

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 (CBID). 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 CBID 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 Corporation is fiscally dependent on the Government as the Government levies the CBID taxes and approves the CBID tax rate; these taxes represent substantially all of the Corporation's revenue. Complete financial statements of the Corporation can be obtained from its offices at Accounting Office, 211 Commerce Street, Suite 100, Nashville, TN 37201.

The **Gulch Business Improvement District, Inc.** (GBID, Inc.) was established in 2006 to administer special assessment revenue collected by the Government for the benefit of the Gulch Business Improvement District (GBID). GBID, Inc.'s duties and responsibilities are defined in the legislation approved by the Metropolitan Council creating the entity and include, but are not limited to, providing services for improvement and operation of the GBID such as promotion and marketing, security, sanitation, and aesthetic enhancements. GBID, Inc. is fiscally dependent on the Government as the Government levies the GBID taxes and approves the GBID tax rate; these taxes represent substantially all of GBID, Inc.'s revenue. Complete financial statements of GBID, Inc. can be obtained from its offices at 138 Second Avenue North, Suite 300, 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. The members of the Hospital Authority are all appointed and can also 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 GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The **Metropolitan Development and Housing Agency** operates public housing facilities for the inhabitants of Nashville and Davidson County. The members of the Agency's Board of Commissioners are all appointed and 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 members of the Board of Directors are all appointed and can also be removed by the Government. 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.

The **Metropolitan Transit Authority** operates and regulates the public mass transit system in Nashville and Davidson County. The members of the Authority's Board of Directors are all appointed and can also 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 members of the Airport Authority's Board of Directors are all appointed and can also 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 members of the District's Board of Directors are all appointed and can also be removed 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.

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, and the Nashville District Management Corporation and Gulch Business Improvement District, Inc. with a December 31 year end.

The primary government includes \$40,030,692 due from component units in the Statement of Net Assets. The component units include \$40,381,242 as due to the primary government. The difference of \$350,450 is due to advances to the Metropolitan Development and Housing Agency made subsequent to the Agency's year end.

B. Accounting Pronouncements

The Government adopted 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.

The Government adopted 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. 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 METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

The Government plans to adopt GASB Statement No. 52, Land and Other Real Estate Held as Investments by Endowments, required for fiscal periods beginning after June 15, 2008, in fiscal 2009. This Statement requires endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

The Government plans to adopt GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, required for fiscal periods beginning after June 15, 2009, in fiscal 2010. This Statement requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The **Education Capital Projects Fund** is used to account for the use of bond proceeds for the construction and equipping of various school facilities.

The **USD Capital Projects Fund** is used to account for the use of bond proceeds for the construction and equipping of various public projects in the Urban 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. For the year ended June 30, 2008, these services include fleet management, information systems, radio maintenance, insurance, central storeroom, postal services, facilities planning and construction, treasury management, human resources, finance, general services, printing and internal audit.

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, 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, 2008. 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, 2008.

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

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$4.3 million for the year ended June 30, 2008.

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

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, 2008. 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

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$8,982,343.

Bordeaux Sanitary Landfill - This landfill has stopped accepting solid waste, and closure procedures are 100% complete. Estimated postclosure costs of \$3,450,200 are included in the long-term liability.

Metro Thermal Ash Landfill - This landfill has stopped accepting solid waste, and closing procedures are 100% complete. Estimated postclosure costs of \$2,339,958 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 \$2,243,101 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 \$949,084 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 receivable from General Hospital - 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. The Authority received approval to impose a \$3 PFC. PFC's are recorded as program revenues in the Statement of Activities. PFC revenue during the year ended June 30, 2008 totaled \$12,836,344.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following cumulative project summary has been approved by the FAA:

Airfield development	\$ 172,827,695
Terminal development	26,727,200
Land acquisition	<u>62,124,236</u>
	<u>\$ 261,679,131</u>

As of June 30, 2008, cumulative expenditures to date on approved PFC projects totaled \$168,567,627.

Customer facility charges – On January 1, 2008, the Airport Authority began requiring the car rental companies at Nashville International Airport to charge a Customer Facility Charge (CFC) to be used to pay, or to reimburse the Airport Authority for cost, fees and expenses associated with the planning, design, construction, financing, maintenance and operation of the Consolidated Rental Car Facility (CONRAC Facility), and other costs, fees and expenses that may be paid from CFC proceeds. The CFC is a \$4.00 per transaction day fee and is collected by the on-Airport car rental companies from each of their customers and subsequently remitted to the Airport Authority. The Airport Authority has the right to pledge the CFC proceeds as collateral security for the payment of any debt obligations incurred by the Airport Authority in connection with the planning, design, construction, financing, maintenance and operation of the CONRAC Facility. CFC's are recorded as program revenues in the Statement of Activities. CFC revenue during the year ended June 30, 2008 totaled \$4,259,428. Restricted net assets relating to CFC's totaled \$3,249,892 at June 30, 2008 and are included in restricted assets in the Statement of Net Assets.

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 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, 2008. Amounts available at June 30, 2008 have been recorded as revenue in the governmental fund statements. Current tax collections of \$717,920,126 for the fiscal year ended June 30, 2008 were approximately 99% of the tax levy.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Of the \$758,590,855 property tax receivable, \$741,714,427 represents the 2008 property taxes which have been assessed but not yet levied and 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. Change in Component Unit Presentation

The audited financial statements for the Industrial Development Board, a component unit of the Government, were not completed in time for inclusion in the Government's financial statements. Because the Industrial Development Board is not material to the reporting entity, it has been excluded from the Government's financial statements. Accordingly, beginning net assets for component units of \$1,283,165,536 as previously reported has been changed to \$1,282,912,344 to reflect the exclusion.

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, 2008.

B. Budgets and Budgetary Accounting

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

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.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2008-2009 was submitted to the Metropolitan Council and subsequently approved by Substitute Bill Number BL 2008-174. Unreserved and undesignated fund balance resources at June 30, 2008 have been appropriated to the 2008-2009 fiscal year operating budget as follows:

General Services District General Fund	\$ 200,000
General Purpose School Fund	19,264,100
General Services District General Purposes Debt Service Fund	1,408,800
General Services District School Purposes Debt Service Fund	10,722,000

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, 2008 were as follows:

	<u>Outstanding Encumbrances</u>
General Fund	\$ 928,883
Special Revenue Funds:	
General Purpose School	447,110
Metropolitan Action Commission	258,425
General Government Services	125,022
Recreational and Cultural Services	22,865
General Fund 4% Reserve	1,031,584
Law Enforcement and Justice Services	87,506
Solid Waste Operations	563,325
Stormwater Operations	2,285,578
Library Services	3,121
Health Services	40,758
Education Services	1,242,802
Infrastructure Services	238,015
Nashville Career Advancement Center	32,627
Public Works Services	120,180
Capital Projects Funds:	
GSD Capital Projects	32,498,797
Education Capital Projects	11,557,772
USD Capital Projects	4,085,197

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, 2008:

	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:			
Metropolitan Action Commission	\$ (103,290)	\$ -	\$ (103,290)
Nashville Career Advancement Center	(99,024)	-	(99,024)
Regulation and Inspection Services	(111,734)	-	(111,734)
Capital Projects Funds:			
GSD Capital Projects	(28,889,486)	-	(28,889,486)
Education Capital Projects	(37,747,174)	-	(37,747,174)
Enterprise Funds:			
Surplus Property Auction	(254,165)	-	(254,165)
Municipal Auditorium	(48,740)	2,670,350	2,621,610
Police Impound	(1,906,898)	-	(1,906,898)
Internal Service Funds:			
Office of Fleet Management	(837,228)	33,534,171	32,696,943
Injured on Duty	(829,331)	-	(829,331)
Treasury Management	(43,482)	-	(43,482)
General Services	(229,128)	303,460	74,332

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, 2008, 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	\$ 2,462,900	\$ 2,893,697	\$ (430,797)
Administration of Justice:			
District Attorney	5,190,600	5,192,141	(1,541)
Circuit Court Clerk	9,609,700	10,156,096	(546,396)
State Trial Courts	8,688,600	8,816,225	(127,625)
Fire Prevention and Control:			
Fire Department	50,987,500	50,998,653	(11,153)
Employee Benefits:			
Employer's Contribution for Group Life Insurance	1,369,100	1,408,955	(39,855)
Miscellaneous:			
Subsidies	22,630,133	23,419,459	(789,326)
Administration and Internal Support	12,693,528	16,553,567	(3,860,039)
Transfers Out:			
GSD General Purpose Debt Service	3,564,000	3,564,025	(25)
Nonmajor Governmental Funds	39,521,700	39,745,143	(223,443)
Nonmajor Enterprise Funds	1,236,200	1,238,933	(2,733)
Internal Service Funds	773,400	905,000	(131,600)
Fiduciary Funds	-	30,762	(30,762)
Urban Services District:			
Fire Prevention and Control:			
Fire Department	67,459,500	68,649,951	(1,190,451)
General Purpose School Fund:			
Transfers Out	7,955,200	8,780,956	(825,756)
GSD General Purposes Debt Service Fund:			
Principal Retirement	46,544,500	46,587,366	(42,866)
Interest	42,157,500	46,808,338	(4,650,838)
Fiscal Charges	1,369,000	2,582,983	(1,213,983)
Bond Issue Costs	-	199,172	(199,172)
Transfers Out	7,765,600	7,771,000	(5,400)
GSD School Purposes Debt Service Fund:			
Principal Retirement	33,142,000	33,572,678	(430,678)
Interest	25,212,400	25,956,888	(744,488)
Bond Issue Costs	-	90,692	(90,692)
Transfers Out	-	140,763	(140,763)
USD General Purposes Debt Service Fund:			
Principal Retirement	13,028,800	13,029,522	(722)
Interest	5,991,600	6,157,143	(165,543)
Fiscal Charges	211,000	486,836	(275,836)
Bond Issue Costs	-	33,424	(33,424)
Transfers Out	-	10,414	(10,414)

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, State Trial Courts, and Fire Department experienced unanticipated operational needs late in the fiscal year that resulted in budget overages.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Employee benefits are controlled as a whole, and as a whole, were under budget. Employer's Contribution for Group Life Insurance was over budget due to more employees retiring than anticipated; the life insurance rate for retirees is higher than the rate for active employees.

Subsidies for the General Fund GSD are over budget due to increases in tax increment payments to the Metropolitan Development and Housing Agency, a component unit, in excess of budget.

The budget for General Fund GSD Administration and Internal Support included budget savings to be realized over various expenditures. These savings were achieved throughout various General Fund departments.

Transfers Out to the GSD General Purposes Debt Service Fund were over budget due to revision in the amount of the transfer needed.

Transfers Out to Nonmajor Governmental Funds were over budget due to required transfers to the General Fund 4% Reserve Fund exceeding anticipated amounts as a result of certain revenues exceeding the budget.

Transfers Out to Nonmajor Enterprise Funds were over budget due to an unbudgeted transfer from Social Services to the School Community Education Fund for classes provided to employees of Social Services.

Transfers Out to 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 GSD and USD General Purposes and GSD School Purposes Debt Service Funds are not controlled on a line item basis. The Funds are over budget due to commercial paper interest, which is not budgeted since the interest is funded through future bond proceeds, and due to the timing of these bond issues. Also, costs related to bond issues 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, 2008, 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, 2008, the Government had the following investments:

Investment Type	Fair Value	Average Weighted Maturity (in Years)
Metro Investment Pool:		
Tennessee Local Government Investment Pool	\$ 529,195,006	0.22
Total Metro Investment Pool (a)	<u>\$ 529,195,006</u>	
Separate Portfolios:		
U.S. Treasuries	\$ 45,254,431	-
Federal Home Loan Bank Obligations	578,416	0.19
Tennessee Local Government Investment Pool	<u>1,723,142</u>	0.22
Total Separate Portfolios (a)	<u>\$ 47,555,989</u>	
Metropolitan Employees' Benefit Trust:		
U.S. Government Bonds	\$ 52,660,046	5.74
U.S. Government Agencies	61,699,130	4.57
Foreign Government Agencies	1,656,254	2.96
Government Mortgage Backed Securities	129,857,968	4.19
Corporate Bonds and Notes	289,104,578	8.16
Common Stock (b)	1,184,218,645	(c)
Preferred Stock	10,599,378	(c)
Commercial Mortgage Backed Securities	41,138,515	4.75
Collateralized Mortgage Obligations	34,042,992	1.49
Asset Backed Securities	22,546,642	3.47
Mortgages and Real Estate	152,095,648	(c)
Warrants and Options	2,347,143	(c)
Venture Capital and Partnerships	49,223,659	(c)
Cash Collateral Received - Securities Lending Program	<u>260,825,986</u>	(c)
Total Metropolitan Employees' Benefit Trust	<u>\$ 2,292,016,584</u>	
Teachers' Retirement Plan:		
Corporate Bonds and Notes	\$ 17,382,067	4.65
U.S. Government Agencies	33,639	8.39
Common Stock	45,525,667	(c)
Preferred Stock	62,382	(c)
Convertible Equity	183,825	(c)
Cash Collateral Received - Securities Lending Program	<u>17,045,696</u>	(c)
Total Teachers' Retirement Plan	<u>\$ 80,233,276</u>	

(a) These amounts are included in cash and cash equivalents in the financial statements.

(b) The Metropolitan Employees' Benefit Trust investment portfolio contains \$10,935,892 of common stock reported in the Government's closed pension plans funds.

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

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. The Investment Policy places no specific limit on the weighted average maturity of the Government's investment portfolios. However, 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, 2008, 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, 2008, 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	\$ 289,104,578	\$ 6,485,863	\$ 14,309,469	\$ 29,602,979	\$ 25,592,738	\$ 297,928	\$ -	\$ 212,815,601
Commercial Mortgage Backed Securities	41,138,515	33,452,191	98,267	-	-	-	-	7,588,057
Collateralized Mortgage Obligations	34,042,992	30,655,885	10,378	14,854	453,163	-	-	2,908,712
Asset Backed Securities	22,546,642	21,545,165	71,773	822,031	-	-	-	107,673
Foreign Government Agencies	1,656,254	-	-	-	-	-	-	1,656,254
Total Metropolitan Employees' Benefit Trust	<u>\$ 388,488,981</u>	<u>\$ 92,139,104</u>	<u>\$ 14,489,887</u>	<u>\$ 30,439,864</u>	<u>\$ 26,045,901</u>	<u>\$ 297,928</u>	<u>\$ -</u>	<u>\$ 225,076,297</u>
Teachers' Retirement Plan:								
Corporate Bonds and Notes	\$ 17,382,067	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,382,067
Total Teachers' Retirement Plan	<u>\$ 17,382,067</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,382,067</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, 2008, 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, 2008, 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 place no specific limits on investments in international markets; however, investments in international markets are targeted not to exceed 15% of the portfolios. As of June 30, 2008, the Government's exposure to foreign currency risk is as follows:

<u>Base Currency</u>	<u>Fair Value</u>
Common Stock:	
Australian dollar	\$ 16,054,855
Canadian dollar	6,972,618
Danish krone	5,751,724
Euro	117,877,862
Hong Kong dollar	9,950,662
Israel New Sheqel	569,533
Mexican peso	442,052
Norwegian krone	3,261,959
Pound sterling	58,305,783
Real	674,316
Rupiah	403,119
Singapore dollar	8,986,832
Swedish krona	816,195
Swiss franc	22,049,958
Yen	<u>65,432,199</u>
 Total Common Stock	 <u>317,549,667</u>
Preferred Stock:	
Real	3,935,303
Euro	<u>5,877,109</u>
 Total Preferred Stock	 <u>9,812,412</u>
 Total Metropolitan Employees' Benefit Trust	 <u>\$ 327,362,079</u>

C. Securities Lending Program

The Metropolitan Employees' Benefit Trust (Trust) and Teachers' Retirement Plan (Plan) are authorized by the Metropolitan Charter, the Statement of Investment Objectives of the Investment Board of the Government, and the investment policy of the Plan, to lend securities to brokerage firms on a temporary basis through their custodian bank, Northern Trust (Custodian). During the fiscal year, the Custodian lent the Trust and Plan 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)

Neither the Trust nor Plan imposed any restrictions on the amount of securities lent by the Custodian during the year on their 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 Trust and Plan loans for the year ended June 30, 2008 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, 2008 was \$260,825,986 and \$253,193,990, respectively, for the Trust, and \$17,045,696 and \$16,566,678, respectively, for the Plan. The cash collateral is recorded as both an asset and a liability on the Trust and Plan financial statements. Securities and letters of credit received as collateral at June 30, 2008 are not recorded in the Statement of Plan Net Assets, as the Trust and Plan cannot sell or pledge the collateral received absent a borrower default.

At year-end, neither the Trust nor Plan have credit risk by borrowers because the amounts the Trust and Plan owe the borrowers exceed the amounts the borrowers owe the Trust and Plan. The gross earnings for securities lending were \$12,317,907 and the related expenses were \$9,309,653 in borrowers rebates and \$902,337 in agent fees, netting \$2,105,917 in securities lending income for the Trust. The gross earnings for securities lending were \$263,770 and the related expenses were \$200,090 in borrowers rebates and \$19,074 in agent fees, netting \$44,606 in securities lending income for the Plan.

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, 2008 was as follows:

Primary Government

Governmental Activities:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 162,386,985	\$ 29,217,023	\$ -	\$ 191,604,008
Transportation infrastructure	1,382,847,060	22,574,522	-	1,405,421,582
Construction in progress	<u>359,597,682</u>	<u>133,893,226</u>	<u>(229,801,028)</u>	<u>263,689,880</u>
Total capital assets, not being depreciated	<u>1,904,831,727</u>	<u>185,684,771</u>	<u>(229,801,028)</u>	<u>1,860,715,470</u>
Capital assets, being depreciated:				
Buildings and improvements	1,028,744,625	227,906,958	(10,356,381)	1,246,295,202
Furniture, machinery and equipment	286,935,254	30,194,801	(12,245,230)	304,884,825
Stormwater infrastructure	<u>94,723,295</u>	<u>3,976,752</u>	<u>-</u>	<u>98,700,047</u>
Total capital assets, being depreciated	<u>1,410,403,174</u>	<u>262,078,511</u>	<u>(22,601,611)</u>	<u>1,649,880,074</u>
Less accumulated depreciation:				
Building and improvements	(387,702,526)	(31,196,569)	3,863,057	(415,036,038)
Furniture, machinery and equipment	(193,530,539)	(27,589,110)	9,852,387	(211,267,262)
Stormwater infrastructure	<u>(25,899,712)</u>	<u>(1,900,985)</u>	<u>-</u>	<u>(27,800,697)</u>
Total accumulated depreciation	<u>(607,132,777)</u>	<u>(60,686,664)</u>	<u>13,715,444</u>	<u>(654,103,997)</u>
Total capital assets, being depreciated, net	<u>803,270,397</u>	<u>201,391,847</u>	<u>(8,886,167)</u>	<u>995,776,077</u>
Governmental activities capital assets, net	<u>\$ 2,708,102,124</u>	<u>\$ 387,076,618</u>	<u>\$ (238,687,195)</u>	<u>\$ 2,856,491,547</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, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 16,414,407	\$ 1,452,524	\$ -	\$ 17,866,931
Construction in progress	185,633,409	59,150,092	(187,626,493)	57,157,008
Total capital assets, not being depreciated	<u>202,047,816</u>	<u>60,602,616</u>	<u>(187,626,493)</u>	<u>75,023,939</u>
Capital assets, being depreciated:				
Utility plant in service	1,891,932,540	243,684,130	(17,547,916)	2,118,068,754
Buildings and improvements	119,736,350	3,544,068	(49,592)	123,230,826
Improvements other than buildings	41,766,375	550,251	-	42,316,626
Furniture, machinery and equipment	42,045,309	1,554,763	(55,890)	43,544,182
Property under capital lease	3,645,000	-	-	3,645,000
Total capital assets, being depreciated	<u>2,099,125,574</u>	<u>249,333,212</u>	<u>(17,653,398)</u>	<u>2,330,805,388</u>
Less accumulated depreciation:				
Utility plant in service	(578,197,065)	(47,272,982)	-	(625,470,047)
Buildings and improvements	(58,258,957)	(3,037,331)	49,593	(61,246,695)
Improvements other than buildings	(31,570,131)	(1,303,260)	-	(32,873,391)
Furniture, machinery and equipment	(36,588,498)	(1,831,333)	14,748	(38,405,083)
Property under capital lease	(1,009,844)	(91,125)	-	(1,100,969)
Total accumulated depreciation	<u>(705,624,495)</u>	<u>(53,536,031)</u>	<u>64,341</u>	<u>(759,096,185)</u>
Total capital assets, being depreciated, net	<u>1,393,501,079</u>	<u>195,797,181</u>	<u>(17,589,057)</u>	<u>1,571,709,203</u>
Business-type activities capital assets, net	<u>\$ 1,595,548,895</u>	<u>\$ 256,399,797</u>	<u>\$ (205,215,550)</u>	<u>\$ 1,646,733,142</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	\$ 6,865,381
Fiscal administration	1,527,749
Administration of justice	1,103,438
Law enforcement and care of prisoners	4,782,401
Fire prevention and control	859,833
Education	21,507,679
Regulation and inspection	5,494
Public welfare	223,848
Public health and hospitals	653,418
Public library system	2,251,824
Public works, highways and streets, including depreciation of stormwater infrastructure	3,797,856
Recreational and cultural	3,594,912
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>13,512,831</u>
Total depreciation expense, governmental activities	<u>\$ 60,686,664</u>
Business-type activities:	
Department of Water and Sewerage Services	\$ 49,560,705
District Energy System	1,962,826
Nashville Convention Center	1,312,438
Board of Fair Commissioners	432,527
Farmers Market	130,713
Municipal Auditorium	<u>136,822</u>
Total depreciation expense, business-type activities	<u>\$ 53,536,031</u>

Component Units

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 217,367,305	\$ 3,824,038	\$ -	\$ 221,191,343
Construction in progress	<u>165,896,241</u>	<u>140,257,185</u>	<u>(109,059,791)</u>	<u>197,093,635</u>
Total capital assets, not being depreciated	<u>383,263,546</u>	<u>144,081,223</u>	<u>(109,059,791)</u>	<u>418,284,978</u>
Capital assets, being depreciated:				
Utility plant in service	975,909,000	57,720,000	(7,145,000)	1,026,484,000
Buildings and improvements	796,605,347	65,839,725	(2,145,017)	860,300,055
Improvements other than buildings	389,558,548	18,982,533	-	408,541,081
Furniture, machinery and equipment	204,403,643	30,169,263	(4,820,144)	229,752,762
Infrastructure	<u>11,238,363</u>	<u>3,792,425</u>	<u>-</u>	<u>15,030,788</u>
Total capital assets, being depreciated	<u>2,377,714,901</u>	<u>176,503,946</u>	<u>(14,110,161)</u>	<u>2,540,108,686</u>

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

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Less accumulated depreciation for:				
Utility plant in service	\$ (352,974,000)	\$ (34,251,000)	\$ 13,337,000	\$ (373,888,000)
Buildings and improvements	(288,974,444)	(26,356,189)	2,136,226	(313,194,407)
Improvements other than buildings	(226,826,741)	(12,114,838)	-	(238,941,579)
Furniture, machinery and equipment	(109,964,112)	(20,417,853)	4,621,361	(125,760,604)
Infrastructure	(8,931,429)	(399,700)	-	(9,331,129)
Total accumulated depreciation	(987,670,726)	(93,539,580)	20,094,587	(1,061,115,719)
Total capital assets, being depreciated, net	1,390,044,175	82,964,366	5,984,426	1,478,992,967
Component units activities capital assets, net	\$ 1,773,307,721	227,045,589	(103,075,365)	\$ 1,897,277,945

NOTE 5 - BONDS, NOTES AND OTHER OBLIGATIONS

Primary Government

A. Transaction Summary

Bonds, notes and other obligations activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
Governmental activities:					
General obligation bonds and notes payable:					
General Services District	\$ 850,604,708	\$ 173,425,881	\$ (46,587,366)	\$ 977,443,223	\$ 43,699,844
Schools	524,432,336	96,611,856	(33,158,112)	587,886,080	30,550,745
Urban Services District	128,352,956	37,962,263	(13,029,522)	153,285,697	9,299,411
Deferred charge/premium, net	36,837,166	7,867,112	(2,071,804)	42,632,474	-
Total general obligation bonds and notes payable	1,540,227,166	315,867,112	(94,846,804)	1,761,247,474	83,550,000
Limited obligation revenue bonds payable:					
Correctional Facility Revenue Bonds	9,005,000	-	(1,630,000)	7,375,000	1,710,000
Deferred charge/premium, net	(104,686)	-	25,124	(79,562)	-
Total limited obligation revenue bonds payable	8,900,314	-	(1,604,876)	7,295,438	1,710,000
Qualified zone academy notes payable:					
Qualified Zone Academy Notes	5,803,933	-	(414,566)	5,389,367	414,566
Deferred charge/premium, net	(139,916)	-	10,364	(129,552)	-
Total qualified zone academy notes payable	5,664,017	-	(404,202)	5,259,815	414,566

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

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
Governmental activities: (Continued)					
Other obligations payable:					
Net pension obligation	\$ 76,052,399	\$ 93,057,463	\$ (98,814,834)	\$ 70,295,028	\$ -
Net other postemployment benefits obligation	-	202,590,000	(65,234,000)	137,356,000	-
Compensated absences	69,453,198	54,670,508	(53,046,971)	71,076,735	45,957,218
Claims and judgments	4,448,353	718,387	(2,137,350)	3,029,390	3,029,390
Landfill closure costs	9,466,999	-	(484,656)	8,982,343	528,620
Total other obligations payable	159,420,949	351,036,358	(219,717,811)	290,739,496	49,515,228
Total governmental activities long-term liabilities	\$ 1,714,212,446	\$ 666,903,470	\$ (316,573,693)	\$ 2,064,542,223	\$ 135,189,794
Business-type activities:					
Department of Water and Sewerage Services:					
Revenue bonds payable	\$ 409,260,000	\$ 186,720,000	\$ (222,170,000)	\$ 373,810,000	\$ 31,185,000
Deferred charge/premium, net	(5,325,451)	11,080,350	(3,050,638)	2,704,261	-
State construction loans	126,836,070	32,280,174	(3,468,600)	155,647,644	7,400,496
Total Department of Water and Sewerage Services	530,770,619	230,080,524	(228,689,238)	532,161,905	38,585,496
District Energy System:					
Revenue bonds payable	64,305,000	-	(1,255,000)	63,050,000	1,290,000
Deferred charge/premium, net	2,021,036	-	(76,992)	1,944,044	-
General obligation bonds payable	7,435,000	-	(265,000)	7,170,000	280,000
Deferred charge/premium, net	481,398	-	(27,508)	453,890	-
Total District Energy System	74,242,434	-	(1,624,500)	72,617,934	1,570,000
Farmers Market:					
Capitalized lease obligations payable	1,620,000	-	(165,000)	1,455,000	175,000
Total business-type activities long-term liabilities	\$ 606,633,053	\$ 230,080,524	\$ (230,478,738)	\$ 606,234,839	\$ 40,330,496

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

B. Description of Amounts Payable

Amounts payable at June 30, 2008 are as follows:

	Interest Rate	Amount
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	3.25 - 6.00%	\$ 977,443,223
General Services District - School Purposes, due in varying amounts to May 15, 2030	3.25 - 5.50%	587,886,080
Urban Services District - General Purposes, due in varying amounts to May 15, 2030	3.25 - 6.00%	153,285,697
Deferred charge/premium, net		42,632,474
Total general obligation bonds and notes payable from ad valorem taxes		1,761,247,474
Limited obligation revenue bonds payable:		
Correctional Facility Revenue Bonds, due in varying amounts to September 1, 2011	4.00 - 5.00%	7,375,000
Deferred charge/premium, net		(79,562)
Total limited obligation revenue bonds payable		7,295,438
Qualified zone academy notes payable:		
Qualified Zone Academy Notes, due in varying amounts to December 28, 2020	N/A	5,389,367
Deferred charge/premium, net		(129,552)
Total qualified zone academy notes payable		5,259,815
Other obligations payable:		
Net pension obligation		70,295,028
Net other postemployment benefits obligation		137,356,000
Compensated absences		71,076,735
Claims and judgments		3,029,390
Landfill closure		8,982,343
Total other obligations payable		290,739,496
Total governmental activities long-term liabilities		\$ 2,064,542,223
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%	\$ 94,700,000
Department of Water and Sewerage Revenue Bonds, Series 1993, due in varying amounts to January 1, 2013	5.20 - 6.50%	36,975,000
Department of Water and Sewerage Revenue Refunding Bonds, Series 1998A, due in varying amounts to January 1, 2022	4.625 - 5.00%	9,190,000
Department of Water and Sewerage Revenue Bonds, Series 1998B, due in varying amounts to January 1, 2014	4.45 - 5.25%	18,400,000
Department of Water and Sewerage Revenue Refunding Bonds, Series 2002, due in varying amounts to January 1, 2016	5.125%	27,825,000

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

	Interest Rate	Amount
Business-type activities: (Continued)		
Bonds payable: (Continued)		
Department of Water and Sewerage Revenue Refunding Bonds, Series 2007, due in varying amounts to January 1, 2016	4.25 - 5.00%	\$ 36,240,000
Department of Water and Sewerage Revenue Refunding Bonds, Series 2008A, due in varying amounts to January 1, 2022	3.25 - 5.25%	122,530,000
Department of Water and Sewerage Revenue Refunding Bonds, Series 2008B, due in varying amounts to January 1, 2016	3.45 - 4.84%	27,950,000
Deferred charge/premium, net		2,704,261
Total Department of Water and Sewerage Services		376,514,261
District Energy System Revenue Bonds, Series 2002A, due in varying amounts to October 1, 2033	3.00 - 5.00%	63,050,000
District Energy System G. O. Multi-purpose Bonds, Series 2005A, due in varying amounts to January 1, 2025	4.25 - 5.25%	7,170,000
Deferred charge/premium, net		2,397,934
Total District Energy System		72,617,934
Total bonds payable		449,132,195
Department of Water and Sewerage Services - state construction loans	2.82 - 5.52%	155,647,644
Farmers Market - capitalized lease obligations payable	7.50%	1,455,000
Total business-type activities long-term liabilities		\$ 606,234,839

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

Governmental activities:

Noncurrent liabilities:	
Due within one year	\$ 135,189,794
Due in more than one year	1,929,352,429
Total governmental activities	\$ 2,064,542,223

Business-type activities:

Liabilities payable from restricted assets:	
Current portion of long-term liabilities	\$ 40,155,496
Noncurrent liabilities:	
Due within one year	175,000
Due in more than one year	565,904,343
Total business-type activities	\$ 606,234,839

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 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
Other postemployment benefits 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, 2008, 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, 2008 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
2009	\$ 83,830,000	\$ 80,975,583	\$ 1,710,000	\$ 326,000	\$ 32,475,000	\$ 22,697,947	\$ 118,015,000	\$ 103,999,530
2010	83,970,000	79,876,776	1,795,000	238,375	34,700,000	21,872,299	120,465,000	101,987,450
2011	85,715,000	75,750,015	1,885,000	146,375	36,895,000	19,496,834	124,495,000	95,393,224
2012	80,795,000	71,906,317	1,985,000	49,625	39,080,000	17,087,632	121,860,000	89,043,574
2013	81,685,000	67,941,683	-	-	41,745,000	14,420,854	123,430,000	82,362,537
2014-2018	437,565,000	278,302,269	-	-	145,465,000	43,634,781	583,030,000	321,937,050
2019-2023	479,815,000	167,626,144	-	-	69,845,000	18,394,361	549,660,000	186,020,505
2024-2028	382,230,000	48,314,257	-	-	14,510,000	7,394,650	396,740,000	55,708,907
2029-2033	10,180,000	692,095	-	-	17,990,000	3,375,000	28,170,000	4,067,095
2034	-	-	-	-	4,155,000	103,875	4,155,000	103,875
Total	1,725,785,000	871,385,139	7,375,000	760,375	436,860,000	168,478,233	2,170,020,000	1,040,623,747
Deferred Charge/ Premium	43,086,364	-	(79,562)	-	4,648,305	-	47,655,107	-
Total	\$ 1,768,871,364	\$ 871,385,139	\$ 7,295,438	\$ 760,375	\$ 441,508,305	\$ 168,478,233	\$ 2,217,675,107	\$ 1,040,623,747

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. Effective July 11, 2007, the Government entered into a contract with a third party to provide liquidity for the commercial paper program. 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.

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, 2008, the amount of principal outstanding could not exceed \$400 million.

Commercial paper obligations of \$75,000,000 with interest rates ranging from 1.58% to 1.65% were outstanding at June 30, 2008. These obligations were refunded subsequent to year-end with rollover notes. The obligations are considered short-term debt at June 30, 2008 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, 2008 was as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
Commercial paper payable	\$ 150,000,000	\$ 1,117,000,000	\$ (1,192,000,000)	\$ 75,000,000
Total short-term debt	<u>\$ 150,000,000</u>	<u>\$ 1,117,000,000</u>	<u>\$ (1,192,000,000)</u>	<u>\$ 75,000,000</u>

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

Governmental activities:	
Commercial paper payable	\$ 74,910,000
Total governmental activities	<u>74,910,000</u>
Business-type activities:	
Commercial paper payable	<u>90,000</u>
Total business-type activities	<u>90,000</u>
Total commercial paper payable	<u>\$ 75,000,000</u>

G. General Obligation Bonds

On March 15, 2008, the Government issued \$308,000,000 General Obligation Bonds, Series 2008A, maturing on January 1, 2028, with interest rates ranging from 4.00% to 5.00%. These bonds provided funding to pay principal and interest on certain of the Government's maturing commercial paper notes and funding for other general capital improvements. The net proceeds of the bonds totaled \$315,512,912 (net of original issue premium, underwriting

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

fees and other issuance costs); \$275,663,960 was deposited with the commercial paper paying agent, and \$39,848,952 was deposited with the Government.

H. Advance and Current Refunding of Bonds

On July 15, 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 eight years by an estimated \$2,966,593.

On February 15, 2008, the Government issued \$122,530,000 Water and Sewer Revenue Refunding Bonds, Series 2008A (Series 2008A Bonds), maturing January 1, 2022, with interest rates ranging from 3.25% to 5.25%, and \$27,950,000 Water and Sewer Revenue Refunding Bonds, Series 2008B (Series 2008B Bonds), maturing on January 1, 2016, with interest rates ranging from 3.45% to 4.84%. These bonds refunded certain maturities of the Water and Sewer Revenue Refunding Bonds, Series 1998A, maturing January 1, 2011 through January 1, 2019, Water and Sewer Revenue Bonds, Series 1998B, maturing January 1, 2011 through January 1, 2012, and Water and Sewer Revenue Refunding Bonds, Series 1986, maturing January 1, 2016. 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 \$7,254,285. The refunding will reduce the Government's debt service payments over the next 14 years by an estimated \$10,772,820.

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, 2008, \$293,385,000 of general obligation bonds and \$227,930,000 of revenue bonds are considered defeased.

I. 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.

J. 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.

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

QZAB note principal maturities at June 30, 2008 are summarized below:

Year Ending June 30	Principal	Investment Credit (1)
2009	\$ 414,566	\$ 97,031
2010	414,566	97,031
2011	414,566	97,031
2012	414,566	97,031
2013	414,566	97,031
2014-2018	2,072,835	485,156
2019-2020	<u>1,243,702</u>	<u>291,094</u>
Total qualified zone academy notes payable	<u>\$ 5,389,367</u>	<u>\$ 1,261,405</u>

(1) The investment credit is estimated and subject to adjustment based on investment earnings and other factors.

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

As of June 30, 2008, the Department has entered into 23 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, 2008). 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.

As of June 30, 2008, 16 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 eight loans, which total \$154,953,153 at June 30, 2008, call for monthly payments of principal and interest of approximately \$1,000,000.

State construction loan principal maturities as of June 30, 2008 are summarized below:

Year Ending June 30	Principal	Interest
2009	\$ 7,400,496	\$ 4,869,144
2010	7,662,000	4,607,652
2011	7,933,332	4,336,308
2012	8,214,852	4,054,800
2013	8,506,944	3,762,696
2014-2018	44,208,588	14,127,384
2019-2023	35,564,291	12,804,039
2023-2027	<u>36,157,141</u>	<u>2,513,250</u>
Total state construction loans	<u>\$ 155,647,644</u>	<u>\$ 51,075,273</u>

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

L. 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, 2008 was 1.55%. The estimated fair market value of this contract was \$8,957,873 at June 30, 2008.

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.

M. Unissued Bonds or Notes

At June 30, 2008, authorized but unissued general obligation bonds totaled \$614,744,211. Commercial paper borrowings are used to fund capital spending prior to the issuance of bonds.

Component Units

A. Transaction Summary

Bonds, notes and other liabilities activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
Governmental types:					
Revenue bonds payable:					
Sports Authority	\$ 75,544,712	\$ -	\$ (2,948,932)	\$ 72,595,780	\$ 3,235,000
Total revenue bonds payable - governmental types	<u>75,544,712</u>	<u>-</u>	<u>(2,948,932)</u>	<u>72,595,780</u>	<u>3,235,000</u>
Proprietary types:					
Revenue bonds payable:					
Metropolitan Development and Housing Agency	5,297,026	81,732	(1,360,000)	4,018,758	1,415,000
Electric Power Board	440,582,000	197,553,000	(100,161,000)	537,974,000	14,279,000
Metropolitan Nashville Airport Authority	240,586,012	76,024,942	(87,779,825)	228,831,129	23,420,000
Total revenue bonds payable - proprietary types	<u>686,465,038</u>	<u>273,659,674</u>	<u>(189,300,825)</u>	<u>770,823,887</u>	<u>39,114,000</u>
Notes payable:					
Metropolitan Development and Housing Agency:					
Notes payable	2,395,507	2,427,825	-	4,823,332	1,030,243
Metropolitan Nashville Airport Authority:					
Notes payable	409,553	8,960,000	(648,220)	8,721,333	448,000
Total notes payable - proprietary types	<u>2,805,060</u>	<u>11,387,825</u>	<u>(648,220)</u>	<u>13,544,665</u>	<u>1,478,243</u>
Total revenue bonds and notes payable	<u>764,814,810</u>	<u>285,047,499</u>	<u>(192,897,977)</u>	<u>856,964,332</u>	<u>43,827,243</u>

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

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
Proprietary types: (Continued)					
Other liabilities payable:					
Hospital Authority:					
Capitalized lease obligation	\$ 38,846,916	\$ -	\$ (1,127,131)	\$ 37,719,785	\$ 1,214,557
Other liabilities	9,396,159	2,213,457	-	11,609,616	-
Metropolitan Development and Housing Agency:					
Other liabilities	1,608,019	1,703,852	(1,608,019)	1,703,852	-
Electric Power Board:					
TVA Advances and Other	3,767,000	4,776,000	(4,617,000)	3,926,000	-
Metropolitan Transit Authority:					
Capitalized lease obligation	370,235	-	(149,425)	220,810	143,620
Deferred lease revenue	-	6,500,000	-	6,500,000	-
Other postemployment benefits obligation	-	2,533,727	-	2,533,727	-
Metropolitan Nashville Airport Authority:					
Synthetic Advance Refunding, Series 2001	4,095,791	-	(787,172)	3,308,619	-
Fair value of derivative financial instruments	1,169,988	1,690,402	-	2,860,390	-
Deferred interest income	3,305,261	-	(1,260,568)	2,044,693	-
Other postemployment benefits obligation	-	2,529,829	-	2,529,829	-
Other liabilities	1,985,999	31,056	(34,904)	1,982,151	-
Total other liabilities payable - proprietary types	<u>64,545,368</u>	<u>21,978,323</u>	<u>(9,584,219)</u>	<u>76,939,472</u>	<u>1,358,177</u>
Total revenue bonds, notes and other liabilities payable - component units	<u>\$ 829,360,178</u>	<u>\$ 307,025,822</u>	<u>\$ (202,482,196)</u>	<u>\$ 933,903,804</u>	<u>\$ 45,185,420</u>

B. Description of Amounts Payable

Amounts payable at June 30, 2008 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%	\$ 61,380,000
Taxable Public Facility Revenue Bonds, Series 1998, due in varying amount to July 1, 2018	5.87 - 6.60%	14,475,000
Deferred charge/premium, net		<u>(3,259,220)</u>
Total revenue bonds payable - governmental types		<u>72,595,780</u>
Proprietary types:		
Revenue bonds payable:		
Metropolitan Development and Housing Agency, Revenue Bonds, 2003 Series, due June 11, 2009	1.61 - 2.80%	4,018,758
Electric Power Board Electric System Revenue Bonds, 1996 Series A, due in varying amounts to May 15, 2013	5.50 - 6.00%	50,846,000
Electric Power Board Electric System Revenue Bonds, 1998 Series A, due in varying amounts to May 15, 2023	5.125 - 5.40%	21,000,000

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

	Interest Rates	Amount
Proprietary types: (Continued)		
Revenue bonds payable: (Continued)		
Electric Power Board Electric System Revenue Bonds, 1998 Series B, due in varying amounts to May 15, 2017	3.80 - 5.50%	\$ 33,069,000
Electric Power Board Electric System Revenue Bonds, 2001 Series A, due in varying amounts to May 15, 2017	4.50 - 5.00%	106,767,000
Electric Power Board Electric System Revenue Bonds, 2001 Series B, due in varying amounts to May 15, 2014	5.50%	18,582,000
Electric Power Board Electric System Revenue Bonds, 2004 Series A, due in varying amounts to May 15, 2029	4.50 - 5.00%	109,372,000
Electric Power Board Electric System Revenue Bonds, 2008 Series A, due in varying amounts to May 15, 2033	3.25 - 5.00%	112,348,000
Electric Power Board Electric System Revenue Bonds, 2008 Series B, due in varying amounts to May 15, 2023	3.25 - 5.00%	85,990,000
Airport Improvement Revenue Bonds, Adjustable Rate Refunding, Series 1995, due in varying amounts to July 1, 2015	4.45 - 5.00%	46,875,000
Airport Improvement Revenue Bonds, Series 1998, due in varying amounts to July 1, 2016	4.55 - 5.375%	27,445,000
Airport Improvement Revenue Bonds, Series 2001A, due in varying amounts to July 1, 2015	6.60 - 6.625%	62,180,000
Passenger Facility Charge and Airport Revenue Bonds, Series 2003, due in varying amounts to July 1, 2012	Adjustable (3.80% at June 30, 2008)	18,675,000
Airport Improvement Revenue Bonds, Series 2003 B, due in varying amounts to July 1, 2033	2.69 - 5.94%	17,945,000
Airport Improvement Revenue Bonds, Series 2008A, due in varying amounts to July 1, 2019	4.49%	37,600,000
Airport Improvement Revenue Bonds, Series 2008B, due in varying amounts to July 1, 2018	3.32%	27,605,000
Metropolitan Nashville Airport Authority: Unamortized deferred amount on refunding		(9,493,871)
Total revenue bonds payable - proprietary types		770,823,887
Notes payable:		
Metropolitan Development and Housing Agency: Notes payable		4,823,332
Metropolitan Nashville Airport Authority: Notes payable		8,721,333
Total notes payable - proprietary types		13,544,665
Total revenue bonds and notes payable		856,964,332
Other liabilities payable:		
Hospital Authority: Capitalized lease obligation		37,719,785
Other liabilities		11,609,616
Metropolitan Development and Housing Agency: Other liabilities		1,703,852
Electric Power Board: TVA Advances		550,000
Other		3,376,000
Metropolitan Transit Authority: Capitalized lease obligation		220,810
Deferred lease revenue		6,500,000
Other postemployment benefits obligation		2,533,727

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

	Interest Rates	Amount
Proprietary types: (Continued)		
Other liabilities payable: (Continued)		
Metropolitan Nashville Airport Authority:		
Synthetic Advance Refunding, Series 2001		\$ 3,308,619
Fair value of derivative financial instruments		2,860,390
Deferred interest income		2,044,693
Other postemployment benefits obligation		2,529,829
Other liabilities		1,982,151
Total other liabilities payable - proprietary types		76,939,472
Total bonds, notes and other liabilities payable - component units		\$ 933,903,804

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	\$	37,295,000
Noncurrent liabilities:		
Due within one year		7,486,419
Due in more than one year		889,122,385
Total component units long-term liabilities	\$	933,903,804

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 of the Airport Authority's bonds, except for the Series 2003B Bonds, are secured by a pledge of and lien on net revenues derived by the Airport Authority from the operation of the airports. The 2003B Bonds are secured by an additional pledge of and line on PFC revenues less operating expenses.

D. Issuance of Bonds

Electric Power Board

During June 2008, the Board closed on the sale of Electric Power Board Electric System Revenue Bonds, 2008 Series A. The purpose of the 2008 Series A Bonds was to reimburse the Board for a portion of the 2008 capital expenditures and to fund approximately 50% of the Board's projected \$219 million Capital Budget for the fiscal years ending June 30, 2009 through June 30, 2011. The remainder will be funded with operating revenues. The par amount of the 2008 Series A Bonds, \$109.2 million, plus original issue premium, less underwriter discount, cost of issuance, and a deposit to the Debt Service Reserve Fund netted proceeds in the amount of \$111.8 million of which \$110 million was deposited into the Special Construction Fund, \$1.6 million in the Debt Service Reserve Fund and \$225 thousand into the General Fund. The proceeds in the Special Construction Fund will be drawn down quarterly over the next three years.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Metropolitan Nashville Airport Authority

In August 2007, the Airport Authority issued Series 2007A Bonds in the principal amount of \$8,700,000. 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 2011. The Bonds were issued bearing interest at a weekly variable rate. These Bonds were refunded with the Series 2008B Bonds in June 2008.

E. Advance and Current Refundings of Bonds

Electric Power Board

During June 2008, the Board closed on the sale of Electric Power Board Electric System Revenue Bonds, 2008 Series B. The 2008 Series B were being offered to refund \$74,430,000 aggregate principal amount of the 1998 Series A Bonds maturing May 15, 2015, 2016 and 2023 and to refund \$13,240,000 aggregate principal amount of the 1998 Series B Bonds maturing on May 15, 2009, 2010 and 2011. The Board has sufficient debt capacity and a strong financial position; therefore, the tax-exempt bond market is expected to be a future source of liquidity to supplement the cash flow from operations. The advance refunding was undertaken to reduce total debt payments over the next 15 years by \$6.8 million and resulted in an economic gain of \$5.0 million.

The 1998 Bonds have been defeased through advance refundings; therefore, the related outstanding balances at June 30, 2008, do not appear as a liability on the Board's Statement of Net Assets.

Metropolitan Nashville Airport Authority

During June 2008, the Airport Authority issued Refunding Series 2008A Bonds in the principal amount of \$37,600,000. These Bonds were issued to provide funds to refund \$37,600,000 aggregate outstanding principal amount of the Airport Authority's Series 1993 Bonds. The purpose of the refunding was to replace the liquidity facility agreement with a direct pay letter of credit. There was no significant economic gain as a result of the refunding. There were no changes to the debt service schedule or other terms of the bonds. The refunding of the Series 1993 Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,124,070. The difference, reported on Statement of Net Assets as a deduction from long-term debt, is being charged to operations through fiscal 2020 using the effective interest method. The Series 2008A issue contains serial bonds bearing interest at a weekly variable rate. In order to limit its exposure to changes in interest rates, the Airport Authority transferred its existing 1993 interest rate swap agreement to the 2008A Bonds (2008A Swap Agreement), resulting in a fixed interest rate of 4.49%. The 2008A Bonds mature in various annual amounts ranging from \$5,800,000 on July 1, 2008 to \$3,800,000 on July 1, 2019.

During June 2008, the Airport Authority issued Refunding Series 2008B Bonds in the principal amount of \$27,605,000. These Bonds were issued to provide funds to refund \$26,985,000 aggregate outstanding principal amount of the Airport Authority's Series 2006 and Series 2007A Bonds and to pay for cost of issuances. The purpose of the refunding was to replace the liquidity facility agreement with a direct pay letter of credit. There was no significant economic gain as a result of the refunding. The refunding of the Series 2006 and 2007A Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$547,608. The difference, reported on Statement of Net Assets as a deduction from long-term debt, is being charged to operations through fiscal 2018 using the effective interest method. The Series 2008B issue contains serial bonds bearing interest at a weekly variable rate. In order to limit its exposure to changes in interest rates, the Airport Authority entered into an interest rate swap agreement (2008B Swap Agreement) eliminating any basis risk and resulting in a fixed interest rate of 3.32% on the Series 2008B Bonds. The 2008B Bonds mature in various annual amounts ranging from \$2,555,000 on July 1, 2009 to \$3,590,000 on July 1, 2018.

In prior years, Bonds have been defeased through advance refundings; therefore, the related outstanding balances at June 30, 2008, 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, 2007, the tax increment financing loans, including related accrued interest payable, aggregated approximately \$64.2 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, 2007, the Section 108 loans outstanding aggregated approximately \$4.19 million.

Industrial Development Board

The Government, through the Industrial Development Board (The Board), 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 Board is not considered to be part of the Government's reporting entity. 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 of the Government.

The aggregate principal amount as of March 31, 2008 for the Industrial Revenue Bonds issued after April 1, 1996 was \$481,420,269. For the year ending March 31, 2008, \$2,235,000 of \$481,420,269 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 \$2,913,143,525. 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 2009. The line of credit can be further extended upon mutual agreement of both parties. 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 2007, the Agency drew \$1,374,085 on the line of credit. A total of \$8,376,330 was outstanding on the line of credit at September 30, 2007.

During 2007, the Metropolitan Development and Housing Agency entered into a \$2.5 million promissory note agreement with a banking institution. The note proceeds were utilized to finance the construction of certain market rate units at Sam Levy Homes. The note bears interest at 5.8% annum and principal and interest payments are due monthly through July 2014.

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 purchased power in case of natural disaster. Borrowings under this line of credit bear a negotiated interest rate. There were no borrowings under this line of credit at June 30, 2008.

Metropolitan Transit Authority

The Authority has a \$2,000,000 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, 2008 is \$1,578,175. The amount is reported as due to the primary government.

The Authority also has a \$10,000,000 revolving credit line agreement with the Metropolitan Government for the purpose of providing short-term construction financing for the Music City Central project. 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. There was no outstanding balance on this credit line at June 30, 2008.

Metropolitan Nashville Airport Authority

Notes Payable: In October 2007, MPC Holdings, LLC, a blended component unit of the Airport Authority, entered into a term note in the amount of \$7,600,000 with a financial institution. Proceeds were used to replenish MPC Holdings, LLC's cash balance shortly after its purchase of International Plaza for \$7,500,000 plus associated costs in September 2007. The variable rate loan was entered into bearing interest at a monthly rate. Principal payments are due in level monthly installments of \$31,667. The obligation matures in November 2012, at which time the remaining balance will be \$5,700,000. The principal balance at June 30, 2008 was \$7,378,333. In order to reduce its exposure to fluctuations in interest rates, MPC Holdings, LLC entered into an interest rate swap agreement (2007 MPC Swap Agreement) that fixes the interest rate at 5.67%.

Notes Payable: In March 2008, MPC Holdings, LLC, a blended component unit of the Airport Authority, entered into a term note in the amount of \$1,360,000 with a financial institution. Proceeds were used to purchase a multi-purpose building on airport property from a major tenant. The variable rate loan was entered into bearing interest at a monthly rate. Principal payments are due in level monthly installments of \$5,666. The obligation matures in February 2013, at which time the remaining balance will be \$1,020,000. The principal balance at June 30, 2008 was \$1,343,000. In order to reduce its exposure to fluctuations in interest rates, MPC Holdings, LLC entered into an interest rate swap agreement (2008 MPC Swap Agreement) that fixes the interest rate at 4.33%.

1993/2008A 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

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. During 2008, in connection with the refunding of the Series 1993 Bonds with the Series 2008A Bonds, the 1993 Swap Agreement was transferred from the 1993 Bonds to the 2008A Bonds. All terms of the 1993 Swap Agreement remained intact and apply to the Series 2008A Bonds.

2008B Interest Rate Swap Agreement: In connection with the Series 2008B Bonds, so as to manage its exposure to market risks from fluctuations in interest rates, the Airport Authority entered into an interest rate swap agreement dated June 9, 2008 (the 2008B Swap Agreement) with a bank (the 2008B Swap Provider). In general, the 2008B Swap Agreement provides that the Airport Authority will pay a fixed rate of 3.32% to the 2008B Swap Provider on a notional amount equal to the principal amount of the Series 2008B Bonds. Arrangements made in the 2008 Swap Agreement do not alter the Airport Authority's obligation to pay the principal of, premium, if any, and interest on the 2008B Bonds. Since the counterparty to the 2008B Swap Agreement is a major bank, the Airport Authority does not anticipate credit related losses from nonperformance by such counterparty.

MPC 2007 Interest Rate Swap Agreement: In October 2007, MPC Holdings, LLC, a blended component unit of the Airport Authority, entered into an interest rate swap agreement (2007 MPC Swap Agreement) in order to manage its exposure to market risks from fluctuations in interest rates in connection with a term loan used to purchase a multi-tenant structure. In general, this agreement provides that MPC will pay a fixed rate of 5.67% on the outstanding principal amount. This agreement terminates November 1, 2012, to correspond with termination of the loan. Since the counterparty to this agreement is a major bank, MPC does not anticipate credit related losses from nonperformance by such counterparty.

MPC 2008 Interest Rate Swap Agreement: In March 2008, MPC Holdings, LLC, a blended component unit of the Airport Authority, entered into an interest rate swap agreement (2008 MPC Swap Agreement) in order to manage its exposure to market risks from fluctuations in interest rates in connection with a term loan used to purchase a multi-purpose structure. In general, this agreement provides that MPC will pay a fixed rate of 4.33% on the outstanding principal amount. This agreement terminates March 1, 2013, to correspond with termination of the loan. Since the counterparty to this agreement is a major bank, MPC does not anticipate credit related losses from nonperformance by such counterparty.

Fair Value of Swap Agreements: The Airport Authority has recorded the fair value of the Swap Agreements as of June 30, 2008 (a liability of \$2,860,390) in the Statement of Net Assets. The fair values of these financial instruments have been calculated by a third-party service provider taking into consideration current interest rates. The change in the fair values has been recorded as a loss (reported in expenses) in the Statement of Activities for the year ended June 30, 2008.

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 in 2005 to be the developer of a 69,000 square foot cargo and support facility on approximately 15 acres of land at Nashville International Airport. 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, 2008 for the component units are as follows:

Year Ending June 30	Revenue Bonds and Notes Payable	
	Principal	Interest
2009	\$ 43,827,243	\$ 42,124,563
2010	48,995,144	42,429,113
2011	47,727,404	41,651,706
2012	49,423,586	39,435,454
2013	54,941,375	33,630,386
2014-2018	252,024,913	102,909,366
2019-2023	183,751,000	71,351,717
2024-2028	135,170,000	32,166,133
2029-2033	52,713,000	6,821,186
2034-2038	1,280,000	38,016
Total	869,853,665	412,557,640
Deferred Charges	(12,889,333)	-
Total	\$ 856,964,332	\$ 412,557,640

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>
<u>Primary Government</u>			
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, 2008. 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 are 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 to 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 are 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 are 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 twenty two 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, 2008 (the latest date available), the actuarial value of assets was \$284,387,000 the actuarial accrued liability was \$343,574,000, and the unfunded actuarial accrued liability was \$59,187,000. Covered payroll was \$61,242,000.

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 benefits vest 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.

At July 1, 2007 (the latest date available), the actuarial value of assets was \$22,130,088; the actuarial accrued liability was \$36,970,581. There is an unfunded actuarial accrued liability of \$14,840,493. Covered payroll was \$18,822,880.

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). While certain Airport Authority employees participate in the pension system of the Government, 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. 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 16.658% 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 (6.24% of covered payroll for the fiscal year ending June 30, 2008). 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, 2008, 2007, and 2006 were \$18,614,273, \$17,585,461, and \$15,422,903, 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 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 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, 2007, amounted to \$1,719,194, which equaled the amount of the annual required contribution. Employee contributions were \$152,014. The Agency's payroll for employees covered by this plan was \$13,883,803 during the fiscal year ended September 30, 2007.

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 27.13% of annual covered payroll. The Board contributed 100% of the required contribution for the Plan years 2008, 2007, and 2006. For the year ended June 30, 2008, the required and actual amount contributed was \$15,203,000. The annual contribution for the year was determined as part of the April 1, 2008, 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 9.40% in 2008. 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, 2008, the annual pension costs were \$1,652,578. The entry age normal method has been used to compute the annual contribution requirement. The actuarial assumptions included (a) 7.75% investment rate of return and (b) projected salary increases of 4.0%.

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, 2008, the Airport Authority's annual pension cost of \$1,281,087 was equal to the annual required contribution of \$1,094,240 less interest of \$1,195,139 on the net pension asset plus the annual required contribution adjustment of \$1,381,986. 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, 2007 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%. 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	\$ 10,378,756	\$ -
Metro Education	65,673,643	70,295,028
Total net pension obligation	76,052,399	70,295,028
Net pension assets:		
County	(9,314,679)	(9,028,405)
Metro	-	(12,660,311)
County Education	(4,532,566)	(6,072,649)
City	(15,910,725)	(16,300,953)
City Education	(8,178,715)	(8,877,778)
Total net pension assets	(37,936,685)	(52,940,096)
Total net pension obligation (assets)	\$ 38,115,714	\$ 17,354,932

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 funded status of each plan at the most recent actuarial valuation date is also summarized on the following schedules.

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 \$343,772,714 exceeds 5% of plan assets at June 30, 2008. In the Metro Education Plan, the investment in the Northern Trust Daily Aggregate Bond Index Fund totaling \$17,382,067 exceeds 5% of plan assets at June 30, 2008. 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 2008			
Annual required contribution	\$ 2,046,891	\$ 68,265,903	\$ 5,504,007
Interest on net pension obligation	(745,174)	830,300	(362,605)
Adjustment to annual required contribution	<u>1,388,159</u>	<u>(1,212,551)</u>	<u>675,485</u>
Annual pension cost	2,689,876	67,883,652	5,816,887
Contributions made	<u>(2,403,602)</u>	<u>(90,922,719)</u>	<u>(7,356,970)</u>
Increase (decrease) in net pension obligation	286,274	(23,039,067)	(1,540,083)
Net pension obligation (asset) beginning of year	<u>(9,314,679)</u>	<u>10,378,756</u>	<u>(4,532,566)</u>
Net pension obligation (asset) end of year	<u><u>\$ (9,028,405)</u></u>	<u><u>\$ (12,660,311)</u></u>	<u><u>\$ (6,072,649)</u></u>
THREE-YEAR TREND INFORMATION			
2008			
Annual pension cost (APC)	\$ 2,689,876	\$ 67,883,652	\$ 5,816,887
Percentage of APC contributed	89.36%	133.94%	126.48%
Net pension obligation (asset)	\$ (9,028,405)	\$ (12,660,311)	\$ (6,072,649)
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)
PARTICIPANTS - Latest Actuarial Valuation Date			
Active:			
Fully vested	-	8,882	1
Non-vested and partially vested	-	3,858	-
Total active	<u>-</u>	<u>12,740</u>	<u>1</u>
Retirees and beneficiaries receiving benefits	149	6,166	312
Terminated vested	-	1,639	-
Total	<u><u>149</u></u>	<u><u>20,545</u></u>	<u><u>313</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>
\$ 13,592,019	\$ 9,885,825	\$ 3,216,757	\$ 102,511,402
5,253,891	(1,272,858)	(654,297)	3,049,257
<u>(6,332,410)</u>	<u>2,371,163</u>	<u>1,218,867</u>	<u>(1,891,287)</u>
12,513,500	10,984,130	3,781,327	103,669,372
<u>(7,892,115)</u>	<u>(11,374,358)</u>	<u>(4,480,390)</u>	<u>(124,430,154)</u>
4,621,385	(390,228)	(699,063)	(20,760,782)
<u>65,673,643</u>	<u>(15,910,725)</u>	<u>(8,178,715)</u>	<u>38,115,714</u>
<u>\$ 70,295,028</u>	<u>\$ (16,300,953)</u>	<u>\$ (8,877,778)</u>	<u>\$ 17,354,932</u>
\$ 12,513,500	\$ 10,984,130	\$ 3,781,327	\$ 103,669,372
63.07%	103.55%	118.49%	120.03%
\$ 70,295,028	\$ (16,300,953)	\$ (8,877,778)	\$ 17,354,932
\$ 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
6	-	-	8,889
-	-	-	3,858
<u>6</u>	<u>-</u>	<u>-</u>	<u>12,747</u>
1,209	681	210	8,727
8	-	-	1,647
<u>1,223</u>	<u>681</u>	<u>210</u>	<u>23,121</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, 2007	July 1, 2007	July 1, 2007	July 1, 2007
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 (9 remaining)	40 years (11 remaining)	15 years (9 remaining)	30 years (23 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%
FUNDED STATUS				
Actuarial value of assets	\$ 1,129,978	\$ 1,921,193,702	\$ 3,787,317	\$ 81,844,272
Actuarial accrued liability (AAL)	\$ 15,393,075	\$ 2,144,144,792	\$ 42,140,201	\$ 228,229,232
Unfunded (overfunded) AAL	\$ 14,263,097	\$ 222,951,090	\$ 38,352,884	\$ 146,384,960
Funded ratio	7.34 %	89.60 %	8.99 %	35.86 %
Covered payroll	\$ -	\$ 529,100,577	\$ 71,769	\$ 374,495
Unfunded AAL as a percentage of covered payroll	- %	42.14 %	53,439.35 %	39,088.63 %

(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, 2007	July 1, 2007
entry age normal	entry age normal
level dollar open	level dollar open
15 years (9 remaining)	15 years (9 remaining)
5 year smoothed market	5 year smoothed market
8.00%	8.00%
4.00%	5.00%
2.75%	3.00%
None	2.75%
\$ 5,239,396	\$ 2,403,931
\$ 74,125,552	\$ 24,818,863
\$ 68,886,156	\$ 22,414,932
7.07 %	9.69 %
\$ -	\$ -
- %	- %

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

Primary Government

A. Plan Descriptions

Metropolitan Government

Retirees in the Metro, City or County Plans may elect to participate in the Metro Employees' Medical Benefit Plan, a single-employer defined benefit healthcare plan. The Metro Plan is administered by the Employee Benefit Board and provides medical, dental and life insurance. The other postemployment benefits for Government employees were authorized by the Government's charter and code. The Metro Plan does not issue a stand-alone financial report.

Metropolitan Nashville Public Schools

Retirees in the Metro, City or County Education Plans may elect to participate in the School Professional Employees' Insurance Plan, a single-employer defined benefit healthcare plan. The School Plan is administered by the Metro Nashville Board of Education and provides medical and dental insurance. The other postemployment benefits for teachers of Metropolitan Nashville Public Schools were authorized by the Government's charter and code. The School Plan does not issue a stand-alone financial report.

B. Funding Policies

Metropolitan Government

The contribution requirements of Metro Employees' Medical Benefit Plan members and the Government are established and may be amended by the Employee Benefit Board. The required contribution is based on projected pay-as-you-go financing requirements under which contributions are made in amounts sufficient to cover benefits paid, administrative costs and anticipated inflationary increases. For health insurance, the Government contributes 75% of all premium payments, and the retirees contribute 25%. For the fiscal year ended June 30, 2008, the Government and retirees contributed \$27,861,688 and \$9,287,229 to the Metro Plan, respectively, for health insurance. The Government also provides a 50% matching contribution on dental insurance for any retiree who elects to participate. For the fiscal year ended June 30, 2008, the Government and retirees each contributed \$1,922,120 for dental insurance. Finally, the Government provides life insurance at no charge to the retirees. For the fiscal year ended June 30, 2008, the Government contributed \$1,483,312 for life insurance.

Metropolitan Nashville Public Schools

The contribution requirements of the School Professional Employees' Insurance Plan members and the Government are established and may be amended by the Metro Nashville Board of Education. The required contribution is based on projected pay-as-you-go financing requirements under which contributions are made in amounts sufficient to cover benefits paid. The Government contributes 75% of all premium payments, and the retirees contribute 25%. For the fiscal year ended June 30, 2008, the Government and retirees contributed \$11,712,745 and \$3,904,248 to the School Plan, respectively.

C. Annual OPEB Cost and Net OPEB Obligation

The Government's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The Plans contain both active employees and retirees. Although the Government's contribution is 75% of premium payments for the combined participants, the share of claims related to retirees represents a higher percentage of the total claims. Accordingly, contributions reflected in the OPEB calculations have been adjusted to reflect that a portion of contributions for active employees are subsidizing the retiree claims.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following table shows the components of the Government's annual OPEB cost for the year, the amounts contributed to the Plans, and changes in the Government's net OPEB obligation.

	Metro Employees' Medical Benefit Plan	School Professional Employees' Insurance Plan	Total
Annual required contribution	\$ 159,616,000	\$ 42,974,000	\$ 202,590,000
Interest on net OPEB obligation	-	-	-
Adjustment to annual required contribution	-	-	-
Annual OPEB cost (expense)	159,616,000	42,974,000	202,590,000
Contributions made	(47,137,000)	(18,097,000)	(65,234,000)
Increase (decrease) in net OPEB obligation	112,479,000	24,877,000	137,356,000
Net OPEB obligation beginning of year	-	-	-
Net OPEB obligation end of year	\$ 112,479,000	\$ 24,877,000	\$ 137,356,000

The Government's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plans, and the net OPEB obligation for the current year was as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Metro Employees' Medical Benefit Plan	June 30, 2008	\$ 159,616,000	29.53 %	\$ 112,479,000
School Professional Employees' Insurance Plan	June 30, 2008	\$ 42,974,000	42.11 %	\$ 24,877,000

D. Funded Status and Funding Progress

Metropolitan Government

As of June 30, 2008, the most recent actuarial valuation date, the Metro Employee' Medical Benefit Plan was 0% funded. The actuarial accrued liability for benefits was \$1.795 billion, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.795 billion. The covered payroll (annual payroll of active employees covered by the Metro Plan) was \$537 million, and the ratio of the UAAL to the covered payroll was 334.26%.

Metropolitan Nashville Public Schools

As of June 30, 2008, the most recent actuarial valuation date, the School Professional Employees' Insurance Plan was 0% funded. The actuarial accrued liability for benefits was \$586 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$586 million. The covered payroll (annual payroll of active employees covered by the School Plan) was \$295 million, and the ratio of the UAAL to the covered payroll was 198.64%.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

E. Actuarial Valuations

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the Plans and the annual required contributions of the Government and Plan members are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plans (the Plans as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Government and Plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2008 valuations for both Plans, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% rate of return (net of administrative expenses). Because the Government has not begun funding the Plans, the rate of return was based on the Government's interest earned on idle cash throughout the 2007-2008 fiscal year. Annual non prescription drug medical costs are assumed to increase 8% in the first year of valuation. Future annual increases are assumed to grade uniformly to 5% over a six year period. Annual prescription drug costs are assumed to increase 11% in the first year of valuation. Future annual increases are assumed to grade uniformly to 5% over a twelve year period. Dental and vision costs are assumed to increase 4% each year in the future. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2008, was 30 years.

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. At June 30, 2008, approximately 526 retirees meet those eligibility requirements. Expenses of \$8,500,000 for the year ended June 30, 2008 were recognized for post-retirement health care. The post-retirement benefits for the Electric Power Board employees were authorized by the Government's charter.

Under its OPEB plan, which is a single-employer defined benefit health care plan, the Board provides medical, dental and life insurance benefits to eligible retirees and medical and dental insurance to their spouses. The annual required contribution (ARC) is currently 23.71% of annual covered payroll. The Board contributed 100% of the ARC for the plan year. At the April 1, 2008 valuation date, the actuarial accrued liability (AAL) was \$212,858,000, and the unfunded actuarial accrued liability (UAAL) was \$203,827,000. Covered payroll was \$64,890,000. The UAAL as a percentage of covered payroll was 314.1%. The actuarial valuation utilized the entry age normal method. The actuarial assumptions included a healthcare trend rate of 5% a year, 8% investment rate of return, and projected salary increases of 4.5%.

Metropolitan Transit Authority

Medical, dental, vision, prescription card, and life insurance benefits are available to all eligible employees retiring from the Metropolitan Transit Authority through its Davidson Transit Organization (DTO) Employee Benefit Trust (Health Plan). The Health Plan is a single-employer defined benefit plan. Benefit provisions are established and amended primarily through negotiations between DTO and the Amalgamated Transit Union (the Union). The Health Plan issues a publicly available report that includes financial statements and certain required supplementary information. That report may be obtained by writing to Metropolitan Transit Authority, 130 Nestor Street, Nashville TN, 37210, or by calling (615) 862-5969.

The Health Plan is funded by monthly contributions from Metropolitan Transit Authority based on actuarially determined rates and covered retirees. Employer contributions are generally made on a pay-as-you-go basis. Retiree contributions are generally \$90 for retiree only and \$165 for retiree and family coverage. Retiree contributions for the year ended June 30, 2008 were \$229,500. For the year ended June 30, 2008, the Metropolitan Transit Authority's annual OPEB cost of \$4,386,952, the contribution was 42.24% of the required

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contribution. The net OPEB obligation at June 30, 2008 was \$2,533,727. At the July 1, 2007 valuation date, the actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) were \$29,027,010. Covered payroll was \$18,707,681. The UAAL as a percentage of covered payroll was 155%. The actuarial valuation utilized the projected unit cost method. The actuarial assumptions included a healthcare trend rate of 7.5% a year through 2009 reducing to 5.5% in 2014 and thereafter.

Metropolitan Nashville Airport Authority

Under the Airport Authority's PERS, the Airport Authority pays approximately 75% of the medical, dental, vision, and prescription coverage cost, with the retirees paying the remaining 25%. The Airport Authority also pays 100% of the premium cost of a \$10,000 life insurance policy on each retiree. In addition, the retirees have the option to pay 100% of the cost of supplemental life insurance coverage. Currently, 73 retirees are receiving benefits under this PERS. During the year ended June 30, 2008, payments of \$644,171 were made by the Airport Authority for post-retirement benefits under this PERS.

For the year ended June 30, 2008, the Airport Authority's annual OPEB cost of \$3,174,000 was equal to its annual required contribution. The Airport Authority's contribution was \$644,171, or 20.3% of the required contribution. The net OPEB obligation at June 30, 2008 was \$2,529,829. At the July 1, 2007 valuation date, the actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) were \$26,394,000. Covered payroll was \$13,279,000. The UAAL as a percentage of covered payroll was 198.8%. The actuarial valuation utilized the entry age normal method. The actuarial assumptions included a healthcare trend rate of 9% graded to 5% uniformly over 4 years and varying retirement rates beginning with 5% at ages 50-54 to 100% at age 65.

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, 17 retirees are receiving benefits from the Metro Plan. During the year ended June 30, 2008, payments of \$36,665 were made to the Government for post-retirement benefits under this PERS.

NOTE 8 - 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. No contributions are made to this plan by the Government.

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 \$3,200,000 and \$1,600,000, respectively, during the year ended June 30, 2008.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$601,320 for the year ended June 30, 2008.

NOTE 9 - 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, 2008. There is an additional credit in excess of \$1 million available for roof replacement. The roof replacement is currently in process and is expected to be completed in fiscal 2009. 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, 2008 was \$325,104.

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, 2008.

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, 2008, the leased building is carried in the enterprise funds at \$3,645,000, less accumulated depreciation of \$1,100,969. A summary of future minimum lease payments and the present value of future lease payments for the capitalized lease as of June 30, 2008 is as follows:

<u>Year Ending June 30,</u>		
2009	\$	257,113
2010		257,487
2011		257,220
2012		256,300
2013		259,615
2014-2015		<u>516,060</u>
Total future minimum lease payments		1,803,795
Less:		
Amount representing interest imputed at 7.5%		348,795
Current portion of capital lease		<u>175,000</u>
Long-term capitalized lease obligation	\$	<u><u>1,280,000</u></u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Component Units

Nashville District Management Corporation

The Corporation leases office space under a noncancelable operating lease which expires May, 2012. 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 \$42,120 for the year ended December 31, 2007 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 \$89,304 for the year ended December 31, 2007. Future minimum lease payments at December 31, 2008 totaled \$203,128.

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, 2008, 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.

A summary of future minimum lease payments required under the agreement as of June 30, 2008 follows:

<u>Year Ending June 30,</u>	
2009	\$ 4,000,000
2010	4,000,000
2011	4,000,000
2012	4,000,000
2013	4,000,000
2014-2018	20,000,000
2019-2023	20,000,000
2024-2025	<u>5,666,667</u>
Total future minimum lease payments	65,666,667
Less:	
Amount representing interest	27,946,882
Current portion of capital lease	<u>1,214,556</u>
Long-term capitalized lease obligation	<u>\$ 36,505,229</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, 2007 were \$50,321 and future minimum rental commitments are insignificant.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$4,625,000 at September 30, 2007. 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 \$113,022 for the year ended September 30, 2007.

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 \$998,000 for the year ended June 30, 2008. These arrangements, which are all accounted for as operating leases, are all cancelable; 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; future minimum rentals under these leases are not significant. Rental income from this source totaled \$2,100,000 for the year ended June 30, 2008.

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 Metropolitan 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, 2008, are as follows:

<u>Year Ending June 30,</u>	
2009	\$ 151,299
2010	<u>78,758</u>
Total future minimum lease payments	230,057
Less:	
Amount representing interest imputed at 5.05%	9,247
Current portion of capital lease	<u>143,620</u>
Long-term capitalized lease obligation	<u>\$ 77,190</u>

During fiscal 2008, the Metropolitan Transit Authority entered into an agreement to lease certain parking facilities to the State of Tennessee. The term of the lease is 25 years and commences in October 2008. Under the provisions of the lease agreement, the Authority received, in advance, the entire lease rental payments of \$6,500,000. The advance rental payments have been recorded as deferred lease revenue and reported in other long-term liabilities in the Statement of Net Assets, and will be recognized as revenue on the straight-line basis over the term of the lease. The Authority utilized the upfront cash payments to finance a portion of the construction costs for Music City Central.

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 (\$1,929,352 unamortized at June 30, 2008) 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 METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at June 30, 2008 are attributable to unsettled balances at year-end primarily for internal service billings and transfers between funds.

Balances at June 30, 2008 are as follows:

SCHEDULE OF INTERFUND RECEIVABLES AND PAYABLES

For the Year Ended June 30, 2008

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	\$ -	\$ -	\$ -	\$ 91,083	\$ -	\$ 35,621
General Purpose School Fund	211,353	-	-	-	-	-
GSD General Purposes Debt Service Fund	413,380	-	-	-	-	-
GSD School Purposes Debt Service Fund	3,265	-	-	-	-	-
USD General Purposes Debt Service Fund	1,980	-	-	-	-	-
GSD Capital Projects Fund	-	-	-	-	-	-
Education Capital Projects Fund	-	-	-	-	-	-
USD Capital Projects Fund	340,537	-	-	-	-	2,232,940
Nonmajor Governmental Funds	5,318,879	1,617,569	-	-	-	40,898
Department of Water and Sewerage Services	184,314	354,806	-	-	-	-
Nonmajor Enterprise Funds	9,669	-	-	-	-	-
Internal Service Funds	855,141	8,490,691	14,595	7,713	1,928	451,099
Fiduciary Funds	6,086,974	362,618	-	-	-	-
	<u>\$ 13,425,492</u>	<u>\$ 10,825,684</u>	<u>\$ 14,595</u>	<u>\$ 98,796</u>	<u>\$ 1,928</u>	<u>\$ 2,760,558</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, 2008

Due To								
Education Capital Projects Fund	USD Capital Projects Fund	Nonmajor Governmental Funds	Department of Water and Sewerage Services	District Energy System	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
\$ 1,222	\$ 734	\$ 2,266,595	\$ 7,591	\$ 4,870	\$ 206,541	\$ 380,560	\$ 20,429	\$ 3,015,246
259,099	-	2,270,754	-	-	107,406	112,863	-	2,961,475
-	-	-	-	-	-	-	-	413,380
-	-	-	-	-	-	-	-	3,265
-	-	-	-	-	-	-	-	1,980
-	171,112	380,240	159,244	-	-	-	-	710,596
-	-	6,726	-	-	-	-	-	6,726
2,923,879	-	-	248,363	-	-	-	-	5,745,719
7,021	-	2,327,747	-	-	1,897,394	737,004	-	11,946,512
-	-	156,199	-	-	40,729	5,963	-	742,011
1,000	-	12,364	-	-	80,948	-	-	103,981
-	99,980	755,615	64,953	2	463,652	385,053	2,094,297	13,684,719
-	-	55,241	-	-	2,630	-	-	6,507,463
<u>\$ 3,192,221</u>	<u>\$ 271,826</u>	<u>\$ 8,231,481</u>	<u>\$ 480,151</u>	<u>\$ 4,872</u>	<u>\$ 2,799,300</u>	<u>\$ 1,621,443</u>	<u>\$ 2,114,726</u>	<u>\$ 45,843,073</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - 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.

Interfund transfers for the year ended June 30, 2008 consist of the following:

SCHEDULE OF INTERFUND TRANSFERS

For the Year Ended June 30, 2008

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	\$ -	\$ 3,564,025	\$ -	\$ -	\$ (49,716)
General Purpose School Fund	103,000	-	-	1,571,016	-	-
GSD General Purposes Debt Service Fund	-	-	-	-	7,771,000	-
GSD Schools Purposes Debt Service Fund	-	-	-	-	-	-
USD General Purposes Debt Service Fund	-	-	-	-	-	-
GSD Capital Projects Fund	39,950	-	4,656,070	-	-	-
Education Capital Projects Fund	-	-	-	2,408,985	-	15,218,737
USD Capital Projects Fund	-	-	-	-	1,063,728	1,935,253
Nonmajor Governmental Funds	8,790,106	3,822,357	129,700	-	583,401	1,328,372
Department of Water and Sewerage						
Services	4,350,024	-	-	-	-	-
District Energy System	290	-	-	-	227,800	-
Nonmajor Enterprise Funds	1,045,917	19,650	-	-	-	-
Internal Service Funds	1,885,800	-	7,753,375	-	-	-
Fiduciary Funds	-	-	-	-	-	-
	<u>\$ 16,696,087</u>	<u>\$ 3,842,007</u>	<u>\$ 16,103,170</u>	<u>\$ 3,980,001</u>	<u>\$ 9,645,929</u>	<u>\$ 18,432,646</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, 2008

Transferred To							
Education Capital Projects Fund	USD Capital Projects Fund	Nonmajor Governmental Funds	District Energy System	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
\$ -	\$ -	\$ 50,071,059	\$ 1,214,049	\$ 1,238,933	\$ 905,000	\$ 30,763	\$ 57,455,113
-	-	6,383,585	-	215,000	500,000	8,355	8,780,956
-	-	-	-	-	-	-	7,771,000
140,763	-	-	-	-	-	-	140,763
-	10,414	-	-	-	-	-	10,414
15,690,224	3,058,990	425,613	29,872	2,319,591	256,597	-	26,476,907
-	-	-	-	-	-	-	17,627,722
-	-	-	2,616,312	-	4,419	-	5,619,712
-	-	5,392,930	-	1,391,918	12,143,827	-	33,582,611
-	-	10,332,575	-	1,536	1,625,894	-	16,310,029
-	-	-	-	-	-	-	228,090
-	-	900	-	-	6,538	33,624	1,106,629
-	-	142,500	-	-	13,603,869	10,555	23,396,099
-	-	-	-	-	1,757,227	-	1,757,227
<u>\$ 15,830,987</u>	<u>\$ 3,069,404</u>	<u>\$ 72,749,162</u>	<u>\$ 3,860,233</u>	<u>\$ 5,166,978</u>	<u>\$ 30,803,371</u>	<u>\$ 83,297</u>	<u>\$ 200,263,272</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - 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:

	Accidents	
Bodily injury	\$ 300,000	per person
	700,000	per accident
Property damage	100,000	per accident

The Government is also self-insured with respect to casualty losses on real and personal property for aggregate losses less 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 \$28,440,555 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, 2007 and 2008:

	School Self Insurance	General Government Self Insurance	School Professional Employees' Insurance	Employees' Medical Benefit	Injured on Duty	Total Internal Service Fund Types
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	498,434	2,189,604	57,685,128	48,141,303	9,648,437	118,162,906
Claims payable June 30, 2007	851,929	8,007,479	4,717,150	3,958,000	2,973,000	20,507,558
Add: Provision for events of the current fiscal year	362,167	(442,934)	61,855,622	97,340,768	11,488,555	170,604,178
Deduct: Payments on claims during the fiscal year	302,443	1,786,222	61,584,193	88,643,768	10,354,555	162,671,181
Claims payable June 30, 2008	\$ 911,653	\$ 5,778,323	\$ 4,988,579	\$ 12,655,000	\$ 4,107,000	\$ 28,440,555

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 three 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, 2008. 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. 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 2008 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, 2008, the Metropolitan Transit Authority owed the Trust \$1,283,684.

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, 2008. The Authority has purchased reinsurance for workers compensation claims in excess of \$500,000 per employee. The maximum available for reinsurance in a plan year is \$1,000,000. During 2008, the Authority's workers' compensation claims did not exceed the maximum. At June 30, 2008, a provision of \$801,000 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.

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, 2008, no deficiencies existed. The amount to be repaid from user fees is \$95,946,140 at June 30, 2008 and is recorded as capital grants and contributions by the Department of Water and Sewerage Services.

D. Construction Commitments

Primary Government

At June 30, 2008, the governmental activities of the Government had commitments of \$48,141,766 for construction contracts.

At June 30, 2008, the Department of Water and Sewerage Services had commitments of \$23,050,872 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). Once the consent decree has been entered in Federal Court in Nashville, the Department will be required to 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 and meet water quality requirements in the Cumberland River. 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 exceed \$280 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, 2008. Proposed plans to fund capital expenditures for the next few years include internally generated cash and borrowings.

Component Units

At September 30, 2007, the Metropolitan Development Housing Agency had outstanding construction commitments of approximately \$17.7 million. Of this amount, \$16.8 million will be paid by grants committed to the Agency by HUD, and the remaining \$900,000 will be paid by funds committed to the Agency by the Metropolitan Government.

The Metropolitan Nashville Airport Authority estimates the cost of completion of various construction projects at June 30, 2008 to be \$160,683,231, of which \$17,526,055 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, 2008 is \$32,686,356 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 \$20,300,000. The project is expected to be completed October 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. As of June 30, 2008, the costs incurred on the project totaled \$2,437,185. The estimated costs to complete the project are approximately \$4,800,000. The project is estimated to be completed during fiscal year 2009 and the costs of the project will be reimbursed through federal, state, and local grants.

E. Liquidity

Component Units

The Government has only budgeted and legally approved approximately \$47.3 million to the Hospital Authority for the year ended June 30, 2009. Of that amount, the Hospital Authority has allocated as revenue \$33.5 million to General Hospital and \$13.8 million to Bordeaux Long Term Care. The Government has also not committed to defer payment on amounts due to the Government or provide additional funding to General Hospital should such funding become necessary. The financial statements of General Hospital and Bordeaux Long Term Care have

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 reflected in General Hospital's financial statements, General Hospital had a net deficit of approximately \$10.6 million for the year ended June 30, 2008. General Hospital's financial activities resulted in net cash used in operating activities of approximately \$38.9 million for the year ended June 30, 2008, 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. General Hospital and Bordeaux Long Term Care are and will be dependent upon the Government to subsidize current and future operations.

Accordingly, these factors among others indicate that General Hospital and Bordeaux Long Term Care may be unable to continue as going concerns for a reasonable period of time. The financial statements for General Hospital and Bordeaux Long Term Care do not include any adjustments relating to the recoverability and classification of liabilities that might be necessary should the entities be unable to continue as going concerns. The ability for General Hospital and Bordeaux Long Term Care to continue as going concerns is dependent upon their ability to generate sufficient cash flow to meet their obligations on a timely basis and to generate revenues exceeding operating expenses. General Hospital has implemented several strategic initiatives to increase cash flow including implementing electronic medical recordkeeping and renegotiating managed care contracts to improve reimbursement from payors. Bordeaux Long Term Care has implemented several strategic strategies to increase cash flow including an increase in census, improving the level of third party reimbursements, and cost saving measures.

At June 30, 2008, General Hospital had amounts due to the Metropolitan Government of approximately \$30.4 million for operating costs and \$11.6 million for capital expenditures, which accrued interest at rates determined by the Metropolitan Government (2.25% at June 30, 2008).

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 \$1,295,900 for the year ended June 30, 2008.

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 \$688,460 and \$387,000, respectively, for the year ended June 30, 2008. The outstanding management fees payable to VUMC for General Hospital are \$88,500 at June 30, 2008. 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, 2008. The total supplement to the Hospital Authority approved for the fiscal year ending June 30, 2008 was \$47,307,200.

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 GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 2008. 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 2008. The contract is for three years and may be renewed for one additional one-year period. The minimum commitments remaining under these agreements are \$6.2 million for fiscal year 2009 and \$1.8 million for fiscal year 2010.

The Electric Power Board is party to various lawsuits 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 term of the agreement extends to December 31, 2008, 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, 2007, the Corporation recognized expense of \$568,376 related to the agreement. The agreement expires on December 31, 2017.

The Gulch Business Improvement District, Inc. (GBID Inc.) has an agreement with the Government to provide services for improvement and operation of the Gulch Business Improvement District (GBID) through security enhancement, marketing, and improving beautification, sanitation, and maintenance. The term of the agreement extends to January 1, 2017. GBID Inc. also has an agreement with Nashville Downtown Partnership to provide clean and safe services for the GBID for a monthly fee of \$4,600. During the year ended December 31, 2007, \$21,800 was paid to the Partnership. The agreement expires July 31, 2009.

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

NOTE 13 – SUBSEQUENT EVENTS

Primary Government

On August 25, 2008, the Government completed a draw of \$50 million of commercial paper notes. These notes carry an interest rate of 1.6% and mature in two installments, \$17 million on November 14, 2008 and \$33 million on December 11, 2008. On October 15, 2008, the Government completed another draw of a \$50 million commercial paper note. This note carries an interest rate of 3.0% and matures February 12, 2009. At maturity, these 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.

Component Units

During July through October 2008, the Metropolitan Transit Authority utilized a total of \$6,238,832 and repaid \$3,119,138 of the \$10,000,000 line of credit with the Metropolitan Government to provide certain financing for the Music City Central project.

During September 2008, the Metropolitan Nashville Airport Authority entered into a \$15,000,000 line of credit agreement with a financial institution. Proceeds from the line of credit shall be used solely to pay accrued debt services on certain bond issues designated for refunding by the Airport Authority. There were no draws on the line of credit as of the date of issuance of the Airport Authority's financial statements. The line of credit bears interest at LIBOR plus 40 basis points and expires in September 2010.