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

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

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

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

Management's Discussion and Analysis

June 30, 2011 and 2010

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 year ended June 30, 2011, and the period from inception (August 10, 2009) through June 30, 2010, which was 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, 2011 and 2010, are included in the Statements of Net Assets. For the year ended June 30, 2011, and for 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.

Financial Analysis

The Authority's net assets as of June 30, 2011 and 2010 are as follows (in thousands of dollars):

		2011	2010
Current assets – restricted	$	89,680	26,142
Capital assets		315,690	80,904
Other noncurrent assets		334,585	539,898
Total assets		739,955	646,944
Current liabilities		79,128	15,662
Revenue bonds payable		624,422	624,503
Total liabilities		703,550	640,165
Net assets:			
Restricted for debt retirement	$	36,405	6,779

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 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 year ended June 30, 2011 and for the period from inception through June 30, 2010, was as follows (in thousands of dollars):

		2011	2010
Nonoperating revenue	$	29,626	6,779
Net increase in net assets	$	29,626	6,779

As noted above, the Authority has not begun operations. Nonoperating 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 year ended June 30, 2011, the Authority acquired land at an estimated cost of $25,787,837 and spent $208,998,370 for construction of the Music City Center. During the period from inception through June 30, 2010, the Authority acquired land at a cost of $42,670,554 and spent $38,233,501 for construction of the Music City Center. Additionally, during the period from inception through June 30, 2010 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.

(Continued)

As more fully described in note 8 to the Financial Statements, 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 is expected to 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.

Additionally, the Authority entered into agreements with Omni Hotels and the Country Music Foundation, Inc. regarding the construction of a connector between the hotel and the Country Music Hall of Fame. The connector will be owned by the Authority and leased to the Hall of Fame. Under the terms of the agreement, the Authority is responsible for a portion of possible additional construction costs.

As more fully described in note 10 to the Financial Statements, the Authority Board is contractually obligated for any potential additional costs related to outstanding condemnation cases.

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 Auditors' 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 Convention Center or Authority), a component unit of the Metropolitan Government of Nashville and Davidson County, as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year ended June 30, 2011, and 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 audits 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 audits provide 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, 2011 and 2010, and its changes in financial position, and cash flows for the year ended June 30, 2011, and 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 26, 2011 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.

KPMG

The management's discussion and analysis on pages 1 through 3 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 26, 2011

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

Statements of Net Assets

June 30, 2011 and 2010

Assets		**2011**	**2010**
Current assets:			
Restricted for construction funds:			
Cash and cash equivalents	$	58,608,748	7,686,308
Accrued interest receivable		902,574	2,168,245
Deposits		—	4,906,708
Prepaid expenses		2,450,474	223,077
Restricted for debt service and reserve funds:			
Cash and cash equivalents		20,509,877	7,976,063
Accrued interest receivable		106,252	124,972
Due from the primary government		6,580,075	1,198,258
Accounts receivable		522,331	1,858,586
Total current assets		89,680,331	26,142,217
Other noncurrent and capital assets:			
Restricted for construction funds:			
Cash and cash equivalents		90,265,771	105,262,748
Investments		182,846,605	368,559,745
Restricted for debt service and reserve funds:			
Cash and cash equivalents		14,597,554	2,165,107
Investments		40,052,611	56,679,403
Unamortized bond issuance costs		6,821,829	7,230,904
Total noncurrent assets		334,584,370	539,897,907
Capital assets:			
Land		68,458,391	42,670,554
Construction work in progress		247,231,871	38,233,501
Total capital assets		315,690,262	80,904,055
Total other noncurrent and capital assets		650,274,632	620,801,962
Total assets		739,954,963	646,944,179
Liabilities and Net Assets			
Current liabilities:			
Liabilities payable from restricted assets:			
Construction funds:			
Accounts payable and accrued liabilities	$	58,483,648	7,595,432
Accrued payroll		122,980	88,457
Due to the primary government		2,120	2,419
Debt service and reserve funds:			
Accounts payable		9,000	—
Accrued interest payable		20,509,877	7,976,063
Total current liabilities		79,127,625	15,662,371
Long-term revenue bonds payable		624,422,418	624,502,913
Total liabilities		703,550,043	640,165,284
Net assets:			
Restricted for debt retirement		36,404,920	6,778,895
Total net assets	$	36,404,920	6,778,895

See accompanying notes to financial statements.

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

Statements of Revenue, Expenses and Changes in Net Assets

Year ended June 30, 2011 and from Inception (August 10, 2009) through June 30, 2010

		2011	2010
Nonoperating revenue:			
Tourism tax revenue	$	26,550,809	4,981,699
Investment income		3,075,216	1,797,196
Total nonoperating revenue		29,626,025	6,778,895
Net increase in net assets		29,626,025	6,778,895
Net assets, beginning of year		6,778,895	—
Net assets, end of year	$	36,404,920	6,778,895

See accompanying notes to financial statements.

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

Statements of Cash Flows

Year ended June 30, 2011 and from Inception (August 10, 2009) through June 30, 2010

	2011	2010
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	$ (153,349,128)	(67,268,584)
Deposit for land acquisition	—	(4,906,708)
Proceeds from sale of revenue bonds	—	623,215,000
Interest paid	(28,485,940)	—
Interest subsidy	15,380,592	—
Interest income	8,385,668	6,170
Premium on revenue bonds	—	1,301,329
Revenue bond issue costs	—	(7,299,084)
Net cash (used in) provided by capital and related financing activities	(158,068,808)	545,048,123
Cash flows from noncapital financing activities:		
Purchases of investments	(230,919,709)	(431,967,622)
Proceeds from sales and maturities of investments	429,233,580	6,226,284
Payments from primary government	20,646,661	3,783,441
Net cash provided by (used in) noncapital financing activities	218,960,532	(421,957,897)
Net changes in cash and cash equivalents	60,891,724	123,090,226
Cash and cash equivalents at beginning of year	123,090,226	—
Cash and cash equivalents at end of year	$ 183,981,950	123,090,226

See accompanying notes to financial statements.

(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

<u>Cash and cash equivalents</u> – 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.

<u>Investments</u> – 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.

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 and are reported as tourism tax revenue, a nonoperating 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 in the debt service reserve funds and assets in the debt service funds 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 $27,826,328 and $2,684,042 for the year ended June 30, 2011 and for the period from inception to June 30, 2010, respectively. 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, 2011.

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 nonoperating 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 nonoperating 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

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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.

(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. 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 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.

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. 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. 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 (Other Post-Employment Benefit) 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.

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GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, required for fiscal periods beginning after December 15, 2011. This Statement addresses how to account for and report service concession arrangements. The adoption of this Statement is not expected to impact the Authority's financial statements.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, required for fiscal periods beginning after June 15, 2012. This Statement is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statements No. 14 and 34, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued. Management is in the process of determining the effects that the adoption of this Statement will have on the Authority's financial statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, required for fiscal periods beginning after December 15, 2011. This Statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. Management is in the process of determining the effects that the adoption of this Statement will have on the Authority's financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources*, and Net Position, required for fiscal periods beginning after December 15, 2011. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government reports with information about how past transactions will continue to impact a government's financial statements in the future. Management is in the process of determining the effects that the adoption of this Statement will have on the Authority's financial statements.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, required for fiscal periods beginning after June 15, 2011. This Statement will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The adoption of this Statement is not expected to impact 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; other Municipal Obligations; and other investments such as repurchase agreements. The Authority is authorized to invest in these instruments either directly or through the Metropolitan Government's Investment Pool, which is invested in the State of Tennessee Local Government Investment Pool.

At June 30, 2011, the Authority had the following deposits and investments:

Investment type		Fair value	Weighted average maturity (in years)
Construction funds:			
Cash on deposit	$	100,254,640	—
Certificate of deposit		16,000,000	1.04
Metropolitan Government investment pool		31,767,870	0.30
U.S. Treasury money market funds		852,009	—
Cash and cash equivalents		148,874,519	
U.S. Government Agencies		164,525,029	0.87
Municipal obligations		18,321,576	0.74
Investments		182,846,605	
Debt service and reserve funds:			
Metropolitan government investment pool		13,150,012	0.30
U.S. Treasury money market funds		21,957,419	—
Cash and cash equivalents		35,107,431	
U.S. Government Agencies		40,052,611	2.21
Total cash and investments	$	406,881,166	

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		13,682,041	0.24
U.S. Treasury money market funds		28,360	—
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, 2011, 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, 2011, 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.

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, 2011, 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. The amount was released in the year ended June 30, 2011.

(4) Accounts Receivable

Accounts receivables of $522,331 at June 30, 2011 consist of accrued hotel occupancy taxes. Accounts receivables of $1,858,585 at June 30, 2010 consisted of credit due from the Federal Government for accrued interest payable related to Build America Bonds.

(5) Property and Equipment

During the year ended June 30, 2011, the Authority has paid/accrued $25,787,837 for land and spent $208,998,370 for construction related activities of the Music City Center. During the period from inception through June 30, 2010, the Authority acquired $42,670,554 of land and spent $38,233,501 for construction related activities of the Music City Center. Due to the ongoing nature of construction activities, these assets are non-depreciable assets at June 30, 2011 and 2010.

(6) Long-Term Revenue Bonds Payable

Long-term debt activity during the year ended June 30, 2011, and descriptions of the amounts outstanding are as follows.

	Balance June 30, 2010	Additions	Repayments / amortization	Balance June 30, 2011
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	1,287,913	—	(80,495)	1,207,418
	$ 624,502,913	—	(80,495)	624,422,418

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

	Inception - August 10, 2009	Additions	Repayments / amortization	Balance June 30, 2010
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
	$ —	624,516,329	(13,416)	624,502,913

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.

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% 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 hotels.

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 nontax 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.

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.

	Principal	Interest	Federal credit
Year ending June 30:			
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	3,220,000	40,939,255	(13,522,007)
2017-2021	57,825,000	198,012,418	(66,072,899)
2022-2026	79,385,000	179,011,667	(61,112,270)
2027-2031	98,230,000	151,449,418	(52,957,158)
2032-2036	122,405,000	113,320,086	(39,662,030)
2037-2041	152,800,000	65,620,871	(22,967,304)
2042-2043	109,350,000	11,649,973	(4,077,490)
	$ 623,215,000	924,082,704	(314,459,186)

(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, 2011, the Authority had commitments of $263,392,769 related to the construction of the Music City Center.

On October 19, 2010 the Authority Board entered into a Development and Funding Agreement with Omni Nashville, LLC (Omni) 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 Omni annual economic development payments and incentives from excess tourism tax revenues collected from the hotel over a period of twenty years. These payments will begin after the hotel opens for business, including the renting of rooms. The schedule of annual payments is expected to be as follows.

		Annual payment
Year ending June 30:		
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

On December 30, 2010 the Authority Board entered into a Development Agreement for the Country Music Hall of Fame and Museum Expansion with Omni, and into a Development, Lease and Operating Agreement with the County Music Foundation, Inc. (Hall of Fame). Under the terms of the agreements, Omni will construct a connector (expansion project) between its headquarters hotel and the Hall of Fame with funding from tax increment financing provided by the Metropolitan Development and Housing Agency. Once constructed, the connector will be owned by the Authority, which will then lease the connector to the Hall of Fame for an initial term of 60 years. Under the terms of the agreements, the Authority would be responsible for the first $2,000,000 of any potential additional construction costs and for half of any potential additional construction costs up to $1,500,000. Upon completion of the connector, the Hall of Fame will be responsible for all interior and exterior operating costs, maintenance and repairs. The Authority is required to establish a reserve fund using the majority of the rental income received from the Hall of Fame to cover future capital costs related to the connector.

(9) Related Party Transactions

In accordance with Ordinance Number BL2010-690 passed by the Metropolitan Council on June 15, 2010, and under the terms of an interlocal agreement between the Authority and the Metropolitan Government, on July 1, 2010, the Authority began to manage the existing convention center. Because the assets of the existing convention center are owned by the Metropolitan Government, the operations are accounted for as an enterprise fund of the Metropolitan Government.

The Authority has entered into an interlocal agreement with the Metropolitan Government for various financial and administrative services. Additionally, the Authority uses certain services provided by the Metropolitan Government’s internal service agencies on a user charge basis.

(10) Subsequent Events

On August 18, 2011, an order of judgment was entered against the Metropolitan Development and Housing Agency (MDHA) following the trial of an eminent domain case on the issue of compensation for one of the parcels of land condemned for the Music City Center. The Authority is contractually responsible for all costs associated with this judgment. The Authority had originally deposited $14,800,000 for the parcel, followed by another $1,300,000 after an earlier court action. The latest judgment was for an additional $14,300,000, plus $1,254,000 interest through the judgment date and 10% interest per annum on the balance of the unpaid judgment. A motion for a new trial has been filed by MDHA asking that the verdict be set aside. Although the ultimate outcome of this litigation cannot be determined at present, the Authority has recorded a liability of $15,554,000 related to this matter. MDHA has asserted that the trial evidence preponderated against the verdict and that the judgment should not stand. Accordingly, the verdict is being contested vigorously.

There are two additional condemnation cases related to parcels for which a total of $6,575,000 has been deposited with the court. Neither case is currently set for trial.

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Independent Auditors' 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, 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated October 26, 2011. 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 Finance and 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 26, 2011