



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. The economic resources received and held by the Corporation are entirely for the direct benefit of the primary government, the primary government has the ability to access a majority of the economic resources, and the economic resources are considered significant to the primary government. 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, and the Government is required to approve debt issuances of the Sports Authority. 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 Long Term Care (a long-term care facility) for the residents of Nashville and Davidson County. The Hospital Authority was created in March 1999 to operate both entities, which were previously accounted for as enterprise funds of the Government. Effective October 1, 2004, Bordeaux Long Term Care absorbed the operations of the J.B. Knowles Home for the Aged which was previously accounted for in the General Fund 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 entity. Hospital Authority land and buildings and improvements are titled in the Government's name. Both entities are financially dependent on contributions from the Government's General Fund. Complete financial statements for each entity 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 37246.

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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 **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.

The primary government includes \$30,984,613 due from component units in the Statement of Net Assets. The component units include \$29,983,636 as due to the primary government. The difference of \$1,000,977 is due to advances to the Metropolitan Development and Housing Agency made subsequent to the Agency's year end.

B. Accounting Pronouncements

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. Preliminary independent actuarial estimates for the unfunded accrued liability are \$1.5 billion for the general government and \$473 million for teachers. Estimated annual required contributions over a 30 year period are \$116 million and \$25 million for the general government and teachers, respectively. These estimates are based on a 4.5% discount rate assumption. Detailed actuarial studies of these liabilities and costs are currently underway.

The Government adopted GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, required for fiscal periods beginning after December 15, 2006, in fiscal 2007. This Statement establishes criteria that governments will use to ascertain whether certain transactions should be recorded as a sale or as a collateralized borrowing, and was adopted in conjunction with the Government's initial sale of property tax receivables. This Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.

The Government plans to adopt GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remedial Obligations, required for fiscal periods beginning after December 15, 2007, in fiscal 2009. This Statement sets uniform standards requiring more timely and complete reporting of pollution remedial obligations.

The Government plans to adopt GASB Statement No. 50, Pension Disclosures – An Amendment of GASB Statements No. 25 and No. 27, required for fiscal periods beginning after June 15, 2007, in fiscal 2008. This Statement amends note disclosures and required supplementary information standards to conform with applicable changes adopted in GASB Statements No. 43 and No. 45.

The Government plans to adopt GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, required for fiscal periods beginning after June 15, 2009, in fiscal 2010. This Statement establishes accounting and financial reporting requirements for intangible assets.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Unless otherwise noted, 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. Except for interfund services provided and used, 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 pension (and other employee benefit) trust 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.

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.

Agency fund financial statements report only assets and liabilities and accordingly have no measurement focus. However, they do use the accrual basis of accounting to recognize receivables and payables.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Metropolitan Nashville Airport Authority, a component unit, has 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 from 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 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 **GSD Capital Projects Fund** is used to account for the use of bond proceeds for the construction and equipping of various public projects in the General Services District.

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 **District Energy System** 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 fleet management,

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

information systems, radio maintenance, insurance, central storeroom, postal services, facilities planning and construction, treasury management, human resources, finance, general services and printing.

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 as agents for individuals, governmental entities and others, funds collected by the Government due to the Metropolitan Transit Authority – a component unit, collections by the Government due to the purchaser of certain outstanding property tax receivables, and funds held by the Sheriff's Department for inmates.

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, 2007. 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, 2007.

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.

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.

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 \$5,175,890 for the year ended June 30, 2007.

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

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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, 2007. 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. Unused earned vacation pay that is due and payable, such as after employees' resignations or retirements, is reported in the governmental funds. Accumulated unpaid vacation pay related to governmental fund type operations that has not matured 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. Accumulated unpaid vacation pay related to proprietary fund type operations is reported as a liability in the appropriate individual proprietary funds.

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 in the appropriate individual proprietary funds.

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 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 \$9,466,999.

Bordeaux Sanitary Landfill - This landfill has stopped accepting solid waste, and closure procedures are 100% complete. Estimated postclosure costs of \$3,698,673 are included in the long-term liability.

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Metro Thermal Ash Landfill – This landfill has stopped accepting solid waste. Most closing procedures have been completed. Total estimated remaining closure and postclosure costs for this landfill of \$2,347,892 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 \$2,404,133 are included in the long-term liability.

Lebanon Road Landfill – This landfill has stopped accepting waste, and closing procedures are 100% complete. Estimated postclosure costs of \$1,016,301 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.

Reserve for long-term receivables – The Government has reserved fund balance for an amount due from the Hospital Authority that does not have a fixed repayment date.

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). Federal guidance on the PFC program has been updated from time to time since 1993, and the current maximum fee that can be authorized through federal regulation is \$4.50 per enplaning passenger. PFC's are recorded as program revenues in the Statement of Activities.

The Authority received approval to impose a \$3 PFC. The following cumulative project summary has been approved by the FAA:

Airfield development	\$ 173,611,255
Terminal development	26,727,200
Land acquisition	<u>64,158,054</u>
	<u>\$ 264,496,509</u>

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

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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 \$4.04 per \$100 of assessed value for the entire metropolitan area (General Services District) with an additional tax of \$.65 per \$100 of assessed value levied upon properties within the Urban Services District.

Payments are due by February 28 of the following year and are delinquent on March 1. Property taxes receivable have been included in the Balance Sheet - Governmental Funds with offsetting deferred revenue to reflect amounts not available at June 30, 2007. Amounts available at June 30, 2007 have been recorded as revenue in the governmental fund statements. Current tax collections of \$705,244,782 for the fiscal year ended June 30, 2007 were approximately 99% of the tax levy.

Of the \$747,219,648 property tax receivable, \$726,037,115 represents the 2007 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 and the 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.

H. Electric Power Board Presentation

During the year ended June 30, 2007, the Electric Power Board, a component unit, changed its financial statements from whole dollars and began presenting amounts rounded to the nearest thousand dollars. Accordingly, beginning net assets for the component units has been changed from \$1,188,431,338 to \$1,188,431,727 to reflect the change in presentation.

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, 2007.

B. Budgets and Budgetary Accounting

The Government's procedures in establishing the budget as reflected in the basic financial statements are as follows:

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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 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 March 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.

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 2007-2008 was submitted to the Metropolitan Council and subsequently approved by Substitute Bill Number O07-1398. Additionally, Resolution Number RS2007-2082 was submitted to the Metropolitan Council and subsequently approved on July 23, 2007 appropriating additional fund balance for the General Purpose School Fund. Unreserved and undesignated fund balance resources at June 30, 2007 have been appropriated to the 2007-2008 fiscal year operating budget as follows:

General Services District General Fund	\$ 5,395,200
General Purpose School Fund	6,054,600
General Services District General Purposes Debt Service Fund	372,800
General Services District School Purposes Debt Service Fund	8,566,400
Urban Services District General Fund	218,100
Urban Services District General Purposes Debt Service Fund	1,179,700

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Encumbrances – Information regarding 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 for the governmental funds at June 30, 2007 were as follows:

	Outstanding Encumbrances
	<hr/>
General Fund	\$ 1,105,050
Special Revenue Funds:	
General Purpose School	100,021
Metropolitan Action Commission	157,167
General Government Services	937,243
Recreational and Cultural Services	46,454
General Fund 4% Reserve	1,018,323
Law Enforcement and Justice Services	527,926
Solid Waste Operations	435,798
Stormwater Operations	6,407,515
Library Services	6,424
Education Services	735,895
Infrastructure Services	641,365
Nashville Career Advancement Center	185,279
Capital Projects Funds:	
GSD Capital Projects	47,859,086
Education Capital Projects	3,078,112
USD Capital Projects	11,051,674

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, 2007:

	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	\$ (157,163)	\$ 400	\$ (156,763)
Regulation and Inspection Services	(181,734)	-	(181,734)
Capital Projects Funds:			
GSD Capital Projects	(94,966,769)	-	(94,966,769)
Education Capital Projects	(31,236,867)	-	(31,236,867)
USD Capital Projects	(13,470,231)	-	(13,470,231)
Enterprise Funds:			
Surplus Property Auction	(308,976)	-	(308,976)
Police Impound	(2,243,813)	-	(2,243,813)
Internal Service Funds:			
Injured on Duty	(358,298)	-	(358,298)
Treasury Management	(6,793)	-	(6,793)
General Services	(2,493,724)	69,927	(2,423,797)

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

<u>Funds with deficits</u>	<u>Funding responsibility</u>
Special Revenue Funds	General Fund
Capital Projects Funds	Future issuance of notes and bonds
Enterprise Funds	Future user charges
Internal Service Funds	Future user charges

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

During the year ended June 30, 2007, 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	\$ 2,591,500	\$ 2,863,951	\$ (272,451)
Administration of Justice:			
District Attorney	4,833,600	4,895,835	(62,235)
Circuit Court Clerk	9,567,800	10,452,918	(885,118)
General Sessions Court	11,445,700	11,462,061	(16,361)
State Trial Courts	8,269,000	8,407,340	(138,340)
Miscellaneous:			
Administration and Internal Support	15,405,382	26,034,696	(10,629,314)
Transfers Out:			
GSD General Purpose Debt Service	3,319,700	3,332,400	(12,700)
Nonmajor Governmental Funds	38,066,600	38,474,354	(407,754)
Internal Service Funds	773,400	1,902,800	(1,129,400)
Fiduciary Funds	-	32,831	(32,831)
Urban Services District:			
Miscellaneous:			
Administration and Internal Support	(287,500)	795,704	(1,083,204)
General Purpose School Fund:			
Transfers Out	5,805,600	6,723,739	(918,139)
GSD General Purposes Debt Service Fund:			
Principal Retirement	49,865,700	49,893,327	(27,627)
Fiscal Charges	1,666,400	2,237,964	(571,564)
Bond Issue Costs	-	498,256	(498,256)
Payments to Refunded Bond Escrow Agent	-	133,920,099	(133,920,099)
Transfers Out	-	30	(30)
GSD School Purposes Debt Service Fund:			
Principal Retirement	31,393,900	31,828,536	(434,636)
Bond Issue Costs	-	85,880	(85,880)
Payments to Refunded Bond Escrow Agent	-	62,284,875	(62,284,875)
USD General Purposes Debt Service Fund:			
Interest	6,216,000	6,298,760	(82,760)
Bond Issue Costs	-	3,764	(3,764)
Payments to Refunded Bond Escrow Agent	-	2,729,695	(2,729,695)

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.

The District Attorney, General Sessions Court, and State Trial Courts experienced unanticipated operational needs late in the fiscal year that resulted in budget overages.

The budgets for the General Fund GSD and USD Administration and Internal Support line items included budget savings to be realized over various expenditures, including certain one time anticipated savings. Although these savings were not achieved, the General Fund's overall net change in fund balances resulted in a positive variance as compared to the budget.

Transfers Out to the GSD General Purposes Debt Service Fund included energy savings repayments for debt service that were budgeted under utility costs.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Transfers Out to Nonmajor Governmental Funds and Internal Service Funds included amounts that were budgeted under Administration and Internal Support. The line item budgets for those transfers exceeded the actual amounts transferred.

Transfers Out to Fiduciary Funds were related to pension fund reimbursements that were included in specific departmental salary budgets.

General Purpose School Fund Transfers Out include energy savings repayments for debt service that were budgeted under utility costs. The General Purpose School Fund total expenditures and transfers out are under budget in total.

Expenditures for the debt service funds are not controlled on a line item basis, and routine debt service expenditures and transfers for the GSD and USD General Purposes and GSD School Purposes Debt Service Funds as a whole were under budget. Refundings are not budgeted.

NOTE 3 - DEPOSITS AND INVESTMENTS

Primary Government

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; most bonds issued by U.S. Government Agencies; 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 make investments it deems suitable for the trust fund. Investments of the Teachers Retirement Plan are administered by the Administrative Retirement Committee of the Metropolitan Nashville Public Schools.

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Government's deposits may not be returned to it. As of June 30, 2007, all deposits were insured or collateralized, as required by Government policy.

B. Investments

The majority of the Government's investments are managed as a part of the Metro Investment Pool. However, certain business-type activities and elected officials have limited investments that are managed under Separate Portfolios. Both the Metro Investment Pool and Separate Portfolio investments are administered according to the Investment Policy of the Government. Investments related to the Metropolitan Employees' Benefit Trust and the Teachers' Retirement Plan are administered under separate investment policies.

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

As of June 30, 2007, the Government had the following investments:

Investment Type	Fair Value	Average Weighted Maturity (in Years)
Metro Investment Pool:		
Tennessee Local Government Investment Pool	\$ 451,957,634	0.21
Total Metro Investment Pool	<u>\$ 451,957,634</u>	
Separate Portfolios:		
U.S. Treasuries	\$ 76,334,227	0.63
Federal Home Loan Bank Obligations	1,576,757	1.00
Federal National Mortgage Association Obligations	994,690	0.48
Tennessee Local Government Investment Pool	<u>6,853,737</u>	0.21
Total Separate Portfolios	<u>\$ 85,759,411</u>	
Metropolitan Employees' Benefit Trust:		
U.S. Government Bonds	\$ 61,589,940	6.74
U.S. Government Agencies	72,413,093	4.57
Government Mortgage Backed Securities	119,722,129	4.61
Corporate Bonds and Notes	183,375,928	6.26
Common Stock (b)	1,383,006,059	(a)
Preferred Stock	5,968,501	(a)
Commercial Mortgage Backed Securities	42,599,240	4.31
Collateralized Mortgage Obligations	42,669,478	1.62
Asset Backed Securities	32,252,510	2.77
Mortgages and Real Estate	135,919,883	(a)
Warrants and Options	2,156,371	(a)
Venture Capital and Partnerships	42,075,332	(a)
Cash Collateral Received - Securities Lending Program	<u>302,176,086</u>	(a)
Total Metropolitan Employees' Benefit Trust	<u>\$ 2,425,924,549</u>	
Teachers' Retirement Plan:		
Corporate Bonds and Notes	\$ 21,611,526	4.80
U.S. Government Agencies	34,191	8.49
Common Stock	59,069,128	(a)
Preferred Stock	47,836	(a)
Convertible Equity	<u>905,346</u>	(a)
Total Teachers' Retirement Plan	<u>\$ 81,668,027</u>	

(a) The investment types are not subject to interest rate risk. Therefore, average weighted maturity is not applicable.

(b) The Metropolitan Employees' Benefit Trust investment portfolio contains \$7,814,948 of common stock reported in the Government's closed pension plans funds.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its Investment Policy, the average maturity of the portfolios are monitored and managed so that the changing interest rates will cause only minimal deviations in the net asset value. As of June 30, 2007, the investments of the Government had average weighted maturities as noted on the preceding table.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Government's Investment Policy limits its investments in corporate obligations to prime banker acceptances which are eligible for purchase by the federal reserve system and commercial paper which is rated at least A1 or the equivalent by at least two nationally recognized rating agencies. The investment policy for the Metropolitan Employee's Benefit Trust limits fixed income managers to investment grade debt but allows the Core Plus manager to invest up to 20% in low grade securities. The Core Plus fixed income portfolio accounts for less than 7% of plan assets and less than 25% of the fixed income allocation. The investment policy for the Teachers' Retirement Plan only allows investment grade debt. As of June, 30, 2007, the investments of the Government had credit ratings as follows:

Investment Type	Fair Value	Credit Ratings						
		AAA	AA	A	BBB	BB	B	Not Rated
Metropolitan Employees' Benefit Trust:								
Corporate Bonds and Notes	\$ 183,375,928	\$ 1,703,612	\$ 12,940,941	\$ 19,504,310	\$ 19,286,831	\$ -	\$ -	\$ 129,940,234
Commercial Mortgage Backed Securities	42,599,240	34,245,643	167,349	-	-	-	-	8,186,248
Collateralized Mortgage Obligations	42,669,478	36,449,673	-	-	-	-	-	6,219,805
Asset Backed Securities	32,252,510	29,502,314	-	1,255,618	53,423	-	-	1,441,155
Total Metropolitan Employees' Benefit Trust	<u>\$ 300,897,156</u>	<u>\$ 101,901,242</u>	<u>\$ 13,108,290</u>	<u>\$ 20,759,928</u>	<u>\$ 19,340,254</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145,787,442</u>
Teachers' Retirement Plan:								
Corporate Bonds and Notes	\$ 21,611,526	\$ 21,611,526	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Teachers' Retirement Plan	<u>\$ 21,611,526</u>	<u>\$ 21,611,526</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Concentration of credit risk is the risk of loss attributed to the magnitude of the Government's investment in a single issuer. The Government's Investment Policy limits single issuer exposure to 10% except for the securities of the U.S. Government or its agencies. For the Metropolitan Employees' Benefit Trust and Teachers' Retirement Plan, the investment policies limit single issuer exposure for each investment manager to 5%.

Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the Government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Government does not have a policy with regard to custodial credit risk of investments. As of June 30, 2007, all investments were insured or registered or the securities were held by the Government or its agent in the Government's name.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2007, no Metro Investment Pool or Separate Portfolio investments were held in foreign currency. The investment policies for the Metropolitan Employees' Benefit Trust and Teachers' Retirement Plan limit investments in international markets to 15% of the portfolio. As of June 30, 2007, the Government's exposure to foreign currency risk is as follows:

Base Currency	Fair Value	Maturity
Common Stock:		
Australian dollar	\$ 10,512,254	N/A
Canadian dollar	10,891,104	N/A
Danish krone	4,452,107	N/A
Euro	103,647,206	N/A
Hong Kong dollar	9,276,689	N/A
Mexican peso	922,977	N/A
New Zealand dollar	972,314	N/A
Norwegian krone	13,283,538	N/A
Pound sterling	47,930,135	N/A
Real	2,040,996	N/A
Republic of Korea won	4,425,807	N/A
Rupiah	2,331,511	N/A
Singapore dollar	8,529,412	N/A
Swedish krona	10,907,322	N/A
Swiss franc	20,998,765	N/A
Yen	55,481,357	N/A
	<hr/>	
Total Common Stock	306,603,494	
Preferred Stock:		
Real	2,494,288	N/A
Euro	1,408,691	N/A
	<hr/>	
Total Preferred Stock	3,902,979	
Warrant and Options:		
Euro	59,808	N/A
Republic of Korea won	1,813	N/A
	<hr/>	
Total Warrants and Options	61,621	
Total Metropolitan Employees'		
Benefit Trust	<u>\$ 310,568,094</u>	

C. Securities Lending Program

The Metropolitan Employees' Benefit Trust is authorized by the Metropolitan Charter and the Statement of Investment Objectives of the Investment Board of the Government to lend securities to brokerage firms on a temporary basis through its custodian bank, Northern Trust (Custodian). During the fiscal year, the Custodian lent Metropolitan Employees' Benefit Trust securities and received cash, U.S. Government securities, and irrevocable letters of credit as collateral. The Custodian did not have the ability to pledge or sell non-cash collateral delivered absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to not less than 102% of the market value of loaned domestic securities and 105% of the market value of loaned foreign securities.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Metropolitan Employees' Benefit Trust did not impose any restrictions on the amount of securities lent by the Custodian during the year on its behalf. There were no violations of legal or contractual provisions and there were no borrower or lending agent default losses during the year. The contract with the Custodian requires indemnification only in cases of Custodian negligence.

All securities loans can be terminated on demand by either the lender or the borrower. The average term of the Metropolitan Employees' Benefit Trust loans for the year ended June 30, 2007 was approximately 60 days. Cash collateral is invested in a short term investment pool. The relationship between the maturities of the investment pool and the system's loans is affected by the maturities of the securities loans made by other entities that use the Custodian's pool, which the system cannot determine. Cash collateral may also be invested separately in "term loans", in which case the investments match the loan term. As the loans are terminable at will, the duration of the investments generally did not match the duration of the investments made with the cash collateral.

The collateral held and the market value of the securities on loan as of June 30, 2007 was \$302,176,086 and \$293,862,439, respectively. The cash collateral is recorded as both an asset and a liability on the Metropolitan Employees' Benefit Trust financial statements. Securities and letters of credit received as collateral at June 30, 2007 are not recorded in the Statement of Plan Net Assets, as the Metropolitan Employees' Benefit Trust cannot sell or pledge the collateral received absent a borrower default.

At year-end, the Metropolitan Employees' Benefit Trust has no credit risk by borrowers because the amounts the Metropolitan Employees' Benefit Trust owes the borrowers exceed the amounts the borrowers owe the Metropolitan Employees' Benefit Trust. The gross earnings for securities lending were \$14,946,518 and the related expenses were \$13,052,962 in borrowers rebates and \$567,927 in agent fees, netting \$1,325,629 in securities lending income.

Component Units

A. Deposits

All component units are subject to State of Tennessee statute which requires that deposits in financial institutions be secured and collateralized by such 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. The degrees of risk regarding deposits vary with each component unit as noted in their separately issued financial statements.

B. Investments

Each component unit manages its own investments and creates its own policies, except for the Sports Authority which participates in the Metro Investment Pool of the primary government. Certain component units are subject to the same investment risks as the primary government. The degrees of risk regarding investments and the policies addressing each type of risk vary with each component unit as noted in their separately issued financial statements.

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

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

Primary Government

Governmental Activities:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 135,696,996	\$ 26,689,989	\$ -	\$ 162,386,985
Transportation infrastructure	1,367,872,536	14,974,524	-	1,382,847,060
Construction in progress	<u>278,709,216</u>	<u>102,440,574</u>	<u>(21,552,108)</u>	<u>359,597,682</u>
Total capital assets, not being depreciated	<u>1,782,278,748</u>	<u>144,105,087</u>	<u>(21,552,108)</u>	<u>1,904,831,727</u>
Capital assets, being depreciated:				
Buildings and improvements	1,011,673,848	20,254,673	(3,183,896)	1,028,744,625
Furniture, machinery and equipment	265,987,229	27,071,526	(6,123,501)	286,935,254
Stormwater infrastructure	<u>90,026,799</u>	<u>4,696,496</u>	<u>-</u>	<u>94,723,295</u>
Total capital assets, being depreciated	<u>1,367,687,876</u>	<u>52,022,695</u>	<u>(9,307,397)</u>	<u>1,410,403,174</u>
Less accumulated depreciation:				
Building and improvements	(365,372,963)	(24,977,508)	2,647,945	(387,702,526)
Furniture, machinery and equipment	(173,518,077)	(25,649,845)	5,637,383	(193,530,539)
Stormwater infrastructure	<u>(24,091,456)</u>	<u>(1,808,256)</u>	<u>-</u>	<u>(25,899,712)</u>
Total accumulated depreciation	<u>(562,982,496)</u>	<u>(52,435,609)</u>	<u>8,285,328</u>	<u>(607,132,777)</u>
Total capital assets, being depreciated, net	<u>804,705,380</u>	<u>(412,914)</u>	<u>(1,022,069)</u>	<u>803,270,397</u>
Governmental activities capital assets, net	<u>\$ 2,586,984,128</u>	<u>\$ 143,692,173</u>	<u>\$ (22,574,177)</u>	<u>\$ 2,708,102,124</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, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 16,414,407	\$ -	\$ -	\$ 16,414,407
Construction in progress	91,889,741	137,724,339	(43,980,671)	185,633,409
Total capital assets, not being depreciated	<u>108,304,148</u>	<u>137,724,339</u>	<u>(43,980,671)</u>	<u>202,047,816</u>
Capital assets, being depreciated:				
Utility plant in service	1,836,899,905	55,032,635	-	1,891,932,540
Buildings and improvements	119,267,233	469,117	-	119,736,350
Improvements other than buildings	41,524,138	242,237	-	41,766,375
Furniture, machinery and equipment	41,315,223	813,451	(83,365)	42,045,309
Property under capital lease	3,645,000	-	-	3,645,000
Total capital assets, being depreciated	<u>2,042,651,499</u>	<u>56,557,440</u>	<u>(83,365)</u>	<u>2,099,125,574</u>
Less accumulated depreciation:				
Utility plant in service	(531,679,700)	(46,517,365)	-	(578,197,065)
Buildings and improvements	(55,701,740)	(2,557,217)	-	(58,258,957)
Improvements other than buildings	(28,924,422)	(2,645,709)	-	(31,570,131)
Furniture, machinery and equipment	(34,864,458)	(1,786,028)	61,988	(36,588,498)
Property under capital lease	(918,719)	(91,125)	-	(1,009,844)
Total accumulated depreciation	<u>(652,089,039)</u>	<u>(53,597,444)</u>	<u>61,988</u>	<u>(705,624,495)</u>
Total capital assets, being depreciated, net	<u>1,390,562,460</u>	<u>2,959,996</u>	<u>(21,377)</u>	<u>1,393,501,079</u>
Business-type activities capital assets, net	<u>\$ 1,498,866,608</u>	<u>\$ 140,684,335</u>	<u>\$ (44,002,048)</u>	<u>\$ 1,595,548,895</u>

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	\$ 4,641,037
Fiscal administration	1,620,265
Administration of justice	583,344
Law enforcement and care of prisoners	3,745,666
Fire prevention and control	892,626
Education	18,607,864
Regulation and inspection	4,560
Public welfare	122,729
Public health and hospitals	701,197
Public library system	2,342,296
Public works, highways and streets, including depreciation of stormwater infrastructure	3,382,078
Recreational and cultural	2,906,119
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>12,885,828</u>
Total depreciation expense, governmental activities	<u>\$ 52,435,609</u>
Business-type activities:	
Department of Water and Sewerage Services	\$ 49,687,077
District Energy System	1,960,885
Nashville Convention Center	1,280,953
Board of Fair Commissioners	410,733
Farmers Market	129,365
Municipal Auditorium	<u>128,431</u>
Total depreciation expense, business-type activities	<u>\$ 53,597,444</u>

Component Units

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 205,040,211	\$ 12,327,094	\$ -	\$ 217,367,305
Construction in progress	<u>140,698,320</u>	<u>73,495,556</u>	<u>(48,297,635)</u>	<u>165,896,241</u>
Total capital assets, not being depreciated	<u>345,738,531</u>	<u>85,822,650</u>	<u>(48,297,635)</u>	<u>383,263,546</u>
Capital assets, being depreciated:				
Utility plant in service	912,934,491	79,939,509	(16,965,000)	975,909,000
Buildings and improvements	788,100,434	8,728,427	(220,514)	796,608,347
Improvements other than buildings	371,398,469	18,162,579	(2,500)	389,558,548
Furniture, machinery and equipment	193,641,946	19,637,563	(8,874,741)	204,404,768
Infrastructure	<u>11,214,763</u>	<u>23,600</u>	<u>-</u>	<u>11,238,363</u>
Total capital assets, being depreciated	<u>2,277,290,103</u>	<u>126,491,678</u>	<u>(26,062,755)</u>	<u>2,377,719,026</u>

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

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Less accumulated depreciation for:				
Utility plant in service	\$ (349,107,909)	\$ (30,486,000)	\$ 26,619,909	\$ (352,974,000)
Buildings and improvements	(264,251,247)	(24,919,829)	196,449	(288,974,627)
Improvements other than buildings	(215,411,608)	(11,469,534)	54,401	(226,826,741)
Furniture, machinery and equipment	(100,092,079)	(18,280,810)	8,408,027	(109,964,862)
Infrastructure	(8,650,965)	(280,464)	-	(8,931,429)
Total accumulated depreciation	<u>(937,513,808)</u>	<u>(85,436,637)</u>	<u>35,278,786</u>	<u>(987,671,659)</u>
Total capital assets, being depreciated, net	<u>1,339,776,295</u>	<u>41,055,041</u>	<u>9,216,031</u>	<u>1,390,047,367</u>
Component units activities capital assets, net	<u>\$ 1,685,514,826</u>	<u>\$ 126,877,691</u>	<u>\$ (39,081,604)</u>	<u>\$ 1,773,310,913</u>

NOTE 5 - BONDS, NOTES AND OTHER OBLIGATIONS

Primary Government

A. Transaction Summary

Bonds, notes and other obligations activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Governmental activities:					
General obligation bonds and notes payable:					
General Services District	\$ 900,833,056	\$ 125,907,793	\$ (176,136,141)	\$ 850,604,708	\$ 46,587,363
Schools	559,180,016	58,421,814	(93,169,494)	524,432,336	33,158,115
Urban Services District	140,681,928	2,560,393	(14,889,365)	128,352,956	13,294,522
Deferred charge/premium, net	<u>34,965,304</u>	<u>12,632,569</u>	<u>(10,760,707)</u>	<u>36,837,166</u>	<u>-</u>
Total general obligation bonds and notes payable	<u>1,635,660,304</u>	<u>199,522,569</u>	<u>(294,955,707)</u>	<u>1,540,227,166</u>	<u>93,040,000</u>
Limited obligation revenue bonds payable:					
Correctional Facility Revenue Bonds	10,575,000	-	(1,570,000)	9,005,000	1,630,000
Deferred charge/premium, net	<u>(129,810)</u>	<u>-</u>	<u>25,124</u>	<u>(104,686)</u>	<u>-</u>
Total limited obligation revenue bonds payable	<u>10,445,190</u>	<u>-</u>	<u>(1,544,876)</u>	<u>8,900,314</u>	<u>1,630,000</u>
Qualified zone academy notes payable:					
Qualified Zone Academy Notes	6,218,500	-	(414,567)	5,803,933	414,566
Deferred charge/premium, net	<u>(150,280)</u>	<u>-</u>	<u>10,364</u>	<u>(139,916)</u>	<u>-</u>
Total qualified zone academy notes payable	<u>6,068,220</u>	<u>-</u>	<u>(404,203)</u>	<u>5,664,017</u>	<u>414,566</u>

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

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Governmental activities: (Continued)					
Other obligations payable:					
Net pension obligation	\$ 70,696,335	\$ 98,125,712	\$ (92,769,648)	\$ 76,052,399	\$ -
Compensated absences	67,893,884	45,877,565	(44,318,251)	69,453,198	34,460,168
Claims and judgments	3,663,400	807,730	(22,777)	4,448,353	4,448,353
Landfill closure costs	9,336,553	1,806,426	(1,675,980)	9,466,999	2,500,982
Total other obligations payable	<u>151,590,172</u>	<u>146,617,433</u>	<u>(138,786,656)</u>	<u>159,420,949</u>	<u>41,409,503</u>
Total governmental activities long-term liabilities	<u>\$ 1,803,763,886</u>	<u>\$ 346,140,002</u>	<u>\$ (435,691,442)</u>	<u>\$ 1,714,212,446</u>	<u>\$ 136,494,069</u>
Business-type activities:					
Department of Water and Sewerage Services:					
Revenue bonds payable	\$ 436,540,000	\$ -	\$ (27,280,000)	\$ 409,260,000	\$ 28,770,000
Deferred charge/premium, net	(5,994,800)	-	669,349	(5,325,451)	-
State construction loans	62,637,664	66,800,522	(2,602,116)	126,836,070	2,722,176
Total Department of Water and Sewerage Services	<u>493,182,864</u>	<u>66,800,522</u>	<u>(29,212,767)</u>	<u>530,770,619</u>	<u>31,492,176</u>
District Energy System:					
Revenue bonds payable	65,520,000	-	(1,215,000)	64,305,000	1,255,000
Deferred charge/premium, net	2,098,028	-	(76,992)	2,021,036	-
General obligation bonds payable	7,695,000	-	(260,000)	7,435,000	265,000
Deferred charge/premium, net	508,906	-	(27,508)	481,398	-
Total District Energy System	<u>75,821,934</u>	<u>-</u>	<u>(1,579,500)</u>	<u>74,242,434</u>	<u>1,520,000</u>
Farmers Market:					
Capitalized lease obligations payable	1,780,000	-	(160,000)	1,620,000	165,000
Total business-type activities long-term liabilities	<u>\$ 570,784,798</u>	<u>\$ 66,800,522</u>	<u>\$ (30,952,267)</u>	<u>\$ 606,633,053</u>	<u>\$ 33,177,176</u>

The balances at July 1, 2006 for the General Services District, Schools and Urban Services District have been restated to reflect the reallocation of certain bond proceeds received in prior years. Amounts totaling \$33,471,603 previously reported as General Services District bonds outstanding were reallocated to Schools and Urban Services District in the amounts of \$27,522,929 and \$5,948,674, respectively, to properly reflect the outstanding bonds balances consistent with the projects funded.

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

B. Description of Amounts Payable

Amounts payable at June 30, 2007 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 May 15, 2030	3.00 - 6.00%	\$ 850,604,708
General Services District - School Purposes, due in varying amounts to May 15, 2030	3.00 - 5.50%	524,432,336
Urban Services District - General Purposes, due in varying amounts to May 15, 2030	3.00 - 6.00%	128,352,956
Deferred charge/premium, net		<u>36,837,166</u>
 Total general obligation bonds and notes payable from ad valorem taxes		 <u>1,540,227,166</u>
Limited obligation revenue bonds payable:		
Correctional Facility Revenue Bonds, due in varying amounts to September 1, 2011	4.00 - 5.00%	9,005,000
Deferred charge/premium, net		<u>(104,686)</u>
 Total limited obligation revenue bonds payable		 <u>8,900,314</u>
Qualified zone academy notes payable:		
Qualified Zone Academy Notes, due in varying amounts to December 28, 2020	N/A	5,803,933
Deferred charge/premium, net		<u>(139,916)</u>
 Total qualified zone academy notes payable		 <u>5,664,017</u>
Other obligations payable:		
Net pension obligation		76,052,399
Compensated absences		69,453,198
Claims and judgments		4,448,353
Landfill closure		<u>9,466,999</u>
 Total other obligations payable		 <u>159,420,949</u>
 Total governmental activities long-term liabilities		 <u>\$ 1,714,212,446</u>

Business-type activities:

Bonds payable:

Department of Water and Sewerage Revenue Refunding Bonds of 1986, due in varying amounts to January 1, 2016	7.30 - 7.70%	\$ 135,615,000
Department of Water and Sewerage Revenue Bonds, Series 1993, due in varying amounts to January 1, 2013	5.20 - 6.50%	48,075,000
Department of Water and Sewerage Revenue Refunding Bonds of 1996, due in varying amounts to January 1, 2014	5.25 - 6.00%	31,180,000
Department of Water and Sewerage Revenue Refunding Bonds, Series 1998A, due in varying amounts to January 1, 2022	4.625 - 5.00%	141,250,000
Department of Water and Sewerage Revenue Bonds Series 1998B, due in varying amounts to January 1, 2014	4.45 - 5.25%	25,315,000

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

	Interest Rate	Amount
Business-type activities: (Continued)		
Department of Water and Sewerage Revenue Refunding Bonds Series 2002, due in varying amounts to January 1, 2016	5.125%	\$ 27,825,000
Deferred charge/premium, net		(5,325,451)
Total Department of Water and Sewerage Services		403,934,549
District Energy System Revenue Bonds, Series 2002A, due in varying amounts to October 1, 2033	3.00 - 5.00%	64,305,000
District Energy System G. O. Multi-purpose Bonds, Series 2005A, due in varying amounts to January 1, 2025	4.25 - 5.25%	7,435,000
Deferred charge/premium, net		2,502,434
Total District Energy System		74,242,434
Total bonds payable		478,176,983
Department of Water and Sewerage Services - state construction loans	2.82 - 5.52%	126,836,070
Farmers Market - capitalized lease obligations payable	7.50%	1,620,000
Total business-type activities long-term liabilities		\$ 606,633,053

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

Governmental activities:

Noncurrent liabilities:	
Due within one year	\$ 136,494,069
Due in more than one year	1,577,718,377
Total governmental activities	\$ 1,714,212,446

Business-type activities:

Liabilities payable from restricted assets:	
Current portion of long-term liabilities	\$ 33,012,176
Noncurrent liabilities:	
Due within one year	165,000
Due in more than one year	573,455,877
Total business-type activities	\$ 606,633,053

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 METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	Fund incurring the related employees' compensation
Compensated absences	Fund incurring the related employees' compensation, primarily the General Fund and the General Purposes School Fund
Claims and judgments	Fund to which the claim or judgment relates
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, 2007, the Government believes it was in compliance with all financial limitations and restrictions.

E. Annual Debt Service Requirements

The annual requirements to amortize all general obligation bonds and notes and revenue bonds outstanding as of June 30, 2007 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
2008	\$ 93,040,000	\$ 73,221,997	\$ 1,630,000	\$ 401,350	\$ 30,025,000	\$ 26,671,290	\$ 124,695,000	\$ 100,294,637
2009	83,830,000	68,636,890	1,710,000	326,000	32,420,000	25,009,978	117,960,000	93,972,868
2010	83,970,000	64,506,774	1,795,000	238,375	34,640,000	22,782,618	120,405,000	87,527,767
2011	84,715,000	60,380,016	1,885,000	146,375	36,995,000	20,406,377	123,595,000	80,932,768
2012	79,545,000	56,576,318	1,985,000	49,625	39,265,000	17,918,008	120,795,000	74,543,951
2013-2017	423,305,000	222,932,770	-	-	175,250,000	54,185,949	598,555,000	277,118,719
2018-2022	347,695,000	126,897,221	-	-	85,875,000	22,224,961	433,570,000	149,122,182
2023-2027	295,880,000	38,237,821	-	-	13,840,000	8,075,331	309,720,000	46,313,152
2028-2032	18,845,000	1,583,453	-	-	17,145,000	4,247,544	35,990,000	5,830,997
2033-2034	-	-	-	-	8,110,000	410,500	8,110,000	410,500
Total	1,510,825,000	712,973,260	9,005,000	1,161,725	473,565,000	201,932,556	1,993,395,000	916,067,541
Deferred Charge/ Premium	37,318,564	-	(104,686)	-	(3,304,415)	-	33,909,463	-
Total	\$ 1,548,143,564	\$ 712,973,260	\$ 8,900,314	\$ 1,161,725	\$ 470,260,585	\$ 201,932,556	\$ 2,027,304,463	\$ 916,067,541

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Through June 30, 2007, the Government provided "self-liquidity" for the program, meaning if the commercial paper dealer was ever unable to market notes in the amount needed to pay the maturing notes, the Government would purchase the rollover notes as an investment within the Metropolitan Government Investment Pool. The Government would continue to hold the notes until the commercial paper dealer was 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 the market. At June 30, 2007, the amount of principal outstanding could not exceed \$200 million.

Commercial paper obligations of \$150,000,000 with interest rates ranging from 3.73% to 3.75% were outstanding at June 30, 2007. These obligations were refunded subsequent to year-end with rollover notes. The obligations are considered short-term debt at June 30, 2007 and are recorded as a liability in the Capital Project Funds and the District Energy System of the Government.

Short-term debt activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
Commercial paper payable	\$ 10,000,000	\$ 390,000,000	\$ (250,000,000)	\$ 150,000,000
Total short-term debt	<u>\$ 10,000,000</u>	<u>\$ 390,000,000</u>	<u>\$ (250,000,000)</u>	<u>\$ 150,000,000</u>

The short-term debt is classified in the Statement of Net Assets as follows:

Governmental activities:	
Commercial paper payable	<u>\$ 147,950,975</u>
Total governmental activities	<u>147,950,975</u>
Business-type activities:	
Commercial paper payable	<u>2,049,025</u>
Total business-type activities	<u>2,049,025</u>
Total commercial paper payable	<u>\$ 150,000,000</u>

G. Advance and Current Refunding of Bonds

On April 3, 2007, the Government issued \$186,890,000 General Obligation Refunding Bonds, Series 2007A (Series 2007A Bonds), maturing on May 15, 2030, with interest rates ranging from 4% to 5%. These bonds refunded various outstanding General Obligation Public Improvement Bonds, maturing May 15, 2010 through November 15, 2029. As a result, the refunded Bonds are considered to be defeased. By issuing the new bonds, the Government obtained an estimated economic gain (difference between the present values of the debt service payments on the defeased and new debt) of \$11,642,981. The refunding will reduce the Government's debt service payments over the next 20 years by an estimated \$14,236,414.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In prior years, the Government has defeased certain other 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, 2007, \$427,490,000 of general obligation bonds and \$39,675,000 of revenue bonds are considered defeased.

H. 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.

I. Qualified Zone Academy Notes

Qualified Zone Academy Bonds (QZAB) are issued by the Tennessee State School Bond Authority (TSSBA) to finance improvement loans for qualifying primary and secondary schools in the State. The QZAB's are a part of a federal government program administered by the Tennessee Department of Education in which a federal tax credit is given to investors in lieu of interest on the bonds.

The Government entered a loan agreement with the TSSBA in December, 2005 where by the Government would receive an amount not to exceed \$6,350,000 of the proceeds from the TSSBA QZAB, Series 2005. Actual proceeds totaled \$6,218,500. Under the provisions of the agreement, the proceeds of the loan must be spent on specific authorized projects within a limited time period. The TSSBA will hold and invest the proceeds from the Series 2005 Bonds, and as allowable expenditures are incurred, the Government will request reimbursement. The Government is required to make annual principal payments to TSSBA. An investment credit applied to the Government's portion of the bond proceeds will be used to reduce future payments.

QZAB note principal maturities at June 30, 2007 are summarized below:

Year Ending June 30	Principal	Investment Credit (1)
2008	\$ 414,566	\$ 97,031
2009	414,566	97,031
2010	414,566	97,031
2011	414,566	97,031
2012	414,566	97,031
2013-2017	2,072,835	485,156
2018-2020	<u>1,658,268</u>	<u>388,125</u>
Total qualified zone academy notes payable	<u>\$ 5,803,933</u>	<u>\$ 1,358,436</u>

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

As of June 30, 2007, the Department has entered into 16 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 2.82% and 5.52% at June 30, 2007). 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.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As of June 30, 2007, 15 of the project loans have been fully funded and the Department has begun repaying the loans in accordance with the specified payment schedules. Principal on eight of the loans has been fully paid, and the remaining seven loans, which total \$38,421,753 at June 30, 2007, call for monthly payments of principal and interest of approximately \$367,000.

State construction loan principal maturities as of June 30, 2007 are summarized below:

Year Ending June 30	Principal	Interest
2008	\$ 2,722,176	\$ 1,690,404
2009	2,847,828	1,564,740
2010	2,979,276	1,433,304
2011	3,116,832	1,295,736
2012	3,260,760	1,151,820
2013-2017	18,207,429	3,377,439
2018-2019	<u>5,287,452</u>	<u>399,162</u>
Active and complete loans	<u>38,421,753</u>	<u>10,912,605</u>
Active but incomplete loans (1)	<u>88,414,317</u>	<u>-</u>
Total state construction loans	<u>\$ 126,836,070</u>	<u>\$ 10,912,605</u>

(1) This loan is active but formalization of a final payment schedule is incomplete. This loan is expected to be paid back over 20 years at an interest rate of 2.82% beginning in the year ending June 30, 2008.

K. Swaption

In connection with the anticipated future issuance of variable rate bonds to synthetically advance refund its outstanding General Obligation Public Improvement Bonds, Series 1996, on May 4, 2004 the Government competitively bid the sale of a pay-fixed, receive-variable Securities Industry and Financial Market Association (SIFMA), formerly the Bond Market Association, swaption (Swaption). This transaction generated debt service savings in the form of an upfront payment of \$3,800,000. The Swaption was sold on an SIFMA floating to fixed interest rate swap and, when it was exercised by the winning bidder (Counterparty), the Government was placed into a variable to fixed interest rate swap. 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 Counterparty exercised the agreement on March 13, 2006, and the swap commenced on May 15, 2006. The Government issued General Obligation Refunding Bonds, Series 2006A, with an initial variable interest rate of 3.60%, on May 15, 2006. Under the terms of the Swaption agreement, the Government pays a net fixed rate to the Counterparty. The Counterparty remits to the Government at the SIFMA rate. The Government then services the 2006A Bonds at the SIFMA rate. The SIFMA rate at June 30, 2007 was 3.71%. The estimated fair market value of this contract was \$6,548,504 at June 30, 2007.

The future interest payments reflected in the schedule of annual debt service requirements in Section E above were calculated using the 5.4% net fixed rate.

L. Unissued Bonds or Notes

At June 30, 2007, authorized but unissued general obligation bonds totaled \$645,787,197. Commercial paper borrowings are used to fund capital spending prior to the issuance of bonds.

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

Component Units

A. Transaction Summary

Bonds, notes and other liabilities activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Governmental types:					
Revenue bonds payable:					
Sports Authority	\$ 78,578,644	\$ -	\$ (3,033,932)	\$ 75,544,712	\$ 3,130,000
Total revenue bonds payable - governmental types	78,578,644	-	(3,033,932)	75,544,712	3,130,000
Proprietary types:					
Revenue bonds payable:					
Metropolitan Development and Housing Agency	6,515,294	81,732	(1,300,000)	5,297,026	1,360,000
Electric Power Board	454,043,000	1,256,000	(14,717,000)	440,582,000	12,491,000
Metropolitan Nashville Airport Authority	241,803,964	20,107,048	(21,325,000)	240,586,012	22,395,000
Total revenue bonds payable - proprietary types	702,362,258	21,444,780	(37,342,000)	686,465,038	36,246,000
Notes payable:					
Metropolitan Development and Housing Agency:					
Notes payable	3,452,827	-	(1,057,320)	2,395,507	1,456,579
Metropolitan Nashville Airport Authority:					
Subordinate Revenue Note, Series 1999	596,048	-	(186,495)	409,553	198,543
Total notes payable - proprietary types	4,048,875	-	(1,243,815)	2,805,060	1,655,122
Total revenue bonds and notes payable	784,989,777	21,444,780	(41,619,747)	764,814,810	41,031,122
Other liabilities payable:					
Hospital Authority:					
Capitalized lease obligation	39,892,914	-	(1,045,998)	38,846,916	1,127,131
Other liabilities	7,324,546	2,071,613	-	9,396,159	-
Metropolitan Development and Housing Agency:					
Other liabilities	1,864,204	1,608,019	(1,864,204)	1,608,019	-
Electric Power Board:					
TVA Advances and Other	3,992,000	2,681,000	(2,906,000)	3,767,000	-
Metropolitan Transit Authority:					
Capitalized lease obligation	453,786	41,629	(125,180)	370,235	149,425
Metropolitan Nashville Airport Authority:					
Synthetic Advance Refunding, Series 2001	4,932,632	-	(836,841)	4,095,791	-
Fair value of derivative financial Instruments	851,374	318,614	-	1,169,988	-

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

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Proprietary types: (Continued)					
Other liabilities payable: (Continued)					
Deferred interest income	\$ 3,740,830	\$ -	\$ (435,569)	\$ 3,305,261	\$ -
Other liabilities	1,990,292	30,611	(34,904)	1,985,999	-
Total other liabilities payable - proprietary Types	65,042,578	6,751,486	(7,248,696)	64,545,368	1,276,556
Total revenue bonds, notes and other liabilities payable - component units	\$ 850,032,355	\$ 28,196,266	\$ (48,868,443)	\$ 829,360,178	\$ 42,307,678

B. Description of Amounts Payable

Amounts payable at June 30, 2007 are as follows:

	Interest Rates	Amount
Governmental types:		
Revenue bonds payable:		
Public Improvement Revenue Bonds (Stadium Project), Series 2004 due in varying amounts to July 1, 2027	5.375 - 5.875%	\$ 63,625,000
Taxable Public Facility Revenue Bonds, Series 1998, due in varying amount to July 1, 2018	5.87 - 6.60%	15,360,000
Deferred charge/premium, net		(3,440,288)
Total revenue bonds payable - governmental types		75,544,712
Proprietary types:		
Revenue bonds payable:		
Metropolitan Development and Housing Agency, Revenue Bonds, 2003 Series, due June 11, 2009	1.61 - 2.80%	5,297,026
Electric Power Board Electric System Revenue Bonds, 1996 Series A, due in varying amounts to May 15, 2013	5.50 - 6.00%	60,506,000
Electric Power Board Electric System Revenue Bonds, 1998 Series A, due in varying amounts to May 15, 2023	5.125 - 5.40%	93,390,000
Electric Power Board Electric System Revenue Bonds, 1998 Series B, due in varying amounts to May 15, 2017	3.80 - 5.50%	50,156,000
Electric Power Board Electric System Revenue Bonds, 2001 Series A, due in varying amounts to May 15, 2017	4.50 - 5.00%	108,568,000
Electric Power Board Electric System Revenue Bonds, 2001 Series B, due in varying amounts to May 15, 2014	5.50%	18,593,000
Electric Power Board Electric System Revenue Bonds, 2004 Series A, due in varying amounts to May 15, 2029	4.50 - 5.00%	109,369,000
Airport Improvement Revenue Bonds, Adjustable Rate Refunding, Series 1993, due in varying amounts to July 1, 2019	Adjustable	43,200,000
Airport Improvement Revenue Bonds, Adjustable Rate Refunding, Series 1995, due in varying amounts to July 1, 2015	4.45 - 5.00%	50,600,000
Airport Improvement Revenue Bonds, Series 1998, due in varying amounts to July 1, 2016	4.55 - 5.375%	30,955,000
Airport Improvement Revenue Bonds, Series 2001A, due in varying amounts to July 1, 2015	6.60 - 6.625%	67,945,000

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

	Interest Rates	Amount
Proprietary types: (Continued)		
Revenue bonds payable: (Continued)		
Passenger Facility Charge and Airport Revenue Bonds, Series 2003, due in varying amounts to July 1, 2012	Adjustable	\$ 22,145,000
Airport Improvement Revenue Bonds, Series 2003 B, due in varying amounts to July 1, 2033	2.69 - 5.94%	18,270,000
Airport Improvement Revenue Bonds, Series 2006, due in varying amounts to July 1, 2026	Adjustable	18,285,000
Metropolitan Nashville Airport Authority:		
Unamortized deferred amount on refunding		(10,813,988)
Total revenue bonds payable - proprietary types		686,465,038
Notes payable:		
Metropolitan Development and Housing Agency:		
Notes payable		2,395,507
Metropolitan Nashville Airport Authority:		
Subordinate Revenue Note, Series 1999		409,553
Total notes payable - proprietary types		2,805,060
Total revenue bonds and notes payable		764,814,810
Other liabilities payable:		
Hospital Authority:		
Capitalized lease obligation		38,846,916
Other liabilities		9,396,159
Metropolitan Development and Housing Agency:		
Other liabilities		1,608,019
Electric Power Board:		
TVA Advances and other		3,767,000
Metropolitan Transit Authority:		
Capitalized lease obligation		370,235
Metropolitan Nashville Airport Authority:		
Synthetic Advance Refunding, Series 2001		4,095,791
Fair value of derivative financial instruments		1,169,988
Deferred interest income		3,305,261
Other liabilities		1,985,999
Total other liabilities payable - proprietary types		64,545,368
Total bonds, notes and other liabilities payable - component units		\$ 829,360,178

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	\$ 34,886,000
Noncurrent liabilities:	
Due within one year	7,421,678
Due in more than one year	787,052,500
Total component units long-term liabilities	\$ 829,360,178

C. Collateral for Obligations of the Component Units

Sports Authority

The Public Improvement Revenue Refunding Bonds, Series 2004, 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. Issuance of Bonds

Metropolitan Nashville Airport Authority

In December 2006, the Airport Authority issued Airport Improvement Revenue Bonds, Series 2006, in the principal amount of \$18,285,000. The Bonds were issued to provide funds for a portion of the first phase of the multiple-phase terminal renovation project that began in October 2006. Project completion is expected in 2010. The Bonds were issued bearing interest at a weekly variable rate. Principal maturities vary in annual amounts ranging for \$680,000 on July 1, 2009, to \$1,445,000 on July 1, 2026.

E. Advance and Current Refundings of Bonds

Sports Authority

On October 27, 2004, the Sports Authority issued \$64,910,000 Public Improvement Revenue Refunding Bonds, Series 2004, maturing on July 1, 2024, to provide funds sufficient to pay all principal and interest on a portion of the outstanding Public Improvement Revenue Bonds (Stadium Project), Series 1996 (Series 1996 Bonds), maturing July 1, 2007 through July 1, 2026. The portion of the Series 1996 Bonds previously considered to be defeased in the amount of \$64,845,000 was redeemed during the year ended June 30, 2007.

Metropolitan Nashville Airport Authority

In prior years, Bonds have been defeased through advance refunding; therefore, the related outstanding balances at June 30, 2007, do not appear as a liability on the Airport Authority's Statement of Net Assets.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2006, the tax increment financing loans, including related accrued interest payable, aggregated approximately \$54.2 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, 2006, the Section 108 loans outstanding aggregated approximately \$4.45 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, 2007 for the Industrial Revenue Bonds issued after April 1, 1996 was \$444,378,005. For the year ending March 31, 2007, \$2,235,000 of \$444,378,005 is in default. 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.

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 \$2,912,880,480. 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

Metropolitan Development and Housing Agency

During July 2004, the Metropolitan Development and Housing Agency entered into a maximum \$8 million revolving line of credit agreement with the Metropolitan Government for the purpose of funding the development of Rolling Mill Hill. The line of credit agreement was increased to \$8.5 million in June 2006 and the maturity date was

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

extended through June 2007. 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. During fiscal 2006, the Agency drew \$6,005,656 on the line of credit. A total of \$7,002,248 was outstanding on the line of credit at September 30, 2006. The line of credit can be extended upon mutual agreement between the Agency and the Metropolitan Government and was extended to June 30, 2008 on June 6, 2007.

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, 2007.

Metropolitan Transit Authority

The Authority has a \$10,000,000 revolving credit line agreement with the Metropolitan Government for the purpose of funding operational activities. 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, 2007 is \$1,514,794. 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, 2007 (a liability of \$1,169,988) in the Statement of Net Assets. The fair value of this financial instrument at June 30, 2007 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, 2007.

Special Facility Revenue Bonds, Series 2005: During April 2005, the Airport Authority issued \$9,500,000 of Special Facility Revenue Bonds, Series 2005, on behalf of Embraer Aircraft Maintenance Services, Inc. The bonds were issued to finance the development and construction of an aircraft maintenance facility at Nashville International Airport. The outstanding Special Facility Revenue Bonds, Series 2005, are special obligations of the Airport Authority and the debt service thereon shall be payable solely from revenues provided by Embraer pursuant to a special facility sublease agreement or from letter of credit drawings made by the trustee. 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.

Special Facility Revenue Bonds, Series 2006: During July 2006, the Airport Authority approved an amendment to the ground lease with Aero Nashville, LLC whereby the Airport Authority agreed to issue \$6,515,000 of Special Facility Revenue Bonds, Series 2006, on behalf of Aero Nashville. Aero Nashville is an affiliate of Aeroterm US, Inc., the firm selected by Federal Express Corporation to be the developer of a 69,000 square foot cargo and support facility on approximately 15 acres of land at Nashville International Airport in 2005. The outstanding Special Facility Revenue Bonds, Series 2006, are special obligations of the Airport Authority and the debt service thereon shall be payable solely from revenues provided by Aero Nashville pursuant to a special facility sublease agreement or from letter of credit drawings made by the trustee. 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.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

H. Annual Debt Service Requirements

The annual principal maturities of all bonds and notes payable as of June 30, 2007 for the component units are as follows:

Year Ending June 30	Revenue Bonds and Notes Payable	
	Principal	Interest
2008	\$ 40,863,122	\$ 40,976,108
2009	41,401,938	39,869,186
2010	43,472,000	38,730,082
2011	42,092,000	37,984,615
2012	43,541,000	35,839,402
2013-2017	238,389,000	90,841,778
2018-2022	159,037,000	74,529,768
2023-2027	134,757,000	27,973,614
2028-2032	33,244,000	3,718,888
2033-2034	2,490,000	149,985
Total	779,287,060	390,613,426
Deferred Charges	(14,472,250)	-
Total	\$ 764,814,810	\$ 390,613,426

Deferred amounts for the Electric Power Board are netted with principal. Interest amounts are excluded for the Metropolitan Development and Housing Agency.

NOTE 6 - 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 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 Government has the following single-employer pension plans:

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

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

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Name</u>	<u>Type</u>	<u>Status</u>	<u>Administering Fund</u>
<u>Component Units</u>			
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
Metropolitan Nashville Airport Authority	Defined Benefit	Closed	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, 2007. Accounts receivable consists of amounts due from investment brokers for pending trades.

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 the plans 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.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 for all non-certificated employees of the Metropolitan Nashville Public Schools and all other Government employees. 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 10 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 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.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 the benefit 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, 2007 (the latest date available), the actuarial value of assets was \$270,549,000, the actuarial accrued liability was \$331,081,000, and the unfunded actuarial accrued liability was \$60,532,000. Covered payroll was \$58,298,000.

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 37246.

In 1994 the Electric Power Board established a nonqualified supplemental executive retirement plan (SERP) 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. Effective April 1, 2005 the Board merged the SERP with the Electric Power Board's Retirement Annuity and Survivor's Benefit Plan. Adding the SERP benefits to the Plan increased the funding requirements for the Plan, but the amounts that had accumulated in the SERP Trust were transferred to the Plan in order to offset those increased costs. Future payments that would have been made into the SERP Trust will be directed into the Plan. At the time of conversion, no benefits had been paid from the SERP. Any change in funding requirements is reflected above.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 increased 3.0% effective July 1, 2006. 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, 2006 (the latest date available), the actuarial value of assets was \$20,800,000; the actuarial accrued liability was \$32,500,000. There is an unfunded actuarial accrued liability of \$11,700,000. Covered payroll was \$16,600,000.

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.

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 (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 (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 Airport Authority 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 16.637% for the non-certificated 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.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 (6.13% of covered payroll for the fiscal year ending June 30, 2007). 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, 2007, 2006, and 2005 were \$17,585,461, \$15,422,903, and \$15,124,737 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).

Component Units

Metropolitan Development and Housing Agency

The Agency's contributions for the year ended September 30, 2006, amounted to \$1,988,936, which equaled the amount of the annual required contribution. Employee contributions were \$144,001. The Agency's payroll for employees covered by this plan was \$14,178,996, and total payroll amounted to \$17,245,728 during the fiscal year ended September 30, 2006.

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 26.1% of annual covered payroll. The Board contributed 100% of the required contribution for the Plan years 2007, 2006, and 2005. For the year ended June 30, 2007, the required and actual amount contributed was \$14,938,000. The annual contribution for the year was determined as part of the April 1, 2007, actuarial valuation using the frozen initial liability method. The actuarial assumptions included (a) 8% investment rate of return and (b) projected salary increases of 4.5%. Both (a) and (b) included an inflation component. The assumptions include cost-of-living postretirement benefit increases equal to 2% a year. The actuarial value of the Plan assets is determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. The unfunded actuarial accrual liability is being amortized over 30 years.

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 8.12% in 2007. 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, 2007, the annual pension costs were \$1,485,000, the annual required contribution \$1,485,000 and the actual amount contributed was \$1,485,000. The entry age normal method has been used to compute the annual contribution requirement.

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

Metropolitan Nashville Airport Authority

Contribution requirements are established and may be amended by the Airport Authority. For the year ended June 30, 2007, the Airport Authority's annual pension cost of \$1,140,231 was equal to the annual required contribution of \$956,151 less interest of \$1,286,357 on the net pension asset plus the annual required contribution adjustment of \$1,470,437. There was no actual contribution made to the Plan because a contribution of \$19,000,000 was made in 2004 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, 2006 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.

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	\$ 10,312,015	\$ 10,378,756
Metro Education	60,384,320	65,673,643
Total net pension obligation	70,696,335	76,052,399
Net pension assets:		
County	(9,617,233)	(9,314,679)
County Education	(2,910,544)	(4,532,566)
City	(15,395,166)	(15,910,725)
City Education	(7,479,234)	(8,178,715)
Total net pension assets	(35,402,177)	(37,936,685)
Total net pension obligation (assets)	\$ 35,294,158	\$ 38,115,714

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.

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

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

In the Metro Plan, the investment in the Northern Trust Daily S&P 500 Equity Index Fund totaling \$481,643,339 exceeds 5% of plan assets at June 30, 2007. In the Metro Education Plan, the investment in the Northern Trust Daily Aggregate Bond Index Fund totaling \$21,611,526 exceeds 5% of plan assets at June 30, 2007. The categorization of pension investments by asset type is included in Note 3 – Deposits 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 2007			
Annual required contribution	\$ 2,193,202	\$ 85,874,502	\$ 5,708,861
Interest on net pension obligation	(769,379)	824,961	(232,844)
Adjustment to annual required contribution	<u>1,347,144</u>	<u>(1,204,754)</u>	<u>407,697</u>
Annual pension cost	2,770,967	85,494,709	5,883,714
Contributions made	<u>(2,468,413)</u>	<u>(85,427,968)</u>	<u>(7,505,736)</u>
Increase (decrease) in net pension obligation	302,554	66,741	(1,622,022)
Net pension obligation (asset) beginning of year	<u>(9,617,233)</u>	<u>10,312,015</u>	<u>(2,910,544)</u>
Net pension obligation (asset) end of year	<u><u>\$ (9,314,679)</u></u>	<u><u>\$ 10,378,756</u></u>	<u><u>\$ (4,532,566)</u></u>
THREE-YEAR TREND INFORMATION			
2007			
Annual pension cost (APC)	\$ 2,770,967	\$ 85,494,709	\$ 5,883,714
Percentage of APC contributed	89.08%	99.92%	127.57%
Net pension obligation (asset)	\$ (9,314,679)	\$ 10,378,756	\$ (4,532,566)
2006			
Annual pension cost (APC)	\$ 2,744,072	\$ 78,946,942	\$ 5,962,043
Percentage of APC contributed	92.36%	86.99%	127.31%
Net pension obligation (asset)	\$ (9,617,233)	\$ 10,312,015	\$ (2,910,544)
2005			
Annual pension cost (APC)	\$ 4,443,964	\$ 67,111,108	\$ 8,740,499
Percentage of APC contributed	58.87%	87.76%	86.06%
Net pension obligation (asset)	\$ (9,827,001)	\$ 39,228	\$ (1,282,315)
PARTICIPANTS - Latest Actuarial Valuation Date			
Active:			
Fully vested	-	8,586	1
Non-vested and partially vested	-	4,006	-
Total active	<u>-</u>	<u>12,592</u>	<u>1</u>
Retirees and beneficiaries receiving benefits	168	6,049	340
Terminated vested	-	1,368	-
Total	<u><u>168</u></u>	<u><u>20,009</u></u>	<u><u>341</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>
\$ 13,535,466	\$ 10,118,539	\$ 3,462,604	\$ 120,893,174
4,830,746	(1,231,613)	(598,339)	2,823,532
<u>(5,735,209)</u>	<u>2,156,493</u>	<u>1,047,661</u>	<u>(1,980,968)</u>
12,631,003	11,043,419	3,911,926	121,735,738
<u>(7,341,680)</u>	<u>(11,558,978)</u>	<u>(4,611,407)</u>	<u>(118,914,182)</u>
5,289,323	(515,559)	(699,481)	2,821,556
<u>60,384,320</u>	<u>(15,395,166)</u>	<u>(7,479,234)</u>	<u>35,294,158</u>
<u>\$ 65,673,643</u>	<u>\$ (15,910,725)</u>	<u>\$ (8,178,715)</u>	<u>\$ 38,115,714</u>
\$ 12,631,003	\$ 11,043,419	\$ 3,911,926	\$ 121,735,738
58.12%	104.67%	117.88%	97.68%
\$ 65,673,643	\$ (15,910,725)	\$ (8,178,715)	\$ 38,115,714
\$ 12,388,237	\$ 10,975,819	\$ 4,021,736	\$ 115,038,849
56.52%	105.94%	117.35%	88.79%
\$ 60,384,320	\$ (15,395,166)	\$ (7,479,234)	\$ 35,294,158
\$ 11,300,253	\$ 17,056,239	\$ 5,993,104	\$ 114,645,167
60.67%	70.41%	75.35%	80.61%
\$ 54,998,411	\$ (14,743,183)	\$ (6,781,630)	\$ 22,403,510
10	-	-	8,597
-	-	-	4,006
<u>10</u>	<u>-</u>	<u>-</u>	<u>12,603</u>
1,238	715	233	8,743
8	-	-	1,376
<u>1,256</u>	<u>715</u>	<u>233</u>	<u>22,722</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, 2006	July 1, 2006	July 1, 2006	July 1, 2006
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	15 years (10 remaining)	40 years (12 remaining)	15 years (10 remaining)	30 years (24 remaining)
Asset valuation method	5 year smoothed market	5 year smoothed market	5 year smoothed market	5 year smoothed market
Actuarial assumptions:				
Investment rate of return*	8.00%	8.00%	8.00%	8.00%
Projected salary increases*	4.00%	4.00%	5.00%	5.00%
Postretirement benefit increase adjustments	2.75%	2.75%	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. 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, 2006	July 1, 2006
entry age normal	entry age normal
level dollar open	level dollar open
15 years (10 remaining)	15 years (10 remaining)
5 year smoothed market	5 year smoothed market
8.00%	8.00%
4.00%	5.00%
2.75%	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, 2007 totaled \$25,614,667.

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 \$1,898,824 and \$1,457,680, respectively, for the fiscal year ended June 30, 2007.

The post-retirement benefits for the Metro plans were authorized by the Government's charter and code. During the year ended June 30, 2007, 6,757 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, 2007 totaled \$11,698,647. During the year ended June 30, 2007, 2,879 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 and code.

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, 527 retirees meet those eligibility requirements. Expenditures for post-retirement health care benefits are recognized as retirees report claims. Expenditures of \$6,800,000 for the year ended June 30, 2007 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, 2007, total medical benefit claims expense incurred amounted to \$1,486,586. Future claims cannot be estimated. At June 30, 2007, approximately 147 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 \$5,000 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, 2007, the Metropolitan Transit Authority recognized an expense for death benefit claims totaling \$5,000. Future such claims cannot be estimated, however, at June 30, 2007, approximately 147 retirees were covered under this plan.

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, 71 retirees are receiving benefits under this PERS. During the year ended June 30, 2007, payments of \$381,527 were made by the Authority for post-retirement benefits under this PERS.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 21 retirees are receiving benefits from the Metro Plan. During the year ended June 30, 2007, payments of \$61,332 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, 2007, \$442,859 of post-retirement benefits were recognized as expense.

NOTE 7 - 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 \$3,000,000 and \$1,600,000, respectively, during the year ended June 30, 2007.

Metropolitan Nashville Airport Authority

The 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 \$538,891 for the year ended June 30, 2007.

NOTE 8 - LEASES

Primary Government

The Government entered a lease agreement commencing November, 2005, for additional office space. The terms of the agreement call from a base annual rent of \$600,191 before a 50% credit for tenant improvements through December, 2009. Thereafter, rent will be adjusted upward based on either the consumer price index or 3.5% annually, whichever is less. The credit for tenant improvements is capped at \$5 million; the Government has incurred in excess of that amount through June 30, 2007. There is an additional credit in excess of \$1 million

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

available for roof replacement; the Government is expected to replace the roof in fiscal 2008. The lease agreement expires December, 2014. However, the Government may exercise up to six renewal options for five additional years each. Rent expense for the year ended June 30, 2007 was \$210,096.

The Government leases certain other facilities from various lessors under operating lease agreements. Total rental expenditures under these leases are nominal for the year ended June 30, 2007.

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, 2007, the leased building is carried in the enterprise funds at \$3,645,000, less accumulated depreciation of \$1,009,844. A summary of future minimum lease payments and the present value of future lease payments for the capitalized lease as of June 30, 2007 is as follows:

<u>Year Ending June 30,</u>		
2008	\$	256,105
2009		257,113
2010		257,487
2011		257,220
2012		256,300
2013-2015		<u>775,675</u>
Total future minimum lease payments		2,059,900
Less:		
Amount representing interest imputed at 7.5%		439,900
Current portion of capital lease		<u>165,000</u>
Long-term capitalized lease obligation	\$	<u><u>1,455,000</u></u>

Component Units

Nashville District Management Corporation

The Corporation leases office space under a noncancelable operating lease which expired May 2007. The space is paid for and used by Nashville Downtown Partnership, Inc., a related nonprofit organization. In connection with the lease, the lessor provided reduced rent totaling \$42,109 for the year ended December 31, 2006 that has been reflected in the financial statements as contributions with an offsetting charge to expense. The lease provides for additional rent to be payable in the event property taxes and/or building operating costs increase for base year amounts. Rent expense totaled \$81,855 for the year ended December 31, 2006. Future minimum lease payments at December 31, 2006 totaled \$15,000. The lease was subsequently extended through May 2012.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2007, 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 \$15,239,315.

A summary of future minimum lease payments required under the agreement as of June 30, 2007 follows:

<u>Year Ending June 30,</u>		
2008	\$	4,000,000
2009		4,000,000
2010		4,000,000
2011		4,000,000
2012-2016		20,000,000
2017-2021		20,000,000
2022-2025		<u>13,666,667</u>
Total future minimum lease payments		69,666,667
Less:		
Amount representing interest		30,819,751
Current portion of capital lease		<u>1,127,131</u>
Long-term capitalized lease obligation	\$	<u>37,719,785</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, 2006 were \$45,259 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 \$5,125,000 at September 30, 2006. 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 \$106,053 for the year ended September 30, 2006.

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 \$874,000 for the year ended June 30, 2007. 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 \$1,900,000 for the year ended June 30, 2007.

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 2004, 2005, 2006 and 2007, the Authority entered into a capital lease agreement with the Government for certain computer equipment with a total cost of \$175,522. The assets under capital lease are included in capital assets. The future minimum lease payments required under the capital leases as of June 30, 2007, are as follows:

<u>Year Ending June 30,</u>		
2008	\$	162,920
2009		151,299
2010		<u>78,758</u>
Total future minimum lease payments		392,977
Less:		
Amount representing interest imputed at 5.05%		22,742
Current portion of capital lease		<u>149,425</u>
Long-term capitalized lease obligation	\$	<u>220,810</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 (\$1,982,009 unamortized at June 30, 2007) 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 \$1,519,498 at June 30, 2006 was forgiven March 1, 2007, and retroactive to February 1, 2006. In exchange for forgiving the receivable, the Airport Authority received title to the facility that the note proceeds were used to construct. The value of the asset received by the Airport Authority was \$1,559,471.

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 \$12,750 for the year ended March 31, 2007.

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, 2007, no lease options were exercised. Lease agreements with purchase options that have not been exercised and remain in effect total \$150,000 at March 31, 2007.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 expired on April 25, 2007. During the year ended March 31, 2007, rent under the long-term lease obligation was \$12,000. Future obligations over the term of the lease are \$1,000.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at June 30, 2007 are attributable to unsettled balances at year-end primarily for internal service billings and transfers between funds.

Balances at June 30, 2007 are as follows:

SCHEDULE OF INTERFUND RECEIVABLES AND PAYABLES

For the Year Ended June 30, 2007

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	GSD Capital Projects Fund
General Fund	\$ -	\$ 4,730	\$ -	\$ -	\$ 5,283,225	\$ 123,599
General Purpose School	-	-	-	-	-	-
GSD General Purposes Debt Service Fund	141,514	-	-	308,924	7,420	104,975
GSD School Purposes Debt Service Fund	-	941,913	-	-	23,741	-
GSD Capital Projects Fund	300,139	241,416	-	-	-	-
Nonmajor Governmental Funds	4,323,218	299,758	-	-	2,046	585,680
Department of Water and Sewerage Services	6,883	206,236	-	-	-	-
Nonmajor Enterprise Funds	-	-	-	-	-	-
Internal Service Funds	790,594	230,087	24,516	13,036	3,240	572,125
Fiduciary Funds	4,493,084	-	-	-	-	-
	<u>\$ 10,055,432</u>	<u>\$ 1,924,140</u>	<u>\$ 24,516</u>	<u>\$ 321,960</u>	<u>\$ 5,319,672</u>	<u>\$ 1,386,379</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, 2007

Due To						
Nonmajor Governmental Funds	Department of Water and Sewerage Services	District Energy System	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
\$ 2,082,917	\$ 419,136	\$ 4,760	\$ 368,432	\$ 249,285	\$ -	\$ 8,536,084
2,334,907	-	-	4,089	16	-	2,339,012
-	-	-	-	-	-	562,833
-	-	-	-	-	-	965,654
3,316,379	260,985	-	138,270	60,950	-	4,318,139
3,606,103	154,683	-	2,256,298	744,638	-	11,972,424
79,909	-	-	4,677	5,221	-	302,926
1,195	-	-	42,725	108	-	44,028
1,419,953	59,462	10,020	47,017	2,956,324	1,913,296	8,039,670
-	-	-	2,780	-	-	4,495,864
<u>\$ 12,841,363</u>	<u>\$ 894,266</u>	<u>\$ 14,780</u>	<u>\$ 2,864,288</u>	<u>\$ 4,016,542</u>	<u>\$ 1,913,296</u>	<u>\$ 41,576,634</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - 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 unused employee contributions to the flexible benefit plans, which reverted to the Government, and transfers from pension funds to the General Fund to cover administrative costs.

Interfund transfers for the year ended June 30, 2007 consist of the following:

SCHEDULE OF INTERFUND TRANSFERS

For the Year Ended June 30, 2007

Transferred From	Transferred 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	GSD Capital Projects Fund
General Fund	\$ 481,000	\$ -	\$ 3,332,400	\$ -	\$ -	\$ -
General Purpose School Fund	103,000	-	-	941,913	-	-
GSD General Purposes Debt Service Fund	-	-	-	-	-	30
GSD Capital Projects Fund	30,000	-	46,581	-	-	-
Nonmajor Governmental Funds	8,552,818	4,327,188	1,337,832	3,064,135	583,516	4,127,500
Department of Water and Sewerage						
Services	3,808,093	-	-	-	-	-
District Energy System	454	-	-	-	-	-
Nonmajor Enterprise Funds	1,105,028	-	-	-	-	-
Internal Service Funds	1,770,000	-	8,605,700	-	-	-
Fiduciary Funds	-	-	-	-	-	-
	<u>\$ 15,850,393</u>	<u>\$ 4,327,188</u>	<u>\$ 13,322,513</u>	<u>\$ 4,006,048</u>	<u>\$ 583,516</u>	<u>\$ 4,127,530</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, 2007

Transferred To					
Nonmajor Governmental Funds	District Energy System	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
\$ 46,581,654	\$ 2,291,300	\$ 1,596,482	\$ 1,902,800	\$ 32,831	\$ 56,218,467
4,951,141	-	215,000	500,000	12,685	6,723,739
-	-	-	-	-	30
33,669,814	-	-	2,251,869	-	35,998,264
197,514	-	1,666,836	16,138,240	-	39,995,579
9,531,450	-	-	913,257	-	14,252,800
-	-	-	-	-	454
-	-	-	28,254	25,885	1,159,167
5,700	-	-	11,197,178	2,350	21,580,928
-	-	-	1,515,494	-	1,515,494
<u>\$ 94,937,273</u>	<u>\$ 2,291,300</u>	<u>\$ 3,478,318</u>	<u>\$ 34,447,092</u>	<u>\$ 73,751</u>	<u>\$ 177,444,922</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - 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:

	<u>Accidents</u>	
Bodily injury	\$ 250,000	per person
	600,000	per accident
Property damage	85,000	per accident

The Government is also self-insured with respect to casualty losses on real and personal property for aggregate losses greater than \$3,000,000 in any one year, as defined by the insurance policy. Aggregate losses are calculated excluding individual losses under \$10,000 and including the amount exceeding \$10,000 for those losses over \$10,000. Once the aggregate loss of \$3,000,000 is met, the deductible is generally \$100,000 for locations with losses totaling \$100,000 for that policy year and \$25,000 for other locations. Settled claims have not exceeded the self insured retention 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 \$20,507,558 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, 2006 and 2007:

	<u>School Self Insurance</u>	<u>General Government Self Insurance</u>	<u>School Professional Employees' Insurance</u>	<u>Employees' Medical Benefit</u>	<u>Injured on Duty</u>	<u>Total Internal Service Fund Types</u>
Claims payable June 30, 2005	\$ 1,685,122	\$ 5,706,349	\$ 3,926,206	\$ 4,419,000	\$ 789,007	\$ 16,525,684
Add: Provision for events of the current fiscal year	(28,203)	1,832,650	54,473,414	46,680,250	10,428,733	113,386,844
Deduct: Payments on claims during the fiscal year	<u>521,550</u>	<u>893,628</u>	<u>53,948,414</u>	<u>47,315,250</u>	<u>7,975,741</u>	<u>110,654,583</u>
Claims payable June 30, 2006	1,135,369	6,645,371	4,451,206	3,784,000	3,241,999	19,257,945
Add: Provision for events of the current fiscal year	214,994	3,551,712	57,951,072	48,315,303	9,379,438	119,412,519
Deduct: Payments on claims during the fiscal year	<u>498,434</u>	<u>2,189,604</u>	<u>57,685,128</u>	<u>48,141,303</u>	<u>9,648,437</u>	<u>118,162,906</u>
Claims payable June 30, 2007	<u>\$ 851,929</u>	<u>\$ 8,007,479</u>	<u>\$ 4,717,150</u>	<u>\$ 3,958,000</u>	<u>\$ 2,973,000</u>	<u>\$ 20,507,558</u>

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 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 self-insured under the Act. The Board is a participant with the primary government in the General Government Self-Insurance Fund for coverage of all property losses. 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 losses relating to the operation of any vehicle 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, 2007. Accident losses exceeding \$100,000 are covered under an insurance program subject to certain limits.

The Metropolitan Transit Authority is self insured for employee medical claims. The Authority has purchased reinsurance which provides for reimbursement of paid medical claims in excess of \$160,000 per covered participant per agreement year, (\$145,000 prior to March 1, 2007). The policy also provides a specified maximum of \$1,000,000 during the lifetime of a covered participant, 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 2007 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 reinsurance amounts are recorded by the Trust. The Metropolitan Transit Authority funds the Trust on a break-even basis. At June 30, 2007, the Metropolitan Transit Authority owed the Trust \$914,278.

The Metropolitan Transit Authority is self-insured, up to certain limits, for its workers' compensation claims. A provision has been made for all such known claims incurred as of June 30, 2007. The Authority has purchased reinsurance for workers compensation claims in excess of \$500,000 per employee (\$400,000 prior to October 1, 2006). The maximum available for reinsurance in a plan year is \$1,000,000. During 2007, the Authority's workers' compensation claims did not exceed the maximum. At June 30, 2007, a provision of \$981,000 is included in accrued expenses relating to workers' compensation claims.

The Metropolitan Nashville 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. This liability does not include non-incremental claims adjustment expenses. 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 \$183,000 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 and its component units have 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, 2007, no deficiencies existed. The amount to be repaid from user fees is \$83,250,090 at June 30, 2007 and is recorded as capital grants and contributions by the Department of Water and Sewerage Services.

D. Construction Commitments

Primary Government

At June 30, 2007, the governmental activities of the Government had commitments of \$61,988,872 for construction contracts.

At June 30, 2007, the Department of Water and Sewerage Services had commitments of \$41,911,821 for construction contracts.

The Department of Water and Sewerage Services (the Department), the State of Tennessee Department of Environment and Conservation, and the United States Environmental Protection Agency, have agreed on a consent decree to address and correct deficiencies within the Department's sewer system that have caused violations of the Clean Water Act (CWA). The consent decree requires that the Department fully develop, in two years, a Corrective Action Plan/Engineering Report for its sanitary sewer system and a Long-term Control Plan for its combined sewer system to achieve the goals of the CWA. Upon submittal and approval of the Plans, the Department will have an additional nine years to complete the work as developed by the Plans. The future related capital expenditures are expected to total between \$300 and \$500 million. Failure to comply with the mandate and meet future established deadlines could result in penalties up to \$3,000 per occurrence, and up to \$5,000 per day, for failure to implement the improvements on a timely basis. No such penalty has been assessed through June 30, 2007. Proposed plans to fund capital expenditures for the next few years include internally generated cash and borrowings.

Component Units

At September 30, 2006, the Metropolitan Development Housing Agency had outstanding construction commitments of approximately \$15.9 million. Of this amount, \$14.2 million will be paid by grants committed to the Agency by HUD, and the remaining \$1.7 million will be paid by funds committed to the Agency by the Metropolitan Government of Nashville and Davidson County.

The Metropolitan Nashville Airport Authority estimates the cost of completion of various construction projects at June 30, 2007 to be \$77,253,896, of which \$12,556,917 is expected to be reimbursed by other governmental agencies under existing government contracts.

During fiscal 2005, the Metropolitan Transit Authority commenced phase one of the multi-phase "Music City Central" transit center project. Included in the construction in progress amount at June 30, 2007 is \$3,669,563 for project management consulting, site selection costs, and architectural and engineering costs relating to the project. The estimated cost to complete the Music City Central project total approximately \$41,000,000. The project is expected to be completed in fiscal year 2008. The cost of Music City Central will be reimbursed through a series of federal, state and local grants.

During fiscal 2007, the Metropolitan Transit Authority's Board of Directors approved a \$7.3 million project to replace bus radios and have an Automatic Vehicle Locator (AVL) installed in the dispatch center. This project is to be completed in two phases; phase one is scheduled to begin October 2007 and will cost approximately \$3,200,000; phase two is projected at \$4,100,000 and will commence after the completion of phase one.

E. Liquidity

Component Units

The Government has only budgeted and legally approved approximately \$49.8 million to the Hospital Authority, \$34.9 million of which has been allocated as revenue to General Hospital by the Hospital Authority, for the year ended June 30, 2008. The Government has also not committed to defer payment on amounts due to the Metropolitan Government or provide additional funding to General Hospital should such funding become necessary. The financial statements of General Hospital have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

reflected in General Hospital's financial statements, General Hospital had a net deficit of approximately \$7.0 million for the year ended June 30, 2007. General Hospital's financial activities resulted in net cash used in operating activities of approximately \$34.2 million for the year ended June 30, 2007, which was funded primarily by the Metropolitan Government in the form of revenue or capital contributions and advances reflected as liabilities in General Hospital's financial statements.

Accordingly, these factors among others indicate that General Hospital may be unable to continue as a going concern for a reasonable period of time. General Hospital's financial statements do not include any adjustments relating to the recoverability and classification of liabilities that might be necessary should General Hospital be unable to continue as a going concern. General Hospital's ability to continue as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis and ultimately to attain a level in which operating revenues and revenue from the Metropolitan Government exceed operating expenses. General Hospital has implemented several strategic initiatives to increase cash flow including: contracting with a vendor to work outstanding accounts and aged patient accounts receivable, implementing electronic medical recordkeeping, and renegotiating managed care contracts to improve reimbursement from payors.

At June 30, 2007, General Hospital had total amounts due to the Metropolitan Government of approximately \$29.2 million, which accrued interest at rates determined by the Metropolitan Government (5.29% at June 30, 2007). General Hospital is and will be dependent on the Metropolitan Government to subsidize current and future operations.

F. 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 \$1,216,634 for the year ended June 30, 2007.

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 Long Term Care. As compensation for management services, General Hospital and Bordeaux Long Term Care paid VUMC a management fee of \$659,294 and \$398,000, respectively, for the year ended June 30, 2007. The outstanding management fees payable to VUMC for General Hospital are \$54,940 at June 30, 2007. 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 Government will provide an operating supplement for the payment of costs of the operations of General Hospital and Bordeaux Long Term Care. The total supplement to the Hospital Authority was \$49,797,100 for fiscal year ending June 30, 2007. The total supplement to the Hospital Authority approved for the fiscal year ending June 30, 2008 was \$49,797,100.

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 GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

The Electric Power Board has an agreement with an outside firm, whereby the firm provides computer hardware services operation for the Board's mainframe information system. The agreement will expire in November 2007. The contract is for three years and may be renewed for two additional one-year periods. The Board also has 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 2007. The contract is for three years and may be renewed for two additional one-year periods. The minimum commitments remaining under these agreements is \$1.5 million for fiscal year 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 is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Authority's attorney and management, the resolution of these matters will not have a material adverse effect on the financial condition of the Authority. Accordingly, no provision for loss, if any, related to these matters has been made in the financial statements.

The Metropolitan Nashville Airport Authority is a defendant to various legal proceedings incidental to its operations. 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.

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. The final payment on this commitment was made to the Government in November 2006. In August 2006, the board approved a resolution to leave the fee in place in the current rate structure to fund operational needs.

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 the Government, in exchange for substantially all revenues received from CBID assessments. During the year ended December 31, 2006, the Corporation recognized expense of \$632,717 related to the agreement. The agreement will expire December 31, 2007.

NOTE 12 – TERMINATION BENEFITS

Component Units

The Metropolitan Development and Housing Agency implemented a strategy to reduce its employee workforce during fiscal 2006. The strategy resulted in voluntary termination of 24 employees through an early retirement bonus program and the involuntary termination of 24 employees through a severance program. Employees eligible for the early retirement bonus program were those with 25 or more years of service or those who were 55 years of age with 10 years or more of service. The early retirement was effective June 30, 2006. The cost of the early retirement bonus program totaled \$1,011,215 and included the employees' accrued compensated absences and a one-time bonus amount. All payments to employees under the early retirement bonus program were made during fiscal year 2006.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The severance program was effective September 30, 2006 and the total cost of the program was \$549,263. The cost of the severance program included the employees' accrued compensated absences as well as a one-time severance bonus. The cost is included in operating expenses and accrued liabilities in the Statements at September 30, 2006. All payments to employees under the severance program occurred in October 2006.

Continuation of healthcare coverage was provided to the terminated employees through COBRA. Under the terms of the employment separation agreements, the employees are responsible for payments of all healthcare coverage premiums.

In connection with the early retirement program and severance program, the Agency contracted with an outplacement services consulting firm to offer career counseling and job placement for up to three months. A total of 26 employees utilized the outplacement services at a total cost of \$86,700 to the Agency. These costs were paid during fiscal 2006.

NOTE 13 – SUBSEQUENT EVENTS

Primary Government

Effective July 11, 2007, the amount of commercial paper notes that can be issued under the Government's commercial paper program as described in Note 6, Section F, was increased from \$200 to \$400 million. At the same time, the Government entered into a contract with a third party to provide liquidity for the commercial paper program. Previously the Government provided liquidity for the program under the contract. If the commercial paper dealer was ever unable to market notes in the amount needed to pay the maturing notes, the liquidity provider would purchase the rollover notes and hold them until the commercial paper dealer was able to successfully market the additional rollover notes and pay the rollover notes held by the liquidity provider.

On July 25, 2007, the Government completed a draw of \$50 million of commercial paper notes. These notes carry an interest rate of 3.70% and mature in two installments, \$40 million on October 9, 2007 and \$10 million on November 9, 2007. At maturity, the notes will be rolled over into new commercial paper notes or bonds will be issued. The proceeds from the notes will be used to fund various capital projects.

On October 10, 2007, the Government completed a draw of \$50 million of commercial paper notes. These notes carry interest rates of 3.50% to 3.55% and mature in two installments, \$28 million on December 11, 2007 and \$22 million on January 10, 2008. At maturity, the notes will be rolled over into new commercial paper notes or bonds will be issued. The proceeds from the notes will be used to fund various capital projects.

On July 17, 2007, the Government issued \$36,240,000 Water and Sewer Revenue Refunding Bonds, Series 2007 (Series 2007 Bonds), maturing on January 1, 2016, with interest rates ranging from 4.25% to 5.00%. These bonds refunded certain maturities of the Water and Sewer Revenue Refunding Bonds, Series 1986, maturing January 1, 2016, and all maturities of the Water and Sewer Revenue Refunding Bonds, Series 1996, maturing January 1, 2009 through January 1, 2014. As a result, the refunded Bonds are considered to be defeased. By issuing the new bonds, the Government obtained an estimated economic gain (difference between the present values of the debt service payments on the defeased and new debt) of \$2,491,142. The refunding will reduce the Government's debt service payments over the next 2012 years by an estimated \$2,966,593.

Component Units

During August 2007, the Metropolitan Nashville Airport Authority issued Airport Improvement Revenue Bonds, Series 2007 in the principal amount of \$8,700,000. The Series 2007 Bonds were issued to provide a portion of the funding needed for the first phase of the multi-phase terminal renovation project. The Series 2007 Bonds were issued at a weekly variable rate and mature in progressive principal amounts ranging from \$310,000 on July 1, 2009 to \$710,000 on July 1, 2026.

On April 19, 2007, the Board of Commissioners of the Metropolitan Nashville Airport Authority approved an interlocal cooperation agreement with the Industrial Development Board of the Metropolitan Government. As a result of this action, MNAA Properties Corporation (MPC), a Tennessee nonprofit corporation, was formed for the purpose of supporting and facilitating the operations of the Airport Authority and to help the economic development of the surrounding area. No capital contribution was made as of June 30, 2007. However, \$9,000,000 was transferred from the Airport Authority to MPC in August 2007, in anticipation of the acquisition of two separate multi-tenant buildings on Airport property. It is currently expected that no other property or assets of the Airport Authority will be pledged or committed to support MPC or any subsidiaries of MPC.