MLGW: Advancing Our Future

MLGW

2016 Annual Report
Memphis Light, Gas and Water Division

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About MLGW

Memphis Light, Gas and Water Division is the nation's largest three-service municipal utility, serving nearly 430,000 customers. Since 1939, MLGW has met the utility needs of Memphis and Shelby County residents by delivering reliable and affordable electricity, natural gas and water services.

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

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

President's Message

MLGW President and CEO Jerry R. Collins Jr.

At Memphis Light, Gas and Water, we have a lot to be proud of. With almost 430,000 customers, we're the largest three-service municipal utility in the nation. Our customers consistently enjoy some of the lowest rates among all major U.S. cities. Since 2013, Memphis residential customers have had the lowest combined winter utility bill among 29 major cities. In the past 25 years, we've held that number-one rank 14 times. In addition, Memphis has access to an abundant supply of the best drinking water anywhere, requiring very little treatment compared to most of the country.

Though all these facts have been true for many years, we at MLGW are not content to rest on these accomplishments. Society continues to advance and grow; we must strive to evolve with it. That's why we are looking to the future.

Technology is more a part of our lives now than ever before, and information is shared around the world in an instant. When MLGW was founded in 1939, no one could have guessed all the incredible advancements that would impact how we serve our customers. From smart meters to electrical system upgrades, we are embracing the technological revolution and harnessing it to improve customer experiences across our service area.

A healthy economy is essential for any city to thrive. We are proud to be a financially sound institution that strengthens the community we serve. We provide more than 2,500 stable jobs for local residents, along with excellent benefits for current employees as well as retirees. MLGW spending brought $75.4 million to Shelby County businesses. Our Supplier Diversity programs encourage diversity in the marketplace, with minority-, women- and locally owned small business contracts accounting for one third of our overall spending in 2016.

Memphis and Shelby County are growing and changing. MLGW has a duty to educate our customers about energy efficiency and safety. We are committed to providing opportunities for empowerment to help them to make smart decisions about energy use for their own families. We are also investing in our community's future by taking an active role in the education of students across our service area by providing classroom speakers and learning experiences.

Memphis, as every major city, has had its share of challenges in previous decades. While we hope to learn from the past, our eyes are fixed on what's ahead. The advancements of the future have no intention of slowing down, and neither do we. Memphis Light, Gas and Water Division is charging ahead and leading the way to a bright tomorrow, filled with possibilities.

Jerry R Collins Jr.

Jerry R. Collins Jr.

MLGW Executive Leadership

Jerry R. Collins Jr., President and CEO

Christopher Bieber, Vice President of Customer Care

Von Goodloe, Vice President of Human Resources

Dana Jeanes, Vice President, CFO and Secretary-Treasurer

Nicholas Newman, Vice President of Construction and Maintenance

Cheryl Patterson, Vice President and General Counsel

Lashell Vaughn, Vice President and Chief Technology Officer

Alonzo Weaver III, Vice President of Engineering and Operations

Gale Jones Carson, Director of Corporate Communications

Clifford DeBerry, Director of Analysis, Strategy and Performance

Lesa Walton, Director of Internal Audit

Roland McElrath, Controller

MLGW Board of Commissioners

Steven Wishnia, Chair

Carlee McCullough, Vice Chair

Derwin Sisnett

Mitch Graves

Leon Dickson Sr.

Advancing Technology

One of the most ambitious undertakings for technological advancement in MLGW's history, our project to install a million smart utility meters, is well under way. The project is moving ahead of schedule and is on track for completion slightly ahead of the 2020 target. By the end of 2016, MLGW had installed 147,308 electric, 20,505 gas and 29,898 water smart meters for our residential and commercial customers. Replacing aging analog dial meters, smart meters wirelessly and securely transmit usage data to MLGW, eliminating the need for manual or estimated readings and the complications and cost that accompany them. The meters also alert MLGW to potential problems such as unusual voltage levels, water leaks and potential utility theft. Customers can also log into their online accounts to see details about usage in real time and take action to conserve energy. Combined savings for MLGW and customers are estimated to exceed $50 million annually. In 2016, smart meter customers saved $208,000 on connection and related fees alone.

While smart meters are an upgrade customers can see firsthand, MLGW is also committing to less obvious improvements that will have a big impact on system reliability and integrity. With over 7,000 combined miles of overhead and underground cable, system integrity is an important focus. We are currently making improvements to our electrical infrastructure to reduce restoration times, add capacity for current and future growth and protect against future potential disasters. Several existing facilities will receive significant upgrades within the next two years, and two new substations will be added by 2022. We are also adding state-of-the-art technologies such as IntelliRupters and Scada-Mate switches, allowing customer outages to be addressed much more quickly and efficiently.

Advancing Customer Service

15% in savings could save you
$240
per year

Square Feet: 1440
Occupants: 1
Heat: Gas

eScore
Your home can be a 10! Receive an energy efficiency eScore for your home and rebates for qualified energy improvements. Click to learn more today.

We aren't only embracing technology in how we provide utilities to our customers; we're also using it to engage with them to provide information and customer service. In 2016, mlgw.com averaged 312,000 monthly visitors and over 650,000 individual page views, increases of 10 and 19 percent, respectively over 2015. Customers most often come to our website to access bill paying options, including My Account, where they can get tips for energy conservation. Smart meter customers can see real-time usage stats to fine tune their energy use even more. Customers and media can access outage maps 24 hours a day to see real-time updates during severe weather events. Our frequent posts to the MLGW blog, "Bird on a Wire," provide important news and updates for customers. Average monthly visits to our blog have increased 60 percent since 2015.

It's no secret that social media is now a vital channel for communicating with customers of all demographics. Social engagement has continued to grow each year and shows no signs of slowing down. With more than 13,000 Facebook fans and 23,000 Twitter followers, maintaining an active presence on social media is vital to making sure our customers are informed about services, policy changes, outages and other important updates. Customers use the channels as a convenient way to get help with their accounts or details about restoration work. We've also begun hosting live video sessions on Periscope and Facebook to broadcast directly to our customers. We continue to watch the latest trends in online communication so we can interact with our customers in the ways that are most effective and convenient.

Memphis Light, Gas & Water (MLGW) was live.
about 2 months ago

Zach Randolph of the Memphis Grizzlies arrives at the second recipient of funds from his $20K donation to Plus-1.

2,711 Views

133

31 shares

Denise McGowan 3:07 Action speaking
Like 1 January 23 at 3:09pm

Angela Browneyezs Williamson 2:03 Z-Bo!!!, That's whats up!!
Like January 23 at 4:16pm

Lele Woods 1:55 Now, that's some awesome sauce.... great job Zbo!
Like January 25 at 1:37am

Tiffany Gibson 1:12 Love ZBo
Like 2 January 23 at 3:23pm

Deshanna Raynor 1:09 That man truly has a ❤
Like January 23 at 9:37pm

Thousands of viewers watched live on Facebook as Zach Randolph of the Memphis Grizzlies visited MLGW Plus-1 program families.

Serving our customers often requires responding to challenging situations. In 2016, severe storms in April and June caused widespread outages. Equipment failure at Substation 68 in July resulted in severe damage, forcing us to ask some customers in Arlington, Lakeland and Bartlett to curtail usage. In each case, as they always do, our hardworking and reliable crews labored around the clock to restore normal service. Partial repairs at Substation 68 were even completed ahead of schedule, allowing customers to resume normal usage two weeks earlier than planned.

After the water crisis in Flint, Michigan, lead pipes became a topic of concern across the nation. In Memphis, tens of thousands of customers have lead water service lines. MLGW is vigilant in making sure our water quality remains top notch, adding anti-corrosion treatments and ensuring lead levels remain below EPA thresholds. Nevertheless, we felt the need to address community concerns. We have begun replacing lead service lines in our city, and a survey of these lines should be complete by 2020.

Advancing Conservation

Year after year, MLGW is praised for being a leader in energy conservation. TVA named MLGW as an EnergyRight Solutions Top Performer in 2016, earning special recognition in four categories. In TVA's self-audit program, MLGW ranked first overall, with 1,400 customers participating in self-audits. We also ranked first overall in the EnergyRight Solutions for Business category, with 26 million kWh saved. In the EnergyRight Solutions for Industry division, MLGW was third overall, saving 3 million kWh. We were third in Green Power Switch as well, representing nearly 11 percent of the program total. Overall, MLGW was the number one local power company performer in total EnergyRight Solutions total program savings with 31 million kWh, more than 11 percent of all program savings. MLGW is taking an active role in protecting our environment as well. In spring of 2016, preparations began to repopulate 13 acres of electric transmission right of way in John F. Kennedy Park in northeast Memphis with native flora and fauna. In partnership with the Wolf River Conservancy and Clean Memphis, MLGW is planting several species of wildflowers and grasses in the area. The plants will provide a habitat and food source for insects and wildlife such as birds, bees and butterflies, increasing the overall population and health of the local ecosystem. The growth of woody plants and vines, which could interfere with transmission lines, will be naturally suppressed. That means less active maintenance of the land — including mowing and herbicide — equaling lower cost, reduced fuel usage and less pollution. Water runoff from the area will be better filtered before it reaches the Wolf River. Students from the Memphis Business Academy volunteered to help begin the planting process, installing 200 wildflower seedlings in June 2016. The area should be well populated by spring of 2018.

Advancing Smart Energy at Home

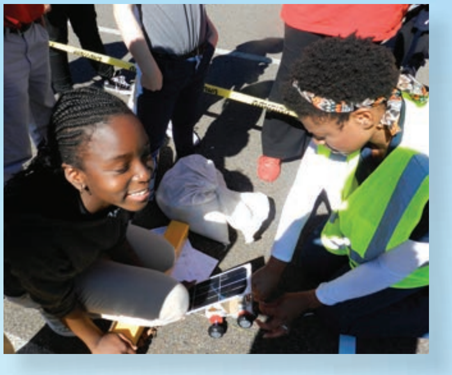
While MLGW places a high priority on large-scale conservation projects, saving energy begins at home. Advances in energy-efficient technology can help individuals in their homes, and we're committed to educating customers about ways to save money on their energy costs. Our Energy Doctor program allows customers to schedule a free visit from one of our energy technicians to inspect their homes and offer advice for improvements and behavior changes that can reduce wasted energy. We performed 296 Energy Doctor inspections in 2016.

The City of Memphis requires landlords to uphold certain standards for their rental homes. We perform free inspections of rental units. We made 220 inspections in 2016 on behalf of renters. If conditions are below standard, MLGW advocates for the renter to have repairs made and will even take the property owner to environmental court if necessary. So far, every property owner has responded to requirements resulting from inspections in order to bring their properties up to standards.

Our energy technicians also help educate residents and business owners through EnergySmart workshops and participation in community events, such as festivals and neighborhood meetings. In addition to information about increasing energy efficiency and reducing costs, customers receive energy kits with light bulbs, water faucet regulators, electrical outlet insulators and more. MLGW hosted 37 EnergySmart workshops in 2016 and gave away nearly 12,000 energy kits.

Advancing Education

The future of MLGW depends on fostering an interest in STEM fields within our young people. Today's students will become tomorrow's engineers and technicians. These bright young minds will be instrumental in developing and implementing the latest technologies to help us continue serving Memphis and Shelby County for many decades to come. To that end, MLGW participates in promoting STEM education in our local schools.



In October 2016, our annual A-Blazing Race saw 35 teams of middle and high school students from 20 schools compete in constructing and racing model solar cars. MLGW provides kits containing a solar panel and motor and hosts an engineering workshop to help students plan their designs. Students build their creations from any other materials, then gather to compete in a 20-meter race, harnessing the power of the sun. They see their studies of energy, physics and math come to life in a real-world application.

Also in October, MLGW's Junior Engineer/Professional Engineer (JEPE) program, in partnership with TVA, local schools and representatives from VEX Robotics and the For Inspiration and Recognition of Science and Technology (FIRST) program, hosted a robotics exhibition featuring teams from seven schools. Students from elementary to high school showed off their robot and computer-controlled LEGO creations, which picked up and threw basketballs, moved over obstacles, transported objects and navigated paths. FIRST participation encourages students to pursue education and careers in STEM-related fields and inspires them to become leaders and innovators.

President Collins bravely tests a FIRST student group's ball-throwing robot.

Our involvement in education isn't limited to engineering exhibitions. The MLGW Speakers Bureau coordinates more than 100 visits to local schools and community events annually. Employees from all across the Division — distribution, security, finance, legal — represent our company at career days throughout the school year. Often, our line workers will take MLGW vehicles and equipment on their visits to show students how they do their jobs.

In 2016, we renovated a decommissioned bucket truck for our workers who visit schools as the Terminator — a safety-focused superhero who teaches kids how to be responsible with energy sources at home. The truck was wrapped with graphics and safety tips, giving our Terminator volunteers an exciting and helpful way to educate students. In addition to visiting schools all around Memphis and Shelby County, our Terminators represented MLGW in two community Christmas parades, sharing candy and ideas for keeping safe and saving energy.

JEPE President Kerry Roy talks to students about her work as an Environmental Engineer.

Advancing Our Community

President Collins, Memphis City Mayor Jim Strickland and Bernal E. Smith II, owner and publisher of the New Tri-State Defender, address the media as MLGW donates water to Flint, Michigan.

We understand that lifting up others helps create a brighter future for us all. As a civic leader, MLGW strives to set an example by giving to our community through donations, volunteering and fundraising. In 2016, MLGW employees donated or raised more than $700,000 in money, supplies and gifts for organizations such as United Way, the Mid-South Food Bank, St. Jude, the American Cancer Society, the Salvation Army and many more. We also had more than 40 participants in the city-wide United Way Day of Caring, during which workers made significant repairs and renovations at local nonprofits Hope House and Grace House.

MLGW gave away 200 air conditioning units, 100 space heaters and 100 electric blankets to low-income seniors and disabled residents as part of our "Play It Cool" and "Power of Warmth" programs. Customers received nearly 12,000 energy efficiency kits to help lower energy costs at home. MLGW even donated 500 cases of water to the people of Flint, Michigan to help with their water crisis.

Plus-1, in partnership with MIFA, is a one-time assistance program to help customers who are facing a crisis, like a medical emergency. Customers can add a dollar to their bill each month to help out those who need assistance. Our first-ever LipSync Plus event invited residents and local celebrities to face-off for a lip-sync competition, raising money and

Latasha Peeples, winner of the 2016 LipSync Plus competition, sings in a commercial promoting Plus-1.

awareness for our Plus-1. Not only was it a fun event for all who attended, it also raised nearly $13,000 for the program.

Share the Pennies is another program that lets customers help out fellow residents. For those enrolled, we round up utility costs to the next whole dollar amount each month. The difference is donated to Project Care, which helps low-income customers make household repairs that reduce wasted energy, thereby lowering costs to heat and cool their homes.

For customers who get behind on their bills, we offer OnTrack, a program that provides financial management tools, deferred billing plans and one-on-one counseling to get expenses under control. OnTrack puts a high priority on education, including advice for saving energy and reducing utility costs. Five hundred customers were enrolled in the program in 2016.

Advancing Economic Prosperity

A strong community needs a dynamic economy. Memphis is a city of diversity, and MLGW has consistently shown our commitment to supporting its diverse business community. Thirty-two percent of all MLGW spending for 2016 took place right here in Shelby County. Our Supplier Diversity program provides opportunities for minority-, women- and locally owned small businesses to establish a professional relationship with MLGW through our bidding process and events to connect with department leaders in our company.

MLGW bases its diversity spending on independent certification that businesses are at least 51 percent owned, controlled, operated and managed by a person or persons who represent one of the three business classifications outlined in the program definition. In another record year for Supplier Diversity, MLGW spent $76.4 million on contracts with MWBE/LSBs — a remarkable 61.5 percent increase over 2015. This amount has risen each year since the program began in 2012.

Recently retired Procurement Manager Jozelle Booker and Supplier Diversity Coordinator Renise Holliday recognize local business owner Lee A. Bean with a Lifetime Achievement Award.

MLGW established its Sheltered Market Program in 2014 to provide opportunities for local organizations to compete for business on a more level playing field. This race- and gender-neutral program shelters any purchase under $100,000 by offering three or more certified local small businesses the opportunity to bid on products or services. In 2016, MLGW spent $10.6 million through our Sheltered Market Program, helping area businesses grow and stimulating our local economy. Fifty percent of this spending was also with MWBEs, who have dual certification as local and minority- and/or women-owned.

Fred Johnson, owner and president of Shelby Packaging and Logistics, stands in one of his facilities, housing thousands of smart meters. The smart meter installation project has accounted for more than $15 million of MLGW's supplier diversity spending.

Advancing Financial Security

Smart financial planning builds a solid foundation for the future. MLGW helps its employees prepare for what lies ahead by maintaining strong retirement funds and healthcare benefits. In fact, the MLGW Other Post Employment Benefits and Pension Funds (OPEB) are among the most well-funded across the nation. At year-end 2016, the Pension Fund was 93.2 percent funded, compared to an average of about 81 percent for the 100 largest corporate pensions in the country. Overall for 2016, the pension fund grew 8.6 percent, outpacing the goal of 7.5 percent. The OPEB fund grew 8.2 percent.


Recent MLGW retiree Doris Douglas (left) can enjoy her well-earned retirement knowing her Pension and OPEB funds are secure.

MLGW has been recognized by market leaders as an excellent and high quality credit investment. MLGW issued $110 million in bonds in August 2016 with record low interest rates of 2.459 percent for each of the Electric and Gas Divisions and 2.322 percent for water. The Water Division received Standard and Poor's highest credit rating — AAA — and an Aa1 rating by Moody's. The Electric Division was rated AA+ by Standard and Poor's and Aa2 by Moody's. Gas received AA- and Aa1 ratings, respectively, even though it was the Gas Division's first issuance since 1984, resulting in the agencies rating those bonds similar to a new credit. The recognition of MLGW's exemplary creditworthiness will help us continue making improvements while minimizing expense to our customers.


MLGW's financial stability means our employees can plan for their families' futures.


The MLGW OPEB board works hard to ensure the financial security of our retirees.

Letter of Transmittal

MEMPHIS LIGHT, GAS AND WATER DIVISION

To the Board of Commissioners and Valued Stakeholders:

We are pleased to submit the Annual Report of Memphis Light, Gas and Water Division (MLGW) for the fiscal year ended December 31, 2016, as required by the Charter Provisions of the City of Memphis (City) creating the Memphis Light, Gas and Water Division. This report has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for proprietary funds of governmental entities.

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

MLGW's financial statements have been audited by Mayer Hoffman McCann P.C., licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of MLGW for the fiscal year ended December 31, 2016 are free from material misstatement. The independent audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements; evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that MLGW's financial statements for the fiscal year ended December 31, 2016 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of the report.

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

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

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

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

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

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

Local Economy — Sitting on the southwestern corner of Tennessee alongside the Mississippi River, Memphis is the largest city in the state and the 23rd largest in the nation. Shelby County has a population of 945,757 people (according to 2015 census data) and more than 400,000 housing units utilizing MLGW services. Memphis is home to a diverse range of employers, including three Fortune 500 world headquarters (FedEx, International Paper and AutoZone). Numerous globally recognized brands have major offices or distribution facilities in Memphis, including Nike, Coca-Cola, Hilton and Medtronic. According to the U.S. Bureau of Labor Statistics, the Memphis Metro Area added a net of 4,000 new jobs in 2016. The trade, transportation and utilities sectors saw the largest growth and now make up approximately 28 percent of the area's total nonfarm workforce. Professional and business services make up 15 percent of employment, followed by education and health services at 14 percent.

In recent years, Memphis has earned many distinctions, including being ranked among the "Top 4 Markets for Millennials" (Wall Street Journal), "Happiest Cities for Job-Seeking College Grads" (Forbes and CareerBliss), "Best Cities to Start a Business" (WalletHub) and "Cities Creating the Most Tech Jobs" (Forbes). In its 2016 annual in-depth analysis, Business Facilities magazine once again named Memphis the "undisputed logistics champion," highlighting the city's "tremendous assets serving all modes of transportation: air, land, water and rail." In addition to being home to FedEx and the world's second busiest cargo airport, Memphis is a major hub for UPS and USPS, home to more than 400 trucking companies, serviced by five class-one railroads and a key port on the Mississippi River. Business Facilities also named Memphis as the sixth city in lowest cost of business, citing competitive advantages in industrial facility leasing and construction, transportation, statutory and benefit costs and low natural gas prices.

MLGW has a major impact on the local economy. Division spending within Memphis during 2016 amounted to $61.1 million, and $75.4 million went to Shelby County overall. Of that, nearly 48.8 percent went to businesses owned by minorities and women or local small businesses. For the fourth consecutive year, MLGW has the lowest combined electric, gas and water residential rates among 25 major metropolitan cities. The Electric, Gas and Water Divisions all received excellent credit ratings from Standard and Poor's and Moody's, designating MLGW as a reliable and stable financial investment.

National Economy — According to the Bureau of Economic Analysis, a division of the U.S. Department of Commerce, real gross domestic product (GDP), a key indicator of economic growth, increased 1.6 percent, compared with 2.6 percent growth in 2015. Increases in consumer spending, residential investment, state and local government spending, exports and federal government spending contributed to the growth of GDP in 2016.

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

Among the three divisions, MLGW averages around $105 million in capital expenditures annually. Major projects are currently underway in each division. Our comprehensive smart meter project is installing new meters across all divisions — electric, gas and water — and is moving ahead of schedule. Electric infrastructure upgrades include two new substations, upgrades at existing facilities and the installation of advanced distribution technologies to increase safety and decrease outage response time.

The Gas Division's 30-year natural gas cast iron pipe retrofit program continues on schedule for completion by 2022. More than 330 miles of cast iron pipes are being replaced with polyethylene or steel, increasing the safety and reliability of our natural gas system. MLGW has also constructed a 13-mile-long 24-inch gas pipeline to feed TVA's combined-cycle Allen Plant, which will replace the coal-burning Allen Fossil Plant upon completion.

In the Water Division, major renovations at the Sheahan Pumping Station and MLGW Water Lab continue. MLGW is also creating an inventory of water service lines and has begun replacing those which are made of lead, while continuing everyday water quality testing and protection measures that always ensure EPA standards are met or exceeded.

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

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

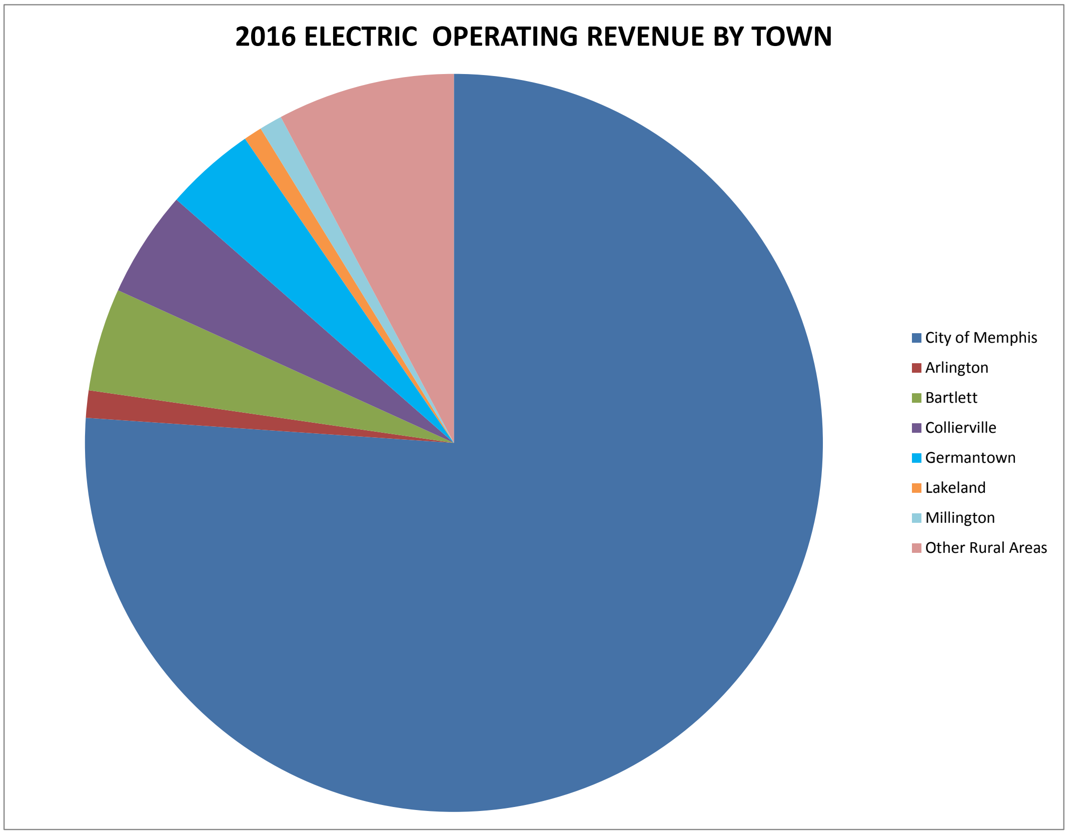
Respectfully submitted,

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

Dana
Dana Jeanes
Vice President, CFO and Secretary-Treasurer

Operating Statistics by Towns:

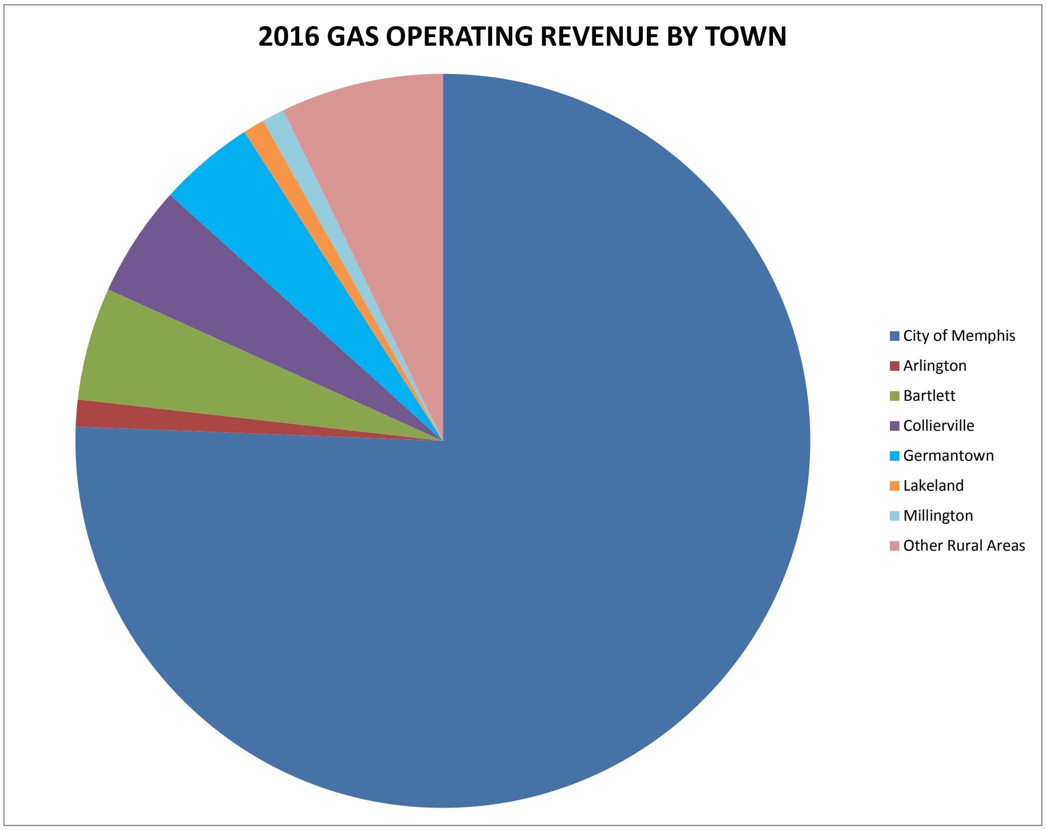
	ELECTRIC AMOUNT			ELECTRIC KWH		
	2016	2015	2014	2016	2015	2014
City of Memphis	$ 950,692	$ 967,152	$ 977,962	10,436,626	10,514,853	10,544,122
Arlington	14,939	15,134	15,011	165,439	164,884	159,589
Bartlett	56,320	56,242	55,444	585,813	575,767	561,999
Collierville	58,332	58,423	58,349	626,769	615,079	610,401
Germantown	49,555	49,929	49,723	526,438	518,118	510,321
Lakeland	10,049	10,288	10,075	106,211	105,900	102,603
Millington	12,528	12,720	12,466	130,117	129,797	125,000
Other Rural Areas	97,120	98,673	101,874	1,144,430	1,131,610	1,151,404
Total	$ 1,249,535	$ 1,268,561	$ 1,280,904	13,721,843	13,756,008	13,765,439



2016 ELECTRIC OPERATING REVENUE BY TOWN

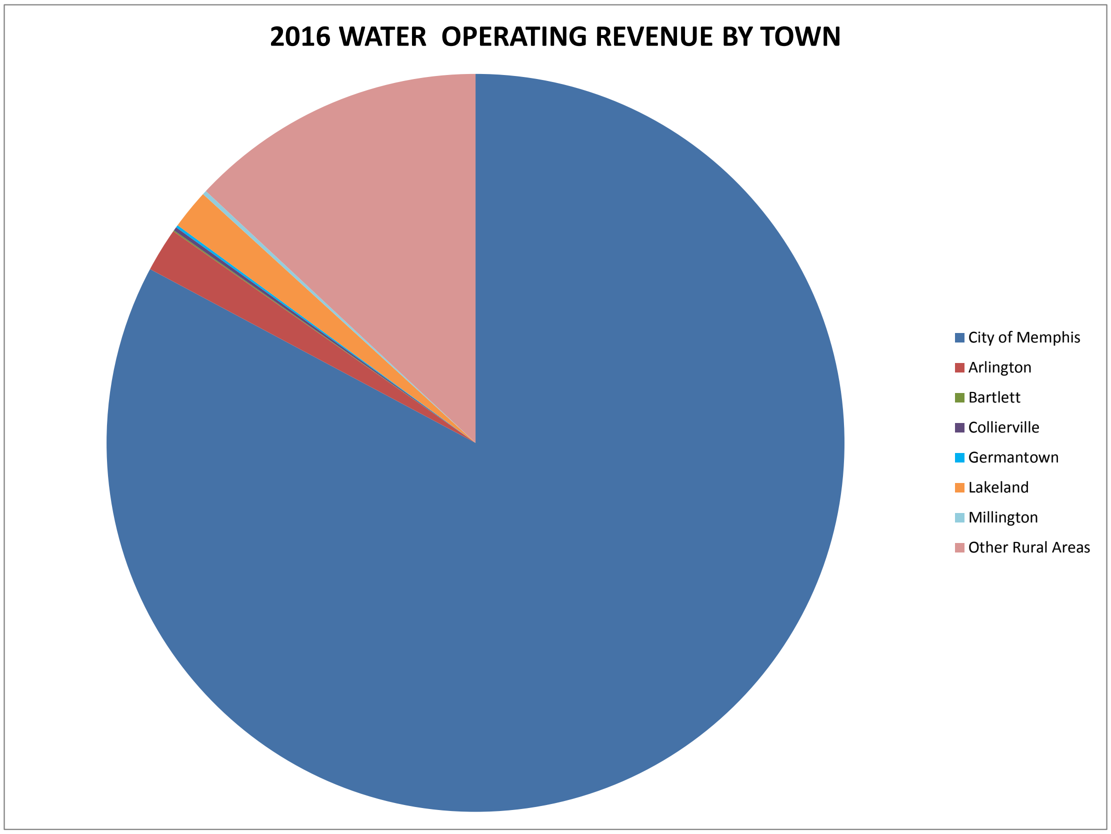
Operating Statistics by Towns:

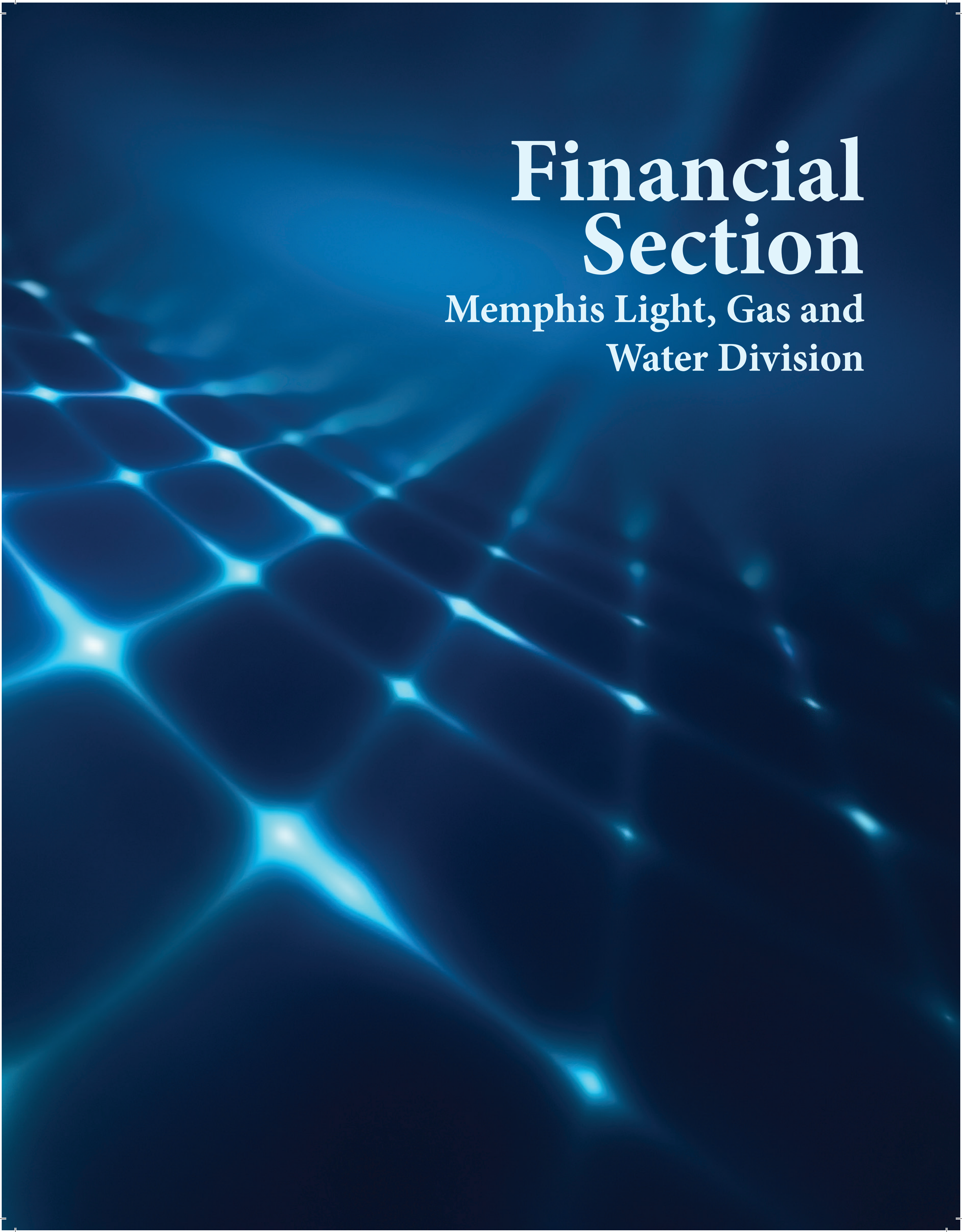
	GAS AMOUNT			GAS MCF		
	2016	2015	2014	2016	2015	2014
City of Memphis	$ 155,671	$ 188,488	$ 248,358	20,940	25,189	27,997
Arlington	2,444	3,047	4,182	370	448	506
Bartlett	10,224	12,312	16,788	1,438	1,682	1,916
Collierville	10,125	12,170	16,925	1,541	1,778	2,030
Germantown	8,718	10,584	14,850	1,360	1,568	1,792
Lakeland	1,939	2,506	3,494	281	351	406
Millington	2,036	2,580	3,356	314	372	384
Other Rural Areas	14,719	18,218	25,859	2,097	2,510	2,954
Total	$ 205,876	$ 249,905	$ 333,812	28,341	33,898	37,985


2016 GAS OPERATING REVENUE BY TOWN

Operating Statistics by Towns:

	WATER AMOUNT			WATER CCF		
	2016	2015	2014	2016	2015	2014
City of Memphis	$ 82,677	$ 70,107	$ 71,395	43,243	44,264	46,047
Resale to Other Municipalities:						
Arlington	1,916	1,526	1,510	605	590	598
Bartlett	48	40	46	3	3	7
Collierville	160	161	154	46	59	55
Germantown	108	94	84	32	35	31
Lakeland	1,734	1,443	1,410	543	556	545
Millington	179	162	160	62	60	58
Other Rural Areas	13,025	10,958	11,422	4,197	4,528	4,726
Total	$ 99,847	$ 84,491	$ 86,181	48,731	50,095	52,067





Financial Section

Memphis Light, Gas and Water Division

5100 Poplar Ave., 30th Floor ■ Memphis, TN 38137
Main: 901.685.5575 ■ Fax: 901.685.5583 ■ www.mhmcpa.com

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Electric, Gas and Water Divisions (the "Divisions") of Memphis Light, Gas and Water Division, enterprise funds of the City of Memphis, Tennessee, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Divisions' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Divisions' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric, Gas and Water Divisions of Memphis Light, Gas and Water Division as of December 31, 2016 and 2015, and the changes in their financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 1, the financial statements present only the Electric, Gas and Water Divisions of Memphis Light, Gas and Water Division, and do not purport to, and do not, present fairly the financial position of the City of Memphis, Tennessee, as of December 31, 2016 and 2015, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming opinions on the basic financial statements of each Division. The introductory section and supplemental information on the pages listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of bonds, principal and interest requirements; schedule of current utility rates; non-revenue water; and schedule of insurance are required by the State of Tennessee Comptroller of the Treasury's *Audit Manual*.

The supplementary information shown as the schedule of bonds, principal and interest requirements and schedule of additions and retirements to utility plant is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this supplementary information is fairly stated, in all material respects in relation to the basic financial statements as a whole.

The introductory section and supplementary information shown as the schedule of current utility rates, non-revenue water, and schedule of insurance have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2017, on our consideration of the Divisions' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Divisions' internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

Memphis, Tennessee
June 7, 2017

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

Highlights

- MLGW was named as an Energy Right Solutions Top Performer in four categories for energy savings by the Tennessee Valley Authority ("TVA").

- In 2015, MLGW's Smart Meter Project contract was approved to begin the full-scale implementation of smart meters that will be completed by the end of 2020. Existing MLGW meters are being replaced with smart electric, gas, and water models. This enables MLGW to communicate with meters on a daily basis instead of sending a meter reader to each property to collect consumption data once a month and this enables the customer to be more energy efficient. In 2016, MLGW began full-scale implementation with installation of more than 200,000 electric, gas, and water smart meters.

- MLGW issued debt for the capital programs for the Electric, Gas, and Water Divisions in September 2016. The Electric Division's Senior Lien Series 2016 bonds were rated Aa2 by Moody's Investors Service ("Moody's") and AA+ by Standard & Poor's Ratings Services ("S&P"). Senior Lien means a lien on one or more categories of revenues that entitles the beneficiaries of such lien to have a claim on such revenues prior to any other person and ahead of the use of such revenues for any purpose other than payment of operating expenses provided one or more series of revenue obligations, contracts and related beneficiaries may have parity Senior Liens on the same categories of revenues pursuant to the terms of the bond resolution. MLGW's electric subordinate lien bonds, related to the electric prepay agreement with TVA, were reaffirmed with the rating of Aa2 from Moody's. The S&P rating on the subordinate lien bonds was rated AA. The Gas Division's Series 2016 bonds were rated Aal by Moody's and AA- by S&P. The Water Division's Series 2016 bonds were rated Aa1 by Moody's and AAA by S&P. The AAA rating is the highest rating given by S&P.

- Construction of the new TVA gas-fired generation plant is progressing well towards the December 2018 completion date. MLGW has completed the construction of the 13 plus mile transmission pipeline portion of the project that will be the primary supply for this new gas-fired plant. The entire project is due to be completed July 2017 and will generate additional gas transportation revenues for the gas division.

- MLGW recorded another record-breaking year for supplier diversity in 2016. The Division spent $76.4 million on contracts with MWBE/LSBs.

Overview of the Financial Statements

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

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

During the fiscal year 2016, MLGW adopted GASB Statement No. 72, *Fair Value Measurement and Application*. The purpose of this Statement is to establish financial reporting standards for fair value measurements for state and local governments. The definition of 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 Statement requires investment assets and liabilities be measured at fair value.

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

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

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

STATISTICAL HIGHLIGHTS-ELECTRIC DIVISION

Years Ended December 31

CATEGORIES	2016	2015	2014
OPERATING REVENUE			
Residential	$ 505,811,638	$ 513,804,077	$ 512,467,698
Commercial - General Service	585,812,041	592,357,531	591,269,532
Industrial	95,656,535	108,647,814	119,347,528
Outdoor Lighting and Traffic Signals	11,330,518	11,300,413	11,354,154
Street Lighting Billing	13,076,088	13,061,894	12,958,669
Interdepartmental	8,117,897	9,281,301	9,676,904
Green Power	(255,347)	(220,049)	(264,636)
Miscellaneous	30,505,018	30,253,807	33,769,237
Accrued Unbilled Revenue	6,309,242	(3,360,498)	(1,965,202)
Revenue Adjustment for Uncollectibles	(6,828,137)	(6,564,675)	(7,709,385)
TOTAL OPERATING REVENUE	$ 1,249,535,493	$ 1,268,561,615	$ 1,280,904,499
CUSTOMERS			
Residential	366,265	366,721	364,624
Commercial - General Service	43,373	43,761	43,589
Industrial	133	152	154
Outdoor Lighting and Traffic Signals	17,004	17,110	17,048
Interdepartmental	41	45	47
Total Customers	426,816	427,789	425,462
KWH SALES (THOUSANDS)			
Residential	5,322,901	5,295,187	5,221,001
Commercial - General Service	6,286,966	6,326,434	6,212,068
Industrial	1,859,280	1,866,238	2,053,626
Outdoor Lighting and Traffic Signals	88,928	88,441	93,395
Street Lighting Billing	75,141	75,321	74,690
Interdepartmental	88,627	104,387	110,659
Total KWH Sales (Thousands)	13,721,843	13,756,008	13,765,439
OPERATING REVENUE/CUSTOMER			
Residential	$ 1,381.00	$ 1,401.08	$ 1,405.47
Commercial - General Service	13,506.38	13,536.20	13,564.65
Industrial	719,222.07	714,788.25	774,983.95
Outdoor Lighting and Traffic Signals	666.34	660.46	666.01
Interdepartmental	197,997.49	206,251.13	205,891.58
OPERATING REVENUE/KWH*			
Residential	$ 0.095	$ 0.097	$ 0.098
Commercial - General Service	0.093	0.094	0.095
Industrial	0.051	0.058	0.058
Outdoor Lighting and Traffic Signals	0.127	0.128	0.122
Street Lighting Billing	0.174	0.173	0.173
Interdepartmental	0.092	0.089	0.087
KWH/CUSTOMER			
Residential	14,532.92	14,439.28	14,318.86
Commercial - General Service	144,951.14	144,567.86	142,514.58
Industrial	13,979,548.87	12,277,881.58	13,335,233.77
Outdoor Lighting and Traffic Signals	5,229.83	5,168.97	5,478.36
Interdepartmental	2,161,634.15	2,319,711.11	2,354,446.81

**See graph on M-6.*

STATISTICAL HIGHLIGHTS-GAS DIVISION

Years Ended December 31

CATEGORIES	2016	2015	2014
OPERATING REVENUE			
Residential	$ 120,179,376	$ 150,174,338	$ 207,334,707
Commercial - General Service	55,227,388	69,815,939	95,601,873
Industrial	1,681,543	2,652,791	3,765,082
Interdepartmental	172,754	315,995	464,944
Transported Gas	6,350,515	5,385,298	5,800,804
Spot Gas	6,388,974	7,936,852	11,239,189
Liquefied Natural Gas (LNG)	4,571,710	7,892,439	7,139,441
Compressed Natural Gas (CNG)	107,847	400,439	324,971
Miscellaneous	8,439,778	12,486,159	11,748,814
Accrued Unbilled Revenue	4,161,055	(5,847,200)	(6,949,921)
Revenue Adjustment for Uncollectibles	(1,404,506)	(1,308,386)	(2,657,455)
TOTAL OPERATING REVENUE	$ 205,876,434	$ 249,904,664	$ 333,812,449
CUSTOMERS			
Residential	289,592	291,448	290,690
Commercial - General Service	21,634	21,931	21,917
Industrial	31	32	34
Interdepartmental	12	12	14
Transported Gas	98	113	104
Spot Gas	33	44	45
Subtotal	311,400	313,580	312,804
LNG	3	4	6
CNG (Sales Transactions)	212	732	542
Total Customers	311,615	314,318	313,352
MCF SALES			
Residential	16,713,964	20,326,974	23,403,113
Commercial - General Service	9,308,766	10,951,838	11,882,928
Industrial	405,442	544,046	587,953
Interdepartmental	35,733	57,180	64,482
Spot Gas	1,877,488	2,017,649	2,046,775
Subtotal	28,341,393	33,897,687	37,985,251
LNG	654,780	1,062,917	775,168
CNG	10,949	44,204	31,799
Total MCF Sales	29,007,122	35,004,808	38,792,218
OPERATING REVENUE/CUSTOMER			
Residential	$ 415.00	$ 515.27	$ 713.25
Commercial - General Service	2,552.81	3,183.44	4,362.00
Industrial	54,243.32	82,899.71	110,737.70
Interdepartmental	14,396.17	26,332.96	33,210.31
Transported Gas	64,801.17	47,657.51	55,776.96
Spot Gas	193,605.29	180,383.00	249,759.76
OPERATING REVENUE/MCF*			
Residential	$ 7.190	$ 7.388	$ 8.859
Commercial - General Service	5.933	6.375	8.045
Industrial	4.147	4.876	6.404
Interdepartmental	4.835	5.526	7.210
Spot Gas	3.403	3.934	5.491
MCF/CUSTOMER			
Residential	57.72	69.74	80.51
Commercial - General Service	430.28	499.38	542.18
Industrial	13,078.77	17,001.44	17,292.74
Interdepartmental	2,977.75	4,765.00	4,605.86
Spot Gas	56,893.58	45,855.66	45,483.89

**See graph on M-6.*

STATISTICAL HIGHLIGHTS-WATER DIVISION

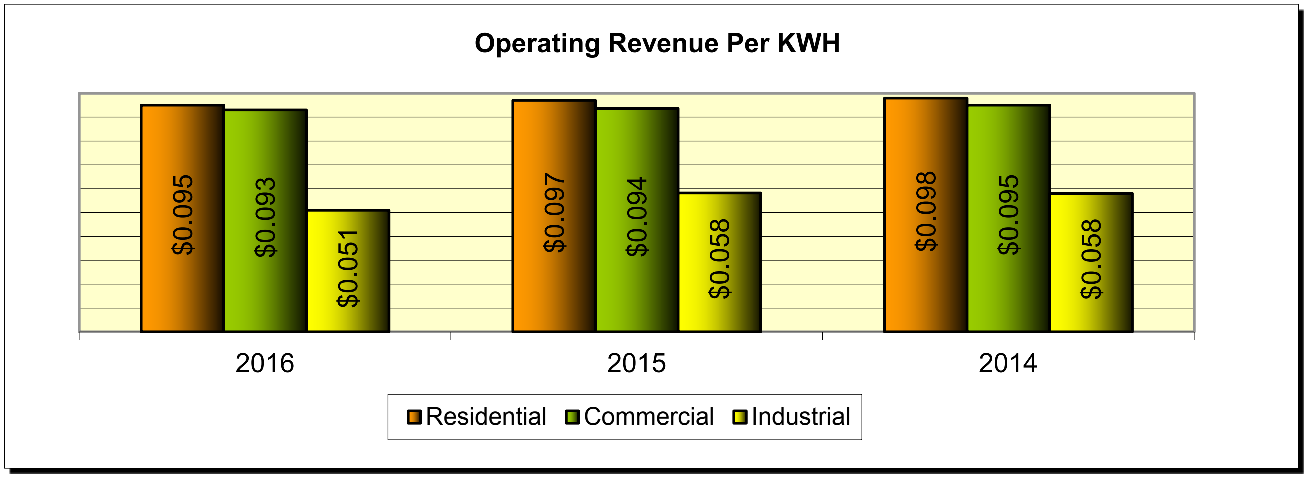
Years Ended December 31

CATEGORIES	2016	2015	2014
OPERATING REVENUE			
Residential	$ 49,486,005	$ 41,072,210	$ 41,562,047
Commercial - General Service	42,137,657	35,036,929	36,295,016
Resale	255,521	571,067	510,950
Fire Protection	5,056,147	4,152,650	4,075,927
Interdepartmental	55,699	47,425	45,082
Miscellaneous	3,611,421	3,742,311	4,781,049
Accrued Unbilled Revenue	340,781	545,218	(164,704)
Revenue Adjustment for Uncollectibles	(1,095,891)	(676,130)	(924,209)
TOTAL OPERATING REVENUE	$ 99,847,340	$ 84,491,680	$ 86,181,157
CUSTOMERS			
Residential	227,171	228,562	228,147
Commercial - General Service	20,580	20,844	20,792
Resale	12	12	11
Fire Protection	5,297	5,270	5,171
Interdepartmental	49	52	55
Total Customers	253,109	254,740	254,176
METERED WATER (CCF)			
Residential	22,442,729	22,853,763	23,208,066
Commercial - General Service	26,146,652	26,712,414	28,355,246
Resale	122,936	509,467	484,975
Interdepartmental	19,093	19,318	19,175
Total CCF Sales	48,731,410	50,094,962	52,067,462
OPERATING REVENUE/CUSTOMER			
Residential	$ 217.84	$ 179.70	$ 182.17
Commercial - General Service	2,047.51	1,680.91	1,745.62
Resale	21,293.42	47,588.89	46,450.00
Fire Protection	954.53	787.98	788.23
Interdepartmental	1,136.71	912.02	819.67
OPERATING REVENUE/CCF*			
Residential	$ 2.205	$ 1.797	$ 1.791
Commercial - General Service	1.612	1.312	1.280
Resale	2.078	1.121	1.054
Interdepartmental	2.917	2.455	2.351
CCF/CUSTOMER			
Residential	98.79	99.99	101.72
Commercial - General Service	1,270.49	1,281.54	1,363.76
Resale	10,244.67	42,455.58	44,088.64
Interdepartmental	389.65	371.50	348.64

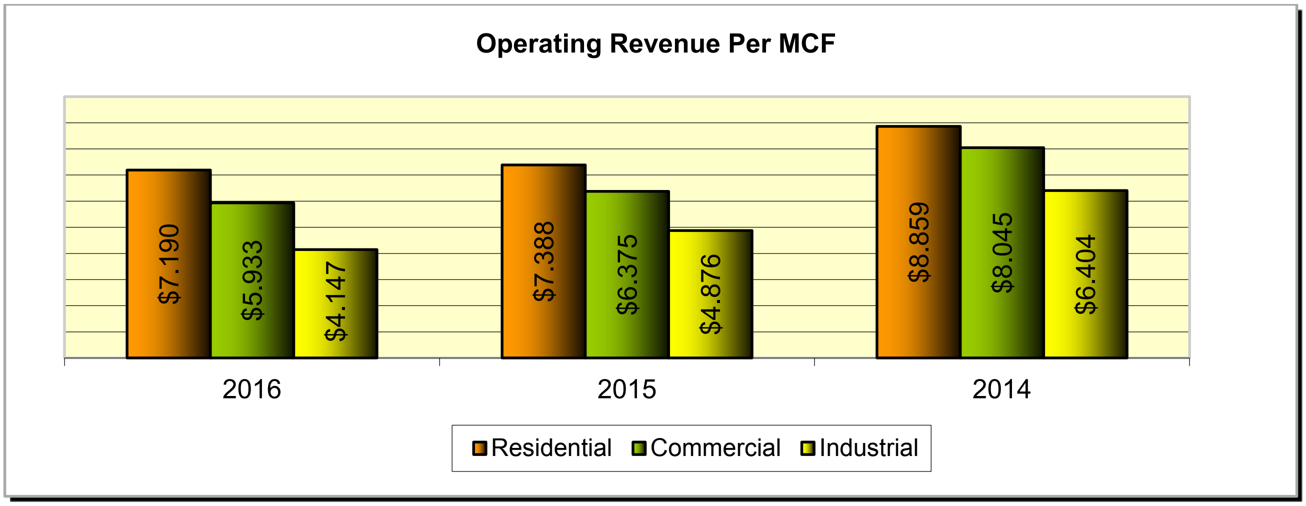
**See graph on M-7.*

GRAPHS

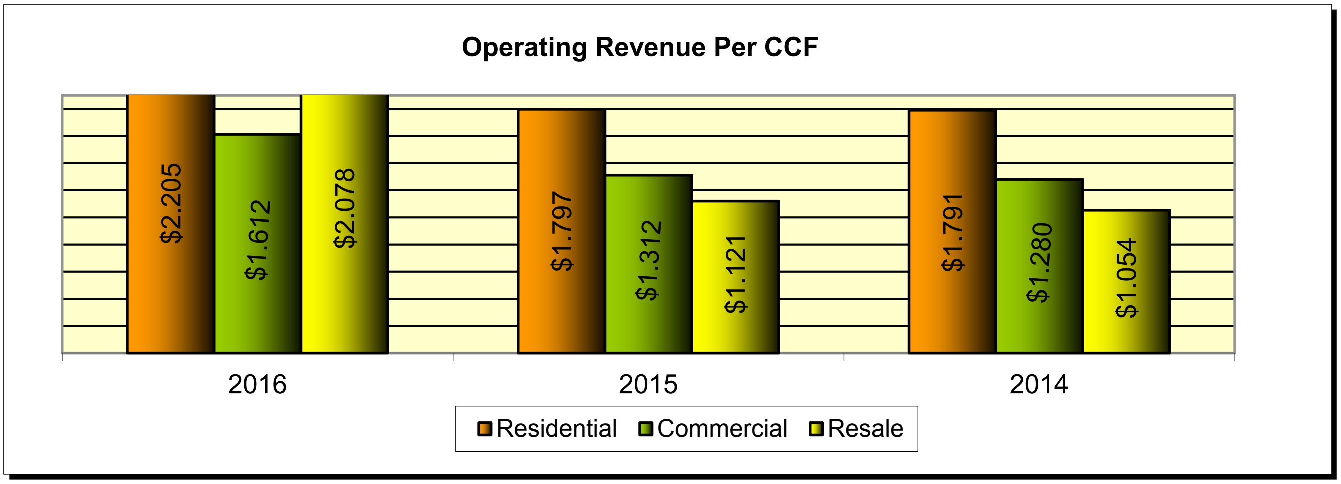
Electric Division



Gas Division



Water Division



Bond Ratings

MLGW's Electric Division, Gas Division and Water Division own strong bond ratings. In 2016 all three divisions issued debt to fund a portion of their respective capital improvement programs.

During 2016, the Electric Division issued $40 million in debt and the series was assigned ratings of AA+ and Aa2 by Standard and Poor's (S&P) and Moody's Investors Service (Moody's), respectively. Both S&P and Moody's affirmed the senior-lien underlying ratings at AA+ and Aa2. The Electric Division has total debt outstanding of $341,455 as of December 31, 2016. MLGW's debt service coverages are 35.01 and 1.60 for the senior and total composite liens, respectively. These coverages are well above the 1.2 and the 1.0 required by the Electric Division bond covenant for the senior lien and subordinate lien debt, respectively.

The Gas Division issued $40 million in debt during 2016. The Gas Division's series was assigned AA- and Aa1 ratings by S&P and Moody's, respectively. The Gas Division has total debt outstanding of $40,000 as of December 31, 2016. The Gas Division's debt service coverage is 29.71. This coverage is well above the 1.2 required by the Gas Division bond covenant.

The Water Division issued $30 million in debt during 2016. This series was assigned AAA and Aa1 ratings by S&P and Moody's, respectively and the agencies affirmed the underlying series at the same ratings. The Water Division has debt outstanding of $43,870 as of December 31, 2016. The Water Division's debt service coverage is 15.54. This coverage is well above the 1.2 required by the Water Division bond covenant.

The following tables show MLGW bond ratings and debt administration for the Electric, Gas and Water Divisions as of December 31, 2016:

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

MLGW Bond Ratings			
	S&P	**Moody's**	**Fitch**
Electric Series			
2003A	AA	Aa2	AA+
2008	AA	Aa2	AA+
2010	AA	Aa2	AA+
2014	AA+	Aa2	
2016	AA+	Aa2	
Gas Series			
2016	AA-	Aa1	
Water Series			
2014	AAA	Aa1	
2016	AAA	Aa1	

Debt Administration (In Thousands)		
	Outstanding Balance	**Coverage**
Electric Senior	$106,105	35.01
Electric Subordinate	$235,350	
Electric Composite Coverage Ratio	$341,455	1.60
Gas	$40,000	29.71
Water	$43,870	15.54

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)

	2016	2015	FY16 - FY15 Percentage Change	2014	FY15 - FY14 Percentage Change
Current assets (excluding restricted funds)	$ 487,560	$ 524,914	-7.1%	$ 453,306	15.8%
Restricted assets	67,923	64,361	5.5%	96,049	-33.0%
Other assets	11,210	4,325	159.2%	4,647	-6.9%
Prepaid power cost - long-term	112,821	232,517	-51.5%	349,595	-33.5%
Utility plant	1,079,463	1,041,753	3.6%	1,018,928	2.2%
Total assets	1,758,977	1,867,870	-5.8%	1,922,525	-2.8%
Deferred outflows of resources					
Employer Pension Contribution	12,271	12,271	-	-	-
Pension liability experience	1,088	-	-	-	-
Pension investment earnings experience	39,341	-	-	-	-
Accumulated decrease in fair value of hedging derivatives	-	40	-	305	-86.9%
Unamortized balance of refunded debt	1,499	3,509	-57.3%	6,400	-45.2%
Total assets and deferred outflows	1,813,176	1,883,690	-3.7%	1,929,230	-2.4%
Current liabilities payable from current assets	276,460	301,365	-8.3%	256,756	17.4%
Current liabilities payable from restricted assets	33,587	33,092	1.5%	31,086	6.5%
Long-term debt	243,701	325,747	-25.2%	450,603	-27.7%
Non-current liabilities	81,955	29,556	177.3%	27,711	6.7%
Total liabilities	635,703	689,760	-7.8%	766,156	-10.0%
Deferred inflows of resources					
Pension liability experience	6,252	7,815	-20.0%	-	-
Pension changes of assumptions	8,462	10,577	-20.0%	-	-
Pension investment earnings experience	197	262	-24.8%	-	-
Total liabilities and deferred inflows	650,614	708,414	-8.2%	766,156	-7.5%
Net position:					
Net investment in capital assets	958,213	964,812	-0.7%	938,844	2.8%
Restricted	19,155	18,534	3.4%	52,900	-65.0%
Unrestricted	185,194	191,930	-3.5%	171,330	12.0%
Total Net position	$ 1,162,562	$ 1,175,276	-1.1%	$ 1,163,074	1.0%

Assets

2016 Compared to 2015:

As of December 31, 2016, total assets and deferred outflows were $1.81 billion, a decrease of $70.5 million, or 3.7%, compared to December 31, 2015. This decrease is primarily due to a decrease in prepaid power cost (long-term) of $119.7 million due to amortization (see Note 12), a decrease in current assets (excluding restricted funds) of $37.4 million, and a decrease in the deferred unamortized balance of refunding debt for Series 2010 Bonds of $2.0 million, partially offset by an increase in pension investment earnings experience of $39.3 million, net utility plant of $37.7 million resulting from additions to electric plant in-service, other assets of $6.9 million, restricted assets of $3.6 million and pension liability experience of $1.1 million. The decrease in current assets is primarily the result of a decrease in cash and cash equivalents of $47.1 million due, in part, to the timing of the in lieu of tax payments and transfers to the City paid in 2016, a decrease in investments of $2.9 million and a decrease in inventories of $1.5 million, offset by increases in unbilled revenues of $6.3 million due, in part, to delayed customer billings as a result from the transitional issues associated with the mass deployment of smart meters, accounts receivable less allowance for doubtful accounts of $4.1 million, and prepaid power costs of $2.6 million.

2015 Compared to 2014:

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

Capital Assets and Construction Activities

2016 Compared to 2015:

The Electric Division's utility plant assets, net of accumulated depreciation were $1.08 billion as of December 31, 2016, an increase of 3.6% over fiscal year 2015. During 2016, the Electric Division expended $94.2 million on construction activities and capital purchases, an increase of $23.5 million, or 33.3%, compared to fiscal year 2015. Major Electric Division construction activities included the purchase of meters and metering equipment ($21.8 million), substation and transmission projects ($16.4 million), data processing equipment and upgrades ($8.8 million), extensions to serve new customers ($8.0 million), street and leased outdoor lighting ($7.2 million), the purchase of distribution and network transformers ($6.9 million), smart meter telecommunication infrastructure ($4.1 million), and the purchase of transportation and power operated equipment ($4.1 million). Other significant Electric Division capital expenditures consisted of the replacement of poles ($2.6 million), replacement of feeder and defective cable ($2.0 million), communication network improvements ($1.5 million), and new circuits out of substations ($0.9 million).

2015 Compared to 2014:

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

Liabilities

2016 Compared to 2015:

As of December 31, 2016, total liabilities and deferred inflows were $650.6 million, representing a $57.8 million (8.2%) decrease compared to $708.4 million at December 31, 2015. These decreases are attributable to decreases in long-term debt of $82.0 million, current liabilities payable from current assets of $24.9 million due to a decrease in accrued taxes (payment in lieu of taxes and transfers) of $35.1 million, pension changes of assumptions of $2.1 million, and pension liability experience of $1.6 million, offset in part by an increase in non-current liabilities of $52.4 million due to an increase in the net pension liability-long term of $47.9 million and an increase in customer deposits of $2.4 million. The decrease in long-term debt is due to a reclassification of a portion of long-term debt to the current portion of debt of $117.5 million, offset by an increase in the long-term portion of the issuance of Series 2016 Bonds of $38.7 million and an increase in premium amortization of $0.9 million (see Note 11).

2015 Compared to 2014:

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

Net Position

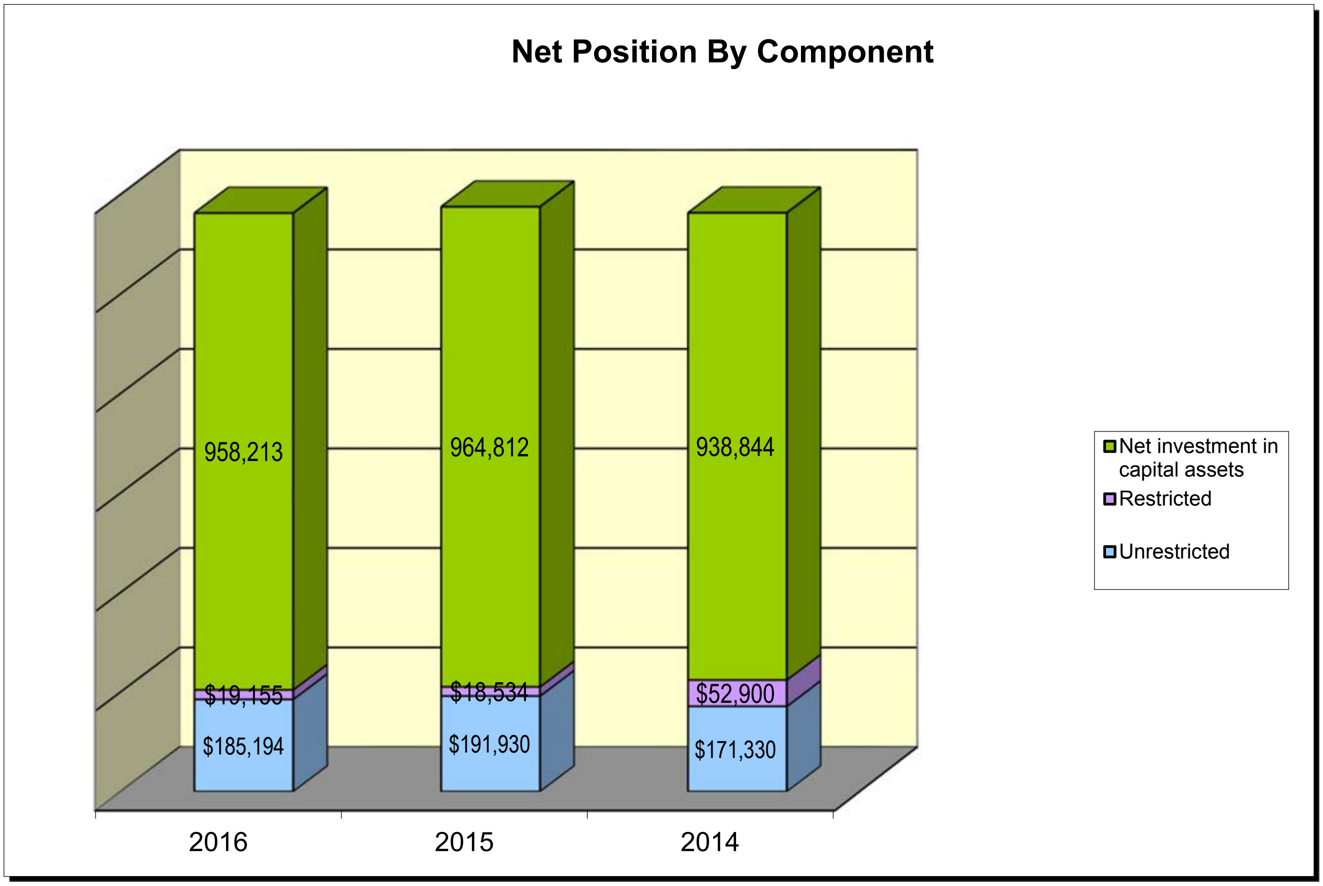
2016 Compared to 2015:

As of December 31, 2016, the Electric Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was $1.16 billion, a decrease of $12.7 million, or 1.1%, compared to December 31, 2015. The decrease was due to a decrease in unrestricted net position (used to finance day-to-day operations) of $6.7 million and a decrease in net investment in capital assets of $6.6 million. Eighty-two percent of the net position was related to net investment in capital assets.

2015 Compared to 2014:

As of December 31, 2015, the Electric Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was $1.18 billion, an increase of $12.2 million, or 1.0%, compared to December 31, 2014. The increase was due to increases in unrestricted net position (used to finance day-to-day operations) of $20.6 million and net investment in capital assets of $26.0 million, partially offset by a decrease in restricted net position of $34.4 million. Eighty-two percent of the net position was related to net 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, 2016, 2015, and 2014

	2016	2015	FY16 - FY15 Percentage Change	2014	FY15 - FY14 Percentage Change
Revenues:					
Operating revenues	$ 1,249,535	$ 1,268,561	-1.5%	$ 1,280,904	-1.0%
Non-operating revenues	50,222	53,165	-5.5%	55,536	-4.3%
Total revenues	1,299,757	1,321,726	-1.7%	1,336,440	-1.1%
Expenses:					
Depreciation expense	50,902	48,778	4.3%	45,566	7.0%
Purchased power	1,018,157	1,015,978	0.2%	1,029,791	-1.3%
Other operating expense	187,927	177,704	5.8%	171,095	3.9%
Non-operating expense	15,491	19,011	-18.5%	21,581	-11.9%
Total expenses	1,272,477	1,261,471	0.9%	1,268,033	-0.5%
Income before contributions in aid of construction and transfers	27,280	60,255	-54.7%	68,407	-11.9%
Contributions in aid of construction	10,445	13,837	-24.5%	12,827	7.9%
Reduction of plant costs recovered through contributions in aid of construction	(10,445)	(13,837)	24.5%	(12,827)	-7.9%
Transfers to City of Memphis	(39,994)	(36,697)	9.0%	(39,295)	-6.6%
Change in net position	$ (12,714)	$ 23,558	-154.0%	$ 29,112	-19.1%
Net position, beginning of year	$ 1,175,276	$ 1,163,074	1.0%	$ 1,133,962	2.6%
Change in method of accounting for pension	-	(11,356)	-	-	-
Change in net position	(12,714)	23,558	-154.0%	29,112	-19.1%
Net position, end of year	$ 1,162,562	$ 1,175,276	-1.1%	$ 1,163,074	1.0%

Change in Net Position

2016 Compared to 2015:

The change in net position is a loss of $12.7 million, down $36.3 million from $23.6 million at December 31, 2015. This decrease is primarily due to a decrease in operating margin (operating revenue less power cost) of $21.2 million, an increase in other operating expense of $10.2 million, an increase in Transfer to the City of $3.3 million, a decrease in non-operating revenues of $2.9 million and an increase in depreciation expense of $2.1 million, offset by a decrease in non-operating expense of $3.5 million.

2015 Compared to 2014:

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

Revenues

2016 Compared to 2015:

Total revenues were $1.30 billion for fiscal year 2016, a decrease of $22.0 million, or 1.7%, from fiscal year 2015. Operating revenues were $1.25 billion in 2016, a decrease of $19.0 million from 2015. The decrease in operating revenue is due partially to a rate decrease for residential and small commercial customers implemented in January 2016 and to lower sales volume resulting from temporary transitional issues associated with the mass deployment of smart meters, offset, in part, by the Tennessee Valley Authority ("TVA") 1.5% rate increase effective in October 2016. There was an increase in purchased power cost of $2.2 million due to higher purchase volumes and the TVA rate increase. Non-operating revenue decreased $2.9 million to $50.2 million in 2016 as a result of a decrease in other income prepay credit, related to the Electric TVA Prepay Bonds of $3.8 million, offset by an increase in other income TVA transmission credit of $0.8 million.

2015 Compared to 2014:

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

Expenses

2016 Compared to 2015:

For fiscal year 2016, total expenses were $1.27 billion, a 0.9%, or $11.0 million, increase from fiscal year 2015 total expenses of $1.26 billion. This increase was a result of an increase in other operating expense of $10.2 million, purchased power cost of $2.2 million and depreciation expense of $2.1 million, offset by a decrease in non-operating expense of $3.5 million. The decrease in non-operating expense is primarily the result of lower interest expense associated with the Series 2010 Bonds. The increase in other operating expense is due, in part, to increases in operating expenses of $10.5 million and maintenance expense of $0.6 million, offset by a decrease in payment in lieu of taxes ("PILOT") of $0.9 million.

2015 Compared to 2014:

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

Contributions in aid of construction

2016 Compared to 2015:

Contributions in aid of construction ("CIAC") were $10.4 million for fiscal year 2016, a decrease of $3.4 million, or 24.5%, from fiscal year 2015. This decrease was mainly the result of decreases in economic development projects of $2.4 million, cancelled contracts of $1.8 million, and grants of $1.1 million, offset by an increase in damage to a substation of $1.1 million.

2015 Compared to 2014:

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

Transfers to the City of Memphis

2016 Compared to 2015:

MLGW's transfer to the City of Memphis is based on the formula provided by the May 29, 1987 TVA Power Contract Amendment (Supp. No. 8). The formula includes a maximum property tax equivalency calculation plus 4% of operating revenue less power costs (three-year average). Transfers to the city represent the Electric Division's in lieu of tax payment. The transfer for 2016 increased by $3.3 million due to an increase in net plant investment of $3.1 million and an increase in three-year average revenues of $0.2 million.

2015 Compared to 2014:

MLGW's transfer to the City is based on the formula provided by the May 29, 1987 TVA Power Contract Amendment (Supp. No. 8). The formula includes a maximum property tax equivalency calculation plus 4% of operating revenue less power costs (three-year average). Transfers to the city represent the Electric Division's in lieu of tax payment. The transfer for 2015 decreased by $2.6 million due to a $1.9 million reduction in the tax equalization rate, a decrease of $1.5 million resulting from higher PILOT to Shelby County and the City requesting $0.5 million less than the maximum allowed by TVA contract. The decreases are partially offset by an increase of $1.4 million due to increased net plant investment and operating revenue less power costs (three-year average).

Analysis of the Gas Division's Statements of Net Position

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

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

	2016	2015	FY16 - FY15 Percentage Change	2014	FY15 - FY14 Percentage Change
Current assets (excluding restricted funds)	$ 136,737	$ 160,636	-14.9%	$ 152,532	5.3%
Restricted assets	49,261	22,122	122.7%	20,283	9.1%
Other assets	10,478	745	1306.4%	1,591	-53.2%
Utility plant	383,630	363,741	5.5%	350,735	3.7%
Total assets	580,106	547,244	6.0%	525,141	4.2%
Deferred outflows of resources					
Employer Pension Contribution	5,473	5,473	-	-	-
Pension liability experience	485	-	-	-	-
Pension investment earnings experience	17,546	-	-	-	-
Accumulated decrease in fair value of hedging derivatives	-	617	-	774	-20.3%
Total assets and deferred outflows	603,610	553,334	9.1%	525,915	5.2%
Current liabilities payable from current assets	52,361	58,483	-10.5%	44,815	30.5%
Current liabilities payable from restricted assets	8,304	8,386	-1.0%	6,731	24.6%
Long-term debt	46,591	-	-		
Non-current liabilities	34,234	8,618	297.2%	6,699	28.6%
Total liabilities	141,490	75,487	87.4%	58,245	29.6%
Deferred Inflows of Resources					
Pension liability experience	2,788	3,485	-20.0%	-	-
Pension changes of assumptions	3,774	4,717	-20.0%	-	-
Pension investment earnings experience	88	117	-24.8%	-	-
Accumulated decrease in fair value of hedging derivatives	9	-	-	-	-
Total liabilities and deferred inflows	148,149	83,806	76.8%	58,245	43.9%
Net position:					
Net investment in capital assets	336,148	363,742	-7.6%	350,735	3.7%
Restricted	37,409	10,012	273.6%	10,479	-4.5%
Unrestricted	81,904	95,774	-14.5%	106,456	-10.0%
Total Net position	$ 455,461	$ 469,528	-3.0%	$ 467,670	0.4%

Assets

2016 Compared to 2015:

As of December 31, 2016 total assets and deferred outflows were $603.6 million, an increase of $50.3 million, or 9.1%, compared to December 31, 2015. This increase is due, in part, to an increase in restricted assets of $27.1 million due to the issuance of Series 2016 Bonds, net utility plant of $19.9 million, pension investment earnings experience of $17.5 million, and other assets of $9.7 million, offset by a decrease in current assets (excluding restricted funds) of $23.9 million. Current assets decreased due to a decrease in cash and cash equivalents of $25.2 million due, in part, to a decrease in natural gas sales and margin (revenue less gas costs).

2015 Compared to 2014:

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

Capital Assets and Construction Activities

2016 Compared to 2015:

The Gas Division's utility plant assets, net of accumulated depreciation were $383.6 million as of December 31, 2016, an increase of 5.5% over fiscal 2015. During 2016, the Gas Division expended $42.8 million on construction activities and equipment purchases, an increase of $13.5 million, or 45.8%, compared to fiscal year 2015. Major Gas Division construction activities included the purchase of meters and metering equipment ($20.0 million), the replacement of the MLGW mainframe system ($7.5 million), retrofitting of cast iron and steel taps ($4.7 million), and the purchase of transportation and power operated equipment ($2.9 million). Other significant Gas Division expenditures included pipeline integrity ($1.8 million), extensions to serve new customer ($1.5 million), purchase of right-of-way and property ($0.7 million), alternative fueling infrastructure ($0.7 million), and building upgrades to various MLGW facilities ($0.5 million).

2015 Compared to 2014:

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

Liabilities

2016 Compared to 2015:

At December 31, 2016, total liabilities and deferred inflows were $148.1 million, representing a $64.3 million (76.8%) increase compared to $83.8 million at December 31, 2015. This increase is due, in part, to increases in long-term debt due to the issuance of Series 2016 Bonds of $46.6 million and non-current liabilities of $25.6 million due, in part, to the net pension liability of $21.3 million, offset by a decrease in current liabilities payable from current assets of $6.1 million and a decrease in pension changes of assumptions of $0.9 million. The decrease in current liabilities payable from current assets is due to a decrease in accrued taxes (PILOT and transfers) of $10.9 million and a decrease in other accounts payable and liabilities of $9.2 million, offset by an increase in accounts payable-purchased gas of $13.4 million.

2015 Compared to 2014:

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

Net Position

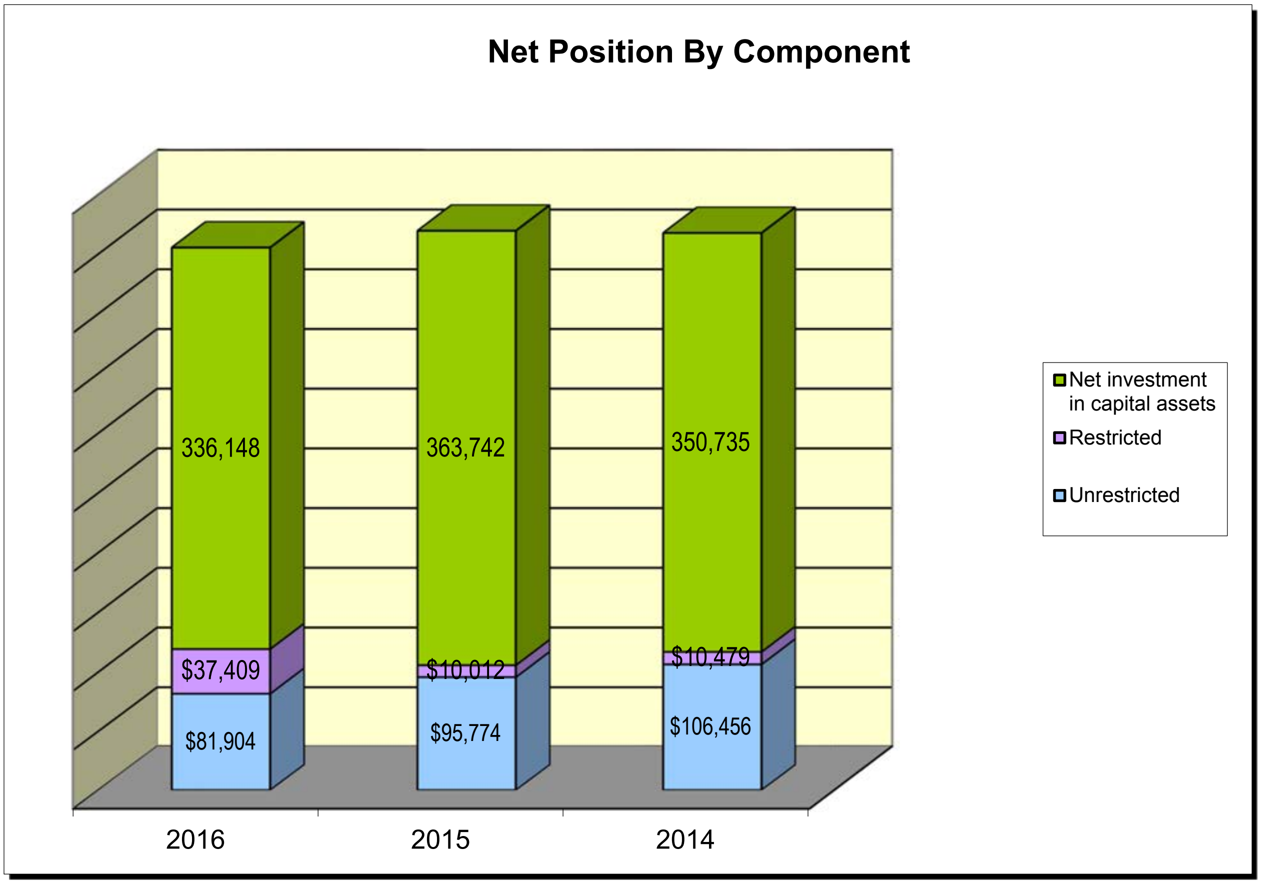
2016 Compared to 2015:

As of December 31, 2016, the Gas Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was $455.5 million, a decrease of $14.1 million, or 3.0%, from December 31, 2015. The decrease is due, in part, to a decrease in net investment in capital assets of $27.6 million and a decrease in unrestricted net position (used to finance day-to-day operations) of $13.8 million, offset, in part, by an increase in restricted net position of $27.4 million. Seventy-four percent of the net position was related to net investment in capital assets.

2015 Compared to 2014:

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

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, 2016, 2015, and 2014
(In Thousands)

	2016	2015	FY16 - FY15 Percentage Change	2014	FY15 - FY14 Percentage Change
Revenues:					
Sales, service and other operating revenues	$ 198,931	$ 243,525	-18.3%	$ 326,693	-25.5%
Transported gas revenue	6,945	6,380	8.9%	7,119	-10.4%
Non-operating revenues	98	326	-69.9%	(216)	250.9%
Total revenues	205,974	250,231	-17.7%	333,596	-25.0%
Expenses:					
Depreciation expense	15,251	14,660	4.0%	13,365	9.7%
Purchased gas	92,183	122,973	-25.0%	201,362	-38.9%
Other operating expense	94,703	89,124	6.3%	91,677	-2.8%
Non-operating expense	379	-	-	-	-
Total expenses	202,516	226,757	-10.7%	306,404	-26.0%
Income before contributions in aid of construction and transfers	3,458	23,474	-85.3%	27,192	-13.7%
Contributions in aid of construction	38,118	2,316	1545.9%	1,283	80.6%
Reduction of plant costs recovered through contributions in aid of construction	(38,118)	(2,316)	-1545.9%	(1,283)	-80.6%
Transfers to City of Memphis	(17,525)	(16,551)	5.9%	(17,320)	-4.4%
Change in net position	$ (14,067)	$ 6,923	-303.2%	$ 9,872	-29.9%
Net position, beginning of year	$ 469,528	$ 467,670	0.4%	$ 457,798	2.2%
Change in method of accounting for pension	-	(5,065)	-	-	-
Change in net position	(14,067)	6,923	-303.2%	9,872	-29.9%
Net position, end of year	$ 455,461	$ 469,528	-3.0%	$ 467,670	0.4%

Change in Net Position

2016 Compared to 2015:

The change in net position is a loss of $14.1 million, down $21.0 million from December 31, 2015. This decrease is primarily due to a decrease in operating margin (operating revenue less gas cost) of $13.2 million resulting mainly from lower gas sales volume, an increase in other operating expense of $5.6 million, an increase in transfers to the City of $1.0 million, and an increase in depreciation expense of $0.6 million.

2015 Compared to 2014:

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

Revenues

2016 Compared to 2015:

Total revenues were $206.0 million for fiscal year 2016, a decrease of 17.7% from fiscal year 2015. Sales, service and other operating revenues were $198.9 million, a decrease of $44.6 million, or 18.3%, from 2015. There was a decrease in gas sales and lower gas costs that are passed along to customers by a purchase gas adjustment ("PGA"). There was a corresponding decrease in purchased gas cost of $30.8 million, or 25.0%, due to lower purchased volumes and lower gas cost per unit. Transported gas revenue increased $0.6 million, or 8.9%, and non-operating revenue decreased $0.2 million, compared to last fiscal year.

2015 Compared to 2014:

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

Expenses

2016 Compared to 2015:

For fiscal year 2016, total expenses were $202.5 million at December 31, 2016, a 10.7% decrease over fiscal year 2015 expenses of $226.8 million. Purchased gas cost was $92.2 million, down 25.0%, from $123.0 million at December 31, 2015, as a result of a decrease in natural gas purchases and lower gas costs per unit than last year. Other operating expense was $94.7 million at December 31, 2016, up $5.6 million, or 6.3%, from $89.1 million at December 31, 2015, primarily attributable to an increase in operation costs of $6.2 million and an increase in PILOT of $0.7 million, offset by a decrease in maintenance expense of $1.3 million.

2015 Compared to 2014:

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

Contributions in aid of construction

2016 Compared to 2015:

CIAC were $38.1 million for fiscal year 2016, an increase of $35.8 million (1545.1%) from fiscal year 2015. This increase was mainly the result of the TVA pipeline project of $36.4 million, offset by a decrease in construction activity of $0.6 million.

2015 Compared to 2014:

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

Transfers to the City of Memphis

2016 Compared to 2015:

MLGW's transfer to the City of Memphis is based on the formula provided by the State of Tennessee Municipal Gas System Tax Equivalent Law of 1987. The formula includes a maximum property tax equivalency calculation plus 4% of operating revenue less power costs (three-year average). Transfers to the City represent the Gas Division's in lieu of tax payment. The transfer for 2016 increased by $1.0 million, due to an increase of $1.1 million in net plant investment, offset by a decrease of $0.1 million due to a decrease in three-year average revenues.

2015 Compared to 2014:

MLGW's transfer to the City is based on the formula provided by the State of Tennessee Municipal Gas System Tax Equivalent Law of 1987. The formula includes a maximum property tax equivalency calculation plus 4% of operating revenue less power costs (three-year average). Transfers to the City represent the Gas Division's PILOT. The transfer for 2015 decreased by $0.8 million due to a decrease of $1.0 million resulting from the City requesting less than the maximum allowed by statute and $0.8 million due to a decrease in the tax equalization rate, offset in part by an increase of $0.8 million due to net plant investment and three-year average revenues and an increase of $0.2 million resulting from lower PILOT to Shelby County.

Analysis of the Water Division's Statements of Net Position

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

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

	2016	2015	FY16 - FY15 Percentage Change	2014	FY15 - FY14 Percentage Change
Current assets (excluding restricted assets)	$ 46,901	$ 43,790	7.1%	$ 45,234	-3.2%
Restricted assets	29,756	13,986	112.8%	14,168	-1.3%
Other assets	4,012	2,693	49.0%	2,653	1.5%
Utility plant	292,880	270,988	8.1%	266,592	1.6%
Total assets	373,549	331,457	12.7%	328,647	0.9%
Deferred outflows of resources					
Employer Pension Contribution	3,634	3,634	-	-	-
Pension liability experience	322	-	-	-	-
Pension investment earnings experience	11,652	-	-	-	-
Total assets and deferred outflows	389,157	335,091	16.1%	328,647	2.0%
Current liabilities payable from current assets	20,031	19,140	4.7%	14,134	35.4%
Current liabilities payable from restricted assets	5,154	6,050	-14.8%	5,101	18.6%
Long-term debt	45,501	14,739	208.7%	15,384	-4.2%
Non-current liabilities	20,988	6,466	224.6%	5,924	9.1%
Total liabilities	91,674	46,395	97.6%	40,543	14.4%
Deferred inflows of resources					
Pension liability experience	1,852	2,315	-20.0%	-	-
Pension changes of assumptions	2,506	3,133	-20.0%	-	-
Pension investment earnings experience	58	78	-25.6%	-	-
Total liabilities and deferred inflows	96,090	51,921	85.1%	40,543	28.1%
Net position:					
Net investment in capital assets	246,178	255,883	-3.8%	250,871	2.0%
Restricted	23,617	7,100	232.6%	8,268	-14.1%
Unrestricted	23,272	20,187	15.3%	28,965	-30.3%
Total Net position	$ 293,067	$ 283,170	3.5%	$ 288,104	-1.7%

Assets

2016 Compared to 2015:

As of December 31, 2016, total assets and deferred outflows were $389.2 million, an increase of $54.1 million compared to December 31, 2015. The increase is due, in part, to increases in net utility plant of $21.9 million, restricted assets of $15.8 million due, in part, to the issuance of Series 2016 Bonds, and pension investment earnings experience of $11.7 million.

2015 Compared to 2014:

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

Capital Assets and Construction Activities

2016 Compared to 2015:

The Water Division's utility plant assets, net of accumulated depreciation were $292.9 million as of December 31, 2016, an increase of 8.1% as compared to December 31, 2015. During 2016, the Water Division expended $31.0 million on construction activities and equipment purchases, an increase of $19.4 million, or 167.2%, compared to fiscal year 2015. Major Water Division construction activities included the purchase of meters ($13.2 million), building upgrades to various pumping stations and other MLGW buildings ($2.9 million), extension to serve new customers ($2.3 million), upgrades to Mallory Pumping Station ($2.3 million), and upgrades to Davis Pumping Station ($2.0 million). Other significant expenditures include upgrades to Allen Pumping Station ($1.1 million), the purchase of transportation and power operated equipment ($1.0 million), the relocation of facilities to accommodate street improvements ($0.9 million), upgrades to Shaw Pumping Station ($0.7 million), and upgrades to Palmer Pumping Station ($0.5 million).

2015 Compared to 2014:

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

Liabilities

2016 Compared to 2015:

As of December 31, 2016, total liabilities and deferred inflows were $96.1 million, representing an increase of $44.2 million, or 85.1%, compared to December 31, 2015. The increase is due, in part, to an increase in long-term debt of $30.8 million and an increase in non-current liabilities of $14.5 million. Long-term debt increased $28.9 million due to the issuance of Series 2016 Bonds and $2.5 million due to the unamortized premiums. Non-current liabilities increased $14.2 million due to the pension liability-long term.

2015 Compared to 2014:

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

Net Position

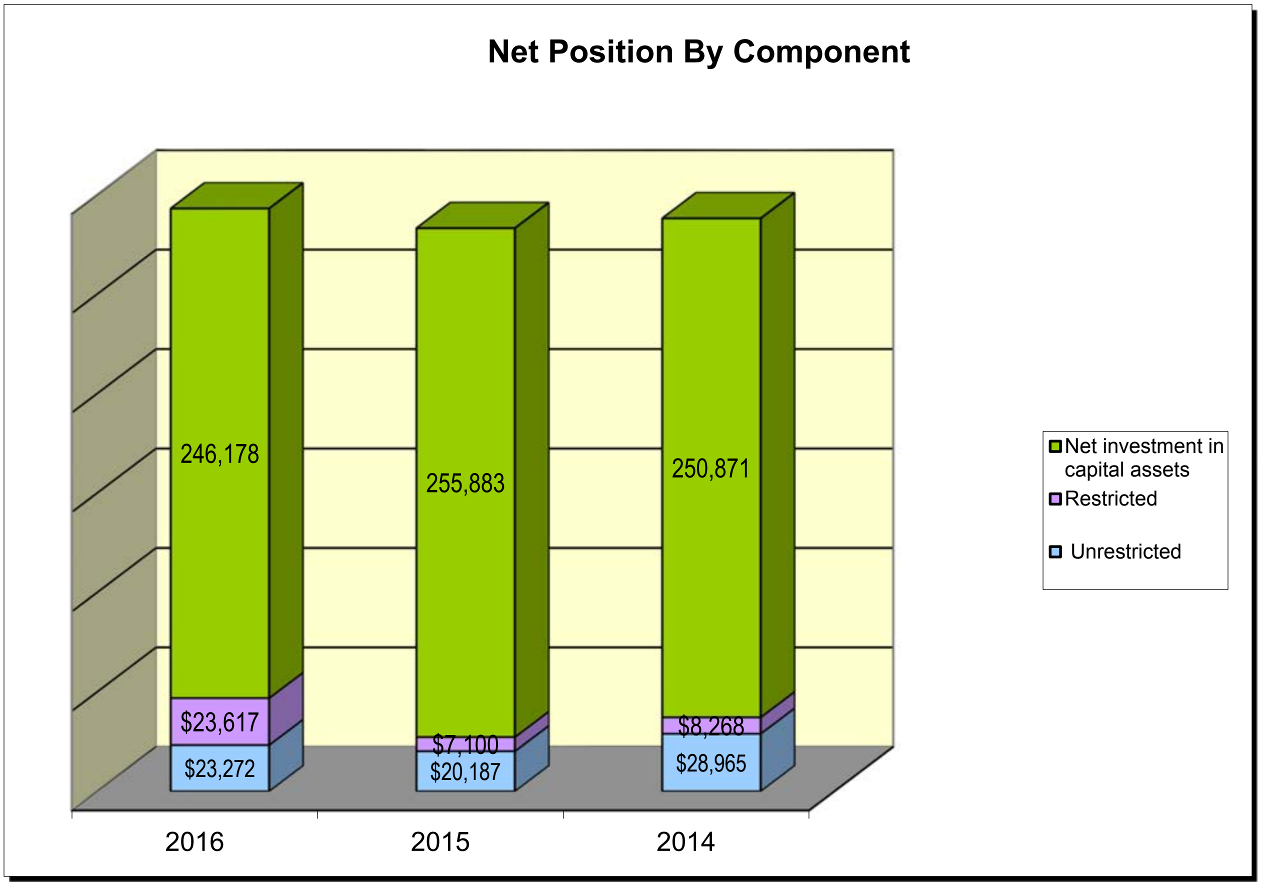
2016 Compared to 2015:

As of December 31, 2016, the Water Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was $293.1 million, an increase of $9.9 million, or 3.5%, from December 31, 2015. The increase is due to an increase in restricted net position of $16.5 million, offset by a decrease in net investment in capital assets of $9.7 million. Eighty-four percent of the net position was related to net investments in capital assets.

2015 Compared to 2014:

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

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, 2016, 2015, and 2014
(In Thousands)

	2016	2015	FY16 - FY15 Percentage Change	2014	FY15 - FY14 Percentage Change
Revenues:					
Operating revenues	$ 99,847	$ 84,491	18.2%	$ 86,181	-2.0%
Non-operating revenues	739	678	9.0%	722	-6.1%
Total Revenues	100,586	85,169	18.1%	86,903	-2.0%
Expenses:					
Depreciation expense	7,987	7,279	9.7%	7,522	-3.2%
Other operating expense	77,611	74,604	4.0%	70,379	6.0%
Non-operating expense	691	457	51.2%	264	73.1%
Total Expenses	86,289	82,340	4.8%	78,165	5.3%
Income before contributions in aid of construction and transfers	14,297	2,829	405.4%	8,738	-67.6%
Contributions in aid of construction	3,533	3,128	13.0%	3,161	-1.0%
Reduction of plant costs recovered through contributions in aid of construction	(3,533)	(3,128)	-13.0%	(3,161)	1.0%
Transfers to City of Memphis	(4,400)	(4,400)	-	(4,400)	-
Change in net position	$ 9,897	$ (1,571)	730.0%	$ 4,338	-136.2%
Net position, beginning of year	$ 283,170	$ 288,104	-1.7%	$ 283,766	1.5%
Change in method of accounting for pension	-	(3,363)	-	-	-
Change in net position	9,897	(1,571)	730.0%	4,338	-136.2%
Net position, end of year	$ 293,067	$ 283,170	3.5%	$ 288,104	-1.7%

Change in Net Position

2016 Compared to 2015:

As of December 31, 2016, the change in net position is $9.9 million, up $11.5 million from a loss of $1.6 million at December 31, 2015. This increase is due to an increase in operating revenues of $15.4 million, offset by an increase in other operating expense of $3.0 million.

2015 Compared to 2014:

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

Revenues

2016 Compared to 2015:

Total revenues were $100.6 million for fiscal year 2016, an increase of $15.4 million compared to fiscal year 2015. Operating revenues increased $15.4 million due, in part, to an increase in sales revenue as a result of a 22% rate increase effective January 2016.

2015 Compared to 2014:

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

Expenses

2016 Compared to 2015:

As of December 31, 2016, total expenses for the Water Division were $86.3 million, an increase of $3.9 million, or 4.8%, compared to fiscal year 2015. The increase resulted from an increase in other operating expense of $3.0 million due, in part, to an increase in operation expenses of $2.1 million and an increase in depreciation expense of $0.7 million.

2015 Compared to 2014:

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

Contributions in aid of construction

2016 Compared to 2015:

CIAC were $3.5 million for fiscal year 2016, an increase of $0.4 million, or 13.0%, from fiscal year 2015. This increase was mainly the result of $0.4 million increase in donated easements.

2015 Compared to 2014:

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

Transfers to the City of Memphis

The Water Division, through an agreement with the City, transfers a payment in the amount of $2.5 million per year. The agreement is effective through the year 2028. During 2014, the Water Division was authorized and directed by City Council to make an additional annual $1.9 million transfer payment each year through fiscal year 2017.

Additional Financial Information

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

Financial Statements

Required and Supplemental Information

MLGW

Memphis Light, Gas and Water Division
Years ended December 31, 2016 and 2015
with Independent Auditor’s Report

STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)

	Electric Division		Gas Division		Water Division	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Assets						
Current assets:						
Cash and cash equivalents	**$ 113,349**	$ 160,465	**$ 40,607**	$ 65,814	**$ 12,233**	$ 13,613
Investments	**92,361**	95,299	**31,115**	37,458	**9,975**	8,083
Derivative financial instruments	**-**	-	**9**	-	**-**	-
Restricted funds - current	**33,586**	33,093	**8,303**	8,607	**5,154**	6,050
Accounts receivable, less allowance for doubtful accounts	**81,921**	77,826	**36,404**	33,871	**17,617**	15,352
Unbilled revenues	**52,588**	46,278	**18,201**	14,040	**3,844**	3,503
Prepaid power cost	**119,697**	117,078	**-**	-	**-**	-
Unrecovered purchased power/gas cost	**3,229**	2,373	**225**	-	**-**	-
Gas stored - gas in storage	**-**	-	**2,586**	2,156	**-**	-
Inventories	**23,287**	24,800	**4,811**	4,283	**3,089**	3,222
Prepayment - insurance	**-**	-	**478**	483	**-**	-
Unamortized debt expense - current	**337**	412	**33**	-	**44**	-
Meter replacement - current	**428**	-	**337**	-	**99**	-
Other current assets	**363**	383	**1,931**	2,531	**-**	17
Total current assets	**521,146**	558,007	**145,040**	169,243	**52,055**	49,840
Non-current assets:						
Restricted funds:						
Futures margin deposits	**-**	1	**-**	221	**-**	-
Insurance reserves - injuries and damages	**5,385**	5,413	**3,026**	2,653	**2,121**	2,988
Insurance reserves - casualties and general	**19,155**	18,533	**9,791**	9,791	**7,100**	7,100
Medical benefits	**7,238**	8,230	**3,228**	3,670	**2,144**	2,437
Customer deposits	**24,888**	20,878	**5,219**	5,787	**1,615**	1,371
Interest fund - revenue bonds - series 2003A	**-**	14	**-**	-	**-**	-
Interest fund - revenue refunding bonds - series 2008	**381**	380	**-**	-	**-**	-
Interest fund - revenue refunding bonds - series 2010	**569**	1,035	**-**	-	**-**	-
Interest fund - revenue bonds - series 2014	**250**	254	**-**	-	**41**	42
Interest fund - revenue bonds - series 2016	**148**	-	**148**	-	**77**	-
Sinking fund - revenue refunding bonds - series 2008	**2,635**	-	**-**	-	**-**	-
Sinking fund - revenue refunding bonds - series 2010	**6,958**	9,417	**-**	-	**-**	-
Sinking fund - revenue bonds - series 2014	**210**	206	**-**	-	**48**	48
Sinking fund - revenue bonds - series 2016	**106**	-	**106**	-	**93**	-
Construction fund - revenue bonds - series 2016	**-**	-	**27,743**	-	**16,517**	-
Total restricted funds	**67,923**	64,361	**49,261**	22,122	**29,756**	13,986
Less restricted funds - current	**(33,586)**	(33,093)	**(8,303)**	(8,607)	**(5,154)**	(6,050)
Restricted funds - non-current	**34,337**	31,268	**40,958**	13,515	**24,602**	7,936

See accompanying notes.

STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)
(Continued)

	Electric Division		Gas Division		Water Division	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Assets:						
Other assets:						
Prepaid power cost - long term	**112,821**	232,517	**-**	-	**-**	-
Prepayment - in lieu of taxes	**1,739**	1,797	**40**	41	**-**	-
Unamortized debt expense	**974**	937	**352**	-	**456**	187
Notes receivable	**-**	-	**3,562**	-	**1,872**	2,038
Meter replacement-long term	**6,918**	-	**5,820**	-	**1,217**	-
Other prepayments	**1,579**	1,591	**704**	704	**467**	468
Total other assets	**124,031**	236,842	**10,478**	745	**4,012**	2,693
Utility plant						
Plant in service	**1,815,044**	1,738,345	**694,303**	658,913	**491,517**	462,612
Plant held for future use	**-**	-	**212**	212	**-**	-
Non-utility plant	**15,345**	15,345	**200**	200	**-**	-
Total utility plant	**1,830,389**	1,753,690	**694,715**	659,325	**491,517**	462,612
Less accumulated depreciation & amortization	**(750,926)**	(711,937)	**(311,085)**	(295,584)	**(198,637)**	(191,624)
Utility plant, net	**1,079,463**	1,041,753	**383,630**	363,741	**292,880**	270,988
Total non-current assets	**1,237,831**	1,309,863	**435,066**	378,001	**321,494**	281,617
Total assets	**1,758,977**	1,867,870	**580,106**	547,244	**373,549**	331,457
Deferred outflows of resources						
Unamortized balance of refunded debt	**1,499**	3,509	**-**	-	**-**	-
Employer pension contribution	**12,271**	12,271	**5,473**	5,473	**3,634**	3,634
Pension liability experience	**1,088**	-	**485**	-	**322**	-
Pension investment earnings experience	**39,341**	-	**17,546**	-	**11,652**	-
Accumulated decrease in fair value of hedging derivatives	**-**	40	**-**	617	**-**	-
Total assets and deferred outflows of resources	**$1,813,176**	$ 1,883,690	**$ 603,610**	$ 553,334	**$ 389,157**	$ 335,091

See accompanying notes.

STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)
(Continued)

	Electric Division		Gas Division		Water Division	
	2016	2015	2016	2015	2016	2015
Liabilities						
Current liabilities:						
Accounts payable - purchased power and gas	$ 115,691	$ 103,227	$ 25,950	$ 12,539	$ -	$ -
Other accounts payable and liabilities	42,166	47,881	20,265	29,496	15,840	14,880
Accrued taxes	1,282	36,347	1,320	12,268	-	1,250
Accrued vacation	8,461	8,088	3,657	3,563	2,633	2,488
Derivative financial instruments	-	40	-	617	-	-
Bonds payable	108,860	105,782	1,169	-	1,558	522
Total current liabilities payable from current assets	276,460	301,365	52,361	58,483	20,031	19,140
Current liabilities payable from restricted assets:						
Insurance reserves - injuries and damages	5,385	5,413	3,026	2,654	2,121	2,988
Medical benefits	7,238	8,230	3,228	3,670	2,144	2,437
Customer deposits	9,707	8,143	1,796	2,062	629	535
Bonds payable - accrued interest	1,347	1,683	148	-	118	42
Bonds payable - principal	9,910	9,623	106	-	142	48
Total current liabilities payable from restricted assets	33,587	33,092	8,304	8,386	5,154	6,050
Total current liabilities	310,047	334,457	60,665	66,869	25,185	25,190
Non-current liabilities:						
Customer advances for construction	8,584	7,234	626	578	-	-
Customer deposits	15,182	12,735	3,423	3,724	985	836
LNG deposits	-	-	125	-	-	-
Reserve for unused sick leave	7,043	6,715	3,198	3,101	2,311	2,200
Revenue bonds - series 2003A	-	4,170	-	-	-	-
Revenue refunding bonds - series 2008	65,305	96,930	-	-	-	-
Revenue refunding bonds - series 2010	55,070	138,420	-	-	-	-
Revenue bonds - series 2014	63,585	66,105	-	-	13,290	13,870
Revenue bonds - series 2016	38,725	-	38,725	-	28,880	-
Unamortized debt premium	21,016	20,122	7,866	-	3,331	869
Net pension liability	49,940	2,072	22,273	924	14,791	614
Other	1,206	800	4,589	291	2,901	2,816
Total non-current liabilities	325,656	355,303	80,825	8,618	66,489	21,205
Total liabilities	635,703	689,760	141,490	75,487	91,674	46,395
Deferred inflows of resources						
Pension liability experience	6,252	7,815	2,788	3,485	1,852	2,315
Pension changes of assumptions	8,462	10,577	3,774	4,717	2,506	3,133
Pension investment earnings experience	197	262	88	117	58	78
Accumulated increase in fair value of hedging derivatives	-	-	9	-	-	-
Total deferred inflows of resources	14,911	18,654	6,659	8,319	4,416	5,526
Net position						
Net investment in capital assets	958,213	964,812	336,148	363,742	246,178	255,883
Restricted	19,155	18,534	37,409	10,012	23,617	7,100
Unrestricted	185,194	191,930	81,904	95,774	23,272	20,187
Total net position	1,162,562	1,175,276	455,461	469,528	293,067	283,170
Total liabilities, deferred inflows of resources and net position	$ 1,813,176	$ 1,883,690	$ 603,610	$ 553,334	$ 389,157	$ 335,091

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)

	Electric Division		Gas Division		Water Division	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Operating revenues:						
Sales and service revenues	**$1,219,587**	$1,238,095	**$184,874**	$ 225,388	**$ 96,236**	$ 80,748
Transported gas revenues	**-**	-	**6,945**	6,380	**-**	-
Other revenues	**29,948**	30,466	**14,057**	18,137	**3,611**	3,743
Total operating revenues	**1,249,535**	1,268,561	**205,876**	249,905	**99,847**	84,491
Operating expenses:						
Purchased power and gas for resale	**1,018,157**	1,015,978	**92,183**	122,973	**-**	-
Production	**-**	-	**-**	-	**15,759**	15,586
Operation	**136,756**	126,227	**81,399**	75,175	**51,744**	49,629
Maintenance	**44,273**	43,650	**11,671**	12,988	**10,108**	9,389
Depreciation & amortization	**50,902**	48,778	**15,251**	14,660	**7,987**	7,279
Payment in lieu of taxes	**6,898**	7,827	**1,633**	961	**-**	-
	1,256,986	1,242,460	**202,137**	226,757	**85,598**	81,883
Operating income (loss)	**(7,451)**	26,101	**3,739**	23,148	**14,249**	2,608
Non-operating revenues (expenses):						
Contributions in aid of construction	**10,445**	13,837	**38,118**	2,316	**3,533**	3,128
Reduction of plant costs recovered through contributions in aid of construction	**(10,445)**	(13,837)	**(38,118)**	(2,316)	**(3,533)**	(3,128)
Transmission credits	**33,344**	32,565	**-**	-	**-**	-
Investment and other income	**3,713**	3,730	**98**	326	**691**	674
Allowance for funds used during construction	**279**	226	**-**	-	**48**	4
Prepay credit	**12,886**	16,644	**-**	-	**-**	-
Interest expense	**(15,491)**	(19,011)	**(379)**	-	**(691)**	(457)
Total non-operating revenues (expenses)	**34,731**	34,154	**(281)**	326	**48**	221
Income before transfers	**27,280**	60,255	**3,458**	23,474	**14,297**	2,829
Transfers out - City of Memphis	**(39,994)**	(36,697)	**(17,525)**	(16,551)	**(4,400)**	(4,400)
Change in net position	**$ (12,714)**	$ 23,558	**$ (14,067)**	$ 6,923	**$ 9,897**	$ (1,571)
Net position, beginning of year	**$1,175,276**	$1,163,074	**$469,528**	$ 467,670	**$283,170**	$ 288,104
Change in method of accounting for pension	**-**	(11,356)	**-**	(5,065)	**-**	(3,363)
Change in net position	**(12,714)**	23,558	**(14,067)**	6,923	**9,897**	(1,571)
Net position, end of year	**$1,162,562**	$1,175,276	**$455,461**	$ 469,528	**$293,067**	$ 283,170

See accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)

	Electric Division		Gas Division		Water Division	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Cash flows from operating activities:						
Receipts from customers and users	**$ 1,246,585**	$ 1,277,795	**$ 197,166**	$ 263,877	**$ 98,045**	$83,157
Payments to suppliers	**(899,800)**	(897,702)	**(101,881)**	(156,105)	**(26,296)**	(25,745)
Payments to/on behalf of employees	**(120,997)**	(121,267)	**(63,049)**	(60,143)	**(46,493)**	(42,064)
Payments from (to) other Division funds	**(2,831)**	2,146	**(2,371)**	(2,569)	**(3,162)**	(2,606)
Payments for taxes	**(14,131)**	(62)	**(2,306)**	(25)	**-**	-
Net cash provided by operating activities	**208,826**	260,910	**27,559**	45,035	**22,094**	12,742
Cash flows from noncapital financing activities:						
Transfers to City of Memphis	**(67,416)**	(7,993)	**(27,580)**	(5,175)	**(5,650)**	(3,150)
Principal payments on long-term debt	**(117,091)**	(107,336)	**-**	-	**-**	-
Interest expense on bonds	**(17,113)**	(22,855)	**-**	-	**-**	-
Net cash used in noncapital financing activities	**(201,620)**	(138,184)	**(27,580)**	(5,175)	**(5,650)**	(3,150)
Cash flows from capital and related financing activities:						
Purchase and construction of utility plant	**(107,573)**	(86,429)	**(80,949)**	(31,467)	**(35,028)**	(15,086)
Contributions in aid of construction	**10,445**	13,837	**38,118**	2,316	**3,533**	3,128
Advance contributions in aid of construction (TVA)	**-**	-	**(10,218)**	11,487	**-**	-
Proceeds from issuance of long-term debt	**47,698**	-	**47,694**	-	**32,287**	-
Principal payments on long-term debt	**(2,470)**	(2,421)	**-**	-	**(569)**	(559)
Interest payments on debt	**(3,205)**	(2,869)	**(443)**	-	**(687)**	(513)
Net cash provided by (used in) capital and related financing activities	**(55,105)**	(77,882)	**(5,798)**	(17,664)	**(464)**	(13,030)
Cash flows from investing activities:						
Sales and maturities of investments	**74,240**	74,844	**24,836**	34,970	**3,232**	13,412
Purchases of investments	**(73,397)**	(91,055)	**(42,252)**	(36,776)	**(21,078)**	(10,345)
Payments received on notes receivable	**-**	-	**913**	1,200	**165**	(13)
Issuance of notes receivable	**-**	-	**-**	-	**-**	-
Investment income (loss) earned on investments	**1,408**	503	**495**	307	**137**	529
Net cash provided by (used in) investing activities	**2,251**	(15,708)	**(16,008)**	(299)	**(17,544)**	3,583
Increase (decrease) in cash and cash equivalents	**(45,648)**	29,136	**(21,827)**	21,897	**(1,564)**	145
Cash and cash equivalents, beginning of year	**215,904**	186,768	**83,300**	61,403	**23,841**	23,696
Cash and cash equivalents, end of year	**$ 170,256**	$ 215,904	**$ 61,473**	$ 83,300	**$ 22,277**	$23,841

See accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)
(Continued)

	Electric Division		Gas Division		Water Division	
	2016	2015	2016	2015	2016	2015
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	$ (7,451)	$ 26,101	$ 3,739	$ 23,148	$ 14,249	$ 2,608
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:						
Depreciation of utility plant	52,071	49,766	16,784	16,138	8,286	7,564
Transmission credits	33,344	32,565	-	-	-	-
Prepay power credits	12,886	16,644	-	-	-	-
Other income (loss)	2,305	3,227	(403)	19	555	145
(Increase) decrease in assets:						
Accounts receivable	(4,095)	7,372	(2,534)	7,126	(2,265)	(552)
Unbilled revenues	(6,309)	3,360	(4,161)	5,847	(341)	(545)
Prepaid power cost	117,078	113,538	-	-	-	-
Prepayments - in lieu of taxes	58	75	1	1	-	-
Unrecovered purchased power and gas costs	(856)	-	(225)	-	-	
Inventories	1,513	(2,050)	(529)	131	134	(199)
Other assets	3,767	(11,982)	2,276	(5,009)	1,094	(3,679)
Increase (decrease) in liabilities:						
Accounts payable - purchased power and gas	12,464	(5,166)	13,412	(13,552)	-	-
Other accounts payable and accrued expenses	(5,714)	8,896	988	3,573	959	3,714
Accrued payment in lieu of taxes	(7,642)	7,643	(893)	893	-	-
Customer deposits	4,010	1,101	(394)	1,196	243	61
Insurance reserves	(28)	(1,022)	372	14	(866)	152
Medical benefit accrual	(992)	2,609	(443)	1,163	(294)	773
Other liabilities	2,417	19,589	(431)	9,412	340	6,063
Accounting adjustment for GASB 68 - change in beginning net position	-	(11,356)	-	(5,065)	-	(3,363)
Total adjustments	216,277	234,809	23,820	21,887	7,845	10,134
Net cash provided by operating activities	$ 208,826	$ 260,910	$ 27,559	$ 45,035	$ 22,094	$12,742
Reconciliation of cash and cash equivalents per statements of cash flows to the statements of net position:						
Restricted funds	$ 67,923	$ 64,361	$ 49,261	$ 22,122	$ 29,756	$13,986
Less investments included in restricted funds	(11,016)	(8,922)	(28,395)	(4,636)	(19,712)	(3,758)
Cash and cash equivalents included in restricted funds	56,907	55,439	20,866	17,486	10,044	10,228
Current assets - cash and cash equivalents	113,349	160,465	40,607	65,814	12,233	13,613
Total cash and cash equivalents	$ 170,256	$ 215,904	$ 61,473	$ 83,300	$ 22,277	$23,841

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

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

Basis of Presentation

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

Basis of Accounting

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

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

1. Summary of Significant Accounting Policies (continued)

Basis of Accounting (continued)

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

Regulatory Accounting

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

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

1. Summary of Significant Accounting Policies (continued)

Regulatory Accounting (continued)

	Electric Division		Gas Division		Water Division	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Regulatory Assets:						
Current:						
Unrecovered purchased power/gas cost	**$ 3,229**	$ 2,373	**$ 225**	$ -	**$ -**	$ -
Meter replacement	**428**	-	**337**	-	**99**	-
Unamortized debt expense	**337**	412	**33**	-	**44**	17
Total current	**3,994**	2,785	**595**	-	**143**	17
Non-Current:						
Meter replacement	**6,918**	-	**5,820**	-	**1,217**	-
Unamortized debt expense	**974**	937	**352**	-	**456**	187
Total non-current	**7,892**	937	**6,172**	-	**1,673**	187
Total Regulatory Assets	**$ 11,886**	$ 3,722	**$ 6,767**	$ -	**$ 1,816**	$ 204
Regulatory Liabilities:						
Current:						
Purchased gas adjustment	**$ -**	$ -	**$ 2,665**	$ 2,455	**$ -**	$ -
Total Regulatory Liabilities	**$ -**	$ -	**$ 2,665**	$ 2,455	**$ -**	$ -

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.

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.

1. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

MLGW has the following recurring fair value measurements as of December 31, 2016:

- U.S. Treasury securities of $132,189 (Level 1 inputs)
- Negotiable certificates of deposit of $5,006; commercial paper of $134,191; corporate bonds of $1,161; government mortgage-backed securities of $20,235; and U.S. Government agencies of $41,140 (Level 2 inputs)
- Government mortgage-backed securities of $4,251 (Level 3 inputs)

2015 comparative data is not available.

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, residential, commercial, industrial and government customers in the Shelby County, Tennessee, geographic area. Accounts receivable are potentially exposed to concentrations of credit risk. As a general policy, customer deposits are required for receivables unless or until the customer has established a good credit history. Accounts receivable are stated at the amount management expects to collect from outstanding balances.

As of December 31, 2016 and 2015, accounts receivable and allowances for doubtful accounts were as follows:

	Electric Division		**Gas Division**		**Water Division**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Accounts Receivable	**$ 103,356**	$ 95,787	**$ 37,024**	$ 34,503	**$ 18,099**	$ 15,746
Allowance for doubtful accounts	**(21,435)**	(17,961)	**(620)**	(632)	**(482)**	(394)
Total A/R, net of allowance	**$ 81,921**	$ 77,826	**$ 36,404**	$ 33,871	**$ 17,617**	$ 15,352

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

1. Summary of Significant Accounting Policies (continued)

Accounts Receivable (continued)

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

	2016	2015
Electric	**$ 6,828**	$ 6,565
Gas	**1,405**	1,308
Water	**1,096**	676

Unbilled Revenues

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

Prepaid Power Cost

Electric Division prepaid power cost represents the unamortized amount of prepaid power under the prepaid electricity agreement signed with Tennessee Valley Authority ("TVA") on November 19, 2003. Under the prepay agreement, MLGW issued revenue bonds with a face value of $1,392,170 and a premium of $121,247 to make an upfront payment of $1,500,000 to TVA. Under the terms of the agreement, MLGW receives a fixed discount on the monthly power purchased for the fifteen year term of the agreement. The total fixed discount under the agreement is sufficient to meet the debt service requirements and yield approximately $13,000 in annual power cost savings. The monthly fixed discount is allocated to prepaid power cost and other income under the interest method based on the debt service requirements of the associated debt. Total prepaid power cost at December 31, 2016 and 2015 was $232,518 and $349,595, respectively. As it relates to debt issued to finance the cost of this transaction, the amount of interest cost incurred and charged to electric expense in 2016 and 2015 totaled $12,782 and $16,644, respectively. See Note 11 (Bonds) and Note 12 (Rates and Energy Supplies) for further disclosure of the revenue bonds and subsequent refinancing.

Inventories and Stored Natural Gas

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

1. Summary of Significant Accounting Policies (continued)

Restricted Funds and Related Reserves

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

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

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

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

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

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

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

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

Customer Deposits

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

1. Summary of Significant Accounting Policies (continued)

Customer Deposits (continued)

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

Utility Plant

The costs of additions and replacements of units of property are capitalized. Costs include contracted work, direct labor and materials, allocable overhead and where applicable, allowances for borrowed funds used during construction. Donated assets are valued at fair market value at the time of donation. 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.

An allowance for borrowed funds used during construction is computed at actual interest rates to the extent that major projects are financed by long-term debt. In 2016, interest of $279 was capitalized for the Electric Division and $48 for the Water Division. In 2015, interest of $226 was capitalized for the Electric Division and $4 for the Water Division. Interest on other debt is not capitalized, as it is recovered through current revenues. The amount of interest cost incurred and charged to electric expense in 2016 and 2015 totaled $2,709 and $2,367, respectively. The amount of interest cost incurred and charged to gas expense in 2016 and 2015 totaled $379 and $-0-, respectively. The amount of interest cost incurred and charged to water expense in 2016 and 2015 totaled $691 and $457, respectively.

Depreciation and amortization are computed using the straight-line method based on estimated service lives of various classes of property at rates equivalent to annual composite rates of approximately 2.9% for the electric division, 2.4% for the gas division and 2.0% for the water division. Computations of the estimated service lives are the result of various depreciation studies and comparisons with industry standards.

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

Futures, Options and Swap Contracts

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

1. Summary of Significant Accounting Policies (continued)

Futures, Options and Swap Contracts (continued)

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.

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

1. Summary of Significant Accounting Policies (continued)

Revenues and Expenses (continued)

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.

Pensions

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

Related Parties

MLGW conducts business with related parties as "arm's length" transactions. Generally, MLGW provides utility and related services to and receives payments from these parties in the same manner as other non-related customers. Major related party entities include the City of Memphis government. For the years ending 2016 and 2015, receivables from related parties for utility construction, pole rentals and utility related services excluding utility bills were $2,219 and $2,040, respectively.

As of December 31, 2016, the only free service provided to the City is water for fire fighting. Free water service provided to the City for public purposes is estimated to be $48 for 2016 and $46 for 2015.

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.

1. Summary of Significant Accounting Policies (continued)

Events occurring after reporting date

Management has evaluated events and transactions that have occurred between December 31, 2016 and June 7, 2017, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

Recent Accounting Standards

Effective for fiscal year 2016, MLGW adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application.* The objective of this statement is to clarify the definition of fair value for financial reporting purposes, establish principles for measuring fair value, providing additional fair value application guidance for certain investments and enhancing disclosures about fair value measurements.

Effective for fiscal year 2016, MLGW adopted the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The objective of this statement is to improve the decision-useful information about pensions and related assets in the accounting and financial reporting by state and local governments by establishing requirements for the defined benefit and defined contribution pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This standard also clarifies note disclosures and required supplementary information.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans.* The objective of this statement replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement No. 50, *Pension Disclosures* that established uniform financial reporting standards for OPEB plans. This statement establishes new accounting and financial reporting requirements for state and local governments with OPEB plans. The provisions of this statement are effective for OPEB plan financial statements for periods beginning after June 15, 2016. MLGW has not elected early implementation of this standard and has not completed the process of evaluating the impact of this statement on its financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting For Postemployment Benefits Other Than Pensions.* This statement replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* that compared the cost of OPEB with the period in which service was rendered. This statement establishes more extensive note disclosures and required supplementary information for accounting and financial reporting requirements

1. Summary of Significant Accounting Policies (continued)

Recent Accounting Standards (continued)

for state and local governments with OPEB plans. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2017. MLGW has not elected early implementation of this standard and has not completed the process of evaluating the impact of this statement on its financial statements.

Effective for fiscal year 2016, MLGW adopted the provisions of GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles For State And Local Governments.* This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* GAAP hierarchy is reduced to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature for transactions. The adoption of this standard had no effect on MLGW.

In March 2016, GASB issued Statement No. 82, *Pension Issues-An Amendment of GASB Statements No. 67, No. 68, and No. 73.* This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions of the statement are effective for financial statements for periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the provisions of the statement are effective for financial statements for periods beginning after June 15, 2017. MLGW elected to implement this standard effective for fiscal year 2016.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. 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 should recognize a liability based on the guidance in this Statement. The provisions of the statement are effective for financial statements for periods beginning after June 15, 2018. MLGW has not elected early implementation of this standard and has not completed the process of evaluating the impact of this statement on its financial statements.

2. Deposits and Investments

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

2. Deposits and Investments (continued)

Custodial Credit Risk

Deposits

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

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

The depository bank shall provide collateral for MLGW deposits in accordance with requirements for public funds deposits in Tennessee. The market value of the pledged securities in the collateral pool must equal at least 105% of the value of the deposit secured, less the amount protected by federal deposit insurance. As of December 31, 2016, MLGW deposits with financial institutions were $104,320. All bank deposits were maintained in collateralized accounts or covered by federal depository insurance and were not exposed to custodial credit risk

Investments

The investment policy governs the overall administration and investment management of the funds held in the MLGW investment portfolio. MLGW is authorized by the Board of Commissioners to invest in the following investments as authorized by state law and as it deems proper: U.S. Treasuries; U.S. government obligations; repurchase agreements; commercial paper with specified ratings; bankers' acceptances with specified ratings; bank deposits; certificates of deposit; state pool; and proceeds of bonds, notes and other obligations issued by MLGW.

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

2. Deposits and Investments (continued)

Investments (continued)

The following table presents the investments and maturities of MLGW's investment portfolio as of December 31, 2016:

		Remaining Maturities (in Years)		
Investment Type	**Fair Value**	**Maturities < 1 year**	**Maturities 1 to 4 years**	**Maturities > 4 years**
U.S. Treasuries	$ 132,189	$ 60,799	$ 71,390	$ -
Federal Agency (Fixed Rate)	63,540	23,530	40,010	-
Federal Agency (Callable)	3,247 [1]	-	3,247 [2]	-
Certificates of Deposit	5,006	5,006	-	-
Commercial Paper (Rated AA or higher)	134,191	134,191	-	-
Total Investments	**$ 338,173**	**$ 223,526**	**$ 114,647**	**$ -**

[1] $2,086 of the Federal Agency is guaranteed by the Federal Home Loan Bank
$1,161 of these bonds are guaranteed by the Export-Import Bank of the United States

[2] $2,086 of the Federal Agency matures in 2018; Callable quarterly until maturity
$ 747 of these bonds mature in 2019; Callable semi-annually until maturity
$ 414 of these bonds mature in 2018; Callable quarterly until maturity

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, MLGW will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty, or the counterparty's trust department or agent but not in the name of MLGW. Investments in external investment pools and in money market funds are not exposed to custodial credit risks because their existence is not evidenced by securities that exist in physical or book entry form. To limit its exposure, MLGW's investment policy requires that all securities purchased by MLGW shall be held in safekeeping by a third-party custodial bank or financial institution. None of MLGW's investments at December 31, 2016 were exposed to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment in debt securities. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. MLGW's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the investment policy states no investment will have a maturity of greater than four years from date of purchase. As of December 31, 2016, MLGW had purchased no investments in

2. Deposits and Investments (continued)

Interest Rate Risk (continued)

debt securities that were outside of the policy. MLGW uses the segmented time distribution method of disclosure, as shown above, to identify this risk.

Some investments can be highly sensitive to changes in interest rates due to their terms or characteristics. In MLGW's investment portfolio, asset-backed and government mortgage-backed securities are most sensitive to changes in interest rates as their repayments can vary significantly with interest rate changes. These securities represent 7.2% of the total investment portfolio with a fair market value of $24,486 at year-end 2016.

Credit Risk

Credit risk is the risk that an issuer of a debt security will not fulfill its obligation. This credit risk is measured by the credit quality of investments in debt securities as described by nationally recognized statistical rating organizations. Investments in obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk. MLGW debt securities that were subject to credit risk were $139,197, or 41.2% of total investments. The debt securities mentioned above have a remaining maturity of one year or less.

2. Deposits and Investments (continued)

Credit Risk (continued)

MLGW's ratings and policy limits as of December 31, 2016 are as follows:

Investment Type	Fair Value		S&P Rating	Moody's Rating
Commercial Paper	$ 27,979		AAA	Aaa
Commercial Paper	36,277		AA+	Aaa
Commercial Paper	4,496		AA+	Aa1
Commercial Paper	3,498		AA+	Aa2
Commercial Paper	21,086		AA	Aa2
Commercial Paper	34,549		AA-	Aa3
Commercial Paper	6,306		AA-	Aa2
Certificates of Deposit	5,006		NR	NR
Total credit risk debt securities	139,197			
U.S. Treasuries	132,189		AA+u	Aaa
Federal Agency (Fixed Rate)	25,464		AA+u	Aaa
Federal Agency (Fixed Rate)	38,076		AA+	Aaa
Federal Agency (Callable)	2,086	[1]	AA+	Aaa
Federal Agency (Callable)	1,161	[2]	AA+u	Aaa
U.S. Government and Agencies	198,976			
Total debt securities investments	**$ 338,173**			

Non-Rating Description	
NR	Not Rated

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

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

2. Deposits and Investments (continued)

Concentration of Credit Risk

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

In accordance with the investment policy, no more than 10% of MLGW's portfolio will be invested in the securities of any single issuer with the following exceptions: U.S. Government Obligations up to 100% of the portfolio book value for any single issuer at the date of acquisition. In addition, MLGW's investment policy seeks to diversify its portfolio by limiting the percentage of the portfolio that may be invested in any one type of instrument as follows:

U.S. Treasuries	100%	maximum
Federal Agency (Fixed Rate)	100%	maximum
Federal Agency (Callable)	50%	maximum
Repurchase Agreements	50%	maximum
Commercial Paper (Rated AA or higher)	90%	maximum
Banker's Acceptance (Rated AA or higher)	60%	maximum
Certificates of Deposit	20%	maximum
Municipal Obligations	20%	maximum
Tennessee LGIP	40%	maximum

In accordance with GASB Statement No. 40, governments should provide information about investments in any one issuer that represents 5 percent or more of total investments. As of December 31, 2016, 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
Microsoft Corporation	$ 17,984	5.32%
National Securities Clearing Corporation	21,288	6.29%
Toyota Motor Credit Corporation	26,553	7.85%
Total	**$ 65,825**	

2. Deposits and Investments (continued)

Restricted and Unrestricted Funds

Restricted funds, cash and cash equivalents, and investments consisted of the following as of December 31, 2016 and 2015:

	Electric Division		Gas Division		Water Division	
	2016	2015	**2016**	2015	**2016**	2015
Restricted fund:						
Cash and cash equivalents	**$ 56,907**	$ 55,439	**$ 20,866**	$ 17,486	**$10,044**	$ 10,228
Investments	**11,016**	8,922	**28,395**	4,636	**19,712**	3,758
Total restricted funds	**$ 67,923**	$ 64,361	**$ 49,261**	$ 22,122	**$29,756**	$ 13,986

	Electric Division		Gas Division		Water Division	
	2016	2015	**2016**	2015	**2016**	2015
Unrestricted fund:						
Cash and cash equivalents	**$ 113,349**	$ 160,465	**$ 40,607**	$ 65,814	**$12,233**	$ 13,613
Investments	**92,361**	95,299	**31,115**	37,458	**9,975**	8,083
Total unrestricted funds	**$ 205,710**	$ 255,764	**$ 71,722**	$ 103,272	**$22,208**	$ 21,696

3. Notes Receivables

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 2017 total $375. Effective July 1, 2017 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.

3. Notes Receivables (continued)

The Valero lease receivable is included in Notes Receivables in the accompanying 2016 Gas Division's Statements of Net Position, except for the current portion of $750, which is included in other current assets.

4. Utility Plant

Utility plant activity for the years ended December 31, 2016 and 2015 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2016				
Electric Division				
Capital assets not being depreciated:				
Land	$ 38,390	$ 13	$ -	$ 38,403
Land - Non-utility	15,345	-	-	15,345
Construction in progress	91,430	94,226	(83,211)	102,445
Total capital assets not being depreciated	145,165	94,239	(83,211)	156,193
Capital assets being depreciated or amortized:				
Structures and improvements	62,206	744	(10)	62,940
Transmission and distribution plant equipment	1,377,852	58,222	(16,767)	1,419,307
General plant equipment	159,677	20,990	(750)	179,917
Intangibles: Software	8,790	3,242	-	12,032
Total capital assets being depreciated or amortized	1,608,525	83,198	(17,527)	1,674,196
Less accumulated depreciation and amortization	(711,937)	(60,623)	21,634	(750,926)
Total capital assets being depreciated or amortized, net	896,588	22,575	4,107	923,270
Total capital assets, net	$ 1,041,753	$ 116,814	$ (79,104)	$ 1,079,463

4. Utility Plant (continued)

Year ended December 31, 2016	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Gas Division				
Capital assets not being depreciated:				
Land	$ 7,533	$ -	$ (220)	$ 7,313
Land - Non-utility	-	-	-	-
Construction in progress	61,184	43,032	(33,013)	71,203
Plant held for future use	212	-	-	212
Total capital assets not being depreciated	68,929	43,032	(33,233)	78,728
Capital assets being depreciated or amortized:				
Structures and improvements	65,175	3,078	(126)	68,127
Processing and distribution plant equipment	452,195	26,286	(7,039)	471,442
General plant equipment	72,826	3,649	(257)	76,218
Intangibles: Software	-	-	-	-
Non-utility plant equipment	200	-	-	200
Total capital assets being depreciated or amortized	590,396	33,013	(7,422)	615,987
Less accumulated depreciation and amortization	(295,584)	(23,040)	7,539	(311,085)
Total capital assets being depreciated or amortized, net	294,812	9,973	117	304,902
Total capital assets, net	$ 363,741	$ 53,005	$ (33,116)	$ 383,630

	Beginning Balance	**Increases**	**Decreases**	**Ending Balance**
Year ended December 31, 2016				
Water Division				
Capital assets not being depreciated:				
Land	$ 2,339	$ 33	$ -	$ 2,372
Construction in progress	14,289	31,045	(23,032)	22,302
Total capital assets not being depreciated	16,628	31,078	(23,032)	24,674
Capital assets being depreciated or amortized:				
Structures and improvements	50,325	494	-	50,819
Pumping, transmission and distribution plant equipment	357,979	21,685	(3,092)	376,572
General plant equipment	38,871	820	(12)	39,679
Intangibles: Software	2,177	-	-	2,177
Total capital assets being depreciated or amortized	449,352	22,999	(3,104)	469,247
Less accumulated depreciation and amortization	(191,624)	(10,786)	3,773	(198,637)
Less acquisition adjustment	(3,368)	964	-	(2,404)
Total capital assets being depreciated or amortized, net	254,360	13,177	669	268,206
Total capital assets, net	$ 270,988	$ 44,255	$ (22,363)	$ 292,880

4. Utility Plant (continued)

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

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

4. Utility Plant (continued)

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

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 2017 are estimated as follows (unaudited):

Electric Division	$ 125,555
Gas Division	52,821
Water Division	48,754

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

5. Futures, Options and Swap Contracts

MLGW uses a range of derivative instruments to hedge commodity risk including futures, options, and swap contracts. The purchase and sale of futures contracts and swap contracts involve highly leveraged and rapidly fluctuating markets that can lead to significant losses for market participants. As such, market participants are required to maintain margin deposits with a Futures Commission Merchant (FCM) in order to trade in the commodity futures market. These margin deposits are required by the FCM as a

5. Futures, Options and Swap Contracts (continued)

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, swaps, and options on futures contracts as cash flow hedges to manage the risk of volatility in the market price of natural gas on anticipated purchase transactions. The market values of the open derivative positions are reported on the Statements of Net Position as derivative financial instruments. MLGW maintained a margin deposit balance of $2,423 and $2,948 with its FCM at December 31, 2016 and 2015, respectively.

The schedule below shows the market values and notional amounts of the open futures, swaps, and options on futures contracts as of December 31, 2016 and 2015.

	December 31, 2016		December 31, 2015	
Type	**Market Value**	**Notional Amount**	Market Value	Notional Amount
Futures	**$ -**	**$ -**	$ (617)	$ 2,989
Swaps	**-**	**-**	-	-
Options	**9**	**29,280**	-	-
Total	**$ 9**	**$ 29,280**	$ (617)	$ 2,989

5. Futures, Options and Swap Contracts (continued)

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

Type	December 31, 2016 Deferred Gains (Losses)	December 31, 2015 Deferred Gains (Losses)
Futures	$ -	($617)
Swaps	-	-
Options	9	-
Total	$ 9	($617)

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

Type	December 31, 2016 Deferred Gains (Losses)	December 31, 2015 Deferred Gains (Losses)
Futures	$ -	($983)
Swaps	-	-
Options	(539)	-
Total	($539)	($983)

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, 2016 and 2015 was ($278) and ($236), respectively.

Swap contracts as of December 31, 2016 and 2015 are reported at market values of $0 and ($40), respectively. The market values of these derivative positions are reported on the Statement of Net Position as derivative financial instruments. The notional amounts of the open swaps at December 31, 2016 and 2015 were $0 and $90, respectively.

6. Deferred Compensation Plan

MLGW offers its employees a deferred 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 is not available to employees until termination, retirement, death, or unforeseeable emergency.

The plan provides that assets or income of the plan shall be used for the exclusive purpose of providing benefits for participants and their beneficiaries or defraying reasonable expenses of administration of the plan. Since the assets of the amended plan are held in custodial and annuity accounts for the exclusive benefit of plan participants, the related assets of the plan are not reflected in MLGW's Statements of Net Position.

7. Employee Retirement System

Plan Description

Memphis Light, Gas and Water Retirement and Pension System (the "MLGW Pension Plan") is a single-employer defined benefit pension plan administered by the MLGW Pension Board. The plan covers permanent, full-time employees and appointed commissioners who opt to participate. MLGW issues a separate audited financial report for the MLGW Pension Plan that includes financial statements and required supplementary information. That report may be obtained by writing to Manager, Risk Management, P. O. Box 430, Memphis, TN 38101.

Benefits Provided

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

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

7. Employee Retirement System (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:

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

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

The annual retirement allowance shall not exceed 85.0% of the member’s final average compensation. The 2016 minimum monthly retirement benefit for all members is the greater of $50 per month per year 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 receiving death benefits shall be entitled to a cost of living adjustment if the surviving spouse has attained age 56 and the deceased participant has separated from service at least one year prior to July 1.

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

7. Employee Retirement System (continued)

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

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

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

Employees Covered

Plan membership consisted of the following participants as of December 31, 2015 and 2014:

	2015	2014
Retirees and beneficiaries receiving benefits	**2,617**	2,597
Participants inactive during year ended December 31 with vested rights	**44**	45
Active members fully vested	**1,116**	1,112
Active members not vested	**1,427**	1,414
Total	**5,204**	5,168

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

7. Employee Retirement System (continued)

Contributions (continued)

contributions on behalf of the president and vice presidents. For 2015, MLGW contributed 13.32% of the annual covered payroll. Employer contributions recognized by the MLGW Pension Plan during 2016 totaled $21,390.

Net Pension Liability

MLGW's net pension liability was measured as of December 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016.

Actuarial Assumptions

The actuarial assumptions used in the valuation as of December 31, 2015 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

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

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

7. Employee Retirement System (continued)

Actuarial Assumptions (continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	39%	6.84%
International Equity	12%	8.14%
Fixed Income	29%	2.45%
Alternatives	8%	3.84%
Real Estate	10%	4.64%
Short Term Investments	2%	1.24%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability is 7.50% as of December 31, 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current 8.00% of pay contribution rate and that MLGW contributions will 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 active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of December 31, 2015.

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

The following presents the net pension liability of MLGW as of December 31, 2015, calculated using the discount rate of 7.50%, as well as what MLGW’s net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.50%) or one percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount (7.50%)	1% Increase (8.50%)
Net pension liability (asset) as of December 31, 2015	$ 245,831	$ 87,004	$ (43,569)

7. Employee Retirement System (continued)

Pension Plan's Fiduciary Net Position

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

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

Implementation of GASB 68

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

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

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

The cumulative effect of applying this statement in 2015 resulted in a reduction in the beginning net position of all three divisions. Beginning net position in 2015 in the Electric, Gas, and Water Divisions declined by $11,356, $5,065, and $3,363, respectively.

7. Employee Retirement System (continued)

Schedule of Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at December 31, 2014	$ 1,382,794	$ 1,379,184	$ 3,610
Changes for the Year:			
Service Costs	30,139		30,139
Interest	99,940		99,940
Differences Between Expected and Actual Experience	2,275		2,275
Changes of Assumptions	-		-
Contributions – Employer		21,390	(21,390)
Contributions – Employee		12,310	(12,310)
Net Investment Income		15,231	(15,231)
Benefit Payments / Refunds	(100,528)	(100,528)	-
Administrative Expenses		(759)	759
Net Change	31,826	(52,356)	84,182
Other Adjustments		788	(788)
Balance at December 31, 2015	$ 1,414,620	$ 1,327,616	$ 87,004

7. Employee Retirement System (continued)

Pension expense for the year ended December 31, 2016	
Service cost	$ 30,139
Interest on Total Pension Liability	99,940
Employee contributions	(12,310)
Adminstrative Expenses	759
Expected return on assets	(100,904)
Expensed portion of current year period differences between expected and actual experience in Total Pension Liability	379
Expensed portion of current year period assumptions changes	-
Current year plan changes	-
Expensed portion of current year period differences between projected and actual investment earnings	17,187
Current year recognition of deferred inflows and outflows established in prior years	(6,523)
Total expense	$ 28,667

Deferred outflows/inflows of resources related to pension

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 21,390	$ -
Net difference between projected and actual earnings on pension plan investments	68,196	-
Net difference between projected and actual experience in Total Pension Liability	1,896	$ (10,892)
Assumption changes	-	$ (14,741)
Total	$ 91,482	$ (25,633)

Note: The $21,390 contribution made subsequent to the measurement date will be recognized as a reduction of the net pension liability in 2017.

7. Employee Retirement System (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, 2015**	**Amount Recognized During FYE December 31, 2016**	**Outstanding Balance at December 31, 2016**	**2017**	**2018**	**2019**	**2020**	**2021 and Thereafter**
Fiscal year Outflows											
Investment	2016	$ 85,673	5.00	-	$ 17,134	$ 68,539	$ 17,134	$ 17,134	$ 17,134	$ 17,134	-
Demographic	2016	2,275	6.00	-	379	1,896	379	379	379	379	379
Total Outflows					$ 17,513	$ 70,435	$ 17,513	$ 17,513	$ 17,513	$ 17,513	$ 379
Fiscal year Inflows											
Investment	2015	(571)	5.00	(457)	(114)	(343)	(114)	(114)	(114)	-	-
Demographic	2015	(16,338)	6.00	(13,615)	$ (2,723)	$ (10,892)	$ (2,723)	$ (2,723)	$ (2,723)	$ (2,723)	-
Assumption	2015	(21,112)	6.00	$ (18,427)	$ (3,685)	$ (14,741)	$ (3,685)	$ (3,685)	$ (3,685)	$ (3,685)	
Total Inflows					$ (6,522)	$ (25,976)	$ (6,522)	$ (6,522)	$ (6,522)	$ (6,408)	$ -
Total					**$10,991**	**$44,459**	**$10,991**	**$10,991**	**$10,991**	**$11,105**	**$ 379**

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

8. Other Postemployment Benefits

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

Plan Description

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

8. Other Postemployment Benefits (continued)

Plan Description (continued)

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

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

Funding Policy

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

The Board of Commissioners has set the employer contribution rate based on the annual required contribution (“ARC”), an amount actuarially determined in accordance with the parameters of GASB Codification Section P50: *Postemployment Benefits Other Than Pension Benefits – Employer Reporting*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. For fiscal years 2016 and 2015, employer contributions were $41,343 and $38,438 to the Plan, respectively. In 2016, plan members receiving benefits contributed $6,811 through their required contribution of $79.70 to $521.42 (dollars) per month depending on the coverage (employee only, employee and spouse, or family) and the health plan selected. In 2015, plan members receiving benefits contributed $6,848 through their required contribution of $79.70 to $521.42 (dollars) per month.

Annual OPEB Cost and Net OPEB Obligation

An actuarial valuation of MLGW’s postemployment welfare benefit program was performed for the Plan as of December 31, 2015. MLGW’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC).

8. Other Postemployment Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

The following table presents the OPEB cost for the year, the amount contributed to the plan, and changes in the net OPEB obligation as of December 31, 2016 and 2015:

	2016	2015
Annual required contribution	**$ 45,289**	$ 38,187
Interest on net OPEB obligation	**(206)**	(186)
Adjustment to annual required contribution	**164**	175
Annual OPEB cost	**45,247**	38,176
Contributions made	**(41,343)**	(38,438)
Change in net OPEB (asset) obligation	**3,904**	(262)
Net OPEB (asset) obligation at beginning of fiscal year	**(2,750)**	(2,488)
Net OPEB (asset) obligation at end of fiscal year	**$ 1,154**	$ (2,750)

MLGW's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB (asset) obligation for fiscal year 2016 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
December 31, 2016	$ 45,247	91.4%	$ 1,154
December 31, 2015	38,176	100.7%	(2,750)
December 31, 2014	38,386	109.7%	(2,488)

Funded Status and Funding Progress

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

8. Other Postemployment Benefits (continued)

Funded Status and Funding Progress (continued)

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

Actuarial Methods and Assumptions

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

8. Other Postemployment Benefits (continued)

Actuarial Methods and Assumptions (continued)

Valuation Date	December 31, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay, closed, 30 years
Remaining Amortization Period	29 years as of December 31, 2016
Asset Valuation Method	Market value of assets less unrecognized returns in each of the last five years (applied prospectively beginning with 2014). Unrecognized return is equal to the difference between the actual market return and the expected return, and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Inflation Rate	2.75%
Projected Salary Increases	Inflation plus merit increases that vary by age and service
Medical Cost Trend Rate	7.25% graded to 5.00% over 9 years
Drug Cost Trend Rate	9.50% for the first 4 years, then grading down to 5.00% over the next 7 years

9. Pollution Remediation Obligation

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

MLGW annually evaluates current conditions, remediation plan updates and changes in legal or regulatory requirements to revise MLGW’s estimated liability. Regulatory accounts are used to capture the net effect of the changes in estimates for each Division. See Note 1 (Regulatory Accounting).

9. Pollution Remediation Obligation (continued)

The schedule below shows the balances as of December 31, 2016 and 2015 for the lead pollution liability from various substations and equipment by Division:

		12/31/2016	12/31/2015
Electric			
	Lead	**$ 721**	$ 968
Total Electric		**721**	968
Gas			
	Lead	**276**	291
Total Gas		**276**	291
Water			
	Lead	**3,201**	4,371
Total Water		**3,201**	4,371
Total Liability		**$ 4,198**	$ 5,630

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, 2016 and 2015 are as follows:

	Medical Benefits			Injuries and Damages		
	Electric Division	Gas Division	Water Division	Electric Division	Gas Division	Water Division
Balance -- December 31, 2014	$ 5,621	$ 2,507	$ 1,665	$ 6,435	$ 2,639	$ 2,835
Payments	(40,471)	(18,050)	(11,986)	(2,246)	(1,011)	(771)
Incurred claims expense	43,080	19,213	12,758	1,224	1,025	924
Balance -- December 31, 2015	8,230	3,670	2,437	5,413	2,653	2,988
Payments	**(43,299)**	**(19,311)**	**(12,823)**	**(1,973)**	**(635)**	**(566)**
Incurred claims expense	**42,307**	**18,869**	**12,530**	**1,945**	**1,008**	**(301)**
Balance -- December 31, 2016	**$ 7,238**	**$ 3,228**	**$ 2,144**	**$ 5,385**	**$ 3,026**	**$ 2,121**

11. Bonds

Bonds as of December 31, 2016 and 2015 consist of the following:

	Interest Rates	2016	2015
Electric Division:			
Electric System Revenue Bonds:			
Series 2003A, due serially 2015-2018	3.80 - 5.00%	$ -	$ 4,170
Series 2008, due serially 2017-2018	4.00 - 5.00%	**96,930**	96,930
Series 2010, due serially 2015-2018	3.00 - 5.00%	**138,420**	251,355
Series 2014, due serially 2015-2034	2.00 - 5.00%	**66,105**	68,575
Series 2016, due serially 2017-2036	3.00 - 5.00%	**40,000**	-
Premium on revenue bonds		**21,016**	20,122
Total		**362,471**	441,152
Less: current portion of bonds payable		**(118,770)**	(115,405)
		$ 243,701	$ 325,747
Gas Division:			
Gas System Revenue Bonds:			
Series 2016, due serially 2017-2036	3.00 - 5.00%	**$ 40,000**	$ -
Premium on revenue bonds		**7,866**	-
Total		**47,866**	-
Less: current portion of bonds payable		**(1,275)**	-
		$ 46,591	$ -
Water Division:			
Water System Revenue Bonds:			
Series 2014, due serially 2015-2034	2.00 - 5.00%	**$ 13,870**	$ 14,440
Series 2016, due serially 2017-2036	2.00 - 4.00%	**30,000**	-
Premium on revenue bonds		**3,331**	869
Total		**47,201**	15,309
Less: current portion of bonds payable		**(1,700)**	(570)
		$ 45,501	$ 14,739

11. Bonds (continued)

Principal payments on bonds are due annually on December 1. Debt service requirements as of December 31, 2016 are as follows:

	Electric Division	
	Principal	**Interest**
2017	$ 118,770	$ 16,150
2018	124,310	10,322
2019	4,095	4,470
2020 - 2024	23,050	19,774
2025 - 2029	29,075	13,750
2030 - 2034	36,400	6,414
2035 - 2036	5,755	347
Total	$ 341,455	$ 71,227

	Gas Division	
	Principal	**Interest**
2017	$ 1,275	$ 1,773
2018	1,315	1,735
2019	1,370	1,683
2020 - 2024	7,805	7,453
2025 - 2029	9,945	5,313
2030 - 2034	12,535	2,720
2035 - 2036	5,755	347
Total	$ 40,000	$ 21,024

11. Bonds (continued)

	Water Division Principal	Water Division Interest
2017	$ 1,700	$ 1,416
2018	1,750	1,371
2019	1,785	1,336
2020 - 2024	9,715	5,888
2025 - 2029	11,375	4,233
2030 - 2034	13,630	1,975
2035 - 2036	3,915	177
Total	$ 43,870	$ 16,396

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

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

The estimated fair value of long-term debt for the Electric, Gas, and Water Divisions based on quoted market prices (including accrued interest) are as follows as of December 31, 2016 and 2015:

	2016	2015
Electric Division	**$367,243**	$459,430

	2016	2015
Gas Division	**$ 45,078**	$ -

	2016	2015
Water Division	**$ 45,159**	$ 15,694

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 will be 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%. In addition, the Electric Division redeemed early the remaining principal balance of the Series 2003A bonds totaling $4,170.

11. Bonds (continued)

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 will be 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 will be 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%.

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

During 2010, the Electric Division issued $460,050 of Series 2010 bonds to advance refund a portion of the outstanding Electric System Subordinate Revenue Bonds, Series 2003A, and to pay certain costs of issuance of the Series 2010 Bonds. The refunding was undertaken to reduce total future debt service payments. The 2010 Series Bonds have a net present value benefit of $16,541, with a cash savings of $18,809 over the life of the bonds. The first principal payment was made December 1, 2014, and thereafter will be made annually with a final maturity date of December 1, 2018. The Series 2010 Bonds bear interest at annual fixed rates ranging from 3.00% to 5.00%. The Series 2010 Bonds are not subject to optional redemption, but will be subject to extraordinary redemption prior to maturity.

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

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

11. Bonds (continued)

MLGW's Electric Division bond covenants require that for Series 2008 and 2010 Bonds the ratio of net revenues to principal and interest for any fiscal year will equal at least 100%. The 2014 and 2016 Bonds require that the ratio of net revenues to principal and interest for any fiscal year will equal at least 120%. The composite electric bonds debt service coverage as of December 31, 2016 was 1.60.

MLGW's Gas Division bond covenants require that for Series 2016 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, 2016 was 29.71.

MLGW's Water Division bond covenants require that for Series 2014 and 2016 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, 2016 was 15.54.

Long-term debt activity for the years ended December 31, 2016 and 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2016:				
Electric Division				
Bonds payable:				
Revenue bonds	$ 421,030	$ 40,000	$ (119,575)	$ 341,455
Premium on revenue bonds	20,122	8,089	(7,195)	21,016
Total bonds payable	$ 441,152	$ 48,089	$ (126,770)	$ 362,471
Gas Division				
Bonds payable:				
Revenue bonds	$ -	$ 40,000	$ -	$ 40,000
Premium on revenue bonds	-	8,089	(223)	7,866
Total bonds payable	$ -	$ 48,089	$ (223)	$ 47,866
Water Division				
Bonds payable:				
Revenue bonds	$ 14,440	$ 30,000	$ (570)	$ 43,870
Premium on revenue bonds	869	2,608	(146)	3,331
Total bonds payable	$ 15,309	$ 32,608	$ (716)	$ 47,201

11. Bonds (continued)

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

12. Rates and Energy Supplies

Rates

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

TVA implemented a rate adjustment effective with the October 2016 revenue month, increasing the cost of wholesale power (excluding fuel and purchased power) purchased by MLGW by approximately 2.48%. MLGW implemented changes to its retail rate schedules effective with meters read on or after September 30, 2016, to recover the increased cost of wholesale power from its retail customers. The retail effect across all customer classes was approximately 1.50%.

An electric rate decrease was effective with meters read on or after January 4, 2016, and was applicable to Residential Schedules RS, RS-TOU and Small General Service Schedule GSA Part 1. This rate decrease was approved on December 1, 2015 by the City Council as part of the 2016 MLGW Budget. The retail effect is approximately a 2.91% annual decrease for these customers.

TVA implemented a rate adjustment effective with the October 2015 revenue month, increasing the cost of wholesale power (excluding fuel and purchased power) purchased by MLGW by approximately 2.50%. MLGW implemented changes to its retail rate schedules effective with meters read on or after October 1, 2015, to recover the increased cost of wholesale power from its retail customers. The retail effect across all customer classes was approximately 1.50%.

12. Rates and Energy Supplies (continued)

Rates (continued)

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

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

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

A gas rate restructure was effective with meters read on or after January 4, 2016 and was applicable to all Service Schedules. This restructure was required due to customer migration among rate classes and was approved on December 1, 2015 by the City Council as part of the 2016 MLGW Budget. The retail impact across all customer classes is intended to be revenue neutral.

A water rate increase was approved on December 1, 2015 by the City Council as part of the 2016 MLGW Budget. This rate increase was required due to increased general operating expenses, capital expenditures associated with system improvements and reductions in funds available to pay items. MLGW implemented new water rate schedules for meters read on or after January 4, 2016. The retail impact was a 22.0% increase for all customer classes.

Energy Supplies

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

12. Rates and Energy Supplies (continued)

Energy Supplies (continued)

Under the terms of the TVA power contract, MLGW may terminate its supply arrangement with TVA upon five years' prior written notice. TVA may terminate on not less than ten years' prior written notice.

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

MLGW and the Tennessee Energy Acquisition Corporation ("TEAC") entered into a 20 year gas purchase contract beginning January 1, 2007 with volume commitments for the term. TEAC is paid monthly after the gas is received by MLGW for its customers, and therefore presents no increased cash flow risk compared to normal physical gas purchases.

13. Federal Grant Contributions

In December 2011, FEMA announced approval of the April 4, 2011 Storm Restoration project, contract Edison #E 34101-0000008735, under the Public Assistance Grant Award for costs incurred during the FEMA-1978-DR-TN program. In December 2014, all work on the last restoration project was completed; and MLGW increased the receivable by $44 in order to realize the entire amount contracted with FEMA in 2011 of $2,733. In 2015 however, MLGW decreased the receivable by $55 representing project under runs that are currently being processed and pending de-obligation by FEMA. There was no activity on this grant in 2016. The schedule below summarizes the grant activity:

Electric	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Electric Total Expenditures	**$ -**	$ (74)	$ 59	$ 209	$ 87	$ 3,289
Eligible Reimbursement	**-**	(55)	44	157	65	2,467
Reimbursement Received	**-**	-	-	-	1,850	-
Receivable Balance	**$ (828)**	$ (828)	$ (883)	$ (839)	$ (682)	$ (2,467)

In September 2011, MLGW applied for a disaster assistance grant for the restoration work done after the April 26th storm. In March 2012, FEMA subsequently awarded grant contract Edison #E 34101-0000009498 for the April 26, 2011 Storm Restoration project under the Public Assistance Grant Award program for costs incurred during FEMA-1974-DR-TN. The award was originally for $1,959, all of which is being federally funded; $1,706 to the Electric Division, $236 to the Gas Division and $17 to the Water Division. FEMA granted MLGW an additional $19 due to a project overrun in the Gas Division., therefore, the Gas receivable was increased by $19, in anticipation of the additional fund obligation. In

13. Federal Grant Contributions (continued)

May 2016, FEMA made a final payment to MLGW of $509, thereby closing out this disaster. The schedule below summarizes the grant activity:

Electric	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Electric Total Expenditures	**$ -**	$ -	**$ -**	**$ -**	**$ -**	$ 2,274
Eligible Reimbursement	**-**	-	-	-	-	1,706
Reimbursement Received	**403**	-	-	-	1,303	-
Receivable Balance	**$ -**	$ (403)	$ (403)	$ (403)	$ (403)	$ (1,706)

Gas	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Electric Total Expenditures	**$ -**	$ 25	**$ -**	**$ -**	**$ -**	$ 315
Eligible Reimbursement	**-**	19	-	-	-	236
Reimbursement Received	**100**	-	-	-	155	-
Receivable Balance	**$ -**	$ (100)	$ (81)	$ (81)	$ (81)	$ (236)

Water	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Electric Total Expenditures	**$ -**	$ -	**$ -**	**$ -**	**$ -**	$ 23
Eligible Reimbursement	**-**	-	-	-	-	17
Reimbursement Received	**6**	-	-	-	11	-
Receivable Balance	**$ -**	$ (6)	$ (6)	$ (6)	$ (6)	$ (17)

In June 2014, MLGW applied for a disaster assistance grant for the restoration work done after the March 2, 2014 storm. In April 2015, FEMA awarded grant contract Edison #E 41782-0000017870 for the March 2, 2014 Storm Restoration project under the Public Assistance Grant Award program for costs incurred during FEMA-4171-DR-TN. The award was $2,328, all of which is being federally funded to the Electric Division. Total cost of restoration work for this disaster as submitted to FEMA field officer in July, 2015 was $3,111, an increase of $7 from the $3,104 initial estimate. This increased the eligible reimbursements by $5 providing for the grant to total $2,333. In May 2016, FEMA made a final payment to MLGW of $238, thereby closing out this disaster. The schedule below summarizes the grant activity:

Electric	**2016**	**2015**	**2014**
Total Expenditures	**$ -**	$ 7	$ 3,104
Eligible Reimbursement	**-**	5	2,328
Reimbursement Received	**238**	2,095	-
Receivable Balance	**$ -**	$ (238)	$ (2,328)

13. Federal Grant Contributions (continued)

In 2010, MLGW applied for the Network System Transformer Seismic Retrofit Grant (Contract# E-29504). The grant was awarded in 2011 under the Pre-Disaster Mitigation Competitive Program. The grant will allow MLGW to retrofit 482 network system transformers. The grant was awarded in the amount of $603 of which $453 will be federally funded. This grant activity is complete. In February 2016, TEMA made a final payment of $140; thereby closing out this pre-disaster mitigation grant. The schedule below summarizes the grant activity:

	2016	**2015**	**2014**	**2013**	**2012**
Total Expenditures	**$ -**	$ 139	$ 1,122	$ 183	$ 5
Eligible Reimbursement	**-**	-	312	138	3
Reimbursement Received	**140**	-	294	19	-
Receivable Balance	**$ -**	$ (140)	$ (140)	$ (122)	$ (3)

14. Transfers to City

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

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

The Gas Division transfer is based on the formula provided by the Municipal Gas System Tax Equivalent Law of 1987. The formula includes a property tax equivalency calculation plus 4% of operating revenue less gas costs (three-year average). The Division pays the amount requested by the City, up to the maximum limit calculated by the formula.

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

15. Commitments and Contingencies

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

15. Commitments and Contingencies (continued)

MLGW pays a Transfer to the City and in lieu of taxes to Shelby County Government and the incorporated towns of Shelby County for the Electric and Gas Divisions based on the Tennessee Municipal Electric and Gas System Tax Equivalent Laws of 1987. MLGW pays a Transfer to the City for the Water Division based upon an agreement with the City, which calls for a payment of $2,500 for each of the fiscal years through 2028. An additional $1,900 incremental payment to the city has been approved for fiscal years through 2017; bringing the total water payment to the city to $4,400.

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

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

16. Subsequent Event

On May 27, 2017, a severe straight line wind storm moved through the Memphis and Shelby County service territory, causing damage to MLGW's electric distribution system. The total estimated cost for the storm is $16,100. During previous weather events of this magnitude, the President of the United States has subsequently issued a major disaster declaration for the State of Tennessee and granted public assistance to utilities. If a disaster declaration is declared, FEMA reimbursement is estimated to be 75% of the eligible costs.

REQUIRED SCHEDULE OF CHANGES IN NET PENSION LIABILITY
DECEMBER 31, 2016
(Dollars in Thousands)

	2015	2014	2013
Total pension liability			
Service cost	$ 30,139	$ 31,786	$ 33,122
Interest	99,940	100,436	98,818
Change of benefit terms	-	-	-
Differences between expected and actual experience	2,275	(16,338)	(14,280)
Changes in assumptions	-	(22,112)	-
Benefit payments, including refunds of employee contributions	(100,528)	(100,249)	(91,931)
Net change in total pension liability	31,825	(6,477)	25,730
Total pension liability – beginning	1,382,794	1,389,271	1,363,542
Total pension liability – ending (a)	**$ 1,414,620**	$ 1,382,794	$ 1,389,271
Plan fiduciary net position			
Contributions – employer	$ 21,390	$ 26,804	$ 30,706
Contributions – employee	12,310	11,729	12,000
Net investment income	15,231	98,931	185,707
Benefit payments including refunds of employee contributions	(100,528)	(100,249)	(91,931)
Administrative expense	(759)	(714)	(657)
Other	-	-	-
Net change in plan fiduciary net position	$ (52,356)	$ 36,501	$ 135,825
Other Adjustments	788	-	-
Plan fiduciary net position – beginning	1,379,184	1,342,683	1,206,858
Plan fiduciary net position – ending (b)	**$ 1,327,616**	$ 1,379,184	$ 1,342,683
System's net pension liability – ending (a) – (b)	**$ 87,004**	$ 3,610	$ 46,588
Plan fiduciary net position as a percentage of the total pension liability	**93.85%**	99.74%	96.65%
Covered employee payroll	**$ 160,641**	$ 152,368	$ 154,759
System's net pension liability as a percentage of covered employee payroll	**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, 2016

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
2007	17,217	17,230	(13)	146,830	11.73%
2008	10,541	18,467	(7,926)	150,253	12.29%
2009	22,401	21,388	1,013	154,057	13.88%
2010	27,381	27,385	(4)	153,509	17.84%
2011	26,208	26,213	(5)	154,036	17.02%
2012	30,067	30,063	4	154,347	19.48%
2013	30,705	30,706	(1)	154,759	19.84%
2014	26,812	26,804	8	152,368	17.59%
2015	21,390	21,390	-	160,641	13.32%
2016	21,390	21,390	-	160,641	13.32%

SCHEDULE OF NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016

Valuation date	January 1, 2016
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of payroll, with amortization at 2.00% of pay
Remaining amortization period	25 years remaining as of January 1, 2016
Asset valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the actuarial value , and is recognized over a five-year period, further adjusted, if necessary, to be within 30% of the market value.
Actuarial Assumptions:	
Inflation	2.75%
Salary increases	Inflation plus merit increases that vary by age and service, ranging from 0.00% to 6.75%
Investment rate of return	7.50%, including inflation, net of investment expenses
Cost-of-living adjustments	0.83% for ages 56-58 1.65% for ages 59-61 2.06% for ages 62 and older, and all disabled participants
Other Information:	Please see the January 1, 2016 actuarial valuation report for a full listing of assumptions.

REQUIRED SCHEDULE OF FUNDING PROGRESS FOR OPEB
DECEMBER 31, 2016
(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
December 31, 2015	$ 333,017	$ 794,310	$ 461,293	41.9%	$ 160,641	287.2%
December 31, 2013	272,150	660,524	388,374	41.2%	154,759	251.0%
December 31, 2011	181,211	602,175	420,964	30.1%	154,036	273.3%

REQUIRED SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
DECEMBER 31, 2016
(Dollars in Thousands)

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed
December 31, 2016	$ 45,247	$ 41,343	91.4%
December 31, 2015	38,176	38,438	100.7%
December 31, 2014	38,386	42,100	109.7%

SCHEDULE OF BONDS,
PRINCIPAL AND INTEREST REQUIREMENTS
DECEMBER 31, 2016
(Dollars in Thousands)

	Series 2008		Series 2010		Series 2014		Series 2016	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Electric Division:								
2017	$ 31,625	$ 4,564	$ 83,350	$ 6,821	$ 2,520	$ 2,992	$ 1,275	$ 1,773
2018	65,305	3,043	55,070	2,653	2,620	2,891	1,315	1,735
2019	-	-	-	-	2,725	2,786	1,370	1,683
2020	-	-	-	-	2,810	2,704	1,425	1,628
2021	-	-	-	-	2,920	2,592	1,480	1,571
2022	-	-	-	-	3,040	2,475	1,555	1,497
2023	-	-	-	-	3,160	2,354	1,630	1,419
2024	-	-	-	-	3,315	2,196	1,715	1,338
2025	-	-	-	-	3,485	2,030	1,800	1,252
2026	-	-	-	-	3,655	1,856	1,890	1,162
2027	-	-	-	-	3,840	1,673	1,985	1,067
2028	-	-	-	-	3,995	1,519	2,085	968
2029	-	-	-	-	4,155	1,359	2,185	864
2030	-	-	-	-	4,320	1,193	2,295	755
2031	-	-	-	-	4,535	977	2,410	640
2032	-	-	-	-	4,760	751	2,510	543
2033	-	-	-	-	5,000	513	2,610	443
2034	-	-	-	-	5,250	261	2,710	339
2035	-	-	-	-	-	-	2,820	230
2036	-	-	-	-	-	-	2,935	117
Total	$ 96,930	$ 7,607	$ 138,420	$ 9,474	$ 66,105	$ 33,122	$ 40,000	$ 21,024

SCHEDULE OF BONDS,
PRINCIPAL AND INTEREST REQUIREMENTS
DECEMBER 31, 2016
(Dollars in Thousands)

	Series 2016			Series 2014		Series 2016	
	Principal	**Interest**		**Principal**	**Interest**	**Principal**	**Interest**
Gas Division:			Water Division:				
2017	$ 1,275	$ 1,773	2017	$ 580	$ 492	$ 1,120	$ 924
2018	1,315	1,735	2018	595	481	1,155	890
2019	1,370	1,682	2019	605	469	1,180	867
2020	1,425	1,628	2020	620	457	1,215	832
2021	1,480	1,571	2021	635	438	1,250	795
2022	1,555	1,497	2022	655	419	1,275	770
2023	1,630	1,419	2023	680	393	1,315	732
2024	1,715	1,338	2024	715	359	1,355	693
2025	1,800	1,252	2025	740	338	1,395	652
2026	1,890	1,162	2026	765	308	1,435	610
2027	1,985	1,067	2027	790	285	1,465	581
2028	2,085	968	2028	820	253	1,525	523
2029	2,185	864	2029	855	221	1,585	462
2030	2,295	755	2030	890	186	1,645	398
2031	2,410	640	2031	925	151	1,715	333
2032	2,510	543	2032	960	114	1,765	281
2033	2,610	443	2033	1,000	75	1,820	228
2034	2,710	339	2034	1,040	35	1,870	174
2035	2,820	230	2035	-	-	1,930	117
2036	2,935	117	2036	-	-	1,985	60
Total	$ 40,000	$ 21,023	Total	$ 13,870	$ 5,474	$ 30,000	$ 10,921

Electric Division Rate Class	**Base Charge**			**Customers**
All Electric Rate Schedules Are Subject To Adjustment Under The Provisions of the TVA Fuel Cost and				
Residential – Schedule RS	Effective meters read on or after September 30, 2016.			353,447
Customer Charge:	$12.20 per month, less Hydro Allocation Credit: $1.60			
Energy Charge:	Summer	Winter	Transition	
First 500 kWh per month:	$0.06804	$0.06498	$0.06318	
Additional kWh per month:	$0.06945	$0.06479	$0.06201	
	The above rates are subject to adjustment under the provisions of the TVA			
Time-Of-Use Residential Rate	Effective October 1, 2016.			83
Customer Charge:	$12.20 per month, less Hydro Allocation Credit: $1.60			
Energy Charge:	Summer	Winter	Transition	
On-Peak kWh per month:	$0.12061	$0.08163	$0.05537	
Off-Peak kWh per month:	$0.05537	$0.05537	$0.05537	
	The above rates are subject to adjustment under the provisions of the TVA			
General Service – Schedule GSA	Effective meters read on or after September 30, 2016.			42,568
	If (a) the higher of (i) the customer's currently effective contract demand, if			
Customer Charge:	$15.52 per delivery point per month			
Energy Charge:	Summer	Winter	Transition	
	$0.08044	$0.07744	$0.07562	
	If (a) the higher of (i) the customer's currently effective contract demand or			
Customer Charge:	$53.42 per delivery point per month			
Demand Charge:	Summer	Winter	Transition	
First 50 kW of billing demand per month:	$0.00000	$0.00000	$0.00000	
Excess over 50 kW of billing demand per	$13.46	$12.55	$12.55	
Energy Charge:				
First 15,000 kWh per month:	$0.08946	$0.08646	$0.08464	
Additional kWh per month:	$0.03882	$0.03598	$0.03491	

Electric Division Rate Class	**Base Charge**	**Customers**

General Service – Schedule GSA (cont.)

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

Customer Charge: $191.84 per delivery point per month

Demand Charge:	Summer	Winter	Transition
First 1,000 kW of billing demand per month:	$12.47	$11.56	$11.56
Excess over 1,000 kW of billing demand per month:	$12.31	$11.40	$11.40
Excess of billing demand over the higher of 2,500 kW or the customer's contract demand per month:	$12.31	$11.40	$11.40
Energy Charge:			
All kWh per month:	$0.04396	$0.04112	$0.04005

Time-of-Day General Power Rate - Part A (Schedule TGSA) — Customers: 1

Effective October 1, 2016.

	Summer	Non-Summer
Customer Charge:	$198.95	$198.95
On-peak per kW of billing demand charges per month:	$12.80	$12.19
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$1.66	$1.66
Per kW charge per month for each kW, if any, of the amount by which (1) the customer's onpeak billing demand exceeds the higher of 2,500 kW or its onpeak contract demand or (2) the customer's offpeak billing demand exceeds the higher of 2,500 kW or its offpeak contract demand, whichever is higher	$12.80	$12.19
On-peak per kWh energy charge:	$0.05437	$0.04737
Off-peak per kWh energy charge:	$0.03853	$0.03977

Manufacturing Power Rate - Part A — Customers: 0

(Schedule MSA) Effective October 1, 2016.

Customer Charge: $198.95 per delivery point per month

	Summer	Winter	Transition
Per kW coincident billing demand charge per month:	$11.07	$10.15	$10.15
Per kW maximum billing demand charge per month:	$1.57	$1.57	$1.57

Electric Division Rate Class (cont.)	**Base Charge**	**Customers**
Manufacturing Power Rate - Part A (Schedule MSA) (cont.)		

	Summer	Winter	Transition
Excess per kW charge per month by which billing demand exceeds contract demand:	$12.64	$11.72	$11.72
On-peak per kWh energy charge:	$0.06116	$0.05067	$0.04110
Off-peak per kWh energy charge:	$0.03850	$0.04037	$0.04110

Seasonal Demand And Energy General Service - (Schedule SGS)	Effective October 1, 2016.	2
Service Charge:	$1,500.00 per delivery point per month	
TVA Administrative Charge:	$350.00 per delivery point per month	
Excess Demand:	Demand amount that exceeds the effective contract demand.	

Rates applicable for delivery at:	Transmission Voltage: 115 kV and up			Distribution Voltage: < 115 kV		
Summer	SGSB	SGSC	SGSD	SGSB	SGSC	SGSD
Billing demand per kW:	$19.81	$19.28	$19.03	$20.36	$19.83	$16.58
Excess demand per kW:	$19.81	$19.28	$19.03	$20.36	$19.83	$16.58
Energy charge per kWh:	$0.03057	$0.02999	$0.02678	$0.03145	$0.03085	$0.02757
Winter						
Billing demand per kW:	$16.75	$16.22	$15.97	$17.21	$16.68	$16.43
Excess demand per kW:	$16.75	$16.22	$15.97	$17.21	$16.68	$16.43
Energy charge per kWh:	$0.02617	$0.02550	$0.02287	$0.02692	$0.02623	$0.02355
Transition						
Billing demand per kW:	$13.70	$13.17	$12.92	$14.07	$13.54	$13.29
Excess demand per kW:	$13.70	$13.17	$12.92	$14.07	$13.54	$13.29
Energy charge per kWh:	$0.02518	$0.02454	$0.02200	$0.02590	$0.02524	$0.02265

Seasonal Demand And Energy Manufacturing Service - (Schedule SMS)	Effective October 1, 2016.	4
Service Charge:	$1,500.00 per delivery point per month	
TVA Administrative Charge:	$350.00 per delivery point per month	
Excess Demand:	Demand amount that exceeds the effective contract demand.	

Electric Division Rate Class (cont.)	Base Charge	Customers
Seasonal Demand And Energy Manufacturing Service - (Schedule SMS)		

Rates applicable for delivery at:	Transmission Voltage: 115 kV and up			Distribution Voltage: < 115 kV		
Summer	SMSB	SMSC	SMSD	SMSB	SMSC	SMSD
Billing demand per kW:	$16.59	$16.06	$18.91	$17.05	$16.52	$19.46
Excess demand per kW:	$16.59	$16.06	$18.91	$17.05	$16.52	$19.46
Energy charge per kWh:	$0.02145	$0.02061	$0.01236	$0.02207	$0.02120	$0.01272
Winter						
Billing demand per kW:	$13.54	$13.01	$15.85	$13.91	$13.38	$16.31
Excess demand per kW:	$13.54	$13.01	$15.85	$13.91	$13.38	$16.31
Energy charge per kWh:	$0.01648	$0.01595	$0.00863	$0.01695	$0.01640	$0.00888
Transition						
Billing demand per kW:	$10.48	$9.95	$12.80	$10.75	$10.22	$13.17
Excess demand per kW:	$10.48	$9.95	$12.80	$10.75	$10.22	$13.17
Energy charge per kWh:	$0.01532	$0.01483	$0.00772	$0.01575	$0.01525	$0.00794

Time Of Use General Service (Schedule TGS)	Effective October 1, 2016.	7
Service Charge:	$1,500.00 per delivery point per month	
TVA Administrative Charge:	$350.00 per delivery point per month	
Excess Demand:	Demand amount that exceeds the effective contract demand.	
Off-Peak Block 1:	First 200 hours use of on-peak metered demand multiplied by the ratio of metered off-peak energy to metered total energy.	
Off-Peak Block 2:	Next 200 hours use of on-peak metered demand multiplied by the ratio of metered off-peak energy to metered total energy.	
Off-Peak Block 3:	Last 400 hours use of on-peak metered demand multiplied by the ratio of metered off-peak energy to metered total energy.	

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

Time Of Use General Service
(Schedule TGS) (cont.)

Rates applicable for delivery at:	Transmission Voltage: 115 kV and up				Distribution Voltage: < 115 kV			
Summer	TDGSA	TGSB	TGSC	TGSD	TDGSA	TGSB	TGSC	TGSD
On-peak billing demand per kW:	$10.11	$10.06	$10.06	$10.06	$10.41	$10.36	$10.36	$10.36
Maximum billing demand per kW:	$5.33	$5.33	$4.80	$4.55	$5.45	$5.45	$4.92	$4.67
Excess demand per kW:	$10.11	$10.06	$10.06	$10.06	$10.41	$10.36	$10.36	$10.36
On-peak energy per kWh:	$0.07556	$0.07244	$0.07244	$0.07152	$0.07779	$0.07458	$0.07458	$0.07366
Off-peak block 1 per kWh:	$0.04462	$0.04935	$0.04935	$0.04843	$0.04592	$0.05079	$0.05079	$0.04987
Off-peak block 2 per kWh:	$0.00538	$0.00643	$0.00643	$0.00445	$0.00550	$0.00658	$0.00658	$0.00457
Off-peak block 3 per kWh:	$0.00258	$0.00327	$0.00327	$0.00235	$0.00262	$0.00333	$0.00333	$0.00241
Winter								
On-peak billing demand per kW:	$9.22	$9.17	$9.17	$9.17	$9.50	$9.45	$9.45	$9.45
Maximum billing demand per kW:	$5.33	$5.33	$4.80	$4.55	$5.45	$5.45	$4.92	$4.67
Excess demand per kW:	$9.22	$9.17	$9.17	$9.17	$9.50	$9.45	$9.45	$9.45
On-peak energy per kWh:	$0.03614	$0.06190	$0.06190	$0.06098	$0.06323	$0.06372	$0.06372	$0.06280
Off-peak block 1 per kWh:	$0.04736	$0.05140	$0.05140	$0.05048	$0.04874	$0.05290	$0.05290	$0.05198
Off-peak block 2 per kWh:	$0.00538	$0.00643	$0.00643	$0.00445	$0.00550	$0.00658	$0.00658	$0.00457
Off-peak block 3 per kWh:	$0.00258	$0.00327	$0.00327	$0.00235	$0.00262	$0.00333	$0.00333	$0.00241
Transition:								
On-peak billing demand per kW:	$9.22	$9.17	$9.17	$9.17	$9.50	$9.45	$9.45	$9.45
Maximum billing demand per kW:	$5.33	$5.33	$4.80	$4.55	$5.45	$5.45	$4.92	$4.67
Excess demand per kW:	$9.22	$9.17	$9.17	$9.17	$9.50	$9.45	$9.45	$9.45
On-peak energy per kWh:	$0.04846	$0.04906	$0.04906	$0.04814	$0.04988	$0.05049	$0.05049	$0.04957
Off-peak block 1 per kWh:	$0.04846	$0.04906	$0.04906	$0.04814	$0.04988	$0.05049	$0.05049	$0.04957
Off-peak block 2 per kWh:	$0.00538	$0.00643	$0.00643	$0.00445	$0.00550	$0.00658	$0.00658	$0.00457
Off-peak block 3 per kWh:	$0.00258	$0.00327	$0.00327	$0.00235	$0.00262	$0.00333	$0.00333	$0.00241

Time Of Use Manufacturing Service (Schedule TMS)	Effective October 1, 2016.	20
Service Charge:	$1,500.00 per delivery point per month	
TVA Administrative Charge:	$350.00 per delivery point per month	
Excess Demand:	Demand amount that exceeds the effective contract demand.	
Off-Peak Block 1:	First 200 hours use of on-peak metered demand multiplied by the ratio of metered off-peak energy to metered total energy.	
Off-Peak Block 2:	Next 200 hours use of on-peak metered demand multiplied by the ratio of metered off-peak energy to metered total energy.	
Off-Peak Block 3:	Last 400 hours use of on-peak metered demand multiplied by the ratio of metered off-peak energy to metered total energy.	

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

Time Of Use Manufacturing Service (Schedule TMS) (cont.)

Rates applicable for delivery at:	Transmission Voltage: 115 kV and up				Distribution Voltage: < 115 kV			
Summer	TDMSA	TMSB	TMSC	TMSD	TDMSA	TMSB	TMSC	TMSD
On-peak billing demand per kW:	$9.46	$9.46	$9.46	$9.46	$9.74	$9.74	$9.74	$9.74
Maximum billing demand per kW:	$3.68	$2.47	$1.94	$1.68	$0.38	$2.50	$1.97	$1.71
Excess demand per kW:	$9.46	$9.46	$9.46	$9.46	$9.74	$9.74	$9.74	$9.74
On-peak energy per kWh:	$0.05212	$0.05422	$0.05318	$0.05047	$0.05366	$0.05582	$0.05475	$0.05198
Off-peak block 1 per kWh:	$0.02903	$0.03113	$0.03008	$0.02737	$0.02987	$0.03204	$0.03096	$0.02818
Off-peak block 2 per kWh:	$0.00369	$0.00369	$0.00500	$0.00283	$0.00377	$0.00377	$0.00512	$0.00291
Off-peak block 3 per kWh:	$0.00134	$0.00134	$0.00500	$0.00229	$0.00135	$0.00135	$0.00512	$0.00235
Winter								
On-peak billing demand per kW:	$8.57	$8.57	$8.57	$8.57	$8.83	$8.83	$8.83	$8.83
Maximum billing demand per kW:	$3.68	$2.47	$1.94	$1.68	$3.75	$2.50	$1.97	$1.71
Excess demand per kW:	$8.57	$8.57	$8.57	$8.57	$8.83	$8.83	$8.83	$8.83
On-peak energy per kWh:	$0.41580	$0.04368	$0.04264	$0.03993	$0.04280	$0.04496	$0.04389	$0.04112
Off-peak block 1 per kWh:	$0.03109	$0.03319	$0.03214	$0.02943	$0.03200	$0.03416	$0.03308	$0.03030
Off-peak block 2 per kWh:	$0.00369	$0.00369	$0.00500	$0.00283	$0.00377	$0.00377	$0.00512	$0.00291
Off-peak block 3 per kWh:	$0.00134	$0.00134	$0.00500	$0.00229	$0.00135	$0.00135	$0.00512	$0.00235
Transition:								
On-peak billing demand per kW:	$8.57	$8.57	$8.57	$8.57	$8.83	$8.83	$8.83	$8.83
Maximum billing demand per kW:	$3.68	$2.47	$1.94	$1.68	$3.75	$2.50	$1.97	$1.71
Excess demand per kW:	$8.57	$8.57	$8.57	$8.57	$8.83	$8.83	$8.83	$8.83
On-peak energy per kWh:	$0.03190	$0.03399	$0.03295	$0.03024	$0.03283	$0.03498	$0.03391	$0.03114
Off-peak block 1 per kWh:	$0.03190	$0.03399	$0.03295	$0.03024	$0.03283	$0.03498	$0.03391	$0.03114
Off-peak block 2 per kWh:	$0.00369	$0.00369	$0.00500	$0.00283	$0.00377	$0.00377	$0.00512	$0.00291
Off-peak block 3 per kWh:	$0.00134	$0.00134	$0.00500	$0.00229	$0.00135	$0.00135	$0.00512	$0.00235

Drainage Pumping Station Rate (Schedule DPS)	Effective September 30, 2016.	
Customer Charge:	$15.52 per delivery point per month	7

Energy Charge:	Summer	Winter	Transition
All kWh per month:	$0.03664	$0.03364	$0.03182

Outdoor Lighting Rate (Schedule LS)	Effective September 30, 2016.	16,488

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

Energy Charge:	Summer	Winter	Transition
All kWh per month:	$0.04717	$0.04413	$0.04232

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

Outdoor Lighting Rate (Schedule LS) (cont.)

Outdoor Lighting Facilities Charge:

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

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

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

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

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

Outdoor Lighting Rate (Schedule LS) (cont.)

(a) Type of fixture

	Lamp Size		Rated	
	(Watts)	(Lumens)	(kWh)	Charge
Mercury Vapor or Incandescent	175	7,650	70	$2.95
	250	10,400	98	3.49
	400	19,100	155	4.42
	700	33,600	266	5.96
	1,000	47,500	378	7.59
Metal Halide	175	8,300	70	$2.95
	250	14,000	98	3.49
	400	22,600	155	4.42
	1,000	88,000	378	7.59
High Pressure Sodium	50	3,285	22	$4.19
	100	8,550	42	4.48
	150	14,400	63	4.61
	200	18,900	82	5.01
	250	23,000	105	5.30
	400	45,000	165	6.29
	1,000	126,000	385	10.05
LED	100	7,000	24	$5.18
	150	9,300	31	5.39
	200	13,400	45	5.82

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

	Summer	Winter	Transition
All rated kWh per month:	$0.04717	$0.04413	$0.04232

Gas Division Rate Class	Base Charge	Customers
Residential G-1 & G-3	Effective meters read on or after January 4, 2016	279,115
	Schedule G-1 is available for domestic use to residential customers in individual private residences or other individual dwelling units situated within the corporate limits of the City of Memphis, Tennessee. Schedule G-3 is available for domestic use to residential customers in individual private residences or other individual dwelling units situated outside the corporate limits of the City of Memphis, Tennessee.	
Service charge:	$ 10.00 per month, plus	
Commodity charge:	First 100 ccf per month @ $0.586 per ccf	
	Excess over 100 ccf per month @ $0.496 per ccf, plus the above rates are subject to adjustment under the provisions of the Purchased Gas Adjustment Rider.	
Minimum bill:	$10.00 per meter per month	
Small General Service G-7	Effective meters read on or after January 4, 2016 This rate schedule is available for gas service to all gas customers except residential.	20,800
Service charge:	For 0 to 250 cf meter, $30.00 Over 250 to 1,000 cf meter, $55.00 Over 1,000 cf meter, $100.00 per month plus,	
Commodity charge:	All gas consumed: $0.531 per Ccf per month, plus	
	The above rates are subject to adjustment under the provisions of the Purchased Gas Adjustment Rider.	
Minimum bill:	The minimum monthly bill shall be $0.654 for each Ccf of the higher of:	
	(1) The maximum daily demand during the preceding eleven months, or	
	(2) The daily contract demand, but in no case less than the Service charge listed above.	
Large General Service Firm on-peak G-8 and G-9	Effective meters on or after January 4, 2016	431
	This rate schedule is available for gas service to all customers contracting for not less than 100 Ccf of maximum daily demand.	
Demand charge:	$0.251 Ccf per month of contract demand or maximum daily demand during the twelve (12) months ending with the billing month, whichever is higher, plus	

Gas Division Rate Class	Base Charge	Customers
Large General Service Firm on-peak G-8 and G-9 (cont.)		
Commodity Charge:	First 200,000 Ccf per month @ $0.488 per ccf Excess over 200,000 Ccf per month @ $0.394 per ccf, plus The above rates are subject to adjustment under the provisions of the Purchased Gas Adjustment Rider.	
Minimum bill:	The minimum bill shall be $0.904 for Ccf of the higher of: (1) the maximum Daily Demand during the twelve (12) months ending with the billing month, or (2) the Daily Contract Demand.	
Large General Service Interruptible Off-peak G-10 and G-12	Effective January 4, 2016	18
	This rate schedule is available for gas service to all customers contracting for not less than 1,500 Ccf of maximum daily demand and providing oil or other alternate fuel facilities approved by the Division as being adequate in design and capacity.	
Service charge:	$500.00 per month, plus	
Commodity Charge:	First 200,000 Ccf per month @ $0.458 per Ccf Excess over 200,000 Ccf per month @ $0.389 per Ccf, plus The above rates are subject to adjustment under the provisions of the Purchased Gas Adjustment Rider.	
Minimum bill:	The minimum monthly bill shall be $0.350 for each Ccf of the higher of (1) the maximum daily demand during the twelve months ending with the billing month, or (2) the daily contract demand, but in no event less than $500.00.	

Water Division Rate Class	Base Charge		Customers
Residential – Inside City Rate	Effective meters read on or after January 4, 2016		177,989
	For water furnished to premises entirely within the corporate limits of the City of Memphis		
Commodity charge:	All water consumed: $1.836 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	$7.76	
	3/4" meter	11.20	
	1" meter	19.87	
	1-1/2" meter	44.71	
	2" meter	79.48	
Residential – Outside City Rate	Effective meters read on or after January 4, 2016		22,339
	For water furnished to premises outside the corporate limits of the City of Memphis		
Commodity charge:	All water consumed: $2.858 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	$10.81	
	3/4" meter	15.54	
	1" meter	27.66	
	1-1/2" meter	62.20	
	2" meter	110.57	
General Service – Inside City Rate	Effective meters read on or after January 4, 2016		18,181
	For water service to all customers within the corporate limits of the City of Memphis, except residential customers		
Commodity charge:	Water consumed per month:		
	First 30 Ccf	$2.341 per Ccf	
	Next 70 Ccf	$1.990 per Ccf	
	Next 100 Ccf	$1.514 per Ccf	
	Next 400 Ccf	$1.261 per Ccf	
	Next 5,400 Ccf	$0.981 per Ccf	
	Excess over 6,000 Ccf	$1.022 per Ccf	

Water Division Rate Class (cont.)	**Base Charge**		**Customers**
General Service – Inside City Rate (cont.)			
Minimum bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows:		
	5/8" meter	$14.87	
	3/4" meter	17.34	
	1" meter	29.72	
	1-1/2" meter	59.46	
	2" meter	123.93	
	3" meter	247.78	
	4" meter	370.53	
	6" meter	468.74	
	8" meter	566.96	
	10" meter	1,174.45	
	12" meter	1,638.73	
	14" meter	2,253.28	
	Battery of 2-2" meters	247.78	
	Battery of 3-2" meters	370.53	
General Service – Outside City Rate	Effective meters read on or after January 4, 2016		793
	For water service to all customers outside the corporate limits of the City of Memphis, except residential customers		
Commodity charge:	Water consumed per month:		
	First 30 Ccf	$3.517 per Ccf	
	Next 70 Ccf	$2.957 per Ccf	
	Next 100 Ccf	$2.257 per Ccf	
	Next 400 Ccf	$1.892 per Ccf	
	Next 5,400 Ccf	$1.485 per Ccf	
	Excess over 6,000 Ccf	$1.541 per Ccf	
Minimum bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows:		
	5/8" meter	$22.73	
	3/4" meter	26.52	
	1" meter	45.47	
	1-1/2" meter	90.00	
	2" meter	189.42	
	3" meter	378.87	
	4" meter	566.19	
	6" meter	716.27	
	8" meter	866.35	
	10" meter	1,794.66	
	12" meter	2,504.14	
	14" meter	3,440.84	
	Battery of 2-2" meters	378.87	
	Battery of 3-2" meters	566.19	

Water Division Rate Class (cont.)	Base Charge	Customers
Residential – Shelby County Water Distribution System	Effective meters read on or after January 4, 2016	17,652

For water service within the area served by the Shelby County Water Distribution System at the time of its acquisition on June 30, 1999, for domestic uses to residential customers in individual private residences or other individual dwelling places.

Monthly rate: All water consumed $2.858 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	$10.81
3/4" meter	$15.54
1" meter	$27.66
1-1/2" meter	$62.20
2" meter	$110.57

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

Water Division Rate Class (cont.)	Base Charge	Customers
Commercial - Industrial – Shelby County Water Distribution System	Effective meters read on or after January 4, 2016	609

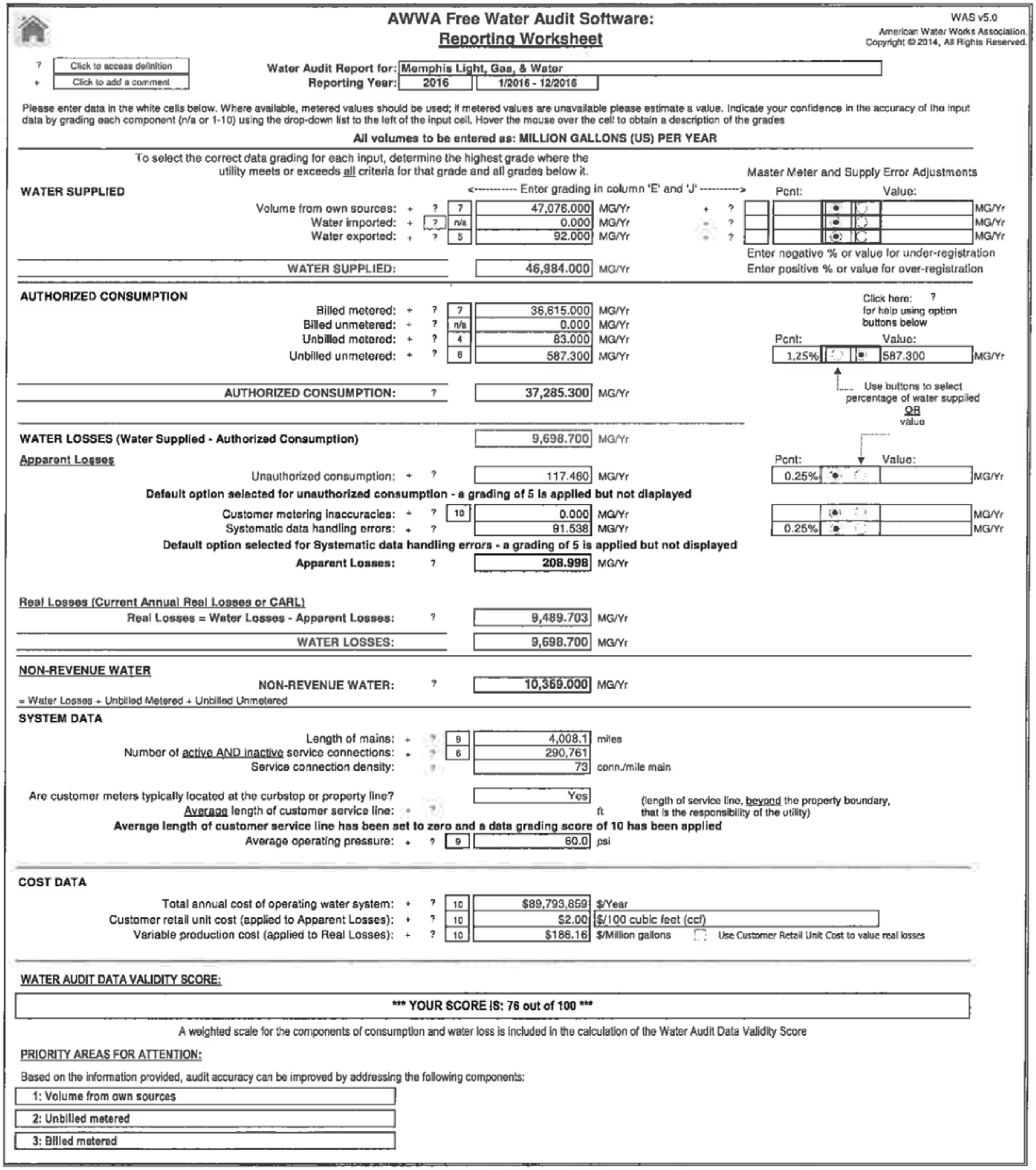
For water service within the area served by the Shelby County Water Distribution System at the time of its acquisition on June 30, 1999, for all customers except residential customers using service exclusive for domestic use.

Monthly rate: Water consumed per month:

First 30 Ccf	$3.517 per Ccf
Next 70 Ccf	$2.957 per Ccf
Next 100 Ccf	$2.257 per Ccf
Next 400 Ccf	$1.892 per Ccf
Next 5,400 Ccf	$1.485 per Ccf
Excess over 6000 Ccf	$1.541 per Ccf

Water Division Rate Class (cont.)	Base Charge		Customers
Minimum bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows:		
	5/8" meter	$22.73	
Commercial - Industrial – Shelby County Water Distribution System			
	3/4" meter	26.52	
	1" meter	45.47	
	1-1/2" meter	90.90	
	2" meter	189.42	
	3" meter	378.87	
	4" meter	566.19	
	6" meter	716.27	
	8" meter	866.35	
	10" meter	1,794.66	
	12" meter	2,504.14	
	14" meter	3,440.84	

NON-REVENUE WATER
FOR THE YEAR ENDED DECEMBER 31, 2016
(Dollars in Thousands)



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, & Water
Reporting Year: 2016 1/2016 - 12/2016

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

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

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

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

WATER SUPPLIED

					Master Meter and Supply Error Adjustments: Pcnt:	Value:	
Volume from own sources:	+ ?	7	47,076.000	MG/Yr		● ○	MG/Yr
Water imported:	+ ?	n/a	0.000	MG/Yr		● ○	MG/Yr
Water exported:	+ ?	5	92.000	MG/Yr		● ○	MG/Yr
WATER SUPPLIED:			46,984.000	MG/Yr			

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

AUTHORIZED CONSUMPTION

Click here: ? for help using option buttons below

					Pcnt:	Value:	
Billed metered:	+ ?	7	36,615.000	MG/Yr			
Billed unmetered:	+ ?	n/a	0.000	MG/Yr			
Unbilled metered:	+ ?	4	83.000	MG/Yr			
Unbilled unmetered:	+ ?	8	587.300	MG/Yr	1.25% ○ ●	587.300	MG/Yr
AUTHORIZED CONSUMPTION:	?		37,285.300	MG/Yr			

Use buttons to select percentage of water supplied OR value

					Pcnt:	Value:	
WATER LOSSES (Water Supplied - Authorized Consumption)			9,698.700	MG/Yr			
Apparent Losses							
Unauthorized consumption:	+ ?		117.460	MG/Yr	0.25% ● ○		MG/Yr

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

Customer metering inaccuracies:	+ ?	10	0.000	MG/Yr	● ○		MG/Yr
Systematic data handling errors:	+ ?		91.538	MG/Yr	0.25% ● ○		MG/Yr

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

Apparent Losses:	?	208.998	MG/Yr
Real Losses (Current Annual Real Losses or CARL)			
Real Losses = Water Losses - Apparent Losses:	?	9,489.703	MG/Yr
WATER LOSSES:		9,698.700	MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER:	?	10,369.000	MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	+ ?	9	4,008.1	miles
Number of active AND inactive service connections:	+ ?	6	290,761	
Service connection density:	?		73	conn./mile main
Are customer meters typically located at the curbstop or property line?			Yes	
Average length of customer service line:	+ ?			ft (length of service line, beyond the property boundary, that is the responsibility of the utility)

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

Average operating pressure:	+ ?	9	60.0	psi

COST DATA

Total annual cost of operating water system:	+ ?	10	$89,793,859	$/Year
Customer retail unit cost (applied to Apparent Losses):	+ ?	10	$2.00	$/100 cubic feet (ccf)
Variable production cost (applied to Real Losses):	+ ?	10	$186.16	$/Million gallons ☐ Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

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

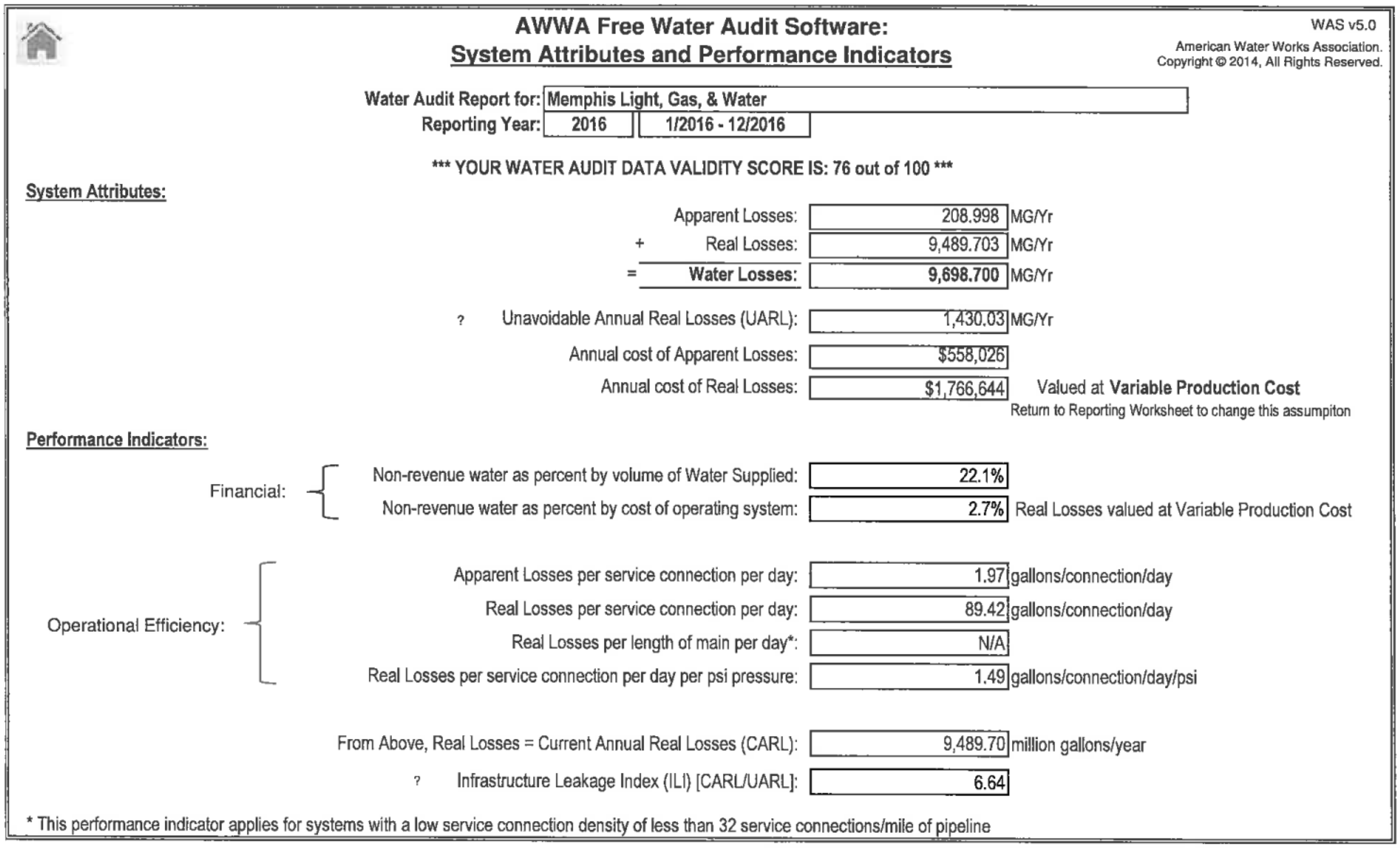
A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

1: Volume from own sources
2: Unbilled metered
3: Billed metered

NON-REVENUE WATER
DECEMBER 31, 2016
(Dollars in Thousands)



AWWA Free Water Audit Software:
System Attributes and Performance Indicators

WAS v5.0

Water Audit Report for: Memphis Light, Gas, & Water
Reporting Year: 2016 | 1/2016 - 12/2016

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

System Attributes:

Apparent Losses:	208.998	MG/Yr
+ Real Losses:	9,489.703	MG/Yr
= **Water Losses:**	**9,698.700**	MG/Yr
? Unavoidable Annual Real Losses (UARL):	1,430.03	MG/Yr
Annual cost of Apparent Losses:	$558,026	
Annual cost of Real Losses:	$1,766,644	Valued at **Variable Production Cost** Return to Reporting Worksheet to change this assumpiton

Performance Indicators:

Financial:	Non-revenue water as percent by volume of Water Supplied:	22.1%	
	Non-revenue water as percent by cost of operating system:	2.7%	Real Losses valued at Variable Production Cost
Operational Efficiency:	Apparent Losses per service connection per day:	1.97	gallons/connection/day
	Real Losses per service connection per day:	89.42	gallons/connection/day
	Real Losses per length of main per day*:	N/A	
	Real Losses per service connection per day per psi pressure:	1.49	gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL):	9,489.70	million gallons/year
? Infrastructure Leakage Index (ILI) [CARL/UARL]:	6.64	

* 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, 2016
(Dollars in Thousands)

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

	Electric Division	Gas Division	Water Division
Utility plant in service, December 31, 2015	$ 1,646,915	$ 597,729	$ 448,323
Additions- Construction	83,211	33,013	23,032
Additions- Acquisition Adjustment	-	-	964
Retirements	(17,527)	(7,643)	(3,104)
Utility plant in service, December 31, 2016	**$ 1,712,599**	**$ 623,099**	**$ 469,215**

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

5100 Poplar Ave., 30th Floor ■ Memphis, TN 38137
Main: 901.685.5575 ■ Fax: 901.685.5583 ■ www.mhmcpa.com

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audits of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Electric, Gas and Water Divisions (the "Divisions") of Memphis Light, Gas and Water Division, enterprise funds of the City of Memphis, Tennessee, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Divisions' basic financial statements, and have issued our report thereon dated June 7, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. There were no prior findings reported.

Compliance and Other Matters

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

Purpose of this Report

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

Mayer Hoffman McCann P.C.

Memphis, Tennessee
June 7, 2017

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