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

AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

JUNE 30, 2025

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CROSSLIN
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

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

Report on the Audit of the 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, 2025, 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, 2025, 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 Opinion

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, 2025, 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 annual report. 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.

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, 2025, 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 Department'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 Department's internal control over financial reporting and compliance.

Crosslin, PLLC

Nashville, Tennessee
October 31, 2025

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, 2025. 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 230,000 water accounts and 232,000 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 2025, water and sewer rates increased for the fifth 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 with Ordinance BL2019-045, water and sewer rates were increased by in January of 2025 the greater of 2% or the increase in the CPI-U which at the time was 3%.

At June 30, 2025, assets and deferred outflows of the Department were $3.8 billion and exceeded liabilities and deferred inflows by $1.9 billion (total net assets). In 2025, unrestricted cash and cash equivalents decreased by approximately $0.2 million to $123.4 million, and restricted cash/cash equivalents decreased by approximately $66.9 million. These changes were a result of spending the 2021 bond proceeds on Consent Decree related projects and offset by increased water and sewer rates. For 2025, capital assets increased by approximately $428.4 million, before depreciation expense of $117.0 million, for a net increase of $311.4 million. These assets were acquired using revenues of the Department, revenue bonds, commercial paper, grants, and contributions.

In 2025, the rate increase, and continued economic development positively impacted operating revenues of $425.2 million, an increase of $49.3 million as compared to 2024. Operating expenses for 2025 were $316.3 million, an increase of $26.5 million from 2024 mainly driven by three factors: increases in contractual services, increases in personnel costs, and finally increases in depreciation expense. Contractual Services increased by $9.8 million due to current economic conditions, new contracts, and increased utility costs. The $2.4 million increase in personnel services was due to increases in employee salaries realized beginning July 1, 2024. Finally, the Department capitalized $108.0 million in assets during fiscal year 2024, the depreciation from which greatly contributed to increased annual operating expense of $9.1 million to $117.0 million in fiscal year 2025. The Department ended 2025 $1.1 million under its operating budget of $199.2 million. Investment income decreased from $31.2 million in 2024 to $15.7 million in 2025, following a period of increased interest rates and capital grants and contributions decreased $0.7 million to $45.4 million in 2025.

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 principle amount of $315 million. The maximum principle 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.

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 were funded solely from Solid Waste fees and revenues generated from the general government. As of July 1, 2025 Waste Services is operating as a stand-alone department and no longer under the management of the Department.

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 with the timeline 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.

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.

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.

Statements of Net Position

Condensed Financial Information as of
June 30, 2025 and 2024

	2025	2024
Total current assets	$ 337,047,413	$ 306,600,935
Total capital and other non-current assets	3,414,935,428	3,204,622,191
Total assets	$ 3,751,982,841	$ 3,511,223,126
Deferred charge on refunding	$ 13,398,384	$ 15,762,979
Pensions	21,482,339	15,382,458
Total deferred outflows of resources	$ 34,880,723	$ 31,145,437
Total current liabilities	$ 184,146,630	$ 406,198,964
Total noncurrent liabilities	1,675,962,985	1,314,359,365
Total Liabilities	$ 1,860,109,615	$ 1,717,997,806
Pensions	-	1,582,141
Total deferred inflows of resources	$ -	$ 1,582,141
Total net position	$ 1,926,753,949	$ 1,820,228,093

In 2025, current assets increased by $30.4 million to $337.0 million and current liabilities decreased by $222.1 million to $184.1 million yielding a current ratio of 1.83. Capital assets, net of $2.1 billion of accumulated depreciation, increased by $311.4 million in 2025 to $3.1 billion. This increase is largely the result of many large, longer phased capital projects coming moving toward completion (works in progress) in 2025 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.

Statement of Revenue, Expense, and Changes in Net Position

Condensed Financial Information for the Year Ended
June 30, 2025 and 2024

	2025	2024
Operating revenues	$ 425,157,334	$ 375,895,121
Depreciation (expense)	(117,049,991)	(107,997,666)
Other operating (expenses)	(199,262,226)	(181,784,014)
Operating income	$ 108,845,117	$ 86,113,441
Investment income	$ 15,673,541	$ 31,165,461
Interest expense	(50,304,083)	(48,111,714)
Other	(2,770,116)	815,062
Capital grants and contributions	45,419,052	46,076,876
Transfers to other funds of the Metropolitan Government, net	(10,337,655)	(2,480,316)
Change in net Position	$ 106,525,856	$ 113,578,810
Net Position, beginning of year	$ 1,820,228,093	$ 1,706,649,283
Net Position, end of year	$ 1,926,753,949	$ 1,820,228,093

Operating income increased $20.1 million in 2025 primarily due to $49.3 million increase operating revenue offset by an increase in depreciation of $9.1 million and an increase in other expenses of $20.0 million.

CAPITAL ASSETS AND BONDS AND NOTES PAYABLE

The Department's investment in capital assets as of June 30, 2025 is $3.1 billion, which is an increase of $311.4 million from the year ending June 30, 2024. Depreciation expense for FY 2025 totaled $117.0 million.

	2025	2024
Utility plant in service	$ 3,601,521,448	$ 3,479,309,442
Land	24,673,248	24,673,248
Buildings and improvements	65,556,034	64,799,016
Improvements other than buildings	74,807,192	72,563,642
Furniture, machinery and equipment	289,269,584	261,654,413
Construction work in progress	1,163,229,627	887,610,455
Less accumulated depreciation	(2,090,680,583)	(1,973,630,592)
	$ 3,128,376,550	$ 2,816,979,624

During the year ending June 30, 2025, utility plant in service increased $122.2 million to $3.6 billion and construction work in progress increased $275.6 million to $1.2 billion. The primary reason for the increase in utility plant in service was the completion of several mid-sized projects. The primary reason for the increase in construction work in process was continuation of the large Consent-Decree related projects, Dry Creek Expansion, 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 21 of this report.

Bonds and Notes Payable – At June 30, 2025, the Department had total outstanding bond debt, including deferred charges/premiums, net, of $1.7 billion. The revenues of the Department collateralized all bond debt.

	June 30, 2025	June 30, 2024
Revenue bonds payable	$1,549,455,000	$1,217,400,000
Deferred charges / premiums, net	108,747,329	86,343,352
Total	$1,658,202,329	$1,303,743,352

Additional information on the Department's bonds and note payable can be found in Note D beginning on page 22 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 maximum was increased to $400M. This program is utilized to finance interim capital improvements to the water and sewer system through revenue bond anticipation notes. The program consists of two separate obligations: Traditional Commercial Paper Notes (W&S TCP) and Extendable Commercial Paper Notes (W&S ECP). The commercial paper program did not have any outstanding commercial paper at June 30th, 2025. On June 26, 2025, the Department issued $483,820,000 of Water Services Revenue Bonds and Refunding Bonds, Series 2025 maturing on July 1, 2056, with interest rate 5.0%.

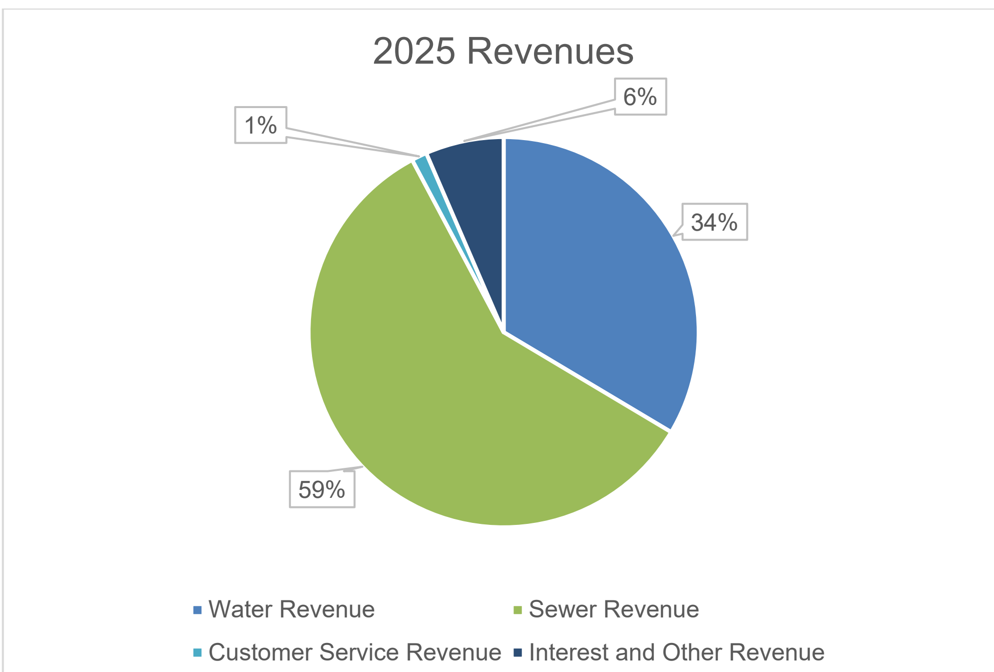
OTHER INFORMATION

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 were 4% for calendar year 2021; and 3% for the calendar years 2022, 2023, and 2024. Beginning in calendar year 2025, annual rate increases will be based on the 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 as required by ordinance. The Department was released from oversight on March 23, 2023.

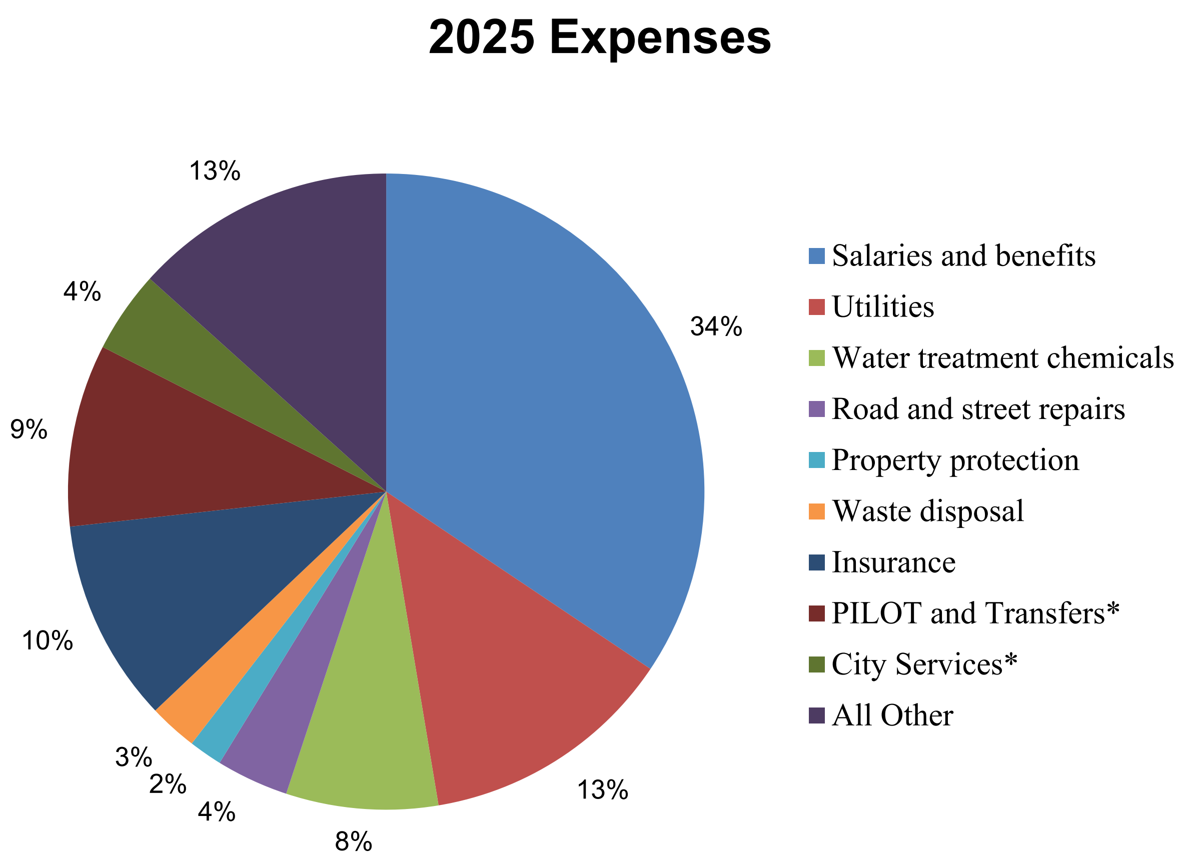
Sources of Revenues

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:



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:



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, 2025

ASSETS:	
Current assets:	
Cash and cash equivalents	$ 123,414,907
Accounts receivable	52,848,192
Accrued interest receivable	2,011,270
Allowance for doubtful accounts	(1,427,413)
Due from other funds of the Government	5,329,540
Due from component units	16,856
Inventories of supplies	3,379,725
Other current assets	1,000
Restricted Assets:	
Cash and cash equivalents	148,692,466
Accounts receivable	2,528,688
Accrued interest receivable	252,173
Total current assets	337,047,413
Noncurrent assets:	
Capital assets:	
Utility plant in service	3,601,521,448
Land	24,673,248
Buildings and improvements	65,556,034
Improvements other than buildings	74,807,192
Furniture, machinery and equipment	289,269,584
Construction in progress	1,163,229,627
Less accumulated depreciation	(2,090,680,583)
Capital assets, net	3,128,376,550
Restricted assets:	
Cash and cash equivalents	277,460,010
Other noncurrent assets	9,098,868
Total noncurrent assets	3,414,935,428
Total assets	3,751,982,841
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred charge on refunding	13,398,384
Pensions	21,482,993
Total deferred outflows of resources	34,880,723

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, 2025

LIABILITIES:	
Current liabilities:	
Accounts payable	$ 13,290,705
Accrued payroll	11,062,331
Due to other funds of the Government	7,322,588
Due to component units	333,333
Customer deposits	3,451,477
Other current liabilities	-
Liabilities payable from restricted assets:	
Accounts payable	89,230,496
Accrued payroll	270,921
Accrued interest	23,055,671
Current portion of long-term debt	35,520,000
Current portion of state loans payable	609,108
Total current liabilities	184,146,630
Noncurrent liabilities:	
Revenue bonds payable	1,622,682,329
State loans payable	34,110,750
Net pension liability	19,169,906
Total noncurrent liabilities	1,675,962,985
Total liabilities	1,860,109,615
DEFERRED INFLOWS OF RESOURCES	
Pensions	-
Total deferred inflows of resources	-
NET POSITION:	
Net investment in capital assets	1,695,123,787
Restricted for debt retirement	78,870,744
Unrestricted	152,759,418
Total net position	$ 1,926,753,949

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, 2025

Operating revenues:	
Charges for services	$ 425,157,334
Total operating revenues	425,157,334
Operating expenses:	
Personnel services	81,572,598
Contractual services	84,553,241
Supplies and materials	24,781,667
Depreciation	117,049,991
Other	8,354,720
Total operating expenses	316,312,217
Operating income	108,845,117
Nonoperating revenue (expense):	
Investment income	15,673,541
Interest expense	(50,304,083)
Gain on sale of capital assets	29,083
Other	(2,799,199)
Nonoperating expense, net	(37,400,658)
Income before capital grants and contributions and transfers	71,444,459
Capital grants and contributions	45,419,052
Transfers to other funds of the Government	(10,337,655)
Change in net position	106,525,856
Net position, beginning of year as restated	1,820,228,093
Net position, end of year	$ 1,926,753,949

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, 2025

Cash flows from operating activities:	
Receipts from customers and users	$ 414,585,779
Receipts from interfund	13,259,613
Payments to suppliers	(59,765,682)
Payments to employees	(80,577,134)
Payments to interfund	(19,202,279)
Other payments	(14,247,997)
Net cash provided by operating activities	254,052,303
Cash flows from noncapital financing activities:	
Transfers to other funds of the Government	(10,337,655)
Net cash used in noncapital financing activities	(10,337,655)
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(409,772,766)
Proceeds from the sale of capital assets	29,083
Proceeds from borrowings	146,010,099
Principal payments on borrowings	(34,799,056)
Interest subsidy	5,032,247
Interest paid	(64,464,583)
Capital contributions received	31,294,305
Net cash used in capital and related financing activities	(326,670,671)
Cash flows from investing activities:	
Interest received	15,889,508
Net cash provided by investing activities	15,889,508
Net change in cash and cash equivalents	(67,066,515)
Cash and cash equivalents at beginning of year	616,633,898
Cash and cash equivalents at end of year	$ 549,567,383

Cash and cash equivalents are classified as:	
Current assets	$123,414,907
Current restricted assets	148,692,466
Noncurrent restricted assets	277,460,010
	$549,567,383

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, 2025

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

Operating income	$ 108,845,117
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	117,050,020
Provision for doubtful accounts	(32,157)
Other payments	(2,799,199)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
Accounts receivable	2,685,659
Due from other funds of the Government	(4,260,411)
Due from component units	(155)
Inventories of supplies	412,360
Other current assets	-
Deferred outflows pensions	(6,099,881)
Accounts payable	29,954,558
Accrued payroll	1,998,439
Due to other funds of the Government	885,582
Due to component units	333,333
Customer deposits	34,556
Other current liabilities	(52,424)
Net pension liability	6,679,047
Deferred inflows pensions	(1,582,141)
Total adjustments	145,207,186
Net cash provided by operating activities	$ 254,052,303
Supplemental disclosure of non-cash items:	
Contributions of capital assets	$ 18,674,180

See accompanying notes to financial statements.

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.

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).

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 position as a separate line item after non-operating revenues and expenses, rather than as direct additions to contributed capital, as under previous standards.

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 2025.

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, 2025 of $1,427,413.

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 position component as the unspent proceeds.

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. 101, *Compensated Absences*, required for fiscal periods beginning after December 15, 2023, in fiscal year 2025. This Statement provides guidance on the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. See note H for the impact of the adoption on the financial statements of the Department.

The Department adopted GASB Statement No. 102, *Certain Risk Disclosures*, required for fiscal periods beginning after June 15, 2024, in fiscal year 2025. This Statement provides guidance on disclosure of timely information regarding concentrations, constraints, and related events that make a government vulnerable to a substantial impact. The adoption of the statement had no impact on the financial statements of the Department.

The Department plans to adopt GASB Statement No. 103, *Financial Reporting Model Improvements*, required for fiscal periods beginning after June 15, 2025, in fiscal year 2026. This Statement provides guidance on improving key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability, as well as addressing certain issues of application.

The Department plans to adopt GASB Statement No. 104, *Disclosure of Certain Capital Assets*, required for fiscal periods beginning after June 15, 2025, in fiscal year 2026. This Statement provides guidance on enhancing disclosures related to capital assets, including improving the consistency, comparability, and relevance of information presented in the financial statements.

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, 2025, 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.

The carrying amount of the cash and cash equivalents totaled $549,567,383, and the corresponding bank balance was $551,931,859. 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, 2025:

	Balance July 1, 2024	Increases	Decreases	Balance June 30, 2025
Depreciable assets:				
Utility plant in service	$3,479,309,442	$ 122,212,006	$ -	$3,601,521,448
Buildings and improvements	64,799,016	757,018	-	65,556,034
Improvements other than buildings	72,563,642	2,243,550	-	74,807,192
Furniture, machinery and equipment	261,654,413	27,615,171	-	289,269,584
Total depreciable assets	3,878,326,513	152,827,745	-	4,031,154,258
Nondepreciable assets:				
Land	24,673,248	-	-	24,673,248
Construction in progress	887,610,455	275,619,172	-	1,163,229,627
Total nondepreciable assets	912,283,703	275,619,172	-	1,187,902,875
Total at historical cost	4,790,610,216	428,446,917	-	5,219,057,133
Less accumulated depreciation for:				
Utility plant in service	1,729,757,195	89,073,557	-	1,818,830,752
Buildings and improvements	45,118,429	2,122,357	-	47,240,786
Improvements other than buildings	55,630,025	2,949,293	-	58,579,318
Furniture, machinery and equipment	143,124,943	22,904,784	-	166,029,727
Total accumulated depreciation	1,973,630,592	117,049,991	-	2,090,680,583
Capital assets, net	$2,816,979,624	$311,396,926	$ -	$3,128,376,550

D. BONDS, NOTES AND OTHER OBLIGATIONS

Transaction Summary

Bonds, notes and other obligations activity for the year ended June 30, 2025 was as follows:

	Balance July 1, 2024	Additions	Reductions	Balance June 30, 2025	Due Within One Year
Revenue bonds payable	$1,217,400,000	$483,820,000	$(151,765,000)	$1,549,455,000	$35,520,000
Deferred charges/ premiums, net	86,343,352	30,249,850	(7,845,873)	108,747,329	-
State construction loans	30,363,687	4,960,227	(604,056)	34,719,858	609,106
Net pension liability	12,490,859	32,523,392	(25,844,345)	19,169,906	-
Total	$1,346,597,898	$551,553,469	$(186,059,274)	$1,712,092,093	$36,129,106

Description of Amounts Payable

Amounts payable at June 30, 2025 are as follows:

	Interest Rate	Amount
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 2017A (Green Bonds), due in varying amounts to July 1, 2046	3.00 - 5.00%	$ 55,735,000
Department of Water and Sewerage Revenue Refunding Bonds, Series 2017B, due in varying amounts to July 1, 2046	5.00%	87,945,000
Department of Water and Sewerage Revenue Bonds, Series 2020A, due in varying amounts to July 1, 2040	4.00 - 5.00%	154,245,000
Department of Water and Sewerage Revenue Refunding Bonds, Series 2020B, due in varying amounts to July 1, 2027	5.00%	19,500,000

D. BONDS, NOTES AND OTHER OBLIGATIONS - Continued

Description of Amounts Payable - Continued

	Interest Rate	Amount
Department of Water and Sewerage Revenue Refunding Bonds, Series 2021A, due in varying amounts to July 1, 2051	2.625 - 5.00%	$ 358,110,000
Department of Water and Sewerage Revenue Refunding Bonds, Series 2021B, due in varying amounts to July 1, 2043	0.288 - 2.942%	180,100,000
Department of Water and Sewerage Revenue, Refunding Bonds Series 2025, due in varying amounts to July 1, 2056	5.00%	483,820,000
Deferred premium (discount)		108,747,329
State construction loans	0.65 - 0.95%	34,719,858
Net pension liability		19,169,906
Total amounts payable		$1,712,092,093

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	$ 35,520,000
Current portion of state loans payable	609,108
Noncurrent liabilities:	
Revenue bonds payable	1,622,682,329
State loans payable	34,110,750
Net pension liability	19,169,906
Total	$1,712,092,093

Collateral

All bonds are collateralized by the revenues of the Department.

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, 2025, the Department believes it is in compliance with all financial limitations and restrictions.

D. BONDS, NOTES AND OTHER OBLIGATIONS - Continued

Annual Debt Service Requirements

The annual requirements to amortize all revenue bonds outstanding as of June 30, 2025 are as follows:

	Revenue Bonds	
Year Ending June 30,	Principal	Interest
2026	$ 35,520,000	$ 57,983,985
2027	42,550,000	68,304,393
2028	44,325,000	66,450,812
2029	47,000,000	64,386,179
2030	47,995,000	62,131,515
2031 - 2035	271,215,000	272,620,128
2036 - 2040	336,550,000	199,599,055
2041 - 2045	343,240,000	118,066,585
2046 - 2050	213,415,000	57,398,450
2051 - 2055	143,415,000	21,576,362
2056	24,230,000	636,038
	1,549,455,000	989,153,502
Deferred premium/(discount)	108,747,329	-
Total	$1,658,202,329	$989,153,502

Commercial Paper

The Department operates a Water and Sewer Revenue Commercial Paper Program with an authorized maximum outstanding principal of $400 million. This program is utilized to finance interim capital improvements to the Water and Sewer System through revenue bond anticipation notes. The program consists of two separate obligations: Traditional Commercial Paper Notes (W&S TCP) and Extendable Commercial Paper Notes (W&S ECP).

In the W&S TCP, as notes mature (prior to the issuance of long-term bonds), new notes are issued to repay maturing obligations. If market conditions prevent the issuance of new notes, the bank has agreed to pay the principal amount of any maturing commercial paper notes under a revolving credit agreement. The Department has 180 days to reimburse the bank using proceeds from new commercial paper note issuances, long-term bonds, or Department funds. Failure to reimburse within 180 days converts the bank advance into a term loan, payable in equal quarterly installments of principal over three years. The Department retains the option to prepay this term loan at any time using proceeds from new commercial paper note issuances or long-term bonds.

D. BONDS, NOTES AND OTHER OBLIGATIONS - Continued

In the W&S ECP, the dealer issues commercial paper notes with original maturities ranging from 1 to 90 days. If the dealer is unable to market enough notes to cover maturing obligations, the Department can extend the original maturity date to 270 days from the issue date, during which time long-term financing arrangements are made to cover the notes at maturity.

Revenue commercial paper is issued as federally tax-exempt notes, sold at par in minimum denominations of $100,000 with interest payable at maturity. These notes have maturities ranging up to 270 days. The State approved final maturity of the W&S TCP is December 14, 2027, and January 1, 2026, for the W&S ECP. Interest rates vary based on market conditions. As of June 30, 2025, the Department had no outstanding revenue commercial paper obligations.

State Construction Loans

As of June 30, 2025, 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 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, 2025). 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, 2025 are summarized below:

Year Ending June 30,	Principal	Interest
2026	$ 609,108	$ 92,604
2027	614,196	87,516
2028	619,332	82,380
2029	624,504	77,208
2030	629,736	71,976
2030 - 2035	3,228,540	280,020
2036 - 2040	3,366,000	142,560
2041 - 2043	1,661,642	115,655
Active and complete loans	11,353,058	949,919
Active but incomplete loans (1)	23,366,800	-
Total state construction loans	$34,719,858	$949,919

(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 between 0.65% and 0.95%.

D. BONDS, NOTES AND OTHER OBLIGATIONS - Continued

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.

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 $6,706,300 for the year ended June 30, 2025.

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.

E. EMPLOYEE BENEFIT PLANS - Continued

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.

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 $19,169,906 at June 30, 2025.

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 $21,482,339 and $0 respectively, at June 30, 2025. 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, 2025.

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%.

E. EMPLOYEE BENEFIT PLANS - Continued

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.

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 $2,113,600 for the year ended June 30, 2025.

F. COMMITMENTS AND CONTINGENCIES - Continued

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.

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 $ 9,098,868 at June 30, 2025 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.

Construction Commitments

At June 30, 2025, the Department had commitments of $627,451,287 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.

F. COMMITMENTS AND CONTINGENCIES - Continued

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 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 $15,886,060 for the year ended June 30, 2025.

G. RELATED PARTY TRANSACTIONS - Continued

In addition, the Department made an annual payment to the Government of $18,760,000, representing a payment in lieu of ad valorem taxes for the year ended June 30, 2025. This payment is included in operating expenses for the year ended June 30, 2025.

H. RESTATEMENT OF NET POSITION

The Department adopted GASB Statement No. 101, Compensated Absences, for the year ended June 30, 2025. This Statement provides guidance on the accounting and financial reporting of compensated absences, including a requirement to account for unused sick leave that is not paid out to employees upon termination, and is determined to be more likely than not to be used. The implementation of this standard represents a change in accounting principle as required by GASB Statement No. 100, Accounting Changes and Error Corrections. The new standard was applied retroactively by restating beginning net position for the Department. The restatement resulted in a decrease in the beginning net position for the Department. The changes that resulted from the restatement are shown in the table below as sick leave liability adjustments.

	Statement of Revenues, Expenses, and Changes in Net Position
Net position – beginning of year, as previously reported	$ 1,822,788,616
Sick leave liability adjustment	(560,523)
Net position- beginning of year as restated	$ 1,820,228,093

I. SUBSEQUENT EVENTS

The Department evaluated subsequent events through October 31, 2025, and has determined that the following subsequent events require disclosure:

On October 20, 2025, the Government issued Water & Sewer commercial paper notes in the amount of $25,000,000 maturing on February 3, 2026, at an interest rate of 2.64%. These obligations were or will be refunded with rollover notes at their maturity dates.

SUPPLEMENTARY INFORMATION

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
SCHEDULE OF UTILITY RATES (UNAUDITED)
JUNE 30, 2025

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, 2024 through December 31, 2024:

METER:

Meter Size	Water	Sewer
5/8”	$ 5.79	$ 9.25
3/4”	13.78	40.91
1”	17.36	52.94
1 1/2”	30.51	103.04
2”	43.08	144.76
3”	68.85	180.22
4”	156.61	511.37
6”	195.39	609.63
8” and 10”	254.24	780.60

VOLUME:

Residential Volume Rate	Thresholds (Cubic Feet)	Water	Sewer
Base Usage	0-2	$ -	$ -
Tier 1	2-6	3.98	6.64
Tier 2	6-10	4.78	6.64
Tier3	>11	5.97	6.64
Non-Residential Volume Rate			
All Usage		$3.13	$6.64

The Department had the following rate structure in effect at January 1, 2025 through June 30, 2025:

METER:

Meter Size	Water	Sewer
5/8”	$ 5.94	$ 9.49
3/4”	14.14	41.98
1”	17.81	54.31
1 1/2”	31.31	105.72
2”	44.20	148.52
3”	70.64	184.91
4”	160.58	524.67
6”	200.47	625.48
8” and 10”	260.85	800.90

VOLUME:

Residential Volume Rate	Thresholds (Cubic Feet)	Water	Sewer
Base Usage	0-2	$ -	$ -
Tier 1	3-6	4.08	6.81
Tier 2	7-10	4.90	6.81
Tier3	>11	6.13	6.81
Non-Residential Volume Rate			
All Usage		$3.21	$6.81

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, 2025

	Residential	Commercial	Other Utilities	Total
Water Customers	198,042	31,689	4	229,735
Sewer Customers	210,831	21,185	19	232,035
Total Customers	408,873	52,874	23	461,770

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	
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
2023-24	407,876	179,223	228,653	34,195	51,664	85,859	2.66
2024-25	440,860	199,262	241,598	35,520	57,984	93,504	2.58

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, 2025

Debt service fund	$ 41,919,223
Waterworks revolving fund	200,000
Extension and replacement fund	346,677,536
Debt service reserve funds	59,771,945
Construction funds	(22,416,228)
Total	$ 426,152,476

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 30,2025

Description of Indebtedness	Interest Rate	Date of Issue	Final Maturity Date	Original Amount of Issue	Outstanding July 1, 2024	Issued During Period	Paid and/or Matured During Period	Refunded During Period	Outstanding June 30, 2025	Interest to Maturity as of June 30, 2025
REVENUE BONDS PAYABLE										
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	$ 69,096,877
Revenue Bonds Federally Taxable, Series 2010C	6.693%	12/9/2010	7/1/2041	75,000,000	75,000,000	-	-	-	75,000,000	74,615,907
Revenue Bonds, Series 2013	3.00 - 5.00%	4/25/2013	7/1/2033	237,930,000	-	-	-	-	-	-
Revenue Bonds, Series 2017A (Green Bonds)	3.00 - 5.00%	11/2/2017	7/1/2046	89,420,000	83,820,000	-	2,035,000	26,050,000	55,735,000	37,993,916
Revenue Bonds, Series 2017B	5.00%	11/2/2017	7/1/2046	155,210,000	145,800,000	-	3,465,000	54,390,000	87,945,000	58,401,625
Revenue Bonds, Series 2020A	4.00 - 5.00%	4/8/2020	7/1/2040	169,575,000	158,370,000	-	4,125,000	-	154,245,000	77,530,950
Revenue Bonds, Series 2020B	5.00%	4/8/2020	7/1/2027	45,530,000	27,850,000	-	8,350,000	-	19,500,000	1,101,500
Revenue Bonds, Series 2021A	2.625 - 5.00%	10/14/2021	7/1/2051	377,520,000	364,905,000	-	6,795,000	-	358,110,000	190,853,950
Revenue Refunding Bonds, Series 2021B	0.288 - 2.942%	10/14/2021	7/1/2043	232,075,000	226,655,000	-	9,425,000	37,130,000	180,100,000	49,270,656
Revenue Refunding Bonds, Series 2025	5.00%		7/1/2043	483,820,000	-	483,820,000	-	-	483,820,000.00	430,288,121
Total Revenue Bonds Payable				$ 2,001,080,000	$ 1,217,400,000	$ 483,820,000	$ 34,195,000	$ 117,570,000.00	$ 1,549,455,000	$ 989,153,502
LOANS PAYABLE										
Water Services State Revolving Loan	0.65 - 0.95%	8/1/2021	7/1/2043	$ 36,481,436	$ 30,363,687	$ 4,960,227	$ 604,056	$ -	$ 34,719,858	$ 701,712

See accompanying auditor's report.

CROSSLIN
CERTIFIED PUBLIC ACCOUNTANTS

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, 2025, 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, 2025.

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 or significant deficiencies 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, 2025

DEPARTMENT OF WATER AND SEWERAGE SERVICES
THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2025

Financial Statement Findings:

No prior audit findings.