

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Metropolitan Government of Nashville and Davidson County (the Government), we offer readers of the Government's financial statements this narrative overview and analysis of the financial activities of the Government for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i to vi of this report.

Comparative analyses of key elements of total governmental funds and total enterprise funds have been provided. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

FINANCIAL HIGHLIGHTS

- The assets of the Government exceeded its liabilities at the close of the most recent fiscal year by \$2.3 billion (*net assets*). Of this amount, \$422 million (*unrestricted net assets*) may be used to meet the Government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the Government's governmental funds reported combined ending fund balances of \$525 million, a decrease of \$62 million in comparison with the prior year. Approximately 48.02% of this total amount, \$252 million, is available for spending at the Government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$64 million, or 11.09% of total general fund expenditures.
- The proprietary funds reported net assets at year-end of \$1.1 billion, an increase of \$23 million during the year.
- The Government's total general obligation and revenue bonds outstanding decreased by \$27 million (1.55%) during the current fiscal year. Although new refunding debt issues totaled \$74 million, this increase was offset by the retirement of the refunded debt, principal payments and changes in deferred amounts of \$101 million. Additionally, \$66 million of revenue bonds of Nashville Thermal Transfer Corporation, a component unit, was assumed and refunded.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Government's basic financial statements. The Government's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Government's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Government's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Government is improving or deteriorating.

The Statement of Activities presents information showing how the Government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, compensated absences, etc.).

Both of the government-wide financial statements distinguish functions of the Government that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Government include general government, fiscal administration, administration of justice, law enforcement and care of prisoners, fire prevention and control, education, regulation and inspection, conservation of natural resources, public welfare, public health and hospitals, public library system, public works, highways and streets, and recreational and cultural. The business-type activities of the Government include the Department of Water and Sewerage Services, Nashville Convention Center, Board of Fair Commissioners, Farmers Market and Police Secondary Employment.

The government-wide financial statements include not only the Government itself (known as the *primary government*), but also the Nashville District Management Corporation, Sports Authority, Hospital Authority,

Metropolitan Development and Housing Agency, Electric Power Board, Metropolitan Transit Authority, Nashville Thermal Transfer Corporation, Metropolitan Nashville Airport Authority, Emergency Communications District, and Industrial Development Board. These *component units* are legally separate organizations for which the Government is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages B-2 to B-5 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Government, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Government can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the focus is on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating the Government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Government's near-term financing decisions. Both the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Government reports 25 individual governmental funds. Information is presented separately in the Balance Sheet – Governmental Funds and in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds for the General Fund, General Purpose School Fund, GSD General Purposes Debt Service Fund, GSD School Purposes Debt Service Fund, and USD General Purposes Debt Service Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements which are included in the sections following the notes to the financial statements.

The Government adopts an annual appropriated budget for each major governmental fund. Budgetary comparison statements have been provided in the Basic Financial Statements section for the General Fund and General Purpose School Fund to demonstrate compliance with the budget. Budgetary comparison schedules have been provided in the Governmental Funds Combining Statements section for the GSD General Purposes Debt Service Fund, GSD School Purposes Debt Service Fund, and USD General Purposes Debt Service Fund.

The basic governmental fund financial statements can be found on pages B-6 to B-17 of this report.

Proprietary funds – The Government maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Government uses enterprise funds to account for the Department of Water and Sewerage Services, Nashville Convention Center, Board of Fair Commissioners, Farmers Market and Police Secondary Employment. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Government's various functions. The Government uses internal service funds to account for its printing, fleet of vehicles, information systems, radio equipment, insurance, office supply, postal, facilities planning, and treasury management services. Because these services predominantly benefit governmental rather than business-type functions, they have been primarily included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Department of Water and Sewerage Services which is considered to be a major fund of the Government. Data from the other enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of combining statements which are included in the sections following the notes to the financial statements. Also, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is also provided in the form of combining statements which are included in the sections following the notes to the financial statements.

The basic proprietary fund financial statements can be found on pages B-18 to B-23 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the Government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Government's own programs. The accounting used for fiduciary

funds is much like that used for proprietary funds. Individual fund data for the fiduciary funds is provided in the form of combining statements which are included in the sections following the notes to the financial statements.

The basic fiduciary fund financial statements can be found on pages B-24 to B-25 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages B-39 to B-103 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Government's progress in funding its obligation to provide pension benefits to employees, found on pages B-82 to B-87, and concerning certain infrastructure condition and maintenance data, found on pages B-104 to B-105.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and fiduciary funds are presented immediately following the Basic Financial Statements section. Combining and individual fund statements can be found on pages C-2 to E-12 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Government, assets exceeded liabilities by \$2.3 billion at the close of the most recent fiscal year.

The Government's Net Assets in thousands of dollars (as of June 30, 2002)

	Governmental Activities	Business-type Activities	Total Primary Government
Current and other assets	\$ 1,272,304	\$ 386,933	\$ 1,659,237
Capital assets	2,041,924	1,276,224	3,318,148
Total assets	3,314,228	1,663,157	4,977,385
Long-term liabilities	1,304,644	551,711	1,856,355
Other liabilities	720,376	60,605	780,981
Total liabilities	2,025,020	612,316	2,637,336
Net assets:			
Invested in capital assets, net of related debt	857,993	699,546	1,557,539
Restricted	79,462	281,313	360,775
Unrestricted	351,753	69,982	421,735
Total net assets	\$ 1,289,208	\$ 1,050,841	\$ 2,340,049

The largest portion of the Government's net assets (66.56%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Government uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Government's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Government's net assets (15.42%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets representing unrestricted net assets (\$422 million) may be used to meet the Government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Government is able to report positive balances in all three categories of net

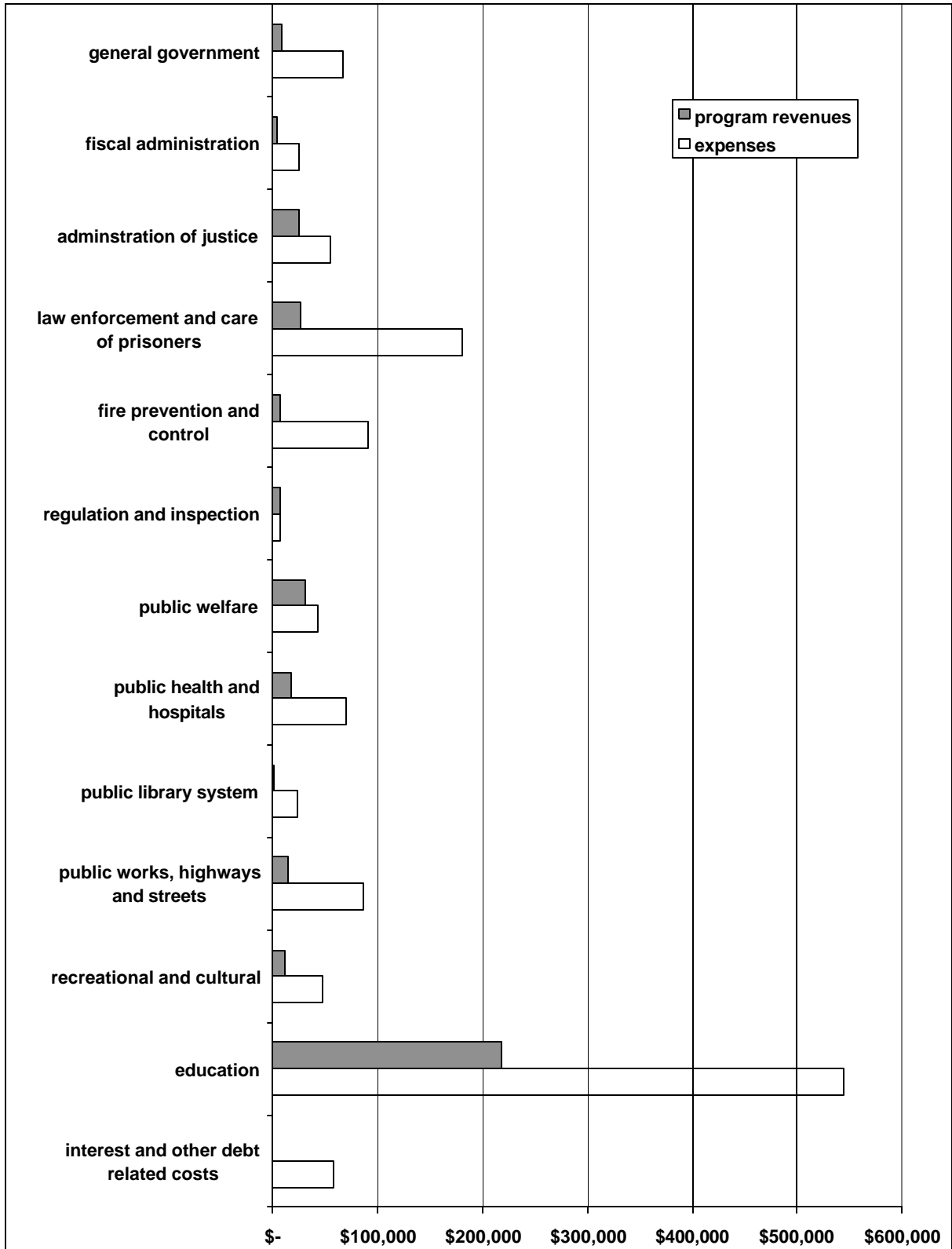
assets, both for the Government as a whole, as well as for its total governmental and total business-type activities.

The Government's Changes in Net Assets
in thousands of dollars
(for the year ended June 30, 2002)

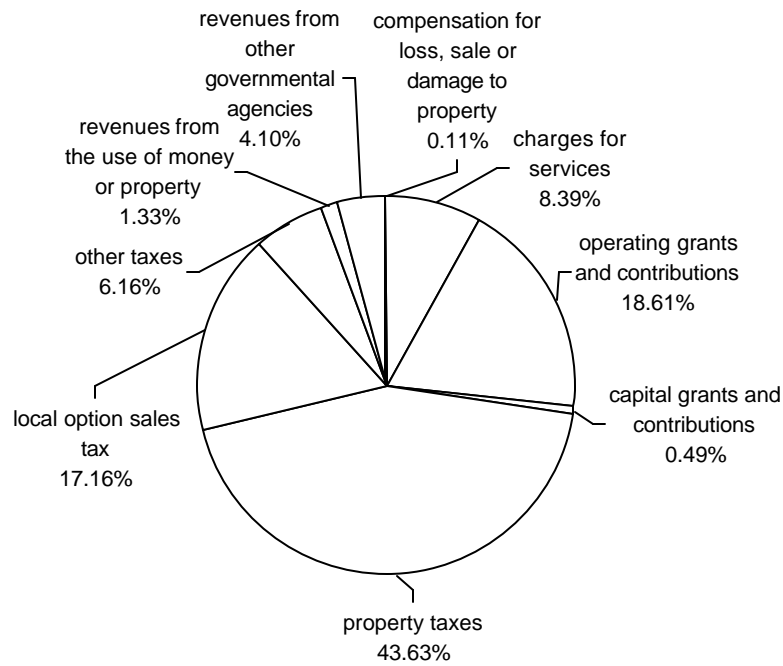
	Governmental Activities	Business-type Activities	Total Primary Government
Revenues:			
Program revenues:			
Charges for services	\$ 113,284	\$ 163,948	\$ 277,232
Operating grants and contributions	251,234	-	251,234
Capital grants and contributions	6,635	25,576	32,211
General revenues:			
Property taxes	587,143	-	587,143
Local option sales tax	231,627	-	231,627
Other taxes	83,152	-	83,152
Revenues from the use of money or property	18,002	13,786	31,788
Revenues from other governmental agencies	55,364	-	55,364
Compensation for loss, sale or damage to property	1,500	-	1,500
Total revenues	1,347,941	203,310	1,551,251
Expenses:			
General government	66,207	-	66,207
Fiscal administration	25,006	-	25,006
Administration of justice	55,740	-	55,740
Law enforcement and care of prisoners	180,267	-	180,267
Fire prevention and control	89,799	-	89,799
Regulation and inspection	7,800	-	7,800
Conservation of natural resources	355	-	355
Public welfare	42,568	-	42,568
Public health and hospitals	70,580	-	70,580
Public library system	24,044	-	24,044
Public works, highways and streets	85,901	-	85,901
Recreational and cultural	46,790	-	46,790
Education	543,635	-	543,635
Interest and other debt related costs	58,343	-	58,343
Department of Water and Sewerage Services	-	149,242	149,242
Nashville Convention Center	-	6,567	6,567
Board of Fair Commissioners	-	3,733	3,733
Farmers Market	-	1,136	1,136
Police Secondary Employment	-	2,526	2,526
Total expenses	1,297,035	163,204	1,460,239
Increase in net assets before transfers and special items	50,909	40,106	91,012
Transfers	865	(865)	-
Special item:			
General government assumption of component unit debt	(56,785)	-	(56,785)
Increase (decrease) in net assets	(5,014)	39,241	34,227
Net assets, beginning of year	1,294,222	1,011,600	2,305,822
Net assets, end of year	\$ 1,289,208	\$ 1,050,841	\$ 2,340,049

Governmental activities – Although the revenues and expenses of the governmental activities increased the Government's net assets by \$51 million, the governmental activities resulted in an overall decrease of \$5 million. During the current year, the Government assumed responsibility for debt related to the Nashville Thermal Transfer Corporation, a component unit. In the Statement of Activities, the special item of \$57 million is the net of the Corporation's debt assumed and the Corporation's debt service funds transferred to the Government's.

Expenses and Program Revenues - Governmental Activities

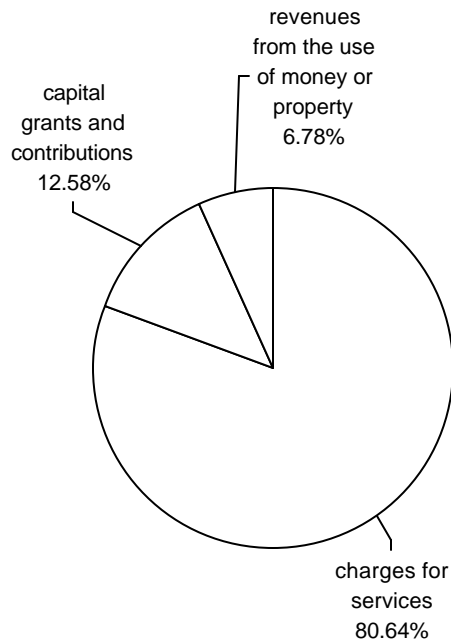


Revenues by Source - Governmental Activities



Business-type activities – Business-type activities increased the Government's net assets by \$39 million. The business-type activities continue to generate operating income which contributed the majority of the increase. Capital grants and contributions primarily represent the value of deeds for land and utility plant conveyed to the Department of Water and Sewerage Services by developers.

Revenues by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Government uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – The focus of the Government's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Government's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Assets, Liabilities and Fund Balances Total Governmental Funds in thousands of dollars

	June 30, 2002	June 30, 2001
Total assets	<u>\$ 1,267,689</u>	<u>\$ 1,301,854</u>
Total liabilities	<u>\$ 742,785</u>	<u>\$ 714,794</u>
Fund balances:		
Reserved	272,857	218,885
Unreserved	252,047	368,175
Total fund balances	524,904	587,060
Total liabilities and fund balances	<u>\$ 1,267,689</u>	<u>\$ 1,301,854</u>

As of the end of the current fiscal year, the Government's governmental funds reported combined ending fund balances of \$525 million, a decrease of \$62 million in comparison with the prior year. Approximately 48.02% of this total amount (\$252 million) constitutes unreserved fund balance, which is available for spending at the Government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to 1) liquidate contracts and purchase orders of the prior period (\$31 million), 2) for subsequent year budget appropriations (\$69 million), 3) for the purchase of equipment (\$21 million), 4) for future debt payments (\$138 million), and 5) other purposes (\$14 million).

The fund balance in the governmental funds decreased primarily due to expenditures surrounding the 2001 General Obligation bond issue and the authorization of the 2002 General Obligation bond issue, which resulted in expenditures in fiscal 2002.

The general fund is the chief operating fund of the Government. At the end of the current fiscal year, unreserved fund balance of the general fund was \$64 million, while total fund balance was \$109 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 11.09% of total general fund expenditures, while total fund balance represents 19.02% of that same amount.

The fund balance of the Government's general fund increased by \$9 million during the current fiscal year. The growth is attributable to an increase in property taxes of \$74 million (27.63%) during the year primarily due to a 25.96% and 20.75% increase in the GSD and USD property taxes rates, respectively. This increase was partially offset by increases in expenditures and other financing uses of \$65 million.

The debt service funds have a total fund balance of \$167 million, the majority of which is reserved for the payment of debt service.

Changes in Fund Balances Governmental Funds
in thousands of dollars

	June 30, 2002	June 30, 2001	Variance	
Revenues and other financing sources:				
Property taxes	\$ 598,400	\$ 470,862	\$ 127,538	27.09%
Local option sales tax	231,707	237,203	(5,496)	-2.32%
Other taxes, licenses and permits	93,770	97,698	(3,928)	-4.02%
Fines, forfeits and penalties	11,623	12,746	(1,123)	-8.81%
Revenues from the use of money or property	16,971	21,117	(4,146)	-19.63%
Revenues from other governmental agencies	345,845	314,758	31,087	9.88%
Commissions and fees	16,676	14,414	2,262	15.69%
Charges for current services	48,069	47,195	874	1.85%
Compensation for loss, sale or damage to property	2,489	4,415	(1,926)	-43.62%
Contributions and gifts	9,329	9,450	(121)	-1.28%
Miscellaneous	615	1,013	(398)	-39.29%
Other financing sources	168,884	432,359	(263,475)	-60.94%
Total revenues and other financing sources	1,544,378	1,663,230	(118,852)	-7.15%
Expenditures and other financing uses:				
Current:				
General government	27,660	23,781	3,879	16.31%
Fiscal administration	19,765	17,129	2,636	15.39%
Administration of justice	43,163	39,377	3,786	9.61%
Law enforcement and care of prisoners	159,552	140,935	18,617	13.21%
Fire prevention and control	79,074	67,146	11,928	17.76%
Regulation and inspection	7,178	5,891	1,287	21.85%
Conservation of natural resources	320	355	(35)	-9.86%
Public welfare	12,555	12,759	(204)	-1.60%
Public health and hospitals	68,431	28,794	39,637	137.66%
Public library system	16,237	11,815	4,422	37.43%
Public works, highways and streets	30,688	30,887	(199)	-0.64%
Recreational and cultural	30,305	27,826	2,479	8.91%
Employee benefits	46,877	44,797	2,080	4.64%
Miscellaneous	33,792	12,533	21,259	169.62%
Other funds:				
Personal services	433,110	400,294	32,816	8.20%
Contractual services	75,479	51,074	24,405	47.78%
Supplies and materials	60,164	47,930	12,234	25.52%
Other costs	36,883	56,363	(19,480)	-34.56%
Educational programs	399	208	191	91.83%
Capital outlay	113,037	135,152	(22,115)	-16.36%
Debt Service:				
Principal retirements	68,255	56,825	11,430	20.11%
Interest	63,676	49,835	13,841	27.77%
Fiscal charges	1,821	457	1,364	298.47%
Other financing uses	179,619	219,245	(39,626)	-18.07%
Total expenditures and other financing uses	1,608,040	1,481,408	126,632	8.55%
Net change in fund balances	(63,662)	181,822	(245,484)	-135.01%
Fund balances, beginning of year (restated)	588,566	404,102	184,464	45.65%
Equity transfers	-	1,136	(1,136)	-100.00%
Fund balances, end of year	\$ 524,904	\$ 587,060	\$ (62,156)	-10.59%

The most significant changes in revenues and other financing sources were:

- Property taxes increased by \$127 million (27.09%) during the year primarily due to a 25.96% and 20.75% increase in the GSD and USD property taxes rates, respectively.
- Revenues from other governmental agencies increased by \$31 million (9.88%) primarily due to revenues received from component units which were recorded as transfers in the prior year.
- Other financing sources decreased by \$263 million (60.94%). The prior year balance includes \$282 million of proceeds and premium related to new debt issues compared to \$74 million in the current year.

The most significant changes in expenditures and other financing uses were:

- Law enforcement and care of prisoners increased \$19 million (13.21%) due to increased funding for pay plan and benefit adjustments. Additionally, fiscal 2002 was the first year that departments were charged for the use of a new 800 MHz system installed by the Government.
- Fire prevention and control increased \$12 million (17.76%) due to increased funding for pay plan and benefit adjustments, new paramedic positions and benefits, and expenditures related to the operation of a new fire station.
- Expenditures related to public health and hospitals increased \$40 million (137.66%). This increase is primarily attributable to the recording of operating subsidies of \$33 million paid to the Hospital Authority, a component unit of the Government, as expenditures in the current year. In the prior year, these payments were recorded as transfers.
- Miscellaneous expenditures increased \$21 million (169.62%) primarily due to expenditures made to component units that were recorded as transfers out in the prior year.
- Certain General Purpose School expenditures, classified under other funds, were reclassified in the current year. Total other fund expenditures increased \$28.0 million, primarily due to pay plan and benefit increases.

Proprietary funds – The Government's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of proprietary funds at the end of the year amounted to \$92 million. The total growth in net assets for these funds was \$23 million. Other factors concerning the finances of these funds have already been addressed in the discussion of the Government's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Original and Final Budgeted Amounts

Differences in expenditures between the original budget and the final amended budget were relatively minor (\$10.0 million increase in appropriations) and can be briefly summarized as follows:

- \$2.5 million in increases to the District Energy Service for development costs,
- \$1.5 million in increases allocated to the Sheriff's Department for contracted services,
- \$5.2 million in increases allocated to public health primarily for federally and state funded programs where the increase in appropriations is offset by increases in estimated revenues,
- \$0.7 million in miscellaneous increases in general government activities.

Differences in transfers out between the original budget and final amended budget of \$12.5 million are primarily due to:

- \$5.3 million to fund a capital improvement plan,
- \$4.3 million in increases allocated to Public Works for waste management,
- \$1.0 million for the operation of the Government's arena facility.

Final Budgeted and Actual Amounts

Actual revenues and other financing sources exceed final budgeted amounts by \$9.4 million primarily due to higher than expected collections of property taxes and commissions and fees.

Actual expenditures and other financing uses were lower than final budgeted amounts by \$25.5 million. The majority of the departments were under budget as were other expenditures and transfers. The most significant variances are:

- \$3.2 million for various health-related programs, many of which are federal and state supported, were not used,
- \$3.8 million for public works for infrastructure, operations and maintenance costs were not used partly due to a transition in management which resulted in a temporary diminishment of resources,
- \$4.0 million for potential increases in rates for employee benefits were not used,
- \$6.7 million for various other miscellaneous items, such as contingencies and contributions, were not used.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – The Government's investment in capital assets for its governmental and business type activities as of June 30, 2002 amounts to \$3.32 billion (net of accumulated depreciation). Depreciation charges for the fiscal year totaled \$83 million.

The Government's Capital Assets in thousands of dollars (as of June 30,)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2002	2001	2002	2001	2002	2001
Utility plant in service	\$ -	\$ -	\$ 1,521,630	\$ 1,466,725	\$ 1,521,630	\$ 1,466,725
Land	92,061	86,041	23,099	22,918	115,160	108,959
Buildings and improvements	773,583	673,204	80,188	78,886	853,771	752,090
Improvements other than buildings	-	-	37,775	36,239	37,775	36,239
Furniture, machinery and equipment	221,802	196,195	45,995	46,100	267,797	242,295
Property under capital lease	-	-	3,645	3,645	3,645	3,645
Infrastructure	1,369,827	-	-	-	1,369,827	-
Construction in progress	44,899	98,460	26,881	27,108	71,780	125,568
Less: Accumulated depreciation	(460,248)	(17,352)	(462,989)	(419,376)	(923,237)	(436,728)
Total capital assets	\$ 2,041,924	\$ 1,036,548	\$ 1,276,224	\$ 1,262,245	\$ 3,318,148	\$ 2,298,793

The total increase in the Government's investment in capital assets for the current fiscal year was 44.34% (a 96.99% increase for governmental activities and a 1.1% increase for business-type activities).

The most significant change in capital assets during the year resulted from the inclusion of infrastructure assets of \$1.4 billion. The Government also completed significant renovations on the Parthenon facility maintained by the Department of Parks and Recreation and completed the construction of and opened a new Main Library in the downtown area.

As allowed by GASB Statement No. 34, the Government has adopted the alternative to recording depreciation expense on selected infrastructure assets. Under this method, referred to as the modified approach, the Government expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under this approach include approximately 5,523 lane miles of streets and roads and 353 bridges and overpasses that the Government is responsible for maintaining.

The Government has improved the condition of roads over the past few years. The Government's policy is to have at least 70% of roads in good or better condition. The most recent assessment indicated that 85.4% of roads are in good or better condition.

The Government estimated a need of approximately \$9 million for the year ended June 30, 2002 for preservation and maintenance of roads and streets. This level of spending on an annual basis is considered adequate to maintain 70% of roads and streets in good or better condition. Actual costs for the year ended June 30, 2002 amounted to approximately \$2 million. The variance between the needed and actual amounts was due to 1) the timing of the approval of the capital budget, and 2) a transition in management in the Public Works Department of the Government which resulted in a temporary diminishment of resources. Although actual costs were less than the anticipated needs, it is expected that a higher level of rehabilitation effort in future years will continue to maintain the condition of roads and streets at or above the acceptable level.

The Government's bridges have assessed conditions which are better than established benchmarks. The Government's policy is to have at least 75% of bridges in fair or better condition. The most recent assessment indicated that 89.0% of bridges are in fair or better condition.

The Government estimated a need of \$830 thousand for the year ended June 30, 2002 for preservation and maintenance of bridges and overpasses. Actual costs for the year ended June 30, 2002 amounted to \$637 thousand. Although actual costs were less than the anticipated needs, it is expected that the 2002 condition assessment will not indicate a significant deterioration in the condition of bridges and overpasses.

Additional information on the Government's capital assets can be found in Note 5 beginning on page B-56 of this report.

Long-term debt – At the end of the current fiscal year, the Government had total bonded debt outstanding of \$1.7 billion. Of this amount, \$1.2 billion comprises debt backed by the full faith and credit of the Government. The remainder, \$542 million, of the Government's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

The Government's Outstanding Debt
 General Obligation and Revenue Bonds
 in thousands of dollars
(as of June 30,)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2002	2001	2002	2001	2002	2001
General obligation bonds	\$ 1,187,245	\$ 1,196,320	\$ -	\$ -	\$ 1,187,245	\$ 1,196,320
Revenue bonds	16,265	17,680	525,855	539,905	542,120	557,585
Less deferred amounts, net	(3,394)	-	(9,177)	(10,053)	(12,571)	(10,053)
Total general obligation And revenue bonds bonds outstanding	\$ 1,200,116	\$ 1,214,000	\$ 516,678	\$ 529,852	\$ 1,716,794	\$ 1,743,852

The Government's total general obligation and revenue bonds outstanding decreased by \$27 million (1.55%) during the current fiscal year. Although new refunding debt issues totaled \$74 million, this increase was offset by the retirement of the refunded debt, principal payments and changes in deferred amounts of \$101 million. Additionally, \$66 million of revenue bonds of Nashville Thermal Transfer Corporation, a component unit, was assumed and refunded.

During the current year, the Government refinanced some of its existing debt to take advantage of favorable interest rates.

- The Government issued limited obligation revenue bonds to refinance previously issued limited obligation revenue bonds related to correctional facilities. The result is expected to decrease future debt payments by \$2.7 million.
- The Government issued general obligation refunding bonds to refinance previously issued energy production facility revenue bonds of Nashville Thermal Transfer Corporation, a component unit. The refunding was necessary for the construction of a new district heating and cooling facility to replace the existing thermal plant which is expected to close in 2004. The result is expected to decrease future debt payments by \$13 million.

The Government maintains an 'AA' rating from Standard & Poor's, 'AA+' from Fitch, and 'Aa2' from Moody's for general obligation debt.

The ratio of general long-term debt (defined as gross debt less debt service monies available and less debt to be repaid from sources other than property taxes) to assessed valuation is 7.50%, and amount of net debt per capita is \$1,721.58 (in whole dollars).

Additional information on the Government's long-term debt can be found in Note 6 beginning on page B-58 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for the County is currently 3.7%. The state's average unemployment rate is 5.2%. The national average is 6.0%.
- The occupancy rate of the Government's central business improvement district is 86.8%.
- The inflationary rate in the region is 2.3%. The national rate is 2.8%.

All of these factors were considered in preparing the Government's budget for the 2003 fiscal year.

Unreserved fund balance in the general fund was \$64 million at June 30, 2002. The Government has reserved \$40 million of this amount for non-recurring and capital spending in the 2003 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes or charges during the 2003 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Government's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Department of Finance, Division of Accounts, 222 3rd Avenue North, Suite 750, Nashville, Tennessee, 37201.