

THE METROPOLITAN GOVERNMENT  
OF  
NASHVILLE AND DAVIDSON COUNTY, TENNESSEE

# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For the Year Ended June 30, 2005

**Schedule begins on next page.**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Metropolitan Government of Nashville and Davidson County (the Government), we offer readers of the Government's financial statements this narrative overview and analysis of the financial activities of the Government for the fiscal year ended June 30, 2005.

### FINANCIAL HIGHLIGHTS

- The assets of the Government exceeded its liabilities at the close of the most recent fiscal year by \$2.4 billion (*net assets*). Of this amount, \$195 million (*unrestricted net assets*) may be used to meet the Government's ongoing obligations to citizens and creditors.
- The Government's total net assets decreased by \$30 million (\$34 million decrease from governmental activities and \$4 million increase from business-type activities).
- As of the close of the current fiscal year, the Government's governmental funds reported combined ending fund balances of \$196 million, a decrease of \$77 million in comparison with the prior year. Approximately 2.79% of this total amount, \$5.5 million, is available for spending at the Government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$35 million, or 5.76% of total general fund expenditures.
- The enterprise funds reported net assets at year-end of \$1.1 billion, an increase of \$7 million during the year.
- The Government's total general obligation and revenue bonds outstanding increased by \$123 million (7.16%) during the current fiscal year. New debt issues totaled \$459 million which were offset by principal payments, refundings and changes in deferred amounts of \$336 million.
- The Government borrows funds under a commercial paper program to provide interim or short-term financing of authorized capital projects. Total commercial paper outstanding at the close of the fiscal year was \$150 million.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

#### Government-Wide Financial Statements

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

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

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

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

The government-wide financial statements include not only the Government itself (known as the *primary government*), but also the Nashville District Management Corporation, Sports Authority, Hospital Authority, Metropolitan Development and Housing Agency, Electric Power Board, Metropolitan Transit Authority, Nashville Thermal Transfer Corporation, Metropolitan Nashville Airport Authority, Emergency Communications District, and Industrial Development Board. These *component units* are legally separate organizations for which the Government is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

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

## **Fund Financial Statements**

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

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

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

The Government reports 27 individual governmental funds. Information is presented separately in the Balance Sheet – Governmental Funds and in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds for the General Fund, General Purpose School Fund, GSD General Purposes Debt Service Fund, GSD School Purposes Debt Service Fund, USD General Purposes Debt Service Fund and GSD Capital Projects Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The Government adopts an annual appropriated budget for each major governmental fund except the GSD Capital Projects Fund. Budgetary comparison statements have been provided in the Basic Financial Statements section for the General Fund and General Purpose School Fund and in the Nonmajor Governmental Funds section for each of the Debt Service Funds to demonstrate compliance with the budget.

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

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Department of Water and Sewerage Services and District Energy System which are considered to be major funds of the Government. Data from the other enterprise funds are combined into a single, aggregated presentation. Also, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

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

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

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

### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages B-39 to B-101 of this report.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning certain infrastructure condition and maintenance data, found on pages B-102 to B-103, and concerning the Government's progress in funding its obligation to provide pension benefits to employees, found on pages B-104 to B-109.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve as a useful indicator over time of a government's financial position. In the case of the Government, assets exceeded liabilities by \$2.4 billion at the close of the most recent fiscal year.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 1,295,823	\$ 1,151,814	\$ 291,268	\$ 347,016	\$ 1,587,091	\$ 1,498,830
Capital assets	2,412,818	2,286,591	1,429,048	1,391,042	3,841,866	3,677,633
<b>Total assets</b>	<b>3,708,641</b>	<b>3,438,405</b>	<b>1,720,316</b>	<b>1,738,058</b>	<b>5,428,957</b>	<b>5,176,463</b>
Long-term liabilities	1,434,628	1,351,816	552,595	569,539	1,987,223	1,921,355
Other liabilities	995,510	773,648	71,977	77,227	1,067,487	850,875
<b>Total liabilities</b>	<b>2,430,138</b>	<b>2,125,464</b>	<b>624,572</b>	<b>646,766</b>	<b>3,054,710</b>	<b>2,772,230</b>
Net assets:						
Invested in capital assets, net of related debt	1,018,806	1,120,156	993,216	815,902	2,012,022	1,936,058
Restricted	97,629	114,155	69,305	238,071	166,934	352,226
Unrestricted	162,068	78,630	33,223	37,319	195,291	115,949
<b>Total net assets</b>	<b>\$ 1,278,503</b>	<b>\$ 1,312,941</b>	<b>\$ 1,095,744</b>	<b>\$ 1,091,292</b>	<b>\$ 2,374,247</b>	<b>\$ 2,404,233</b>

**Governmental activities** – The Metropolitan Council approved Substitute Bill Number BL 2005-664 which increased the combined property tax rate from \$4.58 to \$4.69 per each \$100 of assessed value for property taxes levied September 1, 2005 to fund the budget for the 2006 fiscal year. Current and other assets for governmental activities increased by 12.50% due primarily to the effect of the new rates, which resulted in an increase in the balance of property taxes receivable of \$113 million. Capital assets increased by 5.52% due to donated land and infrastructure, construction of new schools and other government buildings and renovation of existing government buildings. Long-term liabilities increased by 6.13% due to the issuance of new debt in excess of principal payments and refunded debt and changes in deferred amounts. Other liabilities increased by 28.68% primarily due to an increase in deferred revenue of \$112 million related to the increase in property tax rates and an increase in short-term liabilities of \$120 million for commercial paper borrowings.

The largest portion of the Government's net assets for governmental activities (79.69%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Government uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Government's investment in its

capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Government's net assets for governmental activities (7.63%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets for governmental activities representing unrestricted net assets of \$162 million (12.68%) may be used to meet the Government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Government is able to report positive balances in all three categories of net assets for its total governmental activities.

**Business-type activities** – The District Energy System, which provides heating and cooling services to the Government and downtown businesses, began operation during the year ended June 30, 2004 replacing the Nashville Thermal Transfer Corporation. The year ended June 30, 2005 represents the first full year of operations. The System is managed by a third party and is expected to be self-supporting by utilizing a rate structure designed to fund debt service requirements, pay for operating expenses and generate adequate working capital.

Current and other assets for business-type activities decreased by 16.06% due primarily to the continued spending of prior year borrowing proceeds on construction and other capital assets of the Department of Water and Sewerage Services and the District Energy System, which resulted in a decrease in the balances of cash, cash equivalents and investments of \$53 million. Capital assets increased by 2.73% due to additions to the utility plants for both the Department of Water and Sewerage Services and the District Energy System. Long-term liabilities decreased by 2.98% due to principal payments on the revenue bonds of the Department of Water and Sewerage Services, which exceeded the amount of new borrowings for business-type activities. Other liabilities decreased by 6.80% primarily due to a decrease in the outstanding liabilities related to construction at the District Energy System.

The largest portion of the Government's net assets for business-type activities (90.64%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Government uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Government's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Government's net assets for business-type activities (6.33%) represents resources that are subject to external restrictions on how they may be used. The majority of the restrictions relate to debt retirement and construction. The remaining balance of net assets for business-type activities representing unrestricted net assets, \$33 million (3.03%) may be used to meet the Government's ongoing obligations to citizens and creditors.

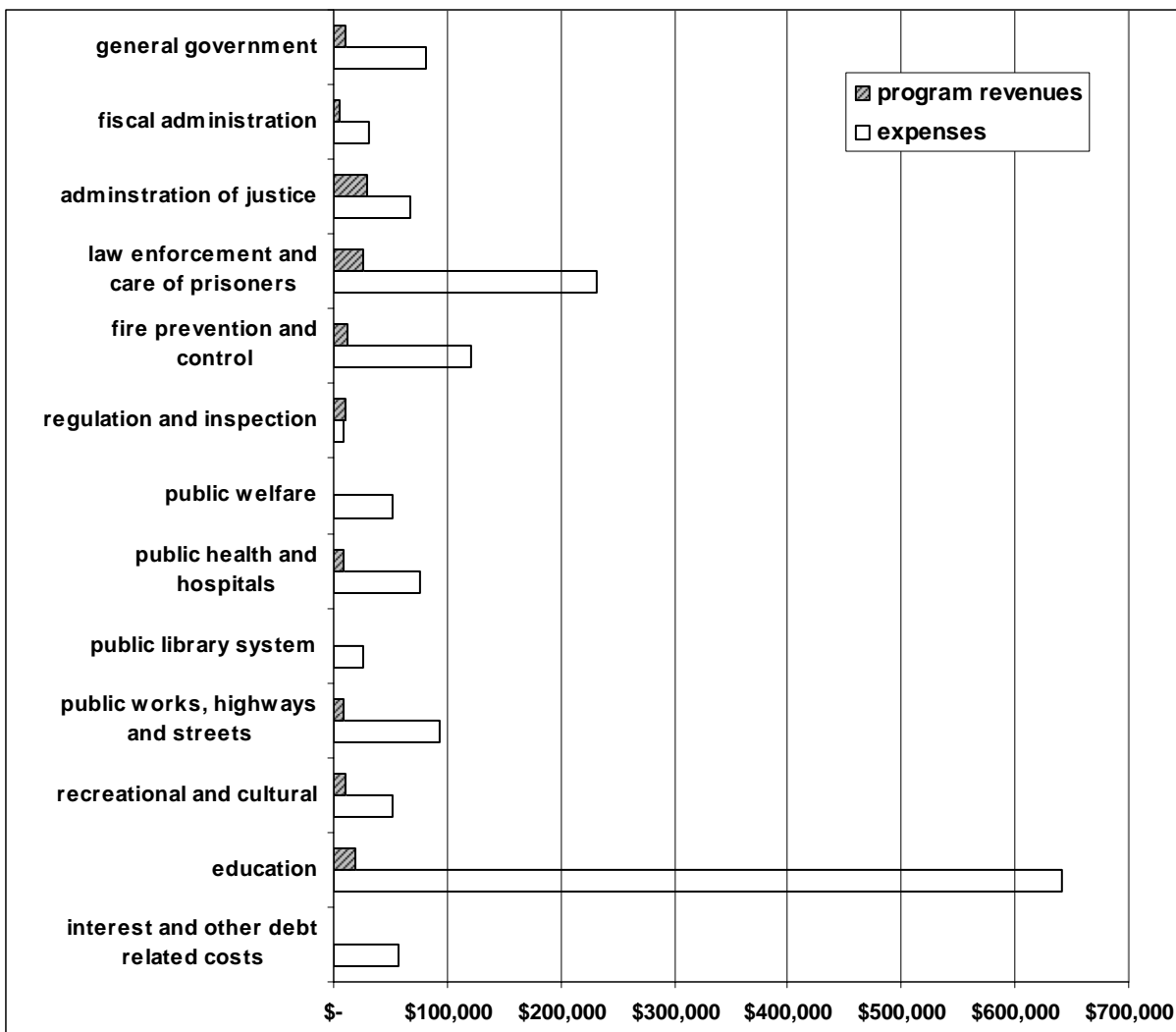
At the end of the current fiscal year, the Government is able to report positive balances in all three categories of net assets for its total business-type activities.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 140,775	\$ 128,226	\$ 180,772	\$ 173,029	\$ 321,547	\$ 301,255
Operating grants and contributions	291,220	272,414	-	-	291,220	272,414
Capital grants and contributions	25,954	58,451	22,155	16,473	48,109	74,924
General revenues:						
Property taxes	612,734	592,385	-	-	612,734	592,385
Local option sales tax	249,610	239,779	-	-	249,610	239,779
Other taxes	97,807	90,583	-	-	97,807	90,583
Revenues from the use of money or property	10,060	4,326	4,544	2,049	14,604	6,375
Revenues from other governmental agencies	54,542	50,870	-	-	54,542	50,870
Compensation for loss, sale or damage to property	1,297	5,589	133	-	1,430	5,589
<b>Total revenues</b>	<b>1,483,999</b>	<b>1,442,623</b>	<b>207,604</b>	<b>191,551</b>	<b>1,691,603</b>	<b>1,634,174</b>
Expenses:						
General government	80,425	94,175	-	-	80,425	94,175
Fiscal administration	31,182	22,063	-	-	31,182	22,063
Administration of justice	66,879	65,069	-	-	66,879	65,069
Law enforcement and care of prisoners	231,516	215,912	-	-	231,516	215,912
Fire prevention and control	120,679	97,965	-	-	120,679	97,965
Regulation and inspection	8,711	8,465	-	-	8,711	8,465
Conservation of natural resources	396	426	-	-	396	426
Public welfare	51,636	53,435	-	-	51,636	53,435
Public health and hospitals	76,115	80,730	-	-	76,115	80,730
Public library system	26,165	25,448	-	-	26,165	25,448
Public works, highways and streets	93,785	105,618	-	-	93,785	105,618
Recreational and cultural	51,336	54,459	-	-	51,336	54,459
Education	640,655	620,518	-	-	640,655	620,518
Interest and other debt related costs	57,819	62,492	-	-	57,819	62,492
Department of Water and Sewerage Services	-	-	150,091	148,814	150,091	148,814
District Energy System	-	-	18,565	8,078	18,565	8,078
Nashville Convention Center	-	-	7,131	6,384	7,131	6,384
Board of Fair Commissioners	-	-	3,580	4,055	3,580	4,055
Farmers Market	-	-	1,216	1,159	1,216	1,159
Police Secondary Employment	-	-	1,153	1,017	1,153	1,017
Surplus Property Auction	-	-	2,554	3,252	2,554	3,252
<b>Total expenses</b>	<b>1,537,299</b>	<b>1,506,775</b>	<b>184,290</b>	<b>172,759</b>	<b>1,721,589</b>	<b>1,679,534</b>
Increase in net assets before transfers and special items	(53,300)	(64,152)	23,314	18,792	(29,986)	(45,360)
Transfers	18,862	12,358	(18,862)	(12,358)	-	-
Increase (decrease) in net assets	(34,438)	(51,794)	4,452	6,434	(29,986)	(45,360)
Net assets, beginning of year	1,312,941	1,364,735	1,091,292	1,084,858	2,404,233	2,449,593
Net assets, end of year	\$ 1,278,503	\$ 1,312,941	\$ 1,095,744	\$ 1,091,292	\$ 2,374,247	\$ 2,404,233

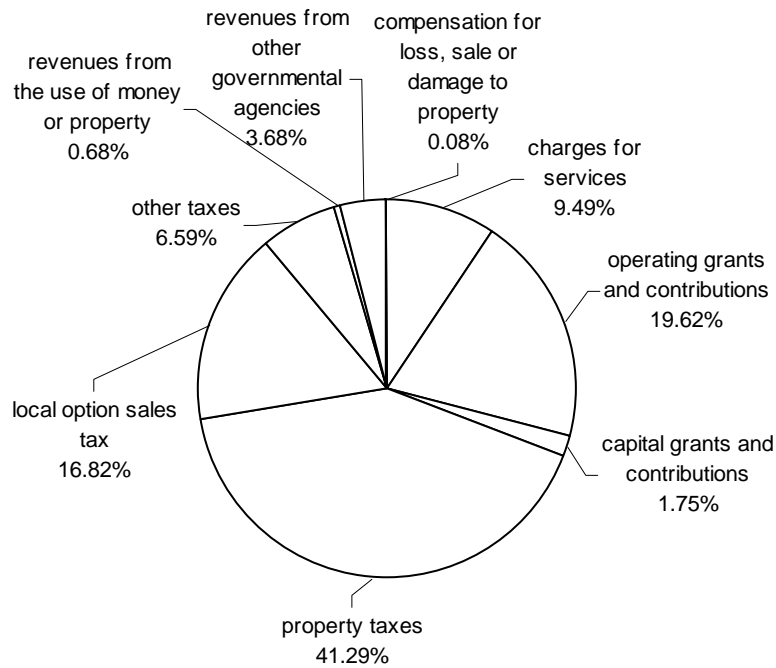
**Governmental activities** – Governmental activities decreased the Government’s net assets by \$34 million. As planned, the Government operated without any significant changes to its revenue structure. Costs were contained in most functional areas through aggressive cost containment practices as budgeted for the 2005 fiscal year. Expenses increased in law enforcement and care of prisoners primarily due to the personnel and equipment costs associated with a new jail facility which opened in the current year. Expense increased in fire prevention and control primarily due to changes in estimated compensated absences. Education expenses increased primarily due to increased personnel cost for salaries and benefits funded partially by appropriated June 30, 2004 fund balances.

**Expenses and Program Revenues - Governmental Activities – For the Year Ended June 30, 2005**



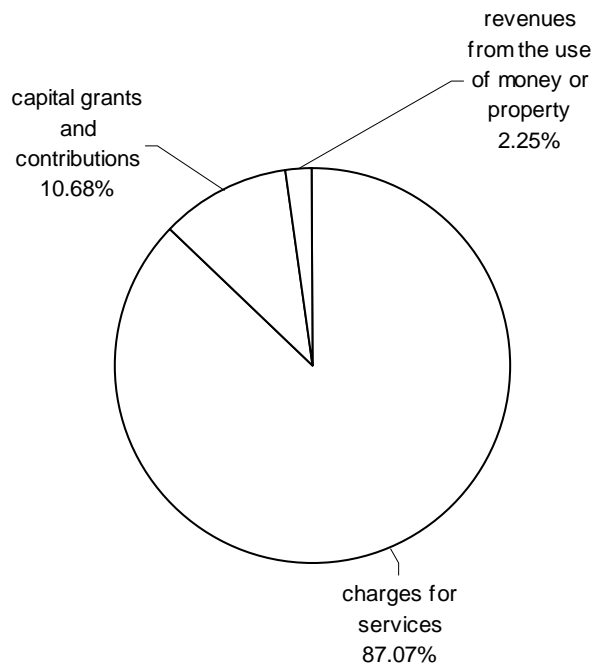
(in thousands)

**Revenues by Source - Governmental Activities – For the Year Ended June 30, 2005**



**Business-type activities** – Business-type activities increased the Government's net assets by \$4 million as compared to a \$6 million increase in the prior year. This change is attributable primarily to a \$4 million increase in the Department of Water and Sewerage Services' support of the Government's stormwater operations, offset by positive results of the first full year of operations for the District Energy System and by operating improvements at the Nashville Convention Center and Board of Fair Commissioners.

**Revenues by Source – Business-type Activities – For the Year Ended June 30, 2005**



## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, the Government's governmental funds reported combined ending fund balances of \$196 million, a decrease of \$77 million in comparison with the prior year. Approximately 2.79% of this total amount (\$5.5 million) constitutes unreserved fund balance, which is available for spending at the Government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for 1) subsequent year budget appropriations (\$15 million), 2) the purchase of equipment (\$9 million), 3) future debt payments (\$97 million), 4) reservation for a long-term receivable (\$63 million), and 5) other purposes (\$6 million).

The 2005 fiscal year was the final year of a four year financial plan where fund balances were accumulated in the major governmental funds in the first years of the plan and spent down in the last years of the plan.

The general fund is the chief operating fund of the Government. At the end of the current fiscal year, unreserved fund balance of the general fund was \$35 million, while total fund balance was \$37 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 5.76% of total general fund expenditures, while total fund balance represents 6.09% of total general fund expenditures.

The fund balance of the Government's general fund increased by \$1 million during the current fiscal year. Costs were contained through budgeted expenditure reductions. Additionally, several central support activities previously reported in the general fund were moved to internal service operations.

The fund balance of the Government's general purpose school fund decreased by \$19 million during the current fiscal year as expected primarily due to the increased cost of personal services and other budgeted expenditures in excess of budgeted revenues.

The fund balance of the Government's GSD general purposes, GSD school purposes and USD general purposes debt service funds decreased by \$14 million in the current fiscal year as expected due to principal and interest payments in excess of revenues.

The fund balance of the Government's other governmental funds decreased by \$45 million primarily due to continued capital spending in the various capital projects funds. Capital projects spending is initially funded by short-term commercial paper borrowings and later funded by bond proceeds.

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

Unrestricted net assets of proprietary funds at the end of the year amounted to \$99 million. The total increase in net assets for these funds was \$14 million. Other factors concerning the finances of these funds have already been addressed in the discussion of the Government's business-type activities.

## GENERAL FUND BUDGETARY HIGHLIGHTS

### ***Original and Final Budgeted Amounts***

Differences in revenues and other financing sources between the original budget and final amended budget totaled to an \$18 million decrease primarily due to:

- \$13 million decrease due to the transfer of grant activities from the general fund to various special revenue funds.
- \$2.5 million decrease due to the transfer of several central service activities to internal service funds.

Differences in expenditures and other financing uses between the original budget and final amended budget totaled to a \$14 million decrease primarily due to:

- \$13 million decrease due to the transfer of grant activities from the general fund to various special revenue funds.
- \$1 million decrease due to the transfer of the operations of the J.B. Knowles Home for the Aged from the General Fund to the Hospital Authority, a component unit of the Government.

### Final Budgeted and Actual Amounts

Actual revenues and other financing sources exceed final budgeted amounts by \$9 million primarily due to:

- \$7 million related to commissions and fees of certain elected officials which are excluded from the budget but included in actual revenues to appropriately recognize these operations in the financial statements.

Actual expenditures and other financing uses were higher than final budgeted amounts by \$4 million primarily due to:

- \$7 million related to expenditures of certain elected officials which are excluded from the budget but included in actual revenues to appropriately recognize these operations in the financial statements.
- \$3 million related to increased premiums for employee healthcare.

These overages were partially offset by savings achieved through aggressive cost containment measures in place during the 2005 fiscal year.

### CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets** – The Government's investment in capital assets for its governmental and business type activities as of June 30, 2005 amounts to \$3.84 billion (net of accumulated depreciation). Depreciation charges for the fiscal year totaled \$97 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Utility plant in service	\$ -	\$ -	\$ 1,776,644	\$ 1,698,975	\$ 1,776,644	\$ 1,698,975
Land	125,657	111,826	14,870	14,870	140,527	126,696
Buildings and improvements	915,020	891,336	109,657	106,973	1,024,677	998,309
Improvements other than buildings	-	-	40,967	40,730	40,967	40,730
Furniture, machinery and equipment	251,980	256,826	39,815	39,053	291,795	295,879
Property under capital lease	-	-	3,645	3,645	3,645	3,645
Infrastructure	1,444,873	1,435,966	-	-	1,444,873	1,435,966
Construction in progress	208,055	108,779	37,495	32,027	245,550	140,806
Less: Accumulated depreciation	(532,767)	(518,142)	(594,045)	(545,231)	(1,126,812)	(1,063,373)
<b>Total capital assets</b>	<b>\$ 2,412,818</b>	<b>\$ 2,286,591</b>	<b>\$ 1,429,048</b>	<b>\$ 1,391,042</b>	<b>\$ 3,841,866</b>	<b>\$ 3,677,633</b>

The total increase in the Government's investment in capital assets for the current fiscal year was 4.47% (a 5.52% increase for governmental activities and a 2.73% increase for business-type activities).

Construction of new schools and other government buildings and renovation of existing government buildings has continued in accordance with the Government's capital plan. New construction includes the Justice A.A. Birch Building which will house various judicial operations and renovation includes the Nashville and Davidson County Courthouse. Both projects are scheduled for completion in the 2006 fiscal year. Additionally, \$7 million of land received from the Nashville Thermal Transfer Corporation, a component unit which ceased operations in the 2005 fiscal year, and \$15 million of donated infrastructure were capitalized. Finally, additions to the utility plants for both the Department of Water and Sewerage Services and the District Energy System totaled approximately \$78 million.

As allowed by GASB Statement No. 34, the Government has adopted the alternative to recording depreciation expense on selected infrastructure assets. Under this method, referred to as the modified approach, the Government expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under this approach include approximately 5,600 lane miles of streets and roads and 356 bridges and underpasses that the Government is responsible for maintaining.

The Government's policy is to have at least 70% of roads in good or better condition. The most recent assessment indicated that 85.0% of roads are in good or better condition which is consistent with prior years.

The Government estimated a need of approximately \$9.2 million for the year ended June 30, 2005 for preservation and maintenance of roads and streets. This level of spending on an annual basis is considered adequate to maintain 70% of roads and streets in good or better condition. Actual costs for the year ended June 30, 2005 amounted to \$5.1 million. The condition level remained consistent with the prior year.

The Government's bridges have assessed conditions which are better than established benchmarks. The Government's policy is to have at least 75% of bridges in fair or better condition. The conditions of bridges are assessed every two years. The most recent assessment indicated that 94.2% of bridges are in fair or better condition compared to 89.0% in the prior assessment. The conversion of the Shelby Street Bridge from a vehicle to pedestrian use bridge was a major contributor to the improved condition rating. The next bridge assessment will be in fiscal 2006.

The Government estimated a need of \$1.8 million for the year ended June 30, 2005 for preservation and maintenance of bridges and underpasses. Actual costs for the year ended June 30, 2005 amounted to \$1.8 million. The condition level has remained consistent.

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

**Long-term debt** – At the end of the current fiscal year, the Government had total bonded debt outstanding of \$1.8 billion. Of this amount, \$1.3 billion comprises debt backed by the full faith and credit of the Government. The remainder, \$537 million, of the Government's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 1,279,935	\$ 1,158,710	\$ 7,695	\$ -	\$ 1,287,630	\$ 1,158,710
Deferred amounts, net	16,269	258	536	-	16,805	258
<b>Total general obligation bonds outstanding</b>	<b>1,296,204</b>	<b>1,158,968</b>	<b>8,231</b>	<b>-</b>	<b>1,304,435</b>	<b>1,158,968</b>
Revenue bonds	12,080	13,530	529,200	550,880	541,280	564,410
Deferred amounts, net	(155)	(180)	(4,543)	(5,247)	(4,698)	(5,427)
<b>Total revenue bonds outstanding</b>	<b>11,925</b>	<b>13,350</b>	<b>524,657</b>	<b>545,633</b>	<b>536,582</b>	<b>558,983</b>
<b>Total general obligation and revenue bonds bonds outstanding</b>	<b>\$ 1,308,129</b>	<b>\$ 1,172,318</b>	<b>\$ 532,888</b>	<b>\$ 545,633</b>	<b>\$ 1,841,017</b>	<b>\$ 1,717,951</b>

The Government's total general obligation and revenue bonds outstanding increased by \$123 million (7.16%) during the current fiscal year. New debt of \$459 million was issued to provide funding to pay principal and interest of certain of the Government's maturing commercial paper notes and to refund the outstanding principal balances of various bonds. The increase from the new debt was offset by principal payments of \$107 million and the outstanding principal balances on the refunded debt of \$245 million. Deferred amounts related to the bond issues increased \$16 million.

Construction commitments at June 30, 2005 totaled \$93 million for the governmental activities of the Government and \$19 million for the Department of Water and Sewerage Services.

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

The ratio of general long-term debt (defined as gross debt less debt service monies available and less debt to be repaid from sources other than property taxes) to assessed valuation is 8.46%, and the amount of net debt per capita is \$1,992.91 (in whole dollars).

On November 1, 2005, the Government issued \$214 million of general obligation bonds to provide funding to pay principal and interest on certain of the Government's maturing commercial paper notes totaling \$150 million. The remaining bond proceeds provided additional funding for capital improvements.

Additional information on the Government's long-term debt can be found in Note 6 beginning on page B-59 of this report.

**Commercial paper** – In August 2003, the Government instituted a general obligation commercial paper program to provide interim or short-term financing for various authorized capital projects. Commercial paper obligations of \$150 million outstanding at June 30, 2005 were subsequently rolled over into new commercial paper obligations and are considered short-term liabilities of the appropriate capital project funds.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The unemployment rate for the Nashville metropolitan area is currently 3.9%. The state's and nation's unemployment rates are 5.1% and 5.1%, respectively. The budget for the 2006 fiscal year reflects an increase in the overall property tax rate from \$4.58 to \$4.69 per \$100 of assessed value to generate additional revenues. For a more comprehensive discussion of the Metropolitan Government's approved budget for the 2006 fiscal year, the budget ordinance, the budget book as well as other documents are available at [www.nashville.gov](http://www.nashville.gov).

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Government's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in the Government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be forwarded to the Department of Finance, Division of Accounts, at [cafr@nashville.gov](mailto:cafr@nashville.gov).