

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, 2008.

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, \$127 million (*unrestricted net assets*) may be used to meet the Government's ongoing obligations to citizens and creditors.
- The Government's total net assets decreased by \$22 million (a decrease of \$86 million from governmental activities and an increase of \$64 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 \$265 million, an increase of \$92 million in comparison with the prior year. Approximately 45.9% of this total amount, \$122 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 \$33 million, or 4.1% 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 \$65 million during the year.
- The Government's total general obligation and revenue bonds outstanding increased by \$190 million (9.4%) during the current fiscal year. New debt issues totaled \$495 million, which were offset by principal payments, refundings and changes in deferred amounts of \$305 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 \$75 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 functions.

The government-wide financial statements include not only the Government itself (known as the *primary government*), but also the Nashville District Management Corporation, Gulch Business Improvement District, Inc., Sports Authority, Hospital Authority, Metropolitan Development and Housing Agency, Electric Power Board, Metropolitan Transit Authority, Metropolitan Nashville Airport Authority, and Emergency Communications District. 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 28 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, GSD Capital Projects Fund, Education Capital Projects Fund and USD 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 Capital Projects Funds. 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 major 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 functions. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Government's various functions. For the fiscal year ended June 30, 2008, the Government used internal service funds to account for its fleet, information systems, radio equipment, insurance, school supply, postal, facilities planning, treasury management, human resources, financial, general services and internal audit functions. 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 the 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-105 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information surrounding infrastructure condition and maintenance data, found on pages B-106 to B-107, the Government's progress in funding its obligation to provide pension benefits to employees, found on pages B-108 to B-113, and the Government's progress in funding its obligation to provide other postemployment benefits to employees, found on pages B-114 to B-115.

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	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 1,378,658	\$ 1,331,394	\$ 213,219	\$ 216,482	\$ 1,591,877	\$ 1,547,876
Capital assets	2,856,492	2,708,102	1,646,733	1,595,549	4,503,225	4,303,651
Total assets	4,235,150	4,039,496	1,859,952	1,812,031	6,095,102	5,851,527
Long-term liabilities	2,064,542	1,714,212	566,079	573,621	2,630,621	2,287,833
Other liabilities	986,319	1,054,567	69,921	78,395	1,056,240	1,132,962
Total liabilities	3,050,861	2,768,779	636,000	652,016	3,686,861	3,420,795
Net assets:						
Invested in capital assets, net of related debt	1,044,125	1,042,013	1,160,088	1,061,440	2,204,213	2,103,453
Restricted	47,527	63,371	29,090	73,134	76,617	136,505
Unrestricted	92,637	165,333	34,774	25,441	127,411	190,774
Total net assets	\$ 1,184,289	\$ 1,270,717	\$ 1,223,952	\$ 1,160,015	\$ 2,408,241	\$ 2,430,732

Governmental activities – Current and other assets for governmental activities increased by 3.6% due primarily to an increase in cash in the General Purpose School Fund resulting from budget savings and an increase in cash in the Education Capital Projects fund attributable to the issuance of bonds and the timing of capital expenditures from that fund. Capital assets increased by 5.5% due to construction of new schools, other government buildings and infrastructure and due to the renovation of existing government buildings. Long-term liabilities increased by 20.4% due to the issuance of new general obligation debt in excess of principal payments and due to the inclusion of the Government's liability of \$137 million for other postemployment benefits (OPEB), discussed further under Other Matters below. Other liabilities decreased by 6.5% primarily due to a decrease in outstanding commercial paper borrowings of \$75 million.

The largest portion of the Government's net assets for governmental activities (88.2%) 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 (4.0%) 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 \$93 million (7.8%), 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 1.5% due primarily to the Department of Water and Sewerage Services funding various capital projects with cash and investments. Capital assets increased by 3.2% due to additions to utility plants for the Department of Water and Sewerage Services. Long-term liabilities decreased by 1.3% due to principal payments on the revenue bonds and other debt of the Department of Water and Sewerage Services and refunded revenue bonds in excess of an increase in state construction loans and new revenue bonds. Other liabilities decreased by 10.8% primarily due to a decrease in construction accounts payable at the Department of Water and Sewerage Services.

The largest portion of the Government's net assets for business-type activities (94.8%) 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 (2.4%) represents resources that are subject to external restrictions on how they may be used. The majority of the restrictions relate to debt retirement and construction. The remaining balance of net assets for business-type activities, representing unrestricted net assets of \$35 million (2.8%), 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.

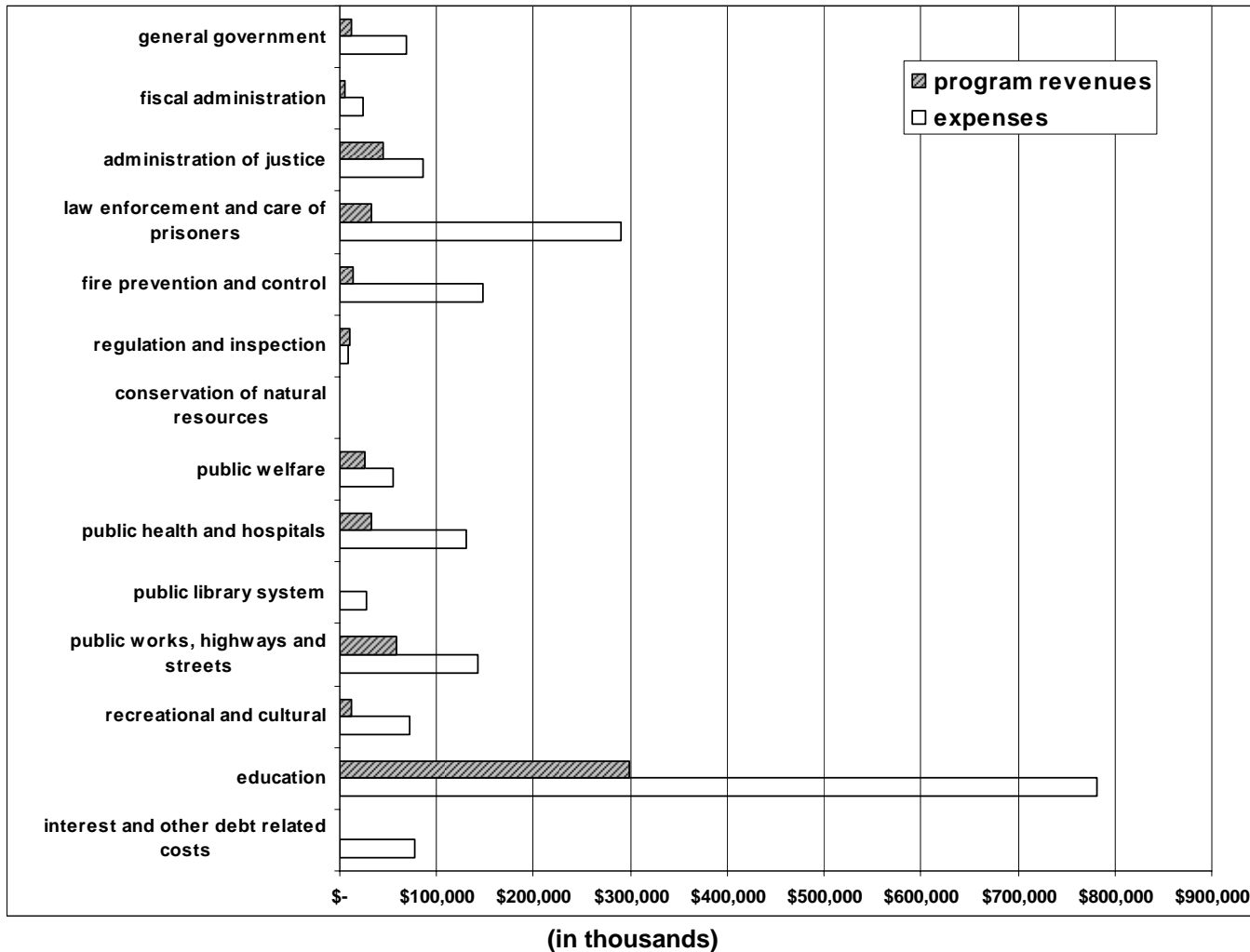
The Government's Changes in Net Assets
in thousands of dollars
(for the year ended June 30,)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007 (1)	2008	2007	2008	2007 (1)
Revenues:						
Program revenues:						
Charges for services	\$ 159,520	\$ 149,740	\$ 207,888	\$ 200,542	\$ 367,408	\$ 350,282
Operating grants and contributions	338,746	314,334	-	-	338,746	314,334
Capital grants and contributions	48,808	42,275	58,761	53,318	107,569	95,593
General revenues:						
Property taxes	759,131	741,901	-	-	759,131	741,901
Local option sales taxes	285,484	285,078	-	-	285,484	285,078
Hotel occupancy taxes	38,998	25,206	-	-	38,998	25,206
Beverage taxes	29,368	27,449	-	-	29,368	27,449
Wheel taxes	27,279	25,380	-	-	27,279	25,380
Business taxes	24,696	20,388	-	-	24,696	20,388
Franchise taxes	19,518	17,886	-	-	19,518	17,886
Other taxes	1,253	3,802	-	-	1,253	3,802
Revenues from the use of money or property	14,792	19,801	8,086	9,213	22,878	29,014
Revenues from other governmental agencies	70,072	68,620	-	-	70,072	68,620
Compensation for loss, sale or damage to property	1,541	1,786	144	132	1,685	1,918
Total revenues	1,819,206	1,743,646	274,879	263,205	2,094,085	2,006,851
Expenses:						
General government	69,053	57,026	-	-	69,053	57,026
Fiscal administration	24,837	33,876	-	-	24,837	33,876
Administration of justice	86,417	75,705	-	-	86,417	75,705
Law enforcement and care of prisoners	289,629	258,824	-	-	289,629	258,824
Fire prevention and control	148,089	128,067	-	-	148,089	128,067
Regulation and inspection	7,971	9,002	-	-	7,971	9,002
Conservation of natural resources	502	447	-	-	502	447
Public welfare	55,272	58,709	-	-	55,272	58,709
Public health and hospitals	130,293	111,396	-	-	130,293	111,396
Public library system	28,231	27,818	-	-	28,231	27,818
Public works, highways and streets	143,076	130,081	-	-	143,076	130,081
Recreational and cultural	72,547	72,024	-	-	72,547	72,024
Education	780,706	684,711	-	-	780,706	684,711
Interest and other debt related costs	77,628	74,838	-	-	77,628	74,838
Department of Water and Sewerage Services	-	-	162,688	157,872	162,688	157,872
District Energy System	-	-	19,483	21,073	19,483	21,073
Nashville Convention Center	-	-	7,601	7,246	7,601	7,246
Board of Fair Commissioners	-	-	4,360	4,116	4,360	4,116
Farmers Market	-	-	1,161	1,156	1,161	1,156
Police Secondary Employment	-	-	944	1,248	944	1,248
Surplus Property Auction	-	-	961	983	961	983
Municipal Auditorium	-	-	2,052	1,979	2,052	1,979
Police Impound	-	-	1,882	2,177	1,882	2,177
School Community Education	-	-	1,193	915	1,193	915
Total expenses	1,914,251	1,722,524	202,325	198,765	2,116,576	1,921,289
Increase in net assets before transfers	(95,045)	21,122	72,554	64,440	(22,491)	85,562
Transfers	8,617	9,643	(8,617)	(9,643)	-	-
Increase (decrease) in net assets	(86,428)	30,765	63,937	54,797	(22,491)	85,562
Net assets, beginning of year	1,270,717	1,239,952	1,160,015	1,105,218	2,430,732	2,345,170
Net assets, end of year	\$ 1,184,289	\$ 1,270,717	\$ 1,223,952	\$ 1,160,015	\$ 2,408,241	\$ 2,430,732

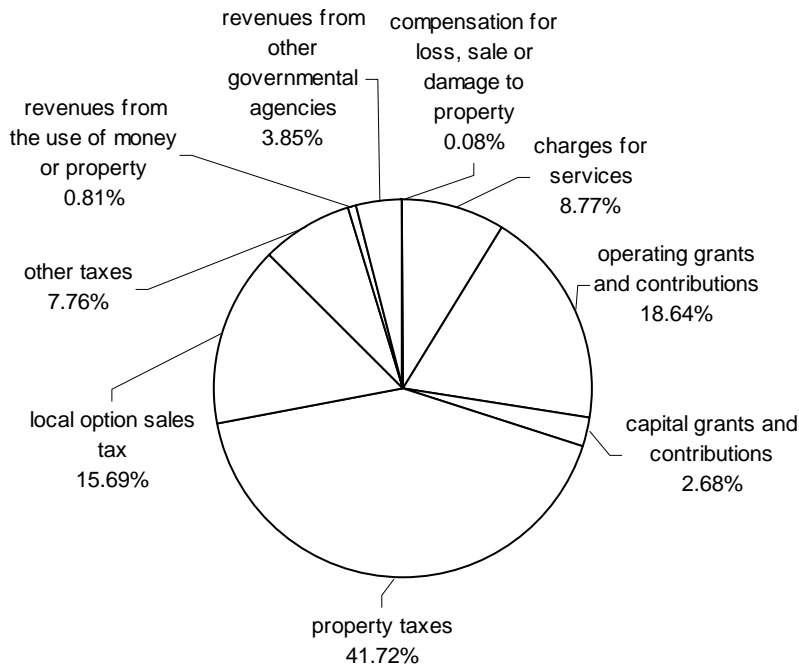
(1) Certain amounts have been reclassified for comparative purposes.

Governmental activities – Governmental activities decreased the Government’s net assets by \$86 million, compared to a \$31 million increase in the prior year. Operating grants and contributions increased \$24 million, primarily in the areas of education and health. The normal 2% growth in property taxes resulted in an increase of \$17 million in revenue, and hotel occupancy taxes increased \$14 million due to additional taxes established to support a new convention center. Total revenue increases of \$76 million were offset by increases in expenditures of \$192 million, due primarily to recognizing the first year of the unfunded OPEB required contribution. The Government’s total unfunded OPEB obligation for 2008 was \$137 million, \$25 million of which was for Schools. The other significant expenditure increase was due to a \$39 million increase in School’s expenditures, resulting primarily from a \$32 million increase in the Schools budget.

Expenses and Program Revenues - Governmental Activities – For the Year Ended June 30, 2008

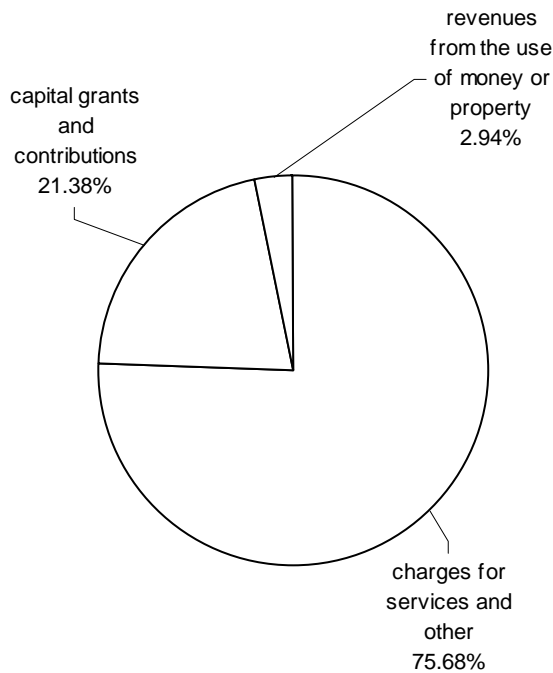


Revenues by Source - Governmental Activities – For the Year Ended June 30, 2008



Business-type activities – Business-type activities increased the Government's net assets by \$64 million. This increase is primarily due to the Department of Water and Sewerage Services operating results for the 2008 fiscal year. Revenue from operations increased \$8 million as a result of an increase in the demand for water due to dry weather conditions, which was partially offset by a \$5 million increase in expenses. Additionally, there was a \$5 million increase in contributions of capital assets. Finally, the Department of Water and Sewer's transfer to the Stormwater Operations fund was decreased by \$2 million for 2008.

Revenues by Source – Business-type Activities – For the Year Ended June 30, 2008



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 \$265 million, an increase of \$92 million in comparison with the prior year. Approximately 45.9% of ending fund balance (\$122 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 (\$32 million), 2) the purchase of equipment (\$32 million), 3) future debt payments (\$46 million), 4) a long-term receivable from General Hospital (\$29 million), and 5) other purposes (\$4 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 \$33 million, while total fund balance was \$63 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 4.1% of total general fund expenditures and other financing uses, while total fund balance represents 7.8% of total general fund expenditures and other financing uses.

The total fund balance of the Government's General Fund increased by \$3 million during the current fiscal year, as compared to a \$14 million increase in the previous year. While the total General Fund fund balance increased, the undesignated fund balance decreased by \$6 million as a result of reserving an additional \$16 million of fund balance for the long-term receivable from General Hospital, an operation under the Hospital Authority, a component unit. The impact of this additional reservation for the long-term receivable from General Hospital was partially offset by a \$7 million decrease in other reserves and by the \$3 million net increase in fund balance. The total amount receivable from General Hospital is \$30.4 million. This consists of \$13 million owed to the Government after a \$50 million appropriation in the 2005-2006 fiscal year that reduced the total \$63 million owed to the Government at that time - which had accumulated over several years of operating and cash deficits - plus an additional loan to General Hospital made during the 2007-2008 fiscal year to cover current operating and cash deficits. No timeframe has been established for the repayment of the \$29 million General Hospital owes to the Government.

The fund balance of the Government's General Purpose School Fund increased by \$4 million during the current fiscal year, primarily 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 \$14 million in the current fiscal year partly due to budgeted principal and interest payments in excess of revenues and partly due to interest expense exceeding budgeted amounts related to commercial paper interest. Since interest on commercial paper is refinanced as bonds are issued, the interest is not included in the debt service operating budget.

The fund balance of the Government's other governmental funds increased by \$21 million primarily due to the collection of new hotel occupancy and other tourist-related taxes to fund the construction, financing and operation of a new Convention Center.

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 \$110 million. The total increase in unrestricted net assets for these funds was \$18 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 minor differences in revenues and other financing sources between the original budget and final amended budget, due primarily to a contribution and other additional revenue for specified purposes. Differences in expenditures and other financing uses between the original budget and the final amended budget are primarily due to authorizations in the 2008 fiscal year budget ordinance to carry forward certain prior year unused administrative budget appropriations, due to additional funding received as discussed above, and due to supplemental funding approved for additional expenditures. 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

While property taxes came in under budget due to the impact of the 2006-2007 property tax sale on revenues typically received in subsequent years and due to sales taxes and certain charges for current services being under budget as a result of a downturn in overall economic conditions, total revenues and transfers in were over budget by \$7 million. The overall increase is due to state income taxes derived from stocks and bonds exceeding expectations by approximately \$7 million and due to commissions and fees revenues exceeding budgetary expectations by \$7 million because commissions and fees of certain elected officials are excluded from the budget. Actual expenditures and other financing uses were under budget by \$6 million because of aggressive mid-year savings targets required of all departments.

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, 2008 amounts to \$4.5 billion (net of accumulated depreciation). Depreciation charges for the fiscal year totaled \$114 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Utility plant in service	\$ -	\$ -	\$ 2,118,069	\$ 1,891,933	\$ 2,118,069	\$ 1,891,933
Land	191,604	162,387	17,867	16,415	209,471	178,802
Buildings and improvements	1,246,295	1,028,745	123,231	119,736	1,369,526	1,148,481
Improvements other than buildings	-	-	42,316	41,766	42,316	41,766
Furniture, machinery and equipment	304,885	286,935	43,544	42,045	348,429	328,980
Property under capital lease	-	-	3,645	3,645	3,645	3,645
Infrastructure	1,504,122	1,477,570	-	-	1,504,122	1,477,570
Construction in progress	263,690	359,598	57,157	185,633	320,847	545,231
Less: Accumulated depreciation	(654,104)	(607,133)	(759,096)	(705,624)	(1,413,200)	(1,312,757)
Total capital assets	\$ 2,856,492	\$ 2,708,102	\$ 1,646,733	\$ 1,595,549	\$ 4,503,225	\$ 4,303,651

The total increase in the Government's investment in capital assets for the current fiscal year was 4.6% (a 5.5% increase for governmental activities and a 3.2% 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 the Justice AA Birch Center, a new police precinct and two Parks community centers. Additionally, land increased from donated rights of way related to new developments and due to land acquisitions for Parks greenways. Additions to the utility plants for the Department of Water and Sewerage Services totaled approximately \$226 million.

As allowed by GASB Statement No. 34, the Government has adopted the alternative to recording depreciation expense on selected infrastructure assets. Under this method, referred to as the modified approach, the Government expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under this approach include approximately 5,700 lane miles of streets and roads and 313 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 79% of roads and 98% of bridges meet the Government's policy, as compared to 77% of roads in 2007 and 95% of bridges in 2006.

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 \$2.2 billion. Of this amount, \$1.7 billion comprises debt backed by the full faith and credit of the Government. The remaining \$444 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	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 1,718,615	\$ 1,503,390	\$ 7,170	\$ 7,435	\$ 1,725,785	\$ 1,510,825
Deferred amounts, net	<u>42,632</u>	<u>36,837</u>	<u>454</u>	<u>481</u>	<u>43,086</u>	<u>37,318</u>
Total general obligation bonds outstanding	<u>1,761,247</u>	<u>1,540,227</u>	<u>7,624</u>	<u>7,916</u>	<u>1,768,871</u>	<u>1,548,143</u>
Revenue bonds	7,375	9,005	436,860	473,565	444,235	482,570
Deferred amounts, net	<u>(80)</u>	<u>(105)</u>	<u>4,648</u>	<u>(3,304)</u>	<u>4,568</u>	<u>(3,409)</u>
Total revenue bonds outstanding	<u>7,295</u>	<u>8,900</u>	<u>441,508</u>	<u>470,261</u>	<u>448,803</u>	<u>479,161</u>
Total general obligation and revenue bonds outstanding	<u><u>\$ 1,768,542</u></u>	<u><u>\$ 1,549,127</u></u>	<u><u>\$ 449,132</u></u>	<u><u>\$ 478,177</u></u>	<u><u>\$ 2,217,674</u></u>	<u><u>\$ 2,027,304</u></u>

The Government's total general obligation and revenue bonds outstanding increased by \$190 million (9.4%) during the current fiscal year. New debt of \$308 million was issued to provide funding to pay principal and interest of certain of the Government's maturing commercial paper notes and to provide funding for future capital expenditures, and new debt of \$187 was issued to refund the outstanding principal balances of various bonds. The increase from the new debt was offset by principal payments of \$125 million and the outstanding principal balances on the refunded debt of \$193 million. Deferred amounts related to the bond issues increased by \$13 million.

Construction commitments at June 30, 2008 totaled \$48 million for the governmental activities of the Government and \$23 million for the Department of Water and Sewerage Services.

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

The ratio of general long-term debt (defined as gross debt less debt service monies available and less debt to be repaid from sources other than property taxes) to the actual value of property is 2.75%, and the amount of net debt per capita is \$2,681.96.

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 \$75 million outstanding at June 30, 2008 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 most recent (August 2008) unemployment rate for the Nashville metropolitan area is 5.7%. The state's and nation's unemployment rates are 6.6% and 6.1%, respectively. The budget for the 2009 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 2009 fiscal year, the budget ordinance, the budget book as well as other documents are available at www.nashville.gov.

Subsequent to June 30, 2008 the national and global economies have undergone significant turmoil impacting the credit and equity markets. Investments are exposed to various risks such as interest rate, market and credit risks. Such risks, and the resulting investment security values, may be influenced by these changes in economic

conditions and market perceptions and expectations. Accordingly, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of fiduciary net assets for the pension trust funds.

OTHER MATTERS

In the current year the Government implemented Governmental Accounting Standard Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB). This statement requires governments to account for and report their costs and obligations related to post employment healthcare and other nonpension benefits. The unfunded accrued liability for these benefits for general government employees is \$1.8 billion, and the unfunded accrued liability for teachers is \$586 million. These benefits are currently funded on a pay-as-you-go basis and, as a result, the government recognized net OPEB obligations totaling \$137 million in the government-wide statements of net assets and activities. Additional information can be found in Note 7 beginning on page B-88 of this report.

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.