



Municipal Market Disclosure Information Cover Sheet

This Filing Applies to:

1. The Metropolitan Government of Nashville and Davidson County (Tennessee), Federally Taxable Water and Sewer Revenue Refunding Bonds, Series 2021B (Green Bonds), \$232,075,000 Dated: October 14, 2021
592098X51, 592098X69, 592098X77, 592098X85, 592098X93, 592098Y27, 592098Y35, 592098Y43, 592098Y50, 592098Y68, 592098Y76, 592098Y84, 592098Y92, 592098Z26, 592098Z34, 592098Z42
2. The Metropolitan Government of Nashville and Davidson County (Tennessee), Water and Sewer Revenue Bonds, Series 2021A (Green Bonds), \$377,520,000 Dated: October 14, 2021
592098Z75, 592098Z83, 592098Z91, 5920982A4, 5920982B2, 5920982C0, 5920982D8, 5920982E6, 5920982F3, 5920982G1, 5920982H9, 5920982J5, 5920982K2, 5920982L0, 5920982M8, 5920982N6, 5920982P1, 5920982Q9, 5920982R7, 5920982S5
3. The Metropolitan Government of Nashville and Davidson County (Tennessee), Water and Sewer Revenue Bonds, Series 2020A, \$169,575,000, Dated: April 8, 2020
592098T80, 592098T98, 592098U21, 592098U39, 592098U47, 592098U54, 592098U62, 592098U70, 592098U88, 592098U96, 592098V20, 592098V38, 592098V46, 592098V53, 592098V61, 592098V79, 592098V87, 592098V95
4. The Metropolitan Government of Nashville and Davidson County (Tennessee), Water and Sewer Revenue Bonds, Series 2020B, \$45,530,000, Dated: April 8, 2020
592098W52, 592098W60, 592098W78, 592098W86
5. The Metropolitan Government of Nashville and Davidson County (Tennessee), Water and Sewer Revenue Bonds, Series 2017A (Green Bonds), \$89,420,000, Dated: November 2, 2017
592098N78, 592098N86, 592098P27, 592098N94, 592098P35, 592098P43, 592098P50, 592098P68, 592098P76, 592098P84, 592098P92, 592098Q26, 592098Q34, 592098Q42, 592098Q59, 592098Q67, 592098Q75, 592098Q83, 592098Q91
6. The Metropolitan Government of Nashville and Davidson County (Tennessee), Water and Sewer Revenue Bonds, Series 2017B, \$155,210,000, Dated: November 2, 2017
592098R58, 592098R66, 592098R74, 592098R82, 592098R90, 592098S24, 592098S32, 592098S40,

592098S57, 592098S65, 592098S73, 592098S81, 592098S99, 592098T23, 592098T31, 592098T49

7. The Metropolitan Government of Nashville and Davidson County, Tennessee, Water and Sewer Revenue Bonds Federally Taxable Series 2010B (Build America Bonds - Direct Payment), \$135,000,000, Dated: December 16, 2010
592098G43, 592098G50

8. The Metropolitan Government of Nashville and Davidson County, Tennessee, Water and Sewer Revenue Bonds Federally Taxable Series 2010C (Recovery Zone Economic Development Bonds), \$75,000,000, Dated: December 16, 2010
592098G68

TYPE OF FILING:

If information is also available on the Internet, give URL: www.dacbond.com

WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)

Financial / Operating Data Disclosures

Rule 15c2-12 Disclosure

- Annual Financial Information & Operating Data (Rule 15c2-12)
- Audited Financial Statements or ACFR (Rule 15c2-12)
2023 Audited Financial Statements - Water & Sewer System
- Failure to provide as required

Additional / Voluntary Disclosure

- Quarterly / Monthly Financial Information
- Change in Fiscal Year / Timing of Annual Disclosure
- Change in Accounting Standard
- Interim / Additional Financial Information / Operating Data
- Budget
- Investment / Debt / Financial Policy
- Information Provided to Rating Agency, Credit / Liquidity Provider or Other Third Party
- Consultant Reports
- Other Financial / Operating Data

Event Filing

Rule 15c2-12 Disclosure

- Principal / Interest Payment Delinquency
- Non-payment Related Default
- Unscheduled Draw on Debt Service Reserve Reflecting Financial Difficulties
- Unscheduled Draw on Credit Enhancement Reflecting Financial Difficulties
- Substitution of Credit or Liquidity Provider, or Its Failure to Perform
- Adverse Tax Opinion or Event Affecting the Tax-exempt Status of the Security
- Modification to the Rights of Security Holders
- Bond Call
- Defeasance
- Release, Substitution or Sale of Property Securing Repayment of the Security
- Rating Change
- Tender Offer / Secondary Market Purchases
- Merger / Consolidation / Acquisition and Sale of All or Substantially All Assets
- Bankruptcy, insolvency, receivership or similar event
- Successor, Additional or Change in Trustee
- Failure to Provide Event Filing Information as Required
- Financial Obligation - Incurrence and Agreement
- Financial Obligation - Event Reflecting Financial Difficulties

Additional / Voluntary Disclosure

- Amendment to Continuing Disclosure Undertaking
- Change in Obligated Person
- Notice to Investor Pursuant to Bond Documents
- Communication From the Internal Revenue Service
- Bid For Auction Rate or Other Securities
- Capital or Other Financing Plan
- Litigation / Enforcement Action
- Change of Tender Agent, Remarketing Agent or Other On-going Party
- Derivative or Other Similar Transaction
- Other Event-based Disclosures

Asset-Backed Securities Filing

Additional / Voluntary Disclosure

- Initial Asset-Backed Securities Disclosure (SEC Rule 15Ga-1(c)(1))

- Quarterly Asset-Backed Securities Disclosure (SEC Rule 15Ga-1(c)(2)(i))
 Annual Asset-Backed Securities Disclosure (SEC Rule 15Ga-1(c)(2)(ii))
 Other Asset-Backed Securities Disclosure (e.g. notice of termination of duty to file reports pursuant to SEC Rule 15Ga-1(c)(3))

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Relationship to Issuer: Dissemination Agent

Certification Authorized By:

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Title: Disclosure Counsel

Entity: The Metropolitan Government of Nashville and Davidson County, TN

**DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY**

**AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

JUNE 30, 2023

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

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Independent Auditor's Report

The Honorable Mayor and Members of Council
The Metropolitan Government of Nashville and
Davidson County, Tennessee

Report on Financial Statements

We have audited the accompanying financial statements of the Department of Water and Sewerage Services (the "Department"), an enterprise fund of The Metropolitan Government of Nashville and Davidson County, Tennessee (the "Metropolitan Government"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Water and Sewerage Services, an enterprise fund of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of June 30, 2023, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and the Metropolitan Government and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Department of Water and Sewerage Services, an enterprise fund of the Metropolitan Government of Nashville and Davidson County, Tennessee, and do not purport to, and do not present fairly the financial position of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of June 30, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Department's or the Metropolitan Government's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The schedule of restricted cash and cash equivalents, and schedule of changes in long-term debt by individual issue are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of restricted cash and cash equivalents, and schedule of changes in long-term debt by individual issue are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the basic financial statements. The other information comprises the schedule of utility rates, schedule of number of customers, and schedule of pledged revenue coverage but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.



The Honorable Mayor and Members of Council
The Metropolitan Government of Nashville and
Davidson County, Tennessee

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2023, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's 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 Hospital's internal control over financial reporting and compliance.

Crosslin, PLLC

Nashville, Tennessee
October 31, 2023

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
JUNE 30, 2023

MANAGEMENT'S DISCUSSION & ANALYSIS

Management of the Metropolitan Government of Nashville and Davidson County (the "Metropolitan Government"), Department of Water and Sewerage Services (the "Department" - an enterprise fund of the Metropolitan Government), offer readers of the Department's financial statements this overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2023. This information should be read in conjunction with the Metropolitan Government's audited financial statements.

FINANCIAL HIGHLIGHTS

The Department provides water and sewerage service to most of Davidson County, Tennessee, and small portions of the surrounding counties. It serves approximately 223,000 water accounts and 225,000 sewer accounts. Activities are funded entirely from revenues generated from its operations, with no tax revenues from the Metropolitan Government. A covenant with bondholders provides assurance that there will be adequate funds for necessary major repairs and replacement of facilities, by requiring revenues to equal at least 110% of the sum of the year's operating budget (exclusive of depreciation and certain other expenses) and the debt service on its outstanding revenue bonds. These monies, not required for normal operations, flow into the Surplus Fund to be used to finance ongoing capital requirements of the Department, as supplemented with revenue bonds.

In January of 2023, water and sewer rates were increased for the third consecutive year. Ordinance BL2019-045, which was adopted by the Metropolitan Nashville Davidson County Council on December 10, 2019, outlines the rate structure and four annual rate increases followed by increases based on the annual consumer price index. In accordance, water and sewer rates were increased by 3% in January of 2023.

At June 30, 2023, assets and deferred outflows of the Department were \$3.3 billion and exceeded liabilities and deferred inflows by \$1.7 billion (total net position). In 2023, unrestricted cash and cash equivalents decreased by approximately \$7.3 million to \$116.3 million, and restricted cash/cash equivalents decreased by approximately \$70.5 million. These decreases are a result of spending over \$92 million of the 2021 bond proceeds on Consent Decree related projects and offset by increased water and sewer rates. For 2023, capital assets increased by approximately \$305.7 million, before depreciation of \$102.4 million, for a net increase of \$203.3 million. These assets were acquired using revenues of the Department, revenue bonds, commercial paper, grants, and contributions.

In 2023, the rate increase, and continued economic development positively impacted operating revenues of \$365 million, an increase of \$32.7 million as compared to 2022. Operating expenses for 2023 were \$262 million, an increase of \$24.9 million from 2022: mainly driven by three factors: increases in contractual services, increases in personnel costs, and finally increases in depreciation expense. Contractual Services increased by \$10.4 million due to current economic conditions, new contracts, and increased utility costs. The \$8.8 million increase in personnel services was due to a recognized decrease in expense related to net pension liability and increases in employee salaries realized beginning July 1, 2022. Finally, the Department capitalized \$73 million in assets during fiscal year 2022, the depreciation from which greatly contributed to

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
JUNE 30, 2023

increased annual expense from \$98.8 million to \$102.4 million in fiscal year 2023. The Department ended 2023 \$3.7 million under its operating budget of \$162.3 million.

Investment income increased from \$2,402 in 2022 to \$19.7 million in 2023, following a period of increased interest rates and strong investment. Capital grants and contributions remained steady, decreasing by \$736 thousand to \$52 million in 2023, resulting from steady development through capacity fees and infrastructure deeds.

On September 14, 2022 the Metropolitan Government of Nashville Davidson County, Tennessee entered into a secured loan agreement (WIFIA Loan) with the United States Environmental Protection Agency (USEPA) for the Process Advancement Projects at Omohundro and K. R. Harrington Water Treatment Plant with a maximum principal amount of \$315 million. The maximum principal constitutes no more than 49% of the total project costs and principal payments begin after project completion which is programmed for August 2028.

The Water System and the Sewer System have gradually been expanded and include: improvements financed by revenues; improvements resulting from capital contributions in aid of construction by private developers; all improvements, additions and extensions financed with the proceeds of outstanding bonds and governmental grants; and facilities acquired from the Nashville Suburban Utility District, the First Suburban Water Utility District of Davidson County, Tennessee, the Parkwood Service Company, the Joelton Water Utility District, the City of Lakewood sewerage system, Rayon City Water Company, the Cumberland Utility District, Old Hickory Utility District, and the sewerage service of the Nolensville/College Grove Utility District in Williamson County.

Under the Charter and Tennessee Code Annotated §7-3-302, the Metropolitan Government can assume and take over any water and/or sewer utility district located within its boundaries through ordinances adopted by the Metropolitan Council. Several such systems currently operate inside Davidson County and if a decision is made to consolidate these operations into the Department, the Metropolitan Government will take subject to or retire all debts and liabilities of the systems. The economic impact of such an assumption or takeover would be evaluated prior to the submission of any legislation to the Metropolitan Council. By contract dated February 1996, the Metropolitan Government has agreed not to take over the Harpeth Valley Utility District before February 2026.

Historically, the Department managed and partially funded the stormwater operations of the Metropolitan Government. In 2009, the Metropolitan Government established a Stormwater Division of the Department as a stand-alone enterprise fund with its own set of service fees, which are now an itemized part of the water bill. Stormwater fees increased in 2017. Stormwater operations are funded solely through stormwater fees and any associated bonds supported by those fees.

On July 2020, the Department assumed management of the Metropolitan Government of Nashville Davidson County District Energy System (DES). DES delivers heat, ventilation, and air condition (HVAC) to buildings in the downtown corridor through a series of closed-circuit pipe systems carrying cooled and heated water. DES activities are funded solely from fees/rates from the Customers of the system and revenues generated from the general government.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
JUNE 30, 2023

On July 1 2021, the Department assumed management of the Metropolitan Government of Nashville Davidson County Waste Services activities which includes resident recycling and waste collection in the Urban Services District, commercial trash collection in the downtown corridors, county-wide refuse collection convenience centers and drop off points, and oversight of the county's closed landfills. Waste Services activities are funded solely from Solid Waste fees and revenues generated from the general government.

Consent Decree

In December 2005, the Department received an inquiry from United States Environmental Protection Agency ("EPA"), pertaining to the Department's Operations, Capital Plan, and Stormwater Management. The Department's response was submitted in January 2006. The Department, TDEC and EPA agreed on a recommended consent decree on March 12, 2009 (the "Consent Decree") to address and correct deficiencies within the Department's sewer system that have caused violations of the Clean Water Act ("CWA"). The original Consent Decree required that the Department fully develop, in two years, a Corrective Action Plan/Engineering Report ("CAP/ER") for its separate sewer system and a Long Term Control Plan ("LTCP") for its combined sewer system to achieve the goals of the CWA. Upon submittal and approval of the plans, the Department would have an additional nine years to complete the work as developed by the plans.

On May 14, 2010, the Metropolitan Government petitioned EPA and TDEC for a six month time extension for the delivery of both plans and two years for the final compliance with the Consent Decree due to the flood of May 2010. EPA and TDEC granted the requested time extension to the Department. Both the CAP/ER and LTCP were submitted on time based on the time extension to EPA and TDEC in September of 2011. On August 10, 2017, the EPA approved the CAP/ER; the timeline (11 years) to complete the work officially commenced. After extensive negotiation, EPA issued a partial conditional approval of the LTCP in December 2020, which requires the Department to submit a revised LTCP within four years and allows 11 years from December 2020 to complete the work. Due to the COVID-19 Pandemic, the Department invoked force majeure stating that labor and related supply chain issues were impacting progress. In parallel, review of major aspects of the CAP/ER created reason to seek additional conversation and review the timeline with USEPA. In November 2022 and in January 2023, MWS submitted a letter and then an updated letter respectively requesting updates to the CAP/ER and LTCP due to unanticipated cost escalation, labor shortages, and delays obtaining materials and equipment. The notices discussed that such cost escalation issues, modification in the scope of existing projects, and the addition of new projects to address problems that have been identified since the CAP/ER and LTCP were submitted, has resulted in the increase in the Program's estimated cost from \$1.5 billion to over \$2.4 billion. As such, MWS requested a CAP/ER and Sewer Master Plan Update to be completed by no later than December 31, 2025 and a Revised LTCP by no later than December 8, 2024.

Failure to comply with the Consent Decree and meet future established deadlines could result in penalties up to \$3,000 per occurrence, and up to \$5,000 per day for failure to implement work. The Department has thus far been successful in meeting all the deadlines established by the Consent Decree and is currently in compliance with the Consent Decree in all respects.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
JUNE 30, 2023

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements consist of the Statements of Net Position, the Statements of Revenue, Expenses, and Changes in Net Position and the Statement of Cash Flows. Data on these statements represent an enterprise fund of the Metropolitan Government as established by the master bond resolution and the Charter of the Metropolitan Government. These funds consist of the Revenue Fund, the Operating Fund, the Operating Reserve Fund, the Debt Service Fund, the Debt Service Reserve Fund, the Revolving Fund, and the Extension and Replacement Fund. All revenues of the Department are required to be used for the benefit of the ratepayers.

Statement of Net Position

Condensed Financial Information as of
June 30, 2023 and 2022

	2023	2022
Total current assets	\$ 270,719,626	\$ 186,117,621
Total capital and other noncurrent assets	3,010,634,879	2,974,731,163
Total assets	3,281,354,505	3,160,848,784
Deferred charge on refunding	17,630,947	19,732,262
Pensions	14,236,872	12,317,147
Total deferred outflows of resources	31,867,819	32,049,409
Total current liabilities	260,016,401	229,700,774
Total noncurrent liabilities	1,344,543,282	1,364,180,038
Total Liabilities	1,604,559,683	1,593,880,812
Pensions	2,013,358	21,404,169
Total deferred inflows of resources	2,013,358	21,404,169
Total net Position	\$ 1,706,649,283	\$ 1,577,613,212

In 2023, current assets increased by \$84.6 million to \$270.7 million and current liabilities increased by \$30.3 million to \$260 million yielding a current ratio of 1.04. Capital assets, net of \$1.9 billion of accumulated depreciation, increased by \$203 million in 2023 to \$2.6 billion. This increase is largely the result of many large, longer phased capital projects moving toward completion (works in progress) in 2023 and the capitalization of several mid-sized projects such as sewer rehabilitation projects. All additions are from a combination of infrastructure deeded to the Department by developers, Clean Water Nashville projects, and the Department's efforts to maintain and improve the system. The Department has an ongoing program to improve both the water and sewer infrastructure by cleaning and/or relining existing pipes, as well as replacing and extending facilities.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
JUNE 30, 2023

Statement of Revenue, Expense, and Changes in Net Position

Condensed Financial Information for the Year Ended

June 30, 2023

	2023	2022
Operating revenues	\$ 365,119,079	\$ 335,440,141
Depreciation (expense)	(102,429,938)	(98,881,450)
Other operating (expenses)	(159,494,600)	(138,150,123)
Operating income	103,194,541	98,408,568
Investment income	19,668,842	2,402
Interest expense	(43,599,974)	(20,364,579)
Other	507,737	(2,718,536)
Capital grants and contributions	52,051,546	52,787,622
Transfers to other funds of the Metropolitan Government, net	(2,786,621)	(10,475,446)
Change in net Position	129,036,071	117,682,129
Net Position, beginning of year	1,577,613,212	1,459,931,083
Net Position, end of year	\$ 1,706,649,283	\$ 1,577,613,212

Operating income increased \$4.8 million in 2023 primarily due to \$29.7 million increased operating revenue offset by \$24.9 million in increased depreciation and expenses.

CAPITAL ASSETS AND BONDS AND NOTES PAYABLE

The Department's investment in capital assets as of June 30, 2023 is \$2.6 billion, which is an increase of \$203.3 million from the year ending June 30, 2022. Depreciation expense for FY 2023 totaled \$102.4 million.

	June 30, 2023	June 30, 2022
Utility plant in service	3,385,035,433	3,311,457,409
Land	24,673,248	24,673,248
Buildings and improvements	63,264,263	63,264,263
Improvements other than buildings	71,475,775	68,332,742
Furniture, machinery and equipment	222,742,839	209,029,345
Construction work in progress	677,800,999	462,537,667
Less accumulated depreciation	(1,865,632,926)	(1,763,202,988)
	\$ 2,579,359,631	\$ 2,376,091,686

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
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During the year ending June 30, 2023, utility plant in service increased \$73.5 million to \$3.4 billion and construction work in progress increased \$215.3 million to \$677.8 million. The primary reason for the increase in utility plant in service was the completion of several mid-sized projects, such as Phase I of Eighth Ave Reservoir and 12th Ave Phases 2-3. The primary reason for the increase in construction work in process was continuation of the large Consent-Decree related project at Central Wastewater Treatment Plant, Gibson Equalization Basin and Pumpstation and the initiation of several other deferred projects such as Omohundro and KR Harrington Process Improvements phase II of the Eighth Avenue Reservoir.

Additional information on the Department’s capital assets can be found in Note C beginning on page 23 of this report.

Bonds and Notes Payable – At June 30, 2023, the Department had total outstanding bond debt, including deferred charges/premiums, net, of \$1.4 billion. The revenues of the Department collateralized all bond debt.

	June 30, 2023	June 30, 2022
Revenue bonds payable	\$1,250,225,000	\$1,281,625,000
Deferred charges / premiums, net	95,093,274	105,117,256
Total	\$1,345,318,274	\$1,386,742,256

Additional information on the Department’s bonds and notes payable can be found in Note D beginning on page 24 of this report.

Commercial Paper – In April 2015, the Metropolitan Government instituted a Water and Sewer revenue bond commercial paper program of \$283 million to provide interim and short-term financing for various authorized capital projects of the Department. In 2022, the program was increased to \$400 million. There was \$131 million outstanding commercial paper under the Water and Sewer program as of June 30, 2022.

OTHER INFORMATION

Water Rates and State Oversight

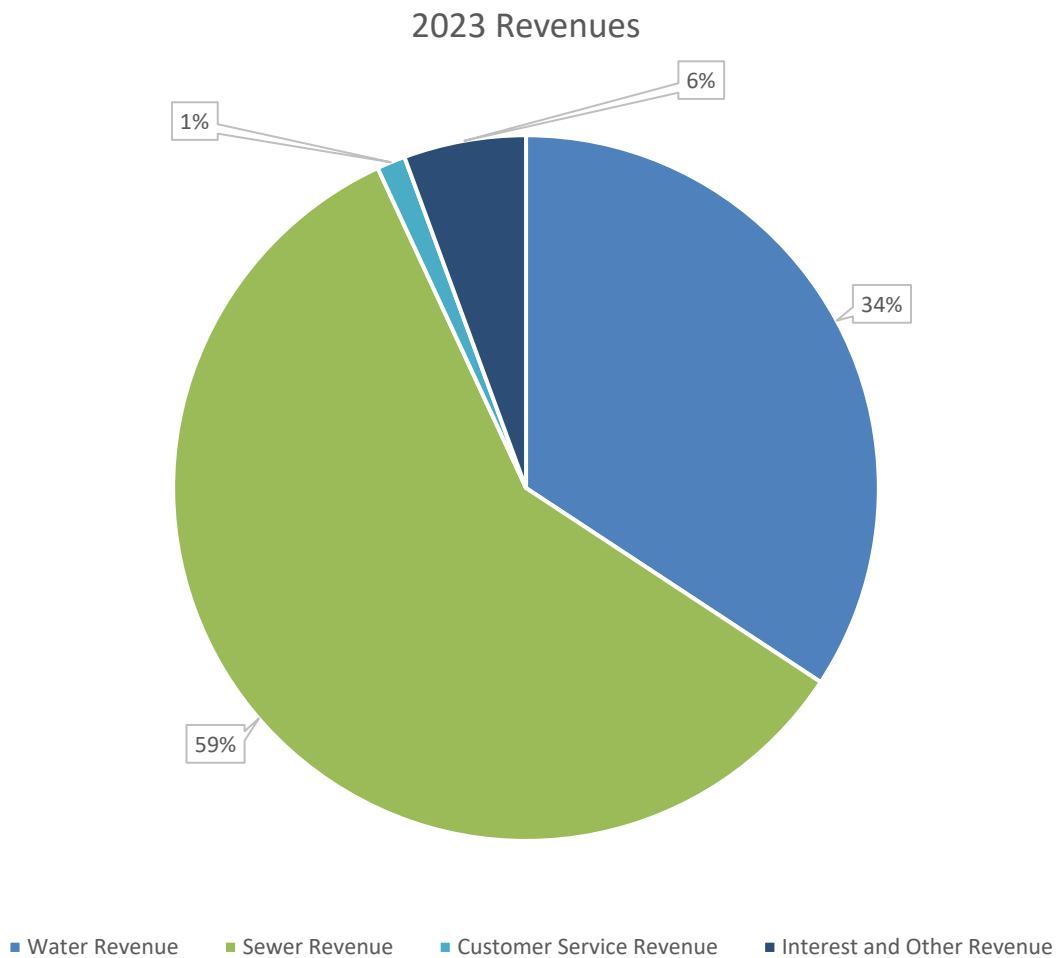
In March of 2018, the Tennessee Water & Wastewater Financing Board (Board) reviewed financials and found the Department to be “financially distressed” pursuant to T.C.A. 68-221-1010(a). In April of 2018, the Board issued an Order to provide a rate study and proposed plan by August 2019. A cost of services study was submitted to the State in August of 2019 after the reporting period. The Board accepted the report and ordered the Department to implement the Study recommendations. The Council of the Metropolitan Government Ordinance BL 2019-045, beginning January 1, 2020, implemented a five-year plan of increases for both water and sewer rates. Both water and sewer rates were restructured in accordance with a cost of services study. In addition to the restructuring, rates were increased equivalent to 26.4% to meet planned capital needs. Water and Sewer Rate increases are 4% for calendar year 2021; and 3% for the calendar years 2022, 2023, and 2024. Beginning in calendar year 2025, annual rate increases based on the

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
JUNE 30, 2023

Consumer Price Index for All Urban Consumers occur in perpetuity. The Ordinance requires a cost of services study to be completed at least every seven years to review and realign rates. Rates were increased on January 1, 2020 and January 2021, January 2022, and January 2023 as required by ordinance. The Department was released from oversight on March 23, 2023.

Sources of Revenues

The Department collects its primary revenues from charges for water and sewerage services provided to customers. In addition, these revenues are invested to earn interest. Customers are charged fees (Customer Service Revenue) to establish service, for late payment and for insufficient funds checks. The Department also charges a fee to tap onto the water system, a similar fee to connect to the sewerage system and a sewer capacity fee. These sources are illustrated on the chart below as a percentage of total revenues:

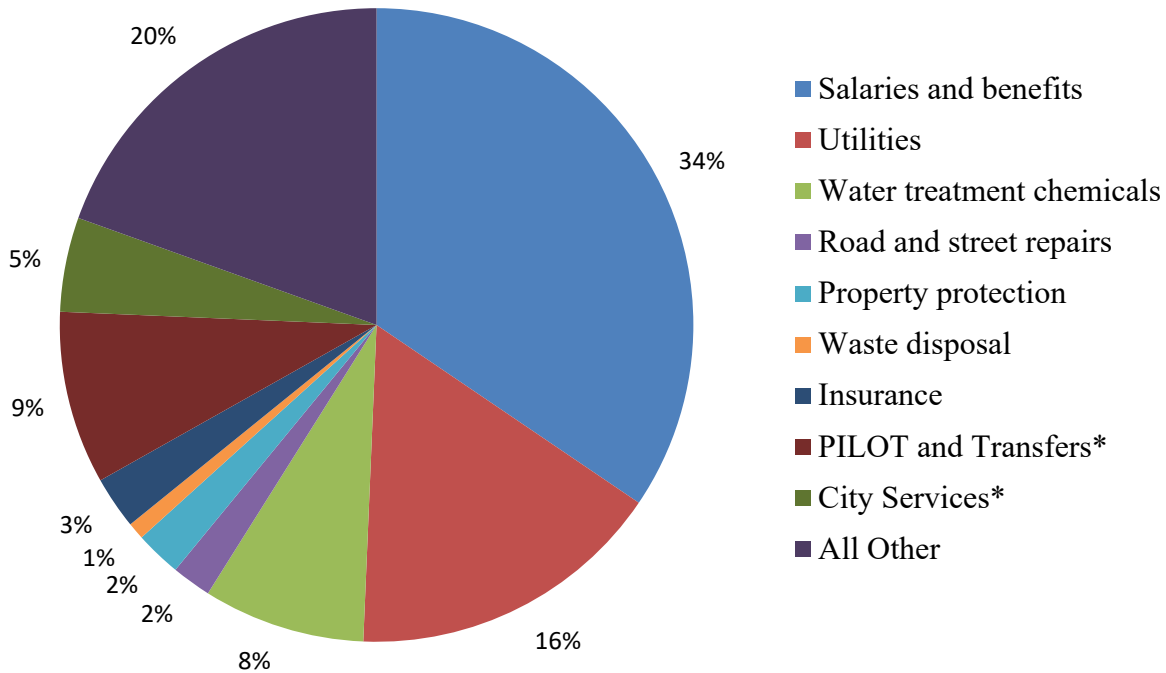


DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
JUNE 30, 2023

Major Expenses

In addition to the salaries and benefits of its employees, the major expenses incurred by the Department include electricity, payment in lieu of taxes to the Metropolitan Government (PILOT), water treatment chemicals, biosolids disposal, insurance, and property protection. Other expenses include the materials, supplies, and outside labor to maintain the system. These expense categories are charted below as a percentage of total operating expenses, excluding Depreciation, and Amortization:

2023 Expenses



REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Department's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Metropolitan Government of Nashville and Davidson County, Department of Finance, Division of Accounts, <mailto:acfr@nashville.gov>.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2023

ASSETS:

Current assets:

Cash and cash equivalents	\$ 116,327,377
Accounts receivable	49,361,066
Accrued interest receivable	2,088,607
Allowance for doubtful accounts	(1,297,242)
Due from other funds of the Government	904,192
Due from component units	11,882
Inventories of supplies	3,728,371
Other current assets	1,000

Restricted Assets:

Cash and cash equivalents	96,685,764
Accounts receivable	1,133,704
Accrued interest receivable	250,095
Other current assets	<u>1,524,810</u>

Total current assets 270,719,626

Noncurrent assets:

Capital assets:

Utility plant in service	3,385,035,433
Land	24,673,248
Buildings and improvements	63,264,263
Improvements other than buildings	71,475,775
Furniture, machinery and equipment	222,742,839
Construction in progress	677,800,999
Less accumulated depreciation	<u>(1,865,632,926)</u>
Capital assets, net	2,579,359,631

Restricted assets:

Cash and cash equivalents	413,077,514
Other noncurrent assets	<u>18,197,734</u>

Total noncurrent assets 3,010,634,879

Total assets 3,281,354,505

DEFERRED OUTFLOWS OF RESOURCES:

Deferred charge on refunding	17,630,947
Pensions	<u>14,236,872</u>
Total deferred outflows of resources	<u>31,867,819</u>

See accompanying notes to financial statements.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
STATEMENT OF NET POSITION - Continued
JUNE 30, 2023

LIABILITIES:

Current liabilities:

Accounts payable	\$ 11,141,635
Accrued payroll	6,269,069
Due to other funds of the Government	5,517,885
Due to component units	333,334
Customer deposits	3,764,279
Other current liabilities	94,470

Liabilities payable from restricted assets:

Accounts payable	40,643,953
Accrued payroll	225,687
Due to other funds of the Government	553,188
Accrued interest	26,880,369
Current portion of long-term debt	32,825,000
Current portion of state loans payable	767,532
Commercial paper payable	<u>131,000,000</u>

Total current liabilities	<u>260,016,401</u>
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Noncurrent liabilities:

Revenue bonds payable	1,312,493,274
State loans payable	22,964,776
Net pension liability	<u>9,085,232</u>
Total noncurrent liabilities	<u>1,344,543,282</u>
Total liabilities	<u>1,604,559,683</u>

DEFERRED INFLOWS OF RESOURCES

Pensions	<u>2,013,358</u>
Total deferred inflows of resources	<u>2,013,358</u>

NET POSITION:

Net investment in capital assets	1,481,279,341
Restricted for debt retirement	77,893,746
Unrestricted	<u>147,476,196</u>

Total net position	<u>\$1,706,649,283</u>
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See accompanying notes to financial statements.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2023

Operating revenues:	
Charges for services	\$ 365,067,188
Other	<u>51,891</u>
Total operating revenues	<u>365,119,079</u>
Operating expenses:	
Personnel services	66,511,940
Contractual services	67,498,669
Supplies and materials	20,997,721
Depreciation	102,429,938
Other	<u>4,486,270</u>
Total operating expenses	<u>261,924,538</u>
Operating income	<u>103,194,541</u>
Nonoperating revenue (expense):	
Investment income	19,668,842
Interest expense	(43,599,974)
Gain on sale of capital assets	14,056
Other	<u>493,681</u>
Nonoperating expense, net	<u>(23,423,395)</u>
Income before capital grants and contributions and transfers	<u>79,771,146</u>
Capital grants and contributions	52,051,546
Transfers to other funds of the Government	<u>(2,786,621)</u>
Change in net position	129,036,071
Net position, beginning of year, as restated	<u>1,577,613,212</u>
Net position, end of year	<u>\$ 1,706,649,283</u>

See accompanying notes to financial statements.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2023

Cash flows from operating activities:	
Receipts from customers and users	\$ 359,692,706
Payments to suppliers	(89,836,726)
Payments to employees	(70,356,986)
Other payments	<u>(4,815,277)</u>
Net cash provided by operating activities	<u>194,683,717</u>
Cash flows from noncapital financing activities:	
Transfers to other funds of the Government	<u>(2,786,621)</u>
Net cash used in noncapital financing activities	<u>(2,786,621)</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(293,292,856)
Proceeds from the sale of capital assets	14,056
Proceeds from borrowings	46,114,401
Principal payments on borrowings	(31,835,112)
Interest subsidy	5,032,247
Interest paid	(57,383,685)
Capital contributions received	<u>44,318,018</u>
Net cash used in capital and related financing activities	<u>(287,032,931)</u>
Cash flows from investing activities:	
Interest received	<u>17,330,141</u>
Net cash provided by investing activities	<u>17,330,141</u>
Net change in cash and cash equivalents	(77,805,694)
Cash and cash equivalents at beginning of year	<u>703,896,349</u>
Cash and cash equivalents at end of year	<u>\$ 626,090,655</u>
Cash and cash equivalents are classified as:	
Current assets	\$116,327,377
Current restricted assets	96,685,764
Noncurrent restricted assets	<u>413,077,514</u>
	<u>\$626,090,655</u>

See accompanying notes to financial statements.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
STATEMENT OF CASH FLOWS - Continued
YEAR ENDED JUNE 30, 2023

Reconciliation of operating income to net cash
provided by operating activities:

Operating income	<u>\$ 103,194,541</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	102,429,938
Provision for doubtful accounts	(93,055)
Other receipts	493,681
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
Accounts receivable	(5,611,040)
Due from other funds of the Government	156,441
Due from component units	(2,118)
Inventories of supplies	(401,043)
Other current assets	(1,435,135)
Net pension asset	10,131,749
Deferred outflows pensions	(1,919,725)
Accounts payable	(939,293)
Accrued payroll	(1,751,492)
Due to other funds of the Government	418,820
Customer deposits	329,612
Other current liabilities	(12,586)
Net pension liability	9,085,232
Deferred inflows pensions	<u>(19,390,810)</u>
Total adjustments	<u>91,489,176</u>
Net cash provided by operating activities	<u>\$ 194,683,717</u>
Supplemental disclosure of non-cash items:	
Contributions of capital assets	<u>\$ 12,282,960</u>

See accompanying notes to financial statements.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

A. SUMMARY SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements encompass the financial activities of the Department of Water and Sewerage Services (the “Department”). The Department is an enterprise fund of The Metropolitan Government of Nashville and Davidson County, Tennessee (the “Metropolitan Government”) and, accordingly, is included in the basic financial statements of the Metropolitan Government. The accompanying financial statements do not purport to present fairly the financial position of The Metropolitan Government of Nashville and Davidson County, Tennessee and changes in its financial position and its cash flows. The Department provides water and sewerage services to customers in the Metropolitan Nashville area on a self-support basis utilizing a rate structure designed to produce revenues sufficient to fund debt service requirements and operating expenses and maintain adequate working capital.

Basis of Accounting

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Department applies all relevant Government Accounting Standards Board (“GASB”) pronouncements.

Estimates

Estimates used in the preparation of financial statements require management to make assumptions that affect the reported amounts of assets and liabilities, 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.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and highly liquid short-term investments with maturity dates within three months of the date of acquisition. The Department participates in the centrally managed cash and investment pool of the Metropolitan Government, under which the Metropolitan Government remits payments on behalf of the Department. Investment income earned on funds invested in pooled accounts is allocated to the Department by the Metropolitan Government on the basis of relative balances.

Inventories

Inventories, principally materials, supplies and replacement parts, are valued at the lower of cost (average cost method) or market. Inventory items are recorded as expenditures when used under the consumption method.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

A. SUMMARY SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets

Utility plant acquired prior to July 31, 1952, is stated at the estimated cost at that date, as determined by independent engineers, with subsequent additions recorded at cost. Capital assets are generally defined as assets with an individual cost in excess of \$10,000 and a useful life in excess of one year. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives are as follows:

Utility plant in service	7 - 100 years
Building and improvements	3 - 50 years
Improvements other than buildings	20 - 100 years
Furniture, machinery and equipment	3 - 50 years

The Department closes completed construction projects to capital assets upon beneficial use.

Bond Premiums and Discounts

Bond premiums and discounts are deferred and amortized on a straight-line basis over the term of the related bond issue.

Compensated Absences

General policy of the Metropolitan Civil Service Commission permits the accumulation, within certain limitations, of unused vacation days and sick leave. Vacation days may accumulate to an amount equal to three times the current vacation accrual rate. Accumulated unpaid vacation pay is recorded as a liability by the Department. Although sick pay may accumulate, no amounts are vested in the event of employee termination; therefore, no liability for sick pay has been accrued.

Restricted Assets

Restricted assets represent amounts which are required to be maintained pursuant to Department bond resolutions relating to bonded indebtedness (construction and sinking funds) and funds received for specific purposes pursuant to U.S. Government grants (related primarily to construction projects).

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

A. SUMMARY SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred Outflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. *Deferred outflows of resources* represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resource (expense) until then. The Department has two items that qualify for reporting in this category. The *deferred charge on refunding* results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The amount for *pensions* relates to certain differences between projected and actuarial results, certain differences between projected and actual investment earnings, contributions between the measurement and reporting dates, as well as changes in assumptions.

Operating and Nonoperating Revenues and Expenses

Operating revenues and expenses generally result from providing services and providing and delivering goods and services in connection with the Department's principal ongoing operations and consist primarily of charges to customers or departments, cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first and then unrestricted resources, as they are needed.

Capital Grants and Contributions

Capital grants and contributions include funds received from federal and state agencies for certain sewer projects by the Department, contributions from local governments and other sources, tap and capacity fees, and deeds of conveyance. Utility plant contributed is recorded/presented in accordance with the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* and GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis' for State and Local Governments*. These statements require that capital contributions be reported in the statement of revenue, expenses and changes in net assets as a separate line item after non-operating revenues and expenses, rather than as direct additions to contributed capital, as under previous standards.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

A. SUMMARY SIGNIFICANT ACCOUNTING POLICIES - Continued

Impairment of Long-Lived Assets

The carrying value of long-lived assets held and used are reviewed whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted net cash flows before consideration of interest expense. Should the sum of the expected future net cash flows be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The evaluation of asset impairment requires the Department to make assumptions about future cash flows over the life of the asset being evaluated. Assets to be disposed of are reported at the lower of their carrying amount or fair value less costs to sell, and are no longer depreciated. No impairment loss was considered necessary during fiscal year 2023.

Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. *Deferred inflows of resources* represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. The amount for *pensions* relates to certain differences between projected and actual actuarial results and certain differences between projected and actual investment earnings.

Revenue Recognition

Revenues from services provided by the Department are recognized from meters read on a monthly cycle basis. At the end of each month, services rendered from the latest date of each meter-reading cycle to month end is accrued and included as accounts receivable, net of an estimated allowance for uncollectible accounts at June 30, 2023 of \$1,297,242.

Net Position

The Department's net position classifications are as follows:

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt and deferred inflows of resources 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 positions' component as the unspent proceeds.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

A. SUMMARY SIGNIFICANT ACCOUNTING POLICIES - Continued

- Restricted - This component consists of net position restricted by grantors, contributors, or laws and regulations of other governments and restrictions imposed by law or through constitutional provisions or enabling legislation, reduced by liabilities and deferred inflows of resources related to those assets.

- Unrestricted - This component consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Accounting Pronouncements

The Department adopted GASB Statement No. 91, *Conduit Debt Obligations*, effective immediately in fiscal 2023. This Statement improves the comparability of financial reporting for issuers by eliminating the option to recognize a liability for a conduit debt obligation. The adoption of the statement had no impact on the financial statements of the Department.

The Department adopted GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective immediately in fiscal 2023. This Statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements. The adoption of the statement had no impact on the financial statements of the Department.

The Department adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective immediately in fiscal 2023. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for governments. The adoption of the statement had no impact on the financial statements of the Department.

The Department adopted GASB Statement No. 99, *Omnibus 2022*, effective immediately in fiscal 2023. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The adoption of the statement had no impact on the financial statements of the Department.

The Department plans to adopt GASB Statement No. 100, *Accounting Changes and Error Corrections*, required for fiscal periods beginning after June 15, 2023, in fiscal 2024. This Statement provides guidance on the accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

A. SUMMARY SIGNIFICANT ACCOUNTING POLICIES - Continued

The Department plans to adopt GASB Statement No. 101, *Compensated Absences*, required for fiscal periods beginning after December 15, 2023, in fiscal 2025. This Statement provides guidance on the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences.

Unless otherwise noted, management is in the process of determining the effects that the adoption of these Statements will have on the Department's financial statements.

B. CASH AND CASH EQUIVALENTS

Deposit Policy

The Department is authorized by policy to invest funds that are not immediately needed in: United States Treasury Bills, Bonds and Notes; the State of Tennessee Local Government Investment Pool; bonds issued by the Government; bonds of commercial entities; and other investments such as repurchase agreements and commercial paper. The Department is authorized to invest in these instruments either directly or through the Metro Investment Pool.

Deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions, less the amount protected by federal depository insurance. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's collateral pool. As of June 30, 2023, most of the Department's deposits were held by financial institutions, which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee or in the State of Tennessee Local Government Investment Pool. Participating banks determine the aggregated balance of their public fund accounts for the Department. The amount of collateral required to secure these public deposits must be at least 105% of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

B. CASH AND CASH EQUIVALENTS - Continued

The carrying amount of the cash and cash equivalents totaled \$626,090,655, and the corresponding bank balance was \$625,642,262. The difference between the carrying amounts of cash and cash equivalents and the corresponding bank balances is due primarily to outstanding checks and deposits in transit. The entire balance of cash and cash equivalents was covered by the State collateral pool, federal depository insurance or collateralized with securities held by the government's agent in the government's name.

C. CAPITAL ASSETS

The following summarizes the changes in capital assets during the year ended June 30, 2023:

	<u>Balance</u> <u>July 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2023</u>
Depreciable assets:				
Utility plant in service	\$3,311,457,409	\$ 73,578,024	\$ -	\$3,385,035,433
Buildings and improvements	63,264,263	-	-	63,264,263
Improvements other than buildings	68,332,742	3,143,033	-	71,475,775
Furniture, machinery and equipment	<u>209,029,345</u>	<u>13,713,494</u>	<u>-</u>	<u>222,742,839</u>
Total depreciable assets	<u>3,652,083,759</u>	<u>90,434,551</u>	<u>-</u>	<u>3,742,518,310</u>
Nondepreciable assets:				
Land	24,673,248	-	-	24,673,248
Construction in progress	<u>462,537,667</u>	<u>313,576,375</u>	<u>98,313,043</u>	<u>677,800,999</u>
Total nondepreciable assets	<u>487,210,915</u>	<u>313,576,375</u>	<u>98,313,043</u>	<u>702,474,247</u>
Total at historical cost	<u>4,139,294,674</u>	<u>404,010,926</u>	<u>98,313,043</u>	<u>4,444,992,557</u>
Less accumulated depreciation for:				
Utility plant in service	1,565,818,765	79,923,967	-	1,645,742,732
Buildings and improvements	40,947,619	2,081,706	-	43,029,325
Improvements other than buildings	50,095,227	2,666,046	-	52,761,273
Furniture, machinery and equipment	<u>106,341,377</u>	<u>17,758,219</u>	<u>-</u>	<u>124,099,596</u>
Total accumulated depreciation	<u>1,763,202,988</u>	<u>102,429,938</u>	<u>-</u>	<u>1,865,632,926</u>
Capital assets, net	<u>\$2,376,091,686</u>	<u>\$301,580,988</u>	<u>\$98,313,043</u>	<u>\$2,579,359,631</u>

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

D. BONDS, NOTES AND OTHER OBLIGATIONS

Transaction Summary

Bonds, notes and other obligations activity for the year ended June 30, 2023 was as follows:

	<u>Balance</u> <u>July 1, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2023</u>	<u>Due Within</u> <u>One Year</u>
Revenue bonds payable	\$1,281,625,000	\$ -	\$(31,400,000)	\$1,250,225,000	\$32,825,000
Deferred charges/ premiums, net	105,117,256	-	(10,023,982)	95,093,274	-
State construction loans	9,053,019	15,114,401	(435,112)	23,732,308	767,532
Net pension liability	-	<u>17,492,645</u>	<u>(8,407,413)</u>	<u>9,085,232</u>	<u>-</u>
Total	<u>\$1,395,795,275</u>	<u>\$32,607,046</u>	<u>\$(50,266,507)</u>	<u>\$1,378,135,814</u>	<u>\$33,592,532</u>

Description of Amounts Payable

Amounts payable at June 30, 2023 are as follows:

	<u>Interest Rate</u>	<u>Amount</u>
Department of Water and Sewerage Revenue Refunding Bonds, Federally Taxable (BAB's), Series 2010B, due in varying amounts to July 1, 2037	6.393 - 6.568%	\$135,000,000
Department of Water and Sewerage Revenue Bonds, Federally Taxable, Series 2010C, due in varying amounts to July 1, 2041	6.693%	75,000,000
Department of Water and Sewerage Revenue Refunding Bonds, Series 2013, due in varying amounts to July 1, 2033	3.00 - 5.00%	6,540,000

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

D. BONDS, NOTES AND OTHER OBLIGATIONS - Continued

Description of Amounts Payable - Continued

	<u>Interest Rate</u>	<u>Amount</u>
Department of Water and Sewerage Revenue Refunding Bonds, Series 2017A (Green Bonds), due in varying amounts to July 1, 2046	3.00 - 5.00%	\$ 85,765,000
Department of Water and Sewerage Revenue Refunding Bonds, Series 2017B, due in varying amounts to July 1, 2046	5.0%	149,095,000
Department of Water and Sewerage Revenue Bonds, Series 2020A, due in varying amounts to July 1, 2040	4.00 - 5.00%	162,295,000
Department of Water and Sewerage Revenue Refunding Bonds, Series 2020B, due in varying amounts to July 1, 2027	5.0%	35,790,000
Department of Water and Sewerage Revenue Refunding Bonds, Series 2021, due in varying amounts to July 1, 2051	2.65 - 5.00%	371,370,000
Department of Water and Sewerage Revenue Refunding Bonds, Series 2021B, due in varying amounts to July 1, 2043	0.288 – 2.942%	229,370,000
Deferred premium (discount)		95,093,274
State construction loans	0.65 - .95%	23,732,308
Net pension liability		<u>9,085,232</u>
Total amounts payable		<u>\$1,378,135,814</u>

The bonds, notes, and other obligations are classified in the Statement of Net Position as follows:

Current liabilities:		
Liabilities payable from restricted assets:		
Current portion of long-term debt		\$ 32,825,000
Current portion of state loans payable		767,532
Noncurrent liabilities:		
Revenue bonds payable		1,312,493,274
State loans payable		22,964,776
Net pension liability		<u>9,085,232</u>
Total		<u>\$1,378,135,814</u>

Collateral

All bonds are collateralized by the revenues of the Department.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

D. BONDS, NOTES AND OTHER OBLIGATIONS - Continued

Bond Covenants

The various revenue bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of a flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum revenue bond coverages. As of June 30, 2023, the Department believes it is in compliance with all financial limitations and restrictions.

Annual Debt Service Requirements

The annual requirements to amortize all revenue bonds outstanding as of June 30, 2023 are as follows:

<u>Year Ending June 30,</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2024	\$ 32,825,000	\$ 53,033,013
2025	34,195,000	51,664,383
2026	35,520,000	50,324,125
2027	36,930,000	48,892,605
2028	38,420,000	47,327,148
2029 - 2033	221,320,000	207,730,030
2033 - 2038	271,820,000	149,957,372
2038 - 2043	310,995,000	82,425,844
2043 - 2048	190,990,000	26,103,356
2048 - 2052	<u>77,210,000</u>	<u>4,120,068</u>
	1,250,225,000	721,577,944
Deferred premium/(discount)	<u>95,093,274</u>	<u>-</u>
Total	<u>\$1,345,318,274</u>	<u>\$721,577,944</u>

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

D. BONDS, NOTES AND OTHER OBLIGATIONS - Continued

Commercial Paper

In January 2022, the Department entered into a Revolving Credit Agreement (RCA) to provide a \$200 million traditional commercial paper program. The program allows interim or short-term financing of authorized water and sewer capital projects. As notes mature (prior to the issuance of the long-term bonds) new notes are issued to repay the maturing notes. If market conditions are such that new notes cannot be issued, the bank has agreed to pay the principal amount of any maturing commercial paper notes pursuant to a revolving credit agreement. If a bank advances funds pursuant to the revolving credit agreement, the Department has 180 days within which to reimburse the bank, either from the proceeds of a new commercial paper note issue, the proceeds of long-term bonds or funds of the Department. If the Department cannot reimburse the bank within 180 days, the bank advance converts to a term loan, payable in equal quarterly installments of principal over three years. The Department may at any time prepay the term loan from the proceeds of a new commercial paper note issue or long-term bonds.

In April 2015, the Department began a \$100 million Extendable Commercial Paper (ECP) program. The ECP dealer issues commercial paper notes with original maturities of 1 to 90 days. If the ECP dealer was ever unable to market notes in the amount needed to pay the maturing notes, the Department could extend the original maturity date to 270 days from the original date of issue. During this period long-term financing would be arranged to pay the notes at maturity. In January 2022, the ECP program increased the maximum par amount of notes to \$200 million. The combined programs total \$400 million of commercial paper notes available for short term capital financing.

Revenue commercial paper is issued as federally tax-exempt notes. The commercial paper is sold at par as interest-bearing obligations in minimum denominations of \$100,000 with interest payable at maturity. The commercial paper has varying maturities not to exceed 270 days, and all rollover commercial paper will not have a final maturity more than two years from the initial dates of issuance. The State has waived the two-year final maturity limitation and approved a final maturity not to exceed six years. Interest rates vary depending on the market. At June 30, 2023, the amount of principal outstanding could not exceed \$400 million. Commercial paper obligations of \$131,000,000 with interest rates averaging 1.94% were outstanding at June 30, 2023. The obligations are considered short-term debt at June 30, 2023 and are recorded as a liability of the Department.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
 THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2023

D. BONDS, NOTES AND OTHER OBLIGATIONS - Continued

State Construction Loans

As of June 30, 2023, the Department has entered into three loan agreements with the Tennessee Department of Conservation and the Tennessee Local Development Authority (“Authority”) under the State of Tennessee’s Revolving Loan Program to provide financing for all or a portion of certain wastewater facility projects. Interest on the loans begins to accrue upon the first receipt of the loan proceeds and is computed at the rate established by the Authority (between 0.65% and 0.95% at June 30, 2023). The loans mature in monthly installments, as stipulated in the agreed-upon payment schedule, and are secured by the Metropolitan Government’s unobligated state-shared taxes in an amount equal to the maximum annual debt service requirements under the agreements. In addition, the Metropolitan Government has pledged user fees and charges to be paid from the Department’s Extension and Replacement Fund and/or from ad valorem taxes.

State construction loan principal maturities as of June 30, 2023 are summarized below:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 767,532	\$ 136,200
2025	774,144	129,588
2026	780,804	122,928
2027	787,316	116,208
2028	794,316	109,416
2029 - 2033	4,075,524	443,136
2034 - 2038	3,894,420	264,240
2039 - 2043	<u>3,523,300</u>	<u>78,372</u>
Active and complete loans	15,397,356	1,400,088
Active but incomplete loans (1)	<u>8,334,952</u>	<u>-</u>
Total state construction loans	<u>\$23,732,308</u>	<u>\$1,400,088</u>

(1) These loans are active but formalization of a final payment schedule is incomplete. The loans are expected to be paid back over 20 years at an interest rate of 0.95%.

Redemption Options

Certain bonds are subject to redemption prior to maturity at the option of the Department. The stated payments of principal and interest on the Department’s Series 1992, 2010A, B, C and D are insured by municipal bond insurance policies which cannot be canceled.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

E. EMPLOYEE BENEFIT PLANS

Pension Plans

The Metropolitan Government of Nashville and Davidson County (the “Government”) sponsors or guarantees several single-employer pension plans, including (a) the closed City Plan (“City Plan”), (b) the Davidson County Employees’ Retirement Fund (“County Plan”), both of which were closed to new members on April 1, 1963, and (c) The Metropolitan Employees’ Benefit Trust Fund Division A or B (“Metro Plan”). Division A of the Metro Plan was established at the inception of The Government on April 1, 1963, and was closed to new members on July 1, 1995. Division B of the Metro Plan was established as of July 1, 1995.

Contributions by the Department to the various pension plans totaled \$5,873,297 for the year ended June 30, 2023.

All plans of the Government were established by or continue under the authority of the Metropolitan Charter, Article XIII, effective April 1, 1963. Approval of the Metropolitan Council is required to establish and amend benefit provisions. Article XIII also requires that all pension plans be actuarially sound. Administrative costs of the plans are financed by plan assets. The plans are managed and administered by the Metropolitan Employee Benefit Board, an independent board created by the Metropolitan Charter. The financial position and results of operations of the pension plans are reported as fiduciary funds of the Government and, accordingly, are not included in the financial statements of the Department.

Substantially all employees of the Department are members of the Metropolitan Plan. Periodic contributions by the Department to the Metropolitan Plan are at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due. Contributions to closed plans are made on a pay-as-you-go basis whereby contributions are made in amounts sufficient to cover benefits paid during the year. Actuarially required employer contributions are not computed because the plans are closed and there are few active employees. Employees do not contribute to any of the pension plans.

Normal retirement for employees occurs at age 65 - Division A, or 60 - Division B, and entitles employees to a lifetime monthly benefit as determined under the Plan. Benefits fully vest upon completing five years of service for employees employed on or between October 1, 2001 and December 31, 2012, who vest before leaving employment. Benefits fully vest on completing 10 years of service for employees and non-vested employees rehired on or after January 1, 2013.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

E. EMPLOYEE BENEFIT PLANS - Continued

A net pension liability has been recorded in the financial statement of the Department based on its pro rata share of the total net pension liability for the Government. The net pension liability was \$9,085,232 at June 30, 2023.

Certain differences between expected and actual actuarial experience and certain differences between projected and actual investment earnings are recorded as either deferred outflows of resources or deferred inflows of resources. The deferred outflows of resources and deferred inflows of resources were \$14,236,872 and \$2,013,358, respectively, at June 30, 2023. The amounts will be recognized as pension expense in future years.

Additional information regarding the pension plans of the Government is available in the Comprehensive Annual Financial Report which can be obtained from the Department of Finance, Financial Operations, 700 2nd Avenue South, P.O. Box 196300, Nashville, TN, 37219-6300, or <http://www.nashville.gov/Finance/Financial-Operations.aspx>.

Other Post-Employment Benefit (OPEB) Plans

Retirees in the Metropolitan, City or County Plans may elect to participate in the Metropolitan Employees' Medical Benefit Plan, a single-employer defined benefit healthcare plan. The Metropolitan Plan is administered by the Employee Benefit Board and provides medical, dental and life insurance. The other post-employment benefits for Government employees were authorized by the Government's charter and code. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Metropolitan Plan does not issue a stand-alone financial report.

The post-employment benefits for the Metropolitan plans were authorized by the Government's Charter. As the Government has assumed the responsibility for funding these benefits, the Department has accrued no liability as of June 30, 2023.

The contribution requirements of Metropolitan Employees' Medical Benefit Plan members and the Government are established and may be amended by the Employee Benefit Board. The required contribution is based on projected pay-as-you-go financing requirements under which contributions are made in amounts sufficient to cover benefits paid, administrative costs and anticipated inflationary increases. For health insurance, the Government contributes 75% of all premium payments, and the retirees contribute 25%. The Government also provides a 50% matching contribution on dental insurance for any retiree who elects to participate. Finally, the Government provides life insurance at no charge to the retirees.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

E. EMPLOYEE BENEFIT PLANS - Continued

Deferred Compensation Plan

The Government offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits deferral of a portion of salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Because the assets are not held in a trustee capacity by the Government, they are not included in the Government's financial statements. No contributions are made to this plan by the Government.

F. COMMITMENTS AND CONTINGENCIES

Litigation

The Department is a party to various litigation filed in the normal course of business. It is believed that the outcome of these cases will not have a material effect on the financial position of the Department.

Insurance and Benefits

The Department is subject to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; illnesses or injuries to employees; and natural disasters. The Department is a member of the Government's self-insurance program with respect to the first \$3,000,000 of liability claims and casualty losses in any one year. Liabilities for accidents are generally limited under the Governmental Tort Liability Act of the Tennessee Code as follows; bodily injury - \$300,000 per person, \$700,000 per accident; and property damage - \$100,000 per accident. Claims on real and personal property in losses to a \$10,000 deductible.

The Department is also a member of the Government's self-insurance program with respect to medical benefits and employee blanket bond coverage. Premiums paid by the Department to the program were \$9,110,200 for the year ended June 30, 2023.

Federal and State Financial Assistance

The Department has received federal and state financial assistance for specific purposes that is subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the programs, the Department believes that any required reimbursements would not be material to the Department's financial statements. Accordingly, no provision has been made for any potential reimbursements to the grantor agencies.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

F. COMMITMENTS AND CONTINGENCIES - Continued

Prior to the issuance of the Water and Sewer Revenue Refunding Bonds, Series 2010A, on December 16, 2010, the full faith and credit of the Government was pledged for possible deficiencies in the collection of required state sewer user fees established in connection with certain grants received from the State Funding Board (TCA 68-221-202 through 68-221-214). The Department acted as a conduit with respect to sewer user fees imposed by the state. These user fees were set at an amount sufficient to recover the project costs, including related interest expense. A portion of the proceeds from the Series 2010A Bonds was used to fully prepay the Tennessee Local Development Authority (“TLDA”) loans. The amount of prepayment is \$18,197,734 at June 30, 2023 and is reported as other noncurrent assets. Subsequent to the issuance of the Bonds, the user fees are considered a general sewer charge and reflected as revenue. The amounts received were recorded as capital grants and contributions by the Department.

At June 30, 2023, the Department had commitments of \$192,480,555 for construction contracts.

The Department, the Metropolitan Council, the State of Tennessee Department of Environment and Conservation (“TDEC”), the United States Department of Justice (DOJ) and the United States Environmental Protection Agency (“EPA”), have agreed on a consent decree to address and correct deficiencies within the Department’s sewer system that have caused violations of the Clean Water Act (“CWA”). The consent decree was approved by the Federal Court in March 2009. Per the original decree, the Department was required to fully develop, in two years, a Corrective Action Plan/Engineering Report (“CAP/ER”) for its sanitary sewer system and a Long-term Control Plan (“LTCP”) for its combined sewer system to achieve the goals of the CWA and meet water quality requirements in the Cumberland River. Upon submittal and approval of the Plans, the Department would have an additional nine years to complete the work as developed by the Plans.

Due to the historic floods that occurred in Nashville in May 2010, the Department petitioned EPA and TDEC for a six-month extension for developing the CAP/ER and LTCP and a two year extension for completing the work (final compliance) under the force majeure clause of the consent decree. Approval has been granted for both extensions. The due date for the CAP/ER and LTCP was September 11, 2011, and the due date for all work coming out of those two plans (final compliance) is eleven years after approval of the plans by EPA and TDEC. The Department submitted both plans on September 9, 2011. On August 10, 2017, the EPA approved the CAP/ER and the timeline of eleven years to complete the work. On December 8, 2020, the EPA partially approved the LTCP, conditioned upon an agreement to submit a revised plan in four years, and set a timeline of 11 years to complete the work. The Department is proceeding with the work under both plans. The Department has hired an internal program director as well as an

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

F. COMMITMENTS AND CONTINGENCIES - Continued

external program management team composed of engineering consultants to manage planning, design, and oversight of the program. The Department has also contracted for a construction management team to protect the investment in construction projects. A group of five small business project set designers has been selected to assist with the design of rehabilitation projects. Designers for other types of projects will be selected on a case by case basis.

The future related capital expenditures are expected to be between \$1.65 billion and \$2.7 billion. Continuing to have sewer overflows along with failure to comply with the mandate and meet future established deadlines could result in stipulated penalties of up to \$3,000 per occurrence for sanitary sewer overflows, and up to \$5,000 per day for failure to implement the improvements on a timely basis. EPA sent a demand letter for \$147,000 in stipulated penalties for sanitary overflow on September 9, 2011. This was for a negotiated 147 violations for 2010 and the first quarter of 2011. The Department paid \$304,500 related to an EPA consent decree for the period 2017 to 2019. No penalties have been demanded for any delays in submitting reports and deliverables nor from the failure to timely implement work. Proposed plans to fund capital expenditures for the next few years include internally generated cash and borrowings.

G. RELATED PARTY TRANSACTIONS

The Department supplies water and sewerage services to the other departments of the Government, for which standard rates are charged.

The Government performs certain administrative functions for the Department. The cost of such services included in operating expenses is \$14,228,240 for the year ended June 30, 2023.

In addition, the Department made an annual payment to the Government of \$14,000,000, representing a payment in lieu of ad valorem taxes for the year ended June 30, 2023. This payment is included in operating expenses for the year ended June 30, 2023.

I. SUBSEQUENT EVENTS

The Organization evaluated subsequent events through October 31, 2023, and has determined that the following subsequent events require disclosure:

On August 29, 2023, the Department issued Water and Sewer commercial paper notes in the amount of \$20,000,000 maturing on September 29, 2023, at an interest rate of 3.90%. These obligations were or will be refunded with rollover notes at their maturity dates.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

I. SUBSEQUENT EVENTS - Continued

On October 25, 2023, the Department issued Water and Sewer commercial paper notes in the amount of \$20,000,000 maturing on November 15, 2023, at an interest rate of 3.99%. These obligations were or will be refunded with rollover notes at their maturity dates.

In July 2023, the Department received \$6,106,440 under loan agreements with the Tennessee Department of Conservation and the Tennessee Local Development Authority under the State of Tennessee's Revolving Fund Loan Program to provide financing for all or a portion of certain wastewater facility projects. Interest on the loans begins to accrue upon the first receipt of the loan proceeds and is computed at the rate established by the Authority (between 0.65% and 0.95% at June 30, 2023). The loans mature in monthly installments, as stipulated in the agreed-upon payment schedule, and are secured by the Metropolitan Government's unobligated state-shared taxes in an amount equal to the maximum annual debt service requirements under the agreements. In addition, the Metropolitan Government has pledged user fees and charges to be paid from the Department's Extension and Replacement Fund and/or from ad valorem taxes.

SUPPLEMENTARY INFORMATION

DEPARTMENT OF WATER AND SEWERAGE SERVICES
 THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
 SCHEDULE OF UTILITY RATES (UNAUDITED)
 JUNE 30, 2023

The rate structure is composed of a meter charge and a volume charge.

The Department had the following rate structure in effect at July 1, 2022 through December 31, 2022:

METER:			VOLUME:			
<u>Meter Size</u>	<u>Water</u>	<u>Sewer</u>	<u>Residential Volume Rate</u>	<u>Thresholds (Cubic Feet)</u>	<u>Water</u>	<u>Sewer</u>
5/8"	\$5.45	\$8.72	Base Usage	0-2	\$ -	\$ -
3/4"	12.98	38.56	Tier 1	2-6	3.75	6.26
1"	16.36	49.90	Tier 2	6-10	4.50	6.26
1 1/2"	28.76	97.13	Tier3	>11	5.63	6.26
2"	40.61	136.45				
3"	64.61	169.88	<u>Non-Residential Volume Rate</u>			
4"	147.53	482.01				
6"	184.18	574.63	All Usage		\$2.95	\$6.26
8" and 10"	239.65	735.79				

The Department had the following rate structure in effect at January 1, 2023 through June 30, 2023:

METER:			VOLUME:			
<u>Meter Size</u>	<u>Water</u>	<u>Sewer</u>	<u>Residential Volume Rate</u>	<u>Thresholds (Cubic Feet)</u>	<u>Water</u>	<u>Sewer</u>
5/8"	\$5.62	\$8.98	Base Usage	0-2	\$ -	\$ -
3/4"	13.37	39.72	Tier 1	2-6	3.86	6.45
1"	16.86	51.39	Tier 2	6-10	4.64	6.45
1 1/2"	29.62	100.04	Tier3	>11	5.80	6.45
2"	41.82	140.55				
3"	66.84	174.98	<u>Non-Residential Volume Rate</u>			
4"	151.95	496.47				
6"	189.70	591.87	All Usage		\$3.04	\$6.54
8" and 10"	246.84	757.87				

See accompanying auditor's report.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
 THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
 SCHEDULE OF NUMBER OF CUSTOMERS (UNAUDITED)
 JUNE 30, 2023

	<u>Residential</u>	<u>Commercial</u>	<u>Other Utilities</u>	<u>Total</u>
Water Customers	192,881	30,431	4	223,316
Sewer Customers	<u>205,055</u>	<u>20,332</u>	<u>19</u>	<u>225,406</u>
Total Customers	<u>397,936</u>	<u>50,763</u>	<u>23</u>	<u>448,722</u>

See accompanying auditor's report.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
SCHEDULE OF PLEDGED REVENUE COVERAGE (UNAUDITED)
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

Fiscal Year	Gross Revenue(1)	Direct Operating Expense (2)	Net Revenue Available For Debt Service	Debt Service Requirement			Coverage
				Principal	Interest	Total	
2013-14	213,055	101,703	111,352	31,500	41,367	72,867	1.53
2014-15	215,709	100,825	114,884	20,275	40,175	60,450	1.90
2015-16	219,023	112,208	106,815	28,795	39,029	67,824	1.57
2016-17	219,964	112,654	107,310	37,475	37,476	74,951	1.43
2017-18	226,804	113,858	112,946	38,225	46,136	84,361	1.34
2018-19	233,951	111,335	122,616	39,120	44,225	83,345	1.47
2019-20	267,172	132,611	134,561	25,080	46,912	71,992	1.87
2020-21	311,449	108,824	202,625	33,070	48,126	81,196	2.50
2021-22	335,484	140,869	194,615	31,400	54,467	85,867	2.27
2022-23	385,296	159,495	225,801	32,825	53,033	85,858	2.63

Note: Details regarding the Department's outstanding debt can be found in the notes to the financial statements.

(1) Includes interest on investments and other income.

(2) Excludes depreciation and amortization expense.

See accompanying auditor's report.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
SCHEDULE OF RESTRICTED CASH AND CASH EQUIVALENTS
JUNE 30, 2023

Schedule of Restricted Cash and Cash Equivalents

Debt service fund	\$ 50,459,223
Waterworks revolving fund	200,000
Extension and replacement fund	396,849,563
Debt service reserve funds	54,110,855
Construction funds	<u>8,143,637</u>
 Total	 <u>\$509,763,278</u>

See accompanying auditor's report.

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE
JUNE 30,2023

Description of Indebtedness	Interest Rate	Date of Issue	Final Maturity Date	Original Amount of Issue	Outstanding July 1, 2022	Issued During Period	Paid and/or Matured During Period	Refunded During Period	Outstanding June 30, 2023	Interest to Maturity as of June 30, 2023
<u>REVENUE BONDS PAYABLE</u>										
Revenue Bonds Federally Taxable (BAB's), Series 2010B	6.393 - 6.568%	12/9/2010	7/1/2037	\$ 135,000,000	\$ 135,000,000	\$ -	\$ -	\$ -	\$ 135,000,000	\$ 86,682,794
Revenue Bonds Federally Taxable, Series 2010C	6.693%	12/9/2010	7/1/2041	75,000,000	75,000,000	-	-	-	75,000,000	84,655,407
Revenue Bonds, Series 2013	3.00 - 5.00%	4/25/2013	7/1/2033	237,930,000	12,795,000	-	6,255,000	-	6,540,000	133,500
Revenue Bonds, Series 2017A (Green Bonds)	3.00 - 5.00%	11/2/2017	7/1/2046	89,420,000	87,625,000	-	1,860,000	-	85,765,000	60,972,327
Revenue Bonds, Series 2017B	5.00%	11/2/2017	7/1/2046	155,210,000	152,230,000	-	3,135,000	-	149,095,000	106,903,875
Revenue Bonds, Series 2020A	4.00 - 5.00%	4/8/2020	7/1/2040	169,575,000	166,025,000	-	3,730,000	-	162,295,000	91,239,050
Revenue Bonds, Series 2020B	5.00%	4/8/2020	7/1/2-27	45,530,000	43,355,000	-	7,565,000	-	35,790,000	3,876,250
Revenue Bonds, Series 2021A	2.625 - 5.00%	10/14/2021	7/1/2051	377,520,000	377,520,000	-	6,150,000	-	371,370,000	218,260,800
Revenue Refunding Bonds, Series 2021B	0.288 - 2.942%	10/14/2021	7/1/2043	232,075,000	232,075,000	-	2,705,000	-	229,370,000	68,853,941
Total Revenue Bonds Payable				<u>\$ 1,517,260,000</u>	<u>\$ 1,281,625,000</u>	<u>\$ -</u>	<u>\$ 31,400,000</u>	<u>\$ -</u>	<u>\$ 1,250,225,000</u>	<u>\$ 721,577,944</u>
<u>LOANS PAYABLE</u>										
Water Services State Revolving Loan	0.65 - 0.95%	8/1/2021	7/1/2042	<u>\$ 24,167,420</u>	<u>\$ 9,053,019</u>	<u>\$ 15,114,401</u>	<u>\$ 435,112</u>	<u>\$ -</u>	<u>\$ 23,732,308</u>	<u>\$ 1,400,088</u>

See accompanying auditor's report.



Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
With *Government Auditing Standards*

The Honorable Mayor and Members of Council
The Metropolitan Government of Nashville and
Davidson County, 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 Department of Water and Sewerage Services (the "Department"), an enterprise fund of the Metropolitan Government of Nashville and Davidson County, Tennessee (the "Metropolitan Government"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated October 31, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's and the Metropolitan Government's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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

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



The Honorable Mayor and Members of Council
The Metropolitan Government of Nashville and
Davidson County, Tennessee

Report on Compliance and Other Matters

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

Purpose of this Report

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

Crosslin, PLLC

Nashville, Tennessee
October 31, 2023

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2023

Financial Statement Findings:

Finding Number	Finding Title	Status
2022-001	Accounts Receivable Reconciliation	Corrected