

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, 2003.

FINANCIAL HIGHLIGHTS

- The assets of the Government exceeded its liabilities at the close of the most recent fiscal year by \$2.4 billion (*net assets*). Of this amount, \$229 million (*unrestricted net assets*) may be used to meet the Government's ongoing obligations to citizens and creditors.
- The Government's total net assets increased by \$35 million (\$19 million from governmental activities and \$16 million from business-type activities).
- As of the close of the current fiscal year, the Government's governmental funds reported combined ending fund balances of \$360 million, a decrease of \$165 million in comparison with the prior year. Approximately 10.69% of this total amount, \$39 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 \$31 million, or 5.12% of total general fund expenditures.
- The proprietary funds reported net assets at year-end of \$1.1 billion, an increase of \$50 million during the year.
- The Government's total general obligation and revenue bonds outstanding decreased by \$28 million (1.64%) during the current fiscal year. Although new and refunding debt issues totaled \$206 million, this increase was offset by the retirement of the refunded debt, principal payments and changes in deferred amounts of \$234 million.

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, District Energy System, Nashville Convention Center, Board of Fair Commissioners, Farmers Market, Police Secondary Employment and Surplus Property Auction.

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 26 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.

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.

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, District Energy System, Nashville Convention Center, Board of Fair Commissioners, Farmers Market, Police Secondary Employment and Surplus Property Auction. *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 and District Energy System which are considered to be major funds of the Government. Data from the other enterprise funds are combined into a single, aggregated presentation. Also, the internal service funds are combined into a single, aggregated presentation in the proprietary fund 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.

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.

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 \$2.4 billion at the close of the most recent fiscal year.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 1,164,100	\$ 1,272,304	\$ 410,603	\$ 386,933	\$ 1,574,703	\$ 1,659,237
Capital assets	2,138,850	2,041,924	1,321,060	1,276,224	3,459,910	3,318,148
Total assets	3,302,950	3,314,228	1,731,663	1,663,157	5,034,613	4,977,385
Long-term liabilities	1,241,013	1,304,644	593,898	551,711	1,834,911	1,856,355
Other liabilities	753,675	720,376	70,794	60,605	824,469	780,981
Total liabilities	1,994,688	2,025,020	664,692	612,316	2,659,380	2,637,336
Net assets:						
Invested in capital assets, net of related debt	1,009,271	857,993	736,692	699,546	1,745,963	1,557,539
Restricted	131,272	79,462	269,111	281,313	400,383	360,775
Unrestricted	167,719	351,753	61,168	69,982	228,887	421,735
Total net assets	\$ 1,308,262	\$ 1,289,208	\$ 1,066,971	\$ 1,050,841	\$ 2,375,233	\$ 2,340,049

Current and other assets decreased by 5.09% due primarily to increased spending for capital projects, payroll and benefits which resulted in a decrease in the balances of cash, cash equivalents and investments of \$88 million. Capital assets increased by 4.27% due primarily to the construction of new steam and chilled water generating facilities, improvements to an existing energy distribution system, additional donated infrastructure, construction of new schools and renovation of existing government buildings. Long-term liabilities decreased by 1.16% due to the retirement of refunded debt, principal payments and changes in deferred amounts in excess of new and refunding debt issues. Other liabilities increased by 5.57% primarily due to funds with negative cash balances which are reported as liabilities.

The largest portion of the Government's net assets (73.51%) 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 (16.86%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets representing unrestricted net assets (\$229 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.

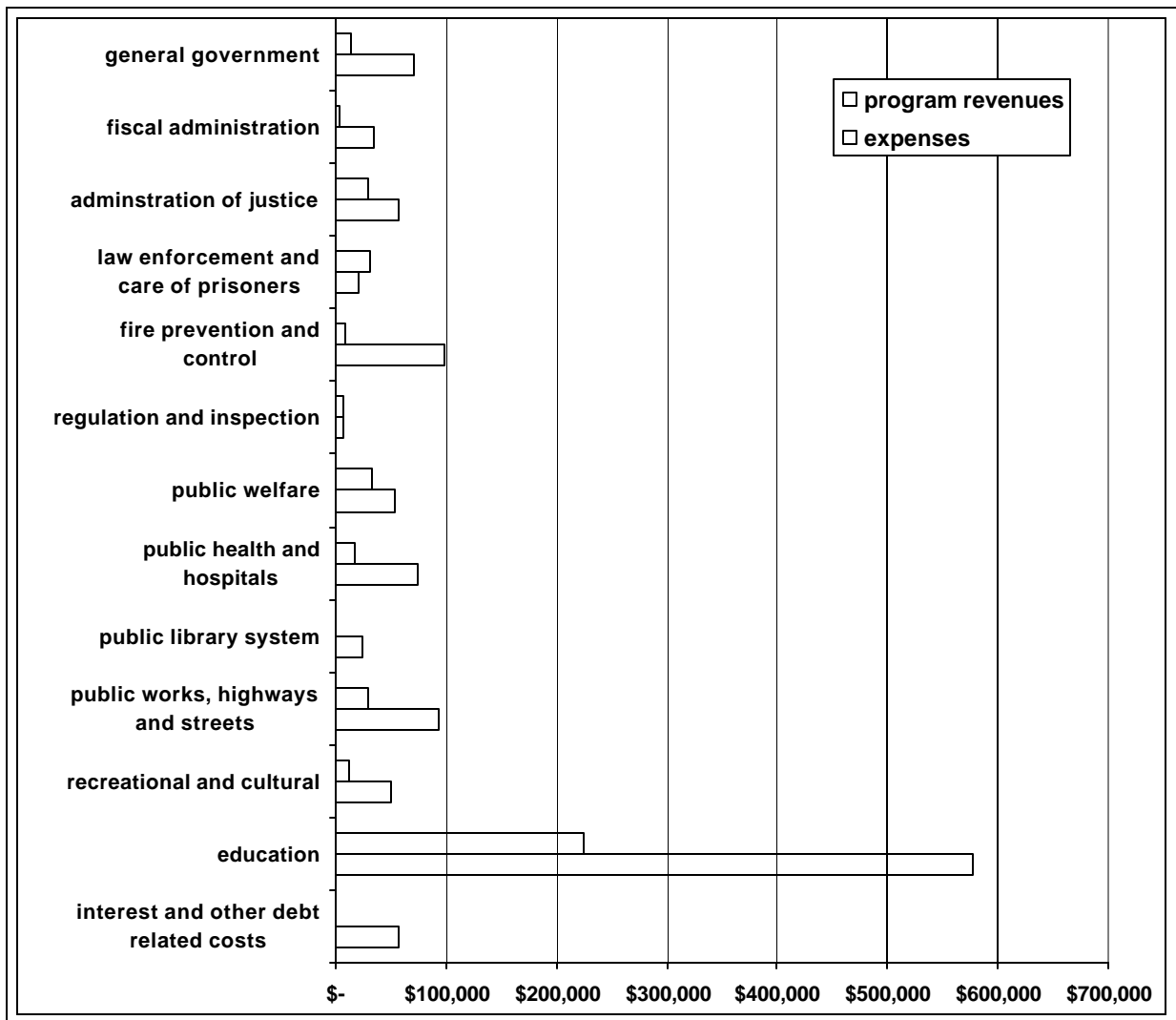
The Government's Changes in Net Assets
in thousands of dollars
(for the year ended June 30,)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:						
Charges for services	\$ 119,314	\$ 113,284	\$ 157,103	\$ 163,948	\$ 276,417	\$ 277,232
Operating grants and contributions	267,904	251,234	-	-	267,904	251,234
Capital grants and contributions	24,487	6,635	17,687	25,576	42,174	32,211
General revenues:						
Property taxes	606,681	587,143	-	-	606,681	587,143
Local option sales tax	230,686	231,627	-	-	230,686	231,627
Other taxes	86,078	83,152	-	-	86,078	83,152
Revenues from the use of money or property	9,152	18,002	8,911	13,786	18,063	31,788
Revenues from other governmental agencies	53,749	55,364	-	-	53,749	55,364
Compensation for loss, sale or damage to property	7,581	1,500	-	-	7,581	1,500
Total revenues	1,405,632	1,347,941	183,701	203,310	1,589,333	1,551,251
Expenses:						
General government	70,182	66,207	-	-	70,182	66,207
Fiscal administration	34,424	25,006	-	-	34,424	25,006
Administration of justice	56,567	55,740	-	-	56,567	55,740
Law enforcement and care of prisoners	200,445	180,267	-	-	200,445	180,267
Fire prevention and control	98,109	89,799	-	-	98,109	89,799
Regulation and inspection	7,647	7,800	-	-	7,647	7,800
Conservation of natural resources	326	355	-	-	326	355
Public welfare	54,312	42,568	-	-	54,312	42,568
Public health and hospitals	74,826	70,580	-	-	74,826	70,580
Public library system	23,619	24,044	-	-	23,619	24,044
Public works, highways and streets	93,948	85,901	-	-	93,948	85,901
Recreational and cultural	49,279	46,790	-	-	49,279	46,790
Education	577,053	543,635	-	-	577,053	543,635
Interest and other debt related costs	57,289	58,343	-	-	57,289	58,343
Department of Water and Sewerage Services	-	-	143,526	149,242	143,526	149,242
District Energy System	-	-	40	-	40	-
Nashville Convention Center	-	-	6,319	6,567	6,319	6,567
Board of Fair Commissioners	-	-	4,175	3,733	4,175	3,733
Farmers Market	-	-	1,112	1,136	1,112	1,136
Police Secondary Employment	-	-	1,679	2,526	1,679	2,526
Surplus Property Auction	-	-	9	-	9	-
Total expenses	1,398,026	1,297,035	156,860	163,204	1,554,886	1,460,239
Increase in net assets before transfers and special items	7,606	50,906	26,841	40,106	34,447	91,012
Transfers	10,711	865	(10,711)	(865)	-	-
Special items:						
Contribution of capital assets from component unit to general government	737	-	-	-	737	-
General government assumption of component unit debt	-	(56,785)	-	-	-	(56,785)
Increase (decrease) in net assets	19,054	(5,014)	16,130	39,241	35,184	34,227
Net assets, beginning of year	1,289,208	1,294,222	1,050,841	1,011,600	2,340,049	2,305,822
Net assets, end of year	\$ 1,308,262	\$ 1,289,208	\$ 1,066,971	\$ 1,050,841	\$ 2,375,233	\$ 2,340,049

Governmental activities – Governmental activities increased the Government's net assets by \$19 million, thereby accounting for 54.16% of the total growth in net assets. Key elements of this increase are:

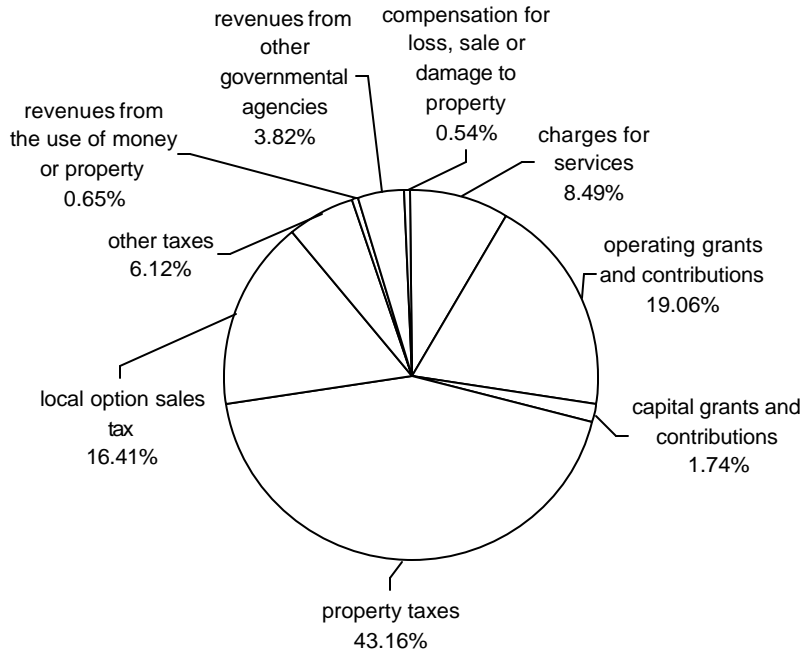
- Excess of revenues over expenses contributed \$8 million to the increase compared to \$51 million in the prior year. As planned, the Government operated without any significant changes to its revenue structure. However, expenses increased for most functions primarily due to pay plan and benefit increases.
- Transfers contributed \$11 million compared to \$1 million in the prior year. The Department of Water and Sewerage Services, a business-type activity, assumed management responsibilities for stormwater operations, a governmental activity, in the prior year. The increase primarily represents funds transferred from the Department to fund stormwater expenditures.
- A special item of \$1 million to reflect the contribution of capital assets to the Government from the Hospital Authority, a component unit, increased net assets in the current year. A special item of \$57 million to reflect the Government's assumption of debt related to the Nashville Thermal Transfer Corporation, a component unit, decreased net assets in the prior year.

Expenses and Program Revenues - Governmental Activities – For the Year Ended June 30, 2003



(in thousands)

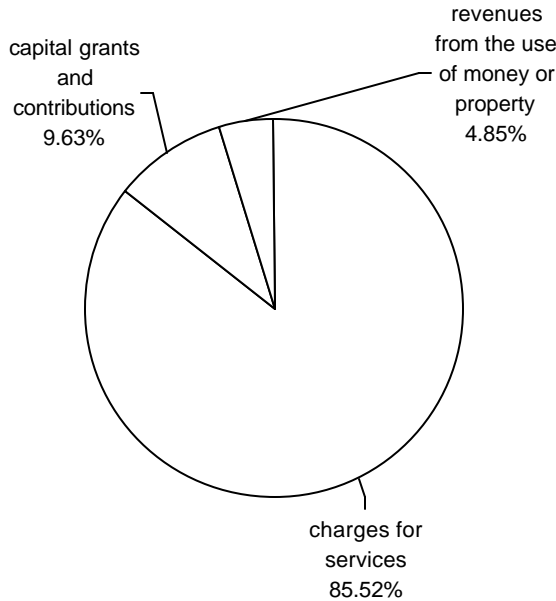
Revenues by Source - Governmental Activities – For the Year Ended June 30, 2003



Business-type activities – Business-type activities increased the Government's net assets by \$16 million, thereby accounting for 45.84% of the total growth in net assets. 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.

The increase in net assets from business-type activities of \$16 million compares to \$39 million in the prior year primarily due to the operations of the Department of Water and Sewerage Services. Capital grants and contributions decreased by \$8 million, and transfers out increased by \$10 million. The Department assumed management responsibilities for stormwater operations, a governmental activity, in the prior year. The increase in transfers out primarily represents amounts transferred to fund stormwater operations.

Revenues by Source – Business-type Activities – For the Year Ended June 30, 2003



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

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Total assets	<u>\$ 1,230,157</u>	<u>\$ 1,267,689</u>
Total liabilities	<u>\$ 869,873</u>	<u>\$ 742,785</u>
Fund balances:		
Reserved	321,768	272,857
Unreserved	<u>38,516</u>	<u>252,047</u>
Total fund balances	<u>360,284</u>	<u>524,904</u>
Total liabilities and fund balances	<u>\$ 1,230,157</u>	<u>\$ 1,267,689</u>

As of the end of the current fiscal year, the Government's governmental funds reported combined ending fund balances of \$360 million, a decrease of \$165 million in comparison with the prior year. Approximately 10.69% of this total amount (\$39 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 for 1) the liquidation of contracts and purchase orders of the prior period (\$51 million), 2) subsequent year budget appropriations (\$103 million), 3) the purchase of equipment (\$28 million), 4) future debt payments (\$128 million), and 5) other purposes (\$11 million).

Unreserved fund balances and fund balances reserved for debt service for the major governmental funds, all of which receive a share of the Government's property tax revenues, totaled \$195 million, a decrease of \$63 million in comparison with the prior year.

The fund balances in the governmental funds decreased primarily due to pay plan and benefit increases and additional capital spending consistent with the capital spending plan.

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 \$31 million, while total fund balance was \$79 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 5.12% of total general fund expenditures, while total fund balance represents 12.99% of that same amount.

The fund balance of the Government's general fund decreased by \$30 million during the current fiscal year primarily due to pay plan and benefit increases.

The debt service funds have a total fund balance of \$166 million, the majority of which is reserved for the payment of debt service.

The capital projects funds have a total fund deficit of \$49 million, a decrease of \$149 million in comparison with the prior year. This decrease is primarily due to capital spending consistent with the capital spending plan.

Changes in Fund Balances Governmental Funds
in thousands of dollars

	June 30, 2003	June 30, 2002	Variance	
Revenues and other financing sources:				
Property taxes	\$ 601,124	\$ 598,400	\$ 2,724	0.46%
Local option sales tax	230,580	231,707	(1,127)	-0.49%
Other taxes, licenses and permits	93,741	93,770	(29)	-0.03%
Fines, forfeits and penalties	14,191	11,623	2,568	22.09%
Revenues from the use of money or property	8,351	16,971	(8,620)	-50.79%
Revenues from other governmental agencies	350,106	345,845	4,261	1.23%
Commissions and fees	18,953	16,676	2,277	13.65%
Charges for current services	43,764	48,069	(4,305)	-8.96%
Compensation for loss, sale or damage to property	7,502	2,489	5,013	201.41%
Contributions and gifts	8,157	9,329	(1,172)	-12.56%
Miscellaneous	724	615	109	17.72%
Other financing sources	228,336	168,884	59,452	35.20%
Total revenues and other financing sources	1,605,529	1,544,378	61,151	3.96%
Expenditures and other financing uses:				
Current:				
General government	32,549	27,660	4,889	17.68%
Fiscal administration	20,323	19,765	558	2.82%
Administration of justice	45,795	43,163	2,632	6.10%
Law enforcement and care of prisoners	169,148	159,552	9,596	6.01%
Fire prevention and control	86,044	79,074	6,970	8.81%
Regulation and inspection	7,007	7,178	(171)	-2.38%
Conservation of natural resources	311	320	(9)	-2.81%
Public welfare	12,709	12,555	154	1.23%
Public health and hospitals	72,191	68,431	3,760	5.49%
Public library system	17,795	16,237	1,558	9.60%
Public works, highways and streets	27,118	30,688	(3,570)	-11.63%
Recreational and cultural	31,793	30,305	1,488	4.91%
Employee benefits	51,520	46,877	4,643	9.90%
Miscellaneous	34,573	33,792	781	2.31%
Other funds:				
Personal services	459,682	433,110	26,572	6.14%
Contractual services	128,378	75,479	52,899	70.08%
Supplies and materials	79,315	60,164	19,151	31.83%
Other costs	17,237	36,883	(19,646)	-53.27%
Educational programs	-	399	(399)	-100.00%
Capital outlay	114,684	113,037	1,647	1.46%
Debt Service:				
Principal retirements	77,865	68,255	9,610	14.08%
Interest	58,208	63,676	(5,468)	-8.59%
Fiscal charges	304	1,525	(1,221)	-80.07%
Bond issue costs	830	296	534	180.41%
Arbitrage rebate	826	-	826	0.00%
Other financing uses	223,944	179,619	44,325	24.68%
Total expenditures and other financing uses	1,770,149	1,608,040	162,109	10.08%
Net change in fund balances	(164,620)	(63,662)	(100,958)	158.58%
Fund balances, beginning of year	524,904	588,566	(63,662)	-10.82%
Fund balances, end of year	\$ 360,284	\$ 524,904	\$ (164,620)	-31.36%

The most significant change in revenues and other financing sources was in other financing sources which increased by \$59 million (35.20%). The current year balance includes \$114 million of proceeds and premium related to new debt issues compared to \$76 million in the prior year. Additionally, transfers in increased by \$21 million.

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

- The majority of government programs increased due to pay plan and benefit adjustments.
- Total expenditures for other funds increased by \$80 million (11.15%) due to pay plan and benefit increases and spending related to projects included in the capital spending plan. Additionally, certain expenditures previously reported as other costs were classified in other categories of expenditures in the current year.
- Principal retirements increased by \$10 million (14.08%) due to the inclusion of the Thermal Refunding Bonds issued in the prior year which refunded debt previously reported by the Nashville Thermal Transfer Corporation, a component unit.
- Other financing uses increased by \$44 million (24.68%). The current year balance includes \$113 million of payments related to refunded bonds compared to \$87 million in the prior year. Additionally, transfers out increased by \$18 million.

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 \$100 million. The total increase in net assets for these funds was \$50 million. Other factors concerning the finances of these funds have already been addressed in the discussion of the Government's business-type activities.

The Government began construction of the District Energy System during the year ended June 30, 2003. Scheduled to begin operation during the year ending June 30, 2004, the System will replace the Nashville Thermal Transfer Corporation, a component unit, and provide heating and cooling services to the Government and downtown businesses. The System is to be managed by a third party and will be self-supporting by utilizing a rate structure designed to fund debt service requirements, pay for operating expenses and generate adequate working capital.

GENERAL FUND BUDGETARY HIGHLIGHTS

Original and Final Budgeted Amounts

Differences in revenues and transfers in between the original budget and the final amended budget were minor.

Differences in expenditures and transfers out between the original budget and final amended budget were a \$5 million increase primarily due to:

- \$1 million increase related to the creation of the new Office of Fleet Management and the new Emergency Communications Center.
- \$2 million increase to fund infrastructure improvement requests initiated by members of the Metropolitan Council.
- \$2 million increase for benefit adjustments for the Police Department.

Differences in transfers out between the original budget and final amended budget of \$15 million are primarily due to funding of the capital improvement plan.

Final Budgeted and Actual Amounts

Actual revenues and other financing sources exceed final budgeted amounts by \$13 million primarily due to:

- \$11 million related to commissions and fees of certain elected officials which are excluded from the budget but included in revenues and expenditures to appropriately recognize these operations in the financial statements.
- \$4 million for the insurance recovery from the loss on a fire at the Nashville Thermal Transfer facility.

These amounts and other revenues in excess of budgeted amounts were partially offset by lower than anticipated collections on property and sales taxes.

Actual expenditures and other financing uses were lower than final budgeted amounts by \$16 million. The majority of the departments were under budget as were other expenditures. The most significant variances are:

- \$2 million for various health-related programs, many of which are federally and state supported, were not used (\$1 million in salaries and fringes and \$800,000 in various other expenditures).
- \$4 million public works, highways and streets were not used for salaries and benefits due to vacancies and turnover (\$2 million) and for infrastructure projects requested by members of the Metropolitan Council (\$2 million). These savings were partially offset by overages of \$300,000 in various other expenditures.
- \$2 million for potential increases in rates to employee benefits and needed contributions to pension plans were not used.
- \$8 million for various other miscellaneous items, such as contingencies and contributions, which 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, 2003 amounts to \$3.46 billion (net of accumulated depreciation). Depreciation charges for the fiscal year totaled \$88 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Utility plant in service	\$ -	\$ -	\$ 1,567,481	\$ 1,521,630	\$ 1,567,481	\$ 1,521,630
Land	103,616	92,061	14,342	11,871	117,958	103,932
Land easements	-	-	11,247	11,228	11,247	11,228
Buildings and improvements	877,684	773,583	83,076	80,188	960,760	853,771
Improvements other Than buildings	-	-	38,777	37,775	38,777	37,775
Furniture, machinery and equipment	236,678	221,802	35,991	45,995	272,669	267,797
Property under capital lease	-	-	3,645	3,645	3,645	3,645
Infrastructure	1,385,159	1,369,827	-	-	1,385,159	1,369,827
Construction in progress	17,601	44,899	65,153	26,881	82,754	71,780
Less: Accumulated depreciation	(481,888)	(460,248)	(498,652)	(462,989)	(980,540)	(923,237)
Total capital assets	\$ 2,138,850	\$ 2,041,924	\$ 1,321,060	\$ 1,276,224	\$ 3,459,910	\$ 3,318,148

The total increase in the Government's investment in capital assets for the current fiscal year was 4.27% (a 4.75% increase for governmental activities and a 3.51% increase for business-type activities).

The most significant changes in capital assets during the year were approximately \$35 million in costs related to the construction of new steam and chilled water generating facilities and improvements to an existing energy distribution system. Additionally, \$26 million of additional constructed and donated infrastructure was capitalized. Also, construction of new schools and renovation of existing government buildings has continued.

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 5,600 lane miles of streets and roads and 363 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 85.5% of roads are in good or better condition compared to 85.4% in the prior year.

The Government estimated a need of approximately \$9 million for the year ended June 30, 2003 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, 2003 amounted to \$6 million. Although actual costs were less than the anticipated needs, the condition level remained consistent with the prior year.

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 94.2% of bridges are in fair or better condition compared to 89.0% in the prior assessment. Enhancements to the Shelby Street Bridge that brought a large structure (deck area) to an acceptable condition were a major contributor to the improved condition rating.

The Government estimated a need of \$800 thousand for the year ended June 30, 2003 for preservation and maintenance of bridges and overpasses. Actual costs for the year ended June 30, 2003 amounted to \$555 thousand. Although actual costs were less than the anticipated needs, the condition level improved compared to the prior assessment.

Additional information on the Government's capital assets can be found in Note 5 beginning on page B-55 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, \$1.1 billion comprises debt backed by the full faith and credit of the Government. The remainder, \$580 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	
	2003	2002	2003	2002	2003	2002
General obligation bonds	\$ 1,114,990	\$ 1,187,245	\$ -	\$ -	\$ 1,114,990	\$ 1,187,245
Less deferred amounts, net	(6,178)	(3,135)	-	-	(6,178)	(3,135)
Total general obligation bonds outstanding	1,108,812	1,184,110	-	-	1,108,812	1,184,110
Revenue bonds	14,925	16,265	571,070	525,855	585,995	542,120
Less deferred amounts, net	(205)	(259)	(5,995)	(9,177)	(6,200)	(9,436)
Total revenue bonds outstanding	14,720	16,006	565,075	516,678	579,795	532,684
Total general obligation and revenue bonds bonds outstanding	\$ 1,123,532	\$ 1,200,116	\$ 565,075	\$ 516,678	\$ 1,688,607	\$ 1,716,794

The Government's total general obligation and revenue bonds outstanding decreased by \$28 million (1.64%) during the current fiscal year. Although new refunding debt issues totaled \$206 million, this increase was offset by the retirement of the refunded debt, principal payments and changes in deferred amounts of \$234 million.

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

- The Government issued general obligation refunding bonds in the amount of \$108 million to refinance various previously issued general obligation bonds. The result is expected to decrease future debt payments by \$8 million.
- The Government issued revenue refunding bonds in the amount of \$30 million to refinance previously issued revenue bonds of the Department of Water and Sewerage Services.

Additionally, the Government issued revenue bonds of \$67 million to finance, in part, the construction of new steam and chilled water generating facilities and improvements to an existing energy distribution system. The bonds are payable solely from revenues derived from the operation of the energy system.

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 6.94%, and amount of net debt per capita is \$1,634.61 (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 Nashville is currently 4.5%. The state's and nation's unemployment rates are 5.7% and 5.9%, respectively.

These and other factors were considered in preparing the Government's budget for the 2004 fiscal year.

Unreserved fund balance in the general fund was \$31 million at June 30, 2003. The Government has reserved \$42 million of fund balance in the general fund for the 2004 fiscal year budget. This use of available fund balance will avoid the need to raise taxes during the 2004 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 forwarded to the Department of Finance, Division of Accounts, at cafr@nashville.gov.