

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, education, culture and recreation, public improvements, planning and zoning and general administrative services.

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

A. 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. Each discretely presented component unit is reported separately in the basic financial statements to emphasize that it is 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 these facilities and 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. A Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances are included in the Component Units section with reconciliations of those statements to the Statement of Net Assets – Component Units and Statement of Activities – Component Units included in the basic 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 titled 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)

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.

B. Accounting Pronouncements

The Government adopted GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, 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, and GASB Statement No. 38, Certain Financial Statement Note Disclosures, in fiscal year 2002. Statement No. 34, as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. The requirements of these Statements represent a significant change in the financial reporting model used by the Government. In addition to fund financial statements, the Government is required to report government-wide financial statements prepared using the accrual basis of accounting and the economic measurement focus for all funds. Other changes include the establishment of new fund types, the elimination of account groups, a focus on major funds in the basic financial statements, the reporting of capital assets and infrastructure, the preparation of cash flow statements using the direct method and the inclusion of management's discussion and analysis. Statement No. 38 requires certain note disclosures in conjunction with the adoption of Statement No. 34.

The Government is anticipated to adopt GASB Statement No. 39, Determining Whether Certain Organization Are Component Units, required for fiscal period beginning after June 15, 2003, in fiscal 2004. Significant changes required by this Statement are the inclusion of additional organizations as component units in the reporting entity. Management is in the process of determining the effects that the adoption of this Statement will have on the Government's financial statements.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. Statement of Net Assets and Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the Government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

reported separately from certain legally separate component units for which the primary government is financially accountable.

The **Statement of Net Assets** presents the Government's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets. The outstanding debt is offset by any unspent proceeds from such debt.

Restricted net assets result from restrictions placed on net assets by external sources such as creditors, grantors and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements; nonmajor funds are combined in a single column.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which the levy is assessed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as receivables in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to non-vested sick pay, compensated absences and other long-term commitments and contingencies are recorded only when payment is due.

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 (FASB) Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds. The Nashville Thermal Transfer Corporation and the Metropolitan Nashville Airport Authority, component units, have elected to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as **program revenues** include 1) charges to customers for goods, services or privileges provided, and fines and forfeitures, 2) operating grants and contributions, and 3) capital grants and contributions. Amounts reported as **general revenues** include 1) all taxes, 2) unrestricted revenues for the use of money or property, 3) unrestricted revenues from other governmental agencies, and 4) compensation for loss, sale or damage of property.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Expenses reported by function include **direct expenses** that are specifically associated with a service or program and are clearly identifiable to a particular program. Some functions, such as general government and fiscal administration, include expenses that are in essence **indirect expenses** of other functions. The Government has elected not to charge these indirect expenses to other functions.

Proprietary funds distinguish **operating** revenues and expenses from **nonoperating** items. Operating revenues and expenses generally result from providing services and producing and delivering goods and services in connection with the fund's principal ongoing operations and consist primarily of charges to customers or departments, cost of sales and services, administrative expense and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Government's policy to use restricted resources first, then unrestricted resources as they are needed.

The Government reports the following major governmental funds:

The **General Fund** is the Government's primary operating fund which is used to account for all financial resources of the general operations of the Government, except those required to be accounted for in another fund.

The **General Purpose School Fund** is used to account for the receipt and disbursement of federal, state and local funds for education purposes, except those required to be accounted for in another fund.

The **GSD General Purposes Debt Service Fund** is used to account for the accumulation of resources and the payment of principal and interest for the General Services District general obligation debt.

The **GSD School Purposes Debt Service Fund** is used to account for the accumulation of resources and the payment of principal and interest for the debt of schools.

The **USD General Purposes Debt Service Fund** is used to account for the accumulation of resources and the payment of principal and interest for the Urban Services District general obligation debt.

The Government reports the following major proprietary fund:

The **Department of Water and Sewerage Services** provides services to customers on a self-supporting basis utilizing a rate structure designed to produce revenues sufficient to fund debt service requirements, operating expenses and adequate working capital.

Additionally, the Government reports the following fund types:

Internal service funds are used to account for the operations of self-sustaining agencies rendering services to other agencies of the Government on a cost reimbursement basis. These services include printing, fleet maintenance, data processing, radio maintenance, postal services, facilities maintenance, treasury management, and insurance.

Pension (and other employee benefit) trust funds are used to account for assets and liabilities held by the Government in a fiduciary capacity to provide retirement and disability benefits for employees and retirees.

Agency funds are used to account for assets held by elected officials and other departments as agents for individuals, governmental entities and others.

E. Assets, Liabilities, and Net Assets or Equity

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, 2002. 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 the 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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Annuities - Annuities are recorded at the estimated present value of future benefits, which approximates fair value at June 30, 2002.

Inventories - Inventories, principally materials, supplies and replacement parts, are valued at cost in governmental fund statements and at the lower of cost or market in the government-wide and proprietary fund statements, 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.

Capital assets - Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are generally defined as assets with an individual cost in excess of \$5,000 and a useful life in excess of one year. Such assets are recorded at historical cost at the time of acquisition. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest cost incurred during the construction of facilities is capitalized as part of the cost of such facilities for business-type activities. Capitalized interest totaled \$810,000 for the year ended June 30, 2002.

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
Furniture, machinery and equipment	3	-	50	years
Stormwater infrastructure			50	years

The Government has elected to use the "modified approach" to account for certain infrastructure assets as provided by GASB Statement No. 34. Under this approach, depreciation expense is not recorded nor are amounts capitalized in connection with improvements to these assets unless they expand capacity. Utilization of this approach requires that the Government 1) have an up-to-date inventory of assets, 2) perform condition assessments and summarize the results using a measurement scale, 3) estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the Government, and 4) document that the assets are being preserved approximately at (or above) the condition level established and disclosed. Roads and bridges are accounted for using the modified approach.

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 shorter of the economic useful life of the asset or the remaining lease term.

The Government maintains certain collections of art which have not been capitalized as they are 1) held for public exhibition, education, or research in furtherance of public service rather than financial gain, 2) protected, kept unencumbered, cared for and preserved, and 3) subject to policy that requires the proceeds from any sales of collection items to be used to acquire other items for the collection.

Claims payable - Losses for claim liabilities are reported in the self-insurance funds for claims payable from those funds. Claims payable include reported claims and an estimated liability for claims incurred but not reported at June 30, 2002. 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 reported in the applicable governmental activities in the Statements of Net Assets and Activities.

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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 reported in the applicable governmental activities in the Statements of Net Assets and Activities, but is not a governmental fund liability, because it is not expected to be liquidated with expendable available resources. Accumulated unpaid vacation pay related to proprietary fund type operations is reported as a liability in the appropriate individual proprietary funds and proprietary type component units.

The policy of the Metropolitan Nashville Public Schools 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 Nashville Public Schools employees is reported in the applicable governmental activity in the Statements of Net Assets and Activities, but is not a governmental fund liability, because it is not expected to be liquidated with expendable available resources.

Arbitrage rebates – For the governmental funds, 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 are reported as a liability in the Statements of Net Assets and Activities and as a reservation of fund balance in the Balance Sheet Governmental Funds. For proprietary funds (including component units) any such rebates are reflected as liabilities.

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 reporting date. The current operations of the landfills are reported in the Solid Waste Operations Fund in the Governmental Funds section of this report. The long term liability is reported in the Statements of Net Assets and Activities. The total liability for landfill purposes is \$5,084,854.

Bordeaux Sanitary Landfill - This landfill has stopped accepting solid waste, and closure procedures are 100% complete. Estimated postclosure costs of \$1,615,226 are included in the liability.

Metro Thermal Ash Landfill Phase II – This landfill has stopped accepting solid waste. Some closing procedures have been started. Total remaining closure and postclosure costs for this landfill of \$1,348,639 are included in the liability.

Metro Thermal Ash Landfill Phase III – This landfill has stopped accepting solid waste. Some closing procedures have been started. Total remaining closure and postclosure costs for this landfill of \$2,120,989 are included in the liability.

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.

Bond premiums, discounts and issuance costs – In the governmental funds, bond discounts and issuance costs are treated as period costs in the year of issue. In the government-wide and proprietary fund statements, bond premiums, discounts and issuance costs are deferred and amortized over the term of the related bonds.

F. Revenues, Expenditures and Expenses

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 Changes in Fund Net Assets - Proprietary Funds as a separate line item after non-operating revenues and expenses. In the Statement of Activities, capital grants and contributions are presented as program revenues.

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

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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 a 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	\$ 75,078,600
Terminal development	61,453,300
Land acquisition	<u>22,727,200</u>
	<u>\$ 159,259,100</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 program revenues in the statement of activities.

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, 2002 is \$8,385,189. 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 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.

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 \$3.75 per \$100 of assessed value for the entire metropolitan area (General Services District) with an additional tax of \$.83 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 Balance Sheet Governmental Funds with offsetting deferred revenue to reflect amounts not available at June 30, 2002. Amounts available at June 30, 2002 have been recorded as revenue in the governmental fund statements. Current tax collections of \$554,792,713 for the fiscal year ended June 30, 2002 were approximately 96% of the tax levy.

Of the \$612,997,115 property tax receivable, \$575,312,304 represents the 2002 property taxes which are not yet levied but recorded as required by GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions.

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G. 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.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Compliance With Finance Related Legal and Contractual Provisions

The Government has no material violations of finance related legal and contractual provisions as of June 30, 2002.

B. Budgets and Budgetary Accounting

The Government's procedures in establishing the budget as reflected in the basic 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.
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 well as the final budgets which reflect amendments by the Metropolitan Council pursuant to the transfer provisions of the budget ordinance. During the year, supplementary

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appropriations were made to the General Services District and Urban Services District of the General Fund of \$16,674,125 and \$919,419, respectively.

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 GSD General Purposes, GSD School Purposes and USD General 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 2002-2003 was submitted to the Metropolitan Council and subsequently approved by Substitute Bill Number O02-1073. Unreserved and undesignated fund balance resources at June 30, 2002 have been appropriated to the 2002-2003 fiscal year operating budget as follows:

General Services District General Fund	\$ 35,917,954
Urban Services District General Fund	3,934,230
General Purpose School Fund	2,982,713
General Services District General Purposes Debt Service Fund	10,788,474
General Services District School Purposes Debt Service Fund	13,259,289
Urban Services District General Purposes Debt Service Fund	1,792,117

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 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 basic financial statements, except for the General Purpose School Fund in the aforementioned statement comparing budgeted amounts to actual amounts.

The nature and amount of adjustments necessary to convert the GAAP basis net change in fund balances to the budget basis for the General Purpose School Fund are as follows:

Net change in fund balances:	
GAAP basis	\$ 17,519,361
Less: Current year reserve for encumbrances	(3,319,473)
Add: Prior year reserve for encumbrances	<u>4,983,935</u>
Budget basis	<u>\$ 19,183,823</u>

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C. Deficit Balances and Excess Expenditures

The following funds have deficit balances at June 30, 2002:

	Undesignated Fund Balance/ Unrestricted Net Assets	Reserved/ Invested in Capital Assets, Net of Related Debt	Total Fund Balances/ Total Net Assets
Special Revenue Funds:			
Solid Waste Operations	\$ (1,824,439)	\$ 4,872,330	\$ 3,047,891
Nashville Career Advancement Center	(290,318)	3,376	(286,942)
Capital Projects Funds:			
USD Capital Projects	(15,840,447)	8,744,572	(7,095,875)
Internal Service Funds:			
Employees' Medical Benefit	(2,341,350)	-	(2,341,350)
Treasury Management	(15,477)	-	(15,477)
Technology Revolving	(101,947)	101,947	-

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

<u>Funds with deficits</u>	<u>Funding responsibility</u>
Special Revenue Funds	General Fund
Capital Projects Funds	Future issuance of notes and bonds
Internal Service Funds	Future user charges

During the year ended June 30, 2002, the Government exceeded the budgeted level of expenditures as follows:

<u>Budgeted Unit</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General Services District:			
General Government:			
County Register of Deeds	\$ 418,234	\$ 1,828,968	\$ 1,410,734
Administration of Justice:			
Circuit Court Clerk	2,821,084	6,706,508	3,885,424
Juvenile Court	8,154,651	8,173,316	18,665
Law Enforcement and Care of Prisoners:			
Sheriff	47,623,193	47,926,020	302,827
Police Department	111,585,933	111,625,976	40,043
Employee Benefits:			
Contribution to Closed Pension Plans	9,983,292	10,201,297	218,005
Unemployment Compensation	250,000	414,051	164,051
Employee In-Line-Of-Duty Medical Expense	1,500,000	1,522,813	22,813
Miscellaneous:			
Metropolitan Development and Housing Agency	3,049,834	3,374,310	324,476
Corporate Dues and Contributions to other			
Government Associations	253,265	256,931	3,666
Fringe Benefits	-	187,559	187,559
Transfers Out:			
General Fund 4% Reserve	17,499,013	17,837,716	338,703

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Budgeted Unit	Budget	Actual	Variance
General Fund: (Continued)			
Urban Services District:			
Employee Benefits:			
Direct Pension Payments	\$ 4,800	\$ 9,900	\$ 5,100
Miscellaneous:			
Insurance and Reserve	274,000	277,855	3,855
Metropolitan Development and Housing Agency	805,260	929,605	124,345
Transfers Out:			
Nonmajor Governmental Funds	10,172,735	10,181,193	8,458
USD Debt Service Fund:			
Fiscal Charges	169,701	443,123	(273,422)
Payments to refunded bond escrow agent	-	69,709,830	(69,709,830)

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 Juvenile Court was offset by an under budget amount for the transfer of local funds required for a grant match. In total, Juvenile Court was not over budget. The deficit in Sheriff was due to increased costs in the contract with an external provider to house locally sentenced felons. The overage for the Police Department was from excess uniform cost.

Employee benefits are controlled as a whole and, as a whole, were under 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 Metropolitan Development and Housing Agency activities are budgeted as contra revenue, but accounted for as expenditures for tax increment payments. Corporate Dues and Contributions to other Government Associations was due to membership dues for Sister Cities not being budgeted in fiscal 2002. The excess in the transfer to the General Fund 4% Reserve is due to revenue collections in excess of those budgeted. Insurance and Reserve are charged for the matching portion of health and life insurance when the employee portion is paid directly. The excess in Nonmajor Governmental Funds was increased local match for several block grants.

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.

NOTE 3 – RESTATEMENT OF FUND BALANCES AND FUND EQUITY

During the fiscal year ended June 30, 2002, the Government adopted GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, GASB Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and No. 34, and GASB Statement No. 38, Certain Financial Statement Disclosures. The requirements of these Statements represent a significant change in the financial reporting model used by the Government including statement formats, changes in fund types and the elimination of account groups. Additionally, the categories of fund equity for proprietary funds and component units have been reclassified into categories of net assets. The adoption of these Statements resulted in adjustments to the beginning balances and fund equity reported in prior financial statements.

During the fiscal year ended September 30, 2001, the Metropolitan Development and Housing Agency determined that certain previously reported debt meets the definition of conduit debt under GASB Interpretation No. 2, Disclosure of Conduit Debt Obligations. Therefore, the obligations and related amounts due from other governmental agencies have been removed from the Agency’s financial statements. The Agency also determined that when it amended its deferred compensation plan (the Plan) to be in accordance with IRC Section 457 (g) in 1998, the fiduciary accountability of the Plan was transferred from the Agency to a Plan Trustee. Accordingly, the Plan assets previously reported as an expendable trust fund have been excluded from the Agency’s financial statements. The effect of these adjustments on results of operations for the prior year were not significant.

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

The adoption of the GASB Statements and the prior period adjustments affected beginning fund balances and fund equity as previously reported in the Combined Balance Sheet as follows:

	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Fund balances/fund equity, beginning of year, as previously reported	\$ 587,059,443	\$ 1,529,363,915	\$ 1,151,423,772
Reclassifications and adjustments related to the implementation of GASB Statement No. 34:			
Reclassification of fiduciary funds to governmental funds	1,644,306	(1,644,306)	-
Capital assets related to funds reclassified from fiduciary funds to governmental funds	(138,000)	-	-
Sports Authority:			
Accumulated depreciation on capital assets	-	-	(22,137,119)
Revenue bonds payable	-	-	(93,750,000)
Accrued interest on revenue bonds payable	-	-	(1,770,754)
Metropolitan Development and Housing Agency:			
Exclude entities previously reported as component units	-	-	(85,755)
Accumulated depreciation on infrastructure	-	-	(11,473,091)
Prior period adjustments:			
Metropolitan Development and Housing Agency:			
Exclude IRC Section 457 Plan assets	-	-	(2,760,489)
Correct Section 8 grantor receivable	-	-	21,599
Correct Comprehensive grantor receivable	-	-	(150,000)
Record assets related to Section 108 grant	-	-	763,757
Record soft costs expensed related to the Preston Taylor Homes, LLC loan	-	-	39,398
Other	-	-	(8)
	<u> </u>	<u> </u>	<u> </u>
Fund balances/net assets, beginning of year, restated	<u>\$ 588,565,749</u>	<u>\$ 1,527,719,609</u>	<u>\$ 1,020,121,310</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. Investments of the Teachers Retirement fund are administered by the Administrative Retirement Committee of the Metropolitan Nashville Public Schools.

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, 2002, 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 collateralized with securities held by the pledging financial institution's trust department or agent in the Government's name. 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, 2002.

	Deposits Per Bank And Other Financial Institutions				Carrying Amount Per Books		
	Category			Total	Cash On	Cash On	Total
	A	B	C		Deposit	Hand	
Governmental and Business-type activities							
General Government	\$ 24,483,889	\$ -	\$ -	\$ 24,483,889	\$ 26,626,790	\$ 179,728	\$ 26,806,518
Metropolitan Nashville Public Schools (except fiduciary funds)	1,631,541	-	-	1,631,541	6,067,831	142,163	6,209,994
Department of Water and Sewerage Services	50,259	-	-	50,259	54,600	610,859	665,459
Total governmental and business-type activities	\$ 26,165,689	\$ -	\$ -	\$ 26,165,689	\$ 32,749,221	\$ 932,750	\$ 33,681,971

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (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 statement of net assets:							
Cash and Cash Equivalents							\$ 349,259,436
Restricted Cash and Cash Equivalents							131,935,099
Less: Cash Equivalents included as investments for footnote categorization							<u>(447,512,564)</u>
Total governmental and Business-type activities							<u>\$ 33,681,971</u>
Fiduciary Funds							
Pension Funds	\$ 60,592,022	\$ -	\$ -	\$ 60,592,022	\$ 60,592,022	\$ -	\$ 60,592,022
Agency Funds	36,475,789	-	-	36,475,789	41,411,603	54,175	41,465,778
Total fiduciary funds	<u>\$ 97,067,811</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 97,067,811</u>	<u>\$ 102,003,625</u>	<u>\$ 54,175</u>	<u>\$ 102,057,800</u>
Reconciliation to presentation on the statement of fiduciary net assets:							
Cash and Cash Equivalents							\$ 105,017,946
Less: Cash Equivalents included as investments for footnote categorization							(3,427,923)
Investments in Certificates of Deposits included as cash on deposit for footnote categorization							<u>467,777</u>
Total fiduciary funds							<u>\$ 102,057,800</u>
Component Units							
Sports Authority	\$ 4,953,205	\$ -	\$ -	\$ 4,953,205	\$ 4,953,205	\$ -	\$ 4,953,205
Nashville District Management Corporation	446,050	-	-	446,050	446,050	-	446,050
Metropolitan Development and Housing Agency	36,204,247	-	-	36,204,247	34,961,565	-	34,961,565
Hospital Authority	126,396	-	-	126,396	124,586	202,524	327,110
Electric Power Board	3,613,493	-	-	3,613,493	6,203,190	16,000	6,219,190
Metropolitan Transit Authority	1,133,557	-	-	1,133,557	855,584	-	855,584
Nashville Thermal Transfer Corporation	1,752,264	-	-	1,752,264	8,375	515	8,890
Metropolitan Nashville Airport Authority	24,011,221	-	-	24,011,221	22,827,642	-	22,827,642
Emergency Communications District	3,387,109	-	-	3,387,109	3,387,109	-	3,387,109
Industrial Development Board	724,995	-	978,848	1,703,843	1,703,748	-	1,703,748
Total component units	<u>\$ 76,352,537</u>	<u>\$ -</u>	<u>\$ 978,848</u>	<u>\$ 77,331,385</u>	<u>\$ 75,471,054</u>	<u>\$ 219,039</u>	<u>\$ 75,690,093</u>
Reconciliation to presentation on the statement of net assets:							
Cash and Cash Equivalents							\$ 67,327,345
Restricted Cash and Cash Equivalents							16,218,499
Investments in Certificates of Deposits included as cash on deposit for footnote categorization							31,640,272
Less: Cash Equivalents included as investments for footnote categorization							<u>(39,496,023)</u>
Total component units							<u>\$ 75,690,093</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (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	\$ 37,687,943	\$ -	\$ -	\$ 37,687,943
Federal Home Loan Mortgage Corporation Obligations	46,748,401	-	-	46,748,401
Federal National Mortgage Association Obligations	57,928,576	-	-	57,928,576
Commercial Paper	48,687,422	-	-	48,687,422
Federal Farm Credit Bank Obligations	25,300,196	-	-	25,300,196
US Treasury Bonds and Notes	47,095,724	-	-	47,095,724
	<u>\$ 263,448,262</u>	<u>\$ -</u>	<u>\$ -</u>	<u>263,448,262</u>
Not categorized:				
Mutual Funds				978,632
Tennessee Local Government Investment Pool				<u>43,524,015</u>
Total general government				<u>307,950,909</u>
<u>Metropolitan Nashville Public Schools (except fiduciary funds)</u>				
Federal Home Loan Bank Obligations	\$ 21,933,776	\$ -	\$ -	21,933,776
Federal Home Loan Mortgage Corporation Obligations	33,814,043	-	-	33,814,043
Federal National Mortgage Association Obligations	51,030,861	-	-	51,030,861
U. S. Treasury & Agency Securities	27,408,953	-	-	27,408,953
Commercial Paper	28,335,296	-	-	28,335,296
Federal Farm Credit Bank Obligations	14,724,307	-	-	14,724,307
	<u>\$ 177,247,236</u>	<u>\$ -</u>	<u>\$ -</u>	<u>177,247,236</u>
Not categorized:				
Tennessee Local Government Investment Pool				<u>25,330,275</u>
Total Metropolitan Nashville Public Schools (except fiduciary funds)				<u>202,577,511</u>
<u>Department of Water and Sewerage Services</u>				
U. S. Treasury & Agency Securities	\$ 67,321,167	\$ -	\$ -	67,321,167
Federal Home Loan Bank Obligations	44,706,649	-	-	44,706,649
Federal Home Loan Mortgage Corporation Obligations	56,280,298	-	-	56,280,298
Federal National Mortgage Association Obligations	73,230,780	-	-	73,230,780
Federal Farm Credit Bank Obligations	26,146,906	-	-	26,146,906
Commercial Paper	34,943,950	-	-	34,943,950
State and Local Government Securities	2,230,500	-	-	2,230,500
	<u>\$ 304,860,250</u>	<u>\$ -</u>	<u>\$ -</u>	<u>304,860,250</u>

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

	Category			Fair Value
	1	2	3	
Not categorized:				
Mutual Funds				\$ 22,366,702
Tennessee Local Government Investment Pool				36,088,087
Total Department of Water and Sewerage Services				363,315,039
Total governmental and business-type activities				\$ 873,843,459
Reconciliation to presentation on the statement of net assets:				
Cash Equivalents included as investments for footnote classification				\$ 447,512,564
Investments				216,598,615
Restricted Investments				209,732,280
Total governmental and business-type activities				\$ 873,843,459
<u>Pension funds</u>				
U. S. Treasury & Agency Securities	\$ 66,998,731	\$ -	\$ -	\$ 66,998,731
Federal Home Loan Bank Obligations	6,461,899	-	-	6,461,899
Federal Home Loan Mortgage Corporation Obligations	35,393,620	-	-	35,393,620
Federal National Mortgage Association Obligations	138,423,398	-	-	138,423,398
Federal Farm Credit Bank Obligations	440,625	-	-	440,625
Corporate Bonds and Notes	146,860,954	-	-	146,860,954
Common Stock	563,484,011	-	-	563,484,011
Commercial Paper	847,934	-	-	847,934
Preferred Stock	4,295,132	-	-	4,295,132
Foreign Currency	5,937,813	-	-	5,937,813
Collateralized Mortgage Obligations	18,310,583	-	-	18,310,583
International Securities	197,085,958	-	-	197,085,958
Government National Mortgage Association Obligations	26,569,919	-	-	26,569,919
	\$ 1,211,110,577	\$ -	\$ -	1,211,110,577
Not categorized:				
Tennessee Local Government Investment Pool				758,008
Mutual Funds				15,615,152
Mortgages and Real Estate				143,893,472
Warrants and Options				1,224,580
Limited Partnerships				37,056,703
Total pension funds				1,409,658,492
<u>Elected Officials</u>				
Corporate Bonds and Notes	\$ 15,600	\$ -	\$ -	15,600
Common Stock	14,797	-	-	14,797
	\$ 30,397	\$ -	\$ -	30,397
Not categorized:				
Mortgages and Real Estate				147,868
Total elected officials				178,265
Total fiduciary funds				\$ 1,409,836,757

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

	Category			Fair Value
	1	2	3	
Reconciliation to presentation on the statement of net assets:				
Cash Equivalents included as investments for footnote classification				\$ 3,427,923
Investments				1,406,876,611
Investments in Certificates of Deposits included as cash on deposit for footnote classification				(467,777)
 Total fiduciary funds				 \$ 1,409,836,757
 <u>Component Units</u>				
U. S. Treasury & Agency Securities	\$ 166,589,600	\$ -	\$ -	\$ 166,589,600
Commercial Paper	34,651,725	-	-	34,651,725
Repurchase Agreements	4,772,005	-	-	4,772,005
Federal Home Loan Bank Obligations	2,891,433	-	-	2,891,433
Federal Home Loan Mortgage Corporation Obligations	3,427,145	-	-	3,427,145
Federal National Mortgage Association Obligations	4,026,494	-	-	4,026,494
Federal Farm Credit Bank Obligations	1,941,040	-	-	1,941,040
	 \$ 218,299,444	 \$ -	 \$ -	 218,299,444
 Tennessee Local Government Investment Pool				 3,339,178
Mortgages and Real Estate				798,052
Mutual Funds				2,799,106
 Total component units				 \$ 225,235,780
 Reconciliation to presentation on the statement of net assets:				
Cash Equivalents included as investments for footnote classification				\$ 39,496,023
Investments				64,679,523
Restricted Investments				152,700,506
Investments in Certificates of Deposits included as cash on deposit for footnote classification				(31,640,272)
 Total component units				 \$ 225,235,780

The primary government's pension plans also have \$927,046 of annuities that are classified separately from investments on the Statement of Fiduciary Net Assets Fiduciary Funds.

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.

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

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002 was as follows:

Primary Government

Governmental Activities:

	Balance July 1, 2001	Adjustments and Reclassifications	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:					
Land	\$ 86,041,425	\$ 138,000	\$ 5,881,399	\$ -	\$ 92,060,824
Transportation infrastructure	-	1,289,513,660	10,379,087	-	1,299,892,747
Construction in progress	98,460,379	7,335,036	52,378,633	(113,275,486)	44,898,562
Total capital assets, not being depreciated	184,501,804	1,296,986,696	68,639,119	(113,275,486)	1,436,852,133
Capital assets, being depreciated:					
Buildings and improvements	673,203,083	(14,796,821)	116,104,433	(927,740)	773,582,955
Furniture, machinery and equipment	196,195,012	22,314,927	16,458,544	(13,166,778)	221,801,705
Stormwater infrastructure	-	65,365,696	4,569,586	-	69,935,282
Total capital assets, being depreciated	869,398,095	72,883,802	137,132,563	(14,094,518)	1,065,319,942
Less accumulated depreciation	(17,352,088)	(410,082,813)	(37,797,156)	4,983,584	(460,248,473)
Total capital assets, being depreciated, net	852,046,007	(337,199,011)	99,335,407	(9,110,934)	605,071,469
Governmental activities capital assets, net	<u>\$ 1,036,547,811</u>	<u>\$ 959,787,685</u>	<u>\$ 167,974,526</u>	<u>\$ (122,386,420)</u>	<u>\$ 2,041,923,602</u>

The adjustments and reclassifications column includes the effect of the adoption of GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, on beginning capital asset balances for governmental activities as well as various reclassifications between the categories of capital assets.

Business-Type Activities:

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land	\$ 22,917,617	\$ 181,105	\$ -	\$ 23,098,722
Construction in progress	27,108,133	42,049,511	(42,276,565)	26,881,079
Total capital assets, not being depreciated	50,025,750	42,230,616	(42,276,565)	49,979,801
Capital assets, being depreciated:				
Utility plant in service	1,466,725,282	54,904,659	-	1,521,629,941
Buildings and improvements	78,885,561	1,630,515	(327,771)	80,188,305
Improvements other than buildings	36,238,696	1,538,027	(2,023)	37,774,700
Furniture, machinery and equipment	46,100,661	1,879,303	(1,985,471)	45,994,493
Property under capital lease	3,645,000	-	-	3,645,000
Total capital assets, being depreciated	1,631,595,200	59,952,504	(2,315,265)	1,689,232,439
Less accumulated depreciation	(419,376,082)	(45,466,444)	1,853,873	(462,988,653)
Total capital assets, being depreciated, net	1,212,219,118	14,486,060	(461,392)	1,226,243,786
Business-type activities capital assets, net	<u>\$ 1,262,244,868</u>	<u>\$ 56,716,676</u>	<u>\$ (42,737,957)</u>	<u>\$ 1,276,223,587</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 4,515,474
Fiscal administration	147,785
Administration of justice	777,149
Law enforcement and care of prisoners	2,826,497
Fire prevention and control	2,415,488
Education	11,860,833
Regulation and inspection	31,713
Public welfare	621,196
Public health	433,298
Public library system	2,406,109
Public works, highways and streets, including depreciation of stormwater infrastructure	3,308,844
Recreational and cultural	4,923,104
Capital assets held by internal service funds are charged to the various functions based on each function's usage of the services provided by the funds	3,529,666
Total depreciation expense, governmental activities	<u>\$ 37,797,156</u>
Business-type activities:	
Department of Water and Sewerage Services	\$ 43,673,925
Nashville Convention Center	1,180,592
Board of Fair Commissioners	440,715
Farmers Market	159,198
Police Secondary Employment	12,014
Total depreciation expense, business-type activities	<u>\$ 45,466,444</u>

Component Units

Capital assets of the component units at June 30, 2002 consisted of the following:

	Balance July 1, 2001	Adjustments and Reclassifications	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:					
Land	\$ 573,900,405	\$ (13,120,397)	\$ 3,315,012	\$ (50,249)	\$ 564,044,771
Construction in progress	26,192,970	50,766,237	20,686,132	(19,031,629)	78,613,710
Total capital assets, not being depreciated	<u>600,093,375</u>	<u>37,645,840</u>	<u>24,001,144</u>	<u>(19,081,878)</u>	<u>642,658,481</u>
Capital assets, being depreciated:					
Utility plant in service	956,764,293	(195,463,058)	42,438,282	(11,357,226)	792,382,291
Buildings and improvements	732,402,791	27,937,628	19,059,220	(9,674,468)	769,725,171
Improvements other than buildings	-	748,896	32,137	(114,984)	666,049
Furniture, machinery and equipment	87,297,455	103,770,118	22,966,548	(18,697,936)	195,336,185
Infrastructure	-	15,072,034	23,985	(3,635,381)	11,460,638
Total capital assets, being depreciated	<u>1,776,464,539</u>	<u>(47,934,382)</u>	<u>84,520,172</u>	<u>(43,479,995)</u>	<u>1,769,570,334</u>
Less accumulated depreciation	<u>(726,205,984)</u>	<u>(34,358,623)</u>	<u>(78,603,591)</u>	<u>25,285,491</u>	<u>(813,882,707)</u>
Total capital assets, being depreciated, net	<u>1,050,258,555</u>	<u>(82,293,005)</u>	<u>5,916,581</u>	<u>(18,194,504)</u>	<u>955,687,627</u>
Component units activities capital assets, net	<u>\$ 1,650,351,930</u>	<u>\$ (44,647,165)</u>	<u>\$ 29,917,725</u>	<u>\$ (37,276,382)</u>	<u>\$ 1,598,346,108</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The adjustments and reclassifications column includes the effect of the adoption of GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, on beginning capital asset balances for certain component units as well as various reclassifications between the categories of capital assets.

In January 2002, the Government approved the construction of a new district heating and cooling facility to be operated and maintained by a third party, a plan to phase out the Nashville Thermal Transfer Corporation’s solid waste burning activity by September 2002 and the termination of the Acquisition and Operating Agreement (the Agreement) between the Government and the Corporation. As a result of the termination of the Agreement and the plan to phase out solid waste burning activity, management of the Corporation performed an evaluation of utility plant for potential impairment. Management’s analysis indicated that future cash flows would not be sufficient to fully recover the carrying value of utility plant by the termination date of the Agreement and the date of the planned phase out of solid waste burning; accordingly, the Corporation recognized an impairment charge of \$15,418,571 during the year ended June 30, 2002 computed as the excess of the carrying value over the fair value of the utility plant (excluding the distribution system which will transfer to the Government when the Corporation ceases operations). In May 2002, a fire caused extensive damage to the Corporation’s solid waste burning plant in service. Management of the Corporation concluded that it would not be feasible to repair the fire damage and discontinued all solid waste burning indefinitely. Accordingly, the Corporation recognized a write down of its refuse burning plan in service of \$6,434,465 during the year ended June 30, 2002. This write down is included with the impairment of utility plant charge in the Corporation’s statement of activities for the year ended June 30, 2002. Recoveries, if any, under the Corporation’s commercial insurance policy related to the fire damage and business interruption will be paid directly to the Government.

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS

Primary Government

A. Transaction Summary

Bonds, notes and other obligations activity for the year ended June 30, 2002 was as follows:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Due Within One Year
Governmental activities:					
General obligation bonds and notes payable:					
General Services District	\$ 717,305,524	\$ -	\$ (40,071,790)	\$ 677,233,734	\$ 41,551,980
Schools	421,890,712	-	(21,574,125)	400,316,587	23,014,191
Urban Services District	57,123,764	123,955,000	(71,384,085)	109,694,679	11,958,829
Less deferred charges, net	-	(3,209,947)	74,811	(3,135,136)	-
Total general obligation bonds and notes payable	<u>1,196,320,000</u>	<u>120,745,053</u>	<u>(132,955,189)</u>	<u>1,184,109,864</u>	<u>76,525,000</u>
Limited obligation revenue bonds payable:					
Correctional Facility Revenue Bonds	17,680,000	16,265,000	(17,680,000)	16,265,000	1,340,000
Less deferred charges, net	-	(271,783)	13,043	(258,740)	-
Total limited obligation revenue bonds payable	<u>17,680,000</u>	<u>15,993,217</u>	<u>(17,666,957)</u>	<u>16,006,260</u>	<u>1,340,000</u>
Other obligations payable:					
Net pension obligation	46,324,173	2,959,180	-	49,283,353	-
Compensated absences	44,405,033	37,534,737	(37,708,287)	44,231,483	22,557,405
Claims and judgments	7,235,864	1,811,617	(5,942,348)	3,105,133	429,137
Interest arbitrage rebate	3,080,613	425,077	(682,715)	2,822,975	960,992
Landfill closure costs	3,656,068	1,428,786	-	5,084,854	1,331,322
Total other obligations payable	<u>104,701,751</u>	<u>44,159,397</u>	<u>(44,333,350)</u>	<u>104,527,798</u>	<u>25,278,856</u>
Total governmental activities Long-term liabilities	<u>\$ 1,318,701,751</u>	<u>\$ 180,897,667</u>	<u>\$ (194,955,496)</u>	<u>\$ 1,304,643,922</u>	<u>\$ 103,143,856</u>

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

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Due Within One Year
Business-type activities:					
Department of Water and Sewerage Services:					
Revenue bonds payable	\$ 539,905,000	\$ -	\$ (14,050,000)	\$ 525,855,000	\$ 19,680,000
State construction loans	64,233,410	-	(6,574,125)	57,659,285	6,036,462
Less deferred charges, net	(10,052,892)	-	875,854	(9,177,038)	-
Total bonds and notes payable	594,085,518	-	(19,748,271)	574,337,247	25,716,462
Interest arbitrage rebate	1,250,000	-	(500,000)	750,000	-
Total Department of Water and Sewerage Services	585,335,518	-	(20,248,271)	575,087,247	25,716,462
Farmers Market:					
Capitalized lease obligations payable	2,465,000	-	(125,000)	2,340,000	130,000
Total business-type activities	\$ 597,800,518	\$ -	\$ (20,373,271)	\$ 577,427,247	\$ 25,846,462

B. Description of Amounts Payable

Amounts payable at June 30, 2002 are as follows:

	Interest Rate	Amount
Governmental activities:		
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 - 6.15%	\$ 677,233,734
General Services District - School Purposes, due in varying amounts to November 15, 2027	4.25 - 6.15%	400,316,587
Urban Services District - General Purposes, due in varying amounts to October 15, 2017	0.10 - 6.00%	109,694,679
Less deferred amounts, net		(3,135,136)
Total general obligation bonds and notes payable from ad valorem taxes		1,184,109,864
Limited obligation revenue bonds payable:		
Correctional Facility Revenue Bonds, due in varying amounts to September 1, 2011	3.75 - 5.00%	16,265,000
Less deferred amounts, net		(258,740)
Total limited obligation revenue bonds payable		16,006,260
Other obligations payable:		
Net pension obligation		49,283,353
Compensated absences		44,231,483
Claims and judgments		3,105,133
Interest arbitrage rebate		2,822,975
Landfill closure		5,084,854
Total other obligations payable		104,527,798
Total governmental activities long-term liabilities		\$ 1,304,643,922

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

	Interest Rate	Amount
Business-type activities:		
Bonds, notes and other obligations payable:		
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%	5,610,000
Department of Water and Sewerage Revenue Bonds, Series 1993, due in varying amounts to January 1, 2016	4.60 - 6.50%	125,220,000
Department of Water and Sewerage Revenue Refunding Bonds of 1996, due in varying amounts to January 1, 2014	5.50 - 6.00%	61,795,000
Department of Water and Sewerage Revenue Refunding Bonds, Series 1998A, due in varying amounts to January 1, 2022	4.00 - 5.00%	154,200,000
Department of Water and Sewerage Revenue Bonds Series 1998B, due in varying amounts to January 1, 2014	3.80 - 5.25%	43,415,000
Less deferred amounts, net		(9,177,038)
Total revenue bonds payable		516,677,962
Department of Water and Sewerage Services - State construction loans	4.36 - 5.52%	57,659,285
Other obligations payable:		
Department of Water and Sewerage Services - Interest arbitrage rebate		750,000
Total other obligations payable		750,000
Total bonds, notes and other obligations payable		575,087,247
Capitalized lease obligations payable:		
Farmers Market	7.50%	2,340,000
Total capitalized lease obligations payable		2,340,000
Total business-type activities long-term liabilities		\$ 577,427,247

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

Governmental activities:		
Noncurrent liabilities:		
Due within one year	\$	103,143,856
Due in more than one year		1,201,500,066
Total governmental activities		1,304,643,922
Business-type activities:		
Liabilities payable from restricted assets:		
Current portion of long-term liabilities		25,716,462
Noncurrent liabilities:		
Due within one year		130,000
Due in more than one year		499,207,962
State construction loans payable		52,372,823
Total business-type activities		577,427,247
Total primary government long-term liabilities		\$ 1,882,071,169

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

C. Collateral for Obligations of the Proprietary Funds

All bonds of the Department of Water and Sewerage Services are collateralized by the revenues of the Department.

D. 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, 2002, the Government believes it was in compliance with all financial limitations and restrictions.

E. Annual Debt Service Requirements

The annual requirements to amortize all general obligation bonds and notes and revenue bonds outstanding as of June 30, 2002 are as follows:

Year Ending June 30	General Obligation Bonds and Notes		Limited Obligation Revenue Bonds		Revenue Bonds		Total Primary Government	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 76,525,000	\$ 59,525,793	\$ 1,340,000	\$ 752,180	\$ 19,680,000	\$ 29,615,490	\$ 97,545,000	\$ 89,893,463
2004	78,420,000	56,474,363	1,395,000	641,106	20,640,000	28,662,910	100,455,000	85,778,379
2005	80,950,000	52,573,486	1,450,000	585,950	21,680,000	27,593,325	104,080,000	80,752,761
2006	83,700,000	48,595,997	1,505,000	526,850	25,960,000	26,469,170	111,165,000	75,592,017
2007	69,040,000	43,966,135	1,570,000	465,350	27,280,000	25,096,590	97,890,000	69,528,075
2008-2012	284,240,000	171,642,657	9,005,000	1,161,725	166,850,000	98,055,532	460,095,000	270,859,914
2013-2017	235,795,000	106,468,521	-	-	168,375,000	40,928,215	404,170,000	147,396,736
2018-2022	153,315,000	54,479,628	-	-	75,390,000	11,180,063	228,705,000	65,659,691
2023-2027	105,825,000	18,397,116	-	-	-	-	105,825,000	18,397,116
2028-2032	19,435,000	1,341,584	-	-	-	-	19,435,000	1,341,584
Total	1,187,245,000	613,465,280	16,265,000	4,133,161	525,855,000	287,601,295	1,729,365,000	905,199,736
Deferred Charge/ Premium	(3,135,136)	-	(258,740)	-	(9,177,038)	-	(12,570,914)	-
Total	\$ 1,184,109,864	\$ 613,465,280	\$ 16,006,260	\$ 4,133,161	\$ 516,677,962	\$ 287,601,295	\$ 1,716,794,086	\$ 905,199,736

F. Advance Refundings of Bonds

On February 1, 2002, the Government issued \$16,265,000 Special Limited Obligation Correctional Facilities Revenue Refunding Bonds, Series 2002, to provide resources to purchase U.S Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the Government's Special Limited Obligation Correctional Facilities Revenue Bonds, Series 1991. As a result, the

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$953,939. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt which is the same as the new debt issued. The Government advance refunded the Series 1991 Bonds to reduce its total debt service payments over the next ten years by \$2,671,531. 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 \$2,392,388.

On April 1, 2002, the Government issued \$58,065,000 General Obligation Energy Production Facility Refunding Bonds, Series 2002A and Series 2002B, to provide funds to purchase U.S. Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the following outstanding bonds of Nashville Thermal Transfer Corporation, a component unit: Energy Production Facility Revenue Refunding Bonds, Series 1994, Energy Production Facility Revenue Bonds, Series 1997A, and Energy Production Facility Revenue Refunding Bonds, Series 1997B. Additionally, \$11,371,167 of available debt service funds of the Nashville Thermal Transfer Corporation were applied to the refunding. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the component units column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$3,819,829. This amount is being netted against the new debt and amortized over the life of the new debt issued which is shorter than the remaining life of the refunded debt. The Government advance refunded the three Series to reduce its total debt service payments over the next thirteen years by \$13,092,598. By issuing the new bonds, the Government obtained an economic loss (difference between the present values of the debt service payments on the defeased and new debts) of \$690,028.

The refunding of the outstanding Energy Production Facility Revenue Bonds was necessary due to the construction of a new district heating and cooling facility to replace the existing thermal plant. Upon completion of construction and commencement of operation of the new district heating and cooling facility, the existing thermal facility will cease operation.

In the statement of activities, the Government's assumption of the component unit debt is reported as a special item.

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, 2002, a total of \$116,300,000 of general obligation bonds and \$276,967,000 of revenue bonds are considered defeased.

G. 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.

H. The Department of Water and Sewerage Services - State Construction Loans

As of June 30, 2002, the Department has entered into 15 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, 2002). 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, 2002, the 15 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 \$57,659,285 at June 30, 2002, call for monthly payments of principal and interest of \$741,334.

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

State construction loan principal maturities as of June 30, 2002 are summarized below:

Year Ending June 30	
2002	\$ 6,036,462
2003	4,819,488
2004	3,292,140
2005	2,487,324
2006	2,602,116
2008-2012	14,926,872
2013-2017	18,207,432
2018-2021	5,287,451
Total principal outstanding	\$ 57,659,285

I. Unissued Bonds or Notes

At June 30, 2002, authorized but unissued general obligation bonds totaled \$358,295,000. General obligation notes authorized but not executed totaled \$359,529,000. Revenue bonds authorized but not issued totaled \$66,700,000.

Component Units

A. Transaction Summary

Bonds, notes and other liabilities activity for the year ended June 30, 2002 was as follows:

	Balance July 1, 2001	Adjustments and Reclassifications	Additions	Reductions	Balance June 30, 2002	Due Within One Year
Governmental types:						
Revenue bonds payable:						
Sports Authority	\$ 93,750,000	\$ -	\$ -	\$ (1,975,000)	\$ 91,775,000	\$ 2,080,000
Total revenue bonds payable – government funds	93,750,000	-	-	(1,975,000)	91,775,000	2,080,000
Proprietary types:						
Revenue bonds payable:						
Metropolitan Development and Housing Agency	11,475,600	-	-	(807,900)	10,667,700	894,400
Electric Power Board	401,577,547	-	4,479,002	(14,920,000)	391,136,549	15,725,000
Nashville Thermal Transfer Corporation	69,229,752	-	-	(69,229,752)	-	-
Metropolitan Nashville Airport Authority	395,204,041	(136,375)	2,423,389	(109,691,472)	287,799,583	16,175,000
Total revenue bonds payable – proprietary types	877,486,940	(136,375)	6,902,391	(194,649,124)	689,603,832	32,794,400
Notes payable:						
Metropolitan Development and Housing Agency:						
Notes payable	299,708	-	-	(5,037)	294,671	5,464
Notes payable - tax increments	41,935,699	(41,935,699)	-	-	-	-
Notes payable, Vine Hill Homes, LLC component unit	9,825,977	(9,825,977)	-	-	-	-
Metropolitan Nashville Airport Authority:						
Subordinate Revenue Note, Series 1999	1,235,525	136,375	-	(136,375)	1,235,525	145,185
Total notes payable - proprietary types	53,296,909	(51,625,301)	-	(141,412)	1,530,196	150,649
Total revenue bonds and notes payable	1,024,533,849	(51,761,676)	6,902,391	(196,765,536)	782,909,028	35,025,049

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

	Balance July 1, 2001	Adjustments and Reclassifications	Additions	Reductions	Balance June 30, 2002	Due When One Year
Other liabilities payable:						
Hospital Authority:						
Capitalized lease obligation	\$ 44,287,285	\$ -	\$ -	(829,104)	\$ 43,458,181	\$ 857,739
Metropolitan Development and Housing Agency:						
Section 108 loans	6,516,340	(6,516,340)	-	-	-	-
Line of credit	2,045,893	-	-	(8,832)	2,037,061	2,037,061
Other liabilities	2,161,423	(2,161,423)	1,649,661	-	1,649,661	-
Electric Power Board:						
TVA Advances	4,206,559	-	1,167,588	(1,883,952)	3,490,195	-
Other	1,444,467	-	1,792,595	(2,058,950)	1,178,112	-
Metropolitan Transit Authority:						
Capitalized lease obligation	870,469	-	-	(84,316)	786,153	88,627
Nashville Thermal Transfer Corporation:						
Accrued severance	-	-	606,443	-	606,443	-
Metropolitan Nashville Airport Authority:						
Synthetic Advance Refunding, Series 2001	9,336,477	-	-	(808,218)	8,528,259	-
Fair value of derivative financial instruments	-	-	8,263,561	-	8,263,561	-
Deferred interest income	4,619,862	-	1,325,000	(426,394)	5,518,468	-
Other liabilities	2,205,631	-	-	(118,546)	2,087,085	-
Total other liabilities payable - proprietary types	77,694,406	(8,677,763)	14,804,848	(6,218,312)	77,603,179	2,983,427
Total revenue bonds, notes and other liabilities payable component units	\$ 1,102,228,255	\$ (60,439,439)	\$ 21,707,239	\$ (202,983,848)	\$ 860,512,207	\$ 38,008,476

B. Description of Amounts Payable

Amounts payable at June 30, 2002 are as follows:

	Interest Rates	Amount
Governmental types:		
Revenue bonds payable:		
Public Improvement Revenue Bonds (Stadium Project), Series 1996, due in varying amounts to July 1, 2026	4.70 - 5.875%	\$ 72,720,000
Taxable Public Facility Revenue Bonds, Series 1998, due in varying amount to July 1, 2018	5.87 - 6.60%	19,055,000
Total revenue bonds payable - governmental types		91,775,000
Proprietary types:		
Revenue bonds payable:		
Metropolitan Development and Housing Agency, Revenue Bonds, 1998 Series, due June 11, 2009	5.77%	10,667,700
Electric Power Board Electric System Revenue Bonds, 1992 Series B, due in varying amounts to May 15, 2005	4.25 - 5.62%	44,495,472
Electric Power Board Electric System Revenue Bonds, 1996 Series A, due in varying amounts to May 15, 2013	5.50 - 6.00%	66,065,460
Electric Power Board Electric System Revenue Bonds, 1998 Series A, due in varying amounts to May 15, 2023	5.125 - 5.40%	88,489,586
Electric Power Board Electric System Revenue Bonds, 1998 Series B, due in varying amounts to May 15, 2017	3.80 - 5.50%	57,159,639
Electric Power Board Electric System Revenue Bonds, 2001 Series A, due in varying amounts to May 15, 2017	4.50 - 5.00%	116,615,310
Electric Power Board Electric System Revenue Bonds, 2001 Series B, due in varying amounts to May 15, 2014	5.50%	18,311,082
Airport Revenue Bonds, Series 1991, due in varying amounts to July 1, 2005	6.50 - 6.75%	12,965,000

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

	Interest Rates	Amount
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	53,500,000
Airport Improvement Revenue Bonds, Adjustable Rate Refunding, Series 1995, due in varying amounts to July 1, 2015	4.625 - 5.00%	64,730,000
Airport Improvement Revenue Bonds, Series 1998, due in varying amounts to July 1, 2016	4.15 - 6.25%	48,340,000
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: Unamortized deferred amount on refunding		(21,690,417)
Total revenue bonds payable - proprietary types		689,603,832
Notes payable:		
Metropolitan Development and Housing Agency: Notes payable		294,671
Metropolitan Nashville Airport Authority: Subordinate Revenue Note, Series 1999		1,235,525
Total notes payable - proprietary types		1,530,196
Total revenue bonds and notes payable		782,909,028
Other liabilities payable:		
Hospital Authority: Capitalized lease obligation		43,458,181
Metropolitan Development and Housing Agency: Line of credit		2,037,061
Other liabilities		1,649,661
Electric Power Board: TVA Advances		3,490,195
Other		1,178,112
Metropolitan Transit Authority: Capitalized lease obligation		786,153
Nashville Thermal Transfer Corporation: Accrued severance		606,443
Metropolitan Nashville Airport Authority: Synthetic Advance Refunding, Series 2001		8,528,259
Fair value of derivative financial instruments		8,263,561
Deferred interest income		5,518,468
Other liabilities		2,087,085
Total other liabilities payable - proprietary types		77,603,179
Total bonds, notes and other liabilities payable - component units		\$ 860,512,207

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The bonds, notes and other liabilities of the component units are classified in the Statement of Net Assets as follows:

Liabilities payable from restricted assets:	
Current portion of long-term liabilities	\$ 31,900,000
Noncurrent liabilities:	
Due within one year	6,108,476
Due in more than one year	789,802,400
Other long-term liabilities	<u>32,701,331</u>
 Total component units long-term liabilities	 <u>\$ 860,512,207</u>

C. 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.

Electric Power Board

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

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.

D. Advance Refundings of Bonds

Electric Power Board

In prior years, Series K through N Electric Power Revenue Bonds and 1996 Series A Bonds have been defeased through advance refundings; therefore, the related balances of \$16,770,000 and \$18,835,000, respectively, which are still outstanding at June 30, 2002, do not appear as liabilities on the Electric Power Board's statement of net assets.

Nashville Thermal Transfer Corporation

As discussed in the Advanced Refundings of Bonds for the Primary Government, the Government issued General Obligation Energy Production Facility Refunding Bonds, Series 2002A and Series 2002B, on April 1, 2002, to provide funds to refund all the outstanding debt of the Corporation. Accordingly, the Corporation transferred all debt service and debt service reserve funds to the Government and removed the remaining long-term debt, unamortized bond discount, unaccreted bond premium, accrued interest and deferred debt issue cost balances from its statement of net assets. The write-off of the long-term debt and related amounts is reflected as a special item in the statement of activities for the year ended June 30, 2002.

Metropolitan Nashville Airport Authority

In prior years, Series 1991B Bonds have been defeased through an advance refunding; therefore, the related balance of \$36,000,000 outstanding at June 30, 2002 does not appear as a liability on the Airport Authority's statement of net assets.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

E. Conduit Debt Obligations

Metropolitan Development and Housing Agency

Tax increment financing is a method of funding certain public investments for redevelopment by recapturing, for a time, all or a portion of the increased tax revenue that may result if private investment can be stimulated to occur. Tax increment can only be generated by the increased taxes resulting from private development on land in a redevelopment district that has been acquired and re-sold or leased by the Agency. The tax increment due to the difference in the tax basis is then diverted to the redevelopment agency which may use those funds to finance public purpose expenditures or to repay bonds or notes that were floated to finance those expenditures. These loans are special limited obligations of the Agency, payable solely from and secured by a pledge of the tax increment revenues designated for the payment of the loan. The loans do not constitute a debt or pledge of the faith and credit of the Agency or the Government and, accordingly, are not reported in the Agency's financial statements. At September 30, 2001, the tax increment financing loans, included related accrued interest payable, aggregated approximately \$40.5 million.

Section 108 is the loan guarantee provision of the Community Development Block Grant (CDBG) Program. Section 108 provides communities with a source of financing for economic development, housing rehabilitation, public facilities and large scale physical development projects. The Government has borrowed funds under this program and guaranteed repayment of the loan by pledging present and future community development block grants. The Agency is the agent designated by the Government to administer the CDBG program; therefore, the outstanding loan does not constitute a debt of the Agency and is not reported in the Agency's financial statements. At September 30, 2001, the Section 108 loans outstanding aggregated approximately \$5.9 million.

Industrial Development Board

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, 2002 for the Industrial Revenue Bonds issued after April 1, 1996 was \$185,979,961. 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.

Health and Educational Facilities Board

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 \$1,809,103,000. 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.

F. 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 METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Electric Power Board has a \$25,000,000 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, 2002.

Metropolitan Transit Authority

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, 2002 is \$1,969,393. The amount is reported as due to the primary government.

Metropolitan Nashville Airport Authority

1993 Interest Rate Swap Agreement: 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. The Airport Authority has recorded the fair value of the 1993 Swap Agreement as of June 30, 2002 (a liability of \$2,685,700) in the statement of net assets. The fair value of this financial instrument at June 30, 2002 represents the amount the Airport Authority would pay to terminate the agreement, taking into consideration current interest rates, and has been recorded as an unrealized loss (reported in expenses) in the statement of activities for the year ended June 30, 2002.

1999 Interest Rate Swap Agreement: In connection with the issuance of 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. The original termination date of the 1999 Swap Agreement was July 1, 2015, which represented the maturity of the Series 1996 Bonds; however, the 1999 Swap Provider had the option to cancel the 1999 Swap Agreement on July 1, 2002. Such option was exercised and the agreement was terminated effective July 1, 2002.

2001 Knock-In Barrier Swap: The Airport Authority entered into a Knock-in Barrier Swap dated October 26, 2001 (the 2001 Barrier Swap) with a counterparty that generated a cash payment to the Airport Authority of \$3,853,000. The 2002 Barrier Swap is comprised of three options. The three options have different notional amounts, amortization schedules, termination dates, fixed coupons, premiums and barrier levels. In exchange for the payment to the Airport Authority, the counterparty has the right to exercise its option to enter into an interest rate swap agreement when the Bond Market Association (the BMA) rate averages above the negotiated barrier(s) for any six-month period. Upon exercise of the option, the Airport Authority will pay the counterparty a floating rate at BMA plus 1.2%, and the counterparty will pay the Airport Authority the fixed rate of the underlying debt. As of June 30, 2002, the BMA rate had not penetrated any of the barriers. Thus, the options had not been delivered by the counterparty to the Airport Authority. The Airport Authority has recorded the fair value of the 2001 Barrier Swap (a liability of \$5,577,861) in the statement of net assets as of June 30, 2002. The fair value of this financial instrument at June 30, 2002 represents the amount the Authority would pay to terminate the agreement, taking into consideration current interest rates. The difference between the fair value at June 30, 2002 and the amount of upfront cash received has been recorded as an unrealized loss (reported in expenses) in the statement of activities for the year ended June 30, 2002.

Special Facility Revenue Bonds: 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

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

G. Annual Debt Service Requirements

The annual principal maturities of all bonds and notes payable as of June 30, 2002 for the component units are as follows:

Year Ending June 30	Revenue Bonds and Notes Payable	
	Principal	Interest
2003	\$ 35,025,049	\$ 38,257,475
2004	37,602,716	36,331,963
2005	39,693,555	34,263,258
2006	36,490,165	37,588,978
2007	37,548,227	36,585,900
2008-2012	204,964,676	163,824,691
2013-2017	204,345,862	87,658,409
2018-2022	109,871,096	30,204,819
2023-2027	<u>99,058,099</u>	<u>10,130,422</u>
Total	804,599,445	474,845,915
Deferred Charges	<u>(21,690,417)</u>	-
Total	<u>\$ 782,909,028</u>	<u>\$ 474,845,915</u>

Deferred amounts for the Electric Power Board are netted with principal. Interest amounts are excluded for the Metropolitan Development and Housing Agency.

NOTE 7 - 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 managed and administered by the Metropolitan Employee Benefit Board, an independent board 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>Administering Fund</u>
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Primary Government

Fiduciary Fund Types:

County	Defined Benefit	Closed 1963	Davidson County Employees' Retirement
Metro - Division A	Defined Benefit	Closed 1995	Metropolitan Employees Benefit Trust
Metro - Division B	Defined Benefit	Open	Metropolitan Employees Benefit Trust
County Education	Defined Benefit	Closed 1963	Employees' Pension and Insurance
Metro Education	Defined Benefit	Closed 1969	Teachers' Retirement Plan
City	Defined Benefit	Closed 1963	Closed City Plan
City Education	Defined Benefit	Closed 1963	Teachers' Civil Service and Pension

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Name</u>	<u>Type</u>	<u>Status</u>	<u>Administering Fund</u>
<u>Component Units</u>			
Sports Authority and Hospital Authority	Included in primary government plans		
Metropolitan Development and Housing Agency	Defined Contribution	Open	N/A
Electric Power Board	Defined Benefit	Open	N/A
Metropolitan Transit Authority	Defined Benefit	Open	N/A
Nashville Thermal Transfer Corporation	Defined Contribution	Open	N/A
Metropolitan Nashville Airport Authority	Defined Benefit	Open	N/A

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.

The City, County, Metro Education, City Education, and County Education plans are 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.

A. 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) is reported in the applicable governmental activities in the Statements of Net Assets and Activities. 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.

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, 2002.

B. 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 police officers and fire fighters 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 as defined in the Plan 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.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Normal retirement for police officers and fire fighters 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 police officers 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 based upon the previous 60 consecutive months of credited service which produce the highest earnings. Benefits fully vest on completing 5 years of service.

Normal retirement for police officers 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 5 years of service.

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.

Any employee who terminates and is rehired is 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.

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.

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.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Normal retirement for police officers and fire fighters 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 as defined in the Plan 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.

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 professional employees of Metropolitan Nashville Public Schools 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, 10th 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.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 30 years. Employees who have attained age 55 and completed 30 years of service will receive an additional benefit equal to 0.75% of average compensation multiplied by years of service in excess of 30 years subject to a maximum of 5 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, 2002 (the latest date available), the actuarial value of assets was \$187,700,307, the actuarial accrued liability was \$240,352,901, and the unfunded actuarial accrued liability was \$52,652,594. Covered payroll was \$47,758,249.

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% 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)

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 2.7% effective July 1, 2002. 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, 2001 (the latest date available), the actuarial value of assets was \$18,400,000, the actuarial accrued liability was \$17,800,000. There was no unfunded actuarial accrued liability as assets exceeded the liability by \$600,000. Covered payroll was \$10,600,000.

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, 2002) 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, 2002 amounted to \$234,803. No voluntary contributions were made during the year ended June 30, 2002.

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.

C. 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 contributory employees of Metropolitan Nashville Public Schools and 5.70% for all other Metro employers.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Metropolitan Nashville Public Schools, 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 Metropolitan Nashville Public Schools 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 Metropolitan Nashville Public Schools, which contributes at an actuarially determined rate (3.72% of covered payroll for the fiscal year ending June 30, 2002). 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, 2002, 2001, and 2000 were \$9,026,366, \$8,597,855, and \$12,165,312 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.

Component Units

Metropolitan Development and Housing Agency

The Agency's contributions for the year ended September 30, 2001 amounted to \$1,726,719, which equaled the amount of the annual required contribution. Employee contributions were \$94,403. The Agency's payroll for employees covered by this plan was \$14,434,391, and total payroll amounted to \$14,751,255 during the fiscal year ended September 30, 2001.

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 17.86% of annual covered payroll. The annual required contribution for the year ended June 30, 2002 was \$8,529,796, and the actual amount contributed was \$8,529,796. The frozen initial liability method has been used to compute the annual contribution requirement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 of 3.0% in 2002. 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. For the year ended June 30, 2002, the annual pension costs were \$329,000, the annual required contribution \$455,000, and the actual amount contributed was \$455,000. 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, 2002 was \$1,218,134, and the actual amount contributed was \$1,218,134. Both amounts represent 12.51% 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.

D. 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 plans of Metropolitan Nashville Public Schools 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.

E. Required Supplementary Information

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

F. Other

The only plan having an individual investment which exceeds 5% of plan assets at June 30, 2002 is the Metro Plan (S&P 500 Flagship Series A totaling \$248,115,661). 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)

SELECTED PENSION INFORMATION

	<u>County</u>	<u>Metro</u>	<u>County Education</u>
ANNUAL PENSION COST AND NET PENSION OBLIGATION (ASSET) - FISCAL 2002			
Annual required contribution	\$ 2,085,246	\$ 26,339,414	\$ 5,224,991
Interest on net pension obligation	(827,994)	(2,632,368)	239,984
Adjustment to annual required contribution	<u>927,544</u>	<u>3,607,321</u>	<u>(268,837)</u>
Annual pension cost	2,184,796	27,314,367	5,196,138
Contributions made	<u>(2,713,309)</u>	<u>(26,478,192)</u>	<u>(7,118,365)</u>
Increase (decrease) in net pension obligation	(528,513)	836,175	(1,922,227)
Net pension obligation (asset) beginning of year	<u>(10,349,931)</u>	<u>(32,904,594)</u>	<u>2,999,797</u>
Net pension obligation (asset) end of year	<u><u>\$ (10,878,444)</u></u>	<u><u>\$ (32,068,419)</u></u>	<u><u>\$ 1,077,570</u></u>
THREE-YEAR TREND INFORMATION			
2002			
Annual pension cost (APC)	\$ 2,184,796	\$ 27,314,367	\$ 5,196,138
Percentage of APC contributed	124.19%	96.94%	136.99%
Net pension obligation (asset)	\$ (10,878,444)	\$ (32,068,419)	\$ 1,077,570
2001			
Annual pension cost (APC)	\$ 1,922,247	\$ 22,636,895	\$ 5,293,166
Percentage of APC contributed	142.18%	126.44%	128.65%
Net pension obligation (asset)	\$ (10,349,931)	\$ (32,904,594)	\$ 2,999,797
2000			
Annual pension cost (APC)	\$ 2,087,102	\$ 27,898,908	\$ 4,980,403
Percentage of APC contributed	140.96%	130.54%	143.58%
Net pension obligation (asset)	\$ (9,539,047)	\$ (26,919,189)	\$ 4,516,377
PARTICIPANTS - Latest Actuarial Valuation Date			
Active:			
Fully vested	-	5,995	8
Non-vested and partially vested	-	<u>5,618</u>	-
Total active	-	<u>11,613</u>	<u>8</u>
Retirees and beneficiaries receiving benefits	219	4,457	472
Terminated vested	-	<u>315</u>	-
Total	<u><u>219</u></u>	<u><u>16,385</u></u>	<u><u>480</u></u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SELECTED PENSION INFORMATION

Metro Education	City	City Education	Total Primary Government
\$ 11,020,413	\$ 8,923,918	\$ 3,131,890	\$ 56,725,872
3,465,950	(1,037,558)	(394,539)	(1,186,525)
<u>(3,882,661)</u>	<u>1,162,303</u>	<u>441,974</u>	<u>1,987,644</u>
10,603,702	9,048,663	3,179,325	57,526,991
<u>(5,722,295)</u>	<u>(11,461,983)</u>	<u>(4,554,265)</u>	<u>(58,048,409)</u>
4,881,407	(2,413,320)	(1,374,940)	(521,418)
<u>43,324,376</u>	<u>(12,969,471)</u>	<u>(4,931,735)</u>	<u>(14,831,558)</u>
<u>\$ 48,205,783</u>	<u>\$ (15,382,791)</u>	<u>\$ (6,306,675)</u>	<u>\$ (15,352,976)</u>
\$ 10,603,702	\$ 9,048,663	\$ 3,179,325	\$ 57,526,991
53.97%	126.67%	143.25%	100.91%
\$ 48,205,783	\$ (15,382,791)	\$ (6,306,675)	\$ (15,352,976)
\$ 10,398,929	\$ 7,867,739	\$ 3,254,505	\$ 51,373,481
57.51%	145.06%	135.73%	116.74%
\$ 43,324,376	\$ (12,969,471)	\$ (4,931,735)	\$ (14,831,558)
\$ 9,090,646	\$ 8,241,890	\$ 3,134,077	\$ 55,433,026
17.63%	146.02%	149.40%	116.95%
\$ 38,905,408	\$ (9,424,520)	\$ (3,769,058)	\$ (6,230,029)
110	-	1	6,114
<u>-</u>	<u>-</u>	<u>-</u>	<u>5,618</u>
110	-	1	11,732
1,272	885	325	7,630
16	-	-	331
<u>1,398</u>	<u>885</u>	<u>326</u>	<u>19,693</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SELECTED PENSION INFORMATION

	<u>County (a)</u>	<u>Metro</u>	<u>County Education (a)</u>	<u>Metro Education</u>
ACTUARIAL VALUATION INFORMATION				
Valuation date	July 1, 2001	July 1, 2001	July 1, 2001	July 1, 2001
Actuarial cost method	entry age normal	entry age normal	entry age normal	entry age normal
Amortization method	level dollar open	level dollar closed	level dollar open	level dollar open
Amortization period	30 years (29 remaining)	40 years (17 remaining)	30 years (29 remaining)	30 years (29 remaining)
Asset valuation method	-	5 year smoothed market	-	5 year smoothed market
Actuarial assumptions:				
Investment rate of return*	8.00%	8.00%	8.00%	8.00%
Projected salary increases*	None	5.00%	5.00%	5.00%
Postretirement benefit increase adjustments	3.25%	1.80-3.25%	3.00%	3.00%
* Includes inflation at	3.25%	3.25%	3.00%	3.00%

(a) These plans are closed and funded on a "pay-as-you-go" basis and therefore have no assets. Contributions are not made based on actuarial computation.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SELECTED PENSION INFORMATION

<u>City (a)</u>	<u>City Education (a)</u>
July 1, 2001	July 1, 2001
entry age normal	entry age normal
level dollar open	level dollar open
30 years (29 remaining)	30 years (29 remaining)
-	-
8.00%	8.00%
None	5.00%
3.25%	3.00%
3.25%	3.00%

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SCHEDULE OF FUNDING PROGRESS (c)

Unaudited - See Accompanying Accountants' Report

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL	Funded Ratio
County Plan (a)				
July 1, 1996	\$ -	\$ 27,187,468	\$ 27,187,468	\$ - %
July 1, 1997 (b)	-	-	-	-
July 1, 1998	-	25,430,114	25,430,114	-
July 1, 1999 (b)	-	-	-	-
July 1, 2000	-	21,487,993	21,487,993	-
July 1, 2001 (b)	-	24,162,977	24,162,977	-
Metro Plan				
July 1, 1996	819,031,667	931,082,784	112,051,117	87.97
July 1, 1997	945,348,756	1,055,700,536	110,351,780	89.55
July 1, 1998	1,084,563,971	1,193,291,692	108,727,721	90.89
July 1, 1999	1,241,356,861	1,350,000,989	108,644,128	91.95
July 1, 2000	1,419,820,507	1,522,468,982	102,648,475	93.26
July 1, 2001	1,532,338,623	1,628,956,808	96,618,185	94.07
County Education Plan (a)				
July 1, 1996	-	66,621,096	66,621,096	-
July 1, 1997	-	64,780,582	64,780,582	-
July 1, 1998	-	64,942,095	64,942,095	-
July 1, 1999	-	63,208,011	63,208,011	-
July 1, 2000	-	62,341,205	62,341,205	-
July 1, 2001	-	60,545,071	60,545,071	-
Metro Education Plan				
July 1, 1996	92,751,025	212,250,602	119,499,577	43.70
July 1, 1997	100,223,414	220,373,524	120,150,110	45.48
July 1, 1998	109,278,714	222,220,929	112,942,215	49.18
July 1, 1999	112,112,056	226,253,095	114,141,039	49.55
July 1, 2000	105,021,868	230,608,033	125,586,165	45.54
July 1, 2001	108,873,419	236,573,475	127,700,056	46.02

(a) Plan is closed and funded on a "pay-as-you-go" basis.

(b) The valuations of the closed City and County pension plans were performed on a bi-annual basis. Beginning, July 1, 2001, valuations are performed annually.

(c) There are no factors that significantly affect the identification of trends in the amounts reported. See assumptions used in the preparation of the Schedule previously disclosed in this note.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SCHEDULE OF FUNDING PROGRESS (CONTINUED) (c)

Unaudited - See Accompanying Accountants' Report

<u>Covered Payroll</u>	<u>Unfunded AAL as a Percentage of Covered Payroll</u>
\$ 106,553	- %
-	-
-	-
-	-
-	-
306,757,122	36.53
336,276,286	32.82
359,932,634	30.21
375,552,645	28.93
384,283,394	26.71
398,426,904	24.25
1,350,521	-
1,350,521	-
934,645	-
934,645	-
480,448	-
446,414	-
15,932,682	750.03
14,171,823	847.81
11,224,795	1,006.19
9,951,951	1,146.92
8,071,426	1,555.94
6,471,686	1,973.21

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SCHEDULE OF FUNDING PROGRESS (c)

Unaudited - See Accompanying Accountants' Report

Actuarial Valuation Date		Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL	Funded Ratio
City Plan	(a)				
July 1, 1996		\$ -	\$ 103,380,560	\$ 103,380,560	-
July 1, 1997	(b)	-	-	-	%
July 1, 1998		-	101,792,628	101,792,628	-
July 1, 1999	(b)	-	-	-	-
July 1, 2000		-	91,006,918	91,006,918	-
July 1, 2001	(b)	-	103,406,732	103,406,732	-
City Education Plan	(a)				
July 1, 1996		-	43,521,835	43,521,835	-
July 1, 1997		-	42,046,382	42,046,382	-
July 1, 1998		-	40,870,102	40,870,102	-
July 1, 1999		-	39,598,968	39,598,968	-
July 1, 2000		-	37,658,538	37,658,538	-
July 1, 2001		-	36,291,065	36,291,065	-

(a) Plan is closed and funded on a "pay-as-you-go" basis.

(b) The valuations of the closed City and County pension plans were performed on a bi-annual basis. Beginning, July 1, 2001, valuations are performed annually.

(c) There are no factors that significantly affect the identification of trends in the amounts reported. See assumptions used in the preparation of the Schedule previously disclosed in this note.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SCHEDULE OF FUNDING PROGRESS (CONTINUED) (c)

Unaudited - See Accompanying Accountants' Report

<u>Covered Payroll</u>	<u>Unfunded AAL as a Percentage of Covered Payroll</u>
\$ 36,419	- %
-	-
-	-
-	-
-	-
-	-
512,282	-
512,282	-
242,820	-
242,820	-
168,000	-
101,311	-

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SCHEDULE OF EMPLOYER CONTRIBUTIONS (a)

Unaudited - See Accompanying Accountants' Report

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
County Plan		
1997	\$ 2,195,495	150.06 %
1998	2,195,495	151.38
1999	2,053,581	152.66
2000	2,053,581	143.26
2001	1,838,038	148.70
2002	2,085,246	130.12
Metro Plan		
1997	38,659,299	116.17
1998	35,648,309	127.61
1999	33,538,193	121.41
2000	27,454,972	132.65
2001	21,918,101	130.59
2002	26,339,414	100.53
County Education Plan		
1997	5,294,336	128.33
1998	5,149,513	134.08
1999	5,144,415	127.32
2000	5,007,965	142.79
2001	5,332,537	127.70
2002	5,224,991	136.24
Metro Education Plan		
1997	9,793,567	63.87
1998	9,800,117	73.16
1999	9,161,016	95.25
2000	9,220,140	17.38
2001	10,742,379	55.67
2002	11,020,413	51.92

(a) See assumptions used in the preparation of the Schedule previously disclosed in this note.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SCHEDULE OF EMPLOYER CONTRIBUTIONS (a)

Unaudited - See Accompanying Accountants' Report

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
City Plan		
1997	\$ 8,316,131	155.97 %
1998	8,316,131	156.49
1999	8,220,154	153.09
2000	8,220,154	146.41
2001	7,784,542	146.61
2002	8,923,918	128.44
City Education Plan		
1997	3,449,531	136.03
1998	3,333,432	140.30
1999	3,224,946	132.78
2000	3,124,925	149.84
2001	3,221,233	137.13
2002	3,131,890	145.42

(a) See assumptions used in the preparation of the Schedule previously disclosed in this note.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

G. Post - Employment Benefits

Primary Government

Metropolitan Government

For any retiree in the Metro, City or County Plans who elects to participate in the Metro hospitalization insurance program, the Government contributes 75% of all premium payments, and the retiree contributes 25%. Funding is on a pay-as-you-go basis under which payments are made in amounts sufficient to cover benefits paid, administrative costs and anticipated inflationary increases. Benefits paid by the Government for the fiscal year ended June 30, 2002 totaled \$12,493,618.

The Government also provides a matching contribution on dental insurance for any retiree who elects to participate and provides life insurance at no charge. Benefits paid by the Government for dental and life insurance totaled \$1,196,637 and \$721,997, respectively, for the fiscal year ended June 30, 2002.

The post-retirement benefits for the Metro plans were authorized by the Government's charter. During the year ended June 30, 2002, 5,776 participants were eligible to receive post-retirement benefits.

Metropolitan Nashville Public Schools

For any retiree in the Metro, City or County Education Plans who elects to participate in the medical and dental insurance plans of Metropolitan Nashville Public Schools, Schools contributes 75% of all premium payments with the retiree contributing the remaining 25%. Funding is on a pay-as-you go basis under which payments are made in amounts sufficient to cover benefits paid. Benefits paid by Metropolitan Nashville Public Schools for the fiscal year ended June 30, 2002 totaled \$6,842,549. During the year ended June 30, 2002, 2,055 participants were eligible to receive post-retirement benefits. The post-retirement benefits for teachers of Metropolitan Nashville Public Schools were authorized by the Government's charter.

Component Units

Electric Power Board

The Electric Power Board provides post-retirement health care benefits to all employees who retire under the provisions of the qualified pension plan and supplemental executive retirement plan. Currently, 467 retirees meet those eligibility requirements. Expenditures for post-retirement health care benefits are recognized as retirees report claims. Expenditures of \$5,560,905 for the year ended June 30, 2002 were recognized for post-retirement health care. The post-retirement benefits for the Electric Power Board employees were authorized by the Government's charter.

Metropolitan Transit Authority

Medical, dental, vision and prescription card insurance benefits are available to all employees retiring from the Metropolitan Transit Authority through its self-insurance plan. Participants contribute to the cost of these benefits based on age and type of coverage. The portion funded by the Metropolitan Transit Authority is expensed as the coverage is provided. During the year ended June 30, 2002, total medical benefit claims expense incurred amounted to \$412,929. Future claims cannot be estimated. At June 30, 2002, approximately 100 retirees were covered under this plan.

Life insurance benefits for retirees and their spouses are also self-insured. Life insurance coverage is \$7,500 on each retired employee and \$2,500 on the spouse of the retired employee, except for two former Class I employees who are entitled to an \$11,250 benefit. During the year ended June 30, 2002, the Metropolitan Transit Authority recognized an expense for death benefit claims totaling \$35,000. Future such claims cannot be estimated. However, at June 30, 2002, approximately 100 retirees were covered under this plan.

Nashville Thermal Transfer Corporation

The Board of Directors of the Corporation approved a severance package to provide benefits to employees that will be involuntarily terminated as a result of the Corporation ceasing operations in April, 2004. Approximately 47 operations, maintenance and administrative employees are expected to be involuntarily terminated on or after April 30, 2004. Under the terms of the severance package, all employees that work until April 30, 2004 will receive a minimum termination benefit equal to 15 weeks of their gross compensation, up to a maximum of 30 weeks for employees with 15 years of service. During the year ended June 30, 2002, termination benefits of \$756,384 were charged to expenses in the statement of activities, and \$149,941 of benefits were paid to employees that were

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

involuntarily terminated prior to June 30, 2002. At June 30, 2002, \$606,443 of accrued termination benefits is reflected as other non-current liabilities in the statement of net assets.

Metropolitan Nashville Airport Authority

Under the Airport Authority's PERS, the Airport Authority pays 75% of the medical coverage cost, with the retirees paying the remaining 25%. The Airport Authority also pays 100% of the premium cost of a \$7,500 life insurance policy on each retiree. In addition, the retirees have the option to pay 100% of the cost of dental, vision and supplemental life insurance coverage. Currently, 61 retirees are receiving benefits under this PERS. During the year ended June 30, 2002, payments of \$387,732 were made by the Authority for post-retirement benefits under this PERS.

New employees of the Airport Authority and those previously selecting the new Airport Authority plan are not eligible for participation in the Government's pension plan. However, certain other Airport Authority employees do participate in the Metro Plan. The Airport Authority pays the same percentage as stated above for the medical, dental and life premiums. Currently, 31 retirees are receiving benefits from the Metro Plan. During the year ended June 30, 2002, payments of \$86,525 were made to the Government for post-retirement benefits under this PERS.

Payments for these post-retirement benefits are expensed as they are incurred. During the year ended June 30, 2002, \$474,257 of post-retirement benefits were recognized as expense.

NOTE 8 - DEFERRED COMPENSATION AND PROFIT SHARING PLANS

Primary Government

Metro Plan

The Government offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits deferral of a portion of salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Because the assets are not held in a trustee capacity by the Government, they are not included in the Government's financial statements.

Component Units

Metropolitan Development and Housing Agency

The Agency sponsors a deferred compensation plan, available to all employees, created in accordance with Internal Revenue Code Section 457. The plan permits all employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. No contributions are made to this plan by the Agency.

Electric Power Board

The Electric Power Board has a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time employees, permits employees to defer a portion of their salary until future years with the Board providing a matching contribution at up to 3% of compensation. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan provides that assets or income of the plan shall be used for the exclusive purpose of providing benefits for participants and their beneficiaries or defraying reasonable expenses of administration of the plan. Since the assets of the plan are held in custodial and annuity accounts for the exclusive benefit of plan participants, the related assets of the plan, \$2,168,513 of employee contributions and \$1,328,814 of Board contributions to the plan during the year ended June 30, 2002, are not reflected on the statement of net assets.

Nashville Thermal Transfer Corporation Profit - Sharing Plan

The Nashville Thermal Transfer Corporation has a profit-sharing plan pursuant to Section 401 of the Internal Revenue Code, whereby after six months of service employees may elect to participate and contribute from 1% to 15% of their annual compensation, but not in excess of the maximum allowed. The plan provides for a matching contribution by the Corporation equal to 50% of salary deferrals up to 7%. Matching contributions of \$164,217 were made for the year ended June 30, 2002.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Metropolitan Nashville Airport Authority

The Metropolitan Nashville Airport Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Airport Authority employees, permits the deferral of a portion of salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Since the assets of the plan are held in custodial and annuity accounts for the exclusive benefit of plan participants, the related assets of the plan are not reflected on the Airport Authority's statement of net assets. Beginning January 1, 2001, the Authority's matching contributions are made to a deferred compensation plan created in accordance with Internal Revenue Code Section 401(a). The contribution by the Authority to this plan was \$496,765 for the year ended June 30, 2002.

NOTE 9 - LEASES

Primary Government

The Government leases certain facilities from various lessors under operating lease agreements. Total rental expenditures under these leases are nominal for the year ended June 30, 2002.

The Government leases certain warehouse and office space and various other places for periodic use to various lessees. Such leases are accounted for as operating leases and range in duration from less than one year to five years. The lease agreements provide for fixed rental payments. Annual rental income under these operating leases is nominal.

The Government entered into a capital lease agreement with the State of Tennessee for the construction of a Farmers Market. Under the terms of the agreement, the Government will lease the building for 20 years at a cost of \$3,645,000. Lease payments began in June 1996 with an initial payment of \$645,000. The remaining lease payments will be made over the initial term of the lease in annual rental payments. At June 30, 2002, the leased building is carried in the enterprise funds at \$3,645,000, less accumulated depreciation of \$554,344. A summary of future minimum lease payments and the present value of future lease payments for the capitalized lease as of June 30, 2002 is as follows:

<u>Year Ending June 30,</u>		
2003	\$	258,438
2004		256,892
2005		260,008
2006		257,540
2007		259,665
2008-2012		1,284,225
2013-2015		<u>775,675</u>
Total future minimum lease payments		3,352,443
Less:		
Amount representing interest imputed at 7.5%		1,012,443
Current portion of capital lease		<u>130,000</u>
Long-term capitalized lease obligation	\$	<u><u>2,210,000</u></u>

Component Units

General Hospital

The Government, on behalf of General Hospital, entered into a capital lease agreement with Meharry Medical College for the use of the Hubbard Hospital site on the Meharry campus. Under the terms of the agreement, the Government will lease the building for 30 years at a cost of \$4 million per year. Lease payments began in December 1994 after Meharry Medical College and the Board of Hospitals agreed on a program of renovations by Meharry Medical College on Hubbard Hospital. This lease has been subleased to the Hospital Authority. At June 30, 2002, the leased building is carried in the proprietary type component units at the present value of minimum future lease payments of \$48,000,000, less accumulated depreciation of \$7,333,333.

General Hospital also has a capital lease agreement with United Telephone – Southeast, Inc., doing business as Sprint, for a telephone system. Under the terms of the Sprint lease agreement, the Hospital will lease the telephone equipment for 5 years at a cost of \$10,807 per month. Lease payments began in February of 1998.

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

A summary of future minimum lease payments required under the agreements as of June 30, 2002 follows:

<u>Year Ending June 30,</u>	<u>Equipment</u>	<u>Building</u>	<u>Total</u>
2003	\$ 86,422	\$ 4,000,000	\$ 4,086,422
2004	-	4,000,000	4,000,000
2005	-	4,000,000	4,000,000
2006	-	4,000,000	4,000,000
2007	-	4,000,000	4,000,000
2008-2012	-	20,000,000	20,000,000
2013-2017	-	20,000,000	20,000,000
2018-2022	-	20,000,000	20,000,000
2023-2027	-	<u>9,666,661</u>	<u>9,666,661</u>
Total future minimum lease payments	86,422	89,666,661	89,753,083
Less:			
Amount representing interest	4,497	46,290,405	46,294,902
Current portion of capital lease	<u>81,925</u>	<u>775,814</u>	<u>857,739</u>
Long-term capitalized lease obligation	<u>\$ -</u>	<u>\$ 42,600,442</u>	<u>\$ 42,600,442</u>

Metropolitan Development and Housing Agency

The Metropolitan Development and Housing Agency leases certain office space and equipment accounted for as operating leases. Total lease expenditures for the year ended September 30, 2001 were \$39,678, and future minimum rental commitments are insignificant.

The Metropolitan Development and Housing Agency receives rental income under a building lease accounted for as an operating lease. The lease has an initial term of thirty years and provides for an option to renew for seven successive ten-year periods. The lessee is committed to pay base rents totaling \$500,000 annually through 2016, with future minimum lease payments of \$7,625,000. Rental income from other cancelable operating leases amounted to \$500,000 for the year ended September 30, 2001.

Electric Power Board

The Electric Power Board's rent expense, consisting primarily of payments for pole attachment leases, facilities rental and leasing arrangements for software licensing, amounted to \$864,390 for the year ended June 30, 2002. These arrangements, which are all accounted for as operating leases, are all cancelable, therefore, future minimum rentals under these leases are not significant. Rental income is received under pole attachment leases, which are accounted for as operating leases. These leases are cancelable, therefore, future minimum rentals under these leases are not significant. Rental income from this source totaled \$1,535,761 for the year ended June 30, 2002.

Metropolitan Transit Authority

At November 1, 1999, the Metropolitan Transit Authority entered into a capital lease obligation for new buses with a capitalized cost of \$990,591. The future minimum lease payments required under the capital lease as of June 30, 2002, are as follows:

<u>Year Ending June 30,</u>	
2003	\$ 127,223
2004	127,223
2005	127,223
2006	127,223
2007	127,223
2008-2010	<u>318,059</u>
Total future minimum lease payments	954,174
Less:	
Amount representing interest imputed at 5.05%	168,021
Current portion of capital lease	<u>88,627</u>
Long-term capitalized lease obligation	<u>\$ 697,526</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Metropolitan Nashville Airport Authority

The Airport Authority leases or has entered into options to lease several tracts of land to developers. The leases expire in 2058. The Airport Authority has received advance payments in the amount of \$2,533,613 which are being amortized into income over the terms of the leases. The buildings and any other improvements constructed on the land become the property of the Airport Authority upon the expiration or termination of the leases.

During the year ended June 30, 1975, the Airport Authority entered into long-term lease agreements with certain of the airlines serving Nashville for use of the facilities at Nashville International Airport. Rentals and fees due under terms of the leases are based upon the Airport Authority's projected cost of providing the facilities to the airlines. These long-term agreements have been amended and restated to extend through September 14, 2017, which is 30 years from the occupancy date of the new terminal. Costs recovered through rentals and fees include expenses of operating and maintaining the airport plus 110% of debt service on all bonds outstanding. The notes receivable from tenants of \$2,480,619 at June 30, 2002 represent expenditures made by the Airport Authority on behalf of certain tenants for improvements at the terminal. The signatory tenant notes accrue interest at 7% while the nonsignatory tenant notes accrue interest at 9%. The notes are to be repaid on a monthly basis through 2015.

Industrial Development Board

Certain bond issues of the Industrial Development Board in prior years provide for lease agreements between the Board and the companies receiving public financing for the construction or improvement of their facilities. The leases require the companies to pay rent during the original period of the lease in an amount at least sufficient to pay the principal and interest due on the bonds. These leases are automatically renewable for up to four additional five year terms at specified rental amounts. The current rent associated with these leases was \$18,800 for the year ended March 31, 2002.

Certain lease agreements of the Industrial Development Board provide for the purchase of the leased facilities when all amounts due on the related bond issued have been repaid and all the renewal term rents due have been received. The purchase option amounts are fixed by the respective lease agreements. Lease agreements with purchase options that have not been exercised and remain in effect total \$300,000 at March 31, 2002.

The Industrial Development Board is obligated under a lease agreement dated April 6, 1961, with the Airport Authority to pay ground rent in the amount of \$12,000 annually for the property on which the facilities occupied by Genesco, Inc. are located. The lease term runs concurrently with the Genesco, Inc. ground rent lease which expires on April 25, 2007. During the year ended March 31, 2002, rent expenditures were \$12,000. Future obligations over the term of the lease are as follows:

<u>Year Ending March 31,</u>	<u>Amount</u>
2003	\$ 12,000
2004	12,000
2005	12,000
2006	12,000
2007	<u>13,000</u>
 Total future lease payments	 <u>\$ 61,000</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables and amounts due to and due from component units at June 30, 2002 are attributable to unsettled balances at year-end primary for charges and transfers between funds and component units. The Metropolitan Development and Housing Authority's fiscal year end is September 30 and a \$500,000 payable at June 30, 2002 is not reflected in the entity wide financial statements. Balances at June 30, 2002 are as follows:

SCHEDULE OF INTERFUND RECEIVABLES AND PAYABLES AND
AMOUNTS DUE TO AND DUE FROM COMPONENT UNITS

For the Year Ended June 30, 2002

Due From	Due To					
	General Fund	General Purpose School Fund	GSD General Purposes Debt Service Fund	GSD School Purposes Debt Service Fund	USD General Purposes Debt Service Fund	Nonmajor Governmental Funds
General Fund	\$ 465,868	\$ 15	\$ 8	\$ 4	\$ 2	\$ 4,934,846
General Purpose School	649,743	-	-	-	-	150,377
GSD General Purpose Debt Service Fund	207,059	-	-	-	-	801
GSD School Purpose Debt Service Fund	1,002	-	-	-	-	133
USD General Purpose Debt Service Fund	497	-	-	-	-	606
Nonmajor Governmental Funds	921,666	4,784,107	11,637,034	6,851,869	6,307,415	5,094,546
Department of Water and Sewerage Services	14,952,883	-	-	-	-	1,741,582
Nonmajor Enterprise Funds	293,898	-	-	-	-	12
Internal Service Funds	182,803	-	-	-	-	10,806
Fiduciary Funds	811,316	638,522	-	-	-	-
Governmental Component Units	1,193,605	-	-	-	-	23,125
Proprietary Component Units	2,372,883	-	-	-	-	-
	<u>\$ 22,053,223</u>	<u>\$ 5,422,644</u>	<u>\$ 11,637,042</u>	<u>\$ 6,851,873</u>	<u>\$ 6,307,417</u>	<u>\$ 11,956,834</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SCHEDULE OF INTERFUND RECEIVABLES AND PAYABLES AND
AMOUNTS DUE TO AND DUE FROM COMPONENT UNITS (CONTINUED)

For the Year Ended June 30, 2002

Due To						
Department of Water and Sewerage Services	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Governmental Component Units	Proprietary Component Units	Total
\$ 65,645	\$ 2,989	\$ 1,665,427	\$ 1,646,396	\$ 791,298	\$ 305,986	\$ 9,878,484
-	416	415,845	291,264	-	-	1,507,645
-	-	3,430	-	-	-	211,290
-	-	2,018	-	-	-	3,153
-	-	273	-	-	-	1,376
485,242	100,000	916,580	16,718	-	4,893,952	42,009,129
-	4,825	111,777	18,517	-	531	16,830,115
-	-	109,516	12,814	-	97,579	513,819
392	-	137,935	5,672	-	-	337,608
2,605	-	1,854,131	-	-	69,409	3,375,983
-	-	1,736	31	-	-	1,218,497
119,901	-	55,430	28,422	-	4,880	2,581,516
<u>\$ 673,785</u>	<u>\$ 108,230</u>	<u>\$ 5,274,098</u>	<u>\$ 2,019,834</u>	<u>\$ 791,298</u>	<u>\$ 5,372,337</u>	<u>\$ 78,468,615</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2002 are attributable to the budgeted allocation of resources from one fund to another and consist of the following:

SCHEDULE OF INTERFUND TRANSFERS

For the Year Ended June 30, 2002

Transferred From	Transferred To			
	General Fund	General Purpose School Fund	GSD General Purposes Debt Service Fund	GSD School Purposes Debt Service Fund
General Fund	\$ 1,497,234	\$ 4,375	\$ 3,742,450	\$ -
General Purpose School	2,074,753	-	-	-
Nonmajor Governmental Department of Water and Sewerage Services	2,475,245	1,629,612	8,640,430	4,373,461
Nonmajor Enterprise Funds	307,032	-	-	-
Internal Service Funds	205,830	-	-	-
Fiduciary Funds	1,446,477	-	-	-
	1,878,131	-	-	-
	<u>\$ 9,884,702</u>	<u>\$ 1,633,987</u>	<u>\$ 12,382,880</u>	<u>\$ 4,373,461</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SCHEDULE OF INTERFUND TRANSFERS (CONTINUED)

For the Year Ended June 30, 2002

Transferred To					
USD General Purposes Debt Service Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
\$ -	\$ 52,742,484	\$ 259,708	\$ 151,324	\$ -	\$ 58,397,575
-	7,846,467	-	500,000	-	10,421,220
32,648	2,643,609	1,163,375	2,613,389	-	23,571,769
-	1,688,901	-	-	-	1,995,933
-	1,425	-	25,000	59,689	291,944
-	525	-	18,336	-	1,465,338
-	-	-	1,828,101	-	3,706,232
<u>\$ 32,648</u>	<u>\$ 64,923,411</u>	<u>\$ 1,423,083</u>	<u>\$ 5,136,150</u>	<u>\$ 59,689</u>	99,850,011

Transfer in of general capital assets:

To general capital assets from existing internal service funds

7,987,177
\$ 107,837,188

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - COMMITMENTS AND CONTINGENCIES

A. Litigation

The Metropolitan Department of Law estimated a potential liability for claims, suits and judgments filed for damages to persons and property and for other alleged claims arising out of matters incidental to the operation of the Government. The estimated liability is not expected to be liquidated with expendable available resources and is recorded in the applicable governmental activities in the Statements of Net Assets and Activities. Any estimated liabilities attributable to proprietary funds and component units are recorded in those funds and units.

The Tennessee Supreme Court has ruled in favor of Tennessee Small Schools and held that the state's funding for teachers' salaries violates the Small Schools' school children's equal protection rights to substantial equal opportunity for an education. Unless there is an appeal to the U.S. Supreme Court, the lawsuit now enters the remedy phase. Depending on the remedy, the Government could lose between \$61 and \$74 million per year in sales tax revenue which it now spends on education.

B. Insurance and Benefits

The Government and its component units are subject to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; illnesses or injuries to employees; and natural disasters.

Primary Government

The Government is self-insured with respect to liability claims. Liabilities for all accidents are generally limited under the Governmental Tort Liability Act of the Tennessee Code as follows:

	<u>Non-automobile Accidents</u>	<u>Automobile Accidents</u>
Bodily injury	\$ 250,000 per person 600,000 per accident	\$ 250,000 per person 600,000 per accident
Property damage	85,000 per accident	85,000 per accident

The Government is also self-insured with respect to casualty losses on real and personal property for the first \$2,000,000 of loss in any one year. Claims above this amount are covered by commercial insurance provided by independent insurers. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. The Government is also self-insured with respect to medical benefits and employee blanket bond coverage. Estimated losses for all self-insured risks of \$ 25,930,857 are recorded as liabilities in internal service funds.

The following summarizes the changes in the estimated claims payable in the respective internal service funds for the years ended June 30, 2001 and 2002:

	<u>School Self Insurance</u>	<u>General Government Self Insurance</u>	<u>School Professional Employees' Insurance</u>	<u>Employees' Medical Benefit</u>	<u>Total Internal Service Fund Types</u>
Claims payable June 30, 2000	\$ 827,286	\$ 7,253,399	\$ 3,965,959	\$ 4,072,000	\$ 16,118,644
Add: Provision for events of the current fiscal year	472,509	1,549,000	24,632,829	31,050,277	57,704,615
Deduct: Payments on claims during the fiscal year	<u>196,504</u>	<u>1,340,473</u>	<u>24,468,484</u>	<u>30,955,277</u>	<u>56,960,738</u>
Claims payable June 30, 2001	1,103,291	7,461,926	4,130,304	4,167,000	16,862,521
Add: Provision for events of the current fiscal year	-	12,975,778	25,228,307	37,572,074	75,776,159
Deduct: Payments on claims during the fiscal year	<u>589,050</u>	<u>2,410,494</u>	<u>26,695,205</u>	<u>37,013,074</u>	<u>66,707,823</u>
Claims payable June 30, 2002	<u>\$ 514,241</u>	<u>\$ 18,027,210</u>	<u>\$ 2,663,406</u>	<u>\$ 4,726,000</u>	<u>\$ 25,930,857</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Component Units

The Metropolitan Development and Housing Agency maintains commercial insurance coverage to cover the various risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Agency. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The Hospital Authority participates in the Government's insurance and benefits programs.

The Electric Power Board is covered under the same Tort Liability Act as the primary government and is also a participant with the primary government in the General Government Self-Insurance Fund. The Board is self-insured for employee dental claims and self-insured up to \$100,000 for employee medical claims. The Board continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past two fiscal years.

The Metropolitan Transit Authority is self-insured for all vehicle accident losses up to \$500,000 per occurrence. Non-vehicle accident losses are fully covered under a self-insurance program. A provision has been made for all such known losses incurred through June 30, 2002. The maximum reinsurance available during 2002 was \$1,000,000. Total claims paid did not exceed the maximum.

The Metropolitan Transit Authority has purchased reinsurance which provides for reimbursement of paid medical claims in excess of \$75,000 per covered participant per agreement year, with the exception of four employees who have specific deductibles ranging from \$175,000 to \$250,000. The policy also provides a specified maximum of \$925,000 during the lifetime of a covered participant, and an aggregate maximum for total claims paid per agreement year. The aggregate maximum each year fluctuates based on the number of employees under single or family coverage contracts. The maximum amount that the reinsurance carrier will pay out in a plan year is \$1,000,000. Total claims paid in 2002 did not exceed the aggregate maximum.

As required by a collective bargaining labor agreement, the Davidson Transit Organization Employee Benefit Trust was established to pay all medical claims for Metropolitan Transit Authority employees. The accrued medical claims and re-insurance amounts are recorded by the Trust. The Metropolitan Transit Authority funds the Trust on a break-even basis. At June 30, 2002, the Metropolitan Transit Authority owed the Trust \$779,624 which is included in other current liabilities.

The Nashville Thermal Transfer Corporation is a participant in the Government's Self Insurance fund for coverage of all property losses. The Corporation carries commercial insurance for all other risks of loss including general liability, automobile, workers' compensation, business interruption, boiler and machinery, directors' and officers' liability, and umbrella liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Airport Authority accrues self-insured employee medical benefit claims. The liability for reported claims and claims incurred but not reported, an estimate of which is based on historical experience and management projections, is grouped with accrued payroll and related items in the financial statements. The Airport Authority carries commercial insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Emergency Communications District is exposed to various risks of loss related to the theft, damage and destruction of assets. All equipment is covered by warranty and service agreements. The District carries fidelity bond insurance in the amount of \$165,000 for each staff and Board member and has had no claims or settled claims in the past three fiscal years.

The Industrial Development Board is self-insured for all losses to which it is exposed. The Board limits its risk by issuing no more than 85% of project values in bonds and by requiring companies receiving bond issuances to sign personal indemnities in case of default.

C. Federal and State Financial Assistance

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

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The full faith and credit of the Government is pledged for possible deficiencies in the collection of required state sewer user fees established in connection with certain grants received from the State Funding Board (TCA 68-221-202 through 68-221-214). The Department of Water and Sewerage Services acts as a conduit with respect to sewer user fees imposed by the state. These user fees are set at an amount sufficient to recover the project costs, including related interest expense. As of June 30, 2002, no deficiencies existed. The amount to be recovered from user fees is \$60,763,705 at June 30, 2002 and is recorded as capital grants and contributions by the Department of Water and Sewerage Services.

D. Construction Commitments

Primary Government

Capital projects funds of \$97,058,959 are designated for specific projects at June 30, 2002.

At June 30, 2002, the Department of Water and Sewerage Services had commitments of \$19,859,318 for construction contracts.

The State of Tennessee Department of Environment and Conservation issued an order in 1990 to the Department of Water and Sewerage Services to correct certain deficiencies in the Department's wastewater system. The order specifies certain conditions and capital improvements which must be made by given deadlines. The future related capital expenditures are expected to total approximately \$108,385,000 through the year 2007. The Department has identified various sources to fund these mandated improvements. In addition, the Department is currently investigating various options to raise funds for wastewater system capital improvements mandated by the State of Tennessee Department of Health and Environment. Failure to comply with the mandate and meet established deadlines could result in penalties up to \$500,000 per year. No such penalty has been assessed through June 30, 2002. Proposed plans to fund capital expenditures for the next few years include internally generated cash and Tennessee Local Development Authority Loans.

Component Units

As of September 30, 2001, the Metropolitan Development Housing Agency had outstanding construction commitments of approximately \$24.6 million. Of this amount, \$22.1 million will be paid by grants committed to the Agency by HUD, and the remaining \$2.5 million will be paid by funds committed to the Agency by the Metropolitan Government and private foundations.

The Metropolitan Nashville Airport Authority estimates the cost of completion of various construction projects at June 30, 2002 to be \$33,573,444, of which \$3,575,481 is expected to be reimbursed by other governmental agencies.

E. Other Commitments

Primary Government

In May 1999, the Government entered into a memorandum of understanding with Dell Computer Corporation (Dell), whereby Dell agreed to locate a manufacturing and assembly plant in Davidson County, and the Government agreed to provide property, site improvements, and other economic incentives. One incentive program is a 40 year grant to Dell, where the Government will pay Dell, through the Industrial Development Board, \$500 per employee, based on the average number of full-time equivalent employees. Dell is expected to employ approximately 1,500 employees, and grant payments began with the 2000 fiscal year. The amount paid to Dell totaled \$997,890 for the year ended June 30, 2002.

In May 1999, the Department of Water and Sewerage Services entered into a contract with an engineering firm (the Contractor) in which the Department agreed to pay the Contractor for change management services to enable and assist the Department to achieve specified verifiable and sustainable operating expenses of \$60 million or less by June 30, 2004. The services are to be delivered by the Contractor in three phases. Fixed fees to be paid under the contract total \$1,200,000 (\$400,000 for Phase I and \$800,000 for Phase II). The contract also provides that whenever the Department attains a level of actual verifiable and sustainable expenses of \$64 million or less, the Contractor and the Department's employees shall receive a share of the additional savings (15% to 20%) according to the formula specified in the contract for each year the additional savings are attained for the term of the contract which is currently expected to end on April 30, 2004. During fiscal year 2002, \$240,000 was paid for Phase II fees. An additional \$40,000 was paid in August 2002. No amounts are due under the condition portion of the contract.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Department of Water and Sewerage Services has also entered into a contract with Utility Revenue Management Company, Inc. (the Contractor) in which the Department has agreed to pay the Contractor for situations identified by the Contractor where water and sewer services are unbilled or misbilled and corrective actions are recommended. Compensation to the Contractor under the contract is 45% of the gross increased revenues as defined in the contract. The contract expired July 6, 2001. The contract requires payment of fees to continue for 36 months after corrective action was identified. Fees paid to the Contractor for the year ended June 30, 2002 totaled \$381,362.

Component Units

The Hospital Authority has entered into an agreement with Vanderbilt University Medical Center (Vanderbilt) to provide certain management services for General Hospital and Bordeaux Hospital. The agreement ends on June 30, 2002 and requires annual payments to Vanderbilt of \$395,000, which will increase by 5% annually. The agreement also stipulates that the Hospital Authority will provide \$23,375,000 per year for the payment of all costs of the operations of General Hospital, and that 50% of any annual operating surpluses, as defined by the agreement, will be paid to Vanderbilt to be used to benefit General Hospital. The outstanding management fees and surplus payable to Vanderbilt is \$36,291 at June 30, 2002.

In August 1996, Congress approved the Health Insurance Portability and Accountability Act of 1996 (Act). Under the Act, the federal government was given substantial resources and authority for the completion of fraud and abuse investigations and the Act has established substantial fines and penalties for offenders. Management of the Hospital Authority continues to implement policies, procedures, and a compliance overview organizational structure to enforce and monitor compliance with this Act and other government statutes and regulations. The Hospital Authority's compliance with such laws and regulations is subject to future government review and interpretations, as well as regulatory actions which are unknown or unasserted at this time. While the outcome cannot be determined at this time, management is of the opinion that liability, if any, from such reviews will not have a material effect on the Hospital Authority's financial position and results of operations.

The Metropolitan Development and Housing Agency is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Agency's attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the Agency. Accordingly, no provision for loss, if any, related to these matters has been made in the financial statements.

The Metropolitan Development and Housing Agency has designated Affordable Housing Resources (AHR), an Agency sub-recipient and non-profit developer, as the Developer of the Row 8.9 Condominiums. AHR has received a loan of \$150,000 with 5% interest from HOME program funds for which the Agency has agreed to guarantee the repayment.

The Public Housing Reform Act of 1998, effective October 1, 1999, included a provision that requires certain income to be excluded in calculating rents. The rents of current residents of public housing have been calculated based on present HUD guidelines and regulations. Former tenants of public housing that vacated after October 1, 1999, may be entitled to a refund of rent paid under these guidelines. In the opinion of management, any such refund would not have a material effect on the financial position of the Agency at September 30, 2001.

The Electric Power Board has entered into agreements with outside firms to provide information and data processing system support through 2003. The total commitment remaining under these agreements is \$1,360,652 through 2003.

The Electric Power Board is party to various litigation filed against it in the normal course of business. Management does not believe that damages, if any, arising from outstanding litigation, will have a material effect on the financial position of the Board.

The Metropolitan Transit Authority has a five-year contract, expiring August 2003, with a management company for advisory and management services. Under the contract, the Metropolitan Transit Authority is provided a one-member local management team, non-resident staff and overall supervision. Compensation for these services was approximately \$164,000 for the year ended June 30, 2002.

The Nashville Thermal Transfer Corporation entered into an agreement with a third party to receive various services to support its on-going operations until the Corporation ceases operations in April, 2004. The future minimum payments due under this agreement are approximately \$371,000.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Nashville Thermal Transfer Corporation has an agreement with a supplier which requires the Corporation to purchase minimum amounts of natural gas from the supplier through April 30, 2004. Under the terms of the agreement, future minimum payments due under this agreement are \$8,127,000. Natural gas expense under such agreement for the year ended June 30, 2002 was approximately \$2,187,000.

The Airport Authority is a defendant in certain lawsuits filed by area residents who allege property value damage as a result of increased air traffic and other legal proceedings incidental to its operations. The Authority intends to vigorously defend itself in these actions. Management cannot predict the extent to which similar actions may be taken by other parties. In the opinion of management and the Authority's legal counsel, while the ultimate outcome of these matters, including an estimate of potential loss, cannot presently be determined, any losses sustained would be recoverable through the Authority's leases with certain airlines.

In August 1997, the Emergency Communication District's board of directors approved an Interlocal Agreement with the Government to assist in the financing of an 800 MHz radio system. The total cost of this equipment is estimated to be \$28 million, of which the District will be responsible for \$2.8 million per year, payable in semi-annual installments, over a ten-year period. To fund its portion of the acquisition, the District increased the monthly emergency telephone service subscriber fees. The Emergency Communications District paid approximately \$127,000 in 2002 under maintenance contracts for its communications recording and the enhanced 911 telephone systems.

The Nashville District Management Corporation has an agreement with the Government to provide program administration of the Nashville Central Business Improvement District in accordance with Tennessee law. The Corporation's duties and responsibilities under the agreement 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 term of the agreement is one year, renewable annually by the mutual notification by each party to the other. The agreement may be terminated by the Government upon thirty days notice.

The Nashville District Management Corporation has entered into an agreement with a service provider to provide a "Clean Team" for the District. Under the arrangement, the Clean Team serves primarily as a litter control and prevention service and secondarily as a resource of public information for downtown visitors, workers, shoppers and residents. The term of the agreement extends through June 30, 2001 and will not exceed \$356,652 annually.

The Nashville District Management Corporation receives personnel and administrative services from the Nashville Area Chamber of Commerce. In addition, the Corporation pays the Chamber a monthly management services fee of \$417. Substantially all management and general expense included in the financial statements was paid to the Chamber.

NOTE 13 – SUBSEQUENT EVENTS

On October 15, 2002, the Government approved an initial resolution to issue General Obligation Bonds in an amount not to exceed \$263,280,000. The bonds are to provide funds for various public improvement projects in the General Services District, Schools and Urban Services District. The Government currently anticipates the sale of up to \$100 million of General Obligation Bonds in FY 2003 to fund these and other approved projects.

On October 24, 2002, the Government issued \$66,700,000 District Energy System Revenue Bonds, 2002 Series A, at a true interest cost of 4.72%. The bonds provided funds to finance, in part, construction of new steam and chilled water generating facilities and improvements to an existing energy distribution system (District Energy System), all to be owned by the Government. The 2002 Series A Bonds were issued pursuant to a District Energy System General Bond Resolution adopted by the Government on December 18, 2001, as amended and supplemented, and are payable solely from revenues derived by the Government from the operation of the District Energy System, and all other monies legally available, including if necessary, annual appropriations by the Government to cover any deficiency between System revenues and System expenses, including debt service on the 2002 Series A Bonds. Upon completion of the District Energy System in 2004, the existing facility (owned by the Government and currently operated by the Nashville Thermal Transfer Corporation, a not-for profit corporation and component unit of the Government, under an Acquisition and Operating Agreement) will cease operations and close.

On October 31, 2002, the Government issued \$108,690,000 General Obligation Multi-Purpose Refunding Bonds, Series 2002, at a true interest cost of 4.31%. These bonds refunded certain maturities of the Government's outstanding 1) General Obligation Multi-Purpose Improvement Bonds, Series 1994, dated September 15, 1994 (the Series 1994 Bonds); 2) General Obligation Multi-Purpose Improvement Bonds, Series 1995, dated April 15, 1995 (the Series 1995 Bonds); 3) General Obligation Public Improvement Bonds, Series 1996, dated June 15, 1996 (the Series 1996 Bonds); and 4) General Obligation Multi-Purpose Improvement Bonds, Series 2001A, dated February

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15, 2001 (the Series 2001A Bonds). As a result, certain maturities of the Series 1994 Bonds, Series 1995 Bonds, Series 1996 Bonds and Series 2001A Bonds are considered to be defeased. 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 \$5,516,389.

The Government is planning to issue approximately \$30,255,000 in Water and Sewer Revenue Refunding Bonds to refund certain maturities of the Government's outstanding Water and Sewer Revenue Bonds.