

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 as applied to governmental units. 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 for its only fund 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 is appointed by the Mayor and confirmed by the Metropolitan Council. The Government is required to approve debt issuance of the Board. Complete financial statements of the Board can be obtained from its administrative offices at 1214 Church Street, Nashville, TN 37203.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

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 provided 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 90 Peabody Street, Nashville, TN 37210.

In January 2002, the Council of 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 Corporation's solid waste burning activity by September 2002 and the termination of the Agreement between the Government and the Corporation. The Agreement's termination was simultaneous with the date the new district heating and cooling facility became operational which occurred in December 2003. Upon termination of the Agreement, the Corporation ceased all operations, the energy distribution systems of the Corporation were transferred to the Government and all remaining assets of the Corporation were sold with the exception of land which will transfer to the Government upon the completion of demolition. The utility plant is currently in the process of being demolished. Certain assets of the Corporation were disposed of prior to the termination date. The proceeds from the disposition of those assets were received directly by the Government. Due to the phase out of the solid waste burning activity, the Corporation supplemented its ability to provide heating and cooling services through the use of additional natural gas fired boilers until the new facility became operational.

On October 21, 2004 the Board of Directors of the Nashville Thermal Transfer Corporation met and determined the Corporation's dissolution date to be December 29, 2004. Upon dissolution the Corporation will cease to exist. Effective December, 2003, the District Energy System, which is an Enterprise Fund of the reporting entity, commenced operations to provide the same services.

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 funding for efficient emergency services to the public. The District is governed by a board of directors who are appointed by the Government. The District also 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 101 Shepherd Hills Drive, 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 with a September 30 year end, the Nashville District Management Corporation with a December 31 year end and the Industrial Development Board with a March 31 year end.

B. Accounting Pronouncements

The Government adopted Governmental Accounting Standards Board (GASB) Statement No. 39, Determining Whether Certain Organizations Are Component Units, in fiscal 2004. This Statement amended GASB Statement No. 14, The Financial Reporting Entity, and provided criteria for determining whether certain organizations should be reported as component units in the reporting entity. The adoption of this Statement had no effect on the Government's financial statements.

The Government plans to adopt GASB Statement No. 40, Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3 required for fiscal periods beginning after June 15, 2004, in fiscal 2005. This Statement establishes and modifies disclosure requirements related to investment and deposit risks.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Government plans to adopt GASB Statement No. 42, Impairment of Capital Assets and Insurance Recoveries, required for fiscal periods beginning after December 15, 2004, in fiscal 2006. This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and provides consistency in accounting for insurance recoveries.

The Government plans to adopt GASB Statement No. 43, Financial Reporting for Post employment Benefit Plans Other Than Pension Plans, required for fiscal periods beginning after December 15, 2005, in fiscal 2007. This Statement establishes financial reporting standards for the plans which administer other post employment benefits such as medical and life insurance.

The Government plans to adopt GASB Statement No. 44, Economic Condition Reporting: the Statistical Section, required for fiscal periods beginning after June 15, 2005, in fiscal 2006. This Statement updates the statistical section that accompanies the basic financial statements.

The Government plans to adopt GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions, required for fiscal periods beginning after December 15, 2006, in fiscal 2008. This Statement addresses how governments should account for and report their costs and obligations related to post employment healthcare and other nonpension benefits.

Management is in the process of determining the effects that the adoption of these Statements 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 Activities) report information on all of the non-fiduciary activities of the Government and its component units. All material 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 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 have been met.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 or up to one year for grant revenues. Property taxes, sales tax, franchise taxes, licenses, interest and grant revenues 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 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.

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.

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 to charge such expenses to enterprise activities, but 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 related to 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 enterprise funds:

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.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The **District Energy System** began operation in 2004 and provides heating and cooling services to the Government and downtown businesses. The System is managed by a third party and is self-supporting by utilizing a rate structure designed to fund debt service requirements, pay for operating expenses and generate 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 management, information systems, radio maintenance, insurance, central storeroom, postal services, facilities planning and construction and treasury management.

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. The cash and cash equivalents of various funds and component units of the Government are invested in pooled accounts. Funds or component units with negative cash and cash equivalents report the negative amount as due to other funds of the primary government or due to component units, and the funds or component units lending funds report an offsetting due from other funds of the primary government or due from component units. Investment income earned on funds invested in pooled accounts is allocated to the respective funds and component units 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, 2004. 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. Investment income consists of realized and unrealized appreciation or depreciation in the fair value of assets. 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, 2004.

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.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$1,464,654 for the year ended June 30, 2004.

Depreciation is provided using 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 using 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, 2004. The claims liabilities are based on the estimated cost of settling the claim, including nonincremental claim adjustments, 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.

Compensated absences - General policy of the Metropolitan Civil Service Commission permits the accumulation, within certain limitations, of unused vacation days and sick leave. Vacation days may accumulate to an amount equal to three times the current 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.

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 expense in the government-wide financial statements. This expense is based on landfill capacity used at the

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

reporting date. The current year expenditures of the landfills are reported in the Solid Waste Operations Fund, a nonmajor governmental fund, in the Governmental Funds section of this report. The long term liability and expense are reported in the Statements of Net Assets and Activities. The total liability for landfill purposes is \$7,814,867.

Bordeaux Sanitary Landfill – This landfill has stopped accepting solid waste, and closure procedures are 100% complete. Estimated postclosure costs of \$3,740,761 are included in the long-term liability.

Metro Thermal Ash Landfill – This landfill has stopped accepting solid waste. Some closing procedures have been started. Total estimated remaining closure and postclosure costs for this landfill of \$1,878,531 are included in the long-term liability.

Due West Landfill – This landfill has stopped accepting waste, and closing procedures are 100% complete. Estimated postclosure costs of \$2,195,575 are included in the long-term liability.

These estimates are based on an independent evaluation of the 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 premiums, discounts and issuance costs are treated as other financing sources or uses or expenditures 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.

Swaptions – In the governmental funds, swaption proceeds are reported as other financing sources. In the government-wide statements, proceeds from swaptions 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. 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.

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 cumulative project summary has been approved by the FAA:

	156,481,73
Airfield development	\$ 9
Terminal development	63,123,216
Land acquisition	<u>30,027,200</u>
	249,632,15
	<u>\$ 5</u>

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.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. 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, 2004. Amounts available at June 30, 2004 have been recorded as revenue in the governmental fund statements. Current tax collections of \$555,507,839 for the fiscal year ended June 30, 2004 were approximately 97% of the tax levy.

Of the \$623,075,209 property tax receivable, \$582,019,704 represents the 2004 property taxes which are not yet levied but recorded as required by GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions.

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

Management believes that the Government has no material violations of finance related legal and contractual provisions as of June 30, 2004.

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

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Appropriations for the subsequent year will provide authority to complete these transactions.

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, supplements and other amendments were made to the General Fund of \$5,603,470.

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 all legally required budgeted funds.

In accordance with Article 6 of the Metropolitan Charter, the Annual Operating Budget of the Government for the fiscal year 2004-2005 was submitted to the Metropolitan Council and subsequently approved by Substitute Bill Number O04-256. Unreserved and undesignated fund balance resources at June 30, 2004 have been appropriated to the 2004-2005 fiscal year operating budget as follows:

General Purpose School Fund	\$11,262,400
General Services District General Purposes Debt Service Fund	23,211,800
General Services District School Purposes Debt Service Fund	11,718,900
Urban Services District General Purposes Debt Service Fund	5,431,400

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Encumbrances – Information regarding the encumbrances is available to assist in the management of commitments against appropriations. Encumbrance accounting is utilized for budgetary control purposes. Encumbrances, however, are not treated as expenditures in the basic financial statements. Outstanding encumbrances at June 30, 2004 were as follows:

	Outstanding Encumbrances
General Fund	\$ 615,743
Special Revenue Funds:	
General Purpose School	77,437
Metropolitan Action Commission	120,182
General Government Services	38,141
General Fund 4% Reserve	538,769
Law Enforcement and Justice Services	445,429
Solid Waste Operations	802,211
Stormwater Operations	5,730,130
Library Services	85,390
Public Welfare Services	903
Education Services	189,166
Infrastructure Services	15,995
Nashville Career Advancement Center	1,944
District Energy System Development	644
Regulation and Inspection Services	55,695
Capital Projects Funds:	
GSD Capital Projects	17,894,390
Education Capital Projects	2,147,168
USD Capital Projects	8,837,010

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Deficit Balances and Excess Expenditures

The following funds have deficit balances at June 30, 2004:

	Undesignated Fund Balance/ Unrestricted Net Assets	Reserved/ Invested in Capital Assets, Net of Related Debt/ Restricted for Debt Retirement/ Held in Trust	Total Fund Balances/ Total Net Assets
Special Revenue Funds:			
Nashville Career Advancement Center	\$ (22,077)	\$ 400	\$ (21,677)
Regulation and Inspection Services	(141,643)	-	(141,643)
Capital Projects Funds:			
Education Capital Projects	(65,552,826)	-	(65,552,826)
USD Capital Projects	(3,947,311)	-	(3,947,311)
Enterprise Funds:			
District Energy System	3,230,588	(948,645)	2,281,943
Nashville Convention Center	(763,883)	38,136,010	37,372,127
Surplus Property Auction	(1,294,337)	-	(1,294,337)
Internal Service Funds:			
Central Printing	(17,078)	61,711	44,633
Information Systems	(1,095,028)	1,189,934	94,906
Treasury Management	(4,769)	-	(4,769)
Technology Revolving	(935,502)	33,997	(901,505)
Fiduciary Funds:			
Education Flexible Benefits Plan	-	(21,309)	(21,309)

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

Funds with deficits

Special Revenue Funds
Capital Projects Funds
Enterprise Funds
Internal Service Funds
Fiduciary Funds

Funding responsibility

General Fund
Future issuance of notes and bonds
Future user charges
Future user charges
Future contributions

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

During the year ended June 30, 2004, the Government exceeded the budgeted level of expenditures at the department or significant line item level as follows:

Budgeted Unit	Budget	Actual	Variance
General Fund:			
General Services District:			
General Government:			
County Register of Deeds	\$ 536,800	\$ 2,299,723	\$ 1,762,923
Administration of Justice:			
Circuit Court Clerk	3,166,700	7,896,850	4,730,150
Employee Benefits:			
Employee In-Line-Of-Duty Medical Expense	1,500,000	2,864,707	1,364,707
Miscellaneous:			
Administration and Internal Support	5,516,263	12,485,272	6,969,009
Transfers Out:			
General Fund 4% Reserve	17,921,500	18,441,722	520,222
General Purpose School Fund:			
Contractual Services	38,520,249	40,600,913	2,080,664
Other Costs	10,230,288	11,656,625	1,426,337
Capital Outlay	-	85,334	85,334
Transfers Out	1,553,768	2,894,240	1,340,472
GSD General Purposes Debt Service Fund:			
Arbitrage Rebate	-	187,185	187,185
GSD School Purposes Debt Service Fund:			
Arbitrage Rebate	-	213,664	213,664
Transfers Out	-	107,085	107,085
USD General Purposes Debt Service Fund:			
Transfers Out	-	2,281	2,281

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.

Employee benefits are controlled as a whole and, as a whole, were under budget. Employee In-Line of Duty Medical Expense was over budget due to the transfer to the new IOD Fund established during FY 2004.

The budget for the Administrative and Internal Support line item included budget savings. These savings were realized over all departments of the General Fund, and General Fund expenditures are under budget as a whole after taking into consideration the County Register of Deeds, Circuit Court and the IOD Fund.

The excess in the transfer to the General Fund 4% Reserve is due to revenue collections in excess of those budgeted.

The General Purpose School Fund overages for contractual services, other costs, capital outlay and transfers out are due to costs that were budgeted as supplies and materials where as the actual costs were classified to other line items.

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.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 – RESTATEMENT OF NET ASSETS

A. Net Pension Assets

Under GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, the government-wide financial statements are presented on a full accrual basis and, therefore, should include any net pension assets. In the implementation of GASB Statement No. 34, the Government omitted this asset from its government-wide financial statements. As a result, the government-wide net assets at June 30, 2003 have been restated to record net pension assets that were not previously included in the financial statements as presented below.

	<u>Primary Government</u> Governmental Activities
Net assets, beginning of year, as previously reported	\$ 1,308,262,414
Net effect of recording of pension assets	<u>56,473,005</u>
Net assets, beginning of year, as restated	<u>\$ 1,364,735,419</u>

B. Acquisition of Cumberland Utility District

The Department of Water and Sewerage Services absorbed the operations of the Cumberland Utility District effective July 1, 2003, including assumption of its outstanding assets and liabilities. The Department has restated its beginning balances to reflect this transaction.

This restatement affected beginning net assets as previously reported in the Statements of Net Assets as follows:

	<u>Primary Government</u> Business-type Activities	<u>Department of</u> Water and Sewerage Services
Net assets, beginning of year, as previously reported	\$ 1,066,970,801	\$ 1,020,192,093
Net effect of acquisition of Cumberland Utility District	<u>17,887,553</u>	<u>17,887,553</u>
Net assets, beginning of year, as restated	<u>\$ 1,084,858,354</u>	<u>1,038,079,646</u>

In addition, cash and cash equivalents and capital assets at June 30, 2003, were restated by increases of \$6,362,650 and \$11,503,767, respectively.

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). 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

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2004, 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 custodial 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 custodial credit 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, 2004.

	Deposits Per Bank And Other Financial Institutions				Carrying Amount Per Books		
	Category			Total	Cash On Deposit	Cash On Hand	Total
	A	B	C				
Governmental and Business-type activities							
General Government	\$ 20,634,575	\$ -	\$ -	\$ 20,634,575	\$ 16,717,737	\$ 71,439	\$ 16,789,176
Metropolitan Nashville Public Schools (except pension funds)	7,146,467	-	-	7,146,467	5,149,171	2,092	5,151,263
Department of Water and Sewerage Services	1,202,882	-	-	1,202,882	1,069,364	9,166	1,078,530
Total governmental and business-type activities	\$ 28,983,924	\$ -	\$ -	\$ 28,983,924	\$ 22,936,272	\$ 82,697	\$ 23,018,969
Reconciliation to presentation on the statement of net assets:							
Cash and Cash Equivalents							\$ 177,463,360
Restricted Cash and Cash Equivalents							61,448,124
Less: Cash Equivalents included as investments for footnote categorization							(215,892,515)
Total governmental and business-type activities							\$ 23,018,969
Fiduciary Funds							
Pension Funds	\$ 2,333,890	\$ -	\$ -	\$ 2,333,890	\$ 2,333,890	\$ -	\$ 2,333,890
Agency Funds	36,284,666	-	-	36,284,666	35,857,944	17,900	35,875,844
Total fiduciary funds	\$ 38,618,556	\$ -	\$ -	\$ 38,618,556	\$ 38,191,834	\$ 17,900	\$ 38,209,734

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 fiduciary net assets:							
Cash and Cash Equivalents							\$ 80,237,537
Investments in Certificates of Deposits included as cash on deposit for footnote categorization							446,869
Less: Cash Equivalents included as investments for footnote categorization							<u>(42,474,672)</u>
Total fiduciary funds							<u>\$ 38,209,734</u>
Component Units							
Nashville District							
Management Corporation	\$ 134,844	\$ -	\$ -	\$ 134,844	\$ 134,844	\$ -	\$ 134,844
Sports Authority	9,919,300	-	-	9,919,300	9,919,300	-	9,919,300
Hospital Authority	92,171	-	-	92,171	196,614	12,250	208,864
Metropolitan Development and Housing Agency	3,552,479	-	-	3,552,479	3,187,631	-	3,187,631
Electric Power Board	146,323,445	-	-	146,323,445	146,323,445	-	146,323,445
Metropolitan Transit Authority	1,823,967	-	-	1,823,967	1,566,876	-	1,566,876
Nashville Thermal Transfer Corporation	580,184	-	-	580,184	577,439	86	577,525
Metropolitan Nashville Airport Authority	37,281,042	-	-	37,281,042	46,412,567	-	46,412,567
Emergency Communications District	749,584	-	-	749,584	699,301	-	699,301
Industrial Development Board	<u>3,897,129</u>	<u>535,264</u>	<u>-</u>	<u>4,432,393</u>	<u>4,431,340</u>	<u>-</u>	<u>4,431,340</u>
Total component units	<u>\$ 204,354,145</u>	<u>\$ 535,264</u>	<u>\$ -</u>	<u>\$ 204,889,409</u>	<u>\$ 213,449,357</u>	<u>\$ 12,336</u>	<u>\$ 213,461,693</u>
Reconciliation to presentation on the statement of net assets:							
Cash and Cash Equivalents							\$ 81,900,234
Restricted Cash and Cash Equivalents							135,832,624
Investments in Certificates of Deposits included as cash on deposit for footnote categorization							39,107,662
Less: Cash Equivalents included as investments for footnote categorization							<u>(43,378,827)</u>
Total component units							<u>\$ 213,461,693</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 custodial credit 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>				
US Treasury and Agency Securities	\$ 118,766,644	\$ -	\$ -	\$ 118,766,644
Federal Agricultural Mortgage Corporation Obligations	6,998,996			6,998,996
Federal Home Loan Bank Obligations	15,153,298	-		15,153,298
Federal Home Loan Mortgage Corporation Obligations	19,064,194			19,064,194
Federal National Mortgage Association Obligations	29,821,857			29,821,857
	<u>\$ 189,804,989</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 189,804,989</u>
Not categorized:				
Tennessee Local Government Investment Pool				61,769,182
Total general government				<u>251,574,171</u>
<u>Metropolitan Nashville Public Schools (except pension funds)</u>				
US Treasury and Agency Securities	\$ 35,535,055	\$ -	\$ -	\$ 35,535,055
Federal Agricultural Mortgage Corporation Obligations	2,259,319			2,259,319
Federal Home Loan Bank Obligations	4,891,578			4,891,578
Federal Home Loan Mortgage Corporation Obligations	6,154,039			6,154,039
Federal National Mortgage Association Obligations	9,626,678			9,626,678
	<u>\$ 58,466,669</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,466,669</u>
Not categorized:				
Tennessee Local Government Investment Pool				19,939,471
Total Metropolitan Nashville Public Schools (except pension funds)				<u>78,406,140</u>
<u>Department of Water and Sewerage Services</u>				
US Treasury and Agency Securities	\$ 195,234,628	\$ -	\$ -	\$ 195,234,628
Federal Agricultural Mortgage Corporation Obligations	4,308,199			4,308,199
Federal Home Loan Bank Obligations	9,327,541			9,327,541
Federal Home Loan Mortgage Corporation Obligations	18,009,163	-		18,009,163
Federal National Mortgage Association Obligations	24,853,817	-	-	24,853,817
	<u>\$ 251,733,348</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 251,733,348</u>

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

	Category			Fair Value
	1	2	3	
Not categorized:				
Tennessee Local Government Investment Pool				\$ 42,220,261
Total Department of Water and Sewerage Services				293,953,609
Total governmental and business-type activities				<u>\$ 623,933,920</u>
Reconciliation to presentation on the Statement of Net Assets:				
Cash Equivalents included as investments for footnote classification				\$ 215,892,515
Investments				184,538,832
Restricted Investments				223,502,573
Total governmental and business-type activities				<u>\$ 623,933,920</u>
<u>Pension funds</u>				
US Treasury and Agency Securities	\$ 204,245,536	\$	\$	\$ 204,245,536
Federal Agricultural Mortgage Corporation Obligations	222,455			222,455
Federal Home Loan Bank Obligations	481,631			481,631
Federal Home Loan Mortgage Corporation Obligations	605,934			605,934
Federal National Mortgage Association Obligations	947,854			947,854
Mortgage Backed Securities	134,271,210	-	-	134,271,210
Corporate Bonds and Notes	118,274,657			118,274,657
Common Stock	1,001,410,268			1,001,410,268
Preferred Stock	7,258,402	-	-	7,258,402
Collateralized Mortgage Obligations	24,450,541	-	-	24,450,541
Convertible Equity	499,433	-	-	499,433
Asset Backed Securities	49,414,294	-	-	49,414,294
	<u>\$ 1,542,082,215</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,542,082,215</u>
Not categorized:				
Tennessee Local Government Investment Pool				1,963,264
Mortgages and Real Estate				82,919,933
Warrants and Options				320,618
Venture Capital and Partnerships				34,100,287
Other Assets				804,550
Total pension funds				<u>1,662,190,867</u>
<u>Agency Funds</u>				
US Treasury and Agency Securities	\$ 989	\$	\$	989
Corporate Bonds and Notes	10,000			10,000
	<u>\$ 10,989</u>	<u>\$</u>	<u>\$</u>	<u>10,989</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				\$ 39,797
Mortgages and Real Estate				164,118
Total agency funds				<u>214,904</u>
Total fiduciary funds				<u>\$ 1,662,405,771</u>
Reconciliation to presentation on the Statement of Fiduciary Net Assets:				
Cash Equivalents included as investments for footnote classification				\$ 42,474,672
Investments				1,620,377,968
Investments in Certificates of Deposits included as cash on deposit for footnote classification				<u>(446,869)</u>
Total fiduciary funds				<u>\$ 1,662,405,771</u>
<u>Component Units</u>				
US Treasury and Agency Securities	\$ 111,749,507	\$ -	\$ -	\$ 111,749,507
Federal Agricultural Mortgage Corporation Obligations	201,449	-	-	201,449
Federal Home Loan Bank Obligations	936,151	-	-	936,151
Federal Home Loan Mortgage Corporation Obligations	548,716	-	-	548,716
Federal National Mortgage Association Obligations	858,349	-	-	858,349
Commercial Paper	<u>39,107,662</u>	<u>-</u>	<u>-</u>	<u>39,107,662</u>
	<u>\$ 153,401,834</u>	<u>\$ -</u>	<u>\$ -</u>	<u>153,401,834</u>
Tennessee Local Government Investment Pool				1,777,874
Mortgages and Real Estate				697,504
Mutual Funds				<u>1,023,523</u>
Total component units				<u>\$ 156,900,735</u>
Reconciliation to presentation on the Statement of Net Assets:				
Cash Equivalents included as investments for footnote classification				\$ 43,378,827
Investments				71,600,134
Restricted Investments				81,029,436
Investments in Certificates of Deposits included as cash on deposit for footnote classification				<u>(39,107,662)</u>
Total component units				<u>\$ 156,900,735</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The primary government's pension plans also have \$608,917 of annuities that are classified separately from investments on the Statement of Fiduciary Net Assets Fiduciary Funds.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government

Governmental Activities:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	\$ 103,616,020	\$ 8,235,367	\$ (25,197)	\$ 111,826,190
Transportation infrastructure	1,307,760,197	47,591,839	-	1,355,352,036
Construction in progress	17,601,677	106,607,790	(15,430,632)	108,778,835
Total capital assets, not being depreciated	<u>1,428,977,894</u>	<u>162,434,996</u>	<u>(15,455,829)</u>	<u>1,575,957,061</u>
Capital assets, being depreciated:				
Buildings and improvements	877,683,843	17,595,437	(3,942,941)	891,336,339
Furniture, machinery and equipment	236,677,761	45,623,425	(25,475,695)	256,825,491
Stormwater infrastructure	77,399,052	3,214,978	-	80,614,030
Total capital assets, being depreciated	<u>1,191,760,656</u>	<u>66,433,840</u>	<u>(29,418,636)</u>	<u>1,228,775,860</u>
Less accumulated depreciation:				
Building and improvements	(321,187,128)	(19,383,213)	2,519,260	(338,051,081)
Furniture, machinery and equipment	(141,668,945)	(36,998,451)	19,355,094	(159,312,302)
Stormwater infrastructure	(19,032,011)	(1,746,690)	-	(20,778,701)
Total accumulated depreciation	<u>(481,888,084)</u>	<u>(58,128,354)</u>	<u>21,874,354</u>	<u>(518,142,084)</u>
Total capital assets, being depreciated, net	<u>709,872,572</u>	<u>8,305,486</u>	<u>(7,544,282)</u>	<u>710,633,776</u>
Governmental activities capital assets, net	<u>\$ 2,138,850,466</u>	<u>\$ 170,740,482</u>	<u>\$ (23,000,111)</u>	<u>\$ 2,286,590,837</u>

Governmental activities include the capital assets of the internal service funds.

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

Business-Type Activities:

	Balance July 1, 2003 (as restated)	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	\$ 14,820,886	\$ 49,261	\$ -	\$ 14,870,147
Construction in progress	65,152,096	100,416,243	(133,541,207)	32,027,132
Total capital assets,				
not being depreciated	<u>79,972,982</u>	<u>100,465,504</u>	<u>(133,541,207)</u>	<u>46,897,279</u>
Capital assets, being depreciated:				
Utility plant in service	1,578,343,362	121,479,952	(848,766)	1,698,974,548
Land easements	11,246,590	-	(11,246,590)	-
Buildings and improvements	83,226,333	23,902,955	(156,320)	106,972,968
Improvements other than buildings	38,776,773	2,306,553	(353,193)	40,730,133
Furniture, machinery and equipment	36,126,855	3,461,261	(535,312)	39,052,804
Property under capital lease	3,645,000	-	-	3,645,000
Total capital assets,				
being depreciated	<u>1,751,364,913</u>	<u>151,150,721</u>	<u>(13,140,181)</u>	<u>1,889,375,453</u>
Less accumulated depreciation:				
Utility plant in service	(406,114,870)	(41,184,344)	848,766	(446,450,448)
Land easements	(1,435,945)	(127,130)	1,563,075	-
Buildings and improvements	(38,350,383)	(3,590,276)	156,320	(41,784,339)
Improvements other than buildings	(24,033,186)	(1,632,801)	-	(25,665,986)
Furniture, machinery and equipment	(28,195,016)	(2,761,816)	363,100	(30,593,733)
Property under capital lease	(645,469)	(91,125)	-	(736,594)
Total accumulated depreciation	<u>(498,774,869)</u>	<u>(49,387,492)</u>	<u>2,931,261</u>	<u>(545,231,100)</u>
Total capital assets,				
being depreciated, net	<u>1,252,590,044</u>	<u>101,763,229</u>	<u>(10,208,920)</u>	<u>1,344,144,353</u>
Business-type activities				
capital assets, net	<u>\$ 1,332,563,026</u>	<u>\$ 202,228,733</u>	<u>(143,750,127)</u>	<u>\$ 1,391,041,632</u>

See Note 3.B. for discussion of the restatement.

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	\$ 5,894,137
Fiscal administration	1,350,432
Administration of justice	604,962
Law enforcement and care of prisoners	2,875,524
Fire prevention and control	623,542
Education	16,086,902
Regulation and inspection	12,302
Public welfare	441,551
Public health and hospitals	393,861
Public library system	2,420,175
Public works, highways and streets, including depreciation of stormwater infrastructure	2,246,028
Recreational and cultural	2,121,908
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	<u>11,198,470</u>
Total depreciation expense, governmental activities	<u>\$ 46,269,794</u>
Business-type activities:	
Department of Water and Sewerage Services	\$ 45,196,830
District Energy System	748,110
Nashville Convention Center	1,248,318
Board of Fair Commissioners	402,155
Farmers Market	147,901
Police Secondary Employment	<u>12,027</u>
Total depreciation expense, business-type activities	<u>\$ 47,755,341</u>

Component Units

Capital assets of the component units at June 30, 2004 consisted of the following:

	Balance July 1, 2003	Adjustments and Reclassifications	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:					
Land	\$ 566,613,290	\$ (363,100,635)	\$ -	\$ (492,454)	\$ 203,020,201
Construction in progress	<u>74,761,709</u>	<u>-</u>	<u>22,386,176</u>	<u>(26,082,525)</u>	<u>71,065,360</u>
Total capital assets, not being depreciated	<u>641,374,999</u>	<u>(363,100,635)</u>	<u>22,386,176</u>	<u>(26,574,979)</u>	<u>274,085,561</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Balance July 1, 2003	Adjustments and Reclassifications	Increases	Decreases	Balance June 30, 2004
Capital assets, being depreciated:					
Utility plant in service	\$ 848,735,098	\$ -	\$ 52,623,896	\$ (47,488,420)	\$ 853,870,574
Buildings and improvements	782,108,121	-	16,709,478	(1,606,412)	797,211,187
Improvements other than buildings	666,049	363,100,635	6,853,837	(129,068)	370,491,453
Furniture, machinery and equipment	204,409,757	-	18,487,254	(60,519,896)	162,377,115
Infrastructure	<u>11,460,638</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,460,638</u>
Total capital assets, being depreciated	<u>1,847,379,663</u>	<u>363,100,635</u>	<u>94,674,465</u>	<u>(109,743,796)</u>	<u>2,195,410,967</u>
Less accumulated depreciation for:					
Utility plant in service	(325,726,692)	-	(27,480,363)	42,991,264	(310,215,791)
Buildings and improvements	(213,865,762)	-	(25,180,413)	1,592,666	(237,453,509)
Improvements other than buildings	(186,329,257)	-	(11,603,641)	428,134	(197,504,765)
Furniture, machinery and equipment	(137,160,868)	-	(13,980,679)	59,224,942	(91,916,605)
Infrastructure	<u>(9,095,771)</u>	<u>-</u>	<u>(256,619)</u>	<u>-</u>	<u>(9,352,390)</u>
Total accumulated depreciation	<u>(872,178,350)</u>	<u>-</u>	<u>(78,501,715)</u>	<u>104,237,006</u>	<u>(846,443,059)</u>
Total capital assets, being depreciated, net	<u>975,201,313</u>	<u>363,100,635</u>	<u>16,172,750</u>	<u>(5,506,790)</u>	<u>1,348,967,908</u>
Component units activities capital assets, net	<u>\$ 1,616,576,312</u>	<u>\$ -</u>	<u>\$ 38,558,926</u>	<u>\$ (32,081,769)</u>	<u>\$ 1,623,053,469</u>

The adjustments and reclassifications column includes the effect of the reclassification on the financial statements of the Metropolitan Nashville Airport Authority. Land improvements of \$363,100,635 classified as land in the prior year were correctly classified as improvements other than buildings in the current year.

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS

Primary Government

A. Transaction Summary

Bonds, notes and other obligations activity for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
Governmental activities:					
General obligation bonds and notes payable:					
General Services District	\$ 637,517,787	\$ 59,543,043	\$ (42,676,434)	\$ 654,384,396	\$ 46,343,360
Schools	379,575,599	41,515,465	(24,122,062)	396,969,002	25,803,142
Urban Services District	97,896,614	21,041,492	(11,581,504)	107,356,602	12,718,498
Deferred charge/premium, net	<u>(6,178,255)</u>	<u>6,157,067</u>	<u>278,976</u>	<u>257,788</u>	<u>-</u>
Total general obligation bonds and notes payable	<u>1,108,811,745</u>	<u>128,257,067</u>	<u>(78,101,024)</u>	<u>1,158,967,788</u>	<u>84,865,000</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
Limited obligation revenue bonds payable:					
Correctional Facility Revenue Bonds	\$ 14,925,000	\$ -	\$ (1,395,000)	\$ 13,530,000	\$ 1,450,000
Deferred charge/premium, net	(205,183)	-	25,124	(180,059)	-
Total limited obligation revenue bonds payable	<u>14,719,817</u>	<u>-</u>	<u>(1,369,876)</u>	<u>13,349,941</u>	<u>1,450,000</u>
Commercial paper payable	<u>-</u>	<u>195,000,000</u>	<u>(127,000,000)</u>	<u>68,000,000</u>	<u>68,000,000</u>
Other obligations payable:					
Net pension obligation	49,145,930	11,258,637	(9,850,814)	50,553,753	-
Compensated absences	55,553,362	41,930,207	(49,219,842)	48,263,727	25,955,873
Claims and judgments	203,370	4,425,773	(17,800)	4,611,343	4,611,343
Interest arbitrage rebate	956,002	-	(701,440)	254,562	-
Landfill closure costs	11,622,643	174,822	(3,982,598)	7,814,867	223,445
Total other obligations payable	<u>117,481,307</u>	<u>57,789,439</u>	<u>(63,772,494)</u>	<u>111,498,252</u>	<u>30,790,661</u>
Total governmental activities long-term liabilities	<u>\$ 1,241,012,869</u>	<u>\$ 381,046,506</u>	<u>\$ (270,243,394)</u>	<u>\$ 1,351,815,981</u>	<u>\$ 185,105,661</u>
Business-type activities:					
Department of Water and Sewerage Services:					
Revenue bonds payable	\$ 504,370,000	\$ -	\$ (20,190,000)	\$ 484,180,000	\$ 21,680,000
Deferred charge/premium, net	(8,323,667)	-	824,462	(7,499,205)	-
State construction loans	51,622,823	-	(4,819,488)	46,803,335	3,292,140
Total Department of Water and Sewerage Services	<u>547,669,156</u>	<u>-</u>	<u>(24,185,026)</u>	<u>523,484,130</u>	<u>24,972,140</u>
District Energy System:					
Revenue bonds payable	66,700,000	-	-	66,700,000	-
Deferred charge/premium, net	2,329,004	-	(76,992)	2,252,012	-
Total District Energy System	<u>69,029,004</u>	<u>-</u>	<u>(76,992)</u>	<u>68,952,012</u>	<u>-</u>
Farmers Market:					
Capitalized lease obligations payable	<u>2,210,000</u>	<u>-</u>	<u>(135,000)</u>	<u>2,075,000</u>	<u>145,000</u>
Total business-type activities long-term liabilities	<u>\$ 618,908,160</u>	<u>\$ -</u>	<u>\$ (24,397,018)</u>	<u>\$ 594,511,142</u>	<u>\$ 25,117,140</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Description of Amounts Payable

Amounts payable at June 30, 2004 are as follows:

	<u>Interest Rate</u>	<u>Amount</u>
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	2.00 - 6.15%	\$ 654,384,396
General Services District - School Purposes, due in varying amounts to November 15, 2027	2.00 - 6.15%	396,969,002
Urban Services District - General Purposes, due in varying amounts to November 15, 2024	0.10 - 6.00%	107,356,602
Deferred charge/premium, net		<u>257,788</u>
Total general obligation bonds and notes payable from ad valorem taxes		<u>1,158,967,788</u>
Limited obligation revenue bonds payable:		
Correctional Facility Revenue Bonds, due in varying amounts to September 1, 2011	4.00 - 5.00%	13,530,000
Deferred charge/premium, net		<u>(180,059)</u>
Total limited obligation revenue bonds payable		<u>13,349,941</u>
Commercial paper payable, due in varying amounts to October 14, 2004	.96 - 1.10%	<u>68,000,000</u>
Other obligations payable:		
Net pension obligation		50,553,753
Compensated absences		48,263,727
Claims and judgments		4,611,343
Interest arbitrage rebate		254,562
Landfill closure		<u>7,814,867</u>
Total other obligations payable		<u>111,498,252</u>
Total governmental activities long-term liabilities		<u>\$ 1,351,815,981</u>

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	7.20 - 7.70%	\$ 135,615,000
Department of Water and Sewerage Revenue Bonds, Series 1993, due in varying amounts to January 1, 2016	4.90 - 6.50%	78,190,000
Department of Water and Sewerage Revenue Refunding Bonds of 1996, due in varying amounts to January 1, 2014	6.00%	50,570,000
Department of Water and Sewerage Revenue Refunding Bonds, Series 1998A, due in varying amounts to January 1, 2022	5.00%	152,935,000
Department of Water and Sewerage Revenue Bonds Series 1998B, due in varying amounts to January 1, 2014	4.10 - 5.25%	39,045,000
Department of Water and Sewerage Revenue Refunding Bonds Series 2002, due in varying amounts to January 1, 2016	3.00 - 5.125%	27,825,000
Deferred charge/premium, net		(7,499,205)
Total Department of Water and Sewerage Revenue bonds payable		476,680,795
District Energy System Bonds, Series 2002A, due in varying amounts to October 1, 2033	3.00 - 5.00%	66,700,000
Deferred charge/premium, net		2,252,012
Total District Energy System revenue bonds payable		68,952,012
Total revenue bonds payable		545,632,807
Department of Water and Sewerage Services - state construction loans	4.28 - 5.52%	46,803,335
Capitalized lease obligations payable:		
Farmers Market	7.50%	2,075,000
Total capitalized lease obligations payable		2,075,000
Total business-type activities long-term liabilities		\$ 594,511,142

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Governmental activities:

Noncurrent liabilities:	
Due within one year	\$ 185,105,661
Due in more than one year	<u>1,166,710,320</u>
 Total governmental activities	 <u>\$ 1,351,815,981</u>

Business-type activities:

Liabilities payable from restricted assets:	
Current portion of long-term liabilities	\$ 24,972,140
Noncurrent liabilities:	
Due within one year	145,000
Due in more than one year	<u>569,394,002</u>
 Total business-type activities	 <u>\$ 594,511,142</u>

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.

For the governmental activities, the other obligations are generally liquidated from the following:

Net pension obligation and compensated absences	Fund incurring the related employees' compensation
Claims and judgments	Fund to which the claim or judgment relates
Interest arbitrage rebate	Debt Service funds
Landfill closure costs	Solid Waste Operations Fund

C. Collateral for Obligations of the Proprietary Funds

All bonds of the Department of Water and Sewerage Services and the District Energy System are collateralized by the revenues of those entities.

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, 2004, the Government believes it was in compliance with all financial limitations and restrictions.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

E. Annual Debt Service Requirements

The annual requirements to amortize all general obligation bonds and notes and revenue bonds outstanding as of June 30, 2004 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
2005	\$ 84,865,000	\$ 57,636,649	\$ 1,450,000	\$ 585,950	\$ 21,680,000	\$ 30,712,170	\$ 107,995,000	\$ 88,348,819
2006	87,495,000	53,636,406	1,505,000	526,850	27,140,000	29,570,314	116,140,000	83,792,670
2007	74,230,000	48,826,062	1,570,000	465,350	28,495,000	28,161,808	104,295,000	77,514,720
2008	72,210,000	45,114,963	1,630,000	401,350	30,025,000	26,671,290	103,865,000	72,251,603
2009	62,000,000	41,603,741	1,710,000	760,375	32,420,000	25,009,978	96,130,000	67,015,069
2010-2014	284,040,000	163,324,000	5,665,000	-	196,670,000	89,394,170	486,375,000	252,718,170
2015-2019	251,240,000	93,760,842	-	-	121,445,000	37,259,101	372,685,000	131,019,943
2020-2024	171,845,000	43,330,978	-	-	58,500,000	14,472,246	230,345,000	57,803,224
2025-2029	65,400,000	7,727,225	-	-	15,615,000	6,672,775	81,015,000	14,400,000
2030-2034	5,385,000	141,356	-	-	18,890,000	2,453,000	24,275,000	2,594,356
Total	1,158,710,000	555,102,222	13,530,000	2,739,875	550,880,000	290,376,852	1,723,120,000	847,458,574
Deferred Charge/ Premium	257,788	-	(180,059)	-	(5,247,193)	-	(5,169,464)	-
Total	\$ 1,158,967,788	\$ 555,102,222	\$ 13,349,941	\$ 2,739,875	\$ 545,632,807	\$ 290,376,852	\$ 1,717,950,536	\$ 847,458,574

F. Commercial Paper

In August 2003, the Government instituted a general obligation commercial paper (bond anticipation note) program. Commercial paper notes are issued to provide interim or short-term financing of various authorized capital projects. The notes may be refunded with new notes (rollover notes) until the Government is prepared to issue long-term bonds and thereby provide permanent financing for the capital projects financed under the commercial paper program. The Government provides "self-liquidity" for the program, meaning if the commercial paper dealer is ever unable to market notes in the amount needed to pay the maturing notes, the Government will purchase the rollover notes, as an investment within the Metropolitan Government Investment Pool. The Government will continue to hold the notes until the commercial paper dealer is able to successfully market additional rollover notes and thereby pay the rollover notes held by the Government.

Commercial paper is issued as federally tax-exempt notes. The commercial paper is sold at par as interest-bearing obligations in minimum denominations of \$100,000 with interest payable at maturity. The commercial paper has varying maturities of not more than two years from the initial dates of issuance. Interest rates vary depending on market. The amount of principal outstanding may not exceed \$200 million.

Commercial paper obligations of \$68,000,000 outstanding at June 30, 2004, were subsequently redeemed through proceeds from the issuance of General Obligation Multi-Purpose bonds, Series 2004. The \$68,000,000 of Commercial paper is reported as a long-term liability, due within one year. Other commercial paper obligations of \$30,000,000 have not been refinanced and are considered short-term debt at June 30, 2004 and are recorded as a liability in the Capital Project Funds of the Government.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Short-term debt activity for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
Governmental activities:				
Commercial paper payable	\$ -	\$ 30,000,000	\$ -	\$ 30,000,000
Total governmental activities short-term debt	<u>\$ -</u>	<u>\$ 30,000,000</u>	<u>\$ -</u>	<u>\$ 30,000,000</u>

G. General Obligation Multi-Purpose Bonds, Series 2003

On December 2, 2003, the Government issued \$122,100,000 General Obligation Multi-Purpose Bonds, Series 2003, maturing on April 1, 2024, with interest rates ranging from 2% to 5%. These bonds provided funding to pay principal and interest on certain of the Government's maturing commercial paper notes. The net proceeds of the bonds totaled \$127,447,112 (net of original issue premium, underwriting fees and other issuance costs) and were deposited with the commercial paper paying agent.

H. Advance Refunding of Bonds

In prior years, the Government has defeased certain 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, 2004, \$60,915,000 of general obligation bonds and \$277,009,995 of revenue bonds are considered defeased.

I. 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.

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

As of June 30, 2004, 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, 2004). 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, 2004, 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 \$46,803,335 at June 30, 2004, call for monthly payments of principal and interest of approximately \$447,000.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

State construction loan principal maturities as of June 30, 2004 are summarized below:

Year Ending June 30	Principal	Interest
2005	\$ 3,292,140	\$ 2,076,484
2006	2,487,324	1,925,256
2007	2,602,116	1,810,464
2008	2,722,176	1,690,404
2009	2,847,828	1,564,740
2010-2014	16,337,064	5,725,800
2015-2019	14,638,488	1,877,868
2020-2021	1,876,199	53,791
Total	<u>\$ 46,803,335</u>	<u>\$ 16,724,807</u>

K. Swaption

Objectives In connection with the anticipated future issuance of variable rate bonds to synthetically advance refund its outstanding General Obligation Public Improvement Bonds, Series 1996 (Bonds), on May 4, 2004, the Government competitively bid the sale of a pay-fixed, receive-variable BMA swaption (Swaption). This transaction generated debt service savings in the form of an upfront payment. The Swaption was sold on a BMA floating to fixed interest rate swap and, if it is exercised by the winning bidder, the Government will be placed into a variable to fixed interest rate swap. If the Swaption is exercised, the Government will likely issue variable rate refunding bonds in 2006. The winning bidder for the Swaption was SunTrust Bank (Counterparty).

Terms The Swaption was entered into on May 10, 2004. The Government received a \$3,800,000 payment which was based on a notional amount of \$60,805,000. The Counterparty has the option to exercise the agreement on March 13, 2006. If the swap is exercised, the swap will commence May 15, 2006. The fixed swap rate (5.4%) was set at a rate that, when added to estimated remarketing and liquidity costs, will approximate the coupons of the refunded bonds. The swap's variable rate would be equal to the BMA index. The swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

Fair value As of June 30, 2004, the swap had a negative fair value of \$4,724,053. This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of the transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon method. The method calculated the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds on the date of each future net settlement on the swap.

Credit risk As of June 30, 2004, the Government was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Government would be exposed to credit risk in the amount of the swap's fair value. This would only occur after the exercise date of March 13, 2006. Until that date, a sold option will only have a negative value to the Government. The credit ratings of the Counterparty are Aa2, AA- and AA- by Moody's, S&P and Fitch, respectively. The swap agreement contains collateral agreements with the Counterparty. The swaps require collateralization of the fair value of the swap should the Counterparty's credit rating fall below the applicable thresholds. The collateral posting requirement is one-way, i.e. the Government will not be required to post collateral.

Basis risk Basis risk is the risk that the interest rate paid by the Government on underlying variable rate bonds to bondholders differs from the variable swap rate received from the Counterparty. The Government bears basis risk on its swap. The Swaption has basis risk since the Government receives BMA to offset the actual variable bond rate the Government pays on its bonds. The Government is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the Government pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Termination risk The Government or the Counterparty may terminate the swap if the other party fails to perform under the terms of the respective contracts. If the swap is terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the Government would be liable to the Counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of the Government.

Market-access risk If the option is exercised, the Government will likely need to issue variable rate refunding bonds. Market access risk describes the possibility that the Government may not be able to access the debt market efficiently at that time.

L. Unissued Bonds or Notes

At June 30, 2004, authorized but unissued general obligation bonds totaled \$499,475,000. General obligation notes authorized but not executed totaled \$500,709,000.

Component Units

A. Transaction Summary

Bonds, notes and other liabilities activity for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003	Adjustments and Reclassifications	Additions	Reductions	Balance June 30, 2004	Due Within One Year
Governmental types:						
Revenue bonds payable:						
Sports Authority	\$ 89,695,000	\$ -	\$ -	\$ (2,190,000)	\$ 87,505,000	\$ 2,305,000
Total revenue bonds payable - governmental types	89,695,000	-	-	(2,190,000)	87,505,000	2,305,000
Notes payable:						
Nashville District Management Corporation, Inc.	-	-	13,261	(2,045)	11,216	11,216
Total notes payable - governmental types	-	-	13,261	(2,045)	11,216	11,216
Proprietary types:						
Revenue bonds payable:						
Metropolitan Development and Housing Agency	9,773,400	-	-	(972,300)	8,801,100	1,057,700
Electric Power Board	380,679,199	-	114,640,987	(16,590,000)	478,730,186	17,485,000
Metropolitan Nashville Airport Authority	274,063,081	-	58,852,794	(56,750,000)	276,165,875	19,105,000
Total revenue bonds payable - proprietary types	664,515,680	-	173,493,781	(74,312,300)	763,697,161	37,647,700

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Balance July 1, 2003	Adjustments and Reclassifications	Additions	Reductions	Balance June 30, 2004	Due Within One Year
Notes payable:						
Metropolitan Development and Housing Agency:						
Notes payable	\$ 2,910,713	\$ -	\$ -	\$ (58,437)	\$ 2,852,276	\$ 61,207
Metropolitan Nashville Airport Authority: Subordinate Revenue Note, Series 1999	<u>1,090,340</u>	<u>-</u>	<u>-</u>	<u>(154,564)</u>	<u>935,776</u>	<u>164,549</u>
Total notes payable - proprietary types	<u>4,001,053</u>	<u>-</u>	<u>-</u>	<u>(213,001)</u>	<u>3,788,052</u>	<u>225,756</u>
Total revenue bonds and notes payable	<u>758,211,733</u>	<u>-</u>	<u>173,507,042</u>	<u>(76,717,346)</u>	<u>855,001,429</u>	<u>40,189,672</u>
Other liabilities payable:						
Hospital Authority:						
Capitalized lease obligation	42,600,442	-	-	(835,989)	41,764,453	900,833
Metropolitan Development and Housing Agency:						
Other liabilities	1,592,919	(1,592,919)	1,587,039	-	1,587,039	-
Electric Power Board:						
TVA Advances	2,940,406	-	681,868	(1,244,919)	2,377,355	-
Other	1,338,471	-	460,535	(937,222)	861,784	-
Metropolitan Transit Authority:						
Capitalized lease obligation	725,526	-	60,945	(131,829)	654,642	132,239
Metropolitan Nashville Airport Authority: Synthetic Advance Refunding, Series 2001	7,629,371	-	-	(906,553)	6,722,818	-
Fair value of derivative financial instruments	8,811,799	-	-	(3,973,366)	4,838,433	-
Deferred interest income	5,065,790	-	-	(446,427)	4,619,363	-
Other liabilities	2,050,234	-	44,469	(34,904)	2,059,799	-
Emergency Communications District:						
Capitalized lease obligation	<u>360,632</u>	<u>-</u>	<u>304,000</u>	<u>(175,670)</u>	<u>488,962</u>	<u>333,523</u>
Total other liabilities payable - proprietary types	<u>73,115,590</u>	<u>(1,592,919)</u>	<u>3,138,856</u>	<u>(8,686,879)</u>	<u>65,974,648</u>	<u>1,366,595</u>
Total revenue bonds, notes and other liabilities payable - component units	<u>\$ 831,327,323</u>	<u>\$ (1,592,919)</u>	<u>\$ 176,645,898</u>	<u>\$ (85,404,225)</u>	<u>\$ 920,976,077</u>	<u>\$ 41,556,267</u>

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

B. Description of Amounts Payable

Amounts payable at June 30, 2004 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%	\$ 69,800,000
Taxable Public Facility Revenue Bonds, Series 1998, due in varying amount to July 1, 2018	5.87 - 6.60%	17,705,000
Total revenue bonds payable - governmental types		87,505,000
Notes payable:		
Nashville District Management Corporation, Inc.		
Notes payable	6.00%	11,216
Total notes payable - governmental types		11,216
Proprietary types:		
Revenue bonds payable:		
Metropolitan Development and Housing Agency, Revenue Bonds, 1998 Series, due June 11, 2009	5.77%	8,801,100
Electric Power Board Electric System Revenue Bonds, 1992 Series B, due in varying amounts to May 15, 2005	4.25 - 5.62%	15,682,539
Electric Power Board Electric System Revenue Bonds, 1996 Series A, due in varying amounts to May 15, 2013	5.50 - 6.00%	74,000,518
Electric Power Board Electric System Revenue Bonds, 1998 Series A, due in varying amounts to May 15, 2023	5.125 - 5.40%	90,294,827
Electric Power Board Electric System Revenue Bonds, 1998 Series B, due in varying amounts to May 15, 2017	3.80 - 5.50%	57,236,218
Electric Power Board Electric System Revenue Bonds, 2001 Series A, due in varying amounts to May 15, 2017	4.50 - 5.00%	113,567,064
Electric Power Board Electric System Revenue Bonds, 2001 Series B, due in varying amounts to May 15, 2014	5.50%	18,587,623
Electric Power Board Electric System Revenue Bonds, 2004 Series A, due in varying amounts to May 15, 2029	4.50 - 5.00%	109,361,397
Airport Improvement Revenue Bonds, Adjustable Rate Refunding, Series 1993, due in varying amounts to July 1, 2019	Adjustable	52,700,000
Airport Improvement Revenue Bonds, Adjustable Rate Refunding, Series 1995, due in varying amounts to July 1, 2015	4.625 - 5.00%	59,870,000
Airport Improvement Revenue Bonds, Series 1998, due in varying amounts to July 1, 2016	4.15 - 6.25%	41,480,000
Airport Improvement Revenue Bonds, Series 2001A, due in varying amounts to July 1, 2015	5.00 - 6.65%	83,200,000
Passenger Facility Charge and Airport Revenue Bonds, Series 2003, due in varying amounts to July 1, 2012	Adjustable	32,020,000

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

	Interest Rates	Amount
Airport Improvement Revenue Bonds, Series 2003 A, due in varying amounts to July 1, 2005	2.335%	\$ 5,650,000
Airport Improvement Revenue Bonds, Series 2003 B, due in varying amounts to July 1, 2033	1.32 - 5.94%	18,900,000
Metropolitan Nashville Airport Authority: Unamortized deferred amount on refunding		(17,654,125)
Total revenue bonds payable - proprietary types		763,697,161
Notes payable:		
Metropolitan Development and Housing Agency: Notes payable and line of credit		2,852,276
Metropolitan Nashville Airport Authority: Subordinate Revenue Note, Series 1999		935,776
Total notes payable - proprietary types		3,788,052
Total revenue bonds and notes payable		855,001,429
Other liabilities payable:		
Hospital Authority: Capitalized lease obligation		41,764,453
Metropolitan Development and Housing Agency: Other liabilities		1,587,039
Electric Power Board: TVA Advances Other		2,377,355 861,784
Metropolitan Transit Authority: Capitalized lease obligation		654,642
Metropolitan Nashville Airport Authority: Synthetic Advance Refunding, Series 2001 Fair value of derivative financial instruments Deferred interest income Other liabilities		6,722,818 4,838,433 4,619,363 2,059,799
Emergency Communications District: Capitalized lease obligation		488,962
Total other liabilities payable - proprietary types		65,974,648
Total bonds, notes and other liabilities payable - component units		\$ 920,976,077

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	\$	36,596,924
Noncurrent liabilities:		
Due within one year		4,959,343
Due in more than one year		879,419,810
		<hr/>
Total component units long-term liabilities	\$	<u>920,976,077</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. Bond Issuance of the Component Units

Electric Power Board

On June 30, 2004, the Electric Power Board issued Electric System Revenue Bonds, Series 2004A, maturing on May 15, 2029, with interest rates ranging from 4.5% to 5%. The purpose of these bonds was to reimburse the Electric Power Board for a portion of the 2004 capital expenditures and to fund approximately 50% of its projected \$181 million capital budget for the fiscal years ending June 30, 2005 through June 30, 2007. The remainder will be funded with operating revenues.

Metropolitan Nashville Airport Authority

During November 2003, the Authority issued Series 2003B taxable bonds in the principal amount of \$19,585,000. These bonds were issued to provide funding for a portion of the projected unfunded liability of the Retirement Plan for Employees of the Metropolitan Nashville Airport Authority and to pay for the cost of issuance of the bonds. The 2003B bonds are subject to an extraordinary optional redemption, in whole at any time, at a redemption price equal to the principal amount plus accrued interest to the date of redemption only in the event of the destruction or damage to all or substantially all of the Airport or the condemnation of the Airport. The bonds mature in progressive annual amounts with final maturity on July 1, 2033.

E. 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 \$8,665,000 and \$18,835,000, respectively, which are still outstanding at June 30, 2004, do not appear as liabilities on the Electric Power Board's Statement of Net Assets.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2004, does not appear as a liability on the Airport Authority's Statement of Net Assets.

During July 2003, the Metropolitan Nashville Airport Authority issued Series 2003A bonds in the principal amount of \$5,650,000. These bonds were issued along with other available funds of the Authority to provide funds to refund \$5,620,000 aggregate principal amount of the Authority's Airport Revenue Bonds, Series 1991A to fund a reserve with respect to the Series 2003A Bonds and to pay for certain costs in connection with the issuance of the bonds. The refunding resulted in a difference of \$5,152 in debt. In accordance with GASB Statement No. 23, Accounting and Financial Reporting of Debt Reported by Proprietary Activities, the difference, reported in the accompanying financial statement as a deduction from long-term debt, is being charged to operations through the year 2005 using the effective-interest method. The Series 2003A bonds mature on July 1, 2005.

During July 2003, the Authority issued Refunding Series 2003 bonds in the principal amount of \$32,020,000. These bonds were issued together with other available funds of the Authority to provide funds to refund \$29,885,000 aggregate principal amount of the Authority's Airport Passenger Facility Charge and Airport Improvement Bonds, Series 1992, to fund a reserve with respect to the Series 2003 bonds and to pay for certain costs in connection with issuance of the bonds. The Series 1992 bonds were redeemed on July 24, 2003 at a redemption price of 101% of the principal amount thereof. The refunding resulted in a difference of \$988,946 in debt. In accordance with GASB Statement No. 23, Accounting and Financial Reporting of Debt Reported by Proprietary Activities, the difference, reported in the accompanying financial statement as a deduction from long-term debt, is being charged to operations through the year 2012 using the effective-interest method. The Series 2003 bonds initially will bear interest at the Weekly Rate. The first interest payment date was September 3, 2003. The bonds mature in progressive annual amounts with final maturity on July 1, 2012.

F. 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. Because the borrowers are external developers, 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, 2003, the tax increment financing loans, including related accrued interest payable, aggregated approximately \$40.3 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, 2003, the Section 108 loans outstanding aggregated approximately \$5.1 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, 2004 for the Industrial Revenue Bonds issued after April 1, 1996 was \$490,809,406. The aggregate principal amount payable for the Industrial Revenue Bonds issued prior to April 1, 1996 could not be determined; however, their original issue amount totaled \$1,414,846,369.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$2,287,402,000. 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.

G. Other Matters

Electric Power Board

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

The Electric Power Board has a \$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, 2004.

Metropolitan Transit Authority

During 2001, the Authority entered into a maximum \$2,000,000 revolving credit line agreement with the Metropolitan Government for the purpose of funding operational activities. The credit line was increased to \$4,000,000 during April 2004. 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, 2004 is \$2,916,543. 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, 2004 (a liability of \$2,612,133) in the Statement of Net Assets. The fair value of this financial instrument at June 30, 2004 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, 2004.

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 2001 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

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30, 2004, 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 \$2,226,300 at June 30, 2004) in the Statement of Net Assets. The fair value of this financial instrument at June 30, 2004 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, 2004 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, 2004.

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 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.

H. Annual Debt Service Requirements

The annual principal maturities of all bonds and notes payable as of June 30, 2004 for the component units are as follows:

Year Ending June 30	Revenue Bonds and Notes Payable	
	Principal	Interest
2005	\$ 40,182,748	\$ 38,593,311
2006	37,981,402	42,911,414
2007	38,101,122	42,148,880
2008	40,616,519	41,282,484
2009	40,331,692	40,262,397
2010-2014	231,524,357	160,315,916
2015-2019	156,118,149	100,987,363
2020-2024	151,895,386	24,719,695
2025-2029	131,199,179	5,272,804
2030-2034	4,705,000	719,037
Total	872,655,554	497,213,301
Deferred Charges	(17,654,125)	-
Total	<u>\$ 855,001,429</u>	<u>\$ 497,213,301</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 additional costs of administering the closed plans are nominal and included in the administrative costs of the administering funds for the open plans. 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 METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Government has the following single-employer pension plans:

<u>Name</u>	<u>Type</u>	<u>Status</u>	<u>Administering Fund</u>
<u>Primary Government</u>			
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

Component Units

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 asset and obligation are 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.

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, 2004. Accounts receivable consists of amounts due from investment brokers for pending trades.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 5 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

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 5 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. 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.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

City Education Plan

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

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

County Education Plan

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

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

Component Units

Metropolitan Development and Housing Agency

The Agency's retirement plan is a 401(a) plan administered by the Vanguard Group. 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 twelve 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% out of the 13% of the Agency's contributions. 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.

Agency contributions to the plan for the year ended September 30, 2003 amounted to \$1,957,930.

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. Board employees who retire at or after age 65 are entitled to annual retirement benefits payable monthly for life in an amount equal to 2% of final average compensation multiplied by years in the Plan not in excess of 35 years. Final average compensation is the average compensation in the 36 consecutive months in which compensation is highest. Unused sick leave may be used to increase credited service and benefit

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2004 (the latest date available), the actuarial value of assets was \$205,139,000, the actuarial accrued liability was \$256,149,000, and the unfunded actuarial accrued liability was \$51,010,000. Covered payroll was \$51,616,000.

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.

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 3.0% effective July 1, 2004. 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, 2003 (the latest date available), the actuarial value of assets was \$18,900,000, the actuarial accrued liability was \$22,500,000. There is an unfunded actuarial accrued liability of \$3,600,000. Covered payroll was \$13,500,000.

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, 2004) 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, 2004 amounted to \$89,022. No voluntary contributions were made during the year ended June 30, 2004.

On August 19, 2004, the Board of Directors of the Corporation adopted resolutions to terminate both the retirement plan and the profit sharing plan. Upon termination, no further contributions were made to either plan.

The plan does not issue a separate financial report, however, complete financial statements of the Corporation can be obtained from its administrative offices at 90 Peabody Street, Nashville, TN 37210.

Metropolitan Nashville Airport Authority

Effective September 1989, the Airport Authority adopted a new 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 participate in the pension system of the Government, a cost sharing multiple employer PERS. Employees participate in either "Fund B" (pension benefits for credited service other than credited Fire and Police service) or "Fund C" (pension benefits for credited Fire and Police service) of the Metropolitan Employees' Benefit Trust Fund (the "Fund"). New employees of the Airport Authority and those previously selecting the new Airport Authority's single-employer PERS are not eligible for participation in the Government's pension system. As a result of the relatively few number of employee participants, additional post employment benefits information in regard to the Fund has not been presented.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Effective June 27, 2003, the plan was closed to new participants. Employees hired after June 27, 2003 are not eligible to participate in the plan.

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 9.265% for the employees of Metropolitan Nashville Public Schools and all other Metro employers.

City Plan

Funding is on a pay-as-you-go basis whereby contributions are made in amounts sufficient to cover benefits paid during the year.

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.

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% of their salary, and by Metropolitan Nashville Public Schools, which contributes at an actuarially determined rate (3.39% of covered payroll for the fiscal year ending June 30, 2004). 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, 2004, 2003, and 2002 were \$9,212,622, \$8,502,420 and \$9,026,366 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).

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).

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

Component Units

Metropolitan Development and Housing Agency

The Agency's contributions for the year ended September 30, 2003 amounted to \$1,957,930, which equaled the amount of the annual required contribution. Employee contributions were \$120,717. The Agency's payroll for employees covered by this plan was \$15,691,181, and total payroll amounted to \$16,679,687 during the fiscal year ended September 30, 2003.

Electric Power Board

The contribution requirements of 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 thirty-year funding level. The current rate is 24.64% of annual covered payroll. The Board contributed 100% of the required contribution for the Plan years 2004, 2003, and 2002. For the year ended June 30, 2004, the required and actual amount contributed was \$11,652,000.

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 6.54% in 2004. 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, 2004, the annual pension costs were \$1,011,000, the annual required contribution \$964,000 and the actual amount contributed was \$964,000. The entry age normal method has been used to compute the annual contribution requirement.

Metropolitan Nashville Airport Authority

Contribution requirements are established and may be amended by the Airport Authority. The Airport Authority is required to contribute at an actuarially-determined rate: the current is 20.17% of annual covered payroll.

For the year ended June 30, 2004, the Airport Authority's annual pension cost of \$1,280,837 was equal to the annual required contribution of \$2,167,504 less interest of \$886,667 on the negative net pension obligation. Actual contributions made to the plan were \$19,000,000 which were funded through the issuance of Airport Improvement Revenue Bonds, Series 2003B. The annual required contribution for the current year was determined as part of the July 1, 2003 actuarial valuation using the projected unit credit method. The actuarial assumptions included (a) 8% investment rate of return and (b) projected salary increases of 4%. Neither (a) nor (b) included an inflation adjustment. The assumptions did not include postretirement benefit increases which are funded by the Airport Authority when granted. The actuarial value of Plan assets was calculated based on the three-year weighted average of asset gains and losses.

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

D. Selected Pension Information

Primary Government

The following is a summary of the total net pension obligation and asset by plan for the beginning and end of the year:

	Beginning of Year	End of Year
Net pension obligation:		
Metro Education	\$ 49,145,930	\$ 50,553,753
Net pension assets:		
County	(11,096,042)	(11,655,005)
Metro	(20,860,318)	(8,177,445)
County Education	(337,058)	(2,501,059)
City	(16,991,272)	(19,789,447)
City Education	(7,188,315)	(8,258,921)
Total net pension assets	(56,473,005)	(50,381,877)
Total net pension obligation (assets)	\$ (7,327,075)	\$ 171,876

Additional 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 as Required Supplementary Information following the notes to the financial statements.

F. Other

The only plan having an individual investment which exceeds 5% of plan assets at June 30, 2004 is the Metro Plan (Northern Trust Daily Common S&P 500 Fund totaling \$345,343,195). 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 2004			
Annual required contribution	\$ 1,702,332	\$ 56,816,644	\$ 4,469,917
Interest on net pension obligation	(887,683)	(1,668,825)	(26,965)
Adjustment to annual required contribution	<u>1,014,710</u>	<u>2,437,113</u>	<u>30,823</u>
Annual pension cost	1,829,359	57,584,932	4,473,775
Contributions made	<u>(2,388,322)</u>	<u>(44,902,059)</u>	<u>(6,637,776)</u>
Increase (decrease) in net pension obligation	(558,963)	12,682,873	(2,164,001)
Net pension obligation (asset) beginning of year	<u>(11,096,042)</u>	<u>(20,860,318)</u>	<u>(337,058)</u>
Net pension obligation (asset) end of year	<u><u>\$ (11,655,005)</u></u>	<u><u>\$ (8,177,445)</u></u>	<u><u>\$ (2,501,059)</u></u>
THREE-YEAR TREND INFORMATION			
2004			
Annual pension cost (APC)	\$ 1,829,359	\$ 57,584,932	\$ 4,473,775
Percentage of APC contributed	130.56%	77.98%	148.37%
Net pension obligation (asset)	\$ (11,655,005)	\$ (8,177,445)	\$ (2,501,059)
2003			
Annual pension cost (APC)	\$ 2,300,268	\$ 41,331,860	\$ 5,027,385
Percentage of APC contributed	109.46%	72.88%	128.14%
Net pension obligation (asset)	\$ (11,096,042)	\$ (20,860,318)	\$ (337,058)
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
PARTICIPANTS - Latest Actuarial Valuation Date			
Active:			
Fully vested	-	8,646	4
Non-vested and partially vested	-	4,014	-
Total active	<u>-</u>	<u>12,660</u>	<u>4</u>
Retirees and beneficiaries receiving benefits	193	4,995	392
Terminated vested	-	775	-
Total	<u><u>193</u></u>	<u><u>18,430</u></u>	<u><u>396</u></u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SELECTED PENSION INFORMATION

<u>Metro Education</u>	<u>City</u>	<u>City Education</u>	<u>Total Primary Government</u>
\$ 11,821,256	\$ 7,747,707	\$ 2,807,195	\$ 85,365,051
3,931,674	(1,359,302)	(575,065)	(586,166)
<u>(4,494,293)</u>	<u>1,553,816</u>	<u>657,356</u>	<u>1,199,525</u>
11,258,637	7,942,221	2,889,486	85,978,410
<u>(9,850,814)</u>	<u>(10,740,396)</u>	<u>(3,960,092)</u>	<u>(78,479,459)</u>
1,407,823	(2,798,175)	(1,070,606)	7,498,951
<u>49,145,930</u>	<u>(16,991,272)</u>	<u>(7,188,315)</u>	<u>(7,327,075)</u>
<u>\$ 50,553,753</u>	<u>\$ (19,789,447)</u>	<u>\$ (8,258,921)</u>	<u>\$ 171,876</u>
\$ 11,258,637	\$ 7,942,221	\$ 2,889,486	\$ 85,978,410
87.50%	135.23%	137.05%	91.28%
\$ 50,553,753	\$ (19,789,447)	\$ (8,258,921)	\$ 171,876
\$ 10,620,012	\$ 9,461,194	\$ 2,986,270	\$ 71,726,989
91.15%	117.00%	129.52%	88.81%
\$ 49,145,930	\$ (16,991,272)	\$ (7,188,315)	\$ (7,327,075)
\$ 10,603,702	\$ 9,048,663	\$ 3,179,325	\$ 57,526,991
53.96%	126.67%	143.25%	116.74%
\$ 48,205,783	\$ (15,382,791)	\$ (6,306,675)	\$ (15,352,976)
51	-	1	8,702
-	-	-	4,014
<u>51</u>	<u>-</u>	<u>1</u>	<u>12,716</u>
1,277	806	283	7,946
12	-	-	787
<u>1,340</u>	<u>806</u>	<u>284</u>	<u>21,449</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, 2003	July 1, 2003	July 1, 2003	July 1, 2003
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 (27 remaining)	40 years (15 remaining)	30 years (27 remaining)	30 years (27 remaining)
Asset valuation method	5 year smoothed market	5 year smoothed market	market	5 year smoothed market
Actuarial assumptions:				
Investment rate of return*	8.00%	8.00%	8.00%	8.00%
Projected salary increases*	5.00%	5.00%	5.00%	5.00%
Postretirement benefit increase adjustments	3.00%	3.00%	3.00%	3.00%
* Includes inflation at	None	None	3.00%	2.75%

(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, 2003	July 1, 2003
entry age normal	entry age normal
level dollar open	level dollar open
30 years (27 remaining)	30 years (27 remaining)
5 year smoothed market	market
8.00%	8.00%
5.00%	5.00%
3.00%	3.00%
None	2.75%

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, 2004 totaled \$20,249,068.

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 \$1,519,367 and \$273,296, respectively, for the fiscal year ended June 30, 2004.

The post-retirement benefits for the Metro plans were authorized by the Government's charter. During the year ended June 30, 2004, 6,075 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, 2004 totaled \$10,481,246. During the year ended June 30, 2004, 2,623 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, 473 retirees meet those eligibility requirements. Expenditures for post-retirement health care benefits are recognized as retirees report claims. Expenditures of \$6,307,381 for the year ended June 30, 2004 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, 2004, total medical benefit claims expense incurred amounted to \$608,628. Future claims cannot be estimated. At June 30, 2004, approximately 125 retirees were covered under this plan.

Life insurance benefits for retirees and their spouses are also self-insured. Life insurance coverage is \$10,000 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, 2004, the Metropolitan Transit Authority recognized an expense for death benefit claims totaling \$50,000. Future such claims cannot be estimated, however, at June 30, 2004, approximately 125 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 who were involuntarily terminated as a result of the Corporation ceasing operations in December 2003. Under the terms of the severance package, all employees who did not elect to transfer to the Metropolitan Government or otherwise leave employment prior to December 1, 2003 were to receive a minimum termination benefit equal to 15 weeks of their gross compensation, plus one additional week for each year of service in excess of 15 years. During the year ended June 30, 2004, termination benefits of \$12,322 were charged to administrative and general expenses in the Statement of Activities. Benefits of \$802,848 were paid to employees that were involuntarily

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

terminated prior to June 30, 2004. At June 30, 2004, \$57,399 of accrued termination benefits is reflected as a current liability 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, 67 retirees are receiving benefits under this PERS. During the year ended June 30, 2004, payments of \$227,693 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, 22 retirees are receiving benefits from the Metro Plan. During the year ended June 30, 2004, payments of \$93,475 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, 2004, \$321,168 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 are not reflected on the Statement of Net Assets. Employee and Board contributions to the plan were \$2,588,475 and \$1,338,430, respectively, during the year ended June 30, 2004.

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 could elect to participate and contribute from 1% to 15% of their annual compensation, but not in excess of the maximum allowed. The plan provided for a matching contribution by the Corporation equal to 50% of salary deferrals up to 7%. Matching contributions of \$39,107 were made for the year ended June 30, 2004.

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 \$628,528 for the year ended June 30, 2004.

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, 2004.

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, 2004, the leased building is carried in the enterprise funds at \$3,645,000, less accumulated depreciation of \$736,594. A summary of future minimum lease payments and the present value of future lease payments for the capitalized lease as of June 30, 2004 is as follows:

<u>Year Ending June 30,</u>		
2005	\$	260,008
2006		257,540
2007		259,665
2008		256,105
2009		257,113
2010-2014		1,287,697
2015		<u>258,985</u>
Total future minimum lease payments		2,837,113
Less:		
Amount representing interest imputed at 7.5%		762,113
Current portion of capital lease		<u>145,000</u>
Long-term capitalized lease obligation	\$	<u><u>1,930,000</u></u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2004, 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 \$10,531,344.

A summary of future minimum lease payments required under the agreement as of June 30, 2004 follows:

<u>Year Ending June 30,</u>		
2005	\$	4,000,000
2006		4,000,000
2007		4,000,000
2008		4,000,000
2009		4,000,000
2010-2014		20,000,000
2015-2019		20,000,000
2020-2024		20,000,000
2025-2027		<u>1,666,667</u>
Total future minimum lease payments		81,666,667
Less:		
Amount representing interest		39,902,214
Current portion of capital lease		<u>900,833</u>
Long-term capitalized lease obligation	\$	<u><u>40,863,620</u></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, 2003 were \$48,565 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 \$6,625,000 at September 30, 2003. In addition, rental income, other than rent directly related to low-income housing units, is received under various other short-term land and building operating leases. These leases are all either cancelable or the future minimum rentals are insignificant. Rental income from these leases amounted to \$82,554 for the year ended September 30, 2003.

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 \$857,332 for the year ended June 30, 2004. 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 \$1,673,899 for the year ended June 30, 2004.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Metropolitan Transit Authority

During fiscal 2000, the Metropolitan Transit Authority entered into a capital lease obligation for new buses with a capitalized cost of \$990,591. Also, during fiscal years 2003 and 2004, the Authority entered into a capital lease agreement with the Government for certain computer equipment with a total cost of \$102,945. The assets under capital lease are included in capital assets. The future minimum lease payments required under the capital leases as of June 30, 2004, are as follows:

<u>Year Ending June 30,</u>		
2005	\$	161,538
2006		143,183
2007		127,223
2008		127,223
2009		127,223
Thereafter		<u>63,612</u>
Total future minimum lease payments		750,002
Less:		
Amount representing interest imputed at 5.05%		95,360
Current portion of capital lease		<u>132,239</u>
Long-term capitalized lease obligation	\$	<u><u>522,403</u></u>

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 \$1,855,544 at June 30, 2004 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.

Emergency Communications District

The Emergency Communications District acquired certain hardware and software to upgrade its computer aided dispatch systems that are financed under agreements accounted for as capital leases. At June 30, 2004, this equipment had a net book value of \$1,301,847. A schedule of future minimum lease payments required as of June 30, 2004 follows:

<u>Year Ending June 30,</u>		
2005	\$	357,383
2006		162,636
Total future minimum lease payments		520,019
Less:		
Amount representing interest imputed at 5.05%		31,057
Current portion of capital lease		<u>333,523</u>
Long-term capitalized lease obligation	\$	<u><u>155,439</u></u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$14,250 for the year ended March 31, 2004.

Certain lease agreements of the Industrial Development Board provide for the purchase of the leased facilities when all amounts due on the related bonds 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. During the fiscal year ending March 31, 2004, Public Square exercised its lease option by paying the Board \$510,001. Lease agreements with purchase options that have not been exercised and remain in effect total \$150,000 at March 31, 2004.

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, 2004, rent under the long-term lease obligation was \$12,000. Future obligations over the term of the lease are as follows:

<u>Year Ending March 31,</u>	<u>Amount</u>
2005	\$ 12,000
2006	12,000
2007	12,000
2008	<u>1,000</u>
Total future lease payments	<u><u>\$ 37,000</u></u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at June 30, 2004 are attributable to unsettled balances at year-end primarily for internal service billings and transfers between funds.

Interfund receivables and payables include \$1,747,100 advanced from the GSD General Purpose Debt Service Fund to Nonmajor Enterprise Funds for capital improvements. This amount is payable over a period exceeding one year.

Balances at June 30, 2004 are as follows:

SCHEDULE OF INTERFUND RECEIVABLES AND PAYABLES

For the Year Ended June 30, 2004

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	\$ 1,462,521	\$ -	\$ 217,627	\$ 152,023	\$ 77,051	\$ 22,171,976
General Purpose School	211,165	-	-	-	-	1,742,843
GSD General Purpose Debt Service Fund	21,522	-	-	-	88,113	1,578,206
GSD School Purpose Debt Service Fund	1	-	14,089	-	-	45,650,365
USD General Purpose Debt Service Fund	-	-	-	-	-	5,647,212
Nonmajor Governmental Funds	24,179,331	31,494	244,259	261,216	68,099	34,395,915
Department of Water and Sewerage Services	38,989	-	-	-	-	287,474
Nonmajor Enterprise Funds	-	-	-	-	-	696,575
Internal Service Funds	2,965,553	7,024,315	3,136	1,874	455	1,457,465
Fiduciary Funds	5,491,672	202,201	-	-	-	26,227
	<u>\$ 34,370,754</u>	<u>\$ 7,258,010</u>	<u>\$ 479,111</u>	<u>\$ 415,113</u>	<u>\$ 233,718</u>	<u>\$ 113,654,258</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SCHEDULE OF INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)

For the Year Ended June 30, 2004

Department of Water and Sewerage Services	Due To					Total
	District Energy System	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds		
\$ 1,178,264	\$ -	\$ 1,139,057	\$ 1,277,659	\$ 1,409,974	\$ 29,086,152	
-	-	51,400	-	4,208,827	6,214,235	
-	-	1,747,100	-	-	3,434,941	
-	-	-	-	-	45,664,455	
8,599	-	-	-	-	5,655,811	
561,759	-	456,897	257,068	4,841	60,460,879	
-	-	-	4,428	941	331,832	
-	-	-	23,206	-	719,781	
181,813	9,262	865,993	119,498	1,124,671	13,754,035	
28,405	-	9,289	11,773	451,359	6,220,926	
<u>\$ 1,958,840</u>	<u>\$ 9,262</u>	<u>\$ 4,269,736</u>	<u>\$ 1,693,632</u>	<u>\$ 7,200,613</u>	<u>\$ 171,543,047</u>	

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - INTERFUND TRANSFERS

Interfund transfers are attributable to the budgeted allocation of resources from one fund to another primarily for debt service requirements, operating subsidies and the funding of capital items.

Transfers from fiduciary funds represent employee contributions to flexible benefit plans which reverted to the Government for no utilization and transfers from pension funds to the General Fund to cover administrative costs.

Interfund transfers for the year ended June 30, 2004 consist of the following:

SCHEDULE OF INTERFUND TRANSFERS

For the Year Ended June 30, 2004

Transferred From	Transferred To				
	General Fund	General Purpose School Fund	GSD Debt Service Fund	GSD School Purposes Debt Service Fund	USD General Purposes Debt Service Fund
General Fund	\$ 1,433,000	\$ 2,412	\$ 3,353,782	\$ -	\$ -
General Purpose School Fund	2,298,181	-	-	-	-
GSD Debt Service Fund	-	-	-	-	7,814,000
GSD School Purposes Debt Service	-	-	-	-	-
USD General Purposes Debt Service	-	-	-	-	-
Nonmajor Governmental Funds	7,320,238	1,212,547	6,505,908	205,052	661,409
Department of Water and Sewerage Services	4,166,046	-	-	-	-
District Energy System	-	-	-	-	-
Nonmajor Enterprise Funds	1,430,487	-	-	-	-
Internal Service Funds	3,886,367	-	-	-	-
Fiduciary Funds	3,027,684	-	-	-	-
	<u>\$ 23,562,003</u>	<u>\$ 1,214,959</u>	<u>\$ 9,859,690</u>	<u>\$ 205,052</u>	<u>\$ 8,475,409</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, 2004

Transferred To						
Nonmajor Governmental Funds	Department of Water and Sewerage Services	District Energy System	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
\$ 49,709,209	\$ -	\$ 2,000,000	\$ 259,700	\$ 414,320	\$ -	\$ 57,172,423
96,059	-	-	-	500,000	-	2,894,240
-	-	-	-	-	-	7,814,000
107,085	-	-	-	-	-	107,085
2,281	-	-	-	-	-	2,281
2,474,295	210,000	-	2,120,318	9,334,273	-	30,044,040
11,222,166	-	-	-	12,492	-	15,400,704
-	-	-	-	48,680	-	48,680
1,025	-	-	-	45,943	20,752	1,498,207
3,855	-	-	-	387,219	-	4,277,441
-	-	-	-	1,103,470	-	4,131,154
<u>\$ 63,615,975</u>	<u>\$ 210,000</u>	<u>\$ 2,000,000</u>	<u>\$ 2,380,018</u>	<u>\$ 11,846,397</u>	<u>\$ 20,752</u>	<u>\$ 123,390,255</u>

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.

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:

	Non-automobile Accidents		Automobile Accidents	
Bodily injury	\$ 250,000	per person	\$ 250,000	per person
	600,000	per accident	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 \$5,000,000 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 \$14,005,013 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, 2003 and 2004:

	School Self Insurance	General Government Self Insurance Insurance	School Professional Employees' Insurance	Employees' Medical Benefit	Injured on Duty	Total Internal Service Fund Types
Claims payable June 30, 2002	\$ 514,241	\$ 18,027,210	\$ 2,663,406	\$ 4,726,000	\$ -	\$ 25,930,857
Add: Provision for events of the current fiscal year	414,255	(7,383,564)	37,322,187	35,878,476	-	66,231,354
Deduct: Payments on claims during the fiscal year	143,497	2,809,186	36,740,865	35,640,476	-	75,334,024
Claims payable June 30, 2003	784,999	7,834,460	3,244,728	4,964,000	-	16,828,187
Add: Provision for events of the current fiscal year	90,741	(1,123,462)	38,664,056	36,915,477	1,574,485	76,121,297
Deduct: Payments on claims during the fiscal year	365,361	1,442,720	38,658,784	37,611,477	866,129	78,944,471
Claims payable June 30, 2004	\$ 510,379	\$ 5,268,278	\$ 3,250,000	\$ 4,268,000	\$ 708,356	\$ 14,005,013

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.

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 \$100,000 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, 2004. Accident losses exceeding \$100,000 are covered under an insurance program subject to certain limits.

The Metropolitan Transit Authority has purchased reinsurance which provides for reimbursement of paid medical claims in excess of \$125,000 per covered participant per agreement year, with the exception of one employee who had a specific deductible of \$200,000 (one employee had a specific deductible of \$175,000 prior to March 1, 2004 and four employees had specific deductibles ranging from \$175,000 to \$250,000 prior to March 1, 2003). The policy also provides a specified maximum of \$1,000,000 during the lifetime of a covered participant, (\$925,000 prior to March 1, 2003) 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 2004 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, 2004, the Metropolitan Transit Authority owed the Trust \$492,647.

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, the Government believes 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, 2004, no deficiencies existed. The amount to be repaid from user fees is \$56,121,429 at June 30, 2004 and is recorded as capital grants and contributions by the Department of Water and Sewerage Services.

D. Construction Commitments

Primary Government

At June 30, 2004, the Department of Water and Sewerage Services had commitments of \$28,239,897 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 \$132,607,000 through the year 2009. 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, 2004. 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, 2003, the Metropolitan Development Housing Agency had outstanding construction commitments of approximately \$6.9 million. Of this amount, \$6.8 million will be paid by grants committed to the Agency by HUD, and the remaining \$91,000 will be paid by funds committed to the Agency by a private foundation.

The Metropolitan Nashville Airport Authority estimates the cost of completion of various construction projects at June 30, 2004 to be \$89,471,196, of which \$6,786,856 is expected to be reimbursed by other governmental agencies.

The Metropolitan Transit Authority estimates the cost to complete construction in progress at June 30, 2004 to be approximately \$30,000 for renovation of office space and an indeterminable amount related to a commuter rail project.

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 payable to Dell totaled \$724,435 the year ended June 30, 2004.

Component Units

On July 31, 2002, the Hospital Authority entered into an Amended and Restated Management Services Agreement (Agreement) with Vanderbilt University whereby the Vanderbilt University Medical Center (VUMC) manages the Hospital Authority providing the services of certain management personnel at General Hospital and Bordeaux Hospital. As compensation for management services, General Hospital and Bordeaux Hospital paid VUMC a management fee of \$435,492 and \$321,750, respectively, for the year ended June 30, 2004. The outstanding management fees and surplus payable to VUMC for General Hospital is \$59,522 at June 30, 2004. The Agreement provides that 50% of any annual operating surpluses of General Hospital, as defined by the Agreement, will be paid to VUMC to be used to benefit General Hospital. Additionally, the Agreement also stipulates that the Hospital Authority will provide an operating supplement for the payment of costs of the operations of General Hospital which

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

was \$23,505,100 for fiscal year ending June 30, 2004 and approved as \$19,979,300 for the fiscal year ending June 30, 2005.

At June 30, 2004, General Hospital had \$44,034,308 due to the primary government, which accrues interest at rates determined by the Government. The primary government has reserved fund balance to reflect the long-term nature of the receivable. The Hospital is and will be dependent upon the Government to subsidize current and future operations. The subsidy for the fiscal year ending June 30, 2004 was \$23,505,100.

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 Investment Partnership Program funds for which the Agency has agreed to guarantee the repayment.

In July of 1997, the Electric Power Board entered into an agreement with an outside firm, whereby the firm provides computer hardware services operation for the Board's mainframe information system. This agreement will expire in November 2004. The new contract will be for three years and may be renewed for two additional one year periods.

In September of 1997, the Board entered into an agreement with an outside firm, whereby the firm provides professional services for the management, operation, and support of the Board's information and data processing system. The agreement will expire in October 2004. The new contract will be for three years and may be renewed for two additional one-year periods. The minimum commitments remaining under these agreements are: \$5.3 million (2005), 4.9 million (2006), 4.9 million (2007), and 1.5 million (2008).

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 received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in disallowance of expenditures, management believes that any required reimbursements would not be significant. Accordingly, no provision has been made for any potential reimbursements to the grantor.

The Nashville Thermal Transfer Corporation entered into an agreement with a third party to raze and demolish all remaining utility plant in service. The future minimum payments due under this agreement are approximately \$491,753.

The Nashville Thermal Transfer Corporation entered into an agreement with a third party to receive various services to support the Corporation's demolition project until the Corporation's dissolution. The future minimum payments due under this agreement are approximately \$53,840.

The Nashville Thermal Transfer Corporation entered an agreement with the Metropolitan Government to relocate a government asset as a result of the demolition. The future minimum payments due under this agreement are approximately \$418,101.

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.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. In November 2003, the Emergency Communications District elected to make an additional \$1,400,000 to the Metropolitan Government based on the incremental rate revenue collected to date.

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, improving downtown beautification and 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 Nashville Downtown Partnership, a related nonprofit organization, to perform all the duties and responsibilities for day-to-day management and implementation of services and improvements for the Nashville Central Business Improvement District (CBID), as defined in the Memorandum of Agreement with Metro, in exchange for substantially all revenues received from CBID assessments. During the year ended December 31, 2003, the Corporation recognized expense of \$586,445 related to the agreement. The agreement expired June 30, 2003 and was renewed through December 31, 2007.

NOTE 13 – SUBSEQUENT EVENTS

Primary Government

On July 13, 2004, the Government issued \$65,755,000 General Obligation Multi-Purpose Bonds, Series 2004, at a true interest cost of 4.59%. These bonds provided funding to pay principal and interest on certain of the Metropolitan Government's maturing commercial paper notes (in the form of bond anticipation notes) in the principal amounts and on the dates set forth below (Notes). The Notes were issued to finance general capital improvements for the Metropolitan Government.

<u>Maturity Date</u>	<u>Principal</u>
July 14, 2004	\$10,000,000
September 2, 2004	\$ 9,000,000
September 10, 2004	\$24,000,000
October 8, 2004	\$25,000,000

The proceeds of the Bonds will be invested by the Note Paying Agent and the interest accrued on the proceeds of the bond issue will be available for the payment of the interest on the Bonds after the commercial paper has been refunded.

On September 1, 2004 the Government issued \$51,340,000 General Obligation Public Improvement Refunding Bonds, Series 2004, at a true interest cost of 3.44%. These bonds refunded the outstanding General Obligation Public Improvement Bonds Series 1996A (Series 1996A Bonds), maturing November 15, 2006 through November 15, 2016. As a result, the Series 1996A 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 debt) of \$3,810,853.

Component Units

On October 27, 2004 the Sports Authority issued \$64,910,000 of Sports Authority Public Improvement Revenue Refunding Bonds, Series 2004, at a true interest cost of 4.20%. These bonds refunded the Sports Authority's outstanding Public Improvement Revenue Bonds, Series 1996 (Series 1996 Bonds), maturing July 1, 2007 through July 1, 2026. As a result, the Series 1996 Bonds are considered to be defeased. By issuing the new bonds, the Sports Authority obtained an economic gain (difference between the present values of the debt service payments on the defeased and new debt) of \$5,814,472.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

During July and August 2004, the Metropolitan Transit Authority issued purchase commitments for new buses, paratransit vehicles, and engineering services. Under these purchase commitments, the Authority expects to pay approximately \$7,000,000, \$800,000 and \$460,000, respectively. The Authority expects the new buses, paratransit vehicles, and engineering services to be received in fiscal years 2005 and 2006.

During August 2004, the Metropolitan Transit Authority made a \$1,000,000 repayment on the note payable to the Metropolitan Government.

On October 21, 2004 the Board of Directors of the Nashville Thermal Transfer Corporation met and determined the Corporation's dissolution date to be December 29, 2004. Upon dissolution the Corporation will cease to exist.