

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, 2006.

FINANCIAL HIGHLIGHTS

- The assets of the Government exceeded its liabilities at the close of the most recent fiscal year by \$2.3 billion (*net assets*). Of this amount, \$166 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 \$29 million (\$39 million decrease from governmental activities and \$10 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 \$340 million, an increase of \$144 million in comparison with the prior year. Approximately 57.9% of this total amount, \$197 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 \$43 million, or 6.0% of total general fund expenditures.
- The enterprise funds reported net assets at year-end of \$1.1 billion, an increase of \$13 million during the year.
- The Government's total general obligation and revenue bonds outstanding increased by \$311 million (16.9%) during the current fiscal year. New debt issues totaled \$478 million which were offset by principal payments, refundings and changes in deferred amounts of \$167 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 \$10 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, Surplus Property Auction, Municipal Auditorium, Police Impound and School Community Education.

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

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

Fund Financial Statements

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

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

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

The Government reports 26 individual governmental funds. Information is presented separately in the Balance Sheet – Governmental Funds and in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds for the General Fund, General Purpose School Fund, GSD General Purposes Debt Service Fund, GSD School Purposes Debt Service Fund, 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, Surplus Property Auction, Municipal Auditorium, Police Impound and School Community Education. *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 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 \$2.3 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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 1,365,687	\$ 1,295,823	\$ 223,823	\$ 291,268	\$ 1,589,510	\$ 1,587,091
Capital assets	2,586,984	2,412,818	1,498,867	1,429,048	4,085,851	3,841,866
Total assets	3,952,671	3,708,641	1,722,690	1,720,316	5,675,361	5,428,957
Long-term liabilities	1,803,764	1,434,628	539,428	552,595	2,343,192	1,987,223
Other liabilities	908,955	995,510	78,044	71,977	986,999	1,067,487
Total liabilities	2,712,719	2,430,138	617,472	624,572	3,330,191	3,054,710
Net assets:						
Invested in capital assets, net of related debt	1,030,056	1,018,806	1,010,626	993,216	2,040,682	2,012,022
Restricted	67,840	97,629	70,023	69,305	137,863	166,934
Unrestricted	142,056	162,068	24,569	33,223	166,625	195,291
Total net assets	\$ 1,239,952	\$ 1,278,503	\$ 1,105,218	\$ 1,095,744	\$ 2,345,170	\$ 2,374,247

Governmental activities – Current and other assets for governmental activities increased by 5.4% due primarily to the effect of a June 2006 bond issue, which resulted in an increase in cash and investments of \$68 million. Capital assets increased by 7.2% due to construction of new schools and other government buildings and renovation of existing government buildings. Long-term liabilities increased by 25.7% due to the issuance of new debt in excess of principal payments and refunded debt and changes in deferred amounts. Other liabilities decreased by 8.7% primarily due to a decrease in commercial paper borrowings of \$140 million.

The largest portion of the Government's net assets for governmental activities (83.1%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure), less any related outstanding debt used to acquire those assets. 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 (5.5%) 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 \$142 million (11.4%) 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 – Current and other assets for business-type activities decreased by 23.2% 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, which resulted in a decrease in construction fund cash, cash equivalents and investments of \$60 million. Capital assets increased by 4.9% 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 2.4% 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 increased by 8.4% primarily due to an increase in restricted accounts payable related to construction activities.

The largest portion of the Government's net assets for business-type activities (91.4%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure), less any related outstanding debt used to acquire those assets. 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 (6.4%) 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, \$25 million (2.2%), may be used to meet the Government's ongoing obligations to citizens and creditors.

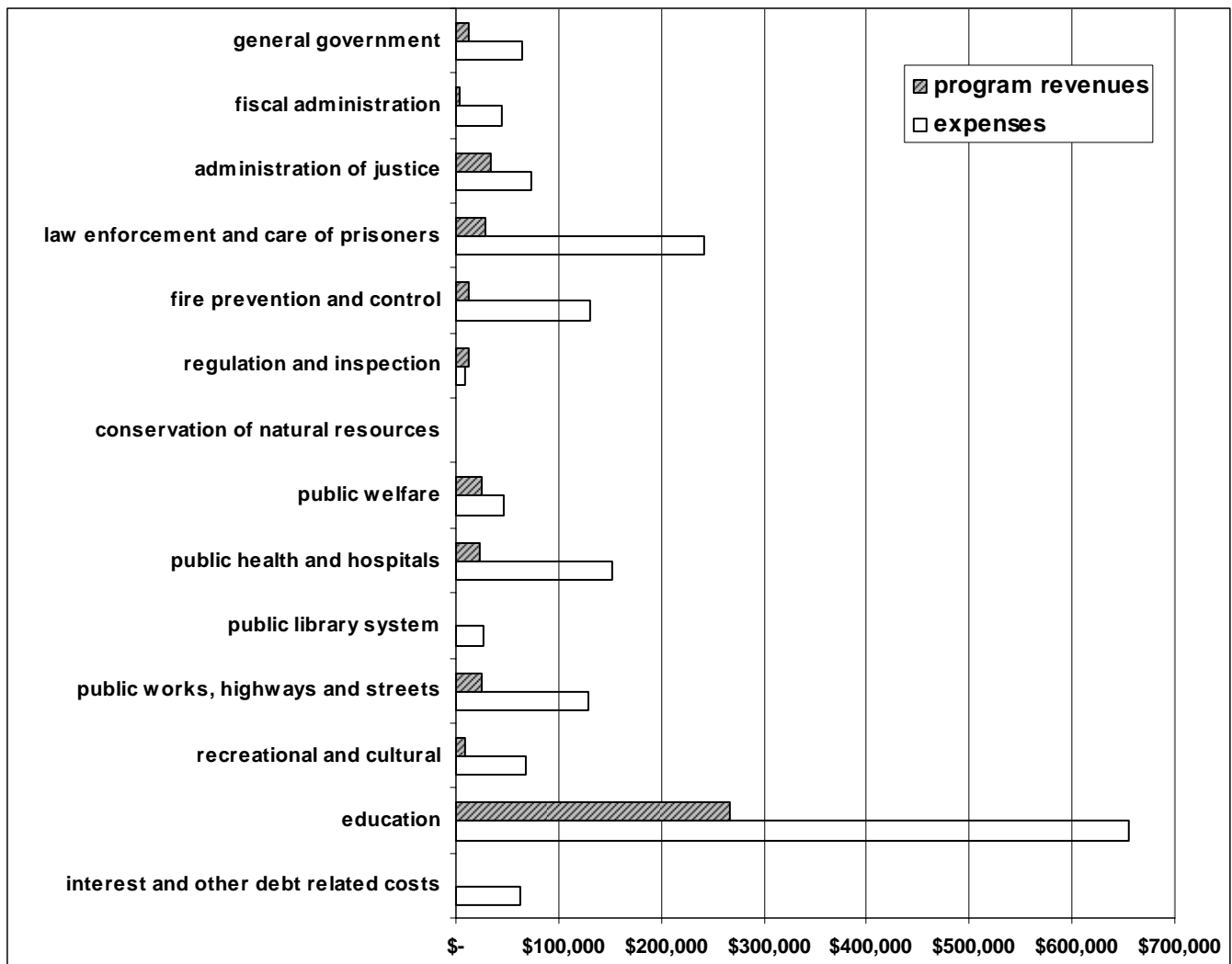
At the end of the current fiscal year, the Government is able to report positive balances in all three categories of net assets for its total business-type activities.

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	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 138,980	\$ 140,775	\$ 187,495	\$ 180,772	\$ 326,475	\$ 321,547
Operating grants and contributions	299,203	291,220	-	-	299,203	291,220
Capital grants and contributions	16,268	25,954	25,610	22,155	41,878	48,109
General revenues:						
Property taxes	725,199	612,734	-	-	725,199	612,734
Local option sales tax	271,119	249,610	-	-	271,119	249,610
Other taxes	116,664	97,807	-	-	116,664	97,807
Revenues from the use of money or property	15,097	10,060	6,530	4,544	21,627	14,604
Revenues from other governmental agencies	60,220	54,542	-	-	60,220	54,542
Compensation for loss, sale or damage to property	3,476	1,297	281	133	3,757	1,430
Total revenues	1,646,226	1,483,999	219,916	207,604	1,866,142	1,691,603
Expenses:						
General government	64,844	80,425	-	-	64,844	80,425
Fiscal administration	44,110	31,182	-	-	44,110	31,182
Administration of justice	73,025	66,879	-	-	73,025	66,879
Law enforcement and care of prisoners	241,487	231,516	-	-	241,487	231,516
Fire prevention and control	130,416	120,679	-	-	130,416	120,679
Regulation and inspection	8,770	8,711	-	-	8,770	8,711
Conservation of natural resources	457	396	-	-	457	396
Public welfare	47,150	51,636	-	-	47,150	51,636
Public health and hospitals	151,706	76,115	-	-	151,706	76,115
Pubic library system	26,757	26,165	-	-	26,757	26,165
Public works, highways and streets	128,171	93,785	-	-	128,171	93,785
Recreational and cultural	67,284	51,336	-	-	67,284	51,336
Education	654,801	640,655	-	-	654,801	640,655
Interest and other debt related costs	62,460	57,819	-	-	62,460	57,819
Department of Water and Sewerage Services	-	-	155,647	150,091	155,647	150,091
District Energy System	-	-	19,253	18,565	19,253	18,565
Nashville Convention Center	-	-	7,068	7,131	7,068	7,131
Board of Fair Commissioners	-	-	4,110	3,580	4,110	3,580
Farmers Market	-	-	1,136	1,216	1,136	1,216
Police Secondary Employment	-	-	1,063	1,153	1,063	1,153
Surplus Property Auction	-	-	788	2,554	788	2,554
Municipal Auditorium	-	-	1,885	-	1,885	-
Police Impound	-	-	1,919	-	1,919	-
School Community Education	-	-	912	-	912	-
Total expenses	1,701,438	1,537,299	193,781	184,290	1,895,219	1,721,589
Increase in net assets before transfers	(55,212)	(53,300)	26,135	23,314	(29,077)	(29,986)
Transfers	16,661	18,862	(16,661)	(18,862)	-	-
Increase (decrease) in net assets	(38,551)	(34,438)	9,474	4,452	(29,077)	(29,986)
Net assets, beginning of year	1,278,503	1,312,941	1,095,744	1,091,292	2,374,247	2,404,233
Net assets, end of year	\$ 1,239,952	\$ 1,278,503	\$ 1,105,218	\$ 1,095,744	\$ 2,345,170	\$ 2,374,247

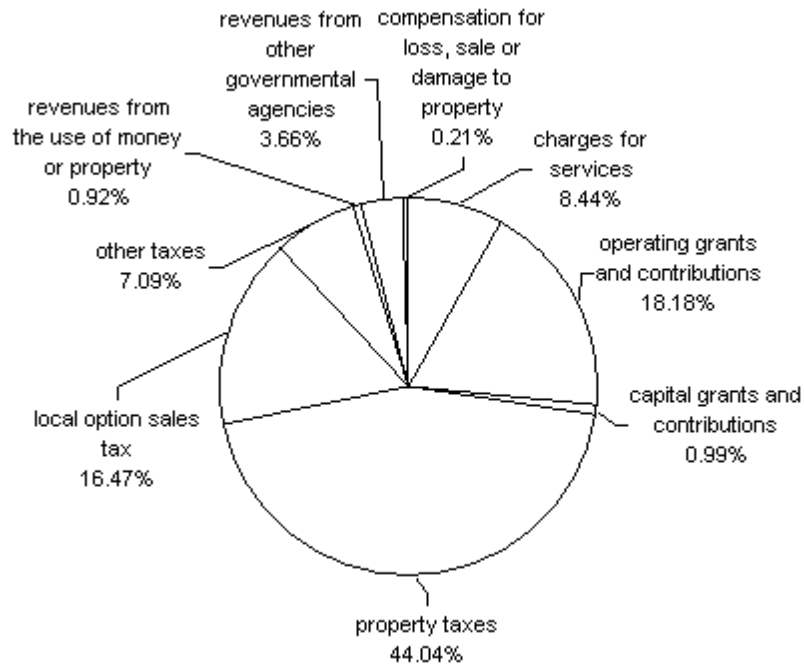
Governmental activities – Governmental activities decreased the Government’s net assets by \$39 million. The Metropolitan Council approved Substitute Bill Number BL 2005-664 which increased the combined property tax rate from \$4.58 to \$4.69 per each \$100 of assessed value for property taxes levied September 1, 2005, resulting in an increase in property tax revenues. Also, local option sales tax collections exceeded expectations. Other taxes increased as a result of increases in the fees for motor vehicle licenses. Costs were contained in most functional areas through aggressive cost containment practices as budgeted for the 2006 fiscal year. The decrease in general government and increase in public works, highways and streets are primarily due to a change in the reporting of the subsidy to Metropolitan Transit Authority, a component unit. The 2005 subsidy of \$12 million was included in general government expenses; the 2006 subsidy of \$16 million is included in public works, highways and streets expenses. Additional increases in public works, highways and streets are due to various expenses for capital projects that did not meet the Government’s criteria for capitalization. Expenses increased in public health and hospitals primarily due to a \$15 million budgeted increase in the operating subsidy to the Hospital Authority, a component unit, and a one-time \$50 million appropriation to the Hospital Authority to fund amounts Nashville General Hospital borrowed from the Government in prior years. Recreational and cultural expenses increased primarily due to a contribution to the Nashville Zoo of \$5 million and various expenses for capital projects that did not meet the Government’s criteria for capitalization. Expenses in education increased primarily due to increased personnel cost for salaries and benefits.

Expenses and Program Revenues - Governmental Activities – For the Year Ended June 30, 2006



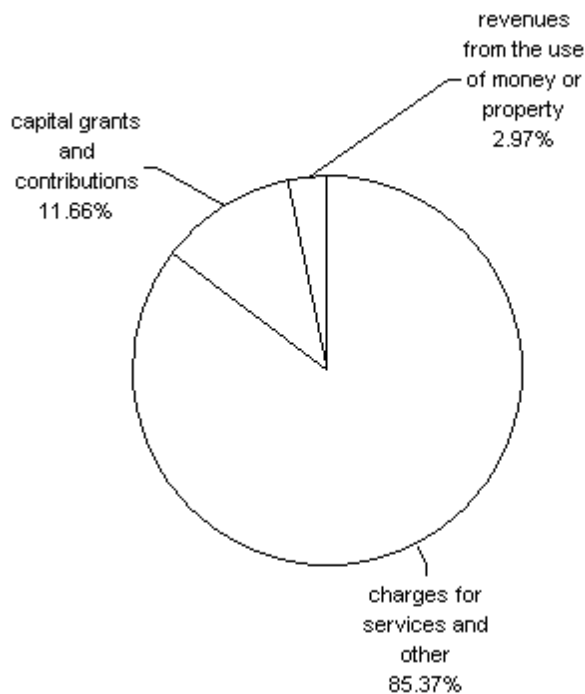
(in thousands)

Revenues by Source - Governmental Activities – For the Year Ended June 30, 2006



Business-type activities – Business-type activities increased the Government's net assets by \$9 million as compared to a \$4 million increase in the prior year. This change is attributable largely to an \$8 million increase in contributions of capital assets to the Department of Water and Sewerage Services.

Revenues by Source – Business-type Activities – For the Year Ended June 30, 2006



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 \$340 million, an increase of \$144 million in comparison with the prior year. Approximately 57.9% of this total amount (\$197 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 (\$19 million), 2) the purchase of equipment (\$51 million), 3) future debt payments (\$66 million), and 4) other purposes (\$7 million).

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 \$43 million, while total fund balance was \$47 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 6.0% of total general fund expenditures, while total fund balance represents 6.5% of total general fund expenditures.

The fund balance of the Government's general fund increased by \$10 million during the current fiscal year as a result of increased property taxes and cost containment through budgeted expenditure reductions.

The fund balance of the Government's general purpose school fund increased by \$20 million during the current fiscal year primarily due to increased property and sales taxes and through actual expenditures coming in significantly under budget, primarily in personal services.

The fund balance of the Government's GSD general purposes, GSD school purposes and USD general purposes debt service funds decreased by \$54 million in the current fiscal year as expected due to principal and interest payments in excess of revenues and due to a one-time allocation of \$50 million of property tax revenues to the general fund that would have otherwise been allocated to the GSD general purposes debt service fund in order to appropriate the \$50 million to the Hospital Authority to fund prior years' borrowings from the Government.

The fund balance of the Government's other governmental funds increased by \$168 million primarily due to bond proceeds in excess of 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 \$89 million. The total increase in net assets for these funds was \$7 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 a \$50 million increase, primarily in budgeted property taxes. Property taxes previously allocated to the GSD debt service fund were allocated to the general fund to cover the \$50 million payment to the Hospital Authority as noted in the **Governmental funds** discussion above.

Differences in expenditures and other financing uses between the original budget and the final amended budget totaled to a \$54 million increase, primarily due to the \$50 million increase in the subsidy to Hospital Authority as noted in the **Governmental funds** discussion above. Other variances in the budget line items are primarily due to pay plan and fringe benefit increases being originally budgeted under miscellaneous expenditures, then reallocated to departmental budgets after the final budget is approved.

Final Budgeted and Actual Amounts

Actual revenues and other financing sources exceed final budgeted amounts by \$9 million primarily due to \$8 million related to commissions and fees of certain elected officials that 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 less than final budgeted amounts by \$4 million primarily due to savings totaling over \$12 million from most departments – including administration and internal support savings of \$5 million and employee benefit savings of \$2 million - offset by \$8 million of expenditures of certain elected officials excluded from the budget but included in actual expenditures to appropriately recognize these operations in the financial statements.

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, 2006 amounts to \$4.1 billion (net of accumulated depreciation). Depreciation charges for the fiscal year totaled \$100 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Utility plant in service	\$ -	\$ -	\$ 1,836,900	\$ 1,776,644	\$ 1,836,900	\$ 1,776,644
Land	135,697	125,657	16,415	14,870	152,112	140,527
Buildings and improvements	1,011,674	915,020	119,267	109,657	1,130,941	1,024,677
Improvements other than buildings	-	-	41,524	40,967	41,524	40,967
Furniture, machinery and equipment	265,987	251,980	41,315	39,815	307,302	291,795
Property under capital lease	-	-	3,645	3,645	3,645	3,645
Infrastructure	1,457,900	1,444,873	-	-	1,457,900	1,444,873
Construction in progress	278,709	208,055	91,890	37,495	370,599	245,550
Less: Accumulated depreciation	(562,983)	(532,767)	(652,089)	(594,045)	(1,215,072)	(1,126,812)
Total capital assets	\$ 2,586,984	\$ 2,412,818	\$ 1,498,867	\$ 1,429,048	\$ 4,085,851	\$ 3,841,866

The total increase in the Government's investment in capital assets for the current fiscal year was 6.4% (a 7.2% increase for governmental activities and a 4.9% 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, including completing construction on the Justice A.A. Birch Building and renovation of the historic Nashville and Davidson County Courthouse. Finally, additions to the utility plants for both the Department of Water and Sewerage Services and the District Energy System totaled approximately \$60 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 and 75% of bridges in good or better condition. The most recent assessment indicated that 73% of roads and 95% of bridges are in good or better condition, as compared to 85% of roads in 2005 and 94% of bridges at the last evaluation in 2003. Beginning in 2006, the pavement condition measure was refined to include a measurement for raveling distress. Raveling is the loss of aggregate from the road surface. This distress is used to identify roads that would benefit from a new surface treatment process that extends the life of the road. The addition of raveling with the other existing distresses resulted in an overall road condition decrease for 2006.

The Government estimated a need of approximately \$12.8 million for the year ended June 30, 2006 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, 2006 amounted to \$2.6 million. The actual amount spent on roadway paving and surface treatment was significantly lower than the needed amount due to the fact that capital funds were not available until November. This delayed the procurement, contracting and work related to road repairs and maintenance; however, the budgeted funds have all been encumbered.

The Government estimated a need of \$9.6 million for the year ended June 30, 2006 for preservation and maintenance of bridges and underpasses. Actual costs for the year ended June 30, 2006 amounted to \$2.6 million. The actual amount spent on bridge and underpass repair was significantly lower than the needed amount due to the fact that capital funds were not available until November. This delayed the procurement, contracting and work related to bridge and underpass repairs and maintenance; however, the needed funds have all been encumbered.

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 \$2.2 billion. Of this amount, \$1.6 billion comprises debt backed by the full faith and credit of the Government. The remaining \$509 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	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 1,600,695	\$ 1,279,935	\$ 7,695	\$ 7,695	\$ 1,608,390	\$ 1,287,630
Deferred amounts, net	34,965	16,269	509	536	35,474	16,805
Total general obligation bonds outstanding	1,635,660	1,296,204	8,204	8,231	1,643,864	1,304,435
Revenue bonds	10,575	12,080	502,060	529,200	512,635	541,280
Deferred amounts, net	(130)	(155)	(3,897)	(4,543)	(4,027)	(4,698)
Total revenue bonds outstanding	10,445	11,925	498,163	524,657	508,608	536,582
Total general obligation and revenue bonds bonds outstanding	\$ 1,646,105	\$ 1,308,129	\$ 506,367	\$ 532,888	\$ 2,152,472	\$ 1,841,017

The Government's total general obligation and revenue bonds outstanding increased by \$311 million (16.9%) during the current fiscal year. New debt of \$478 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 \$126 million and the outstanding principal balances on the refunded debt of \$60 million. Deferred amounts related to the bond issues increased \$19 million.

Construction commitments at June 30, 2006 totaled \$82 million for the governmental activities of the Government and \$166 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 the actual value of property is 3.00%, and the amount of net debt per capita is \$2,629.24.

Additional information on the Government's long-term debt can be found in Note 6 beginning on page B-60 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 \$10 million outstanding at June 30, 2006 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 2007 fiscal year reflects a balanced budget with no property tax rate increase. For more comprehensive information on the Metropolitan Government's approved budget for the 2007 fiscal year, the budget ordinance, the budget book as well as other documents are available at www.nashville.gov.

OTHER MATTERS

In preparation for planning related to Governmental Accounting Standard Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45), the Government had independent actuaries prepare a preliminary estimate of post retirement benefit liabilities and costs. The preliminary estimate of the present value of future benefits for general government employees is \$1.5 billion, and the preliminary estimate of the present value of future benefits for teachers is \$500 million. The preliminary estimate of the annual required contribution for general government employees and teachers is \$95 million and \$15 million, respectively. This preliminary estimate was based on a 30-year level percentage amortization of the unfunded actuarial liability and a 6% discount rate assumption. Detailed actuarial studies of these liabilities and costs are currently underway. Additionally, earlier this year the Mayor appointed a Task Force to review the Government's options for addressing this new accounting standard. The Task Force is evaluating various benefit and funding scenarios in its efforts to identify options for addressing this issue.

On November 7, 2006, voters approved a ballot initiative prohibiting the Metropolitan Council from raising real property tax rates from their current and future levels without the approval of the voters in a referendum. Prior to the adoption of the November 7 ballot proposal, the Metropolitan Council was authorized to set the real property tax rate without any requirement of voter approval. The Government's legal department has issued a memo stating that the approved initiative violates the Tennessee Constitution because it places the power to set property tax rates with voters, rather than with the Metropolitan Council, as prescribed by the Constitution. However, the Government cannot predict whether there will be a court challenge as to the constitutionality of the approved initiative. If there is a challenge, the Government cannot predict the timing or be certain of the outcome of any court challenge as to the constitutionality of the approved initiative.

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.

