

## THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Metropolitan Government of Nashville and Davidson County (the Government) operates under a metropolitan form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture and recreation, education, public improvements, planning and zoning and general administrative services.

The accounting policies of the Government conform to accounting principles accepted generally in the United States of America. The following is a summary of the most significant policies:

Financial reporting entity - The financial statements of the Government present the primary government and its component units. The component units discussed below are included in the Government's reporting entity because of the significance of their operational or financial relationships with the Government. The discretely presented component units are reported in a separate column in the combining financial statements to emphasize that they are legally separate from the Government.

The financial statements of the following component units have been discretely presented:

The Nashville District Management Corporation was established in 1998 to administer special assessment revenue collected by the Government for the benefit of the Central Business Improvement District. The Corporation's duties and responsibilities are defined in a memorandum of agreement with the Government and include, but are not limited to providing services for improvement and operation of the District through security enhancement, downtown marketing, and improving downtown beautification, sanitation and maintenance. The original agreement was one year, renewable annually by mutual notification by each party to the other. The agreement may be terminated by the Government upon thirty days notice. Complete financial statements of the Corporation can be obtained from its offices at Accounting Office, 211 Commerce Street, Suite 100, Nashville, TN 37201.

The Sports Authority was established in 1995 to act as the financing and building authority for both the Nashville Arena and NFL Stadium. The Sports Authority administers and manages sports projects for the Government. The Government is responsible for the annual funding for both the Nashville Arena and NFL Stadium. The underlying credit for the Sports Authority Revenue bonds is a pledge on the non-tax revenues of the Government's General Fund. The Sports Authority does not issue separate financial statements.

The Hospital Authority operates General Hospital (a full service medical facility) and Bordeaux Hospital (a long-term care facility) for the residents of Nashville and Davidson County. The Hospital Authority was created in March 1999 to operate both hospitals, which were previously accounted for as enterprise funds of the Government. Members of the Hospital Authority are appointed by the Government and can be removed by the Government. The Government approves and can modify the annual operating budget of each hospital. Hospital Authority land and buildings and improvements are in the Government's name. Both hospitals are financially dependent on contributions from the Government's General Fund. Complete financial statements for each hospital can be obtained by writing to the Hospital Authority at 1818 Albion Street, Nashville, TN 37208.

The Metropolitan Development and Housing Agency operates public housing facilities for the inhabitants of Nashville and Davidson County. The Agency is governed by a board of commissioners who are all appointed and confirmed by the Government. All board members can also be removed by the Government. The Agency receives incremental taxes that result from tax increment financing arrangements on numerous development projects. These property taxes paid to the Agency are considered financial support by the Government. Complete financial statements of the Agency can be obtained by writing P. O. Box 846, Nashville, TN 37202.

The Electric Power Board operates and regulates an electric power system for the purpose of supplying electricity for public property and for resale to consumers. The Board of Directors and the general manager are appointed by the Government. The Government is required to approve debt issuance of the Board. The Government believes the nature and significance of its relationship with the Electric Power Board is such that exclusion would cause these financial statements to be misleading. Complete financial statements of the Board can be obtained from its administrative offices at 1214 Church Street, Nashville, TN 37203.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Metropolitan Transit Authority operates and regulates the public mass transit system in Nashville and Davidson County. The Authority is governed by a board of directors who are all appointed and can be removed by the Government. The Authority must act on ordinances passed by the Government, and the Authority is financially dependent on the Government. Complete financial statements of the Authority can be obtained from its administrative offices at 130 Nestor Street, Nashville, TN 37210.

The Nashville Thermal Transfer Corporation is a not-for-profit corporation that provides low cost heating and cooling to the Government and downtown businesses. The Corporation is governed by a board of directors who are all appointed and can be removed by the Government. The debt of the Corporation is issued in the Government's name, all properties of the Corporation are in the name of the Government, and the Corporation is financially dependent on the Government. Complete financial statements of the Corporation can be obtained from its administrative offices at 110 First Avenue South, Nashville, TN 37210.

The Metropolitan Nashville Airport Authority operates the Nashville International and John C. Tune Airports. The Airport Authority is governed by a board of directors who are all appointed and can be removed by the Government. The Government believes the nature and significance of its relationship with the Airport Authority is such that exclusion would cause these financial statements to be misleading. Complete financial statements of the Airport Authority can be obtained from its administrative offices at One Terminal Drive, Nashville, TN 37214.

The Emergency Communications District is engaged to secure and provide efficient emergency services to the public. The District is governed by a board of directors who are appointed by the Government. The District provides equipment for the Government's use in emergency services. Complete financial statements of the District can be obtained from its administrative offices at 700 2nd Avenue South, Nashville, TN 37210.

The Industrial Development Board (the IDB) assists private businesses within Davidson County to obtain public financing through the issuance of nontaxable bonds. The members of the IDB are appointed and can be removed by the Government. All debt of the IDB is considered conduit debt and is issued in the name of the Government. Complete financial statements of the IDB can be obtained from its administrative offices at 2021 North Gallatin Road, Suite 132, Madison, TN 37115.

All discretely presented component units have a June 30 fiscal year end with the exception of the Metropolitan Development and Housing Agency which has a September 30 year end and the Industrial Development Board which has a March 31 year end.

Basis of presentation - The general purpose financial statements are structured into three categories of fund types (governmental, proprietary and fiduciary), a fourth type of accounting entity (account groups) and component units.

The governmental fund types include:

1. General Fund - used to account for all financial resources and activities relating to the general operations of the Government which are not required to be accounted for in another fund;
2. Special revenue funds - used to account for specific revenues designated to finance the operations of the Metropolitan Board of Education and for specific revenues utilized in carrying out the special terms of statutes, ordinances, grant requirements or other governing regulations;
3. Debt service funds - used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest; and
4. Capital projects funds - used to account for financial resources used for the acquisition or construction of all major capital facilities used in governmental fund type operations.

The proprietary fund types include:

1. Enterprise funds - used to account for the operations of self-sustaining agencies rendering services to the general public on a user-charge basis; and

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Internal service funds - used to account for the operations of self-sustaining agencies rendering services to other agencies of the Government on a cost reimbursement basis.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The fiduciary fund types include:

1. Expendable trust funds - used to account for expendable assets held by the Government in a fiduciary capacity;
2. Nonexpendable trust funds - used to account for assets held by the Government in a fiduciary capacity which have legal restrictions on the corpus;
3. Pension funds - used to account for assets and liabilities held by the Government in a fiduciary capacity for employees and former employees of the Government; and
4. Agency funds - used to account for assets held by elected officials and the Government as agents for individuals, governmental entities and others.

The account groups include:

1. General Fixed Assets Account Group - used to account for fixed assets used in governmental fund type operations; and
2. General Long-term Debt Account Group - used to account for the principal on all outstanding debt and other long-term obligations, such as compensated absences and unfunded pension costs, except obligations secured by revenues of the proprietary funds.

The component units include:

1. Governmental types - used to account for component units which derive their funding primarily from other governments or from donations; and
2. Proprietary types - used to account for component units which derive their funding primarily through user fees and charges.

Basis of accounting - The General Fund, special revenue funds, debt service funds, capital projects funds and expendable trust funds are accounted for using a current financial resources measurement focus under the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. The statements of revenues, expenditures and changes in fund balances of these funds present increases and decreases in net current assets. Revenues are recognized when considered measurable and available as net current assets. Revenues are generally considered measurable when the amount can be determined and available if received within 60 days of fiscal year end. Grant revenue is recognized during the period when all applicable eligibility requirements have been met and the resources are available. Grant proceeds received prior to the period when eligibility requirements are met are recorded as deferred revenue. Property and sales tax revenues are accrued for 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred because they are not expected to be liquidated with expendable available financial resources, exceptions to this rule include:

1. Interest on long-term debt, which is recognized when due;
2. Accumulated non-vested sick pay, which is not accrued;
3. Compensated absences, which are recorded in the General Long-term Debt Account Group;
4. Expenditures related to long-term liabilities, which are recorded in the General Long-term Debt Account Group; and
5. Expenditures related to other commitments and contingencies, including landfill closure costs, which are recorded in the General Long-term Debt Account Group.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All enterprise funds, internal service funds, nonexpendable trust funds and pension funds are accounted for on a flow of economic resources measurement focus using the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included in the balance sheet. Fund equity is segregated into contributed capital and retained earnings for the proprietary funds. The proprietary and nonexpendable trust funds' statements of revenues, expenses and changes in retained earnings/fund balance and the pension funds' statement of changes in plan net assets present increases and decreases in net total assets. Revenues are recognized when earned, and expenses are recognized when incurred.

In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Government has elected not to apply any Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

Agency funds are accounted for under the modified accrual basis of accounting. These funds are custodial in nature and do not involve measurement of results of operations.

Interfund transfers are recognized when the related interfund receivable and payable arise.

Budgets and budgetary accounting - The Government's procedures in establishing the budget as reflected in the general purpose financial statements are as follows:

1. The Director of Finance annually obtains information from all officers, departments, boards, commissions and other agencies of the Government for which appropriations are made and/or revenues are collected and compiles the annual operating budget for the ensuing fiscal year beginning July 1. The compiled information, including various expenditure options and the means of financing them, is submitted to the Mayor for review.
2. The Mayor, with the assistance of the Department of Finance, determines the programs to be recommended to the Metropolitan Council, the expenditures proposed to operate those programs and the revenue changes needed to fund those expenditures. That information is compiled into a balanced operating budget which is submitted to the Metropolitan Council by May 25.
3. Copies of the Mayor's proposed budget and budget message are distributed to interested persons, and a summary of the budget is published in the area daily newspaper. The budget is a public record open for public inspection.
4. The Metropolitan Council's Budget and Finance Committee holds hearings with the officers, departments, boards, commissions and other agencies to explore the impact of the recommended operating budget and to explore other departmental budget options. In addition, advertised public hearings are held to obtain taxpayers' comments prior to final passage.
5. The budget is legally enacted effective July 1 through passage of an ordinance by the Metropolitan Council. In no event shall the total appropriations for any fund included in the budget exceed the estimated revenues and fund balance.
6. The amounts in the adopted operating budgets for each organizational unit, purpose or activity constitute the annual appropriation for such items, and no expenditure can be made which will result in the annual appropriation being exceeded unless an additional appropriation is made.
7. The Metropolitan Council may make appropriations in addition to those contained in the current operating budgets, but any such additional appropriations may be made only from an existing unappropriated surplus in the fund to which it applies.
8. The Mayor may transfer the available balance of any appropriation for any purpose to the appropriation for any other purpose within the same department, or, by resolution approved by the Metropolitan Council, the available balance of any appropriation may be transferred to another appropriation within the same section of the budget and within the same fund.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. All available balances of appropriations in the current operating budget lapse into the fund balance of the fund or funds from which the appropriations were originally made at the end of the fiscal year. Encumbrances do not lapse at the end of the fiscal year and are reserved for subsequent year expenditures.

Budgeted amounts shown are those originally adopted, as amended by the Metropolitan Council and as adjusted pursuant to the transfer provisions of the budget ordinance. During the year, supplementary appropriations were made to the General Services District of the General Fund of \$7,942,692.

The Government is legally required to prepare, and the Metropolitan Council is required to approve, the annual budgets of the General Fund, the General Purpose School Fund and the General Purposes and School Purposes Debt Service Funds. In preparing the budgets, the Government utilizes generally accepted accounting principles (GAAP) for the General and Debt Service Funds. The encumbrance method of budgeting is used for the General Purpose School Fund, in which encumbrances are recorded as though they are expenditures, which differs from GAAP.

The operating budget treats transfers to and from all budgeted funds as revenues and expenditures of those funds.

In accordance with Article 6 of the Metropolitan Charter, the Annual Operating Budget of the Government for the fiscal year 2001-2002 was submitted to the Metropolitan Council and subsequently approved by Substitute Bill Number O01-707. Unreserved and undesignated fund balance resources at June 30, 2001 have been appropriated to the 2001-2002 fiscal year operating budget as follows:

General Services District General Fund	\$7,666,085
Urban Services District General Fund	2,466,720
General Services District General Purposes Debt Service Fund	11,026,863
General Services District School Purposes Debt Service Fund	14,470,856
Urban Services District General Purposes Debt Service Fund	2,241,927

Encumbrances – Encumbrances outstanding at year end are reported as reservations of fund balance for subsequent year expenditures. Encumbrance accounting is not utilized for budgetary control purposes for the General and Debt Service Funds. Information regarding the encumbrances of those funds is available to assist in the management of commitments against appropriations. Encumbrance accounting is utilized for budgetary control purposes for the General Purpose School Fund and is reflected in the General Fund, General Purpose School Fund and Debt Service Funds Combined Statement of Revenues, Expenditures, Encumbrances and Changes in Fund Balances – Budget and Actual for that fund. Encumbrances, however, are not treated as expenditures in the general purpose financial statements, except for the General Purpose School Fund in the aforementioned statement comparing budgeted amounts to actual amounts.

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 expenditures 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. Investment income earned on funds invested in pooled accounts is allocated to the respective funds on the basis of relative balances.

Investments - Investments, except in the pension funds, consist primarily of U.S. Government securities and are stated at fair value. Pension fund investments, which also include common stocks, bonds and U.S. Government and other domestic and foreign securities, are stated at quoted fair value at June 30, 2001. The Government and certain component units also invest in the Tennessee Local Government Investment Pool which is maintained and managed by the State of Tennessee. This Pool is not registered with the Securities and Exchange Commission (“SEC”) but does operate in a manner consistent with SEC’s Rule 2a7 of the Investment Company Act of 1940. Accordingly, the Government’s investments in the Pool have been determined based on the Pool’s share price. Investment income of the capital projects funds is reported in those funds and is transferred to the debt service funds after arbitrage calculations, as applicable.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories - Inventories, principally materials, supplies and replacement parts, are valued at cost in governmental funds and at the lower of cost or market in proprietary funds, with cost determined using the first-in, first-out, moving weighted average or average cost method. Inventory items are recorded as expenditures when used under the consumption method.

Tennessee Valley Authority (TVA) Energy Conservation Program - The Electric Power Board is a fiscal intermediary for the TVA energy conservation programs whereby loans are made to the Board's customers to be used in connection with TVA's Residential Energy Services Program. Pursuant to the terms of an agreement with TVA, the energy conservation loans made to the Board's customers are funded and guaranteed by TVA. These loans are recorded as notes receivable.

Property, plant and equipment - Property, plant and equipment of the proprietary and nonexpendable trust funds are recorded at historical cost or appraised market value at the time of acquisition. Net interest cost incurred during the construction of facilities is capitalized as part of the cost of such facilities. 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
Buildings and improvements	3	-	50	years
Improvements other than buildings	20	-	100	years
Office furniture and equipment	3	-	10	years
Machinery and equipment	3	-	50	years

Property under capital leases is stated at the lower of the present value of minimum lease payments or the fair market value at the inception of the lease. Once placed in use, such property is amortized on the straight-line method over the lesser of the economic useful life of the asset or the remaining lease term.

Fixed assets used in governmental fund operations and expendable trust funds are accounted for in the General Fixed Assets Account Group. No depreciation has been provided on these assets. Public domain general fixed assets (infrastructure) consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, are not recorded. All fixed assets used in governmental fund operations and expendable trust funds are valued at historical cost or estimated historical cost if actual historical cost is not available. Current acquisitions of donated property are recorded at appraised market value at time of acquisition.

Claims payable - Losses for claim liabilities are recorded in the self-insurance funds. Claims payable include reported claims and an estimated liability for claims incurred but not reported at June 30, 2001. The claims liabilities are based on the estimated cost of settling the claim, using past experience and adjusting for current conditions. Losses for uninsured judgments against the Government payable from governmental funds not expected to be liquidated with expendable available resources are recorded in the General Long-term Debt Account Group.

Annuities - Annuities are recorded at the estimated present value of future benefits, which approximates fair value at June 30, 2001.

Grants - The Government receives grant revenues from various federal, state and non-profit agencies. As required by GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, the Government reports capital contributions, including capital grants, in the statement of revenues, expenses, and retained earnings as a separate line item after non-operating revenues and expenses, rather than as direct additions to contributed capital. Depreciation reported on fixed assets purchased or constructed with funds contributed by agencies of local, state and federal governments is recognized as a reduction of contributed capital rather than retained earnings for proprietary type component units.

Pass-through grant proceeds - Capital and operating grant amounts received on behalf of secondary recipients are reported in agency funds.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Passenger facility charges – On January 1, 1993, the airlines began collecting a Passenger Facility Charge (“PFC”) on qualifying enplaning passengers at Nashville International Airport on behalf of the Airport Authority. PFC’s are fees imposed on enplaning passengers by airports to finance eligible airport related projects that preserve or enhance safety, capacity, or security of the national air transportation system, reduce noise from an airport that is part of such system, or furnish opportunities for enhanced competition between or among air carriers. Both the fee and intended projects must be reviewed and approved by the Federal Aviation Administration (“FAA”). The fee can be set at \$1, \$2, or \$3 per enplaning passenger.

The Authority received approval to impose a \$3 PFC. The following project summary has been approved by the FAA:

Airport development	\$	71,333,600
Terminal development		38,693,300
Land acquisition		<u>22,727,200</u>
	\$	<u>132,754,100</u>

Effective April 5, 2000, public agencies may qualify to charge PFC fees of \$4.00 or \$4.50 provided that the additional criterion for approval are met. PFC’s are recorded as non-operating revenue.

Compensated absences - The liability for compensated absences is recorded when future payments for such absences have been earned by employees.

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 annual vacation accrual rate. Although sick pay may accumulate, no amounts are vested in the event of employee termination. Accumulated unpaid vacation pay related to governmental fund type operations is recorded in the General Long-term Debt Account Group because it is not expected to be liquidated with expendable available resources. Accumulated unpaid vacation pay related to proprietary fund type operations is recorded as a liability in the appropriate individual proprietary funds and proprietary type component units.

The policy of the Metropolitan Board of Education allows employees to accumulate sick leave without limitation. In addition, the Board allows vesting of accumulated sick leave depending on length of service beyond 15 years. Vested sick leave for Metropolitan Board of Education employees is recorded in the General Long-term Debt Account Group because it is not expected to be liquidated with expendable available resources.

Arbitrage rebates – For governmental fund types, any liability for arbitrage rebates due to the federal government under the Internal Revenue Code of 1986, as amended, for excess earnings on invested proceeds of tax exempt securities is recorded in the General Long-term Debt Account Group and as a reservation of fund balance in each related debt service fund. For proprietary fund types (including component units) any such rebates are reflected as liabilities.

Unbilled revenues and purchased power liability – Revenues from the Department of Water and Sewerage Services are recognized from meters read on a monthly cycle basis. At the end of each month, an estimate of service rendered from the latest date of each meter-reading cycle to month end is accrued and included in accounts receivable. The amount accrued at June 30, 2001 is \$7,488,629. Revenues of the Electric Power Board are recognized from meters read on a monthly cycle basis. At the end of each month, service rendered from the latest date of each meter-reading cycle to month end is accrued and included in accounts receivable. The Board purchases electric power from the TVA. The cost of purchased power is calculated based on retail billing units adjusted for estimated line losses. The Board accrues for unbilled purchased power based on retail billing units.

Property taxes - The Government's property taxes are levied for the current fiscal year and recorded as taxes receivable each September 1 on the assessed value listed as of the prior January 1 for all real and personal property located in Nashville and Davidson County. Property taxes are secured by a statutory lien effective as of the original assessment date of January 1 and as such an enforceable legal claim to the subsequent fiscal year levy exists at fiscal year end. In accordance with state law, the real property assessment includes supplemental assessments made through September 1 for improved, demolished or damaged property.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assessed values are established by the State of Tennessee at the following percentages of assessed market value:

- Public utility property	55%	(Railroads and certain telecommunication services at 40%)
- Industrial and commercial property		
- Real	40%	
- Personal	30%	
- Farm and residential property	25%	

Taxes are levied at a rate of \$3.29 per \$100 of assessed value for the entire metropolitan area (General Services District) with an additional tax of \$.95 per \$100 of assessed value levied upon properties within the Urban Services District.

Payments are due by February 28 and are delinquent on March 1 of the following year. Property taxes receivable have been included in the combined balance sheet with offsetting deferred revenue to reflect amounts not available at June 30, 2001. Amounts available at June 30, 2001 have been recorded as revenue. Current tax collections of \$432,592,562 for the fiscal year ended June 30, 2001 were approximately 96% of the tax levy.

Of the \$601,017,355 property tax receivable, \$573,575,800 represents the 2001 property taxes which are not yet levied but recorded as required by GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions. Other tax revenues such as payment in lieu of taxes are also recorded as property tax revenue.

Accounting for landfills - State and federal laws and regulations require the Government to place a final cover on all its landfill sites when they stop accepting waste, and to perform certain maintenance and monitoring functions at the sites for thirty years after closure. Although closure and postclosure care costs will be paid only near, or after, the date the landfill stops accepting waste, the Government is required to report a portion of these closure and postclosure care costs as an operating expenditure in each period of operation. This expenditure is based on landfill capacity used at the balance sheet date. The current operations of the landfills are reported in the Solid Waste Operations Fund in the special revenue fund section of this report. The long term liability is included in the other obligations payable for general purposes section of the General Long-term Debt Account Group for the General Services District. The total liability for landfill purposes is \$3,656,068.

Bordeaux Sanitary Landfill - This landfill has stopped accepting solid waste, and closure procedures are 100% complete. Additionally, estimated postclosure costs of \$2,097,696 are included in the liability.

Metro Thermal Ash Landfill Phase II - The total remaining closure and postclosure costs of this landfill are \$1,417,718. The landfill is currently accepting solid waste, while some closing procedures have been started. Phase II has reached 80% capacity, thus a liability of \$1,134,174 is accrued.

Metro Thermal Ash Landfill Phase III - The total remaining closure and postclosure costs of this landfill are \$2,120,989. The landfill is currently accepting solid waste, while some closing procedures have been started. Phase III has reached 20% capacity, thus a liability of \$424,198 is accrued.

These estimates are based on an independent evaluation of cost to perform all closure and care. Actual costs may be higher due to inflation, changes in technology or changes in regulations. Closure and care financial requirements are expected to be met by the operations of the Solid Waste Operations Fund. To the extent the Solid Waste Operations Fund operations create a deficit, the General Fund is required to fund its operations.

Accounting pronouncements - As discussed in Note 2, the Government adopted GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, and GASB Statement No. 36, Recipient Reporting for Certain Shared Non-exchange Revenue, in fiscal year 2001.

The Government will adopt GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments and GASB Statement No. 37, Basic Financial Statements - and Management Discussion and Analysis for State and Local Governments, an amendment of GASB Statements No. 21 and No. 34, required for periods beginning after June 15, 2001, in fiscal year 2002. Significant changes required by these Statements, from the existing financial reporting requirements, include dual perspective financial reporting, full accrual basis of accounting for governmental activities, the presentation of a management discussion and

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

analysis, the capitalization of infrastructure assets and the recording and depreciation of all capital assets, including infrastructure assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management is in the process of determining the effects that the adoption of these statements will have on the Government's financial statements.

Total columns - Total columns on the combined financial statements are captioned "Memorandum Only" to indicate they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in cash flows in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 – RESTATEMENT OF RETAINED EARNINGS/FUND BALANCE

During the fiscal year ended June 30, 2001, the Government adopted GASB Statement No. 33, Accounting and Reporting for Nonexchange Transactions and GASB Statement No. 36, Recipient Reporting For Certain Shared Non-exchange Revenue, which established accounting and financial reporting standards for nonexchange transactions involving financial or capital resources such as taxes, grants and contributions. The adoption of these Statements increased beginning fund balance for the general fund and special revenue funds and retained earnings for proprietary type component units.

During the fiscal year ended June 30, 2001, the activities of the Sports Authority were reclassified from being blended with various governmental funds and added as a discretely presented governmental type component unit in accordance with GASB Statement No. 14, The Financial Reporting Entity. This change decreased beginning fund balance for special revenue, debt service, and capital project funds and increased beginning fund balance for governmental type component units.

During the fiscal year ended June 30, 2001, the activities of the Police Secondary Employment fund were removed from a special revenue fund and added as an enterprise fund, as the activity is proprietary in nature and supported by user charges. This change decreased beginning fund balance for special revenue funds and increased beginning retained earnings for enterprise funds.

During the fiscal year ended June 30, 2001, the School Activity Fund restated beginning fund balance due to timing of expenditures between years. This restatement increased beginning fund balance for special revenue funds.

During the fiscal year ended June 30, 2001, the Nashville District Management Corporation restated beginning fund balance to properly account for the recording of certain contract revenue. This restatement increased beginning fund balance for governmental type component units.

During the fiscal year ended September 30, 1999, the Metropolitan Development and Housing Agency converted from the use of special revenue to enterprise funds in accordance with the preferred method of accounting by the U.S. Department of Housing and Urban Development. During the fiscal year ended September 30, 2000, this conversion resulted in a restatement of beginning retained earnings. This restatement increased beginning retained earnings for proprietary type component units.

During the fiscal year ended September 30, 2000, an entity previously reported as a component unit of the Metropolitan Development and Housing Agency was removed in accordance with GASB Statement No. 14, The Financial Reporting Entity. This change decreased beginning retained earnings for proprietary type component units.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**NOTE 2 – RESTATEMENT OF RETAINED EARNINGS/FUND BALANCE (CONTINUED)**

These additions, deletions, and reclassifications affected beginning retained earnings/fund balances as follows:

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Enterprise Funds	Governmental Type Component Units	Proprietary Type Component Units
Retained earnings/fund balance, beginning of year, as previously reported	\$ 67,072,724	\$ 119,655,816	\$ 135,675,054	\$ 87,132,286	\$ 405,841,652	\$ 59,668	\$ 283,520,647
Adoption of GASB Statement No.'s 33 and 36	21,122,848	13,902,340	-	-	-	-	8,741,380
Reclassifications between funds and component units:							
Sports Authority	-	(23,558,632)	(10,205,423)	(6,663,857)	-	40,427,912	-
Police Secondary Employment	-	(58,505)	-	-	58,505	-	-
Restatements:							
School Activity Fund	-	27,254	-	-	-	-	-
Nashville District Management Corporation	-	-	-	-	-	239,104	-
Metropolitan Development and Housing Agency	-	-	-	-	-	-	16,057,402
Deletion of Metropolitan Development and Housing Agency component unit	-	-	-	-	-	-	(1,957,532)
Retained earnings/fund balance, beginning of year, restated	<u>\$ 88,195,572</u>	<u>\$ 109,968,273</u>	<u>\$ 125,469,631</u>	<u>\$ 80,468,429</u>	<u>\$ 405,900,157</u>	<u>\$ 40,726,684</u>	<u>\$ 306,361,897</u>

**NOTE 3 - REVENUES OVER EXPENDITURES - GAAP VERSUS BUDGET BASIS**

The nature and amount of adjustments necessary to convert the GAAP basis excess (deficiency) of revenues and other sources over expenditures and other uses to the budget basis are as follows:

	General Fund	Special Revenue Funds	Debt Service Funds
Excess (deficiency) of revenues and other sources over expenditures and other uses:			
GAAP basis	\$ 10,708,597	\$ 7,216,369	\$ 31,836,411
Less: Unbudgeted entities	-	(4,659,777)	7,247
Current year reserve for encumbrances	-	(4,983,935)	-
Add: Prior year reserve for encumbrances	-	2,391,447	-
Budget basis	<u>\$ 10,708,597</u>	<u>\$ (35,896)</u>	<u>\$ 31,843,658</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CASH AND INVESTMENTS

The Government 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 Government is authorized to invest in these instruments either directly or through the Metro Investment Pool (MIP). In addition, the Joseph B. Knowles Trust fund is authorized to invest in stocks of commercial entities, and the Metropolitan Employees' Benefit Trust is authorized to invest funds in accordance with the Statement of Investment Objectives of the Investment Board of the Government, which states that the Investment Board may make investments it deems suitable for the trust fund. The Government's banking agreement includes a provision for a \$2 million compensating balance.

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, 2001, most of the Government's deposits were held by financial institutions which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. Participating banks determine the aggregated balance of their public fund accounts for the Government. The amount of collateral required to secure these public deposits must be at least 105% of the average daily balance of public deposits held. Collected 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. Accounts covered by the State collateral pool are classified as category A in accordance with GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.

CASH AND CASH EQUIVALENTS

The Government's deposits are categorized below to give an indication of the level of risk assumed by the Government at fiscal year end. Category A includes deposits that are insured or collateralized with securities held by the Government or by its agent in the Government's name. Category B includes deposits that are insured or collateralized with securities held by the pledging financial institutions trust department. Category C includes deposits that are uninsured and uncollateralized. Deposits represent the Government's cash balance at banks and other financial institutions, while the carrying amount of cash on deposit represents the book balance of those deposits. The difference between deposits and the carrying amount of cash on deposit is due primarily to checks outstanding and deposits in transit at June 30, 2001.

	Deposits Per Bank And Other Financial Institutions				Carrying Amount Per Books		
	Category			Total	Cash On Deposit	Cash On Hand	Total
	A	B	C				
Primary Government							
General Government	\$ 14,986,078	\$ -	\$ -	\$ 14,986,078	\$ 6,422,034	\$ 179,729	\$ 6,601,763
Metropolitan Board of Education (except pension funds)	13,705,431	-	-	13,705,431	10,652,893	2,075	10,654,968
Department of Water and Sewerage Services	201,136	-	-	201,136	205,017	8,500	213,517
Pension Funds	74,099,121	-	-	74,099,121	74,099,121	-	74,099,121
Elected Officials	42,087,324	-	-	42,087,324	33,909,131	35,575	33,944,706
Total primary government	<u>\$ 145,079,090</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145,079,090</u>	<u>\$ 125,288,196</u>	<u>\$ 225,879</u>	<u>\$ 125,514,075</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**NOTE 4 – CASH AND INVESTMENTS (CONTINUED)**

	Deposits Per Bank And Other Financial Institutions				Carrying Amount Per Books		
	Category			Total	Cash On	Cash on	Total
	A	B	C		Deposit	Hand	
Reconciliation to presentation on the balance sheet:							
Cash and Cash Equivalents							\$ 385,302,316
Restricted Cash and Cash Equivalents							103,534,533
Less: Cash Equivalents included as investments for footnote categorization							<u>(363,322,774)</u>
Total primary government							<u>\$ 125,514,075</u>
Component Units - Governmental Types							
Sports Authority	\$ 5,698,405	\$ -	\$ -	\$ 5,698,405	\$ 5,698,405	\$ -	\$ 5,698,405
Nashville District Management Corporation	<u>434,189</u>	<u>-</u>	<u>-</u>	<u>434,189</u>	<u>434,189</u>	<u>-</u>	<u>434,189</u>
Total governmental types	<u>\$ 6,132,594</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,132,594</u>	<u>\$ 6,132,594</u>	<u>\$ -</u>	<u>\$ 6,132,594</u>
Reconciliation to presentation on the balance sheet:							
Cash and Cash Equivalents							\$ 26,878,449
Less: Cash Equivalents included as investments for footnote categorization							<u>(20,745,855)</u>
Total governmental types							<u>\$ 6,132,594</u>
Component Units - Proprietary Types							
Metropolitan Development and Housing Agency	\$ 34,676,316	\$ -	\$ -	\$ 34,676,316	\$ 35,132,185	\$ 10,275	\$ 35,142,460
Hospital Authority	3,282,267	-	-	3,282,267	3,232,928	208,738	3,441,666
Electric Power Board	3,304,730	-	-	3,304,730	293,560	16,000	309,560
Metropolitan Transit Authority	425,222	-	-	425,222	459,679	-	459,679
Nashville Thermal Transfer Corporation	1,711,236	-	-	1,711,236	1,242,159	515	1,242,674
Metropolitan Nashville Airport Authority	126,988,270	-	-	126,988,270	126,819,985	-	126,819,985
Emergency Communications District	2,919,876	-	-	2,919,876	2,919,876	-	2,919,876
Industrial Development Board	<u>962,574</u>	<u>-</u>	<u>14,741</u>	<u>977,315</u>	<u>977,315</u>	<u>53,940</u>	<u>1,031,255</u>
Total proprietary types	<u>\$ 174,270,491</u>	<u>\$ -</u>	<u>\$ 14,741</u>	<u>\$ 174,285,232</u>	<u>\$ 171,077,687</u>	<u>\$ 289,468</u>	<u>\$ 171,367,155</u>
Reconciliation to presentation on the balance sheet:							
Cash and Cash Equivalents							\$ 68,012,388
Restricted Cash and Cash Equivalents							120,016,657
Less: Cash Equivalents included as investments for footnote categorization							<u>(16,661,890)</u>
Total proprietary types							<u>\$ 171,367,155</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CASH AND INVESTMENTS (CONTINUED)

INVESTMENTS

The Government's investments are categorized below to give an indication of the level of risk assumed by the Government at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Government or its agent in the Government's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department (if a bank) or agent in the Government's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty in the Government's name, or held by the counterparty's trust department (if a bank) or agent, but not in the Government's name.

	Category			Fair Value
	1	2	3	
<u>General government</u>				
Federal Home Loan Bank Obligations	\$ 44,088,233	\$ -	\$ -	\$ 44,088,233
Federal Home Loan Mortgage Corporation Obligations	75,939,750	-	-	75,939,750
Federal National Mortgage Association Obligations	149,386,250	-	-	149,386,250
Bankers' Acceptances	11,311,535	-	-	11,311,535
Corporate Bonds and Notes	992,443	-	-	992,443
Common Stock	31,861	-	-	31,861
Commercial Paper	39,889,197	-	-	39,889,197
Student Loan Marketing Association Obligations	22,707,075	-	-	22,707,075
Total general government	<u>\$ 344,346,344</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 344,346,344</u>
<u>Metropolitan Board of Education (except pension funds)</u>				
Federal Home Loan Bank Obligations	\$ 55,135,890	\$ -	\$ -	\$ 55,135,890
Federal Home Loan Mortgage Corporation Obligations	81,216,701	-	-	81,216,701
Federal National Mortgage Association Obligations	67,467,770	-	-	67,467,770
Bankers' Acceptances	5,108,663	-	-	5,108,663
Common Stock	14,393	-	-	14,393
Commercial Paper	18,015,280	-	-	18,015,280
Student Loan Marketing Association Obligations	10,255,266	-	-	10,255,266
Total Metropolitan Board of Education (except pension funds)	<u>\$ 237,213,963</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 237,213,963</u>
<u>Department of Water and Sewerage Services</u>				
U. S. Treasury & Agency Securities	\$ 1,214,246	\$ -	\$ -	\$ 1,214,246
Federal Home Loan Bank Obligations	63,579,838	-	-	63,579,838
Federal Home Loan Mortgage Corporation Obligations	52,905,305	-	-	52,905,305
Federal National Mortgage Association Obligations	142,502,433	-	-	142,502,433
Bankers' Acceptances	7,211,529	-	-	7,211,529

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 – CASH AND INVESTMENTS (CONTINUED)

	Category			Fair Value
	1	2	3	
<u>Department of Water and Sewerage Services (Continued)</u>				
Common Stock	\$ 20,317	\$ -	\$ -	\$ 20,317
Commercial Paper	25,430,864	-	-	25,430,864
Student Loan Marketing Association Obligations	29,700,615	-	-	29,700,615
Fidelity Treasury Fund	7,437,224	-	-	7,437,224
State and Local Government Securities	2,230,500	-	-	2,230,500
	<u>\$ 332,232,871</u>	<u>\$ -</u>	<u>\$ -</u>	<u>332,232,871</u>
Tennessee Local Government Investment Pool				<u>1,735,209</u>
Total Department of Water and Sewerage Services				<u>333,968,080</u>
<u>Pension funds</u>				
U. S. Treasury & Agency Securities	\$ 104,608,026	\$ -	\$ -	\$ 104,608,026
Federal Home Loan Bank Obligations	15,243,871	-	-	15,243,871
Federal Home Loan Mortgage Corporation Obligations	53,494,522	-	-	53,494,522
Federal National Mortgage Association Obligations	81,667,390	-	-	81,667,390
Bankers' Acceptances	236,731	-	-	236,731
Corporate Bonds and Notes	150,305,949	-	-	150,305,949
Common Stock	746,667,513	-	-	746,667,513
Commercial Paper	834,812	-	-	834,812
Preferred Stock	3,429,567	-	-	3,429,567
Foreign Currency	18,401,998	-	-	18,401,998
Collateralized Mortgage Obligations	61,790,388	-	-	61,790,388
International Securities	206,882,243	-	-	206,882,243
Government National Mortgage Association Obligations	18,143,445	-	-	18,143,445
Student Loan Marketing Association Obligations	475,220	-	-	475,220
	<u>\$ 1,462,181,675</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,462,181,675</u>
Mortgages and Real Estate Limited Partnerships				36,859,286 <u>31,383,293</u>
Total pension funds				<u>1,530,424,254</u>
<u>Elected Officials</u>				
Common Stock	\$ 11,820	\$ -	\$ -	11,820
Mortgages and Real Estate Total elected officials				243,903 <u>255,723</u>
TOTAL PRIMARY GOVERNMENT				<u>\$ 2,446,208,364</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 – CASH AND INVESTMENTS (CONTINUED)

	Category			Fair Value
	1	2	3	
Reconciliation to presentation on the balance sheet:				
Cash and Cash Equivalents				\$ 363,322,774
Investments				1,866,535,248
Restricted Investments				<u>216,350,342</u>
TOTAL PRIMARY GOVERNMENT				<u>\$ 2,446,208,364</u>
<u>Component Units - Governmental Types</u>				
Commercial Paper	\$ 4,819,719	\$ -	\$ -	\$ 4,819,719
Federal Home Loan Bank Obligations	3,883,184	-	-	3,883,184
Federal Home Loan Mortgage Corporation Obligations	7,252,307	-	-	7,252,307
Federal National Mortgage Association Obligations	18,049,992	-	-	18,049,992
Bankers' Acceptances	1,366,746	-	-	1,366,746
Student Loan Marketing Association Obligations	2,743,643	-	-	2,743,643
Common Stock	3,849	-	-	3,849
Total governmental types	<u>\$ 38,119,440</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,119,440</u>
Reconciliation to presentation on the balance sheet:				
Cash and Cash Equivalents				\$ 20,745,855
Investments				17,373,585
Total governmental types				<u>\$ 38,119,440</u>
<u>Component Units - Proprietary Types</u>				
U. S. Treasury & Agency Securities	\$ 246,928,749	\$ -	\$ -	\$ 246,928,749
Commercial Paper	2,290,454	-	-	2,290,454
Repurchase Agreements	4,772,005	-	-	4,772,005
Federal Home Loan Bank Obligations	747,763	-	-	747,763
Federal Home Loan Mortgage Corporation Obligations	1,396,536	-	-	1,396,536
Federal National Mortgage Association Obligations	3,475,786	-	-	3,475,786
Bankers' Acceptances	263,187	-	-	263,187
Student Loan Marketing Association Obligations	528,328	-	-	528,328
Common Stock	741	-	-	741
	<u>\$ 260,403,549</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 260,403,549</u>
Real Estate				860,080
Mutual Funds				2,760,489
Total proprietary types				<u>264,024,118</u>
Reconciliation to presentation on the balance sheet:				
Cash and Cash Equivalents				\$ 16,661,890
Investments				57,813,670
Restricted Investments				189,548,558
Total proprietary types				<u>\$ 264,024,118</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CASH AND INVESTMENTS (CONTINUED)

The primary government's pension plans also have \$1,042,766 of annuities that are classified separately from investments on the balance sheet.

The Government invests in collateralized mortgage obligations (CMOs), which are based on cash flows from interest payments on underlying mortgages. CMOs are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. For example, if interest rates decline and mortgagees refinance their mortgages, thereby prepaying the mortgages underlying these securities, the cash flows from interest payments are reduced and the value of these securities declines. Likewise, if mortgagees extend payment on mortgages longer than anticipated, the cash flows are greater and the return on the initial investment would be higher than anticipated.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

The following summarizes the changes in the General Fixed Assets Account Group during the year ended June 30, 2001:

	Balance July 1, 2000	Additions	Deletions	Reclassification of Assets to Component Unit	Balance June 30, 2001
Land	\$ 138,053,625	\$ 9,880,187	\$ -	\$ (61,892,387)	\$ 86,041,425
Buildings and improvements	919,394,500	177,860,451	(67,276,653)	(357,069,778)	672,908,520
Furniture, fixtures, machinery And equipment	169,837,118	35,084,271	(47,289,778)	(7,332)	157,624,279
Construction in progress	123,604,916	63,988,306	(89,132,843)	-	98,460,379
Total	<u>\$ 1,350,890,159</u>	<u>\$ 286,813,215</u>	<u>\$ (203,699,274)</u>	<u>\$ (418,969,497)</u>	<u>\$ 1,015,034,603</u>

During the fiscal year ended June 30, 2001, the activities of the Sports Authority were removed from various governmental funds and added as a governmental type component unit. Accordingly, the related assets were reclassified from the General Fixed Assets Account Group to the Sports Authority component unit.

Property, plant and equipment of the proprietary and fiduciary funds of the primary government at June 30, 2001 consisted of the following:

	Enterprise Funds	Internal Service Funds	Nonexpendable Trust Funds
Utility plant in service	\$ 1,466,725,282	\$ -	\$ -
Land	22,917,617	-	138,000
Buildings and improvements	78,885,561	294,563	40,720
Improvements other than buildings	36,238,696	-	-
Office furniture and equipment	4,651,223	813,924	-
Machinery and equipment	41,449,438	37,756,809	25,694
Property under capital lease	3,645,000	-	-
Construction work in progress	27,108,133	-	-
	1,681,620,950	38,865,296	204,414
Less accumulated depreciation	<u>(419,376,082)</u>	<u>(17,352,088)</u>	<u>(66,414)</u>
Property, plant and equipment - net	<u>\$ 1,262,244,868</u>	<u>\$ 21,513,208</u>	<u>\$ 138,000</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Property, plant and equipment of the proprietary type component units at June 30, 2001 consisted of the following:

	Component Units	
	Governmental Types	Proprietary Types
Utility plant in service	\$ -	\$ 956,764,293
Land	61,892,387	512,008,018
Buildings and improvements	357,069,778	375,333,013
Machinery and equipment	7,332	87,290,123
Construction work in progress	-	26,192,970
	<u>418,969,497</u>	<u>1,957,588,417</u>
Less accumulated depreciation	-	(726,205,984)
Property, plant and equipment - net	<u>\$ 418,969,497</u>	<u>\$ 1,231,382,433</u>

The Metropolitan Development and Housing Agency recorded an equity transfer of \$82,161 which represents the transfer of property, plant and equipment to the general fixed asset account group of the primary government.

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS

Primary Government

Transaction summary for the year ended June 30, 2001

	General Long-term Debt Account Group			Proprietary Bonds, Notes and Other Obligations Payable	Total Primary Government
	General Obligation Bonds and Notes Payable	Limited Obligation Revenue Bonds Payable	Other Obligations Payable		
Bonds, notes and other obligations payable July 1, 2000	\$ 989,705,000	\$ 114,360,000	\$ 131,145,796	\$ 611,153,693	\$ 1,846,364,489
New Bonds and notes issued:					
G.O. Multi-purpose Improvement Bonds Series 2001A					
General Services District	62,065,000	-	-	-	62,065,000
Schools	176,640,000	-	-	-	176,640,000
Urban Services District	23,450,000	-	-	-	23,450,000
G.O. Multi-purpose Refunding Bonds Series 2001B					
General Services District	43,633,148	-	-	-	43,633,148
Schools	30,111,852	-	-	-	30,111,852
Additions:					
Department of Water & Sewerage state construction loans	-	-	-	4,585,229	4,585,229
Compensated absences	-	-	33,906,855	-	33,906,855
Interest arbitrage rebate	-	-	946,746	1,250,000	2,196,746
Net pension obligation	-	-	2,902,388	-	2,902,388

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 – BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

	General Long-term Debt Account Group			Proprietary Bonds, Notes and Other Obligations Payable	Total Primary Government
	General Obligation Bonds and Notes Payable	Limited Obligation Revenue Bonds Payable	Other Obligations Payable		
Bonds, notes and other obligations retired	\$ (55,780,000)	\$ (1,045,000)	\$ -	\$ (20,080,131)	\$ (76,905,131)
Bonds defeased	(73,505,000)	-	-	-	(73,505,000)
Deferred charge	-	-	-	891,727	891,727
Reclassification between funds and component unit:					
Sports Authority:					
Public Improvement Revenue Bonds (Stadium Project), Series 1996	-	(75,380,000)	-	-	(75,380,000)
Taxable Public Facility Revenue Bonds Series 1998	-	(20,255,000)	-	-	(20,255,000)
Other deductions:					
Landfill closure costs	-	-	(75,160)	-	(75,160)
Compensated absences	-	-	(36,475,934)	-	(36,475,934)
Claims and judgments	-	-	(27,648,940)	-	(27,648,940)
 Bonds, notes and other obligations payable June 30, 2001	 <u>\$ 1,196,320,000</u>	 <u>\$ 17,680,000</u>	 <u>\$ 104,701,751</u>	 <u>\$ 597,800,518</u>	 <u>\$ 1,916,502,269</u>

Description of amounts payable at June 30, 2001

	Interest Rate	Amount
General obligation bonds and notes payable from ad valorem taxes:		
General Services District - General Purposes, due in varying amounts to November 15, 2029	1.00 - 6.60%	\$ 717,305,524
General Services District - School Purposes, due in varying amounts to November 15, 2027	4.00 - 6.15%	421,890,712
Urban Services District - General Purposes, due in varying amounts to October 15, 2017	0.10 - 6.60%	57,123,764
Total general obligation bonds and notes payable from ad valorem taxes		1,196,320,000
Limited obligation revenue bonds payable:		
Correctional Facility Revenue Bonds, due in varying amounts to September 1, 2011	6.50 - 7.00%	17,680,000
Total limited obligation revenue bonds payable		17,680,000

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 – BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

	<u>Interest Rate</u>	<u>Amount</u>
Other obligations payable:		
Net pension obligation		\$ 46,324,173
Compensated absences		44,405,033
Claims and judgments		7,235,864
Interest arbitrage rebate		3,080,613
Landfill closure		<u>3,656,068</u>
Total other obligations payable		<u>104,701,751</u>
Total obligations included in General Long-term Debt Account Group		<u>\$ 1,318,701,751</u>
Bonds, notes and other obligations payable-proprietary fund types:		
Department of Water and Sewerage Revenue Refunding Bonds of 1986, due in varying amounts to January 1, 2016	5.50 - 7.70%	\$ 135,615,000
Department of Water and Sewerage Revenue Bonds, Series 1992, due in varying amounts to January 1, 2004	5.20 - 5.60%	8,205,000
Department of Water and Sewerage Revenue Bonds, Series 1993, due in varying amounts to January 1, 2016	4.60 - 6.50%	130,965,000
Department of Water and Sewerage Revenue Refunding Bonds of 1996, due in varying amounts to January 1, 2014	5.50 - 6.00%	62,842,878
Department of Water and Sewerage Revenue Refunding Bonds, Series 1998A, due in varying amounts to January 1, 2022	4.00 - 5.00%	145,944,230
Department of Water and Sewerage Revenue Bonds Series 1998B, due in varying amounts to January 1, 2014	3.80 - 5.25%	<u>46,280,000</u>
Total revenue bonds payable - proprietary fund types		<u>529,852,108</u>
Department of Water and Sewerage Services - state construction loans	4.36 - 5.52%	<u>64,233,410</u>
Other obligations payable:		
Interest arbitrage rebate		<u>1,250,000</u>
Total other obligations payable		1,250,000
Total revenue bonds and other obligations payable		<u>595,335,518</u>
Capitalized lease obligations payable:		
Farmers Market	7.50%	<u>2,465,000</u>
Total capitalized lease obligations payable		<u>2,465,000</u>
Total proprietary bonds, notes and other obligations payable		<u>\$ 597,800,518</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

The bonds, notes and other obligations of the proprietary funds are classified in the combined balance sheet as follows:

Current portion of capital lease	\$ 125,000
Current portion of long-term debt payable from restricted assets	20,624,125
Revenue bonds payable	515,802,108
Capitalized lease obligation	2,340,000
Other long-term liabilities	58,909,285
	<hr/>
Total bonds, notes and other obligations payable	\$ 597,800,518
	<hr/> <hr/>

The general obligation bonds and notes payable are direct obligations of the Government for which its full faith and credit are pledged. These obligations are payable from the assessment of ad valorem taxes. In addition, the Government has additional sources of funds which are utilized to meet the annual principal and interest payments of certain general obligation bonds and notes.

The Correctional Facility Revenue Bonds are special limited obligations of the Government payable solely from payments received from the State of Tennessee. Payments by the state for debt service on the bonds are considered reimbursements to the Government of reasonable allowable costs under the County Correctional Incentives Act of 1981, as amended, and regulations adopted by the State Department of Corrections. The obligation of the state to make payments under the contract is subject to, and dependent upon, annual appropriations by the State General Assembly and allotment by appropriate state officials and does not constitute a moral or general obligation or a debt of the state. The State General Assembly is not obligated to make appropriations to satisfy the state's obligation to make these payments, and there is no assurance that the State General Assembly will make any such appropriations. The bonds are not deemed to constitute a debt or liability of the Government for which there is recourse against the General Fund or a right to compel the exercise of the ad valorem taxing power of the Government. No right, title or interest in or to the DeBerry Correctional Facility financed by the bonds is pledged for the payment or security of the bonds.

Collateral for obligations of the proprietary funds

Department of Water and Sewerage Services

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, 2001, the Government believes it was in compliance with all financial limitations and restrictions.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

Annual debt service requirements

The annual requirements to amortize all general obligation bonds and notes and revenue bonds outstanding as of June 30, 2001, including future interest payments of \$989,158,780, are as follows:

Year Ending June 30	General Obligation Bonds and Notes	Limited Obligation Revenue Bonds Payable	Revenue Bonds	Total Primary Government
2002	\$ 131,040,266	\$ 2,302,400	\$ 44,334,920	\$ 177,677,586
2003	128,025,526	2,300,740	49,295,490	179,621,756
2004	127,080,375	2,302,525	49,302,910	178,685,810
2005	125,728,636	2,302,083	49,273,325	177,304,044
2006	124,511,987	2,299,620	52,429,170	179,240,777
Thereafter	1,223,574,132	13,804,275	613,155,400	1,850,533,807
Total	1,859,960,922	25,311,643	857,791,215	2,743,063,780
Deferred charge	-	-	(10,052,892)	(10,052,892)
Interest payable	(663,640,922)	(7,631,643)	(317,886,215)	(989,158,780)
Total principal outstanding	<u>\$ 1,196,320,000</u>	<u>\$ 17,680,000</u>	<u>\$ 529,852,108</u>	<u>\$ 1,743,852,108</u>

Advance refundings of bonds

On February 15, 2001, the Government issued \$262,155,000 General Obligation Multi-purpose Improvement Bonds, Series 2001A, and \$73,745,000 General Obligation Multi-purpose Refunding Bonds, Series 2001B, at a combined effective rate of 4.43%. These bonds provided funds for various public improvement projects and refunded portions of the Government's Outstanding General Obligation Multi-purpose Improvement Bonds, Series 1994, dated September 15, 1994 (the "Series 1994 Bonds"), maturing May 15, 2005 through May 15, 2011; the Government's General Obligation Multi-purpose Improvement Bonds, Series 1995, dated May 15, 1995 (the "Series 1995 Bonds"), maturing May 15, 2008 through May 15, 2017; and also the Government's General Obligation Public Improvement Bonds, Series 1996A, dated October 1, 1996 (the "Series 1996A Bonds"), maturing November 15, 2011 and November 15, 2012. The net proceeds of the bonds totaled \$354,250,493 (including an original issue premium, net of underwriting fees and other issuance costs).

The refunding portion of the net proceeds of \$77,885,410 was used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded Series 1994 Bonds, Series 1995 Bonds and Series 1996A Bonds. As a result, \$73,505,000 in maturities of the Series 1994 Bonds, Series 1995 Bonds and Series 1996A Bonds are considered to be defeased. The liabilities for the defeased bonds have been removed from the General Long-term Debt Account Group.

The Government advance refunded the Series 1994 Bonds, Series 1995 Bonds and Series 1996A Bonds to reduce its total debt service payments over the next 16 years by \$6,179,244. By issuing the new bonds, the Government obtained an economic gain (difference between the present values of the debt service payments on the defeased and new debts) of \$3,710,673.

The Government had previously defeased certain other obligation bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service requirements on the retired bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Government's financial statements. As of June 30, 2001, a total of \$177,835,000 of bonds are considered defeased.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

Redemption options

Certain bonds are subject to redemption prior to maturity at the option of the Government. The stated payments of principal and interest on the Department of Water and Sewerage Services Series 1992, Series 1993, Series 1996, and Series 1998 Bonds are insured by municipal bond insurance policies which cannot be canceled.

The Department of Water and Sewerage Services - state construction loans

As of June 30, 2001, the Department has entered into fifteen 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 4.28% and 5.52% at June 30, 2001). The loans mature in monthly installments, as stipulated in the agreed-upon payment schedule, and are secured by the Government's unobligated state-shared taxes in an amount equal to the maximum annual debt service requirements under the agreements. In addition, the Government has pledged user fees and charges to be paid from the Department's Extension and Replacement Fund and/or from ad valorem taxes.

As of June 30, 2001, eleven of the fifteen project loans have been fully funded and the Department has begun repaying the loans in accordance with the specified payment schedules. These funded loans, which total \$64,233,410 at June 30, 2001, call for monthly payments of principal and interest of \$800,133. Funding has begun on the remaining four project loans.

State construction loan principal maturities as of June 30, 2001 are summarized below:

Year Ending June 30	
2002	\$ 6,574,125
2003	6,036,462
2004	4,819,488
2005	3,292,140
2006	2,487,324
Thereafter	41,023,871
Total principal outstanding	\$ 64,233,410

Unissued bonds or notes

At June 30, 2001, authorized but unissued general obligation bonds totaled \$147,095,000. General obligation notes authorized but not executed totaled \$177,000.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

Component Units

Transaction summary for the year ended June 30, 2001

	Component Units	
	Governmental Types	Proprietary Types
Bonds, notes and other liabilities payable at July 1, 2000	\$ -	\$ 819,829,119
New bonds and notes issued:		
Metropolitan Development and Housing Agency:		
Notes payable - tax increments	-	5,731,619
Section 108 loans	-	66,340
Electric Power Board:		
Electric System Revenue Bonds, 2001 Series A and B	-	138,135,161
Metropolitan Nashville Airport Authority:		
Airport Improvement Revenue Bonds, Series 2001 A	-	91,930,000
Other additions:		
Sports Authority:		
Reclassification of debt from General Long-term Debt Account Group to governmental type component unit	95,635,000	-
Metropolitan Development and Housing Agency:		
Inclusion of Vine Hill component unit in reporting entity	-	9,825,977
Change in compensated absences	-	145,847
Change in other liabilities	-	892,679
Electric Power Board:		
Accretion on certain bonds and amortization of bond discount and loss on refunding	-	3,024,361
Nashville Thermal Transfer Corporation:		
Amortization of bond discount	-	37,534
Amortization of loss on refunding	-	658,530
Metropolitan Nashville Airport Authority:		
Amortization of loss on refunding	-	2,163,912
Accretion of Synthetic Advanced Refunding, Series 2001	-	516,106
Payments on borrowings	(1,885,000)	(39,736,295)
Bonds, notes and other liabilities retired	-	(20,382,082)
Other deductions:		
Metropolitan Development and Housing Agency:		
Exclusion of Nashville Housing Fund component unit from reporting entity	-	(2,769,939)
Electric Power Board:		
Principal payments to TVA	-	(685,654)
Change in other liabilities	-	(447,694)
Nashville Thermal Transfer Corporation:		
Amortization of accretion	-	(15,324)
Metropolitan Nashville Airport Authority:		
Amortization of deferred interest income	-	(382,671)
Amortization of deferred rental income	-	(59,271)
Bonds, notes and other liabilities payable at June 30, 2001	\$ 93,750,000	\$ 1,008,478,255

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

Description of amounts payable at June 30, 2001

	<u>Interest Rates</u>	<u>Amount</u>
Revenue bonds payable - governmental types:		
Public Improvement Revenue Bonds (Stadium Project), Series 1996, due in varying amounts to July 1, 2026	4.70 - 5.875%	\$ 74,080,000
Taxable Public Facility Revenue Bonds, Series 1998, due in varying amount to July 1, 2018	5.87 - 6.60%	<u>19,670,000</u>
Total revenue bonds payable - governmental types		<u>\$ 93,750,000</u>
Revenue bonds payable - proprietary types:		
Metropolitan Development and Housing Agency, Revenue Bonds, 1998 Series, due June 11, 2009	5.77%	\$ 11,475,600
Electric Power Board Electric System Revenue Bonds, 1992 Series B, due in varying amounts to May 15, 2005	4.25 - 5.62%	57,754,752
Electric Power Board Electric System Revenue Bonds, 1996 Series A, due in varying amounts to May 15, 2013	5.50 - 6.00%	62,423,190
Electric Power Board Electric System Revenue Bonds, 1998 Series A, due in varying amounts to May 15, 2023	5.125 - 5.40%	87,656,507
Electric Power Board Electric System Revenue Bonds, 1998 Series B, due in varying amounts to May 15, 2017	3.80 - 5.50%	57,099,699
Electric Power Board Electric System Revenue Bonds, 2001 Series A, due in varying amounts to May 15, 2017	4.50 - 5.00%	118,111,186
Electric Power Board Electric System Revenue Bonds, 2001 Series B, due in varying amounts to May 15, 2014	5.50%	18,532,213
Nashville Thermal Transfer Corporation Energy Production Facility Revenue Refunding Bonds, Series 1994, due in varying amounts to July 1, 2007	3.80 - 5.20%	25,725,000
Nashville Thermal Transfer Corporation Energy Production Facility Revenue Bonds, Series 1997 A, due in varying amounts to July 1, 2014	3.75 - 5.75%	32,920,000
Nashville Thermal Transfer Corporation Energy Production Facility Revenue Refunding Bonds, Series 1997 B, due in varying amounts to July 1, 2012	3.75 - 6.00%	12,985,000
Nashville Thermal Transfer Corporation: Unamortized loss on refunding and bond discount		(2,507,565)
Unaccreted bond premium		107,317
Airport Revenue Bonds, Series 1991, due in varying amounts to July 1, 2005	6.50 - 6.75%	104,895,000
Passenger Facility Charge and Airport Revenue Bonds, Series 1992, due in varying amounts to July 1, 2012	5.60 - 6.00%	38,025,000
Airport Improvement Revenue Bonds, Adjustable Rate Refunding, Series 1993, due in varying amounts to July 1, 2019	Adjustable	48,649,839
Airport Improvement Revenue Bonds, Adjustable Rate Refunding, Series 1995, due in varying amounts to July 1, 2015	4.625 - 5.00%	53,649,223
Airport Improvement Revenue Bonds, Series 1998, due in varying amounts to July 1, 2016	4.15 - 6.25%	42,858,604
Airport Improvement Revenue Bonds, Series 2001A, due in varying amounts to July 1, 2015	5.00 - 6.65%	91,930,000
Metropolitan Nashville Airport Authority: Current portion of revenue bonds		<u>15,196,375</u>
Total revenue bonds payable - proprietary types		<u>877,486,940</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 – BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

	Interest Rates	Amount
Notes and other liabilities payable - proprietary types:		
Hospital Authority:		
Capitalized lease obligation		\$ 44,287,285
Metropolitan Development and Housing Agency:		
Notes payable - tax increments		41,935,699
Section 108 loans		6,516,340
Notes payable Vine Hill Homes, LLC component unit		9,825,977
Other notes payable		2,345,601
Other		2,161,423
Electric Power Board:		
TVA Advances		4,206,559
Other		1,444,467
Metropolitan Transit Authority:		
Capitalized lease obligation		870,469
Metropolitan Nashville Airport Authority:		
Synthetic Advance Refunding, Series 2001		9,336,477
Subordinate Revenue Note, Series 1999		1,235,525
Deferred interest income		4,619,862
Other		2,205,631
Total notes and other liabilities payable - proprietary types		130,991,315
Total bonds, notes and other liabilities payable - proprietary types		\$ 1,008,478,255

The bonds, notes and other liabilities of the proprietary type component units are classified in the combined balance sheet as follows:

Current portion of long-term debt	\$ 20,305,332
Current portion of capital lease	913,420
Current portion of long-term debt payable from restricted assets	20,936,375
Revenue bonds payable	841,630,565
Capitalized lease obligations	44,244,334
TVA advances	4,206,559
Other long-term liabilities	76,241,670
	\$1,008,478,255

Collateral for obligations of the component units

Sports Authority

The Public Improvement Bonds (Stadium Project), Series 1996 and Taxable Public Facility Revenue Bonds, Series 1998 are limited obligations of the Sports Authority payable solely from the revenues and receipts pledged to the payment of these bonds and secured by the non-tax revenues of the General Fund of the Government. Neither the faith and credit of the Sports Authority nor the faith and credit or the taxing power of the Government is pledged to the payment of the principal or interest on the bonds.

Metropolitan Development and Housing Agency

The Section 108 loan payable is guaranteed by the federal government. Notes payable of \$41,935,699 are collateralized by security interests in certain tax increment revenues paid by the Government and assigned to the note holders, and substantially all of the remaining notes payable are collateralized by real property.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

Electric Power Board

All bond issues are secured by a pledge and lien on the net revenues of the Board.

Nashville Thermal Transfer Corporation

All bonds are collateralized by the revenues of the Corporation and are insured by a municipal bond insurance policy.

Metropolitan Nashville Airport Authority

All bond issues are secured by the rights, title and interest of the Nashville International Airport to the rents and other monies payable under the terms of the airline lease agreements and by all airport revenue as defined in the trust indenture pertaining to the bonds.

Advance refundings of bonds

In fiscal year 1997, the Metropolitan Development and Housing Agency issued revenue bonds, Series 1997, to finance major capital improvements for various housing projects. These bonds were retired with the issuance of the Series 1998 Refunding Revenue Bonds. The Series 1998 bonds require monthly principal and interest payments until maturity.

In March 2001, the Electric Power Board issued \$18,400,000 (original issue at a premium) of Electric System Refunding Bonds, 2001 Series B to provide funds which were used to purchase and deposit in an irrevocable trust with an escrow agent certain U.S. government securities, the principal of and interest on which, when due, will provide funds sufficient to pay all principal and interest on all 1996 Series A Bonds, at their respective maturity dates. As a result of this advance refunding, the liability for the 1996 Series A Bonds has been removed from the accounts of the Electric Power Board. As of June 30, 2001, all of the 1996 Series A Bonds are considered defeased. This advance refunding resulted in a deferred loss of \$1,523,310. The loss is reported in the accompanying financial statements as a deduction from long-term debt and is being charged to operations through the year 2014 using the effective interest method. The Board completed the advance refunding to reduce its total debt service payments over the next 13 years by \$1,062,732 and to obtain an economic gain of \$697,379. The Board also issued, in March 2001, \$118,395,000 (original issue at a discount) of Electric System Revenue 2001 Series A Bonds.

The Series K through N Electric Power Revenue Bonds, 1992 Series A Bonds, and 1996 Series A Bonds have been defeased through advance refundings; therefore, the related balances of \$20,700,000, \$58,165,000, and \$18,835,000, respectively, which are still outstanding at June 30, 2001, do not appear as liabilities on the Electric Power Board's balance sheet.

In March 1997, the Government, on behalf of the Nashville Thermal Transfer Corporation, issued Series 1997B bonds in the principal amount of \$15,370,000. The bonds were issued to provide funds to call the Series 1986A bonds prior to maturity. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$909,646. The difference, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2012 using the effective-interest method. The Corporation completed the advance refunding to reduce its total debt service payments over the next 18 years by \$4,512,581 and to obtain an economic gain of \$1,843,500.

During October 1993, the Metropolitan Nashville Airport Authority issued Series 1993 bonds in the principal amount of \$53,500,000. The bonds were issued to provide funds to refund \$11,400,000 aggregate principal amount of the Airport Authority's Airport Revenue Bonds, Series 1989B and \$36,000,000 aggregate principal amount of the Airport Authority's Airport Revenue Bonds, Series 1991B. The proceeds were used to purchase direct obligations of the U.S. government which are held in an escrow fund by a trustee for the purpose of making principal, applicable redemption premium and interest payments on the Series 1989B and 1991B bonds as they become due. The Series 1989B bonds were redeemed on July 1, 1998 at a redemption price of 102% of the principal amount thereof, while the Series 1991B bonds will be redeemed on July 1, 2001 at a redemption price of 102% of the principal amount thereof. At June 30, 2001, \$36,000,000 of Series 1991B bonds are considered defeased and are not included in the financial statements. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$7,764,447. The difference, reported in the accompanying financial statements as a reduction of long-term debt, is being charged to operations through the year 2019 using the effective-interest method. The Airport Authority completed the advance refunding to reduce its total debt service payments over 25 years by \$7,922,976 and to obtain an economic gain of \$3,407,924.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

In connection with the issuance of the Series 1993 bonds so as to manage its exposure to market risks from fluctuations on interest rates, the Airport Authority entered into an interest rate swap agreement dated November 1, 1993 (the 1993 Swap Agreement) with a bank (the 1993 Swap Provider), which, in general, provides that the Authority will pay a fixed rate of 4.49% to the 1993 Swap Provider on a notional amount equal to the principal amount of the Series 1993 bonds outstanding and the 1993 Swap Provider will pay interest at the rate borne by the Series 1993 bonds on such notional amount on a net basis. The 1993 Swap Agreement has a term equal to the term of the Series 1993 bonds. Arrangements made in the 1993 Swap Agreement do not alter the Airport Authority's obligation to pay the principal of, premium, if any, and interest on the Series 1993 bonds. Since the counterparty to the 1993 Swap Agreement is a major bank, the Airport Authority does not anticipate credit related losses from nonperformance by such counterparty.

During June 1995, the Airport Authority issued Series 1995 bonds in the principal amount of \$74,810,000. The bonds were issued to provide funds to refund \$74,810,000 aggregate principal amount of the Airport Authority's Airport Revenue Bonds, Series 1985. The Series 1995 bonds were issued bearing interest at a weekly rate. To manage its exposure to market risks from fluctuations in interest rates, the Airport Authority entered into a forward interest rate swap agreement (the 1995 Swap Agreement) eliminating any basis risk to the Airport Authority, resulting in a net fixed rate of 9.29% on the Series 1995 bonds.

During January 1998, the Series 1995 bonds were remarketed with a fixed rate. In connection with the remarketing, the 1995 Swap Agreement was terminated requiring the Airport Authority to pay a Termination Payment. The Termination Payment was funded through the issuance of the Series 1998A and Series 1998B bonds. The remarketing of the Series 1995 bonds and termination of the 1995 Swap Agreement resulted in a difference between the remarketing price and the net carrying amount of the original debt of \$19,804,773. The difference, reported in the accompanying financial statements as a reduction from long-term debt, is being charged to operations through the year 2016 using the effective-interest method. The Airport Authority completed the remarketing and termination of the 1995 Swap Agreement to reduce its total debt service payments over the next 17 years by \$681,220. No significant economic gain or loss resulted from this refunding transaction.

In connection with the Series 1995 Bonds, the Series 1998A Bonds and the Series 1998B Bonds, to generate interest savings, the Airport Authority entered into an interest rate swap agreement dated July 8, 1999 (the 1999 Swap Agreement) with a financial institution (the 1999 Swap Provider) on a notional amount of \$80,000,000 declining in accordance with the amortization schedule of the designated bonds. The 1999 Swap Agreement provides that the Authority will pay a variable rate based on the BMA Municipal Swap Index to the 1999 Swap Provider and the 1999 Swap Provider will pay a fixed rate of 4.865% to the Airport Authority. The termination date of the 1999 Swap Agreement is July 1, 2015, which corresponds to the maturity of the Series 1995 Bonds. Arrangements made in the 2000 Swap Agreement do not alter the Airport Authority's obligation to pay the principal of, premium, if any, and interest on the Series 1995 Bonds, Series 1998A Bonds and the Series 1998B Bonds. Since the counterparty to the 1999 Swap Agreement is a major bank, the Airport Authority does not anticipate credit related losses from nonperformance by such counterparty.

During December 1997, the Airport Authority issued Series 1998A and Series 1998B bonds in the principal amount of \$19,695,000 and \$9,740,000, respectively. The bonds were issued for the purpose of paying the Termination Payment under the 1995 Swap Agreement entered into in connection with the Series 1995 bonds.

During March 1998, the Airport Authority issued Series 1998C bonds in the principal amount of \$32,660,000. The bonds were issued to provide funds to refund \$30,940,000 aggregate principal amount of the Airport Authority's Airport Revenue Bonds, Series 1989A. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,710,369. The difference, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2017 using the effective-interest method. The Airport Authority completed the advance refunding to reduce its total debt service payments over the next 19 years by \$3,511,337 and to obtain an economic gain of \$2,261,103.

During April 2001, the Airport Authority issued Series 2001A bonds in the principal amount of \$91,930,000. The bonds were issued to provide funds to refund \$91,930,000 aggregate principal amount of the Airport Authority's Airport Revenue Bonds, Series 1991C. The proceeds from the issue are held by the Airport Authority at June 30, 2001 and were used to redeem the Series 1991C bonds on July 1, 2001 at a redemption price of 102% of the principal amount thereof.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

During September 1998, the Airport Authority completed a synthetic advance refunding of \$91,930,000 of the callable Airport Revenue Bonds, Series 1991C to take advantage of significantly lower interest rates. The Airport Authority accelerated annual savings resulting from the synthetic advance refunding transaction. This was done through an off-market swap in which the fixed rate liability was set at an artificially higher interest rate such that its net debt service liability approximated that of the refunded 1991 Bonds. In exchange for the higher payments, the Airport Authority received a net upfront payment of \$7,947,134 based on the increased value of the swap. The net upfront payment which will be repaid over the term of the Airport Revenue Bonds, Series 2001A, was recorded as a deferred credit upon receipt. Interest accretion began upon receipt resulting in a charge to operations, based upon the discount rate used in determining the present value of the accelerated annual savings, with a corresponding increase in the deferred credit. The proceeds from the issuance of the Series 2001A bonds in April 2001, were used to redeem the long-term portion of the outstanding 1991C bonds on July 1, 2001.

Conduit debt obligations

From time to time, the Government, through the Industrial Development Board, a component unit, has issued Industrial Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private sector entities served by the bond issuances. Neither the Government nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

The aggregate principal amount as of March 31, 2001 for the Industrial Revenue Bonds issued after April 1, 1996 was \$185,352,432. The aggregate principal amount payable for the Industrial Revenue Bonds issued prior to April 1, 1996 could not be determined; however, their original issue amount totaled \$1,414,846,369.

The Health and Educational Facilities Board of The Metropolitan Government of Nashville and Davidson County, Tennessee, (The Board) is a public, non-profit corporation and instrumentality of the Government organized in 1974 pursuant to Chapter 101, Part 3, Title 48 of the TCA as amended (the Act). The Board is not considered to be part of the Government's reporting entity. The Act empowers the Board, among other things, to acquire and furnish property suitable for use by educational institutions, hospital institutions, or multifamily housing facilities in connection with their operations, and to loan to such entities the proceeds from the sale of its bonds to finance such security for the payment of the principal and interest on bonds issued. The Government is not liable for the payment of the principal or any interest on any of the revenue bonds of the Board. Accordingly, the revenue bonds of the Board are not reported as liabilities of the Government.

The aggregate principal amount of revenue bonds issued by the Board on or after April 1, 1996 totals approximately \$1,452,668,000. The aggregate principal amount of revenue bonds which were issued by the Board and are still outstanding as of April 1, 1996 could not be determined; however, the total aggregate principal amount of revenue bonds issued by the Board prior to April 1, 1996 was \$1,367,025,500.

Other matters

Electric Power Board

The Electric Power Board is a fiscal intermediary for the TVA energy conservation programs whereby loans are made to the Board's customers to be used in connection with TVA's Residential Energy Services Program. Pursuant to the terms of an agreement with TVA, the energy conservation loans made to the Board's customers are funded and guaranteed by TVA.

The Electric Power Board has a \$3,000,000 unsecured line of credit to be used for general operating purposes at a negotiated interest rate. There were no borrowings under this line of credit at June 30, 2001.

Metropolitan Transit Authority

The Metropolitan Transit Authority had a maximum \$2,900,000 revolving credit line with a local bank. The line matured on March 5, 2001 and was not renewed.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

During 2001, the Authority entered into a maximum \$2,000,000 revolving credit line agreement with the Metropolitan Government. Interest on the outstanding principal balance is calculated at the same rate of interest as is earned on the Metropolitan Government's idle funds in its Metro Investment Pool. The Authority is not required to make monthly interest payments; the amount of any unpaid interest accrued each month is added to the amount of principal outstanding. The total outstanding balance as of June 30, 2001 is \$1,976,047. The amount is reported as due to other funds of the primary government.

Metropolitan Nashville Airport Authority

During October 1985, the Metropolitan Nashville Airport Authority issued \$68,435,000 Special Facility Revenue Bonds on behalf of American Airlines, Inc. The bonds were issued to finance the acquisition, construction and improvement of certain airport facilities as a result of American Airlines' decision to locate a hub operation at Nashville International Airport. During the year ended June 30, 1996, the Airport Authority issued \$68,435,000 Special Facility Revenue Bonds (American Airlines, Inc. Project), Refunding Series 1995A and 1995B. The bonds were issued to refund the Special Facility Revenue Bonds, Series 1985. These Special Facility Revenue Bonds and related costs are payable only with funds from American Airlines, Inc. or one of its related entities. Since these bonds do not represent a claim on the Airport Authority's assets or require the Airport Authority to incur future obligations, they have not been recorded in the Airport Authority's financial statements.

Annual debt service requirements

The annual principal maturities of all bonds payable as of June 30, 2001 for the governmental type component units are as follows:

Year Ending June 30	Bonds Payable
2002	\$ 1,975,000
2003	2,080,000
2004	2,190,000
2005	2,305,000
2006	2,430,000
Thereafter	82,770,000
Total principal outstanding	<u>\$ 93,750,000</u>

The annual principal maturities of all bonds payable as of June 30, 2001 for the proprietary type component units are as follows:

Year Ending June 30	Bonds Payable
2002	\$ 37,280,615
2003	41,580,978
2004	41,902,364
2005	44,182,749
2006	41,208,869
Thereafter	613,311,413
	<u>819,466,988</u>
Unamortized loss on refunding and bond discount	(23,919,899)
Unaccreted bond premium	107,317
Future maturities of notes and loans	(10,097,466)
Airport Revenue Bonds refunded on July 1, 2001	91,930,000
Total principal outstanding	<u>\$ 877,486,940</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**NOTE 7 - DEFICIT BALANCES AND EXCESS EXPENDITURES**

The following funds have deficit balances at June 30, 2001:

	Fund Deficit / Deficit Retained Earnings	Reserved	Contributed Capital	Total Fund Equity (Deficit)
Primary Government				
Special Revenue Funds:				
Metropolitan Action Commission:				
Administrative and Leasehold	\$ (1,750)	\$ 1,750	\$ -	\$ -
Headstart CACFP	(52,155)	47,926	-	(4,229)
Summer Food Program	(8,213)	-	-	(8,213)
Headstart Expansion	(313,312)	313,312	-	-
Local Law Enforcement Block Grant of 1999	(106,223)	106,223	-	-
Advanced Planning and Research	(52,381)	52,256	-	(125)
Solid Waste:				
Solid Waste Grants	(30,902)	-	-	(30,902)
Library Services	(1,380)	1,380	-	-
1999 Tornado Grant	(68,796)	-	-	(68,796)
Local Law Enforcement Block Grant of 2000	(77,116)	76,477	-	(639)
Juvenile Court Accountability	(515)	-	-	(515)
2000 Storm Clean Up Grant	(17,390)	10,760	-	(6,630)
Planning Commission Top Grant	(3,113)	3,037	-	(76)
Nashville Career Advancement Center	(3,340)	14,812	-	11,472
ADA Management	(4,207)	4,207	-	-
Capital Projects Funds:				
Facilities Planning Capital Outlay	(37,724)	108,743	-	71,019
Multi-purpose Improvement Bonds of 2001	(1,663,429)	11,673,743	-	10,010,314
Enterprise Funds:				
Nashville Convention Center	(16,452,547)	-	56,775,770	40,323,223
Internal Service Funds:				
Information Systems	(2,587,853)	-	2,707,740	119,887
Radio Shop	(536,173)	-	9,392,716	8,856,543
Facilities Planning and Construction	(11,001)	-	-	(11,001)
Component Units - Proprietary Types				
Hospital Authority	(39,459,826)	-	56,972,141	17,512,315
Nashville Thermal Transfer Corporation	(6,381,616)	-	-	(6,381,616)

The responsibility for funding the above deficit balances is as follows:

<u>Funds with deficits</u>	<u>Funding responsibility</u>
Primary Government	
Special Revenue Funds	General Fund
Capital Projects Funds	Future issuance of notes and bonds
Enterprise Funds	Future revenues
Internal Service Funds	Future user charges
Component Units - Proprietary Types	Future revenues

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - DEFICIT BALANCES AND EXCESS EXPENDITURES (CONTINUED)

During the year ended June 30, 2001, the Government exceeded the budgeted level of expenditures as follows:

Budgeted Unit	Budget	Actual	Excess
General Fund			
General Services District			
General Government:			
Human Resources	\$ 2,061,873	\$ 2,064,339	\$ 2,466
County Register of Deeds	243,870	1,448,510	1,204,640
Telecommunications	181,910	183,874	1,964
Administration of Justice:			
Circuit Court Clerk	2,693,967	6,255,934	3,561,967
Employee Benefits:			
Unemployment Compensation	250,000	266,799	16,799
Employee In-Line-of-Duty Medical Expense	1,500,000	1,500,896	896
Miscellaneous:			
Insurance and Reserve	1,835,000	1,889,721	54,721
Contract with Bill Wilkerson Hearing and Speech Center	222,820	240,163	17,343
Fringe Benefits	-	173,139	173,139
Interest Charges/Bank Fees	-	10,030	10,030
Operating Transfers Out:			
General Fund 4% Reserve	14,820,846	15,437,557	616,711
General Government Grants	575,070	840,725	265,655
Juvenile Court Accountability	46,129	46,139	10
Health Title V Clean Air Act	-	313,295	313,295
Law Enforcement Block Grant of 1999	4,769	40,675	35,906
Facilities Planning and Construction	70,000	72,807	2,807
Motor Pool	-	19,563	19,563
Operating Transfers to Component Units:			
Metropolitan Development and Housing Agency	2,373,636	2,514,166	140,530
Metropolitan Nashville Airport Authority	170,099	216,213	46,114
Urban Services District			
Employee Benefits:			
Direct Pension Payments	3,000	4,860	1,860
Miscellaneous:			
Interest Charges/Bank Fees	-	3,448	3,448
Operating Transfers to Component Units:			
Metropolitan Nashville Airport Authority	-	74,686	74,686
Debt Service Funds			
General Services District			
General Purposes:			
Fiscal Charges	190,000	271,576	81,576
Payments to refunded bond escrow agent	-	46,064,568	46,064,568
Operating transfers to component units	693,074	744,649	51,575
School Purposes:			
Fiscal Charges	135,000	176,008	41,008
Payments to refunded bond escrow agent	-	31,820,842	31,820,842
Operating transfers out	-	2,320,000	2,320,000
Operating transfers to component units	346,537	378,578	32,041

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - DEFICIT BALANCES AND EXCESS EXPENDITURES (CONTINUED)

Certain operating expenditures and commission and fee revenues of the County Register of Deeds and the Circuit Court Clerk are not included in the General Fund budget but are included in General Fund revenues and expenditures to appropriately recognize the full operations of these elected officials in the financial statements. The budget overage in Human Resources was primarily due to unanticipated requests related to a compensation study. Telecommunications exceeded its budget due to an inadequate budget for videotapes.

Employee benefits are controlled as a whole and, as a whole, were under budget. The Insurance and Reserve and Surety Bonds accounts were used for direct payments to vendors for coverage that was not included in the budget. Fringe Benefits are charged for the matching portion of health and life insurance when the employee portion is paid directly, rather than through payroll deduction, and a provision for these expenditures was not budgeted. The excess in the Contract with Bill Wilkerson Hearing and Speech is due to current year expenditures that were budgeted in prior years.

The following activities are budgeted as contra revenue, but accounted for as expenditures: interest charges/bank fees; transfers to the Metropolitan Development and Housing Agency and the Metropolitan Nashville Airport Authority for tax increment payments. The excess in the transfer to the General Fund 4% Reserve is due to revenue collections in excess of those budgeted.

The excess transfers in General Government Grants, Juvenile Court Accountability and Local Law Enforcement Block Grant – 1999 are due to local match requirements, which were not budgeted. The budget overage in the Facilities Planning transfer was due to excess expenditures in the renovation of the Old Madison Library. The Motor Pool overage is due an asset transfer of insurance proceeds received in the General Fund, which were not budgeted. Excess revenues received from businesses for Title V compliance are transferred to the Health Title V Clean Air Act fund each year-end. This transfer is not budgeted.

Expenditures for the debt service funds are not controlled on a line item basis, and routine debt service expenditures as a whole were under budget. In addition, the practice of budgeting transfers to component units and other funds as contra revenue rather than expenditures accounted for the excesses in other financial uses.

NOTE 8 - CONTRIBUTED CAPITAL

The following summarizes the changes in contributed capital during the year ended June 30, 2001:

	Enterprise Funds	Internal Service Funds	Total Primary Government	Proprietary Type Component Units	Total Reporting Entity
Contributed capital July 1, 2000	\$ 560,452,757	\$ 36,525,588	\$ 596,978,345	\$ 399,835,974	\$ 996,814,319
Cash transactions:					
Contributions, grants and loans	-	-	-	9,803,178	9,803,178
Non-cash transactions:					
Restatement of Metropolitan Development and Housing Agency	-	-	-	(10,433,562)	(10,433,562)
Restatement of Metropolitan Nashville Airport Authority	-	-	-	(8,741,380)	(8,741,380)
Contributions, grants and loans	-	-	-	50,000	50,000
Depreciation, disposal and transfer of fixed assets	-	(22,968,193)	(22,968,193)	(11,587,045)	(34,555,238)
Other sources	-	-	-	520	520
Contributed capital June 30, 2001	<u>\$ 560,452,757</u>	<u>\$ 13,557,395</u>	<u>\$ 574,010,152</u>	<u>\$ 378,927,685</u>	<u>\$ 952,937,837</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - CONTRIBUTED CAPITAL (CONTINUED)

During the fiscal year ended September 30, 1999, the Metropolitan Development and Housing Authority converted from the use of special revenue funds to enterprise funds. During the fiscal year ended September 30, 2000, this conversion resulted in a decrease to contributed capital.

NOTE 9 - PENSION PLANS

All plans of the primary government were established 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 through plan assets. The plans are under the jurisdiction of the Metropolitan Employee Benefit Board, an independent entity created by the Metropolitan Charter. No separate financial reports are issued for these plans.

The Government sponsors or guarantees the following single-employer pension plans:

<u>Name</u>	<u>Type</u>	<u>Status</u>
<u>Primary Government</u>		
Fiduciary Fund Types:		
Metro - Division A	Defined Benefit	Closed 1995
Metro - Division B	Defined Benefit	Open
City	Defined Benefit	Closed 1963
County	Defined Benefit	Closed 1963
Metro Education	Defined Benefit	Closed 1969
City Education	Defined Benefit	Closed 1963
County Education	Defined Benefit	Closed 1963
<u>Component Units</u>		
Sports Authority and Hospital Authority	Included in primary government plans	
Metropolitan Development and Housing Agency	Defined Contribution	Open
Electric Power Board	Defined Benefit	Open
Metropolitan Transit Authority	Defined Benefit	Open
Nashville Thermal Transfer Corporation	Defined Contribution	Open
Metropolitan Nashville Airport Authority	Defined Benefit	Open

The Metropolitan Transit Authority guarantees the plan sponsored by the Davidson Transit Organization (DTO), which provides Metropolitan Transit Authority labor. For comparative purposes, the DTO pension plan information, where presented, is disclosed as the Metropolitan Transit Authority plan.

Beginning July 1, 2000, the City, County, Metro Education, City Education, and County Education plans became participants in the Guaranteed Payment Program (GPP), an umbrella program created by the Metropolitan Council to ensure actuarially sound funding for the five closed plans. Under the GPP, unfunded liabilities of the aggregate program are amortized over a period of no more than thirty years. Contributions on behalf of the five individual plans move to a payment account from which distributions are paid to the constituent plans of the GPP as necessary to satisfy current benefit needs and to satisfy long-term funding objectives of the GPP.

Summary of Significant Accounting Policies

The pension funds are reported using the accrual basis of accounting. Employer and employee contributions are recognized in the period due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. The net pension obligation (amounts of unfunded actuarially determined contributions that are not expected to be liquidated with expendable available financial resources) are reported in the General Long-term Debt Account Group. All plans with a net pension obligation are governmental in nature. Certain plans which have a net pension asset have participants employed by proprietary activities; however, the portion of the net pension asset allocable to the proprietary activities could not be determined.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

Investments are reported at fair value. Common stocks, bonds and U.S. Government and other domestic and foreign securities are stated at quoted market prices as of June 30, 2001.

Plan Descriptions

Primary Government

The Primary Government plans are administered by the Government, and the authority under which the obligations to contribute to the plan were created, and the authority under which either may be amended, are granted by the Metropolitan Charter.

Metro Plan

Division A

This plan (The Metropolitan Employees' Benefit Trust Fund) was established at the inception of the Government on April 1, 1963 and implemented on November 4, 1964. At that time, all employees of the former city and county governments were given the option of continuing as participants of the pension plans of those organizations or transferring to the Metro Plan. Division A of the Metro Plan was closed to new members on July 1, 1995.

Normal retirement for employees other than policemen and firemen occurs at age 65 and entitles employees to a lifetime monthly benefit of 1/12 of the sum of 1% of average base earnings, as defined by the Social Security Administration, plus 1.75% of average excess earnings multiplied by the years of credited service, plus cost-of-living adjustments. Average earnings is the average earnings for the last 60 consecutive months in which earnings were highest. Benefits fully vest on completing 10 years of service.

Normal retirement for policemen and firemen occurs upon reaching age 55 and completing 20 years of service. The lifetime monthly benefit is calculated as 1/12 of the sum of 2% of average earnings up to 25 years of credited service plus 1.75% of average earnings for all years of credited service in excess of 25, reduced by the amount of primary social security benefits at age 65 and increased by cost-of-living adjustments. In no event shall police and fire pensions be less than that due employees who are not policemen or firemen. Benefits fully vest on completing 10 years of service.

Any employee who terminates after the completion of at least 10 years of service and before eligibility for normal retirement shall be eligible to receive a monthly deferred pension which shall commence on the first day of the month following the attainment of age 65, computed and payable in accordance with the Metro Plan.

Division B

As of July 1, 1995, Division B of the Metro Plan was established. All employees with an effective hire date of July 1, 1995 or later are only eligible to participate in Division B of the Metro Plan. Also, Government employees as of June 30, 1995 who were qualified members of Division A were given the option to transfer to Division B as of January 1, 1996, subject to written application approved by the Benefit Board. Substantially all employees transferred to Division B of the Metro Plan.

Normal retirement for employees other than policemen and fire fighters occurs at the unreduced retirement age which is the earlier of (a) the date when the employee's age plus the completed years of credited employee service equals 85, but not before age 60; and (b) the date when the employee reaches age 65 and completes 5 years of credited employee service. The lifetime monthly benefit is calculated as 1/12 of the sum of 1.75% of average earnings for all years of credited service. Benefits fully vest on completing 10 years of service.

Normal retirement for policemen and fire fighters occurs any time after attaining the unreduced retirement age which is the date when the employee's age plus the completed years of credited police and fire service equals 75, but not before age 53 nor after age 60. The lifetime monthly benefit is 1/12 of the sum of 2% of average earnings for each year of credited fire and police service not in excess of 25 years; plus 1.75% of average earnings for each year that the credited police or fire service exceeds 25 years. Benefits fully vest on completing 10 years of service.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

An early retirement pension is available for retired employees if the termination occurs prior to the eligibility under normal retirement but after age 50 (45 for police and fire) and after the completion of 10 years of credited employee service. Such shall be payable as either a monthly deferred early employee service pension beginning the month after the attainment of the normal retirement age or an immediate monthly early employee service pension beginning on the first day of the month following termination. The lifetime monthly benefit for the immediate monthly early employee service pension is reduced by 4% for each of the first 5 years by which the retirement date precedes the normal retirement age, and by 8% for each additional year by which the retirement date precedes the normal retirement age; provided, however, that the immediate monthly benefit shall not be less than the actuarial equivalent of the deferred pension provided by the Metro Plan.

Any employee who terminates after the completion of at least 10 years of service and before eligibility for normal retirement or early retirement shall be eligible to receive a monthly deferred pension which shall commence on the first day of the month following the attainment of unreduced retirement age, computed and payable in accordance with the Metro Plan.

Any employee with unused sick leave time at service retirement shall receive 100% credit for the time, subject to an affirmative election at the time of retirement.

All assets of the Metropolitan Employees' Benefit Trust Fund may legally be used to pay benefits to any plan members or beneficiaries, regardless of whether the members participate in Division A or Division B of the Metro Plan.

Subsequent to June 30, 2001, changes to the provisions of the Metro Plan were approved by the Employee Benefit Board and the Metropolitan Council. Benefits now fully vest on completing five years of service. Average earnings are based upon the previous 60 consecutive months which produce the highest earnings. Employees who are rehired are eligible to reconnect prior service after being regularly employed continuously for one year. Dependent children of vested employees are eligible for a survivor benefit if the employee should die leaving no surviving spouse. These changes apply to members who are employees of the Government on or after October 1, 2001.

City Plan

This plan (the Closed City Plan Fund) covers certain employees of the former city of Nashville who have elected to remain under this plan and not transfer to the Metro Plan. This plan was closed to new members on April 1, 1963.

Normal retirement for policemen and firemen occurs upon completing 25 years of service; for other participants, age 60 must be reached in addition to completing 25 years of service. The monthly lifetime benefit of all participants is 50% of the final monthly salary. All participants in the City Plan are fully vested.

County Plan

This plan (the Davidson County Employees' Retirement Fund) covers employees of the former government of Davidson County who have elected to remain under this plan and not transfer to the Metro Plan. This plan was closed to new members on April 1, 1963.

Participants elected coverage under Division A or B. Normal retirement under Division A occurs at age 65; lifetime monthly benefits are the years of credited service multiplied by 0.75% of defined average base earnings per month plus 1.5% of average excess earnings per month. Average earnings is the average earnings for the 10 full consecutive calendar years in which earnings were highest. Normal retirement under Division B occurs after 30 years of service or after 24 years of service and reaching age 60; lifetime monthly benefits are 1/12 of 50% of the highest calendar year earnings. All participants in the County Plan are fully vested.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

Metro Education Plan

This plan (the Teachers' Retirement Plan Fund) covers participants who elected to transfer from the City Education Plan and County Education Plan and Board of Education professional employees hired between April 1, 1963 and July 1, 1969. Normal retirement occurs upon reaching age 60 with 20 years of service, completing 25 years of service, or reaching age 65. The lifetime monthly benefit is determined as 1/12 of 2% of the highest average earnings multiplied by the years of service, plus cost-of-living adjustments. Highest average earnings is the average earnings for the 36 consecutive months in which earnings were highest. All participants in the Metro Education Plan are fully vested.

After July 1, 1969 professional employees hired became members of the State Employees, Teachers, and Higher Education Employees Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS) that provides retirement, death, and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. A financial report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243.

City Education Plan

This plan (the Teachers' Civil Service and Pension Fund) covers employees who were teachers of the former City of Nashville who elected to remain under this plan and not transfer to the Metro Education Plan. This plan was closed to new members on April 1, 1963.

Normal retirement occurs upon reaching age 60 and completing 15 years of service, or completing 25 years of service before reaching age 60. With 15 years of service, the lifetime monthly benefit is 1/12 of 2.5% of the highest annual salary multiplied by the years of service up to 24. With 25 years of service, the lifetime monthly benefit is 1/12 of 2% of the highest annual salary multiplied by the years of service up to 30. Benefits are adjusted for cost-of-living increases. All participants in the City Education Plan are fully vested.

County Education Plan

This plan (the Employees' Pension and Insurance Fund) covers teachers and classified employees of the former Davidson County Board of Education who have elected to remain under this plan and not transfer to the Metro Education Plan. This plan was closed to new members on April 1, 1963.

Normal retirement occurs upon reaching age 60 and completing 15 years of service, or completing 25 years of service before reaching age 60. With 15 years of service, the lifetime monthly benefit is 1/12 of 2.5% of the highest annual salary multiplied by the years of service up to 24. With 25 years of service, the lifetime monthly benefit is 1/12 of 2% of the highest annual salary multiplied by the years of service up to 30. Benefits are adjusted for cost-of-living increases. All participants in the County Education Plan are fully vested.

Component Units

Metropolitan Development and Housing Agency

The Agency's retirement plan is a 401(a) plan administered by the Vanguard Group as of April 1, 2000. Prior to April 1, 2000, the Agency participated with several other housing authorities in the Housing-Renewal and Local Agency Retirement Plan which was administered by William M. Mercer.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

The plan, which is principally a defined contribution plan, also provides certain minimum defined benefits for employees who were participants in the Agency's Retirement Fund as of September 30, 2000. Employees are eligible to participate beginning the first day of the month following the date of hire. There are no required contributions by the participants; however, participants may make voluntary contributions from 0.5% to 10% of their basic compensation and the Agency contributes 13% of participants' basic compensation. Contributions are invested in any of eight funds as elected by the participant. Investment options and voluntary contributions may be changed daily.

Participants are immediately vested in their voluntary contributions plus actual earnings. Participants are also immediately vested in 5.5% of the participants' basic compensation contributed by the Agency. For each year of participation in the plan, participants vest at the rate of 20% of the remaining balance and become fully vested after five years.

Benefits are paid in the form of a cash distribution or various other annuity options at normal retirement date, age 65, death or disability. Participants may also elect to roll the vested portion of their retirement savings into another qualifying plan or an IRA or leave the amount in the plan. Early retirement may be elected by employees at age 55 who have at least ten years of service.

The plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Metropolitan Development and Housing Agency at P. O. Box 846, Nashville, TN 37202.

Electric Power Board

The plan is a single-employer defined benefit pension plan which provides retirement and survivors' benefits to members and their beneficiaries. Cost of living adjustments are provided to members and their beneficiaries at the discretion of the Electric Power Board. The Metropolitan Charter assigns the authority to establish and amend benefit provisions to the Electric Power Board. The plan is administered by the Electric Power Board.

All full-time regular employees under age 65 are eligible to participate in the plan. The vesting provision of the plan provides for five-year cliff vesting. Electric Power Board employees who retire at or after age 65 and not later than age 70 are entitled to annual retirement benefits payable monthly for life in an amount equal to 2% of final average compensation multiplied by years in the plan not in excess of 35 years. Final average compensation is the average compensation in the 36 consecutive months in which compensation is highest. Unused sick leave may be used to increase credited service and benefit percentage under certain circumstances. Early retirement is an option beginning at age 55 with 15 years of credited service or at age 50 with 30 years of credited service with an actuarially reduced monthly benefit.

At April 1, 2001 (the latest date available), the actuarial value of assets was \$176,541,698, the actuarial accrued liability was \$229,870,247, and the unfunded actuarial accrued liability was \$53,328,549. Covered payroll was \$45,447,890.

The plan does not issue a separate financial report; however, complete financial statements of the Electric Power Board can be obtained from its administrative offices at 1214 Church Street, Nashville, TN 37203.

In 1994 the Electric Power Board established a nonqualified supplemental executive retirement plan limited to certain employees. Benefits accrue at the rate of 5 percent of salary for each year of credited service not to exceed 12 years and vests at the rate of 20% for each year of service, reduced by the percentage accrued and vested under the Electric Power Board's qualified plan. The actuarial assumptions of this plan are the same as those of the Electric Power Board's qualified plan. The plan is a non-qualified plan and, accordingly, the assets are accumulated in a trust fund; however, such assets are subject to the claims of the Electric Power Board's creditors. The Electric Power Board's policy is to fund the plan in accordance with sound actuarial practices and all required contributions have been made.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

Metropolitan Transit Authority

The Disability and Retirement Plan of Davidson Transit Organization (the Plan) is a single-employer defined benefit pension plan which covers substantially all employees of the Metropolitan Transit Authority and Local 1235 of the Amalgamated Transit Union (the Union) providing retirement, disability and death benefits to members and their beneficiaries. Articles XII and XIII of the plan document establish the benefits. In accordance with Article XII, monthly benefits will increase 2.8%, and 2.7% effective July 1, 2001 and 2002, respectively. The plan is guaranteed by the Metropolitan Transit Authority which contracts with McDonald Transit Associates to provide management advisory services. That contract stipulates that McDonald Transit Associates is charged with oversight of the employment unit, Davidson Transit Organization.

At July 1, 1999 (the latest date available), the actuarial value of assets was \$14,900,000, the actuarial accrued liability was \$16,000,000, and the unfunded actuarial accrued liability was \$1,100,000. Covered payroll was \$9,200,000.

The plan issues a publicly available report that includes financial statements and required supplementary information. That report may be obtained by writing to the Metropolitan Transit Authority, 130 Nestor Street, Nashville TN, 37210, or by calling (615) 862-5969.

Nashville Thermal Transfer Corporation

The Nashville Thermal Transfer Corporation has a defined contribution pension plan covering all employees after 6 months of service whereby the Corporation contributes a specified percentage (5% at June 30, 2001) of the compensation of the employees. The plan also allows voluntary contributions to be made by employees, up to the legal amount allowed. Pension expense for the year ended June 30, 2001 amounted to \$149,728. Total covered payroll was \$3,012,846, and total payroll for all employees was \$3,213,135 for the year ended June 30, 2001.

The plan does not issue a separate financial report; however, complete financial statements of the Corporation can be obtained from its administrative offices at 110 First Avenue South, Nashville, TN 37210.

Metropolitan Nashville Airport Authority

Effective September 1989, the Airport Authority adopted a single-employer public employee retirement system (PERS) for its employees whereby the net assets available for benefits relative to the Airport Authority's employees were transferred from the Metropolitan Government's pension system to the Metropolitan Nashville Airport Authority Retirement Plan for Employees (the Plan). Certain Airport Authority employees continue to participate in the pension system of the Metropolitan Government. New employees of the Airport Authority and those previously selecting the new Metropolitan Nashville Airport Authority's single-employer PERS are not eligible for participation in the Metropolitan Government's pension system.

The plan is a non-contributory defined benefit pension plan administered by the Airport Authority. The plan provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Airport Authority. Benefit provisions are established and may be amended by the Airport Authority.

The plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Metropolitan Nashville Airport Authority, One Terminal Drive, Suite 501, Nashville, TN 37214, or by calling (615) 275-1600.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

Contributions

Primary Government

Metro Plan

The funding policy is to provide for periodic contributions at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due. All other funding is provided by the Government with an actuarially recommended employer contribution rate of 3.60% for Metro Board of Education contributory employees and 5.70% for all other Metro employers.

City Plan

Funding is 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 this plan is closed and there are few active employees.

County Plan

Funding is 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 this plan is closed and there are few active employees.

Metro Education Plan

The Metro Education Plan is financed by contributions from the Metro Board of Education, participating employees and the State of Tennessee. Employees contribute a specified percentage of their earnings, the State of Tennessee contributes an amount to reimburse current benefits paid equivalent to the benefits which would have been earned under the Tennessee Consolidated Retirement System (TCRS) and the Metro Board of Education contributes an additional amount to provide for periodic contributions as actuarially determined to accumulate sufficient assets to pay benefits when due.

The TCRS plan is financed by contributions from teachers, most of whom are required by state statute to contribute 5 percent of their salary, and by the Metro Board of Education, which contributes at an actuarially determined rate (3.72% of covered payroll for the fiscal year ending June 30, 2001). The contribution requirement is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2001, 2000, and 1999 were \$8,597,855, \$12,165,312, and \$11,798,474 respectively, and were equal to the required contributions for each year.

City Education Plan

The plan is financed by contributions from the Government, participating employees and the State of Tennessee. Employees contribute a specified percentage of their earnings, the State of Tennessee contributes an amount to reimburse current benefits paid equivalent to the benefits which would have been earned under the TCRS and the Government contributes an additional amount to cover current benefits (pay-as-you-go). Actuarially required employer contributions are not computed because this plan is closed and there are few active employees.

County Education Plan

The plan is financed by contributions from the Government, participating employees and the State of Tennessee. Employees contribute a specified percentage of their earnings, the State of Tennessee contributes an amount to reimburse current benefits paid equivalent to the benefits which would have been earned under the TCRS and the Government contributes an additional amount to cover current benefits (pay-as-you-go). Actuarially required employer contributions are not computed because this plan is closed and there are few active employees.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

Component Units

Metropolitan Development and Housing Agency

The Agency's contributions for the year ended September 30, 2000 amounted to \$1,679,850, which equaled the amount of the annual required contribution. Employee contributions were \$109,904. The Agency's payroll for employees covered by this plan was \$12,749,154, and total payroll amounted to \$14,919,782 during the fiscal year ended September 30, 2000.

Electric Power Board

The contribution requirements of plan members and the Board are established and may be amended by the Board. The plan is currently non-contributory. The Board's policy is to fund at least the minimum contribution for a 30 year funding level. The current rate is 15.46% of annual covered payroll. The annual required contribution for the year ended June 30, 2001 was \$7,024,684, and the actual amount contributed was \$7,024,684. The frozen initial liability method has been used to compute the annual contribution requirement.

Metropolitan Transit Authority

Plan members are required to contribute 4.5% of their covered payroll. The Metropolitan Transit Authority is required to contribute at an actuarially determined rate (5.7% in 2001). Contribution requirements of members and the Metropolitan Transit Authority are established per Article VII of the plan document. Administrative costs of the plan are paid out of plan assets. The annual pension costs and annual required contribution for the year ended June 30, 2001 was \$661,000, and the actual amount contributed was \$661,000. The entry age normal method has been used to compute the annual contribution requirement.

Metropolitan Nashville Airport Authority

The total contribution rate is established by the Authority through consultation with actuaries. The annual required contribution for the year ended June 30, 2001 was \$1,057,258, and the actual amount contributed was \$1,057,258. Both amounts represent 10.28% of covered payroll. The Authority's policy is to fund benefits in the period in which they are earned according to actuarially determined contribution requirements intended to cover the required contribution. The aggregate actuarial cost method has been used to compute the annual required contribution to the plan.

Selected Pension Information

Information regarding annual pension cost and net pension obligation (asset), trend information, and participant information for the plans of the primary government is summarized on the following schedules. The net pension benefit obligations for the Metro Board of Education plans are calculated net of expected reimbursements from the State of Tennessee. Information for the plans of the component units is omitted due to the inavailability of the information in separately issued reports in a consistent manner.

The significant actuarial assumptions underlying the plans of the primary government are summarized on the following schedules. The assumptions used to calculate the actuarially determined contribution requirements are the same as those used to compute the net pension obligation except where indicated. Information for the plans of the component units is omitted due to the inavailability of the information in separately issued reports in a consistent manner.

Required Supplementary Information

A Schedule of Funding Progress and a Schedule of Employer Contributions as required by GASB Statement No. 25 are included following the Selected Pension Information.

Other

The only plan having an individual investment which exceeds 5% of plan assets at June 30, 2001 is the Metro Plan (S&P 500 Flagship Series A totaling \$302,341,876). The categorization of pension investments by asset type is included in Note 4 – Cash and Investments.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)