

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Metropolitan Government of Nashville and Davidson County (the Government), we offer readers of the Government's financial statements this narrative overview and analysis of the financial activities of the Government for the fiscal year ended June 30, 2007.

FINANCIAL HIGHLIGHTS

- The assets of the Government exceeded its liabilities at the close of the most recent fiscal year by \$2.4 billion (*net assets*). Of this amount, \$191 million (*unrestricted net assets*) may be used to meet the Government's ongoing obligations to citizens and creditors.
- The Government's total net assets increased by \$86 million (\$31 million from governmental activities and \$55 million from business-type activities).
- As of the close of the current fiscal year, the Government's governmental funds reported combined ending fund balances of \$174 million, a decrease of \$166 million in comparison with the prior year. Approximately 13.6% of this total amount, \$24 million, is available for spending at the Government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$39 million, or 5.0% of total general fund expenditures and other financing uses.
- The enterprise funds reported net assets at year-end of \$1.2 billion, an increase of \$57 million during the year.
- The Government's total general obligation and revenue bonds outstanding decreased by \$125 million (5.8%) during the current fiscal year. New debt issues totaled \$187 million, which were offset by principal payments, refundings and changes in deferred amounts of \$312 million.
- The Government borrows funds under a commercial paper program to provide interim or short-term financing of authorized capital projects. Total commercial paper outstanding at the close of the fiscal year was \$150 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

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

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

The Government reports 26 individual governmental funds. Information is presented separately in the Balance Sheet – Governmental Funds and in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds for the General Fund, General Purpose School Fund, GSD General Purposes Debt Service Fund, GSD School Purposes Debt Service Fund, USD General Purposes Debt Service Fund and GSD Capital Projects Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

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

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

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

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

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

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

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

Notes to the Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 1,331,394	\$ 1,365,687	\$ 216,482	\$ 223,823	\$ 1,547,876	\$ 1,589,510
Capital assets	2,708,102	2,586,984	1,595,549	1,498,867	4,303,651	4,085,851
Total assets	4,039,496	3,952,671	1,812,031	1,722,690	5,851,527	5,675,361
Long-term liabilities	1,714,212	1,803,764	573,621	539,428	2,287,833	2,343,192
Other liabilities	1,054,567	908,955	78,395	78,044	1,132,962	986,999
Total liabilities	2,768,779	2,712,719	652,016	617,472	3,420,795	3,330,191
Net assets:						
Invested in capital assets, net of related debt	1,042,013	1,030,056	1,061,440	1,010,626	2,103,453	2,040,682
Restricted	63,371	67,840	73,134	70,023	136,505	137,863
Unrestricted	165,333	142,056	25,441	24,569	190,774	166,625
Total net assets	\$ 1,270,717	\$ 1,239,952	\$ 1,160,015	\$ 1,105,218	\$ 2,430,732	\$ 2,345,170

Governmental activities – Current and other assets for governmental activities decreased by 2.5% due primarily to the effect of spending down \$53 million of bond proceeds on capital projects during the 2007 fiscal year. The impact of spending down the bond proceeds was partially offset by the positive results of current year operations. Capital assets increased by 4.7% due to construction of new schools, other government buildings and infrastructure and due to the renovation of existing government buildings. Long-term liabilities decreased by 5.0% due to principal payments on general obligation debt. Other liabilities increased by 16.0% primarily due to an increase in commercial paper borrowings of \$138 million.

The largest portion of the Government's net assets for governmental activities (82.0%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure), less any related outstanding debt used to acquire those assets. The Government uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Government's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Government's net assets for governmental activities (5.0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets for governmental activities, representing unrestricted net assets of \$165 million (13.0%), may be used to meet the Government's ongoing obligations to citizens and creditors.

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

Business-type activities – Current and other assets for business-type activities decreased by 3.3% due primarily to continued spending on construction and other capital assets of the Department of Water and Sewerage Services. Capital assets increased by 6.4% due to additions to utility plants for the Department of Water and Sewerage Services. Long-term liabilities increased by 6.3% due to an increase in state construction loans in excess of principal payments on the revenue bonds and other debt of the Department of Water and Sewerage Services. Other liabilities were essentially unchanged.

The largest portion of the Government's net assets for business-type activities (91.5%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure), less any related outstanding debt used to acquire those assets. The Government uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Government's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Government's net assets for business-type activities (6.3%) represents resources that are subject to external restrictions on how they may be used. The majority of the restrictions relate to debt retirement and construction. The remaining balance of net assets for business-type activities, representing unrestricted net assets of \$25 million (2.2%), may be used to meet the Government's ongoing obligations to citizens and creditors.

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

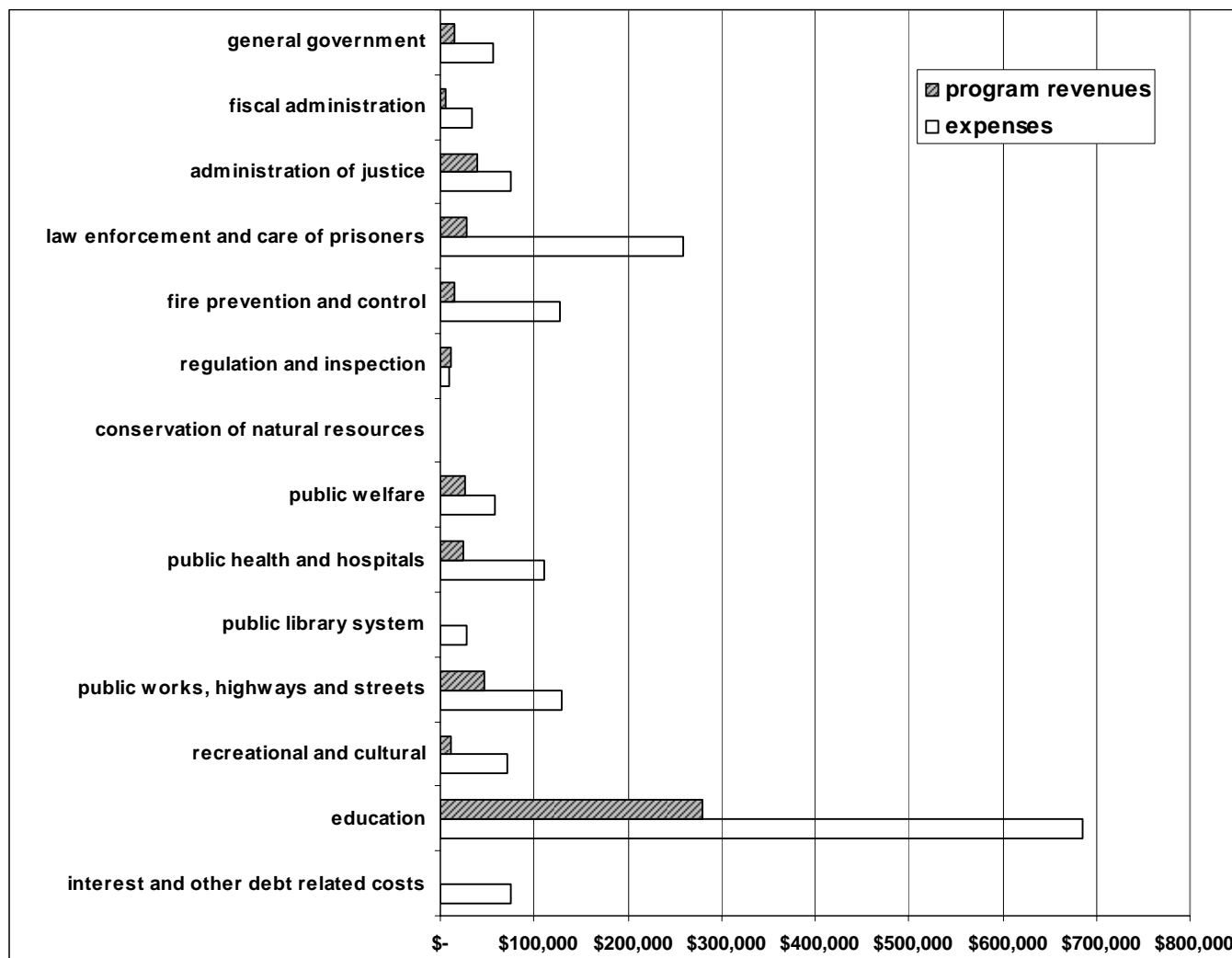
The Government's Changes in Net Assets
in thousands of dollars
(for the year ended June 30,)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 148,997	\$ 138,980	\$ 200,542	\$ 187,495	\$ 349,539	\$ 326,475
Operating grants and contributions	314,334	299,203	-	-	314,334	299,203
Capital grants and contributions	42,275	16,268	53,318	25,610	95,593	41,878
General revenues:						
Property taxes	741,901	725,199	-	-	741,901	725,199
Local option sales tax	285,078	271,119	-	-	285,078	271,119
Other taxes	121,459	116,664	-	-	121,459	116,664
Revenues from the use of money or property	19,801	15,097	9,213	6,530	29,014	21,627
Revenues from other governmental agencies	68,620	60,220	-	-	68,620	60,220
Compensation for loss, sale or damage to property	1,786	3,476	132	281	1,918	3,757
Total revenues	1,744,251	1,646,226	263,205	219,916	2,007,456	1,866,142
Expenses:						
General government	57,026	64,844	-	-	57,026	64,844
Fiscal administration	33,876	44,110	-	-	33,876	44,110
Administration of justice	75,705	73,025	-	-	75,705	73,025
Law enforcement and care of prisoners	258,824	241,487	-	-	258,824	241,487
Fire prevention and control	128,067	130,416	-	-	128,067	130,416
Regulation and inspection	9,002	8,770	-	-	9,002	8,770
Conservation of natural resources	447	457	-	-	447	457
Public welfare	58,709	47,150	-	-	58,709	47,150
Public health and hospitals	111,396	151,706	-	-	111,396	151,706
Public library system	27,818	26,757	-	-	27,818	26,757
Public works, highways and streets	130,081	128,171	-	-	130,081	128,171
Recreational and cultural	72,024	67,284	-	-	72,024	67,284
Education	684,711	654,801	-	-	684,711	654,801
Interest and other debt related costs	75,443	62,460	-	-	75,443	62,460
Department of Water and Sewerage Services	-	-	157,872	155,647	157,872	155,647
District Energy System	-	-	21,073	19,253	21,073	19,253
Nashville Convention Center	-	-	7,246	7,068	7,246	7,068
Board of Fair Commissioners	-	-	4,116	4,110	4,116	4,110
Farmers Market	-	-	1,156	1,136	1,156	1,136
Police Secondary Employment	-	-	1,248	1,063	1,248	1,063
Surplus Property Auction	-	-	983	788	983	788
Municipal Auditorium	-	-	1,979	1,885	1,979	1,885
Police Impound	-	-	2,177	1,919	2,177	1,919
School Community Education	-	-	915	912	915	912
Total expenses	1,723,129	1,701,438	198,765	193,781	1,921,894	1,895,219
Increase in net assets before transfers	21,123	(55,212)	64,440	26,135	85,563	(29,077)
Transfers	9,643	16,661	(9,643)	(16,661)	-	-
Increase (decrease) in net assets	30,765	(38,551)	54,797	9,474	85,562	(29,077)
Net assets, beginning of year	1,239,952	1,278,503	1,105,218	1,095,744	2,345,170	2,374,247
Net assets, end of year	\$ 1,270,717	\$ 1,239,952	\$ 1,160,015	\$ 1,105,218	\$ 2,430,732	\$ 2,345,170

Governmental activities – Governmental activities increased the Government’s net assets by \$31 million. Operating grants and contributions to support public education increased \$12.7 million, and the Government collected \$20 million more than in the prior year for capital grants and contributions for public works projects during 2007. In addition to normal growth in property taxes, the Government sold \$27.9 million of property tax receivables in 2007 for the first time, which included a premium on the sale of \$1.5 million. Also, local option sales tax collections exceeded expectations. Costs were contained in most functional areas through aggressive cost containment practices, as budgeted for the 2007 fiscal year. Additionally, during the 2006 fiscal year there was a one-time \$50 million appropriation from public health and hospitals to the Hospital Authority. Increases in expenses are attributable to increases of \$29.9 million for education and \$17.3 million for law enforcement and the care of prisoners - both primarily due to increased personnel costs for salaries and benefits, an increase of \$11.5 million for public welfare - largely due to expenditures related to the redevelopment of a low income housing project, and a \$13.0 million increase in interest and other debt related costs associated with prior year bond issuances and expenses surrounding a current year refinancing.

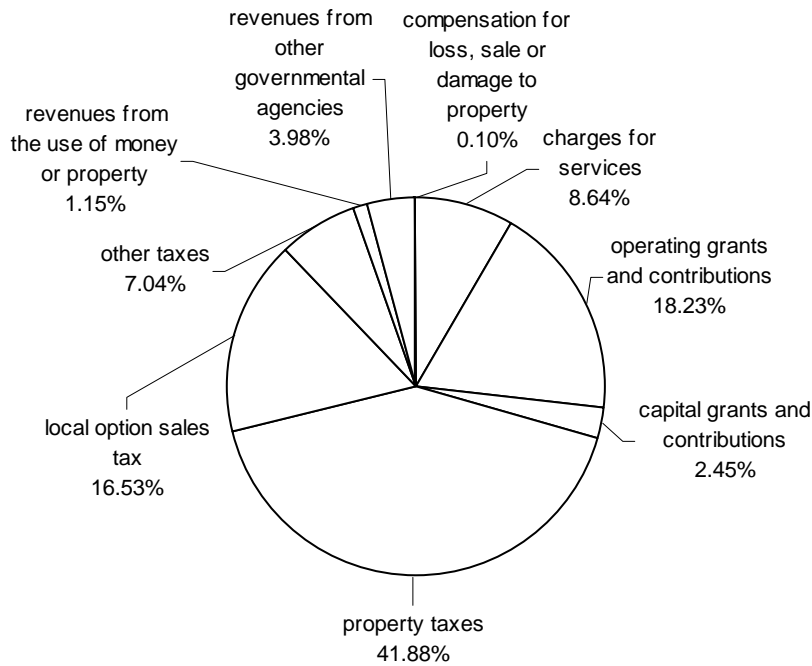
In conjunction with the first-time sale of property taxes, during 2007 the Government adopted GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues. This Statement establishes criteria for recording transactions surrounding property tax receivable sales.

Expenses and Program Revenues - Governmental Activities – For the Year Ended June 30, 2007



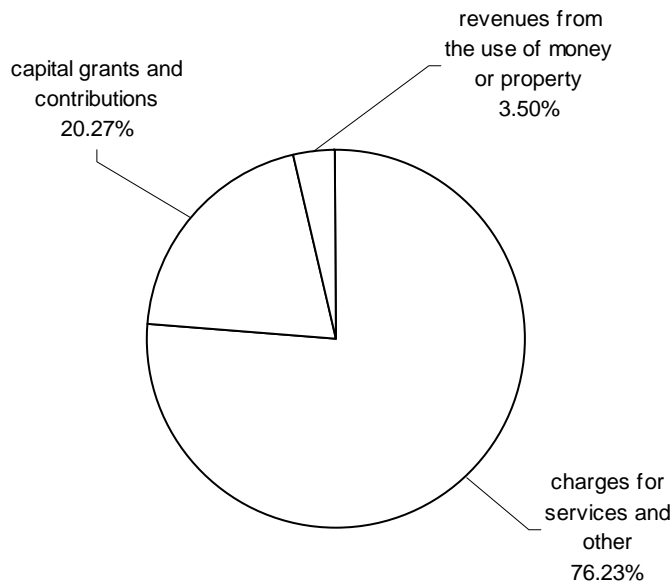
(in thousands)

Revenues by Source - Governmental Activities – For the Year Ended June 30, 2007



Business-type activities – Business-type activities increased the Government's net assets by \$55 million. This increase is primarily due to the Department of Water and Sewerage Services operating results for the 2007 fiscal year. Revenue from operations increased \$9 million as a result of the growth in the number of customers and as a result of an increase in the demand for water due to dry weather conditions. Additionally, there was a \$27.7 million increase in contributions of capital assets. Finally, the Department of Water and Sewer's transfer to the Stormwater Operations fund was decreased by \$8.6 million for 2007.

Revenues by Source – Business-type Activities – For the Year Ended June 30, 2007



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, the Government's governmental funds reported combined ending fund balances of \$174 million, a decrease of \$166 million in comparison with the prior year. Approximately 13.6% of ending fund balance (\$24 million) constitutes unreserved fund balance, which is available for spending at the Government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for: 1) subsequent year budget appropriations (\$22 million), 2) the purchase of equipment (\$46 million), 3) future debt payments (\$62 million), 4) long-term receivables (\$13 million), and 5) other purposes (\$7 million).

The general fund is the chief operating fund of the Government. At the end of the current fiscal year, unreserved fund balance of the general fund was \$39 million, while total fund balance was \$61 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 5.0% of total general fund expenditures and other financing uses, while total fund balance represents 7.6% of total general fund expenditures and other financing uses.

The total fund balance of the Government's General Fund increased by \$14 million during the current fiscal year, as compared to a \$10 million increase in the previous year. Although the General Fund expenditures and transfers out were over budget by \$6 million as a result of budgeted savings not being achieved, revenues and transfers in exceeded budgetary expectations by \$22 million, resulting in the fund balance increase.

While the total General Fund fund balance increased, the undesignated fund balance decreased by \$4 million as a result of reserving \$13 million of fund balance for an amount receivable from the Hospital Authority, a component unit. This amount is the remaining balance of a receivable that totaled \$63 million at June 30, 2005. Although no timeframe had been established for the repayment of the remaining \$13 million to the Government, management believed that additional State funding for the Hospital Authority would commence during the 2007 fiscal year and that the Hospital Authority would begin to repay the \$13 million owed to the Government. Because additional state funding has not materialized and the Hospital Authority remains financially dependent on the Government, a fund balance reserve has been established in the General Fund for the \$13 million due from the Hospital Authority.

The fund balance of the Government's General Purpose School Fund increased by \$30 million during the current fiscal year, primarily due to increased revenues in property and sales taxes and revenues from other governmental agencies, and due to actual expenditures coming in significantly under budget, primarily in personal services.

The fund balance of the Government's GSD General Purposes, GSD School Purposes and USD General Purposes Debt Service Funds decreased by \$13 million in the current fiscal year as expected and budgeted due to principal and interest payments in excess of revenues.

The fund balance of the Government's other governmental funds decreased by \$197 million primarily due to spending down excess bond proceeds issued during the 2006 fiscal year and due to other planned spending for various capital projects. Capital projects spending is initially funded by short-term commercial paper borrowings and later funded by bond proceeds, and there were no such bond issuances during the current fiscal year.

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

Unrestricted net assets of proprietary funds at the end of the year amounted to \$92 million. The total increase in unrestricted net assets for these funds was \$3 million. Factors concerning the finances of these funds have already been addressed in the discussion of the Government's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Original and Final Budgeted Amounts

For the General Fund, there were no differences in revenues and other financing sources between the original budget and final amended budget. Differences in expenditures and other financing uses between the original budget and the final amended budget totaled to a \$2.5 million increase, primarily due to authorizations in the 2007 fiscal year budget ordinance to carry forward certain prior year unused administrative budget appropriations. Other variances in the budget line items were primarily due to pay plan and fringe benefit increases being originally budgeted under miscellaneous expenditures then reallocated to departmental budgets after the final budget is approved, and due to certain operating transfers that were originally budgeted under various departmental budgets.

Final Budgeted and Actual Amounts

Actual revenues and other financing sources exceed final budgeted amounts by \$22 million primarily due to the property tax sale and related premium and certain in lieu taxes exceeding budgetary expectations by \$8 million, due to commissions and fees revenues exceeding budgetary expectations by \$5 million because certain fees were increased for the 2007 fiscal year and because commissions and fees of certain elected officials are excluded from the budget, and due to revenues from other governmental agencies exceeding budgetary expectations by \$3 million because state income taxes received exceeded expectations. Actual expenditures and other financing uses exceeded final budgeted amounts by \$6 million primarily because targeted savings for various line item expenditures that were budgeted in one line item under administration and internal support were not achieved.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – The Government's investment in capital assets for its governmental and business type activities as of June 30, 2007 amounts to \$4.3 billion (net of accumulated depreciation). Depreciation charges for the fiscal year totaled \$106 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Utility plant in service	\$ -	\$ -	\$ 1,891,933	\$ 1,836,900	\$ 1,891,933	\$ 1,836,900
Land	162,387	135,697	16,415	16,415	178,802	152,112
Buildings and improvements	1,028,745	1,011,674	119,736	119,267	1,148,481	1,130,941
Improvements other than buildings	-	-	41,766	41,524	41,766	41,524
Furniture, machinery and equipment	286,935	265,987	42,045	41,315	328,980	307,302
Property under capital lease	-	-	3,645	3,645	3,645	3,645
Infrastructure	1,477,570	1,457,900	-	-	1,477,570	1,457,900
Construction in progress	359,598	278,709	185,633	91,890	545,231	370,599
Less: Accumulated depreciation	(607,133)	(562,983)	(705,624)	(652,089)	(1,312,757)	(1,215,072)
Total capital assets	\$ 2,708,102	\$ 2,586,984	\$ 1,595,549	\$ 1,498,867	\$ 4,303,651	\$ 4,085,851

The total increase in the Government's investment in capital assets for the current fiscal year was 5.3% (a 4.7% increase for governmental activities and a 6.4% increase for business-type activities).

Construction of new schools and other government buildings and renovation of existing government buildings has continued in accordance with the Government's capital plan, including the completion of a new fire station and infrastructure improvements in support of various downtown development and parks projects. Additions to the utility plants for the Department of Water and Sewerage Services totaled approximately \$55 million.

As allowed by GASB Statement No. 34, the Government has adopted the alternative to recording depreciation expense on selected infrastructure assets. Under this method, referred to as the modified approach, the Government expends certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under this approach include approximately 5,600 lane miles of streets and roads and 376 bridges and underpasses that the Government is responsible for maintaining. The Government's policy is to have at least 70% of roads in good or better condition and 75% of bridges in fair or better condition. The most recent assessment indicated that 77% of roads and 95% of bridges meet the Government's policy, as compared to 73% of roads in 2006 and 94% of bridges at the last evaluation in 2003.

Additional information on the Government's capital assets can be found in Note 4 beginning on page B-56 of this report.

Long-term debt – At the end of the current fiscal year, the Government had total bonded debt outstanding of \$2.0 billion. Of this amount, \$1.5 billion comprises debt backed by the full faith and credit of the Government. The remaining \$483 million of the Government's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 1,503,390	\$ 1,600,695	\$ 7,435	\$ 7,695	\$ 1,510,825	\$ 1,608,390
Deferred amounts, net	<u>36,837</u>	<u>34,965</u>	<u>481</u>	<u>509</u>	<u>37,318</u>	<u>35,474</u>
Total general obligation bonds outstanding	<u>1,540,227</u>	<u>1,635,660</u>	<u>7,916</u>	<u>8,204</u>	<u>1,548,143</u>	<u>1,643,864</u>
Revenue bonds	9,005	10,575	473,565	502,060	482,570	512,635
Deferred amounts, net	<u>(105)</u>	<u>(130)</u>	<u>(3,304)</u>	<u>(3,897)</u>	<u>(3,409)</u>	<u>(4,027)</u>
Total revenue bonds outstanding	<u>8,900</u>	<u>10,445</u>	<u>470,261</u>	<u>498,163</u>	<u>479,161</u>	<u>508,608</u>
Total general obligation and revenue bonds outstanding	<u><u>\$ 1,549,127</u></u>	<u><u>\$ 1,646,105</u></u>	<u><u>\$ 478,177</u></u>	<u><u>\$ 506,367</u></u>	<u><u>\$ 2,027,304</u></u>	<u><u>\$ 2,152,472</u></u>

The Government's total general obligation and revenue bonds outstanding decreased by \$125 million (5.8%) during the current fiscal year. New debt of \$187 million was issued to refund the outstanding principal balances of various bonds. The increase from the new debt was offset by principal payments of \$124 million and the outstanding principal balances on the refunded debt of \$191 million. Deferred amounts related to the bond issues increased by \$3 million.

Construction commitments at June 30, 2007 totaled \$62 million for the governmental activities of the Government and \$42 million for the Department of Water and Sewerage Services.

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

The ratio of general long-term debt (defined as gross debt less debt service monies available and less debt to be repaid from sources other than property taxes) to the actual value of property is 2.77%, and the amount of net debt per capita is \$2,475.02.

Additional information on the Government's long-term debt can be found in Note 5 beginning on page B-59 of this report.

Commercial paper – In August 2003, the Government instituted a general obligation commercial paper program to provide interim or short-term financing for various authorized capital projects. Commercial paper obligations of \$150 million outstanding at June 30, 2007 were subsequently rolled over into new commercial paper obligations and are considered short-term liabilities of the appropriate capital project funds and the District Energy System.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The unemployment rate for the Nashville metropolitan area is currently 3.5%. The state's and nation's unemployment rates are 4% and 4.6%, respectively. The budget for the 2008 fiscal year reflects a balanced budget with no property tax rate increase. For more comprehensive information on the Metropolitan Government's approved budget for the 2008 fiscal year, the budget ordinance, the budget book as well as other documents are available at www.nashville.gov.

OTHER MATTERS

In preparation for the implementation of Governmental Accounting Standard Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45), the Government had independent actuaries prepare an estimate of post retirement benefit liabilities and costs. The estimate of the unfunded accrued liability for general government employees is \$1.5 billion, and the estimate of the unfunded accrued liability for teachers is \$473 million. The estimate of the annual required contribution for general government employees and teachers is \$116 million and \$25 million, respectively. No funding for these contributions was included in the fiscal year 2008 budget. These estimates were based on a 30-year level percentage amortization of the unfunded actuarial liability and a 4.5% discount rate assumption. Detailed actuarial studies of these liabilities and costs are currently underway.

On November 7, 2006, voters approved a ballot initiative prohibiting the Metropolitan Council from raising real property tax rates above the rate at that time, which was \$4.69, without the approval of the voters in a referendum. Prior to the adoption of the ballot initiative, the Metropolitan Council was authorized to set the real property tax rate without any requirement of voter approval. The Government's legal department has issued a memo stating that the approved initiative violates the Tennessee Constitution because it places the power to set property tax rates with voters, rather than with the Metropolitan Council, as prescribed by the Constitution. However, the Government cannot predict whether there will be a court challenge as to the constitutionality of the approved initiative. If there is a challenge, the Government cannot predict the timing or be certain of the outcome of any court challenge as to the constitutionality of the approved initiative.

REQUESTS FOR INFORMATION

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