



**CONVENTION CENTER AUTHORITY OF THE
METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**

Financial Statements

June 30, 2010

**CONVENTION CENTER AUTHORITY OF THE
METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**

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**CONVENTION CENTER AUTHORITY OF THE
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Management's Discussion and Analysis

This section of the Convention Center Authority of the Metropolitan Government of Nashville and Davidson County (Authority) annual financial report presents management's discussion and analysis (MD&A) of financial performance during the period from inception (August 10, 2009) through June 30, 2010, which is the Authority's first year of existence. This MD&A should be read in conjunction with the Authority's financial statements and footnotes.

Overview of the Financial Statements

The Authority's financial report consists of this MD&A, financial statements, and footnotes to the financial statements. The Authority's financial statements are prepared using accounting principles generally accepted in the United States of America as applied to governmental units using the economic resources measurement focus and the accrual basis of accounting where revenues are recognized when earned and expenses recognized when incurred, regardless of the timing of related cash flows.

All assets and liabilities of the Authority at June 30, 2010 are included in the Statement of Net Assets. During the period from inception through June 30, 2010, the Authority's revenues and expenses are reported in the Statement of Revenue, Expenses, and Changes in Net Assets. The Statement of Cash Flows reports receipts, cash payments and net changes in cash resulting from operating, financing and investing activities. Because the Authority was created August 10, 2009, and this is the Authority's first period of activity, comparative financial statements are not available.

Financial Analysis

The Authority's net assets as of June 30, 2010 are as follows (in thousands of dollars):

Current assets – restricted	\$	26,142
Capital assets		80,904
Other non-current assets		<u>539,898</u>
Total assets		<u>646,944</u>
Current liabilities		15,662
Revenue bonds payable		<u>624,503</u>
Total liabilities		<u>640,165</u>
Net assets:		
Restricted for debt retirement		<u>6,779</u>
Total net assets	\$	<u><u>6,779</u></u>

The Authority was created to develop, acquire, construct and then operate a new convention center (the Music City Center) within the boundaries of The Metropolitan Government of Nashville and Davidson County (Metropolitan Government). During the period from inception through June 30, 2010, the Authority issued revenue bonds for and began construction of the Music City Center. Construction is expected to be complete and operation of the Music City Center is expected to begin in 2013. As more fully described in the financial statements and footnotes, the Authority's assets consist primarily of cash and investments restricted for construction and debt service, land and construction in progress related to

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the Music City Center, and prepaid bond issue costs. Liabilities consist of current amounts payable related to construction and debt service and the revenue bonds payable.

The Authority's change in net assets for the period from inception through June 30, 2010, was as follows (in thousands of dollars):

Non-operating income	\$	6,779
Net increase in net assets	\$	6,779

As noted above, the Authority has not begun operations. The operating loss is related to net amortization of bond premiums and bond issuance costs. Non-operating income is related to tourism tax revenues pledged by the Metropolitan Government and remitted to the Authority and interest income earned on invested bond proceeds and debt service reserve funds.

Capital Assets and Long-term Debt

During the period from inception through June 30, 2010, the Authority acquired land at a cost of \$42,670,554 and spent \$38,178,738 for construction of the Music City Center. Additionally, the Authority issued revenue bonds totaling \$623,215,000, plus a premium of \$1,301,329, to finance the construction of the Music City Center. As more fully described in Note 6 to the Financial Statements, the revenue bonds were issued in three series: Series 2010A-1, Series 2010A-2, and Series 2010B. The ratings on the revenue bonds issued were as follows.

	Series A Bonds	Series B Bonds
Moody's	A2	AA3
Standard & Poors	A	A
Fitch	A+	A+

Other Matters

Effective July 1, 2010, the Authority assumed responsibility for managing the existing Nashville Convention Center.

As more fully described in Note 10 to the Financial Statements, subsequent to June 30, 2010, the Authority Board entered into an agreement with Omni Hotels to develop a premier convention center hotel adjacent to the Music City Center. The hotel will be operated as a Four-Diamond hotel under the American Automobile Association (AAA) designation. Omni will privately finance the hotel at its sole expense, and the Authority will make annual payments to Omni from certain tourism taxes generated by the hotel and pledged to the Authority by the Government.

Requests for additional financial information should be directed to Finance Department – Division of Accounts, 700 Second Avenue South, Suite 310, Nashville, TN 37210.



KPMG LLP
Suite 1000
401 Commerce Street
Nashville, TN 37219-2422

Independent Auditor's Report

The Audit Committee
Convention Center Authority of the Metropolitan
Government of Nashville and Davidson County

We have audited the accompanying statements of net assets of the Convention Center Authority of the Metropolitan Government of Nashville and Davidson County (the Authority), a component unit of the Metropolitan Government of Nashville and Davidson County, as of June 30, 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the period from inception (August 10, 2009) to June 30, 2010. These financial statements are the responsibility of the Convention Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Convention Center'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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Convention Center as of June 30, 2010, and the its changes in financial position, and cash flows for the period from inception (August 10, 2009) to June 30, 2010, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2010 on our consideration of the Convention Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The management's discussion and analysis on pages 1 and 2 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. The supplementary information is the responsibility of the Convention Center's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

October 22, 2010

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Statement of Net Assets

June 30, 2010

Assets

Current assets:

 Restricted for construction funds:

Cash and cash equivalents	\$ 7,686,308
Accrued interest receivable	2,168,245
Deposits	4,906,708
Prepaid expenses	223,077

 Restricted for debt service and reserve funds:

Cash and cash equivalents	7,976,063
Accrued interest receivable	124,972
Due from the primary government	1,198,258
Accounts receivable	1,858,586

Total current assets	26,142,217
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Other noncurrent and capital assets:

 Restricted for construction funds:

Cash and cash equivalents	105,262,748
Investments	368,559,745

 Restricted for debt service and reserve funds:

Cash and cash equivalents	2,165,107
Investments	56,679,403
Unamortized bond issuance costs	7,230,904

Total noncurrent assets	539,897,907
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Capital assets:

Land	42,670,554
Construction work in progress	38,233,501

Total capital assets	80,904,055
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Total other noncurrent and capital assets	620,801,962
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Total assets	\$ 646,944,179
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Liabilities and Net Assets

Current liabilities:

 Liabilities payable from restricted assets:

 Construction funds:

Accounts payable	\$ 7,595,432
Accrued payroll	88,457
Due to the primary government	2,419

 Debt service and reserve funds:

Accrued interest payable	7,976,063
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Total current liabilities	15,662,371
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Long-term revenue bonds payable

624,502,913

Total liabilities	640,165,284
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Net assets:

Restricted for debt retirement	6,778,895
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Total net assets	6,778,895
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Total liabilities and net assets	\$ 646,944,179
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See accompanying notes to financial statements.

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Statement of Revenue, Expenses and Changes in Net Assets

From Inception (August 10, 2009) through June 30, 2010

Nonoperating revenue:	
Tourism tax revenue	\$ 4,981,699
Investment income	<u>1,797,196</u>
Total non-operating revenue	<u>6,778,895</u>
Net increase in net assets	6,778,895
Net assets, beginning of year	<u>—</u>
Net assets, end of year	<u><u>\$ 6,778,895</u></u>

See accompanying notes to financial statements.

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Statement of Cash Flows

From Inception (August 10, 2009) through June 30, 2010

Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	\$ (67,268,584)
Deposit for land acquisition	(4,906,708)
Proceeds from sale of revenue bonds	623,215,000
Interest income	6,170
Premium on revenue bonds	1,301,329
Revenue bond issue costs	(7,299,084)
	<hr/>
Net cash provided by capital and related financing activities	545,048,123
	<hr/>
Cash flows from noncapital financing activities:	
Purchases of investments	(431,967,622)
Proceeds from sales and maturities of investments	6,226,284
Payment from primary government	3,783,441
	<hr/>
Net cash used in noncapital financing activities	(421,957,897)
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Cash and cash equivalents at end of year	\$ 123,090,226
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See accompanying notes to financial statements.

**CONVENTION CENTER AUTHORITY OF THE
METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**

Notes to the Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The Convention Center Authority of the Metropolitan Government of Nashville and Davidson County (the Authority) was formed by Resolution of the Metropolitan Council of the Metropolitan Government of Nashville and Davidson County, Tennessee (the Metropolitan Government) on August 10, 2009 (date of inception) under the State of Tennessee Convention Center Authorities Act of 2009. The Authority is governed by a nine member Board of Directors appointed by the Mayor and confirmed by the Metropolitan Council. The Authority is responsible for the acquisition, development and construction of a new convention center – the Music City Center – and will be responsible for its operation once completed.

The Authority is a public nonprofit corporation and public instrumentality of the Metropolitan Government and is a component unit of the Metropolitan Government. The Authority and the Metropolitan Government have entered into an Interlocal Agreement for the Metropolitan Government to provide comprehensive financial management services to the Authority, among other services. Accordingly, the accounting policies of the Authority are the same as those adopted by the Metropolitan Government.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applied to governmental units. 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 not to apply any Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989. The Authority's most significant accounting policies are summarized below.

(b) Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

(c) Assets, Liabilities, and Net Assets

Cash and cash equivalents – Cash and cash equivalents include amounts in demand deposits and highly liquid short-term investments with maturity dates within three months of the date of acquisition.

Investments – Investments consist primarily of U.S. Government securities and are stated at fair value. The Authority also invests in the Metropolitan Government's Investment Pool, which is invested in the Tennessee Local Government Investment Pool (LGIP) maintained and managed by the State of Tennessee. The LGIP is not registered with the Securities and Exchange Commission (SEC) but does operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Accordingly, the Authority's investments in the LGIP have been determined based on the Pool's share price. Investment income consists of interest earned on investments and realized and unrealized appreciation or depreciation in the fair value of investments.

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June 30, 2010

Amounts due from and due to the Metropolitan Government – Amounts due from the Metropolitan Government consist primarily of certain tourism tax revenues collected by the Metropolitan Government and pledged to the Authority for the repayment of revenue bonds, which are accrued as those taxes are earned by the Metropolitan Government. Such amounts are remitted to the Authority within 10 days of collection by the Metropolitan Government and are reported as tourism tax revenue, a non-operating revenue of the Authority. Amounts due to the Metropolitan Government consist primarily of payments due for services provided by the Metropolitan Government to the Authority that are accrued as those services are provided and for reimbursement for certain goods and services purchased by the Metropolitan Government on behalf of the Authority.

Restricted assets and liabilities – Restricted assets consist of bond proceeds restricted for construction and for debt service reserve funds and of amounts accumulated for debt service. Assets held as debt service reserves and assets held for debt service payments are held by a trustee and are not available to the Authority for other purposes. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Capital assets – Capital assets, which include property, buildings, furniture and equipment, are generally defined as assets with an individual cost in excess of \$5,000 and a useful life in excess of one year. Such assets are recorded at historical cost at the time of acquisition. Major outlays for capital assets and improvements and all expenses incurred in support of construction are capitalized as projects are constructed. Net interest cost incurred during the construction of facilities is capitalized as part of the cost of those facilities. Capitalized interest and amortization totaled \$2,684,042 for the period from inception to June 30, 2010. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The Authority does not have depreciable assets at June 30, 2010.

Compensated absences – General policy of the Authority permits the accumulation, within certain limitations, of unused vacation days and sick leave. Vacation days may accumulate to an amount equal to three times the current annual vacation accrual rate. Although sick pay may accumulate, no amounts are vested in the event of employee termination. Accumulated unpaid vacation pay is reported with accrued payroll.

Bond premiums and issuance costs – Bond premiums and issuance costs are deferred and amortized over the term of the related bonds.

Operating and non-operating revenues and expenses – Operating revenues and expenses generally result from providing services and producing and delivering goods and services in connection with the Authority's ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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Notes to the Financial Statements

June 30, 2010

(d) *Recently Issued Accounting Standards*

The Authority has adopted the following new accounting pronouncements since the date of inception:

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, required for fiscal periods beginning after June 15, 2009. This Statement establishes accounting and financial reporting requirements for intangible assets. The adoption had no impact on the Authority's financial statements.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, required for fiscal periods beginning after June 15, 2009. This Statement requires governments to measure most derivative instruments at fair value in financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The adoption had no impact on the Authority's financial statements.

GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, required for fiscal periods beginning after June 15, 2009. This Statement provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The adoption of this Statement had no impact on the Authority's financial statements.

The Authority plans to adopt the following new accounting pronouncements when required:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, required for fiscal periods beginning after June 15, 2010. This Statement establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The adoption of this Statement is not expected to impact the Authority's financial statements.

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, required for fiscal periods beginning after June 15, 2011. Certain provisions were effective upon issuance, were adopted by the Authority in fiscal 2010, and had no impact on the Authority's financial statements. This Statement addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The adoption of this Statement is not expected to impact the Authority's financial statements.

GASB Statement No. 59, *Financial Instruments Omnibus*, required for fiscal periods beginning after June 15, 2010. This Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. Management is in the process of determining the effects that the adoption of this Statement will have on the Authority's financial statements.

(2) Cash and Investments

The Authority is authorized by policy to invest funds that are not immediately needed in: United States Treasury Bills, Bonds and Notes; The State of Tennessee Local Government Investment Pool; most bonds issued by U.S. Government Agencies; and other investments such as repurchase agreements. The Authority is authorized to invest in these instruments either directly or through the Metropolitan

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June 30, 2010

Government's Investment Pool, which is invested in the State of Tennessee Local Government Investment Pool.

At June 30, 2010, the Authority had the following deposits and investments:

Investment Type	Fair value	Weighted average maturity (in Years)
Construction funds:		
Cash on deposit	\$ 79,238,655	—
Certificate of deposit	20,000,000	0.83
Metropolitan Government investment pool	13,681,771	0.24
U.S. Treasury money market funds	28,630	—
Cash and cash equivalents	112,949,056	
U.S. Government Agencies	368,559,745	1.36
Debt service and reserve funds:		
Metropolitan Government investment pool	1,876,896	0.24
U.S. Treasury money market funds	8,264,274	—
Cash and cash equivalents	10,141,170	
U.S. Government Agencies	56,679,403	2.05
Total cash and investments	\$ 548,329,374	

(a) Cash

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2010, all deposits and certificates of deposit were insured or collateralized as required by State of Tennessee law.

(b) Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Investment Policy places no specific limit on the weighted average maturity of the investment portfolios. However, the average maturity of the portfolios are monitored and managed so that the changing interest rates will cause only minimal deviations in the net asset value. As of June 30, 2010, the investments of the Authority had weighted average maturities as noted on the preceding table.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Investment Policy limits investments in corporate obligations to prime banker acceptances that are eligible for purchase by the Federal Reserve System and commercial paper that is rated at least A1 or the equivalent by at least two nationally recognized rating agencies.

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Notes to the Financial Statements

June 30, 2010

Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. The Investment Policy limits single issuer exposure to 10% except for securities of the U.S. Government or its agencies.

Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. There is not a policy with regard to custodial credit risk of investments; however, as of June 30, 2010, all investments were insured or registered or the securities were held by the Authority or its agent in the Authority's name.

(3) Deposits

At June 30, 2010 the Chancery Court of Davidson County was holding \$4,906,708 paid by the Authority for a property parcel undergoing condemnation proceedings. The amount represents the appraised fair market value of the parcel, which is the amount required to be deposited when an eminent domain petition is filed with the Court.

(4) Accounts Receivable

Accounts receivable at June 30, 2010 consist of the credit due from the Federal Government for accrued interest payable related to Build America Bonds. See also Note 6.

(5) Property and Equipment

During the period from inception through June 30, 2010, the Authority acquired \$42,670,554 of land and expensed \$38,233,501 for construction related activities of the Music City Center. The Authority does not have depreciable assets at June 30, 2010.

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Notes to the Financial Statements

June 30, 2010

(6) Long-Term Revenue Bonds Payable

Long-term debt activity during the period from inception through June 30, 2010, and descriptions of the amounts outstanding are as follows.

	<u>Inception - August 10, 2009</u>	<u>Additions</u>	<u>Repayments / Amortization</u>	<u>Balance June 30, 2010</u>
The Convention Center Authority of the Metropolitan Government of Nashville and Davidson County:				
2010A-1, bearing interest at 3.35% to 5.00% payable semi- annually, maturing through July 1, 2026	\$ —	51,730,000	—	51,730,000
Tourism Tax Revenue Bonds Federally Taxable, Series 2010A-2 (Build America Bonds - Direct Payment), bearing interest at 7.431% payable semi-annually, maturing on July 1, 2043	—	152,395,000	—	152,395,000
Subordinate Tourism Tax Revenue Bonds Federally Taxable, Series 2010B (Build America Bonds - Direct Payments), bearing interest at 4.862% to 6.731% payable semi-annually, maturing through July 1, 2043	—	419,090,000	—	419,090,000
Original issue premium	—	1,301,329	(13,416)	1,287,913
	<u>\$ —</u>	<u>624,516,329</u>	<u>(13,416)</u>	<u>624,502,913</u>

In April 2010 the Authority issued Tourism Tax Revenue Bonds, Series 2010A-1 for \$51,730,000, Series 2010A-2 for \$152,395,000, and Series 2010B for \$419,090,000, for a combined principal amount of \$623,215,000, plus original issue premium of \$1,301,329. The purpose of the bonds is to pay the costs associated with planning, designing, engineering, acquiring, constructing, equipping, furnishing, improving, repairing, refurbishing and opening the Music City Center.

The land for the Music City Center was purchased prior to the creation of the Convention Center Authority by the Metropolitan Development and Housing Agency (MDHA), a component unit of the Metropolitan Government, through a bank loan. In conjunction with the issuance of the Tourism Tax Revenue Bonds, the MDHA bank loan was retired, and the land was transferred to the Authority.

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Notes to the Financial Statements

June 30, 2010

The bond proceeds were used as follows:

Establishment of debt service reserve funds	\$ 40,040,199
Establishment of capitalized interest funds	22,287,868
Payment of bond issue costs	7,299,084
Retirement of MDHA Loan	46,313,567

The remaining \$508,575,611 was deposited in construction funds to be drawn down as the Music City Center is constructed. The capitalized interest funds will be applied to interest payable during construction.

The Series 2010A-1 bonds are tax exempt, and the Series 2010A-2 and Series 2010B bonds are Federally taxable and were issued as Build America Bonds (BABs) under an irrevocable election under Section 54 of the Internal Revenue Code. BABs qualify for a 35% credit from the Federal Government on interest payable on the bonds. The Metropolitan Government is required to file requests for these interest credits no earlier than 90 days prior to each scheduled interest payment.

The Series 2010A Bonds are payable from tourism tax revenues received by the Metropolitan Government. The tourism tax revenues consist of 3% of the 6% of the Hotel/Motel Tax authorized by Tennessee Code Annotated (TCA) Section 7-4-102, \$2.00 of the \$2.50 Hotel Room Occupancy Tax authorized by TCA Section 7-4-202, the \$2.00 Contracted Vehicle Tax authorized by TCA Section 7-4-203, and the 1% Rental Vehicle Surcharge Tax authorized by TCA Section 67-4-1908, an allocation of state and local sales and use taxes derived from incremental sales tax growth within a Tourism Development Zone (TDZ) authorized by TCA Section 7-88-101, and an allocation of Campus Sales Tax, consisting of state and local sales and use taxes collected on the premises of the Music City Center and on any convention center hotel.

The Series 2010B Bonds are payable from the remaining tourism tax revenues available after the payment of the 2010A Bonds and from net operating revenues, which are the remaining project operating revenues after the payment of operating expenses. The Series 2010B Bonds are additionally secured by a pledge of the Metropolitan Government's non-tax revenues of the General Fund of the General Services District, subject to the prior pledge and application of certain requirements related to bonds issued by the Sports Authority, a component unit of the Metropolitan Government.

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Notes to the Financial Statements

June 30, 2010

All of the bonds are subject to Federal arbitrage regulations. Annual maturities of revenue bonds outstanding, related interest and anticipated Federal interest credits for interest payable on BABs are outlined below.

	<u>Principal</u>	<u>Interest</u>	<u>Federal credit</u>
Year ending June 30:			
2011	\$ —	28,485,941	(9,390,282)
2012	—	41,019,754	(13,522,007)
2013	—	41,019,754	(13,522,007)
2014	—	41,019,754	(13,522,007)
2015	—	41,019,754	(13,522,007)
2016-2020	47,080,000	200,636,265	(66,713,717)
2021-2025	75,965,000	183,369,913	(62,251,921)
2026-2030	94,225,000	157,891,182	(55,068,307)
2031-2035	117,095,000	121,652,321	(42,578,312)
2036-2040	146,170,000	76,027,491	(26,609,622)
2041-2043	142,680,000	20,426,515	(7,149,280)
	<u>\$ 623,215,000</u>	<u>952,568,644</u>	<u>(323,849,469)</u>

(7) Risk Management

The Authority is exposed to various risks of loss incidental to its operations and has obtained several insurance policies after performing risk assessment analyses. The Authority retains risk up to \$4,000,000, and has obtained excess insurance for any claims above that amount. These policies provide insurance for property, builder's risk, worker's compensation, automobile, general liability and other exposures.

(8) Commitments and Contingencies

At June 30, 2010 the Authority had commitments of \$421,686,000 related to the construction of the Music City Center.

(9) Related Party Transactions

The Authority has entered into an interlocal agreement with the Metropolitan Government for various financial and administrative services for which it will compensate the Metropolitan Government \$175,000 annually beginning in the fiscal year ending June 30, 2011. Additionally, the Authority uses certain services provided by the Metropolitan Government's internal service agencies on a user charge basis.

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Notes to the Financial Statements

June 30, 2010

(10) Subsequent Events

In accordance with Ordinance Number BL2010-690 passed by the Metropolitan Council on June 15, 2010, effective July 1, 2010 the Authority began to manage, operate and maintain the existing convention center, accounted for as an enterprise fund of the Metropolitan Government at June 30, 2010.

On July 15, 2010, the Authority and the owner of a parcel of land needed for the Music City Center that was pending condemnation proceedings reached an agreement out of court. In addition to the \$4,906,708 deposited for the land, the Authority agreed to pay up to an additional \$1,400,000, plus up to \$900,000 to be applied to operating costs associated with the previous owner's temporary move.

On October 7, 2010 the Authority Board authorized agreements to facilitate the development of a premier headquarters hotel adjacent to the Music City Center. Under the terms of the development and funding agreement, the Authority will pay the hotel owner annual economic development payments and incentives from excess tourism tax revenues collected from the hotel over a period of twenty years. These payments will not begin until after both the Music City Center and the hotel are constructed and operating. The schedule of annual payments is expected to be as follows.

Year Ending June 30:	Annual payment
2014	\$ 5,500,000
2015	8,000,000
2016	9,000,000
2017	10,000,000
2018 - 2026	12,000,000
2027 - 2033	15,000,000



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**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

The Audit Committee
Convention Center Authority of the Metropolitan
Government of Nashville and Davidson County:

We have audited the accompanying statements of net assets of the Convention Center Authority of the Metropolitan Government of Nashville and Davidson County (the Authority), a component unit of the Metropolitan Government of Nashville and Davidson County, as of June 30, 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the period from inception (August 10, 2009) to June 30, 2010, and have issued our report thereon dated October 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Convention Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Convention Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Convention Center's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Convention Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an



opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Audit Committee, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 22, 2010