KPMG

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

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Reports Thereon)

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

Table of Contents

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 years ended June 30, 2012 and 2011. 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, 2012 and 2011 are included in the Statements of Net Assets. For the years ended June 30, 2012 and 2011, 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, 2012, 2011, and for the period from inception through June 30, 2010 were as follows (in thousands of dollars):

		2012	2011	2010
Current assets – restricted	$	137,074	89,680	26,142
Capital assets		529,441	315,690	80,904
Other noncurrent assets		67,982	334,585	539,898
Total assets		734,497	739,955	646,944
Current liabilities		41,365	79,128	15,662
Revenue bonds payable		624,342	624,422	624,503
Total liabilities		665,707	703,550	640,165
Net assets:				
Restricted for debt retirement		47,468	36,405	6,779
Restricted for construction		21,322	—	—
	$	68,790	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 year ended 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 years ended June 30, 2012, 2011 and from the period from inception through June 30, 2010 were as follows (in thousands of dollars):

		2012	2011	2010
Nonoperating revenue	$	32,385	29,626	6,779
Net increase in net assets	$	32,385	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, 2012, the Authority acquired land at an estimated cost of $3,803,784 and spent $209,947,526 for construction of the Music City Center. 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. Additionally, during the period ended 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

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.

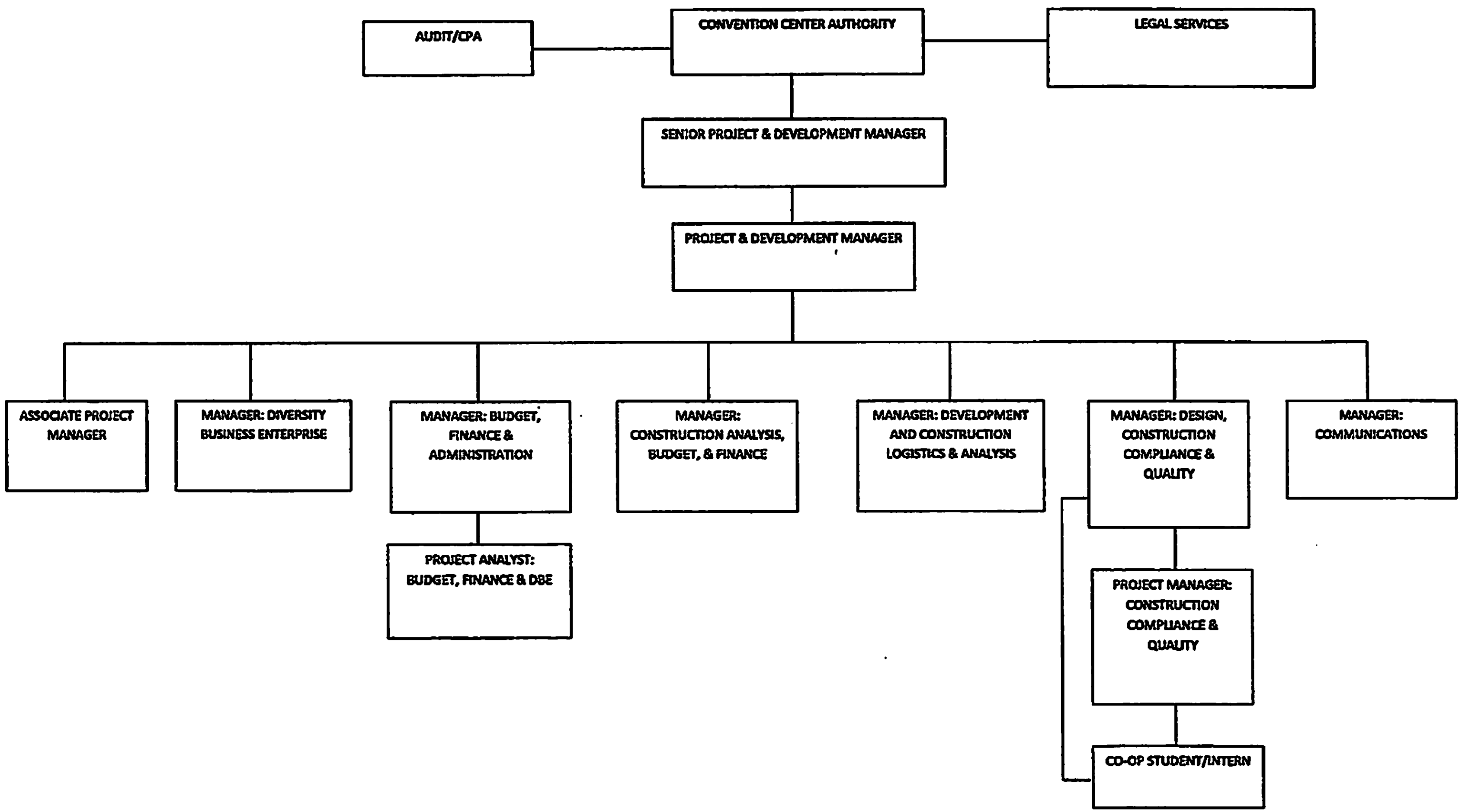
Additionally, the Authority entered into agreements with Omni Hotels and the Country Music Foundation, Inc. regarding the construction of a connector between the hotel and the Country Music Hall of Fame. The connector will be owned by the Authority and leased to the Hall of Fame. Under the terms of the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

As more fully described in note 8 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.

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

PROJECT MANAGEMENT & DEVELOPMENT



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

Authority Members

Marty Dickens, Chair

Mark Arnold

Francis Guess

Ken Levitan

Vonda McDaniel

Willie McDonald

Luke Simmons

Mona Lisa Warren

Leo Waters

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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 Authority), a component unit of the Metropolitan Government of Nashville and Davidson County, as of June 30, 2012 and 2011, and the related statements of revenue, 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 opinions 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 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 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2012 and 2011, and its changes in financial position, and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 29, 2012 on our consideration of the Authority'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.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1 through 3 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section on pages 4 through 5 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

October 29, 2012

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

Statements of Net Assets

June 30, 2012 and 2011

Assets		**2012**	**2011**
Current assets:			
Due from the primary government	$	6,100	—
Restricted for construction funds:			
Cash and cash equivalents		89,195,439	58,608,748
Investments		20,446,829	—
Accrued interest receivable		529,684	902,574
Prepaid expenses		1,883,404	2,450,474
Due from the primary government		83,844	—
Accounts receivable		202	—
Restricted for debt service and reserve funds:			
Cash and cash equivalents		20,509,877	20,509,877
Accrued interest receivable		53,605	106,252
Due from the primary government		3,761,180	6,580,075
Accounts receivable		603,493	522,331
Total current assets		137,073,657	89,680,331
Other noncurrent and capital assets:			
Restricted for construction funds:			
Cash and cash equivalents		—	90,265,771
Investments		—	182,846,605
Restricted for debt service and reserve funds:			
Cash and cash equivalents		21,638,147	14,597,554
Investments		39,931,356	40,052,611
Unamortized bond issuance costs		6,412,754	6,821,829
Total noncurrent assets		67,982,257	334,584,370
Capital assets:			
Land		72,262,175	68,458,391
Construction work in progress		457,179,397	247,231,871
Total capital assets		529,441,572	315,690,262
Total other noncurrent and capital assets		597,423,829	650,274,632
Total assets		734,497,486	739,954,963
Liabilities and Net Assets			
Current liabilities:			
Deferred revenue	$	6,100	—
Liabilities payable from restricted assets:			
Construction funds:			
Accounts payable and accrued liabilities		20,771,220	58,483,648
Accrued payroll		78,363	122,980
Due to the primary government		—	2,120
Debt service and reserve funds:			
Accounts payable		—	9,000
Accrued interest payable		20,509,877	20,509,877
Total current liabilities		41,365,560	79,127,625
Long-term revenue bonds payable		624,341,923	624,422,418
Total liabilities		665,707,483	703,550,043
Net assets:			
Restricted for debt retirement		47,468,413	36,404,920
Restricted for construction		21,321,590	—
Total net assets	$	68,790,003	36,404,920

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

Years ended June 30, 2012 and 2011

		2012	2011
Nonoperating revenue:			
Tourism tax revenue	$	31,442,301	26,550,809
Investment income		942,782	3,075,216
Total nonoperating revenue		32,385,083	29,626,025
Net increase in net assets		32,385,083	29,626,025
Net assets, beginning of year		36,404,920	6,778,895
Net assets, end of year	$	68,790,003	36,404,920

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	$ (223,209,923)	(153,349,128)
Interest paid	(41,019,754)	(28,485,940)
Interest subsidy	13,522,008	15,380,592
Net cash (used in) provided by capital and related financing activities	(250,707,669)	(166,454,476)
Cash flows from noncapital financing activities:		
Payments from primary government	34,179,832	20,646,661
Net cash provided by (used in) noncapital financing activities	34,179,832	20,646,661
Cash flows from investing activities:		
Purchases of investments	(205,280,279)	(230,919,709)
Proceeds from sales and maturities of investments	365,275,135	429,233,580
Interest income	3,894,494	8,385,668
Net cash provided by (used in) investing activities	163,889,350	206,699,539
Net changes in cash and cash equivalents	(52,638,487)	60,891,724
Cash and cash equivalents at beginning of year	183,981,950	123,090,226
Cash and cash equivalents at end of year	$ 131,343,463	183,981,950
Schedule of noncash capital and related financing activities:		
Amortization of bond issue costs	$ (409,075)	(409,075)
Amortization of bond premium	80,495	80,495
Schedule of noncash investing activities:		
Unrealized gain (loss) on investments	(958,733)	(822,243)

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 Governmental Accounting Standards Board (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, Revenue and Expenses

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.

(Continued)

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.

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 and construction. 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 – 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. Also capitalized interest and amortization totaled $27,826,328 and $27,826,328 for the years ended June 30, 2012 and 2011, respectively. The Authority does not have depreciable assets at June 30, 2012 or 2011, depreciation will begin during fiscal year 2013 when the facility is placed in service.

Compensated absences – General policy of the Authority for former employees of the Metropolitan Government and for contract construction management employees 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. The Authority is in the process of evaluating the total compensation package for all employees, who will continue to be employed by the Authority, following the completion of construction, including compensated absences.

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. During fiscal years 2012 and 2011, the Authority did not have any operating activities as the Convention Center was still under construction.

Tourism tax revenue – The tourism tax revenue consists 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.

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.

(d) Recently Issued Accounting Standards

The Authority continually monitors planned changes and pronouncements in accounting policies that may have an impact on the presentation of its financial statements. The Authority plans to review the following new accounting pronouncements to determine their potential applicability and impact.

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. 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. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, required for fiscal periods beginning after December 15, 2012. This Statement improves accounting and financial reporting by resolving conflicting guidance that resulted from the issuance of Statements No. 54 and No. 62. 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; 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, 2012, the Authority had the following deposits and investments:

Investment type	Fair value	Weighted average maturity (in years)
Construction funds:		
Cash on deposit	$ 70,458,080	—
Certificate of deposit	8,000,000	0.08
Metropolitan Government investment pool	10,608,971	0.28
U.S. Treasury money market funds	128,388	—
Cash and cash equivalents	89,195,439	
U.S. government Agencies	17,226,540	0.13
Municipal obligations	3,220,289	5.98
Investments	20,446,829	
Debt service and reserve funds:		
Metropolitan government investment pool	21,320,884	0.28
U.S. Treasury money market funds	20,827,140	—
Cash and cash equivalents	42,148,024	
U.S. government Agencies	39,931,356	3.77
Total cash and investments	$ 191,721,648	

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	

(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, 2012 and 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, 2012, the investments of the Authority had weighted average maturities as noted on the preceding tables.

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, 2012 and 2011, all investments were insured or registered or the securities were held by the Authority or its agent in the Authority's name.

(3) Accounts Receivable

Accounts receivables totaling $603,695 at June 30, 2012 and $522,331 at June 30, 2011 consisted primarily of accrued tourism taxes.

(4) Property and Equipment

During the year ended June 30, 2012, the Authority has acquired $3,803,784 of land and spent $209,947,526 for construction related activities of the Music City Center. During the year ended June 30, 2011, the Authority acquired $25,787,837 of land and spent $208,998,370 for construction related activities of the Music City Center. Due to the ongoing nature of construction activities, these assets are nondepreciable assets at June 30, 2012 and 2011.

(5) Deferred Revenue

Deferred revenue of $6,100 at June 30, 2012 represents deposits received for events scheduled to begin subsequent to the opening of the Music City Center in 2013.

(6) Long-Term Revenue Bonds Payable

Long-term debt activity during the year ended June 30, 2012, and descriptions of the amounts outstanding are as follows.

	Balance June 30, 2011	Additions	Repayments / amortization	Balance June 30, 2012
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	1,207,418	—	(80,495)	1,126,923
	$ 624,422,418	—	(80,495)	624,341,923

Long-term debt activity during the period from 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

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 were 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 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.

(Continued)

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:				
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		7,865,000	40,681,034	(13,484,186)
2018-2022		64,395,000	194,880,925	(65,266,947)
2023-2027		83,030,000	174,367,073	(59,900,629)
2028-2032		102,510,000	144,538,129	(50,588,345)
2033-2037		127,955,000	104,609,128	(36,613,194)
2038-2042		159,735,000	54,740,938	(19,159,328)
2043-2044		74,505,000	5,247,206	(1,836,522)
	$	623,215,000	883,062,950	(300,937,179)

(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, 2012, the Authority had commitments of $84,657,536 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.

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 $3,777,832 interest calculated at 10% interest per annum on the balance of the unpaid judgment through January of 2013. The verdict is being contested vigorously. MDHA filed a motion for new trial, remittitur and/or a judgment notwithstanding the verdict asking the trial court to set aside the verdict. While these motions were ultimately denied by the trial court, MDHA appealed the jury verdict to the Tennessee Court of Appeals. Oral arguments were heard by the Court of Appeals on July 25, 2012, but a decision has not been rendered. Although the ultimate outcome of this litigation cannot be determined at present, the Authority has paid to the court $19,377,832 related to this matter.

(Continued)

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.

(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

The Authority has evaluated subsequent events through October 25, 2012, the date the financial statements were available for issuance, and has determined that there are no subsequent events that require disclosure.

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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, 2012, and the related statements of revenue, expenses, and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated October 29, 2012. 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 Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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 29, 2012