METROPOLITAN NASHVILLE AIRPORT AUTHORITY

Nashville, Tennessee

A Component Unit of the Metropolitan Government of Nashville and Davidson County, Tennessee

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2005

Prepared by the Finance Department

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AIRPORT AUTHORITY

Financial Statements as of and for the Years Ended June 30, 2005 and 2004, Supplementary and Additional Information as of and for the Year Ended June 30, 2005, and Independent Auditors' Reports

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METROPOLITAN NASHVILLE AIRPORT AUTHORITY

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INTRODUCTORY SECTION

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METROPOLITAN NASHVILLE AIRPORT AUTHORITY
ONE TERMINAL DRIVE ¥SUITE 501 ¥NASHVILLE, TENNESSEE 37214-4114 ¥ (615) 275-1600

December 21, 2005

To the Board of Commissioners of the
Metropolitan Nashville Airport Authority

The Comprehensive Annual Financial Report ("CAFR") of the Metropolitan Nashville Airport Authority (the "Authority") for the fiscal year ended June 30, 2005, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Finance Department of the Authority. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, a list of the current Authority Board of Commissioners, and the Authority's organizational chart and listing of senior management. The financial section includes the independent auditors' report, Management's Discussion and Analysis (MD&A), and the Authority's financial statements (with related footnotes). The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

REPORTING ENTITY

The Authority is a metropolitan airport authority created February 9, 1970, pursuant to state statute and is an independent political subdivision of the State of Tennessee. In 2005 we are celebrating 35 years of service to Nashville and Middle Tennessee. The major purposes of the Authority are the development, financing and operation of the Nashville International Airport and the John C. Tune Airport, a general aviation reliever airport. The Authority has all the powers of a governmental entity necessary to accomplish its purposes, such as acquiring land and constructing airport facilities; issuing revenue bonds and other tax-exempt indebtedness; maintaining its own police and crash/fire/rescue force; and setting rates, charges and rentals for activities on airport properties.

The Authority is governed by a Board of Commissioners, which serves without compensation. The Board of Commissioners is made up of ten members, nine of whom are appointed by the Mayor with the tenth being the Mayor. The Metropolitan Council of Nashville and Davidson County confirm all appointments. The appointments are for a term of four years, and terms are staggered to provide for continuity of airport development and management. By state law, the Commissioners represent different professional and management disciplines, including: engineering, aviation, law, commerce, finance and industry. The Board appoints the Authority's President who is the chief executive and administrative officer responsible for day-to-day operations and planning for all Authority airports. The President heads a full-time staff of professional and technical personnel totaling budgeted headcount for fiscal year 2005 of 264 positions. Based upon the criteria set forth in Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, it has been determined that the Authority is a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee.

ECONOMIC CONDITIONS AND OUTLOOK

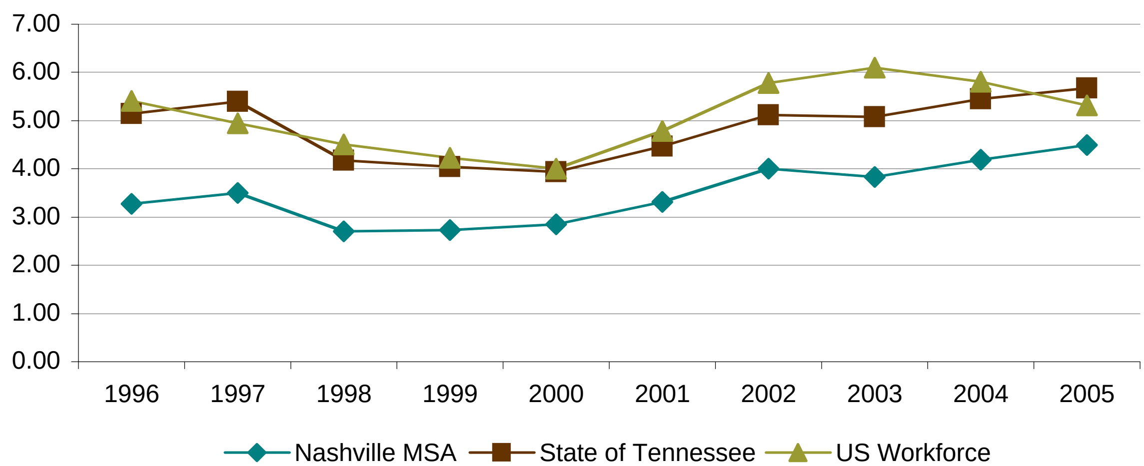
The financial condition of the Authority is primarily dependent upon the number of passengers using the Nashville International Airport. Passenger levels, in turn, are dependent upon several factors, including the economic condition of the airline industry, which influences the airlines' willingness and ability to provide service; the local economy, which influences the willingness and ability of consumers to purchase air travel; and the cost of air travel. The number of passengers using the Nashville International Airport increased more than six percent over the prior year, and this contributed to a very financially successful year.

The economy of Nashville is diverse and, due to the large presence of many industries, is relatively stable. Nashville is not dependent upon one or two industries for its economic strength and therefore is able to withstand and survive economic downturns. Because Nashville has much to offer employers in the way of location, work force, and quality of life, many national and international companies have located certain headquarters in Nashville. The largest Nashville area public companies with headquarters in the Nashville Metropolitan Statistical Area ("MSA") based on revenue include HCA Inc., Caremark Rx Inc., Dollar General Corp., Community Health Systems Inc., CBRL Group Inc., Tractor Supply Co., and Central Parking Corp.

The Nashville MSA, continues to be the largest MSA in the State of Tennessee. According to June, 2005, Bureau of Labor Statistics data, the Nashville MSA labor force was 734,490, slightly higher than the average for the 12-month period of 731,878. This compares with the Memphis areas's June labor force of 603,308 and Knoxville's at 339,864. All three areas are very similar to what was reported a year ago. The average unemployment rate for July 2004 through June 2005 for Nashville was 4.5%, the same as for Knoxville, and significantly less than Memphis (6.4%) and Tennessee (5.7).

As seen in graphical format, the average unemployment rates for the Nashville MSA have been consistently lower than that of the entire U.S. workforce and the State of Tennessee. For the years presented below, the Nashville MSA unemployment rates have been lower on average by 31% and 28% than the U.S. workforce and Tennessee, respectively.

10-Year Average Unemployment Percentage Rates
(Source: US Bureau of Labor Statistics)



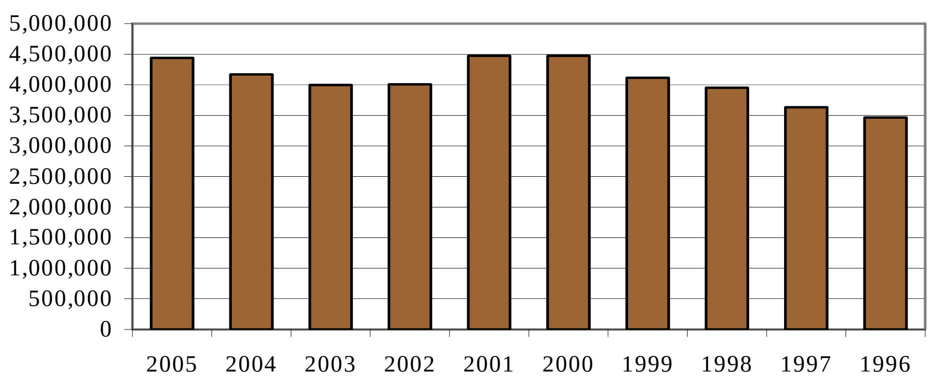
The strong local economy and manageable unemployment rate attest to the optimistic outlook for the continued strength in airport's revenue generating activities. Non-airline sources of revenue to the Authority such as public parking, news, gift, and food concessions, and car rental activity should remain strong. However, in any event, the residual lease agreements entered into with seven airlines ensures the continuing economic viability of the Authority. Under the total residual approach method, the airlines pay fees and rents sufficient to generate total airport revenues, which at a minimum, guarantee break-even operations.

Standard & Poor's Ratings Services published an A- rating on the Authority's airport revenue bonds on October 19, 2004. The organization recognized the Authority's low cost structure, moderate debt per enplanement, and strong origination and destination (O & D) passenger traffic as some of the reasons for its rating. On December 3, 2004, Moody's Investors Service assigned a rating of A2 with a stable outlook to the airport revenue bonds. It considered some of the same strengths that Standard & Poor's did when issuing its rating. These ratings are further indication of the Metropolitan Nashville Airport Authority's diverse sources of revenue, encouraging enplanement levels, favorable debt service ratios, positive general financial health, and the vibrant and diverse economic base in Middle Tennessee.

MAJOR INITIATIVES AND DEVELOPMENTS

The airline industry continues to face escalating costs, especially for fuel and labor, and continued pressure to maintain low airfares. Several are currently reorganizing under the bankruptcy laws, most recently Delta and Northwest. Both provide service to the Nashville market. The aircraft mix continues to change to balance customer service needs with economic efficiency. Larger aircraft are being replaced with smaller aircraft that are scheduled with more departures and offset the risk of decreasing landing fee revenue. Fortunately, passengers are boarding airplanes in Nashville rivaling those achieved before the events of September 2001. Total traffic for the year ended June 30, 2005, approached 8.9 million passengers, up 6.5% from the prior year and less than one percent short of pre-September 11 totals when the airport enjoyed record traffic levels. Enplanements for the last ten years are as follows:

Passenger Enplanements - Last 10 Years



Nationally known publications recognized Nashville and the Metropolitan Nashville Airport Authority in some exciting ways. USA Today named the Nashville International Airport (BNA) as one of the "10 Best Places to Hang Out during a Layover". In addition, Airport Revenue News honored the Authority with several awards for its food and gift concession program. Nashville was also named “The Hottest City in America” according to Expansion Management magazine. This type of recognition provides valuable publicity and enduring value to the community.

Middle Tennessee State University’s Business and Economic Research Center recently published some import and export statistics. More than 85% of Tennessee’s port activity is attributable to computer imports, and computer imports doubled in the past two years. In 2004 Nashville emerged as the state’s main international port and 56th largest in terms of imports in the United States, primarily made up of automobile parts and computers. For this reason addressing the air cargo needs, especially on the west side of the airfield, continues to be a top priority. Almost 40% of cargo carrier gross landed weight in fiscal year 2005 was attributable to China Airlines and its 747-400 aircraft delivering computer cargo at BNA more than two dozen times each month.

Lots of capital activity began or continued in fiscal year 2005. Inside the terminal wireless internet service was a welcomed addition in October 2004 with access points throughout the building. Various security enhancements were funded, roof repair undertaken, boardroom remodeled, and new multi-lingual public address system installed. A baggage information display system (BIDS) in the baggage claim area instantaneously assigns arriving flights to a particular baggage carousel, a significant customer service enhancement. Approximately 30 airfield projects saw activity last year. Federal and state grants along with passenger facility charges combined to fund some of these improvements at BNA with MNAA reserves making up the balance. In addition, over $100,000 more in construction activity was accomplished at John C. Tune Airport on the west side of Nashville.

Outlook for Fiscal Year 2006

Passengers will soon begin to notice some exciting changes as they travel in and out of Nashville. The $35 million three-year terminal renovation project’s design phase is well underway. Next year at this time construction will have begun. Some of the plans include reconfiguring and renovating existing concessions, adding both national and local brands, relocating and expanding the screening checkpoints to a single central point, replacing carpet and tile throughout the terminal and concourses, adding skylights, more restrooms, upgrading the multiple user flight information display system (MUFIDS) and the heating, ventilation, and air conditioning system. The terminal was constructed in 1987, and this is the first major improvement project since the terminal was built.

The master plan, approved in July, 2003, sets forth a number of recommendations including many already mentioned. Yet another example is the need for a consolidated rental car facility with greater capacity to meet anticipated demand levels 10 to 20 years from now. A design firm has recently been engaged to work on the concept, gathering information from all stakeholders, and charged with crafting a solution that will meet the needs of travelers and the rental firms for decades to come. This project will take several years to be fully functional.

The recovery continues into the new fiscal year with passenger levels for the first three months of fiscal year 2006 at 2,460,595, up 9.2% year to date from total passengers the first three months of fiscal year 2005 of 2,253,402.

The Authority has positioned itself favorably to be able to fulfill obligations set forth in the Capital Improvement Program approved in May 2005. Included in this plan is $20 million for fiscal year

2006, and most of that activity will be funded with passenger facility charges. Typical of most commercial airports, airfield improvements make up half this capital outlay.

Overall, 93 new projects totaling more than $289 million of equipment, terminal, landside, and airfield improvements are programmed through fiscal year 2010 at BNA. Twenty-five airfield improvement projects involve constructing runway safety areas on the north end of the parallel runways estimated to cost more than five million dollars, airfield shoulder improvements totaling $15 million, plans for general aviation facilities where rental car space currently exists, and a host of design and reconstruction projects, and equipment purchases are on this list. When this plan is blended with active projects, roughly $450 million in projects are underway, approved, or planned by the end of the decade.

At John C. Tune Airport federal and state grants are funding over two million dollars in activity with that much more anticipated in the near future to help cover the costs of some additional ramp and equipment needs. Almost 20 projects totaling $15 million are active at JWN at this time with the highly anticipated south ramp expansion hangar project underway. A team is nearing the end of the selection process to recommend a fixed base operator for this airport under a long-term agreement. The ability to deliver state-of-the-art customer service using emerging technology, construct additional hangar space, continue to provide flight training to our area academic partners and general public interested in pilot training, and embrace a marketing strategy to attract additional traffic to this reliever airport weigh heavily on this decision.

FINANCIAL INFORMATION

<u>Financial Position and Results of Operations</u>

Management's Discussion and Analysis (MD&A, starting on page 18) summarizes the Authority's Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets and reviews the changes from the beginning to the end of fiscal year 2005 as well as certain comparisons of the current year to the prior year. The actual financial statements and related footnotes are presented on pages 17 to 46. The information contained in the MD&A should be considered in conjunction with the information contained in this report.

<u>Internal Control Structure Framework</u>

The financial statements of the Authority are prepared following generally accepted accounting principles applicable to governmental unit enterprise funds. This results in financial statements prepared on the full accrual basis.

Internal control is a process affected by an entity's board of commissioners, management and other personnel and designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) safeguarding of assets from loss from unauthorized use or disposition; (b) execution of transactions in accordance with management's authorization; (c) reliability of financial records for preparing financial statements and maintaining accountability for assets; (d) effectiveness and efficiency of operations; and (e) compliance with applicable laws and regulations.

Internal controls, no matter how well designed and operated, can provide only reasonable assurance to management and the board of commissioners regarding achievement of an entity’s control objectives. The likelihood of achievement is affected by limitations inherent to internal control. Such limitations include:

1. Human judgment in decision-making can be faulty;
2. Breakdowns in internal controls can occur due to errors or mistakes;
3. Controls can be circumvented by the collusion of two or more people or management override of internal controls;
4. Costs of an entity’s internal controls should not exceed the benefits that are expected to be derived; and
5. Custom, culture and the corporate governance system inhibit irregularities by management, but they are not absolute deterrents.

All internal control evaluations occur within the above framework. We believe that the Authority’s internal controls adequately meet the objectives listed above and have devoted considerable time this past year to attract and retain individuals in our Finance department who embrace the concept of a healthy internal control environment.

Budgetary Controls

The Authority’s individual airports’ annual operating and capital budgets are reviewed by various committees of the Board of Commissioners and legally adopted by the full Board of Commissioners. In the case of the Nashville International Airport, the annual capital and operating budgets are additionally reviewed and approved by the airlines that have committed to the residual lease agreement.

Although budget programs are approved by the Board of Commissioners, individual expenditures, whether for capital or operating purposes, must comply with the Authority’s bylaws and policies and procedural requirements for competitive acquisition.

Cash Management

The Authority utilizes a cash management and investment policy intended to achieve maximum financial return (while minimizing risk of loss) on all available funds. The trust indenture and supplemental resolutions, which govern the investment of bond proceeds, generally authorizes the Authority to invest in direct obligations of or obligations guaranteed by the U.S. Government, obligations issued or guaranteed by specific agencies of the U.S. Government, secured certificates of deposit, secure repurchase agreements, and specifically rated obligations of state governments, commercial paper, and money market funds.

Under the criteria developed by the Governmental Accounting Standards Board, all of the Authority’s deposits are insured or collateralized with securities held by the Authority or its agent in the Authority’s name (Category 1). Additionally, all investments are insured or registered or are held by the Authority or its agent in the Authority’s name (also Category 1). The carrying amount and market value of the investments at June 30, 2005 and 2004, were $59,326,612 and $60,488,387 respectively. For more detailed information relating to the Authority’s cash and investments, refer to Note 3, *Cash and Cash Equivalents and Investments*, to the Authority’s financial statements included in the financial section of this CAFR.

Risk Management

The Authority's policy is to protect its assets to the greatest degree economically feasible to comply with all statutory and revenue bond trust indenture requirements. It is management's opinion that this policy has been executed fully through the services of an independent risk management firm, various nationally recognized insurance carriers, and sophisticated airport industry sponsored policies. The Authority's exposure to loss has been minimized through the acquisition of a $300,000,000 general liability policy that requires self-retention of $5,000 per occurrence and a $50,000 aggregate deductible. Additionally, real and personal property is insured for $240,352,362 with various deductibles depending upon the loss category involved. The Authority's tenant and contractor insurance requirements and indemnifications have been coordinated with the aforementioned policies to further reduce the risk of loss through actions beyond management's control.

OTHER INFORMATION

Independent Audit

The Authority's independent auditor, Deloitte & Touche LLP, has rendered an unqualified opinion that the Authority's financial statements for June 30, 2005 and 2004, and the years then ended, present fairly, in all material respects, the results of the Authority's financial position, operations and cash flows.

The Authority participates in the Federal single audit program, which consists of a single audit of all federally funded programs administered by the Authority. Participation in the single audit program is mandatory as a condition for continued funding eligibility. The single audit performed by Deloitte & Touche LLP met the requirements set forth by the State of Tennessee and the Federal Single Audit Act of 1996 and related Office of Management and Budget Circular A-133. The independent auditors' reports issued based upon work performed in accordance with those requirements noted no instances of material noncompliance by the Authority with any applicable state or Federal laws or regulations for the fiscal year ending June 30, 2005.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officer Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Metropolitan Nashville Airport Authority for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this CAFR would not be possible without the desire of the Authority's Board of Commissioners and senior management to maintain the Authority as a model of excellence with respect to management of both the Nashville International and John C. Tune airports in an effort to meet the air service needs of Middle Tennessee and the surrounding communities.

Respectfully submitted,

Douglas P. Wolfe
Vice-President Finance

METROPOLITAN NASHVILLE AIRPORT AUTHORITY
Board of Commissioners

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James H. Cheek, III
Bass, Berry & Sims, P.L.C.

VICE-CHAIRMAN
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State of Tennessee, Comptroller’s Office

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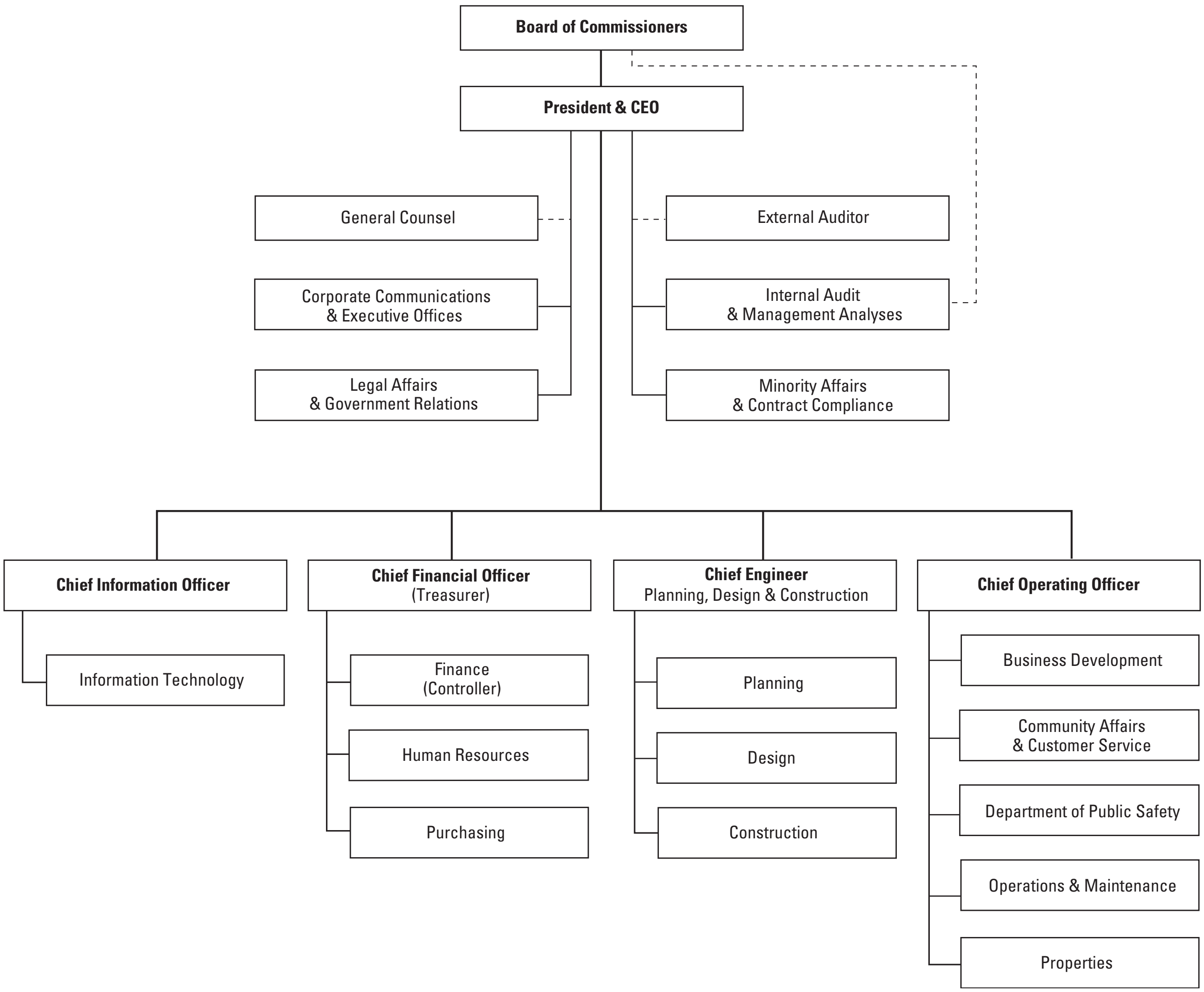
Barge, Waggoner, Sumner & Cannon

Bill Purcell
Mayor, Metropolitan Government of Nashville
& Davidson County

METROPOLITAN NASHVILLE AIRPORT AUTHORITY
Organization Chart and Senior Management



SENIOR MANAGEMENT

Raul L. Regalado, C.A.E.
President & Chief Executive Officer

Montford O. Burgess
Senior Vice President & Chief Operating Officer

Douglas P. Wolfe
Senior Vice President & Chief Financial Officer

Nancy A. Vincent, Esq.
Vice President, Legal Affairs & Government Relations

Iftikhar Ahmad, P.E.
Vice President, Planning, Design & Construction

Duane P. McGray
Chief, Public Safety

Vanessa Hickman
Chief Information Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Metropolitan Nashville-Airport Authority, Tennessee

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

FINANCIAL SECTION

This Section Contains the Following Subsections:

Independent Auditor's Report
Management's Discussion & Analysis
Financial Statements

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of
Metropolitan Nashville Airport Authority
Nashville, Tennessee

We have audited the accompanying statements of net assets of the Metropolitan Nashville Airport Authority (the "Authority"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority as of June 30, 2005 and 2004, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Authority's basic financial statements. The introductory section on pages 1–11 and the statistical data on pages 52–65 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Authority's management. The introductory section and statistical data have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on them.

November 28, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the Metropolitan Nashville Airport Authority's (the "Authority") financial performance provides an introduction to the financial statements for the years ended June 30, 2005 and 2004. The information contained in this MD&A should be considered in conjunction with the information contained in the Authority's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. The Authority is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are capitalized and (except land) are depreciated over their useful lives. Please refer to the notes to the financial statements for a summary of the Authority's significant accounting policies.

Following this discussion and analysis are the basic financial statements of the Authority, together with the notes, which are essential to a full understanding of the data contained in the financial statements. The Authority's basic financial statements are designed to provide readers with a broad overview of the Authority's financial status.

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

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing the change in the Authority's net assets during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are recorded and reported in this statement for some items that will result in cash flows in future periods.

Certain reclassifications have been made to the prior year statements of revenues, expenses and changes in net assets to conform to current year presentation. In the prior year, the Authority netted cash received from tenants for utilities against utilities expense. In the current year, the Authority has presented those cash receipts as other revenue. Additionally, in the prior year, the Authority netted cash paid for credit card processing fees against space rental revenue. In the current year, the Authority has presented those cash payments as contractual services expense.

The *Statement of Cash Flows* relates to the flows of cash and cash equivalents. Consequently, only transactions that affect the Authority's cash accounts are recorded in this statement. A reconciliation is provided at the bottom of the Statement of Cash Flows to assist in the understanding of the difference between cash flows from operating activities and operating income.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

SIGNIFICANT EVENTS/FINANCIAL HIGHLIGHTS

The enplaned passenger level of 4,438,392 at Nashville International Airport for fiscal year 2005 increased 6.5% from 4,166,822 for fiscal year 2004 and was 11.0% greater than the 3,997,980 level experienced in fiscal year 2003. October through February 2005 saw the greatest percentage increase over the prior year, but the highest travel month was June, 2005, at 429,894 enplanements, or 858,055 total passengers. Aircraft landed weight for signatory carriers declined but was offset by a 36.7% increase in landed weights for aircraft flown by non-signatory carriers. Cargo weight also increased 9.7% over 2004.

The following represents the Authority's summary of changes in net assets:

	2005	2004	% Change	2003
Operating Revenues	$ 66,769,	$ 64,7	3.2%	$ 64,4
Operating Expenses	(36,696	(35,	4.1%	(35,
Operating Income before Depreciation	30,072,908	2	2.0%	28
Depreciation	(17,546,203)	(17,	(2.3%)	(17,
Operating Income	12,526,705	1	8.8%	11
Non-Operating Revenue	21,379,609	1	19.2%	18
Non-Operating Expenses	(17,355,066)	(12,	33.8%	(19,
Increase in Net Assets	16,551,248	1	0.5%	10
Net Assets, beginning of year	184,234,576	167,	9.8%	157,
Net Assets, end of year	$200,785,824	$184,2	9.0%	$167,7

REVENUES

The increase in passenger traffic activity translated into favorable growth in operating revenue for fiscal year 2005, up 3.2% from $64,719,991 in 2004 to $66,769,863. All but one category experienced significant growth in fiscal year 2005.

A summary of revenues for the fiscal years ended June 30, 2005, 2004, and 2003, is as follows:

Operating Revenue	**2005**	**2004**	**% Change**	**2003**
Airline	$15,164,912	$18,545,916	(18.2%)	$22,803,489
Parking	22,787,740	20,575,301	10.8%	18,654,487
Concession	14,481,791	13,705,715	5.7%	13,460,263
Space Rental	8,935,551	7,028,387	27.1%	5,525,643
Other	5,399,869	4,864,672	11.0%	3,980,905
Total Operating Revenue	**66,769,863**	**64,719,991**	**3.2%**	**64,424,787**
Non-Operating Revenue				
Investment Income	2,769,432	1,053,385	162.9%	3,583,967
Passenger Facility Charges	11,640,065	10,790,953	7.9%	10,763,881
Grant Receipts	6,970,112	5,655,203	23.3%	3,433,673
Non-operating Revenue	-	432,405	(100.0%)	622,280
Total Non-Operating Revenue	**21,379,609**	**17,931,946**	**19.2%**	**18,403,801**
Total Revenues	**$88,149,472**	**$82,651,937**	**6.7%**	**$82,828,588**

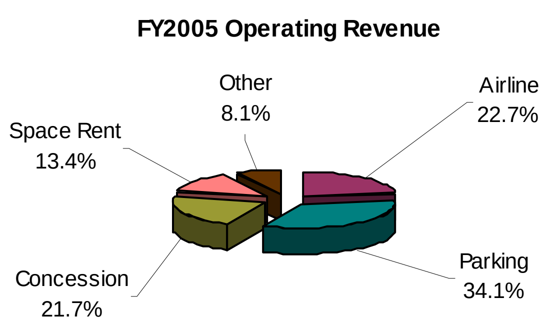
The revenue generated directly from airline activity is the only source of operating revenue not attributable to increased enplaned activity and actually decreased. This revenue stream comes from signatory carriers as they pay for landing fees and concourse and ramp fees. Signatory carriers for fiscal year 2005 were invoiced at a lower rate than in fiscal year 2004 under the residual agreement due to increased revenue projected from other sources and a three million dollar reimbursement from passenger facility charge revenues. This reimbursement is a result of $70 million of capital projects completed as far back as 1991 that were approved by the Federal Aviation Administration in 2003 to be retroactively funded with passenger facility charges. This reimbursement arrangement is scheduled through fiscal year 2011 to cover the portion of activity that the signatory airlines supported through rental rates. The remaining balance will be drawn down to fund the terminal expansion project through completion.

Typical of major airports, revenue from the public parking represents a significant portion of operating revenue at Nashville International Airport. Revenue from parking areas increased $2,212,439 or 10.8%. A valet parking increase of two dollars became effective July 1, 2004, from $14 per day to $16 per day to account for a portion of this increase. Another rate increase went into effect September 1, 2005, in an effort to redistribute the utilization of the various parking areas on airport property and will have a slight impact on 2006 revenues. The number of parking transactions for 2005 increased 13.0% from the prior year.

Concession revenue also plays a significant role in the Authority's operations, and the increase in concession revenue of $776,076 or 5.7% is also indicative of increased passenger activity at Nashville International Airport even though the rate of increase was less than fiscal year 2004 when it was 1.8%. The greatest percentage of concession revenue, 57.9%, is derived from car rentals. That revenue source was up $337,891 over the prior year, accounting for half of the total concession increase. Restaurant, news and gift shop, and advertising revenues did not experience significant increases. However, after a planned terminal renovation project is complete, it is expected that these revenue sources will produce significant results.

Revenue earned from space rental includes activities such as non-signatory airline rents, non-terminal land and building rent, and fixed base operator rent. A new rate was established January 1, 2005, for non-signatory baggage claim area rent, and this single item contributed more to the $1.9 million increase than any other single item. In addition, Independence Air started service between Nashville International Airport and Washington Dulles International Airport on July 1, 2004. Frontier Airlines began daily non-stop service between Denver International Airport and Nashville International Airport one week earlier, and Skywest also began service during fiscal year 2005. Space rent at John C. Tune Airport was virtually unchanged in fiscal year 2005, up only $7,085 to $377,481.

The following chart shows the major sources of operating revenues for the fiscal year ended June 30, 2005:



Non-operating income rose significantly, 19.2% or $3,447,663, with a 162.9% or $1,716,047 increase in investment income. This is principally attributed to higher return rates for investment interest income.

Passenger facility charge ("PFC") revenue, another non-operating source of revenue, rose in line with the increase in enplanements to $11,640,065. An average of 91% of those travelers paid the $3.00 PFC, $2.89 net to the Authority after the airline handling fee. Additionally, almost $7 million in federal and state grants were applied to projects at Nashville International Airport and John C. Tune Airport.

The Authority, as a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, had been the recipient of proceeds in the form of ad valorem taxation of airline property of all certified air carriers serving Nashville. The taxes remitted to the Authority during 2003 were $622,280 and decreased to $432,405 in 2004. No additional dollars were collected in fiscal year 2005.

EXPENSES

A summary of expenses for the fiscal years ended June 30, 2005, 2004 and 2003 is as follows:

Operating Expenses	**2005**	**2004**	**% Change**	**2003**
Salaries and Wages	$16,412,494	$16,248,675	1.0%	$16,301,303
Contractual Services	12,453,870	11,424,236	9.0%	11,259,823
Materials and Supplies	1,894,344	1,564,994	21.0%	2,042,158
Utilities	3,662,175	3,426,793	6.9%	3,367,944
Other	2,274,072	2,579,608	(11.8%)	2,639,054
Total Operating Expenses	**36,696,955**	**35,244,306**	**4.1%**	**35,610,282**
Non-Operating Expenses				
Depreciation	17,546,203	17,966,519	(2.3%)	17,741,820
Loss on Disposal of Property And Equipment	11,175	-		
Interest Expense	16,416,304	16,943,386	(3.1%)	18,549,633
Loss (Gain) on Derivative Financial Instruments	927,587	(3,973,366)	123.3%	548,238
Total Non-Operating Expenses	**34,901,269**	**30,936,539**	**12.8%**	**36,839,691**
Total Expenses	**$71,598,224**	**$66,180,845**	**8.2%**	**$72,449,973**

Higher passenger traffic naturally requires additional uses of financial resources to maintain the airport property. Operating expenses increased $1,452,649 or 4.1% over the prior year but just 3.1% above the spending level of fiscal year 2003. Personnel costs were comparable to the prior two years, balanced by turnover rates, salary increases, and new hires. Utilities climbed just 8.7% over two years but are projected to be record setting for fiscal year 2006.

Salaries and wages, benefits and taxes continue to consume the most operating resources, 44.7% of operating expenses. Existing staff has been able to absorb the additional activity several years in a row explaining continued flat overall spending levels in this category.

A number of companies provide legal, marketing, custodial, landscaping, human resource consulting, and other types of services to the Authority. These contractual services have seen steady growth in recent years, up 9.0% or $1,029,634 in 2005. Legal services alone rose significantly, from $430,061 in 2004 to $713,028 in 2005 in part due to a number of lease negotiations and various lease and contract renewals. Landscaping services also increased $99,845 as more grounds keeping is being outsourced. Parking lot operations increased $130,108 to cover additional traffic and expected increases. However, a new custodial contract was awarded October 1, 2004, and that cost declined $126,631.

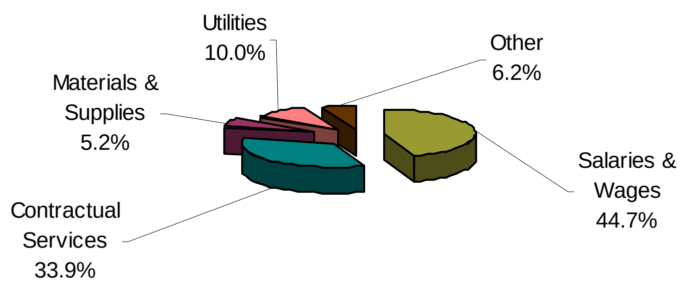
The material and supply costs increased 21.0% or $329,350 from fiscal year 2004 to 2005 as a number of expensive in-house maintenance projects were undertaken that were programmed for 2005 instead of 2004. However, this nearly $1.9 million in expenditures is 7.2% less than two years before.

Utility costs continued their upward trend. Costs in fiscal year 2005 rose 6.9% over the prior year and 8.7% above two years ago. The Authority purchases both gas and electricity to meet the needs on airport property, and increasing costs are following the national trend. A new heating, ventilation, and air conditioning system is included in the $35 million terminal renovation project, and this HVAC system will be more efficient than what is currently in place. As utility costs continue upward, this improvement is highly anticipated.

The remaining group of operating expenses declined 11.8% or $305,536 from 2004 and was flat from 2003 to 2004. These expenditures range from advertising to travel, property and liability insurance to employee development. Despite the overall decrease, membership and subscription costs, advertising, business development, and employee development increased to $1,170,279, an increase of $276,879 in 2005 from the prior year, representative of the organization's commitment to ensure that staff is equipped to manage and operate the airport property in a safe and efficient manner, to encourage the professional development of its employees, and support the Nashville community.

The following chart shows the major cost components of operating expenses for the year ended June 30, 2005:

FY2005 Operating Expenses



Expenses considered non-operating rose more significantly than operating expenses, which are more controllable in nature. Most significantly, a loss on derivative financial instruments was reported. In November, 2001, three contingent interest rate swaps were executed and generated a payment to the Authority of approximately $3.9 million. The swaps associated with the MNAA Airport Improvement Revenue Bonds Series 1993, 1995, and 1998A, were terminated in December, 2004. This resulted in a loss of $927,587, a $4,900,953 variance from the unrealized gain reported in fiscal year 2004.

As interest rate levels and market volatility decreased from the date of execution through the date of termination, the interest rate swaps declined in value. Compared to the original payment of $3.9 million, the Authority was able to terminate the interest rate swaps with a payment of $2.8 million. This resulted in approximately $1 million in total life-to-date return to the Authority. However, since the $3,973,366 gain was recorded in fiscal year 2004, the loss of $927,587 recorded in fiscal year 2005 represents the change in market valuation from June 30, 2004, as well as expenses associated with the termination of the swap agreements.

FINANCIAL POSITION

The following represents the Authority's financial position at June 30, 2005, 2004 and 2003:

	2005	2004	% Change	2003
ASSETS				
Current Assets—Unrestricted	$10,111,098	$13,652,520	(25.9%)	$14,117,273
Current Assets—Restricted	44,575,614	38,738,363	15.1%	46,725,678
Net Capital Assets	355,339,214	358,081,078	(0.8%)	366,643,464
Other Assets Unrestricted	41,582,536	45,509,282	(8.6%)	23,804,420
Other Assets Restricted	35,571,565	37,752,285	(5.8%)	28,611,304
Total Assets	**487,180,027**	**493,733,528**	**(1.3%)**	**479,902,139**
LIABILITIES				
Current payable from Unrestricted Assets	5,639,662	6,622,362	(14.8%)	6,064,273
Current payable from Restricted Assets	25,921,164	26,804,075	(3.3%)	25,208,421
Long-Term Liabilities	254,833,377	276,072,515	(7.7%)	280,865,961
Total Liabilities	**286,394,203**	**309,498,952**	**(7.5%)**	**312,138,655**
NET ASSETS				
Invested in Capital Assets, net of Related Debt	101,464,942	84,315,495	20.3%	78,131,588
Restricted Net Assets	80,899,963	73,571,451	10.0%	75,263,531
Unrestricted Net Assets	18,420,919	26,347,630	(30.1%)	14,368,365
Total Net Assets	**200,785,824**	**184,234,576**	9.0%	**167,763,484**
Total Liabilities and Net Assets	**$487,180,027**	**$493,733,528**	**(1.3%)**	**$479,902,139**

The Authority's total assets declined by $6,553,501 or 1.3% over fiscal year 2004 but increased by $7,277,888 or 1.5% since 2003. All asset categories declined over the prior year with the exception of restricted current assets. Liabilities also declined, especially airport revenue bonds, accounting for a decrease of $17,668,185, more than 83% of the $21,239,138 decrease in non-current liabilities. All debt service payments were made according to schedule.

Unrestricted current assets declined almost 26%, or $3,541,422, from the prior year, and a combination of a decrease in unrestricted cash and cash equivalents and increase in short term investments accounted for most of this change. Some of these resources were used to fund construction projects. Total current restricted assets increased $5,837,251, split between an increase in restricted cash of $2,706,126 and restricted short term investments which were reported at $2,967,852. There were no restricted short term investments in the prior year.

Land and land improvements increased $1,154,375 over fiscal year 2004 due to capitalized improvements. Other non-current asset categories increased, especially construction in process which doubled over the prior year from $11,120,299 to $22,352,319, an increase in $11,232,020. Funds from federal and state grants as well as passenger facility charges contributed to this activity. The Authority reported $12,149,992 to the Federal Aviation Administration in PFC activity for fiscal year 2005, including $3 million in reimbursement for previously capitalized projects. Most of this funding is captured in the construction in process balance.

Non-current items other than capital assets declined 7.3% from $83,261,567 to 77,154,101. Much of this was due to reclassification of investments as the portfolio mix changed or was used to retire debt. The primary other asset was the prepaid pension expense which declined $675,544. This balance originated out of a transaction whereby the defined benefit plan was closed to new participants and funded with $19 million in early fiscal year 2004.

The decline in total assets compares favorably with a much greater decline in liabilities, 7.5% or $23,104,749 over the prior year. The Authority's current liabilities payable from unrestricted assets declined $982,700 or 14.8%. Trade accounts payable accounted for $882,414 of that decline, explained by vendors invoicing more promptly after the sale of goods or services. Current liabilities payable with passenger facility charge revenue changed from $1,591,704 to only $12,232.

Non-current liabilities declined $21,239,138 or 7.7%, attributable to the scheduled debt service payments. Overall, liabilities declined $23,104,749 which when combined with the change in assets resulted in a change in net assets for the year ended June 30, 2005, of $16,551,248, up 9.0% from 2004 and 19.7% over the past two years.

The largest portion of the Authority's net assets ($101.5 million or 50.5% at June 30, 2005) represents its investment in capital assets, less the related debt outstanding used to acquire those assets. The Authority uses these capital assets to provide services to its passengers and visitors of the Nashville International Airport and John C. Tune Airport. Consequently, these assets are not available for future spending.

An additional portion of the Authority's net assets ($80.9 million or 40.3% at June 30, 2005) represents resources that are subject to restrictions on use. The restricted net assets are not available for new spending as they have already been committed as follows:

Passenger Facility Charge projects	$ 43,257,624
Debt Service	37,642,339
Total Restricted	$ 80,899,963

The remaining unrestricted net assets of $18.4 million may be used to meet the Authority's ongoing obligations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets—The Authority's net investment in capital assets as of June 30, 2005, amounted to $355,339,214 as compared to $358,081,078 at June 30, 2004. This investment in capital assets includes land and land improvements (including runways and taxiways), buildings and building improvements, equipment, furniture and fixtures, as well as construction in progress. The capital asset balance before depreciation increased $13,991,336 with most of that change captured in construction in process. The investment after depreciation declined less than 1%.

Capital asset acquisitions are capitalized at cost and depreciated using the straight-line method. Acquisitions are funded using a variety of financing techniques, including Federal grants, State grants, Passenger Facility Charges, debt issuance, and airline rates and charges. Further detailed information can be found in the notes to the financial statements.

Debt Administration—As of June 30, 2005, the Authority's debt outstanding amounted to $275,486,227. This represents a decrease of $19,269,549 during fiscal year 2005. A detail of the changes in fiscal year 2005 is as follows:

Series Description	Beginning Balance	Principal Repayment	Ending Balance
Series 1993 Revenue Bonds	$ 52,700,000	$ (700,000)	$ 52,000,000
Series 1995 Revenue Bonds	59,870,000	(2,800,000)	57,070,000
Series 1998A Revenue Bonds	14,930,000	(1,975,000)	12,955,000
Series 1998C Revenue Bonds	26,550,000	(1,515,000)	25,035,000
Series 1999 Subordinated Note	935,776	(164,549)	771,227
Series 2001A Revenue Bonds	83,200,000	(4,775,000)	78,425,000
Series 2003 PFC Revenue Bonds	32,020,000	(3,195,000)	28,825,000
Series 2003 A Revenue Bonds	5,650,000	(4,145,000)	1,505,000
Series 2003 B Revenue Bonds	18,900,000	-	18,900,000
Total	**$294,755,776**	**$(19,269,549)**	**$275,486,227**

More detailed information about the Authority's debt can be found in the notes to the financial statements.

Respectfully submitted,

Douglas P. Wolfe
Senior Vice President

METROPOLITAN NASHVILLE AIRPORT AUTHORITY

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2005 AND 2004

	2005	2004
ASSETS		
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Notes 2, 3 and 18)	$ 4,774,734	$ 9,334,620
Short term investments (Notes 2, 3 and 18)	1,538,739	656,107
Accounts receivable—net of allowance for doubtful accounts of $356,932 and $127,445 in 2005 and 2004, respectively	2,086,156	1,835,380
Inventories (Note 2)	476,800	531,993
Accrued interest receivable	152,785	171,494
Current portion of notes receivable (Notes 9 and 18)	162,550	173,497
Prepaid expenses	919,334	949,429
Total current unrestricted assets	10,111,098	13,652,520
Restricted assets:		
Cash and cash equivalents (Notes 2, 3, 5 and 18)	39,784,073	37,077,947
Short term investments (Notes 2, 3, 5 and 18)	2,967,852	-
Passenger facility charges receivable (Note 7)	1,464,824	1,331,421
Amounts due from governmental agencies	74,104	76,356
Accrued interest receivable	284,761	252,639
Total current restricted assets	44,575,614	38,738,363
Total current assets	54,686,712	52,390,883
NONCURRENT ASSETS:		
Capital assets (Note 4):		
Land and land improvements	433,641,552	432,487,177
Land held for future expansion	36,701,068	36,701,068
Buildings and building improvements	126,696,865	126,696,865
Equipment, furniture and fixtures	22,972,560	21,367,619
Construction in progress	22,352,319	11,120,299
Total capital assets	642,364,364	628,373,028
Less accumulated depreciation	(287,025,150)	(270,291,950)
Total capital assets (net of accumulated depreciation)	355,339,214	358,081,078
Restricted investments (Notes 2, 3, 5 and 18)	35,571,565	37,752,285
Unrestricted investments (Notes 2, 3, 5 and 18)	19,248,456	22,079,995
Deferred bond issue costs (Note 2)	3,249,771	3,703,088
Notes receivable from tenants (Notes 9 and 18)	1,519,498	1,682,047
Other assets (Note 12)	17,564,811	18,044,152
Total noncurrent assets	432,493,315	441,342,645
TOTAL	$ 487,180,027	$ 493,733,528

See notes to financial statements.

LIABILITIES AND NET ASSETS	2005	2004
CURRENT LIABILITIES:		
Payable from unrestricted assets:		
Trade accounts payable	$ 3,153,317	$ 4,035,731
Accrued payroll and related items (Notes 2 and 12)	2,286,250	2,391,852
Current maturities of long-term debt (Note 5)	175,179	164,549
Accrued interest payable (Note 5)	24,916	30,230
Total payable from unrestricted assets	5,639,662	6,622,362
Payable from restricted assets:		
Trade accounts payable	12,232	1,591,704
Accrued interest payable (Note 5)	5,633,932	6,107,371
Current maturities of long-term debt (Note 5)	20,275,000	19,105,000
Total payable from restricted assets	25,921,164	26,804,075
Total current liabilities	31,560,826	33,426,437
NONCURRENT LIABILITIES:		
Airport Revenue Bonds (net of unamortized deferred amount on refunding of $15,047,310 and $17,654,125, respectively) (Notes 5 and 18)	239,392,690	257,060,875
Subordinate Revenue Note (Notes 5 and 18)	596,048	771,227
	239,988,738	257,832,102
Synthetic Advance Refunding, Series 2001A (Note 5)	5,810,846	6,722,818
Fair value of derivative financial instruments (Notes 2, 5, 6 and 18)	2,860,621	4,838,433
	248,660,205	269,393,353
Deferred interest income (Notes 3 and 5)	4,178,166	4,619,363
Deferred rental income (Notes 5 and 14)	1,995,006	2,059,799
Total noncurrent liabilities	254,833,377	276,072,515
Total liabilities	286,394,203	309,498,952
COMMITMENTS AND CONTINGENCIES (Note 11)		
NET ASSETS:		
Invested in capital assets—net of related debt	101,464,942	84,315,495
Restricted:		
Passenger facility charge projects	43,257,624	34,400,719
Debt service	37,642,339	39,170,732
Total restricted net assets	80,899,963	73,571,451
Unrestricted net assets	18,420,919	26,347,630
Total net assets	200,785,824	184,234,576
TOTAL	$ 487,180,027	$ 493,733,528

METROPOLITAN NASHVILLE AIRPORT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES: (Note 16)		
Airline (Notes 9 and 15)	$ 15,164,912	$ 18,545,916
Parking	22,787,740	20,575,301
Concession	14,481,791	13,705,715
Space rental (Note 9)	8,935,551	7,028,387
Other	5,399,869	4,864,672
	66,769,863	64,719,991
OPERATING EXPENSES: (Note 16)		
Salaries and wages (Notes 12 and 13)	16,412,494	16,248,675
Contractual services	12,453,870	11,424,236
Materials and supplies	1,894,344	1,564,994
Utilities	3,662,175	3,426,793
Other	2,274,072	2,579,608
	36,696,955	35,244,306
OPERATING INCOME BEFORE PROVISION FOR DEPRECIATION	30,072,908	29,475,685
PROVISION FOR DEPRECIATION (Notes 4 and 16)	17,546,203	17,966,519
OPERATING INCOME	12,526,705	11,509,166
NONOPERATING REVENUES:		
Investment income	2,769,432	1,053,385
Passenger facility charges (Note 7)	11,640,065	10,790,953
Grant receipts from governmental agencies (Note 2)	6,970,112	5,655,203
Nonoperating revenue (Note 17)	-	432,405
	21,379,609	17,931,946
NONOPERATING EXPENSES:		
Loss on disposal of property and equipment	11,175	-
Interest expense (Notes 2 and 5)	16,416,304	16,943,386
Loss (gain) on derivative financial instruments (Notes 2 and 6)	927,587	(3,973,366)
	17,355,066	12,970,020
CHANGES IN NET ASSETS:		
Increase in net assets	16,551,248	16,471,092
Total net assets—Beginning of year	184,234,576	167,763,484
Total net assets—End of year	$ 200,785,824	$ 184,234,576

See notes to financial statements.

METROPOLITAN NASHVILLE AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 66,455,373	$ 65,687,117
Cash paid to employees	(16,518,096)	(16,387,933)
Cash paid to suppliers	(19,908,725)	(31,906,429)
Other payments	(2,274,072)	(2,579,608)
Net cash provided by operating activities	27,754,480	14,813,147
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Receipt of passenger facility charges	11,506,662	11,355,167
Additions to deferred bond issue costs	-	(998,271)
Additions to property and equipment	(14,815,514)	(9,496,404)
Proceeds from sale of property and equipment	-	91,300
Interest paid on long-term debt	(14,746,897)	(15,718,441)
Payments on long-term debt	(19,269,549)	(56,904,564)
Premium paid to refund Series 1992 bonds	-	(327,550)
Contributions from governmental agencies	6,972,364	5,703,520
Nonoperating revenue	-	432,405
Proceeds from long term debt	-	57,255,000
Net cash used in capital and related financing activities	(30,352,934)	(8,607,838)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(75,414,526)	(80,820,318)
Proceeds from the sale and maturities of investments	76,340,026	72,880,384
Payments made by tenants	173,496	161,800
Payment made to terminate 2001 Knock-In Barrier Swap	(2,905,399)	-
Interest received on investments	2,551,097	1,298,790
Net cash provided by (used in) investing activities	744,694	(6,479,344)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,853,760)	(274,035)
CASH AND CASH EQUIVALENTS—Beginning of year	46,412,567	46,686,602
CASH AND CASH EQUIVALENTS—End of year	$ 44,558,807	$ 46,412,567

(Continued)

METROPOLITAN NASHVILLE AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 12,526,705	$ 11,509,166
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for depreciation	17,546,203	17,966,519
Amortization of deferred real estate leasing commission	1,079	1,080
Amortization of deferred rental income	(34,904)	(34,904)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(250,776)	1,343,502
Decrease (increase) in inventories	55,193	(51,380)
Decrease in prepaid expenses	30,095	32,959
Decrease (increase) in other assets	478,262	(17,709,097)
(Decrease) increase in trade accounts payable	(2,461,886)	1,850,091
Decrease in accrued payroll and related items	(105,602)	(139,258)
(Decrease) increase in deferred rental income	(29,889)	44,469
Net cash provided by operating activities	$ 27,754,480	$ 14,813,147
CASH AND CASH EQUIVALENTS—END OF YEAR CONSIST OF:		
Unrestricted cash and cash equivalents	$ 4,774,734	$ 9,334,620
Restricted cash and cash equivalents	39,784,073	37,077,947
	$ 44,558,807	$ 46,412,567

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

During 2005 and 2004, $3,060,132 and $3,113,482, respectively, were charged to interest expense for amortization of deferred bond issue costs and amortization of deferred loss on refunding of debt

During 2005 and 2004, interest expense was reduced by $911,972 and $906,553, respectively for the amortization of the synthetic advance refunding.

During 2005 and 2004, $441,197 and $446,427, respectively is included in interest income related to the amortization of deferred interest income.

See notes to financial statements. (Concluded)

1. METROPOLITAN NASHVILLE AIRPORT AUTHORITY

The creation of the Metropolitan Nashville Airport Authority (the "Authority") was authorized by Public Chapter 174 of the Public Acts of the 86th General Assembly of the State of Tennessee, 1969 Session.

The Metropolitan Council of The Metropolitan Government of Nashville and Davidson County, Tennessee, created the Authority to operate as a separate enterprise. The Authority owns and operates the Nashville International Airport and the John C. Tune Airport, a general aviation reliever airport.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The financial statements of the Authority have been prepared using the accrual basis of accounting and include the operations of the Nashville International and John C. Tune airports noted above. Based upon the criteria set forth in Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity,* it has been determined that the Authority is a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee (the "Metropolitan Government"). The Authority's Board of Commissioners consists of ten members who serve without compensation, nine of whom are appointed by the Metropolitan Government Mayor and approved by the Metropolitan Government Council, with the tenth being the Mayor (or his designee). There are also provisions whereby commissioners may be removed by vote of the Metropolitan Government Council. All appointments to the Authority are for a term of four years. The terms are staggered to provide for continuity of Airport development and management. The Board of Commissioners appoints a president and charges him with the responsibility for day-to-day operations. The accompanying financial statements also include the accounts of the Arts at the Airport Foundation, a nonprofit organization that facilitates the display and performance of artists within the Nashville International Airport terminal. The Arts at the Airport Foundation qualifies as a component unit of the Authority due to it being fiscally dependent on the Authority and due to the Authority's appointment of the voting majority of its governing board.

Revenues from space rental and fees, landing fees, parking and other miscellaneous income are reported as operating revenues. Transactions which are capital, financing or investing related, are reported as non-operating revenues. Passenger facility charges are reported as non-operating revenues (see Note 7). Expenses from employee wages and benefits, purchases of services, materials and supplies and other miscellaneous expenses are reported as operating expenses. Interest expense and financing costs are reported as non-operating expenses.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* the Authority has elected to apply all Financial Accounting Standards Board ("FASB") Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Budgets—The Authority is required to prepare an annual operating budget which must be approved by the Airlines Affairs Committee, composed of the signatory airlines, and the Board of Commissioners. A six-year capital improvement program, including modifications and reasons therefore, is also required to be submitted each year.

The Authority is not required to demonstrate statutory compliance with its annual operating budget. Accordingly, budgetary data is not included in the basic financial statements. All budgets are prepared in accordance with bond covenants and airport lease and use agreements. Unexpended operating appropriations lapse at year-end.

Cash and Cash Equivalents—Cash and cash equivalents include cash on hand and short-term investments with original maturities of three months or less.

Amounts Due From Governmental Agencies—Amounts due from governmental agencies under the terms of grant agreements are accrued as the related reimbursable costs are incurred.

Inventories—Inventories are stated at the lower of cost or market under the first-in, first-out method and consist primarily of supplies and maintenance repair parts.

Investments—Investments consist primarily of U. S. Government securities, commercial paper and repurchase agreements. Investments are accounted for in accordance with GASB Statement No. 31, *Accounting and Financial Requirements for Certain Investments and for External Investment Pools*, which requires that certain investments be recorded at fair value. Short-term, highly liquid debt instruments that have a remaining maturity at time of purchase of one year or less are reported at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

Restricted Assets—Restricted assets consist of cash and cash equivalents, investments and other assets to be used for purposes specified in the respective bond indentures.

Capital Assets—Capital assets are stated at cost, except for contributions of property received from governmental agencies, which are recorded at fair market value. The Authority's policy is to capitalize assets with a cost of $5,000 or more. Routine maintenance and repairs are expensed as incurred. Net interest cost incurred during the construction of facilities is capitalized as part of the cost. Provision for depreciation of property and equipment is made on a basis considered adequate to depreciate the cost of depreciable assets over their estimated useful lives and is computed on the straight-line method.

Asset lives used in the calculation of depreciation are generally as follows:

Land improvements	20 to 30 years
Buildings and building improvements	10 to 30 years
Equipment, furniture and fixtures	3 to 15 years

Derivative Financial Instruments—Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, requires that all derivatives be recorded in the statement of net assets as either an asset or liability measured at fair value and that changes in fair value be recognized currently in earnings unless specific hedge accounting criteria are met. As of and for the years ending June 30, 2005 and 2004, the derivative financial instruments are accounted for at fair value in accordance with SFAS No. 133, as amended, with any gains or losses resulting from the fair value measurements being recorded as a non-operating expense.

Deferred Bond Issue Costs—Deferred bond issue costs associated with issuance of the Airport Revenue Bonds are being amortized as interest expense using the effective interest rate method over the term of the bonds.

Postretirement Benefits—Postretirement benefits are accounted for under GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets, note disclosures, and, if applicable, required supplementary information.

Compensated Absences—Compensated absences are accrued as payable when earned and are cumulative from one fiscal year to the next. The liability is grouped with accrued payroll and related items in the financial statements.

Taxes—The Authority is exempt from payment of federal and state income, property, and certain other taxes.

Estimates—Estimates used in the preparation of financial statements require management to make assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements—In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*. GASB Statement No. 40 amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*, to limit the custodial credit risk disclosures previously required by GASB Statement No. 3 related to deposits that are not covered by depository insurance and investment securities that are uninsured. GASB Statement No. 40 is effective for financial statements for periods beginning after June 15, 2004, with earlier application encouraged. The adoption of GASB Statement No. 40 did not have an impact on the Authority's accounting policies; however, it modified the Authority's note disclosures for cash, cash equivalents and investments.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries. The provisions of GASB Statement No. 42 are effective for fiscal periods beginning after December 15, 2004.

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting standards for other postemployment benefits ("OPEB") plans and supersedes the interim guidance included in GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. GASB Statement No. 43 is effective for the Authority's OPEB plan reporting for periods beginning after December 15, 2005. The Authority has not yet determined the impact of the adoption of GASB Statement No. 43 on its financial statements and note disclosures.

In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1*. GASB Statement No. 44 amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section for governmental entities that prepare a comprehensive annual financial report ("CAFR"). The statistical section of the CAFR presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. GASB Statement No. 44 is effective for financial statements for periods beginning after June 15, 2005. The adoption of GASB Statement No. 44 is not anticipated to have an impact on the Authority's accounting policies; however, it may require modification to the Authority's statistical section disclosures in the CAFR.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. GASB Statement No. 45 is effective for the Authority's financial statements for periods beginning after December 15, 2006. The Authority has not yet determined the impact of the adoption of GASB Statement No. 45 on its financial statements and note disclosures.

In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Legislation – an amendment of GASB Statement No. 34*. GASB Statement No. 46 amends GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, by establishing and modifying requirements related to restrictions of net assets resulting from enabling legislation. GASB Statement No. 46 is effective for financial statement periods beginning after June 15, 2005, with earlier application encouraged. The adoption of GASB Statement No. 46 is not anticipated to have an impact on the Authority's accounting policies; however, it may require modification to the Authority's note disclosures related to restrictions of net assets.

Reclassifications—Certain reclassifications have been made to the prior year statements of revenues, expenses and changes in net assets to conform to current year presentation. In the prior year, the Authority netted cash received from tenants for utilities against utilities expense. In the current year, the Authority has presented those cash receipts as other revenue. Additionally, in the prior year, the Authority netted cash paid for credit card processing fees against space rental revenue. In the current year, the Authority has presented those cash payments as contractual services expense.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The trust indenture and supplemental resolutions, which govern the investment of bond proceeds, generally authorizes the Authority to invest in direct obligations of, or obligations guaranteed by, the U.S. Government, obligations issued or guaranteed by specific agencies of the U.S. Government, secured certificates of deposit, secured repurchase agreements, and specifically rated obligations of state governments, commercial paper, and money market funds.

The Authority's unrestricted and restricted cash and cash equivalent bank balances totaling $34,680,034 and $37,281,042 at June 30, 2005 and 2004, respectively (with a carrying value of $44,558,807 and $46,412,567) represent a variety of time deposits with banks and are Category 1. Category 1 includes bank balances that are insured or collateralized with securities held by the Authority or by its agent in the Authority's name. All the cash deposits are in a single financial institution and are carried at cost plus interest which approximates market. The carrying amount of cash deposits is separately reported as cash in the accompanying statements of net assets.

These deposits are insured up to the federal depository insurance coverage level. The financial institution is a member of the State of Tennessee's collateral pool which collateralizes public funds accounts including those of the Metropolitan Nashville Airport Authority.

As of June 30, 2005, the Authority had the following investments and maturities:

		Investment Maturities (in Years)		
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**
U.S. Treasuries	$ 626,315	$ -	$ 626,315	$ -
U.S. Agencies	27,011,567	1,554,828	16,064,034	9,392,705
Commercial paper	3,550,000	3,550,000	-	-
Corporate bonds	15,370,053	6,554,760	8,815,293	-
Mutual Funds	4,954,750	4,954,750	-	-
Asset Backed Securities	2,270,555	-	1,724,547	546,008
Mortgage Backed Securities	5,543,373	-	1,771,072	3,772,301
	$ 59,326,612	$ 16,614,338	$ 29,001,260	$ 13,711,014

The carrying amount of investments is reflected in the accompanying statements of net assets as follows:

	2005	**2004**
Short-term unrestricted investments	$ 1,538,739	$ 656,107
Short-term restricted investments	2,967,852	-
Non-current unrestricted investments	19,248,456	22,079,995
Non-current restricted investments	35,571,565	37,752,285
	$ 59,326,612	$ 60,488,387

Interest Rate Risk **-** The Authority does not specifically cover interest rate risk in the written investment policy. As a matter of practice, the Authority's investments have an average duration of less than one year and maturities are staggered to match the liquidity needs of the organization.

Credit Risk – The investment policy specifies acceptable credit ratings by instrument type but overall long-term credit rating ranges from "A2" to "AAA" by Moody's and "A" to "AAA" by Standard & Poor's and Fitch. Acceptable short term credit rating levels are "A1" or better by Standard & Poor's, "P1" or better by Moody's, and "F1" by Fitch.

Custodial Credit Risk – The investment policy is silent on custodial credit risk. The Authority's unrestricted and restricted investments at June 30, 2005 and 2004, are all Category 1. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name.

Concentration of Credit Risk – The investment policy states that the Authority will invest no more than 5% of the portfolio with a single corporate issuer, excluding commercial paper.

In August 1994, the Authority entered into a Forward Delivery Agreement ("FDA"), with a financial institution for the continuous investment of the Series 1991A principal and interest investments through the term of the bonds; Series 1991C principal and interest investments through June 2009; and Series 1993 principal investments through June 2009. The future investment earnings under these contracts, discounted at the financial institution's cost of funds on the contract date, were received by the Authority upfront in a lump sum payment of $2,870,735. The amount of the upfront payment was recorded as deferred interest income and is being amortized into income over the term of the agreement. The Series 1991C principal and interest investments were replaced with the Series 2001A principal and interest investments upon refunding of the Series 1991C bonds with the Series 2001A bonds (see Note 5).

In November 1999, the Authority entered into a Debt Service Forward Delivery Agreement ("1999 DSFDA") with a financial institution for the continuous investment of the Series 1991C principal and interest investments from July 2009 through the term of the bonds; Series 1993 principal investments from July 2009 through the term of the bonds; and Series 1995 principal and interest investments through the term of the bonds. The present value of future investment earnings under the 1999 DSFDA were received by the Authority in a lump sum payment of $3,275,000. These proceeds were used to fund a portion of the construction of the short-term parking lot expansion. The amount of the upfront payment was recorded as deferred interest income and is being amortized into income over the term of the agreement. The Series 1991C principal and interest investments were replaced with the series 2001A principal and interest investments upon refunding of the Series 1991C bonds with the Series 2001A bonds (see Note 5).

In November 2001, the Authority entered into a Debt Service Forward Delivery Agreement ("2001 DSFDA") with a financial institution for the continuous investment of the Series 1993 bond reserve fund through the term of the bonds. The present value of future investment earnings under the 2001 DSFDA were received by the Authority in a lump sum payment of $1,325,000. These proceeds were used to fund various capital improvement projects during fiscal year 2002. The amount of the upfront payment was recorded as deferred interest income and is being amortized into income over the term of the agreement.

4. CAPITAL ASSETS

Capital assets and related accumulated depreciation activity for the years ended June 30, 2005 and 2004 was as follows:

	Balance 6/30/2004	Additions	Retirements	Transfers	Balance 6/30/2005
Capital Assets not being depreciated:					
Land	$ 62,633,055	$ 26,842	$ -	$ -	$ 62,659,897
Land held for future expansion	36,701,068	-	-	-	36,701,068
Construction in progress	11,120,299	14,536,603	-	(3,304,583)	22,352,319
Total capital assets not being depreciated	110,454,422	14,563,445	-	(3,304,583)	121,713,284
Capital Assets being depreciated:					
Land improvements	369,854,122	126,143	-	1,001,390	370,981,655
Buildings and building improvements	126,696,865	-	-	-	126,696,865
Equipment, furniture and fixtures	21,367,619	125,926	(824,178)	2,303,193	22,972,560
Total capital assets being depreciated	517,918,606	252,069	(824,178)	3,304,583	520,651,080
Less accumulated depreciation:					
Land improvements	(197,165,495)	(11,581,624)	-	-	(208,747,119)
Buildings and building improvements	(59,039,178)	(4,392,384)	-	-	(63,431,562)
Equipment, furniture and fixtures	(14,087,277)	(1,572,195)	813,003	-	(14,846,469)
Total accumulated depreciation	(270,291,950)	(17,546,203)	813,003	-	(287,025,150)
Total capital assets being depreciated	247,626,656	(17,294,134)	(11,175)	3,304,583	233,625,930
Net capital assets	$ 358,081,078	$ (2,730,689)	$ (11,175)	$ -	$ 355,339,214

	Balance 6/30/2003	Additions	Retirements	Transfers	Balance 6/30/2004
Capital Assets not being depreciated:					
Land	$ 62,725,326	$ -	$ (92,271)	$ -	$ 62,633,055
Land held for future expansion	36,701,068	-	-	-	36,701,068
Construction in progress	9,893,301	9,358,994	-	(8,131,996)	11,120,299
Total capital assets not being depreciated	109,319,695	9,358,994	(92,271)	(8,131,996)	110,454,422
Capital Assets being depreciated:					
Land improvements	363,100,635	-	-	6,753,487	369,854,122
Buildings and building improvements	125,609,435	-	-	1,087,430	126,696,865
Equipment, furniture and fixtures	20,949,181	137,410	(10,051)	291,079	21,367,619
Total capital assets being depreciated	509,659,251	137,410	(10,051)	8,131,996	517,918,606
Less accumulated depreciation:					
Land improvements	(185,601,099)	(11,564,396)	-	-	(197,165,495)
Buildings and building improvements	(54,612,954)	(4,426,224)	-	-	(59,039,178)
Equipment, furniture and fixtures	(12,121,429)	(1,975,899)	10,051	-	(14,087,277)
Total accumulated depreciation	(252,335,482)	(17,966,519)	10,051	-	(270,291,950)
Total capital assets being depreciated	257,323,769	17,829,109	-	8,131,996	247,626,656
Net capital assets	$ 366,643,464	$ (8,470,115)	$ (92,271)	$ -	$ 358,081,078

5. LONG-TERM DEBT

Airport Revenue Bonds, Series 1991—During August 1991, the Authority issued Series 1991A bonds in the principal amount of $37,000,000. The Series 1991A bonds were issued to purchase land and construct an extension of an existing runway. The Series 1991A bonds were repaid in July 2003 (discussed later).

Passenger Facility Charge and Airport Improvement Revenue Bonds, Series 1992—During October 1992, the Authority issued Series 1992 bonds in the principal amount of $55,325,000. The bonds were issued to provide funds to construct certain improvements to the Nashville International Airport, including the relocation of an existing runway, the extension of an existing runway, land acquisition, concourse connection and Federal Inspection Service Facility design, ramp expansion and extension of an existing taxiway. The Series 1992 bonds were repaid in July 2003 (discussed later).

Airport Improvement Revenue Bonds, Adjustable Rate Refunding Series 1993—During October 1993, the Authority issued Series 1993 bonds in the principal amount of $53,500,000. The bonds were issued to provide funds to refund $11,400,000 aggregate principal amount of the Authority's Airport Revenue Bonds, Series 1989B and $36,000,000 aggregate principal amount of the Authority's Airport Revenue Bonds, Series 1991B. The proceeds from the issue were used to purchase direct obligations of the U.S. Government which are held in an escrow fund by a trustee for the purpose of making principal, applicable redemption premium and interest payments on the Series 1989B and 1991B bonds as they become due. The Series 1989B bonds were redeemed on July 1, 1998 at a redemption price of 102% of the principal amount thereof, while the Series 1991B bonds were redeemed on July 1, 2001, at a redemption price of 102% of the principal amount thereof. At June 30, 2005, and 2004, $36,000,000 of Series 1991B bonds are considered defeased and are not included in the Authority's financial statements.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $7,764,447. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*, the difference, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2019 using the effective-interest method. The Authority completed the advance refunding to reduce its total debt service payments over 25 years by $7,922,976 and to obtain an economic gain of approximately $3,400,000.

The Series 1993 bonds were issued bearing interest at a weekly rate and any Series 1993 bond may from time to time bear one of six variable rates: daily, weekly, monthly, quarterly, semiannual or term rates. In addition, any or all of the Series 1993 bonds may bear interest at a fixed rate at the option of the Authority. The Authority has an agreement with a remarketing agent to remarket any bonds presented for redemption. In the event the bonds cannot be remarketed in the normal course of business, the Authority has a liquidity facility agreement with a bank expiring on July 1, 2019. Draws on the liquidity facility agreement can be used to pay up to $53,500,000 plus an amount equal to 35 days interest on the bonds computed as though the bonds bore interest at a rate of 24% per annum notwithstanding the actual rate borne from time to time by the bonds. At June 30, 2005 the liquidity facility provider did not hold any of these bonds. The cost incurred during the years ended June 30, 2005 and 2004, for the liquidity facility agreement was $137,059, respectively, and was recorded as additional interest expense. Principal maturities of the Series 1993 issue vary in annual amounts ranging from $3,500,000 on July 1, 2005, to $3,800,000 on July 1, 2019.

The Authority entered into an interest rate swap agreement on the Series 1993 bonds. This has been discussed in more detail in Note 6.

Airport Improvement Revenue Bonds, Adjustable Rate Refunding Series 1995—During June 1995, the Authority issued Series 1995 bonds in the principal amount of $74,810,000. The bonds were issued to provide funds to refund $74,810,000 aggregate principal amount of the Authority's Airport Revenue Bonds, Series 1985. The Series 1995 bonds were issued bearing interest at a weekly rate. To manage its exposure to market risks from fluctuations in interest rates, the Authority entered into a forward interest rate swap agreement (the "1995 Swap Agreement") eliminating any basis risk to the Authority, resulting in a net fixed rate of 9.29% on the Series 1995 bonds.

During January 1998, the Series 1995 bonds were remarketed with a fixed rate. In connection with the remarketing, the 1995 Swap Agreement was terminated requiring the Authority to pay a Termination Payment. The Termination Payment was funded through the issuance of the Series 1998A and Series 1998B bonds (discussed later). The remarketing of the Series 1995 bonds and termination of the 1995 Swap Agreement resulted in a difference between the remarketing price and the net carrying amount of the original debt of $19,804,773 (including unamortized loss on refunding of Series 1985 bonds of $4,224,093). In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*, the difference, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2016 using the effective-interest method. The Authority completed the remarketing and termination of the 1995 Swap Agreement to reduce its total debt service payments over 17 years by $681,220. No significant economic gain or loss resulted from this refunding transaction.

The Series 1995 bonds contain serial bonds at interest rates ranging from 4.45% to 5.00%, maturing in progressive annual amounts ranging from $3,080,000 on July 1, 2005, to $7,990,000 on July 1, 2015. At the option of the Authority, the Series 1995 bonds maturing on and after July 1, 2009, may be repaid beginning July 1, 2008, at 102% of the principal balance outstanding, declining 1% annually to 100% on July 1, 2010.

Airport Improvement Revenue Bonds, Series 1998—During December 1997, the Authority issued Series 1998A and Series 1998B bonds in the principal amount of $19,695,000 and $9,740,000, respectively. The bonds were issued for the purpose of paying the Termination Payment under the 1995 Swap Agreement entered into in connection with the Series 1995 Bonds. The Series 1998A issue (with an outstanding principal balance of $12,955,000 at June 30, 2005) contains serial bonds at interest rates ranging from 4.50% to 5.15%, maturing in progressive annual amounts ranging from $1,920,000 on July 1, 2005, to $350,000 on July 1, 2014. At the option of the Authority, the 1998A bonds maturing on and after July 1, 2009, may be repaid beginning July 1, 2008, at 102% of the principal balance outstanding, declining 1% annually to 100% on July 1, 2010.

During March 1998, the Authority issued Series 1998C bonds in the principal amount of $32,660,000. The bonds were issued to provide funds to refund $30,940,000 aggregate principal amount of the Authority's Airport Revenue Bonds, Series 1989A. The 1998C issue (with an outstanding principal balance of $20,295,000 at June 30, 2005) contains serial bonds at interest rates ranging from 5.00% to 5.375%, maturing in progressive annual amounts ranging from $1,590,000 on July 1, 2005, to $1,900,000 on July 1, 2016. At the option of the Authority, the bonds may be repaid beginning July 1, 2008 at 102% of the principal balance outstanding, declining 1% annually to 100% on July 1, 2010.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2,710,369. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*, the difference, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2017 using the effective-interest method. The Authority completed the advance refunding to reduce its total debt service payments over 19 years by $3,511,337 and to obtain an economic gain of approximately $2,300,000.

Airport Improvement Revenue Bonds, Series 2001A—During April 2001, the Authority issued Series 2001A bonds in the principal amount of $91,930,000. The bonds were issued to provide funds to refund $91,930,000 aggregate principal amount of the Authority's Airport Revenue Bonds, Series 1991C. The proceeds from the issue were held by the Authority at June 30, 2001, and were used to redeem the series 1991C bonds on July 1, 2001, at a redemption price of 102% of the principal amount thereof.

The advance refunding resulted in a difference between the reacquisition and the net carrying amount of the old debt of $2,701,472. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting of Debt Reported by Proprietary Activities*, the difference, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2015 using the effective-interest method. The Authority completed the advance refunding to facilitate the upfront payment under the synthetic advance refunding (discussed below) and to obtain an economic gain of approximately $5,500,000. The economic gain is inclusive of funds made available through the upfront payment resulting from the synthetic advance refunding (discussed below).

The issue contains serial bonds at interest rates ranging from 6.25% to 6.60%, maturing in progressive annual amounts ranging from $5,070,000 on July 1, 2005, to $9,615,000 on July 1, 2015.

Synthetic Advance Refunding, Series 2001A—During September 1998, the Authority completed a synthetic advance refunding of $91,930,000 of the callable Airport Revenue Bonds, Series 1991C (the "1991C Bonds"), to take advantage of significantly lower interest rates.

As discussed above, during April 2001, the Authority issued debt (the "2001A Bonds"), the proceeds of which were used to redeem the long-term portion of the outstanding 1991C Bonds on July 1, 2001.

The Authority accelerated annual savings resulting from the synthetic advance refunding transaction. This was done through an off-market swap in which the fixed rate liability was set at an artificially higher interest rate such that its net debt service liability approximated that of the refunded 1991C Bonds. In exchange for the higher payments, the Authority received a net upfront payment of $7,947,134 based on the increased value of the swap. The net upfront payment was recorded as a deferred credit upon receipt and will be repaid over the term of the Airport Revenue Bonds, Series 2001A. Interest accretion began upon receipt resulting in a charge to operations, based upon the discount rate used in determining the present value of the accelerated annual savings, with a corresponding increase in the deferred credit.

All of the Authority's bonds, except for the Series 1992 Bonds, were issued under the General Resolution and are secured by a pledge of and lien on Net Revenues derived by the Authority from the operation of the Airport. The 1992 Bonds were issued under the PFC Resolution and were secured by an additional pledge of and lien on PFC Revenues less Operating Expenses.

Passenger Facility Charge and Airport Improvement Revenue Bonds, Series 2003—During July 2003, the Authority issued Refunding Series 2003 bonds in the principal amount of $32,020,000. These bonds were issued together with other available funds of the Authority to provide funds to refund $29,885,000 aggregate principal amount of the Authority's Passenger Facility Charge and Airport Improvement Revenue Bonds, Series 1992, to fund a reserve with respect to the Series 2003 bonds and to pay for certain costs in connection with issuance of the bonds. The Series 1992 bonds were redeemed on July 24, 2003, at a redemption price of 101% of the principal amount thereof.

The refunding resulted in a difference between the reacquisition and the net carrying amount of the old debt of $988,946. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting of Debt Reported by Proprietary Activities*, the difference, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2012 using the effective-interest method.

The Series 2003 bonds initially bore interest at a weekly rate determined by SunTrust Capital Markets, Inc. Subject to the satisfaction of certain conditions in the Supplemental Resolution, the Authority may from time to time change the method of determining the interest rate on the Series 2003 Bonds to a daily rate, weekly rate, a commercial paper rate or a fixed rate. The bonds mature in progressive annual amounts ranging from $3,300,000 on July 1, 2005, to $3,925,000 on July 2012.

Airport Improvement Revenue Bonds, Series 2003A—During July 2003, the Authority issued Series 2003A bonds in the principal amount of $5,650,000. These bonds were issued along with other available funds of the Authority to provide funds to refund $5,620,000 aggregate principal amount of the Authority's Airport Revenue Bonds, Series 1991A, to fund a reserve with respect to the Series 2003A Bonds and to pay for certain costs in connection with the issuance of the bonds.

The difference between the reacquisition price and the net carrying amount of the old debt resulting from the refunding was immaterial.

The Series 2003A bonds were issued bearing interest payable monthly on the first business day of each month at the rate of 2.335%. The outstanding principal of $1,505,000 on the Series 2003A bonds matures on July 1, 2005.

Airport Improvement Revenue Bonds, Series 2003B—During November 2003, the Authority issued Series 2003B taxable bonds in the principal amount of $19,585,000. These bonds were issued to provide funding for a portion of the projected unfunded liability of the Metropolitan Nashville Airport Authority Retirement Plan for Employees and to pay for the cost of issuance of the bonds.

The Series 2003B bonds contain serial bonds at interest rates ranging from 1.94% to 5.94%, maturing in progressive annual amounts ranging from $310,000 on July 1, 2005, to $1,280,000 on July 1, 2033. The 2003B bonds are subject to an extraordinary optional redemption, in whole at any time, at a redemption price equal to the principal amount plus accrued interest to the date of redemption only in the event of the destruction or damage to all or substantially all of the Nashville International Airport or the condemnation of the airport facility.

The following shows the composition of restricted cash and cash equivalents and investments as of June 30, 2005 and 2004:

	2005	2004
Principal and Interest Funds:		
PFC and Airport Improvement Revenue Bonds, Series 2003	$ 3,232,176	$ 3,360,335
Airport Improvement Revenue Bonds, Adjustable Rate Refunding, Series 1993	3,500,074	695,998
Airport Improvement Revenue Bonds, Adjustable Rate Refunding, Series 1995	4,466,930	4,256,877
Airport Improvement Revenue Bonds, Series 1998	4,478,167	4,539,802
Airport Improvement Revenue Bonds Refunding Series 2001A	7,660,208	7,485,490
Airport Improvement Revenue Bonds, Series 2003A	3,678,882	2,554,877
Airport Improvement Revenue Bonds, Series 2003B	832,556	665,833
Bond Reserve Funds:		
PFC and Airport Improvement Revenue Bonds, Series 2003	5,151,128	5,046,320
Airport Improvement Revenue Bonds, Adjustable Rate Refunding Series 1993	2,675,000	2,675,000
Construction Funds:		
PFC and Airport Improvement Revenue Bonds, Series 2003	42,648,369	43,549,700
	$ 78,323,490	$ 74,830,232

Long-term revenue bond activity for the year ended June 30, 2005, is summarized as follows:

Series Description	Beginning Balance	Principal Repayment	Amortization	Ending Balance
Series 1993 Revenue Bonds	$ 52,700,000	$ (700,000)	$ -	$ 52,000,000
Series 1995 Revenue Bonds	59,870,000	(2,800,000)	-	57,070,000
Series 1998A Revenue Bonds	14,930,000	(1,975,000)	-	12,955,000
Series 1998C Revenue Bonds	26,550,000	(1,515,000)	-	25,035,000
Series 1999 Subordinated Note	935,776	(164,549)	-	771,227
Series 2001A Revenue Bonds	83,200,000	(4,775,000)	-	78,425,000
Series 2003 PFC Revenue Bonds	32,020,000	(3,195,000)	-	28,825,000
Series 2003 A Revenue Bonds	5,650,000	(4,145,000)	-	1,505,000
Series 2003 B Revenue Bonds	18,900,000	-	-	18,900,000
Total	294,755,776	(19,269,549)	-	275,486,227
Less unamortized deferred amount on refunding	(17,654,125)	-	2,606,815	(15,047,310)
	277,101,651	$ (19,269,549)	$ 2,606,815	260,438,917
Less current portion	(19,269,549)			(20,450,179)
	$ 257,832,102			$ 239,988,738

Aggregate maturities of revenue bonds at June 30, 2005, are as follows:

Year Ending June 30	Principal	Interest	Net Cash Flow Related to Interest Rate Swap	Total
2006	$ 20,450,179	$ 11,570,808	$ 1,783,600	$ 33,804,587
2007	21,511,495	10,825,334	1,663,550	34,000,379
2008	22,593,543	10,071,308	1,481,760	34,146,611
2009	23,631,010	9,265,912	1,289,680	34,186,602
2010	24,595,000	8,409,727	1,090,740	34,095,467
2011-2015	113,030,000	26,947,989	3,431,830	143,409,819
2016-2020	37,015,000	5,707,853	1,945,060	44,667,913
2021-2025	3,415,000	3,368,409	-	6,783,409
2026-2030	4,540,000	2,237,598	-	6,777,598
2031-2034	4,705,000	719,037	-	5,424,037
	275,486,227	89,123,975	12,686,220	377,296,422
Less: unamortized deferred amount on refunding	(15,047,310)			(15,047,310)
	$ 260,438,917	$ 89,123,975	$ 12,686,220	$ 362,249,112

Activity for the years ended June 30, 2005 and 2004 of other long-term liabilities was as follows:

Other Long-Term Liabilities Description	Balance 6/30/2004	Net Cash Receipts (Disbursements)	Amortization	(Gain) Loss on Derivative Financial Instruments	Balance 6/30/2005
Synthetic advance refunding, Series 2001A	$ 6,722,818	$ -	$ (911,972)	$ -	$ 5,810,846
Fair value of derivative financial instruments	4,838,433	(2,905,399)	-	927,587	2,860,621
Deferred interest income	4,619,363	-	(441,197)	-	4,178,166
Deferred rental income	2,059,799	(29,889)	(34,904)	-	1,995,006
	$ 18,240,413	$ (2,935,288)	$ (1,388,073)	$ 927,587	$ 14,844,639

Other Long-Term Liabilities Description	Balance 6/30/2003	Net Cash Receipts (Disbursements)	Amortization	(Gain) Loss on Derivative Financial Instruments	Balance 6/30/2004
Synthetic advance refunding, Series 2001A	$ 7,629,371	$ -	$ (906,553)	$ -	$ 6,722,818
Fair value of derivative financial instruments	8,811,799	-	-	(3,973,366)	4,838,433
Deferred interest income	5,065,790	-	(446,427)	-	4,619,363
Deferred rental income	2,050,234	44,469	(34,904)	-	2,059,799
	$ 23,557,194	$ 44,469	$ (1,387,884)	$ (3,973,366)	$ 18,240,413

6. DERIVATIVE FINANCIAL INSTRUMENTS

1993 Interest Rate Swap Agreement—In connection with the Series 1993 bonds, so as to manage its exposure to market risks from fluctuations in interest rates, the 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 rates borne by the Series 1993 bonds. Arrangements made in the 1993 Swap Agreement do not alter the Authority's obligation to pay the principal of, premium, if any, and interest on the Series 1993 bonds. Since the counterparty to the 1993 Swap Agreement is a major bank, the Authority does not anticipate credit related losses from nonperformance by such counterparty.

In accordance with SFAS No. 133, the Authority has recorded the fair value of the 1993 Swap Agreement as of June 30, 2005, (a liability of $2,860,621) and as of June 30, 2004, (a liability of $2,612,133) in the statements of net assets. The fair value of this financial instrument at June 30, 2005 represents the amount the Authority would pay to terminate the agreement, taking into consideration current interest rates. The change in the fair value of this financial instrument for the years ended June 30, 2005 and 2004, has been recorded as a (gain) loss on derivative financial instruments in the statements of revenues, expenses and changes in net assets under non-operating expenses.

2001 Knock-In Barrier Swap—The Authority entered into a Knock-in Barrier Swap dated October 26, 2001, ("2001 Barrier Swap") with a counterparty that generated a cash payment to the Authority of $3,853,000. The Authority terminated the interest rate swap in December 2004, and recorded a net loss of

$679,099. In accordance with SFAS No. 133, the fair value of the 2001 Barrier Swap at June 30, 2004 (a liability of $2,226,300) is reported in the 2004 statement of net assets.

7. 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 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 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"). The fee can be set at $1, $2, or $3 per enplaning passenger.

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

Airfield development	$ 156,481,739
Terminal development	63,123,216
Land acquisition	30,027,200
	$ 249,632,155

Effective April 5, 2000, public agencies may qualify to charge PFC fees of $4.00 or $4.50 provided that the additional criterion for approval are met. PFC's are recorded as non-operating revenue.

8. SPECIAL FACILITY REVENUE BONDS

During April 2005, the 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 Authority and the debt service thereon shall be payable solely from revenues provided by Embraer Aircraft Maintenance Services, Inc. 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 Authority's assets or require the Authority to incur future obligations, they have not been recorded in the Authority's financial statements.

9. AIRLINE LEASE AGREEMENTS

During the year ended June 30, 1975, the 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 Authority's projected cost of providing the facilities to the airlines.

These long-term lease agreements have been subsequently amended and restated with extension through September 14, 2017, which is 30 years from the occupancy date of the new terminal.

Costs recovered through rentals and fees include expenses of operating and maintaining the airport plus 110% of debt service on all bonds outstanding.

The notes receivable from tenants of $1,682,048 and $1,855,544 at June 30, 2005 and 2004, respectively, represent expenditures made by the Authority on behalf of certain tenants for improvements at the new terminal. The signatory tenant notes accrue interest at 7% while the nonsignatory tenant notes accrue interest at 9%. The notes are to be repaid on a monthly basis through 2015.

10. RISK MANAGEMENT AND INSURANCE ARRANGEMENTS

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; illnesses or injuries to employees; and natural disasters.

Self-insured employee medical benefit claims are accrued as incurred in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. 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 nonincremental claims adjustment expenses.

The following summarizes the changes in the estimated claims payable liability:

	2005	2004
Balance—Beginning of year	$ 172,789	$ 400,858
Provision for incurred claims	2,353,398	2,500,484
Claim payments	(2,309,249)	(2,728,553)
Balance—End of year	$ 216,938	$ 172,789

The 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.

11. COMMITMENTS AND CONTINGENCIES

Estimated costs of completion of construction in progress at June 30, 2005, relate to various projects. These amounts are as follows:

Amount to be directly reimbursed by governmental agencies under existing governmental contracts	$ 8,607,305
Amount to be funded by passenger facility charges collected	11,393,983
Amount to be funded by the Authority	37,075,460
	$ 57,076,748

The Authority is a defendant to various legal proceeding 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 discussed in Note 9.

12. POSTRETIREMENT AND RETIREMENT BENEFITS

Effective September 1989, the Authority adopted a new single-employer public employee retirement system ("PERS") for its employees whereby the net assets available for benefits relative to the Authority's employees were transferred from the Metropolitan Government's pension system to the Metropolitan Nashville Airport Authority Retirement Plan for Employees (the "Plan"). Certain Authority employees participate in the pension system of the Metropolitan Government of Nashville and Davidson County, Tennessee, a cost-sharing multiple employer PERS. Employees participate in either "Fund B" (pension benefits for credited service other than credited Fire and Police service) or "Fund C" (pension benefits for credited Fire and Police service) of the Metropolitan Employees' Benefit Trust Fund (the "Fund"). New employees of the Authority and those previously selecting the new Metropolitan Nashville Airport Authority's single-employer PERS are not eligible for participation in the Metropolitan Government's pension system. As a result of the relatively few number of employee participants, additional postemployment benefits information in regards to the Fund has not been presented.

The Plan is a non-contributory defined benefit pension plan administered by the 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 Authority. Benefit provisions are established and may be amended by the 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, Tennessee 37214 or by calling (615) 275-1600.

For the year ended June 30, 2005, the Authority's annual pension cost of $675,544 was equal to the annual required contribution of $505,112 less interest in the amount of $1,417,533 on the net pension asset plus the annual required contribution adjustment of $1,587,965. No actual contribution was made to the Plan due to a contribution of $19,000,000 made in 2004 through the issuance of Airport Improvement Revenue Bonds, Series 2003B (see Note 5). The annual required contribution for the current year was determined as part of the July 1, 2005, actuarial valuation using the projected unit credit method. The actuarial assumptions included (a) 8.0% investment rate of return and (b) projected salary increases of 4.0%. Neither (a) nor (b) included an inflation adjustment. The assumptions did not include postretirement benefit increases which are funded by the Authority when granted. The actuarial value of Plan assets was calculated based on the three-year weighted average of asset gains and losses.

Year Ending June 30,	Annual Pension Cost	% of Annual Pension Cost Contributed	Net Pension Obligation (Asset) at June 30,
2005	$ 675,544	0.0%	$ (17,043,619)
2004	2,167,504	876.6%	(17,719,163)
2003	1,792,245	100.0%	-

In addition to the pension benefits described above, the Authority provides postretirement health care benefits to all employees who retire under either the Authority's PERS or the Metropolitan Government's PERS.

Under the Authority's PERS, the Authority pays 75% of the medical coverage cost, with the retirees paying the remaining 25%. The Authority also pays 100% of the premium cost of a $7,500 life insurance policy on each retiree. In addition, the retirees have the option to pay 100% of the cost of dental, vision, and supplemental life insurance coverage. Currently, 69 retirees are receiving benefits under the PERS. During the years ended June 30, 2005 and 2004, payments of $335,940 and $227,693, respectively, were made by the Authority for postretirement benefits under this PERS.

Under the Metropolitan Government's PERS, the Authority pays 75% of the cost of medical and dental coverage, while the retirees pay the remaining 25%. The Authority also pays 100% of the premium cost of a $7,500 life insurance policy on each retiree. Currently, 22 retirees are receiving benefits under the PERS.

During the years ended June 30, 2005 and 2004, payments of $48,727 and $93,475, respectively, were made to the Metropolitan Government for postretirement benefits under this PERS.

Payments for these postretirement benefits are expensed as they are incurred. During the years ended June 30, 2005 and 2004, $384,667 and $321,168, respectively, of postretirement benefits were recognized as expense.

13. DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all 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. The assets of the plan are held in custodial and annuity accounts for the exclusive benefit of plan participants, and accordingly, the related assets of the plan are not reflected on the 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). Amounts contributed by the Authority to the deferred compensation plan were $604,302 and $628,528 in 2005 and 2004, respectively.

14. LAND LEASES AND LAND OPTIONS

The Authority leases, or has entered into options to lease, several tracts of land to developers. The leases expire in 2058. The Authority has received advance payments totaling $2,533,613 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 Authority upon the expiration or termination of the leases.

15. MAJOR CUSTOMERS

The two largest airlines accounted for approximately 56.4% and 59.9% of the total enplanements of 4,438,392 and 4,166,822 in fiscal years 2005 and 2004, respectively.

16. INFORMATION ON AUTHORITY OPERATING RESULTS BY AIRPORT

Operating income (loss) consists of revenues from operations less operating expenses and depreciation. Interest income, passenger facility charges and interest expense are not considered in determining operating income (loss).

	Nashville International Airport	John C. Tune Airport	Total
Year Ended June 30, 2005			
Operating revenues	$ 66,351,208	$ 418,655	$ 66,769,863
Operating expenses	36,576,563	120,392	36,696,955
Provision for depreciation	16,928,467	617,736	17,546,203
Operating income (loss)	$ 12,846,178	$ (319,473)	$ 12,526,705

	Nashville International Airport	John C. Tune Airport	Total
Year Ended June 30, 2004			
Operating revenues	$ 64,306,325	$ 413,666	$ 64,719,991
Operating expenses	35,142,528	101,778	35,244,306
Provision for depreciation	17,328,639	637,880	17,966,519
Operating income (loss)	$ 11,835,158	$ (325,992)	$ 11,509,166

17. NONOPERATING REVENUE

The Authority received revenue in the form of a percentage of ad valorem taxes imposed on the airlines by the Metropolitan Government under an agreement that expired in March 2004. Under the terms of the agreement, such receipts are to be expended by the Authority for land acquisition related to airport expansion. Amounts received during the years ended June 30, 2005 and 2004, of $0 and $432,405, respectively, have been recorded as non-operating revenue.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been estimated by the Authority using available market information as of June 30, 2005 and 2004, and valuation methodologies considered appropriate to the circumstances.

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$44,558,807	$44,558,807	$46,412,567	$46,412,567
Investments	59,326,612	59,326,612	60,488,387	60,488,387
Notes receivable from tenants	1,682,048	1,737,980	1,855,544	2,139,091
Long-term debt	275,486,227	292,833,938	294,755,776	290,734,446

The following methods were used to estimate fair value of each class of significant financial instruments:

Cash and cash equivalents (both restricted and nonrestricted)—Carrying amount approximates fair value due to short-term nature of those instruments.

Investments (both restricted and nonrestricted)—Fair value is estimated based upon quoted market prices.

Notes receivable from tenants—Fair value is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Long-term debt—Fair value is estimated based upon quoted market prices.

Other financial instruments—The fair value of derivative financial instruments including interest rate swap agreements is estimated based on quotes from dealers of these instruments, and represent the estimated amounts the Authority could expect to pay or receive to terminate the agreements (see Note 6).

* * * * * *

METROPOLITAN NASHVILLE AIRPORT AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION – SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2005

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2002	13,343,373	23,715,848	10,372,475	56.26%	9,444,699	109.82%
July 1, 2003	12,974,174	25,145,164	12,170,990	51.60%	10,310,796	118.04%
July 1, 2004	31,093,608	26,901,552	(4,192,056)	115.58%	8,907,904	(47.06)%

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Commissioners of
Metropolitan Nashville Airport Authority
Nashville, Tennessee

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

November 28, 2005

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METROPOLITAN NASHVILLE AIRPORT AUTHORITY

STATEMENT OF NET ASSETS INFORMATION BY AIRPORT
AS OF JUNE 30, 2005

	Nashville International Airport	John C. Tune Airport	Total
ASSETS			
CURRENT ASSETS:			
Unrestricted assets:			
Cash and cash equivalents	$ 3,817,939	$ 956,795	$ 4,774,734
Short term investments	1,538,739		1,538,739
Accounts receivable—net of allowance for doubtful accounts of $356,932	2,051,678	34,478	2,086,156
Inventories	476,800	-	476,800
Accrued interest receivable	147,360	5,425	152,785
Due (to) from other funds	245,753	(245,753)	-
Current portion of notes receivable	162,550	-	162,550
Prepaid expenses	919,334	-	919,334
Total current unrestricted assets	9,360,153	750,945	10,111,098
Restricted assets:			
Cash and cash equivalents	39,784,073	-	39,784,073
Short term investments	2,967,852	-	2,967,852
Passenger facility charges receivable	1,464,824	-	1,464,824
Amounts due from governmental agencies	10,976	63,128	74,104
Accrued interest receivable	284,761	-	284,761
Total current restricted assets	44,512,486	63,128	44,575,614
Total current assets	53,872,639	814,073	54,686,712
NONCURRENT ASSETS			
Capital assets:			
Land and land improvements	418,186,430	15,455,122	433,641,552
Land held for future expansion	36,701,068	-	36,701,068
Buildings and building improvements	122,834,393	3,862,472	126,696,865
Equipment, furniture and fixtures	22,943,849	28,711	22,972,560
Construction in progress	21,963,210	389,109	22,352,319
Total capital assets	622,628,950	19,735,414	642,364,364
Less accumulated depreciation	(276,790,936)	(10,234,214)	(287,025,150)
Total capital assets (net of accumulated depreciation)	345,838,014	9,501,200	355,339,214
Restricted investments	35,571,565	-	35,571,565
Unrestricted investments	18,557,856	690,600	19,248,456
Deferred bond issue costs	3,249,771	-	3,249,771
Notes receivable from tenants	1,519,498	-	1,519,498
Other assets	17,357,451	207,360	17,564,811
Total noncurrent assets	422,094,155	10,399,160	432,493,315
TOTAL	$ 475,966,794	$ 11,213,233	$ 487,180,027

(Continued)

METROPOLITAN NASHVILLE AIRPORT AUTHORITY

STATEMENT OF NET ASSETS INFORMATION BY AIRPORT
AS OF JUNE 30, 2005

	Nashville International Airport	John C. Tune Airport	Total
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Payable from unrestricted assets:			
Trade accounts payable	$ 3,147,729	$ 5,588	$ 3,153,317
Accrued payroll and related items	2,286,250	-	2,286,250
Current maturities of long-term debt	175,179	-	175,179
Accrued interest payable	24,916	-	24,916
Total payable form unrestricted assets	5,634,074	5,588	5,639,662
Payable from restricted assets:			
Trade accounts payable	12,232	-	12,232
Accrued interest payable	5,633,932	-	5,633,932
Current maturities of long-term debt	20,275,000	-	20,275,000
Total payable from restricted assets	25,921,164	-	25,921,164
Total current liabilities	31,555,238	5,588	31,560,826
NONCURRENT LIABILITIES:			
Airport Revenue Bonds (net of unamortized deferred amount on refunding of $15,047,309)	239,392,690	-	239,392,690
Subordinate Revenue Note	596,048	-	596,048
	239,988,738	-	239,988,738
Synthetic Advance Refunding, Series 2001	5,810,846	-	5,810,846
Fair value of derivative financial instruments	2,860,621	-	2,860,621
	248,660,205	-	248,660,205
Deferred interest income	4,178,166	-	4,178,166
Deferred rental income	1,995,006	-	1,995,006
Total noncurrent liabilities	254,833,377	-	254,833,377
Total liabilities	286,388,615	5,588	286,394,203
NET ASSETS:			
Invested in capital assets, net of related debt	91,698,842	9,766,100	101,464,942
Restricted:			
Passenger Facility Charge projects	43,257,624	-	43,257,624
Debt service	37,642,339	-	37,642,339
Total restricted net assets	80,899,963	-	80,899,963
Unrestricted net assets	16,979,374	1,441,545	18,420,919
Total net assets	189,578,179	11,207,645	200,785,824
TOTAL	$ 475,966,794	$ 11,213,233	$ 487,180,027

(Concluded)

METROPOLITAN NASHVILLE AIRPORT AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
INFORMATION BY AIRPORT
FOR THE YEAR ENDED JUNE 30, 2005

	Nashville International Airport	John C. Tune Airport	Total
OPERATING REVENUES:			
Airline	$ 15,164,912	$ -	$ 15,164,912
Parking	22,787,740	-	22,787,740
Concession	14,481,791	-	14,481,791
Space rental	8,558,070	377,481	8,935,551
Other	5,358,695	41,174	5,399,869
	66,351,208	418,655	66,769,863
OPERATING EXPENSES:			
Salaries and wages	16,412,494	-	16,412,494
Contractual services	12,362,285	91,585	12,453,870
Materials and supplies	1,883,938	10,406	1,894,344
Utilities	3,651,169	11,006	3,662,175
Other	2,266,677	7,395	2,274,072
	36,576,563	120,392	36,696,955
OPERATING INCOME BEFORE PROVISION FOR DEPRECIATION	29,774,645	298,263	30,072,908
PROVISION FOR DEPRECIATION	16,928,467	617,736	17,546,203
OPERATING INCOME (LOSS)	12,846,178	(319,473)	12,526,705
NONOPERATING REVENUES:			
Investment income	2,734,179	35,253	2,769,432
Passenger facility charges	11,640,065	-	11,640,065
Grant receipts	6,800,559	169,553	6,970,112
	21,174,803	204,806	21,379,609
NONOPERATING EXPENSES:			
Loss on disposal of property and equipment	11,175	-	11,175
Interest expense	16,395,932	20,372	16,416,304
Loss on derivative financial instruments	927,587	-	927,587
	17,334,694	20,372	17,355,066
CHANGES IN NET ASSETS:			
Increase (decrease) in net assets	16,686,287	(135,039)	16,551,248
Total net assets—Beginning of year	172,891,892	11,342,684	184,234,576
Total net assets—End of year	$ 189,578,179	$ 11,207,645	$ 200,785,824

STATISTICAL SECTION (Unaudited)

Statistical information differs from financial statements because it usually covers more than one fiscal year and may present non-accounting data. This information reflects social and economic data and financial trends of the Authority.

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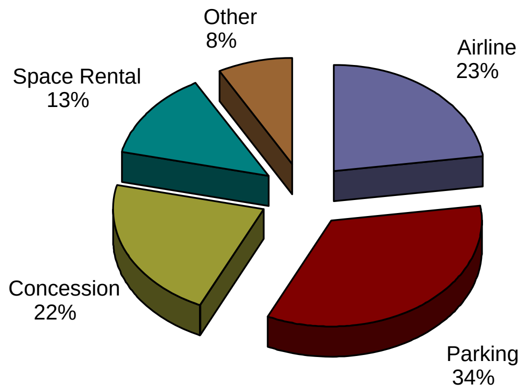
METROPOLITAN NASHVILLE AIRPORT AUTHORITY
Operating Revenue Analysis (000's)

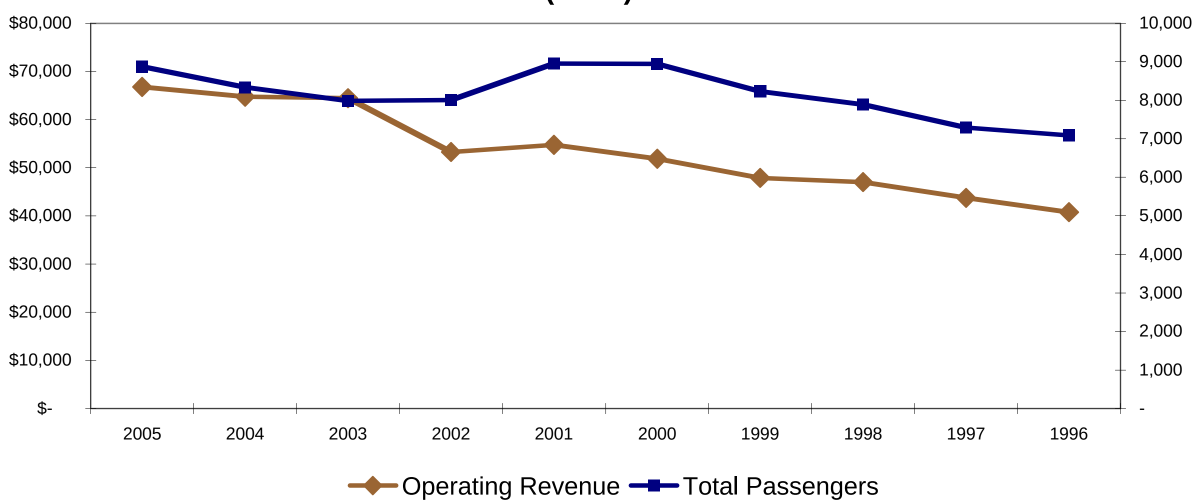
Operating Revenues	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Airline	$15,165	$18,546	$22,804	$13,612	$13,193	$13,284	$12,969	$13,287	$11,909	$11,686
Parking	22,788	20,575	18,654	17,965	19,655	16,803	16,495	16,158	15,188	13,280
Concession	14,482	13,706	13,460	13,011	13,806	12,483	11,641	11,026	10,356	9,720
Space Rental	8,935	7,028	5,526	5,195	5,157	4,474	4,175	4,215	3,946	3,856
Other	5,400	4,865	3,981	3,510	2,940	4,806	2,558	2,301	2,327	2,224
TOTAL	**$66,770**	**$64,720**	**$64,425**	**$53,293**	**$54,751**	**$51,850**	**$47,838**	**$46,987**	**$43,726**	**$40,766**

FY 2005 Revenue Composition



Airline revenue declined in fiscal year 2005 attributable to a decline in rental rates charged to the airlines. Parking and concession revenue increased in response to the increased passenger activity at the Nashville International Airport. Overall, operating revenue increased more than 3% over the prior year. This compares with a 6% increase in total passenger traffic.

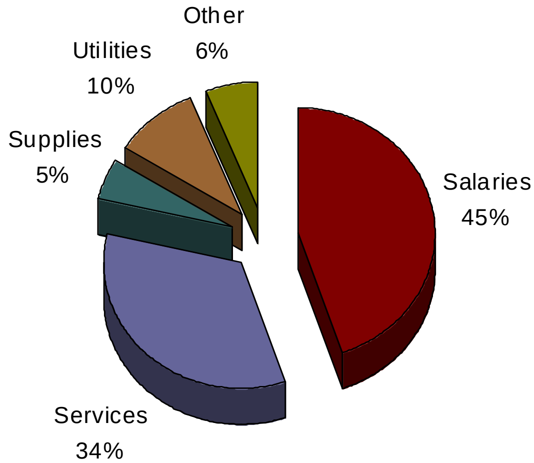
Operating Revenue & Total Passengers (000's)



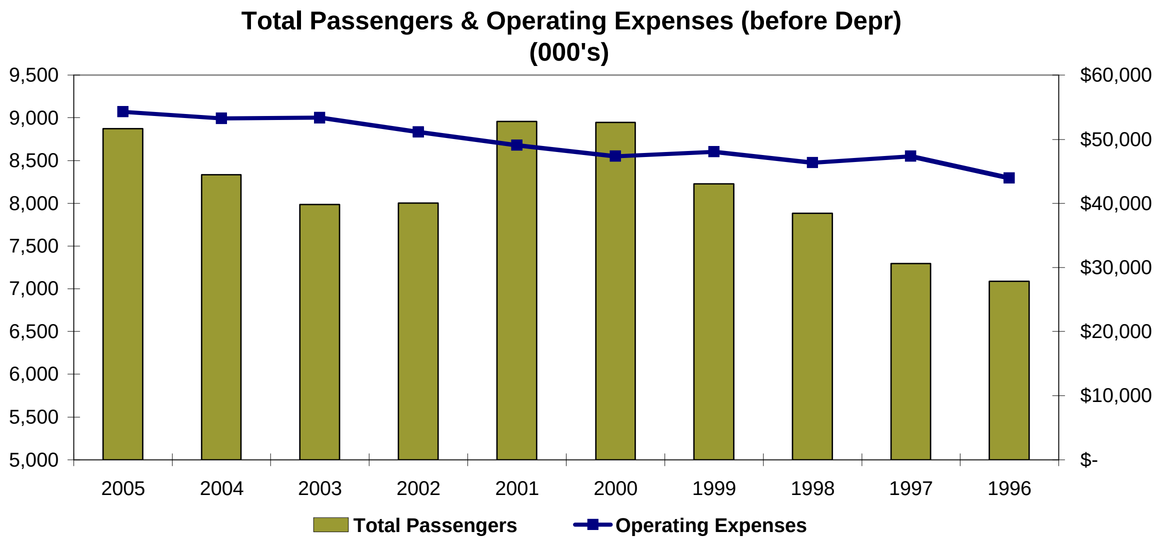
METROPOLITAN NASHVILLE AIRPORT AUTHORITY
Operating Expense Analysis (000's)

Operating Expenses	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Salaries and Wages	16,412	16,249	16,301	16,361	$15,760	$14,567	$13,123	$12,042	$11,821	$11,437
Contractual Services	12,454	11,424	11,260	10,005	9,693	8,794	8,683	7,794	7,776	6,797
Supplies and Materials	1,894	1,565	2,042	1,721	1,773	1,928	1,664	1,465	1,593	1,673
Utilities	3,662	3,427	3,368	3,229	3,364	3,180	2,765	2,704	2,566	2,578
Depreciation	17,546	17,967	17,742	17,608	15,880	16,832	20,050	20,514	20,664	20,070
Other	2,274	2,580	2,639	2,233	2,585	2,085	1,773	1,819	2,947	1,387
TOTAL	**$54,242**	**$53,211**	**$53,352**	**$51,157**	**$49,055**	**$47,386**	**$48,058**	**$46,338**	**$47,367**	**$43,942**

FY 2005 Operating Expense before Depreciation

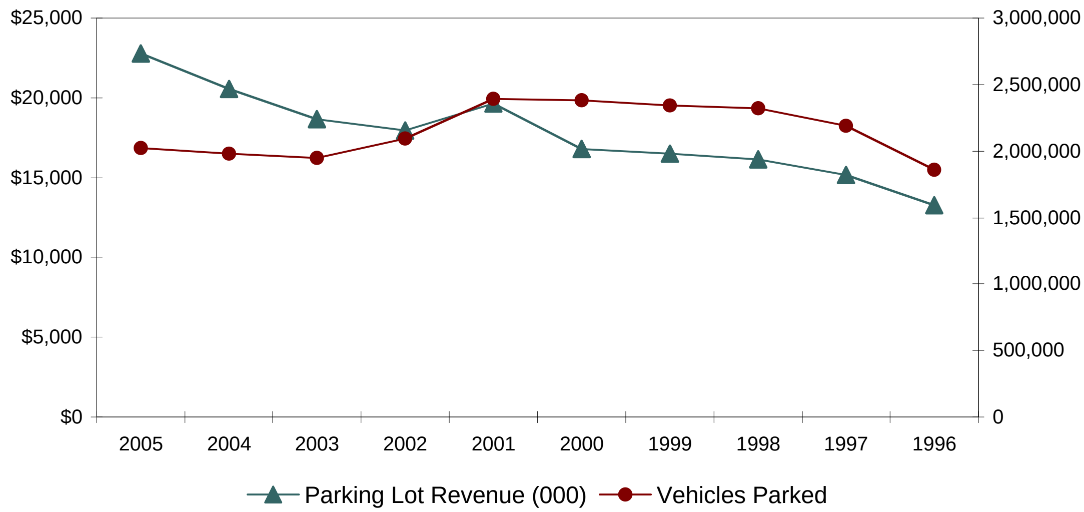


Costs to operate the terminal have continued to increase as the 20-year-old facility ages. A major renovation project is scheduled to begin in 2006. Utility costs are expected to continue to rise in the near term but should be positively impacted when the new HVAC system is in place in FY07. Total passenger activity at the Nashville International Airport reached 8.9 million for the year. The last time that level was achieved was in FY01.



NASHVILLE INTERNATIONAL AIRPORT
Public Parking Analysis

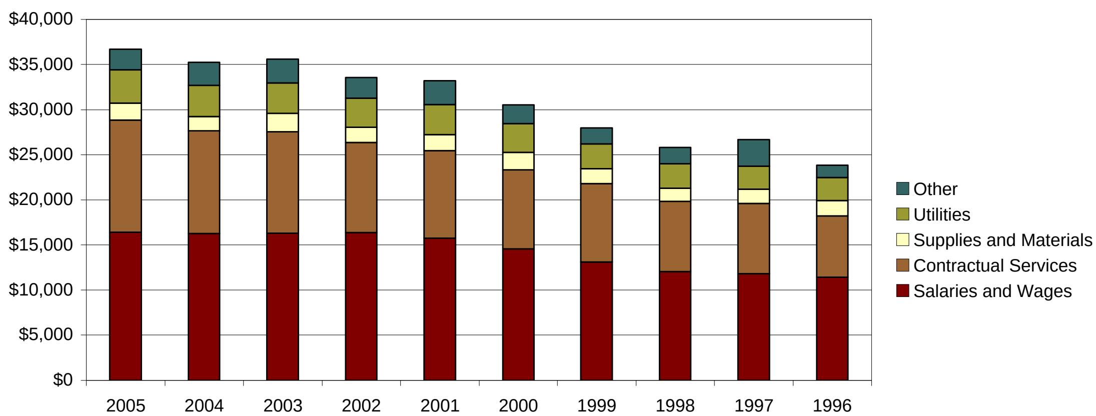
	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Parking Lot Revenue (000)	$22,788	$20,575	$18,654	$17,965	$19,655	$16,803	$16,495	$16,158	$15,188	$13,280
Vehicles Parked	2,025,149	1,982,363	1,949,864	2,094,787	2,393,654	2,380,939	2,343,864	2,320,638	2,190,506	1,858,671



In fiscal year 2002 the number of vehicles entering the public parking areas declined over 12% as a result of September 11. In the past three years increased passenger activity and minor parking rate adjustments have contributed the most to the increase in revenue.

Operating Expenses (000) before Provision for Depreciation

Salaries and Wages	$16,412	$16,249	$16,301	$16,361	$15,760	$14,567	$13,123	$12,042	$11,821	$11,437
Contractual Services	12,454	11,424	11,260	10,005	9,693	8,794	8,683	7,794	7,776	6,797
Supplies and Materials	1,894	1,565	2,042	1,721	1,773	1,928	1,664	1,465	1,593	1,673
Utilities	3,662	3,427	3,368	3,229	3,364	3,180	2,765	2,704	2,566	2,578
Other	2,274	2,580	2,639	2,233	2,585	2,085	1,773	1,819	2,947	1,387
Total Operating Expenses	$36,696	$35,245	$35,610	$33,549	$33,175	$30,554	$28,008	$25,824	$26,703	$23,872



Supplies and materials, utilities, and other operating expenses have consumed approximately $8 million in resources each of the last five years. Contractual services increased 83% over the ten-year period representing 34% of the operating costs in fiscal year 2005. Dollars spent on salaries and wages (which include employee benefits) have remained relatively level in each of the last five years. In addition, these employee expenses accounted for 48% of operating costs in 1996 and 45% in 2005 averaging 47% over the term.

NASHVILLE INTERNATIONAL AIRPORT
Debt Service Coverage Analysis (000's)

Description	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Operating Revenue	66,351	63,919	64,011	52,897	$54,368	$51,478	$47,582	$46,792	$43,547	$40,613
Less Operating Expenses	(36,577)	(34,756)	(35,475)	(33,447)	(33,084)	(30,468)	(27,920)	(25,761)	(26,639)	(23,782)
Change in Working Capital & Other Items	(2,413)	4,720	(1,563)	62	(1,487)	(2,921)	3,063	577	1,462	(242)
Add Interest Income	2,734	1,035	3,560	3,911	6,552	4,275	5,935	6,474	6,317	6,638
Add Passenger Facility Charges	11,640	10,791	10,764	10,699	12,303	12,148	11,041	11,005	10,128	9,790
Add Transfer from CIF*	13,677	9,486	9,429	18,074	13,764	14,796	15,751	16,807	20,854	17,878
COVERAGE CASH FLOW	$55,412	$55,195	$50,726	$52,196	$52,416	$49,308	$55,452	$55,894	$55,669	$50,895
TOTAL DEBT SERVICE	33,805	32,972	33,582	33,003	$33,167	$32,904	$32,955	$34,179	$33,204	$33,189
DEBT SERVICE COVERAGE	163.9%	167.4%	151.1%	158.2%	158.0%	149.9%	168.3%	163.5%	167.7%	153.3%

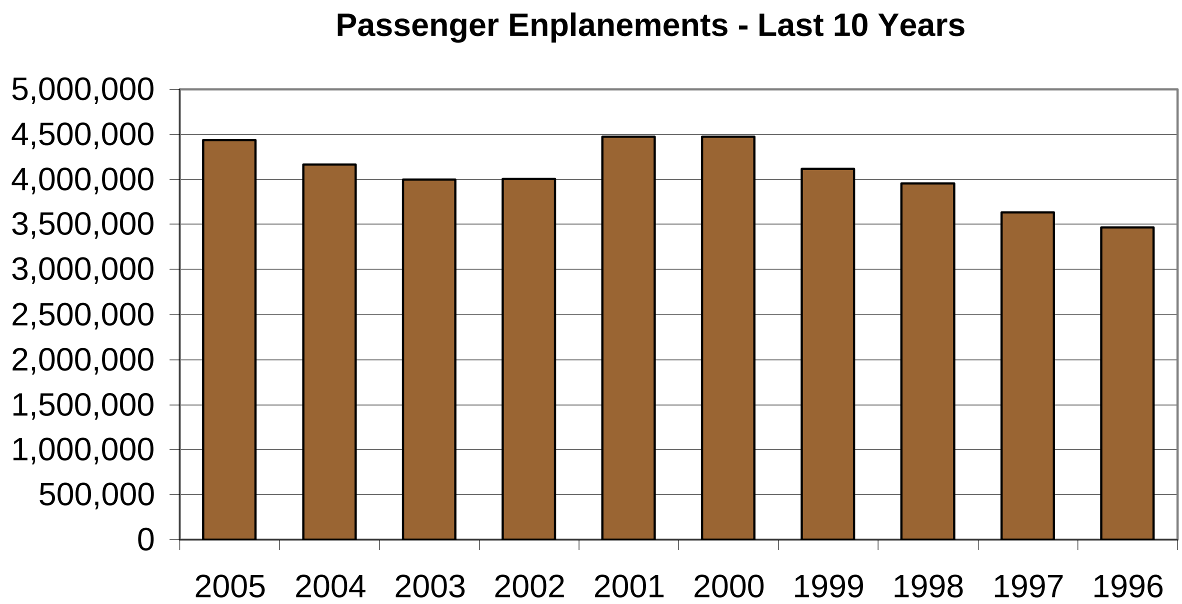
*-Capital Improvement Fund

Working Capital & Other Changes	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Decrease (Increase) in:										
Accounts Receivable	$(216)	$1,336	$(934)	$(325)	$147	$711	$(317)	$(196)	$(347)	$91
PFC Receivable	(133)	565	(181)	512	(258)	(265)	(16)	(209)	242	(237)
Receivables from Gov't Agencies	38	26	204	(302)	1,332	(639)	(538)	137	(298)	(16)
Inventory	55	(51)	58	117	31	(84)	(91)	(25)	(41)	(4)
Prepaid Expenses	29	34	(43)	(277)	(120)	31	99	(192)	(22)	1
Due to/from Other Airports	40	46	66	35	38	38	(9)	(499)	27	(16)
Increase (Decrease) in:										
Accounts Payable	(2,427)	1,838	(475)	82	(1,596)	(1,452)	3,791	1,670	440	(86)
Accrued Payroll	(106)	139	(169)	590	(61)	233	34	45	398	168
Other Adjustments:										
Amortization of Def Real Estate	1	1	1	1	1	1	1	1	1	1
Amortization of Def Rental Income	(35)	(35)	(46)	(103)	(181)	(63)	(185)	(170)	(208)	(144)
(Appreciation)/Depreciation of Investments	330	821	(80)	(209)	(770)	581	289			
(Gain)/ Loss on Disposal of PP&E	11	-	36	(59)	(50)	(2,013)	5	15	1,270	-
Working Capital & Other Change	$(2,413)	$4,720	$(1,563)	$62	$(1,487)	$(2,921)	$3,063	$577	$1,462	$(242)

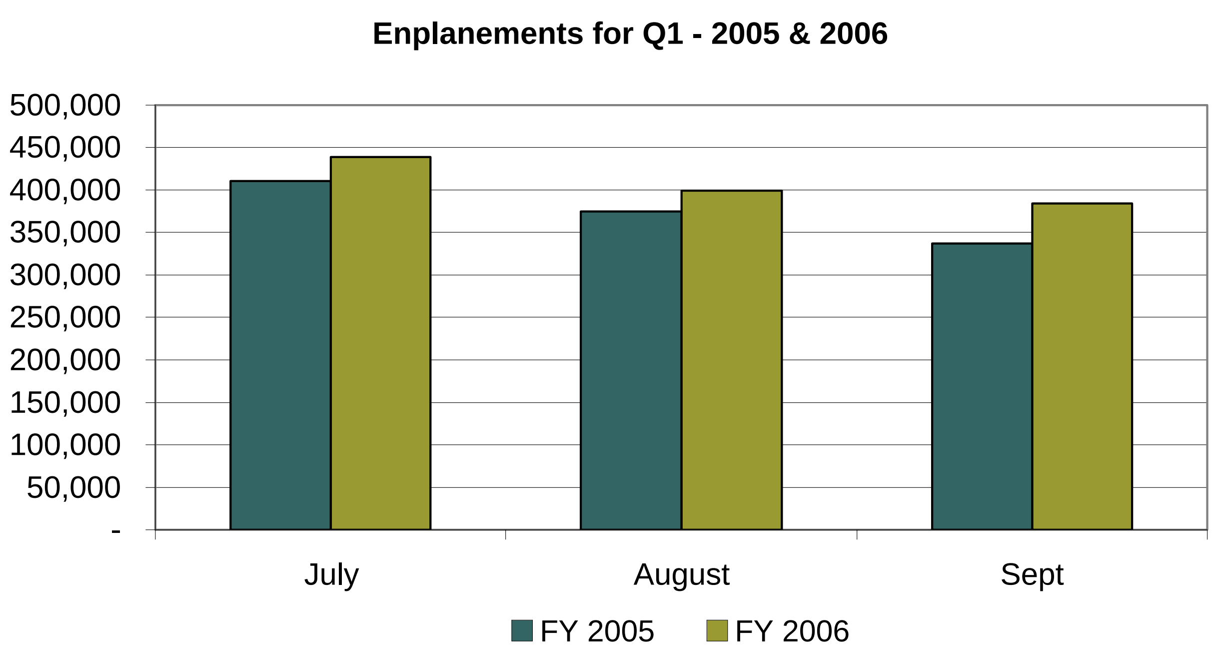
NASHVILLE INTERNATIONAL AIRPORT
Passenger Enplanements

MAJOR/SIGNATORY AIRLINES	% of Total	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
American Airlines	9.1%	405,642	404,473	394,741	459,884	448,155	528,165	580,932	610,522	688,883	951,151
American Eagle	3.3%	148,527	91,112	47,698	14,970	18,854	17,807	25,583	25,008	26,777	313,938
Continental Airlines	2.6%	113,293	170,460	172,331	176,600	181,295	191,334	168,551	174,808	189,292	122,657
Delta Air Lines Inc.	7.4%	329,373	296,148	328,344	375,817	515,790	569,408	577,238	599,052	578,875	417,470
Northwest Airlines Inc.	8.4%	372,211	355,339	334,019	310,036	352,263	379,399	341,804	350,448	332,415	304,987
Southwest Airlines	47.3%	2,097,881	2,089,884	2,019,190	2,065,784	2,190,997	1,988,147	1,586,435	1,362,600	1,035,214	642,789
TWA	0.0%	-	-	-	50,426	128,389	132,676	124,608	120,597	104,356	97,788
United Airlines	0.0%	-	-	-	1,198	119,894	156,783	167,069	153,243	159,831	120,321
USAirways	5.6%	248,946	214,379	235,533	244,062	302,781	317,026	349,450	376,541	371,317	307,918
Sub Total	83.7%	3,715,873	3,621,795	3,531,856	3,698,777	4,258,418	4,280,745	3,921,670	3,772,819	3,486,960	3,279,019
REGIONAL/NON-SIGNATORY AIRLINES											
Air Canada d/b/a Jazz Air	0.2%	9,894	17,689	19,520	20,395	26,933	28,944	28,589	23,591	-	-
Air Midwest	0.0%	-	-	2,548	4,650	9,523	6,507	9,732	16,475	-	-
Air Wisconsin	0.8%	36,447	43,331	19,466	31,549	22,477	-	-	-	-	-
American Connection/Chautauqua	0.2%	10,092	13,322	72,111	-	-	-	-	-	-	-
Astral Aviation d/b/a Skyway	0.3%	15,101	12,787	13,494	11,985	11,124	8,074	7,148	6,468	6,311	570
Atlantic Coast Airlines	0.0%	-	65,943	100,239	84,722	-	-	-	-	-	-
Delta/Chautauqua	1.2%	54,716	64,511	15,563	-	-	-	-	-	-	-
Comair	2.4%	108,084	77,733	98,917	62,555	40,789	59,099	63,753	48,389	57,816	68,286
Regionsair Inc	0.3%	15,085	16,784	20,800	13,727	10,832	11,506	13,169	30,793	18,295	-
Delta Connection/Atlantic Coast	0.2%	6,990	25,972	16,829	24,276	5,863	-	-	-	-	-
Continental Express d/b/a ExpressJet	1.5%	67,513	-	-	-	-	-	-	-	-	-
Frontier Airlines	1.5%	66,344	2,046	-	-	-	-	-	-	-	-
Independence Air	1.3%	59,187	-	-	-	-	-	-	-	-	-
Mesa Airlines	4.7%	208,941	104,977	3,982	5,508	13,877	11,858	4,854	-	-	-
Pace Airlines	0.1%	4,332	9,569	10,428	4,622	-	-	-	-	-	-
US Air/Trans State Airlines	0.8%	34,026	33,983	10,557	1,899	-	-	-	-	-	-
Delta/Skywest	0.0%	-	24,494	19,132	4,469	-	-	-	-	-	-
United/Skywest	0.4%	17,624	15,309	21,049	-	-	-	-	-	-	-
US Air d/b/a US Air Express	0.1%	5,519	4,804	-	13,556	13,577	14,605	12,790	13,227	14,926	12,612
All Others	0.1%	-	9,563	20,074	14,386	43,841	33,051	38,304	21,976	32,740	95,524
Sub Total	16.2%	719,895	542,817	464,709	298,299	198,836	173,644	178,339	160,919	130,088	176,992
CHARTERS	0.0%	2,624	2,208	1,415	7,331	16,909	19,268	14,037	19,940	12,442	10,302
TOTAL	100.0%	**4,438,392**	**4,166,820**	**3,997,980**	**4,004,407**	**4,474,163**	**4,473,657**	**4,114,046**	**3,953,678**	**3,629,490**	**3,466,313**

NASHVILLE INTERNATIONAL AIRPORT
Passenger Enplanements



MNAA is returning to a growth mode for the first time in four years as enplanements exceeding 4.4 million passengers. Enplanements for the first three months of fiscal year 2006 are up 9% over the same period a year ago at 1,222,540.

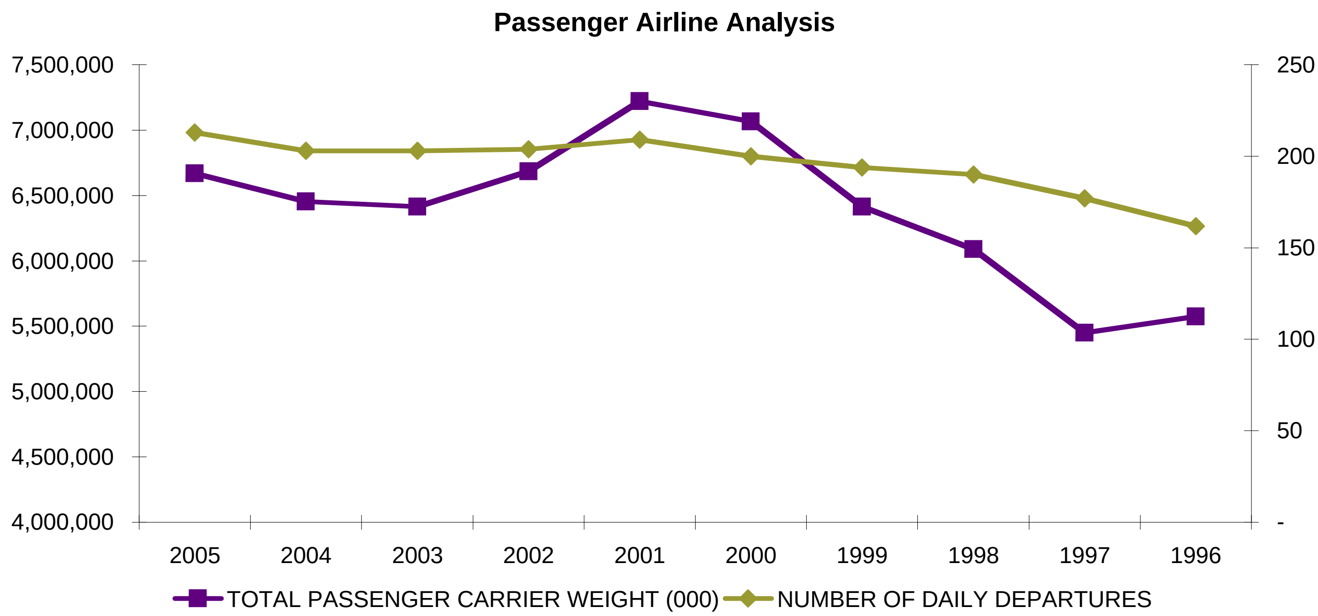


NASHVILLE INTERNATIONAL AIRPORT
Airline Landed Weights (000's)

MAJOR/SIGNATORY AIRLINES	% of Total	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
American Airlines	8.5%	567,963	624,363	585,052	755,178	725,448	798,569	746,910	771,565	889,393	1,458,711
American Eagle	3.0%	201,774	108,377	58,641	32,413	37,889	25,568	29,914	34,714	39,590	470,020
Continental Airlines	2.1%	143,285	223,020	228,955	256,644	253,386	285,965	256,718	248,681	278,141	208,517
Delta	6.7%	449,781	435,374	490,498	672,503	902,990	960,768	990,504	1,055,083	953,842	726,253
Northwest Airlines	7.6%	508,023	501,271	511,171	454,697	529,846	535,730	494,015	501,118	481,295	470,983
Southwest	53.5%	3,566,231	3,566,775	3,560,773	3,577,728	3,585,272	3,226,360	2,706,833	2,269,760	1,706,746	1,294,069
TWA	0.0%	-	-	-	93,869	212,066	219,643	205,254	187,901	177,982	186,968
United	0.0%	-	-	-	1,560	194,098	232,839	221,499	211,828	198,159	165,084
USAir	4.9%	326,295	300,443	375,039	427,338	496,831	504,236	488,274	524,925	476,773	456,381
Sub Total	86.4%	5,763,352	5,759,622	5,810,129	6,271,930	6,937,825	6,789,679	6,139,920	5,805,576	5,201,920	5,436,986
REGIONAL/NON-SIGNATORY AIRLINES											
Air Canada	0.3%	17,014	29,281	33,765	35,457	45,567	46,680	45,257	36,942	39,818	7,223
Air Wisconsin	0.6%	41,344	52,969	21,103	35,120	18,252	-	-	-	-	-
American Connection/Chautauqua	0.2%	15,707	20,448	80,207	6,777	-	-	-	-	-	-
Astral Aviation/Skyway	0.0%	-	19,953	23,605	23,126	19,620	13,144	9,821	10,159	12,268	-
Atlantic Coast Jet, Inc.	0.0%	-	34,992	22,207	40,099	11,643	-	-	-	-	-
Chautauqua/Delta	1.0%	68,125	81,621	20,848	-	-	-	-	-	-	-
Comair	2.3%	151,207	113,857	131,318	80,652	56,917	92,167	96,640	81,056	95,836	101,422
Regionsair (formerly Corporate Express)	0.4%	27,675	26,988	34,886	23,394	16,983	18,106	18,840	52,275	49,699	-
Continental Express d/b/a ExpressJet	1.1%	74,135	-	-	-	-	-	-	-	-	-
Frontier Airlines	1.6%	104,454	-	-	-	-	-	-	-	-	-
Great Plains	0.0%	-	10,544	21,216	24,447	4,691	-	-	-	-	-
Independence Air	1.4%	96,350	-	-	-	-	-	-	-	-	-
Mesa Airlines	2.8%	189,865	63,588	-	-	-	-	-	-	-	-
Midway	0.0%	-	6,862	9,682	-	-	-	-	-	-	-
Pace Airlines	0.1%	7,354	16,109	18,920	7,480	-	-	-	-	-	-
Skyway	0.4%	23,605	31,725	22,419	5,546	-	-	-	-	-	-
United/Skywest	0.3%	19,130	17,625	22,560	-	-	-	-	-	-	-
Trans States Airlines	0.7%	48,943	43,228	10,978	2,350	-	-	-	-	-	-
US Air Express/Chautauqua	0.1%	7,608	6,503	-	20,377	28,758	29,291	26,477	25,128	26,949	21,473
United Express/Atlantic Coast	0.1%	9,930	83,801	127,746	97,952	50,305	50,243	50,243	28,670	-	-
All Others	0.0%	-	8,241	14,307	17,743	31,288	13,712	27,540	47,440	17,041	168,178
Sub Total	13.5%	902,446	660,093	601,460	402,777	252,735	249,632	247,277	234,229	224,570	130,118
CHARTERS	0.1%	4,554	36,048	3,296	9,602	30,966	27,878	27,104	49,850	22,547	4,240
TOTAL PASSENGER CARRIER WEIGHT (000)	100.0%	6,670,352	6,455,764	6,414,885	6,684,309	7,221,526	7,067,188	6,414,301	6,089,654	5,449,037	5,571,344
CARGO & MISC CARRIER WEIGHT (000)		629,406	596,258	554,642	493,343	437,154	299,596	279,980	326,441	311,354	471,536
TOTAL WEIGHT ALL AIRCRAFT (000)		**7,299,758**	**7,052,022**	**6,969,527**	**7,177,652**	**7,658,680**	**7,366,784**	**6,694,281**	**6,416,095**	**5,760,391**	**6,042,880**
% PASSENGER CARRIER WEIGHT		**91%**	**92%**	**92%**	**93%**	**94%**	**96%**	**96%**	**95%**	**95%**	**92%**
NUMBER OF DAILY DEPARTURES		**213**	**203**	**203**	**204**	**209**	**200**	**194**	**190**	**177**	**162**

The percentage of landed weight attributable to passenger aircraft has steadily declined in the past six years. The increase in total landed weight for all aircraft has increased the past three years primarily due to the addition of China Airlines and its cargo activity.

NASHVILLE INTERNATIONAL AIRPORT



METROPOLITAN NASHVILLE AIRPORT AUTHORITY
Aircraft Activity

	2005	2004	2003	2002	2001	2000
Daily Departures	**213**	**203**	**203**	**204**	**209**	**200**

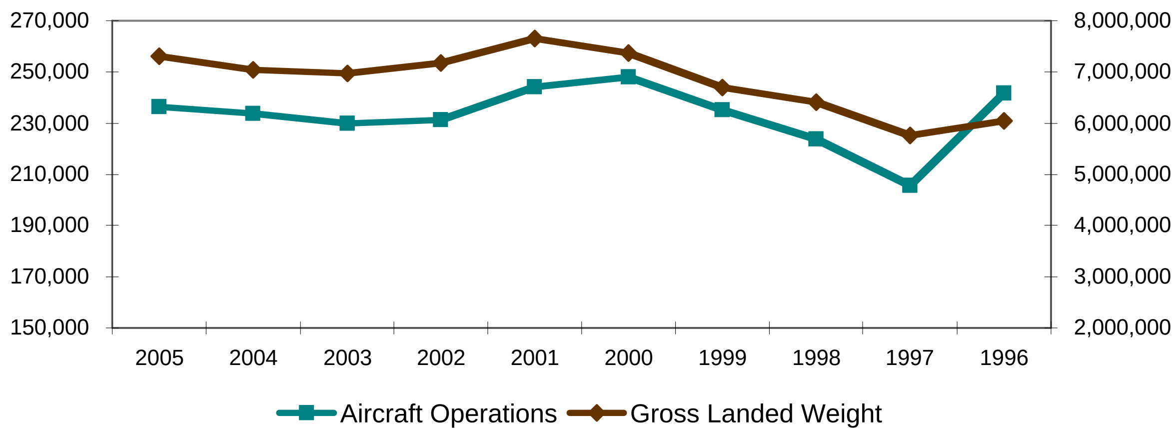
This represents a typical business day during June of each fiscal year and the number of departures scheduled for that particular day. Service levels have steadily increased at Nashville International Airport to accommodate increasing passenger demand and destination needs.

Aircraft Operations										
Cargo Carrier	5,702	5,340	5,184	5,052	5,377	3,678	4,128	4,382	4,144	4,176
Charter Carrier	-	-	36	142	417	464	424	636	298	452
Charter International	-	8	-	-	64,940	75,532	72,048	69,648	62,720	60,809
General Aviation	51,429	54,443	53,012	60,128	40,899	53,616	48,864	41,802	20,846	17,753
General Aviation Air Taxi	36,954	9,052	13,602	23,288	109,907	91,627	85,885	79,389	90,654	90,345
Major Carrier	91,747	121,258	120,358	115,532	4,175	4,519	4,664	4,524	4,371	4,246
Military Aircraft	3,947	3,600	3,541	3,827	18,472	18,620	19,136	23,464	22,563	63,970
Regional Carrier	46,673	40,044	34,226	23,414						
Total Aircraft Operations	**236,452**	**233,745**	**229,959**	**231,383**	**244,187**	**248,056**	**235,149**	**223,845**	**205,596**	**241,751**

Gross Landed Weight (000)										
Cargo Carrier	560,404	509,962	532,168	464,413	378,975	254,704	244,586	275,586	247,310	257,473
Charter Carrier	-	440	1,194	6,491	13,015	1,041	19,683	32,158	5,636	4,240
Charter International	299	35,608	2,102	9,937	23,143	41,729	8,248	27,322	16,911	-
Major Carrier	5,565,483	5,651,245	5,751,488	6,240,424	6,899,936	6,764,111	6,110,007	5,770,862	5,162,330	4,967,238
Military Aircraft	-	-	2,867	-	-	-	-	-	-	-
Regional Carrier	1,179,488	845,148	679,707	456,388	343,611	305,199	311,758	310,168	328,204	813,930
Total Gross Landed Weight	**7,305,674**	**7,042,403**	**6,969,526**	**7,177,653**	**7,658,680**	**7,366,784**	**6,694,282**	**6,416,096**	**5,760,391**	**6,042,881**

METROPOLITAN NASHVILLE AIRPORT AUTHORITY
Aircraft Activity

Aircraft Operations and Gross Landed Weight (000)



Aircraft operations reflect the activity levels during and after the time American Airlines maintained a hub, following September 2001 events, and recovery since then. Gross landed weight increased 27% from 1996 to 2001 and has declined 5% since that peak as the aircraft mix has changed. In the past three years both benchmarks indicate a stabilization in aircraft frequency and type serving Nashville International Airport.

Cargo (tons)										
Air Mail	3,421	3,479	3,964	7,654	16,223	18,512	16,684	16,716	19,396	19,254
Air Freight	6,369	6,394	5,343	5,682	7,451	8,293	6,177	6,740	6,925	8,737
Air Cargo - Domestic	35,778	34,517	33,555	31,698	40,804	38,382	34,324	39,421	37,727	37,412
Air Cargo - International	29,374	24,373	20,258	8,355	-	-	-	-	-	-
Total Cargo	**74,942**	**68,763**	**63,120**	**53,389**	**64,478**	**65,187**	**57,185**	**62,877**	**64,048**	**65,403**

The increase in cargo tonnage since fiscal year 2002 is attributable to China Airlines inbound and out-bound cargo for Dell Computers and various freight forwarding companies in Middle Tennessee.

METROPOLITAN NASHVILLE AIRPORT AUTHORITY
Schedule of Insurance in Force

As of June 30, 2005

Type of Coverage	Insurer	Coverage Amount	Expiration Date
Automobile	American Southern Insurance Co.	$1,000,000	3/1/06
Crime Coverage	Chubb / Federal Insurance Co.	$1,000,000	3/1/06
Fiduciary	Chubb / Federal Insurance Co.	$2,000,000	3/1/06
General Liability	ACE USA	$300,000,000	3/1/06
Property	Affiliated FM Insurance Co.	$240,352,362	3/1/06
Public Official Liability	Zurich America	$5,000,000	3/1/06
	XL Specialty Insurance Co.	$5,000,000	3/1/06
	Chubb / Federal Insurance Co.	$5,000,000	3/1/06
	XL Specialty Insurance Co.	$5,000,000	3/1/06
Workers' Compensation	Commerce & Industry Insurance Co.	$1,000,000	3/1/06

MAJOR TENANTS AT NASHVILLE INTERNATIONAL AIRPORT

Major/Signatory Carriers
American Airlines
American Eagle Airlines
Continental Airlines
Delta Airlines
Northwest Airlines
Southwest Airlines
USAir, Inc.

Regional/Non-signatory Carriers
Air Canada d/b/a Jazz Air
Air Wisconsin
Astral Aviation d/b/a Skyway
Chautauqua
Comair
Corporate Airlines
Mesa Airlines
Regionsair (formerly Corporate Express)
Skywest
Trans States Airline
US Air Express

Cargo Carriers
Airborne Express, Inc.
Astar Air Cargo, Inc.
Baron Aviation Services, Inc.
Bax Global, Inc.
China Airlines
Federal Express
Kitty Hawk Cargo, Inc.
Menlo Worldwide

Fixed Base Operators
Mercury Air
Signature Flight Support

Ground Transportation
Hotel Shuttles
Taxicab Companies
Limousine Companies

Ground Handlers
Cargo Charter Services
Dynair/Swissport
Resource Airways

Vehicle Parking
Central Parking Systems

Tenants at John C. Tune Airport
Corporate Flight Management
Robert Orr/Sysco

Other Airport Tenants
101st Airborne Restaurant
118th Airlift Wing
Aeronautical Radio
Aircraft Services International
Cahill & Dunn
Days Inn Hotel
Embraer Aircraft Maintenance
Falcon Transport
Federal Aviation Administration
Industrial Development Board
Lamar Outdoor Advertising
Metro Government
New Orleans Manor
State of Tennessee
Stiles Corporation
TN Aeronautics Commission
TN Dept of Transportation
Tower Group International
US Customs
US Govt Weather Service
US Postal Service
USDA

Other Terminal Tenants
24 Hour Flower
Country Western Tours/Grayline Tours
Delaware North (formerly CA One)
Interspace Airport Advertising
J&B Enterprises (Shoeshine Concession)
Jarmon Limousine
Massage Bar Inc
Nashville Nails
Opryland Hotel
Paradies Shops (News & Gift Concession)
SmarteCarte
SunTrust Bank
TSA
Wright Travel Business Center

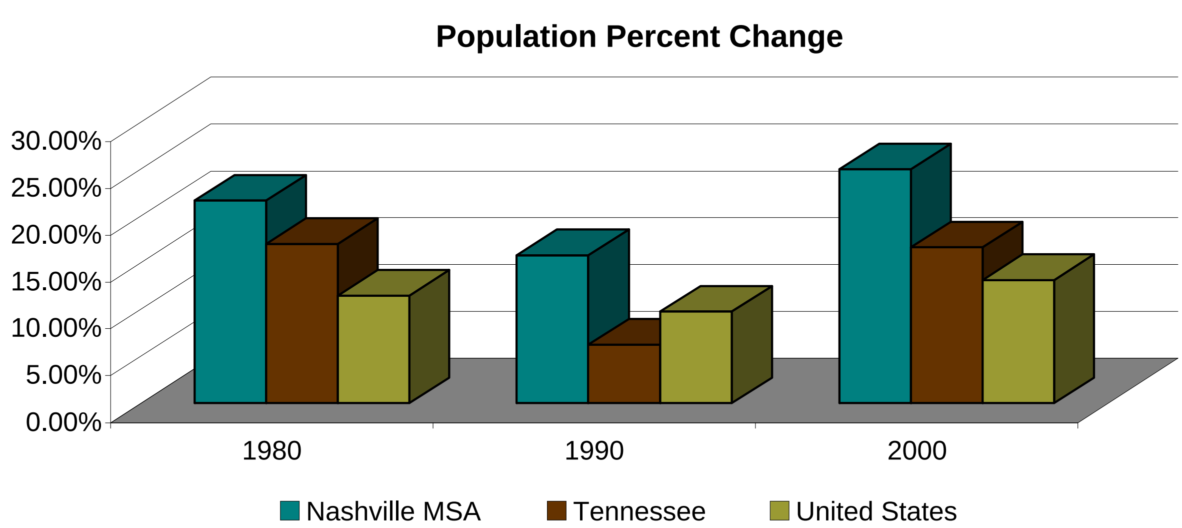
Rental Car
Avis
Budget
Burgner (Thrifty)
Dollar
Enterprise
Hertz
Vanguard (Alamo/National)

NASHVILLE METROPOLITAN STATISTICAL AREA*
POPULATION

Year	Nashville MSA	Tennessee	United States
1970	699,144	3,923,687	203,211,926
1980	850,505	4,591,120	226,545,805
1990	985,026	4,877,185	248,709,873
2000	1,231,311	5,689,283	281,421,906

*Metropolitan Statistical Area consists of Canon, Cheatham, Davidson, Dickson, Hickman, Macon, Robertson, Rutherford, Smith, Sumner, Trousdale, Williamson, and Wilson Counties.

Sources: U.S Census Bureau, Nashville Area Chamber of Commerce



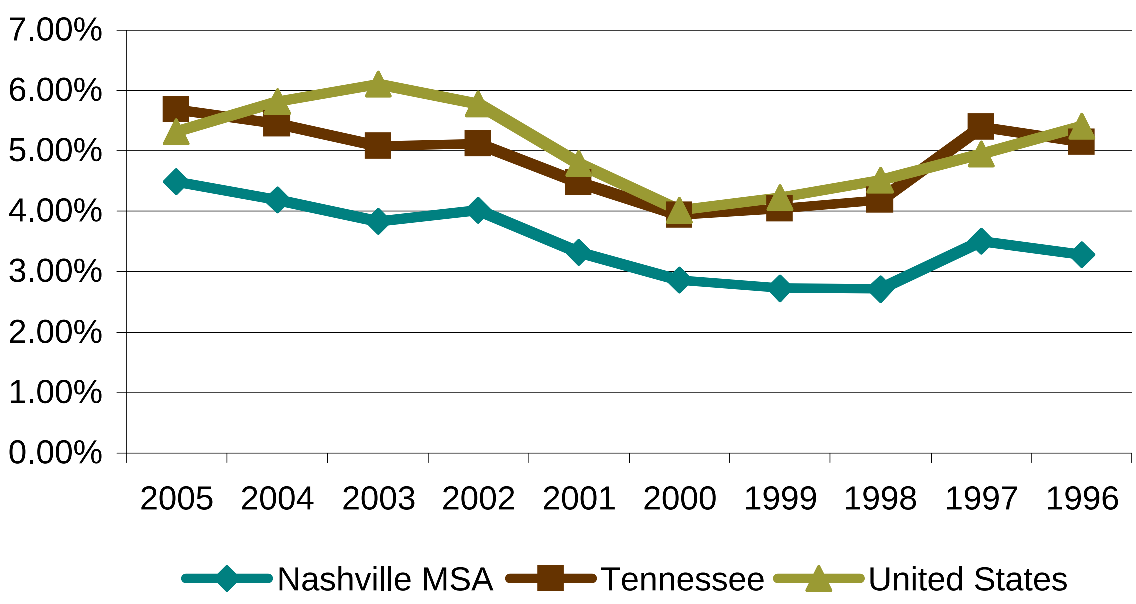
NASHVILLE METROPOLITAN STATISTICAL AREA*
UNEMPLOYMENT RATE

Year	Nashville MSA	Tennessee	United States
2005	4.49%	5.68%	5.31%
2004	4.19%	5.45%	5.81%
2003	3.83%	5.08%	6.10%
2002	4.01%	5.12%	5.78%
2001	3.32%	4.47%	4.79%
2000	2.85%	3.94%	4.01%
1999	2.73%	4.04%	4.23%
1998	2.71%	4.18%	4.51%
1997	3.50%	5.39%	4.95%
1996	3.28%	5.15%	5.41%

In addition, the U.S. Department of Labor's Bureau of Labor Statistics reported that the number of employees on nonfarm payrolls for the Nashville-Davidson-Murfreesboro MSA increased from 709,500 at June 30, 2004, to 721,400 at June 30, 2005, a 1.7% increase.

*Metropolitan Statistical Area consists of Canon, Cheatham, Davidson, Dickson, Hickman, Macon, Robertson, Rutherford, Smith, Sumner, Trousdale, Williamson, and Wilson Counties.

Source: U.S Bureau of Labor Statistics



NASHVILLE METROPOLITAN AREA TOP 50 EMPLOYERS
(Ranked by Number of Local Employees)

	Employer	Headquarters	Area Employees
1	State of Tennessee	Nashville	19,234
2	Vanderbilt University and Medical Center	Nashville	16,327
3	U. S. Government	Washington	11,116
4	Metropolitan Govt of Nashville and Davidson County	Nashville	11,108
5	Metro Nashville Davidson County Public Schools	Nashville	10,500
6	HCA Inc.	Nashville	9,657
7	Saint Thomas Health Services	Nashville	8,500
8	Nissan North America Inc.	Gardena CA	6,600
9	Shoney's Inc.	Nashville	4,000
10	Sumner County Govt and Public Schools	Gallatin	3,996
11	CBRL Group Inc.	Lebanon	3,675
12	Williamson County Public Schools and County Govt	Franklin	3,600
13	Gaylord Entertainment Co.	Nashville	3,451
14	Wal-Mart Stores Inc.	Bentonville AR	3,110
15	Rutherford County Board of Education and County Govt	Murfreesboro	3,100
16	Century II Staffing Co.	Brentwood	3,000
17	Bridgestone Americas Holding Inc.	Nashville	2,930
18	BellSouth Inc.	Atlanta GA	2,839
19	Ingram Industries Inc.	Nashville	2,750
20	Kroger Co.	Cincinnati OH	2,596
21	YMCA of Middle Tennessee	Nashville	2,550
22	Dept of Veterans Affairs Tennessee Valley Healthcare System	Washington	2,400
23	Primus Automotive Financial Services	Franklin	2,400
24	Randstad Work Solutions	Atlanta GA	2,169
25	Middle Tennessee State University	Murfreesboro	1,867
26	United Parcel Service	Atlanta GA	1,800
27	Wilson County Schools	Lebanon	1,620
28	Verizon Wireless	Bedminster NJ	1,550
29	AmSouth Bank	Nashville	1,521
30	Whirlpool	Benton Harbor MI	1,500
31	Tyson Foods Inc.	Springdale AR	1,500
32	Electrolux Home Products	Augusta GA	1,500
33	Dell Corp.	Round Rock TX	1,500
34	The Aerostructures Corp.	Nashville	1,500
35	LifeWay Christian Resources	Nashville	1,454
36	CNA Insurance	Chicago IL	1,400
37	SunTrust Bank Nashville	Atlanta GA	1,300
38	Lowes Companies Inc.	Mooresville NC	1,265
39	Tennessee State University	Nashville	1,200
40	Thomas Nelson Inc.	Nashville	1,200
41	Toshiba America Consumer	Wayne NJ	1,188
42	Robertson County Public Schools and County Govt	Springfield	1,180
43	O'Charley's Inc.	Nashville	1,120
44	American General Life & Accident Insurance Co.	New York City NY	1,073
45	Borders Group Distribution Division	Ann Arbor MI	1,070
46	Deloitte	Wilton CT	1,032
47	State Farm Insurance Cos.	Bloomington IL	1,025
48	Centerstone	Nashville	1,000
49	Cheatham County Public Schools and County Govt	Ashland City	1,000
50	Wendy's	Dublin OH	1,000

Source: Nashville Business Journal's Book of Lists 2005 (nashville.bizjournals.com)

NASHVILLE METROPOLITAN AREA TOP 25 PUBLIC COMPANIES
(Ranked by Prior Four Quarters' Revenue)

	Employer	Headquarters
1	HCA Inc.	Nashville
2	Caremark Rx Inc.	Nashville
3	Dollar General Corp.	Goodlettsville
4	Community Health Systems Inc.	Brentwood
5	CBRL Group Inc.	Lebanon
6	Tractor Supply Co.	Nashville
7	Central Parking Corp.	Nashville
8	Corrections Corp. of America	Nashville
9	Renal Care Group Inc.	Nashville
10	LifePoint Hospitals Inc.	Brentwood
11	Genesco Inc.	Nashville
12	O'Charley's Inc.	Nashville
13	Province Healthcare Co.	Brentwood
14	America Service Group Inc.	Brentwood
15	Gaylord Entertainment Co.	Nashville
16	National HealthCare Corp.	Murfreesboro
17	Psychiatric Solutions Inc.	Franklin
18	American Retirement Corp.	Brentwood
19	Direct General Corp.	Nashville
20	American HomePatient Inc.	Brentwood
21	AmSurg Corp.	Nashville
22	iPayment Inc.	Nashville
23	Thomas Nelson Inc.	Nashville
24	American Healthways Inc.	Nashville
25	Healthcare Realty Trust Inc.	Nashville

Source: Nashville Business Journal's Book of Lists 2005 (nashville.bizjournals.com)