	
Service Charge:	For 0 to 425 cfh meter, \$30.65 Over 426 to 1,400 cfh meter, \$56.19 Over 1,400 cfh meter, \$102.17 per month plus,	
Commodity Charge:	All gas consumed: \$0.542 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 \$0.668 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 Schedules G-8 and G-9	Effective for meters read on or after July 2, 2018	420
	This rate schedule is available for gas service to all customers contracting for not less than 100 ccf of maximum daily demand.	
Demand Charge:	\$0.256 ccf per month of contract demand or maximum daily demand during the twelve (12) months ending with the billing month, whichever is higher, plus	

**SCHEDULE OF CURRENT UTILITY RATES
DECEMBER 31, 2020
(Continued)**



Gas Division Rate Class (cont.)	Base Charge	Customers
Large General Service Firm On-peak Schedules G-8 and G-9 (cont.)		
Commodity Charge:	First 200,000 ccf per month @ \$0.499 per ccf Excess over 200,000 ccf per month @ \$0.403 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 \$0.924 for each 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 Schedules G-10 and G-12		
	Effective for meters read on or after July 2, 2018 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.	12
Service Charge:	\$510.83 per month, plus	
Commodity Charge:	First 200,000 Ccf per month @ \$0.468 per ccf Excess over 200,000 ccf per month @ \$0.397 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 \$0.358 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 the service charge.	

SCHEDULE OF CURRENT UTILITY RATES
DECEMBER 31, 2020
(Continued)



Water Division Rate Class	Base Charge	Customers
Residential – Inside City Rate Schedule W-1	Effective for meters read on or after July 2, 2020 For water furnished to premises entirely within the corporate limits of the City of Memphis	188,826
Monthly Rate:	All water consumed: \$2.133 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 \$9.02	
	3/4" meter 13.02	
	1" meter 23.09	
	1-1/2" meter 51.95	
	2" meter 92.36	
Residential – Outside City Rate Schedule W-2	Effective for meters read on or after July 2, 2020 For water furnished to premises outside the corporate limits of the City of Memphis.	24,166
Monthly Rate:	All water consumed: \$3.321 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 \$12.56	
	3/4" meter 18.06	
	1" meter 32.14	
	1-1/2" meter 72.28	
	2" meter 128.48	
General Service – Inside City Rate Schedule W-7	Effective for meters read on or after July 2, 2020 For water service to all customers within the corporate limits of the City of Memphis, except residential customers.	18,900
Monthly Rate:	Water consumed per month:	
	First 30 ccf \$2.720 per ccf	
	Next 70 ccf \$2.313 per ccf	
	Next 100 ccf \$1.760 per ccf	
	Next 400 ccf \$1.465 per ccf	
	Next 5,400 ccf \$1.140 per ccf	
	Excess over 6,000 ccf \$1.188 per ccf	

**SCHEDULE OF CURRENT UTILITY RATES
DECEMBER 31, 2020
(Continued)**



Water Division Rate Class (cont.)	Base Charge	Customers
General Service – Inside City Rate		
Schedule W-7		
(cont.)		
Minimum Bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows:	
	5/8" meter	\$17.27
	3/4" meter	20.15
	1" meter	34.53
	1-1/2" meter	69.09
	2" meter	144.00
	3" meter	287.91
	4" meter	430.54
	6" meter	544.65
	8" meter	658.79
	10" meter	1,364.66
	12" meter	1,904.14
	14" meter	2,618.22
	Battery of 2-2" meters	287.91
	Battery of 3-2" meters	430.54
General Service – Outside City Rate	Effective for meters read on or after July 2, 2020	836
Schedule W-8	For water service to all customers outside the corporate limits of the City of Memphis, except residential customers.	
Monthly Rate:	Water consumed per month:	
	First 30 ccf	\$4.087 per ccf
	Next 70 ccf	\$3.436 per ccf
	Next 100 ccf	\$2.622 per ccf
	Next 400 ccf	\$2.199 per ccf
	Next 5,400 ccf	\$1.725 per ccf
	Excess over 6,000 ccf	\$1.791 per ccf
Minimum Bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows:	
	5/8" meter	\$26.42
	3/4" meter	30.82
	1" meter	52.83
	1-1/2" meter	105.63
	2" meter	220.10
	3" meter	440.23
	4" meter	657.89
	6" meter	832.28
	8" meter	1,006.66
	10" meter	2,085.32
	12" meter	2,909.71
	14" meter	3,998.11
	Battery of 2-2" meters	440.23
	Battery of 3-2" meters	657.89

SCHEDULE OF CURRENT UTILITY RATES
DECEMBER 31, 2020
(Continued)



Water Division Rate Class (cont.)	Base Charge	Customers
Residential – Shelby County Water Distribution System - Schedule W-51	Effective for meters read on or after July 2, 2020	18,876
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 units.		
Monthly Rate:	All water consumed: \$3.321 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	\$12.56
	3/4" meter	18.06
	1" meter	32.14
	1-1/2" meter	72.28
	2" meter	128.48
Residential customers shall be served through a single meter not larger than 2" in size.		
General Service – Shelby County Water Distribution System - Schedule W-57	Effective for meters read on or after July 2, 2020	671
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	\$4.087 per ccf
	Next 70 ccf	\$3.436 per ccf
	Next 100 ccf	\$2.622 per ccf
	Next 400 ccf	\$2.199 per ccf
	Next 5,400 ccf	\$1.725 per ccf
	Excess over 6,000 ccf	\$1.791 per ccf
Minimum Bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows:	
	5/8" meter	\$26.42
	3/4" meter	30.82
	1" meter	52.83
	1-1/2" meter	105.63
	2" meter	220.10
	3" meter	440.23
	4" meter	657.89
	6" meter	832.28
	8" meter	1,006.66
	10" meter	2,085.32
	12" meter	2,909.71
	14" meter	3,998.11

**NON-REVENUE WATER
FOR THE YEAR ENDED DECEMBER 31, 2020**



**AWWA Free Water Audit Software:
Reporting Worksheet**

WAS v5.0
American Water Works Association
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Water Audit Report for: Memphis Light, Gas and Water Division (TN000450)
Reporting Year: 2020 | 1/2020 - 12/2020

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 (via or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

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

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

WATER SUPPLIED

Enter grading in column 'E' and 'J'

Volume from own sources:	+ ?	9	46,826.300	MG/Yr	?	?	Port:		Value:		MG/Yr
Water imported:	+ ?	10	0.000	MG/Yr	?	?					MG/Yr
Water exported:	+ ?	5	10.528	MG/Yr	?	?					MG/Yr

Master Meter and Supply Error Adjustments
Enter negative % or value for under-registration
Enter positive % or value for over-registration

WATER SUPPLIED: 46,815.772 MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	+ ?	7	36,099.827	MG/Yr			Port:		Value:		MG/Yr
Billed unmetered:	+ ?	10	0.000	MG/Yr							MG/Yr
Unbilled metered:	+ ?	4	375.400	MG/Yr							MG/Yr
Unbilled unmetered:	+ ?	8	104.972	MG/Yr							MG/Yr

Click here: ? for help using action buttons below

Use buttons to select percentage of water supplied OR value

AUTHORIZED CONSUMPTION: 36,580.199 MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption) 10,235.573 MG/Yr

Apparent Losses

Unauthorized consumption:	+ ?		117.039	MG/Yr			Port:	0.25%	Value:		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			Port:	0.25%	Value:		MG/Yr
Systematic data handling errors:	+ ?		90.250	MG/Yr							MG/Yr

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

Apparent Losses: 207.289 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: 10,028.284 MG/Yr

WATER LOSSES: 10,235.573 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 10,715.945 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	+ ?	8	4,060.1	miles	
Number of active AND inactive service connections:	+ ?	8	300,104		
Service connection density:	?		74	conn./mile main	

Are customer meters typically located at the curbside or property line? Yes (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: 50.0 psi

COST DATA

Total annual cost of operating water system:	+ ?	10	\$80,932,939	\$/Year	
Customer retail unit cost (applied to Apparent Losses):	+ ?	10	\$2.19	\$/100 cubic feet (ccf)	
Variable production cost (applied to Real Losses):	+ ?	10	\$195.74	\$/million gallons	<input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 83 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: Unbilled metered
- 2: Volume from own sources
- 3: Billed metered

**NON-REVENUE WATER
FOR THE YEAR ENDED DECEMBER 31, 2020
(Continued)**





**AWWA Free Water Audit Software:
System Attributes and Performance Indicators**

WAS v5.0
American Water Works Association.
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Water Audit Report for: Memphis Light, Gas and Water Division (TN000450)

Reporting Year: 2020 1/2020 - 12/2020

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 83 out of 100 ***

System Attributes:

	Apparent Losses:	207,289	MG/Yr
	+	Real Losses:	10,028,284
	=	Water Losses:	10,235,573
? Unavoidable Annual Real Losses (UARL): 1,466.88 MG/Yr			
		Annual cost of Apparent Losses:	\$605,730
		Annual cost of Real Losses:	\$1,872,682

Valued at **Variable Production Cost**
Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial: {

Operational Efficiency: {

Non-revenue water as percent by volume of Water Supplied:	22.9%	
Non-revenue water as percent by cost of operating system:	3.2%	Real Losses valued at Variable Production Cost
Apparent Losses per service connection per day: 1.89 gallons/connection/day		
Real Losses per service connection per day:	91.55	gallons/connection/day
Real Losses per length of main per day*:	N/A	
Real Losses per service connection per day per psi pressure:	1.53	gallons/connection/day/psi
From Above, Real Losses = Current Annual Real Losses (CARL): 10,028,284 million gallons/year		
? Infrastructure Leakage Index (ILI) [CARL/UARL]:	6.84	

* 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, 2020
(Dollars in Thousands)**



<u>Type of Coverage</u>	<u>Amount of Coverage</u>
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 Equipment	300 per item 1,000 coverage limit

**SCHEDULE OF ADDITIONS AND RETIREMENTS TO UTILITY PLANT
FOR THE YEAR ENDED DECEMBER 31, 2020
(Dollars in Thousands)**



	Electric Division	Gas Division	Water Division
Utility plant in service, December 31, 2019	\$ 1,882,804	\$ 736,387	\$ 522,752
Additions - Construction	68,799	27,590	16,283
Retirements	(11,624)	(4,511)	(1,255)
Transfers	(268)	37	(208)
Utility plant in service, December 31, 2020	<u>\$ 1,939,711</u>	<u>\$ 759,503</u>	<u>\$ 537,572</u>

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



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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 ("MLGW"), enterprise funds of the City of Memphis, Tennessee, and the aggregate remaining fund information of MLGW as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise MLGW's basic financial statements, and have issued our report thereon dated June 2, 2021. Our report includes a reference to other auditors who audited the financial statements of Memphis Light, Gas and Water Division Retirement and Pension System and the Memphis Light, Gas and Water Division Other Post Employment Benefits Trust, as described in our report on Memphis Light, Gas and Water Division's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MLGW's internal control over financial reporting (internal control) as a basis for designing 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 MLGW's internal control. Accordingly, we do not express an opinion on the effectiveness of MLGW's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MLGW's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 MLGW's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MLGW's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Nashville, Tennessee
June 2, 2021

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020
(Dollars in Thousands)**



Federal Grantor/Pass-Through Grantor Federal Awards	CFDA Number	Contract Number	Expenditures
U.S. Department of Homeland Security/ Port Security Grant Program	97.056	EMW-2020-PU-00507	\$ 201
Total Federal Awards			\$ 201

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020
(Dollars in Thousands)
(Continued)**



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, 2020. 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.

