



Convention Center Authority

12/4/2018

Attachment #2

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

Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Reports Thereon)

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

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

Management's Discussion and Analysis (Unaudited)

June 30, 2018, 2017 and 2016

This section of the Convention Center Authority of the Metropolitan Government of Nashville and Davidson County, Tennessee (The Authority) annual financial report presents management's discussion and analysis (MD&A) of financial performance during the years ended June 30, 2018, 2017 and 2016. 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 U.S. generally accepted accounting principles applied to governmental units using the economic resources measurement focus and the accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

All assets, deferred outflows of resources, liabilities and deferred inflows of resources of the Authority at June 30, 2018 and 2017 are included in the statements of net position. For the years ended June 30, 2018 and 2017, the Authority's revenues and expenses are reported in the statements of revenue, expenses, and changes in net position. The statements of cash flows reports cash receipts, cash payments and net changes in cash resulting from operating, financing and investing activities.

Financial Analysis

The Authority's net position as of June 30, 2018, 2017, and 2016 was as follows (in thousands of dollars):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current assets	\$ 186,661	176,805	132,859
Capital assets	691,864	656,494	669,212
Other noncurrent assets	<u>54,278</u>	<u>53,747</u>	<u>50,291</u>
Total assets	<u>\$ 932,803</u>	<u>887,046</u>	<u>852,362</u>
Deferred outflows of resources	<u>\$ —</u>	<u>—</u>	<u>568</u>
Current liabilities	58,864	43,517	40,957
Noncurrent liabilities	<u>590,584</u>	<u>602,773</u>	<u>613,734</u>
Total liabilities	<u>\$ 649,448</u>	<u>646,290</u>	<u>654,691</u>
Deferred inflows of resources	\$ 256	278	228
Net position:			
Net investment in capital assets	\$ 106,849	41,886	49,062
Restricted for debt retirement	69,394	67,992	55,823
Unrestricted	<u>106,856</u>	<u>130,599</u>	<u>93,126</u>
Total net position	<u>\$ 283,099</u>	<u>240,477</u>	<u>198,011</u>

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Management's Discussion and Analysis (Unaudited)

June 30, 2018, 2017 and 2016

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 complete and operation of the Music City Center began in May of 2013. As more fully described in the financial statements and footnotes, the Authority's assets consist primarily of cash, accounts receivable and other items related to operations, cash and investments restricted for construction and debt service, and capital assets related to the Music City Center. Liabilities consist of current amounts payable related to operations, construction and debt service, and the revenue bonds payable. The components of net position reflect the nature of the underlying assets and liabilities. Note that \$106.8 million of the Authority's net position of \$283.1 million is invested in capital assets while \$69.4 million is restricted for debt retirement.

The Authority's change in net position for the years ended June 30, 2018, 2017, and 2016 was as follows (in thousands of dollars):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenue	\$ 26,113	25,164	21,765
Operating expense	<u>(40,229)</u>	<u>(37,824)</u>	<u>(36,915)</u>
Operating loss	(14,116)	(12,660)	(15,150)
Nonoperating revenue, net	56,737	55,122	41,348
Capital contributions	<u>—</u>	<u>5</u>	<u>57</u>
Net increase in net position	<u>\$ 42,621</u>	<u>42,467</u>	<u>26,255</u>

The increase in operating revenue during 2018 is primarily driven by an increase in building rental and parking revenue generated by extremely successful, large events hosted in fiscal year 2018. The increase in operating expense for the year ended June 30, 2018 is primarily driven by increases in personnel expenses, event related expenses, and various repair, maintenance, and labor costs necessary to service the large events hosted in fiscal year 2018. Annual attendance for the year ended June 30, 2018 was 538,450 compared to 557,870 for the year ended June 30, 2017. The increase in nonoperating revenue (expense) for the year ended June 30, 2018 is primarily due to a \$4.8 million increase in sales tax revenue from the Tourist Development Zone around the Music City Center. Additionally, other tourism taxes increased overall due to a continued increase in tourism over the prior years. The increase in nonoperating revenue is partially offset however, by an increase in nonoperating expense for payments to the Omni Hotel and the Metropolitan Government in accordance with the Memorandum of Understanding (MOU) between the Authority and Metropolitan Government executed in May 2018 as explained in more detail in note 11 to the financial statements. There were no capital contributions for the year ended June 30, 2018.

The increase in operating revenue during 2017 is primarily driven by an increase in Food and Beverage revenue generated by extremely successful, large events hosted in fiscal year 2017. The increase in operating expense for the year ended June 30, 2017 is primarily driven by increases in utilities, internal service fees to the Metropolitan Government, and various repair, maintenance, and labor costs necessary to service the large

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Management's Discussion and Analysis (Unaudited)

June 30, 2018, 2017 and 2016

events hosted in fiscal year 2017. Annual attendance for the year ended June 30, 2017 was 557,870 compared to 685,884 for the year ended June 30, 2016. The increase in nonoperating revenue (expense) for the year ended June 30, 2017 is primarily due to an \$7.1 million increase in sales tax revenue from the Tourist Development Zone around the Music City Center, and a \$2.9 million increase in the Music City Center campus sales tax. Additionally, other tourism taxes increased overall due to a continued increase in tourism over the prior years. The increase in nonoperating revenue is partially offset by an increase in nonoperating expense for payments to the Omni Hotel. The \$5,723 in capital contributions for the year ended June 30, 2017 is due to a transfer of capital assets from the Nashville Convention Center.

Capital Assets and Long-Term Debt

During the year ended June 30, 2018, the Authority incurred costs of \$52,177,287 for various assets acquired subsequent to the opening of the Music City Center (MCC). This includes the continuation of construction for a new MCC market near the exhibit hall and pre-function space expansion near the Davidson ballroom. During the year ended June 30, 2017, the Authority incurred costs of \$3,722,303 for various assets acquired subsequent to the opening of the Music City Center. This included the beginning of construction for a new MCC market near the exhibit hall and pre-function space expansion near the Davidson ballroom.

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 and poor's	A	AA
Fitch	A+	A+

Other Matters

The Authority Board entered into an agreement with Omni Hotels to develop a premier convention center hotel adjacent to the Music City Center. Omni privately financed the Omni Hotel at its sole expense, and the Authority will make annual payments to Omni from certain tourism taxes pledged to the Authority by the Metropolitan Government. The Authority Board also entered into an agreement with the Metropolitan Government in accordance with the MOU to transfer revenues to the Metropolitan Government. Both of these agreements are more fully described in Note 11 to the financial statements.

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Management's Discussion and Analysis (Unaudited)

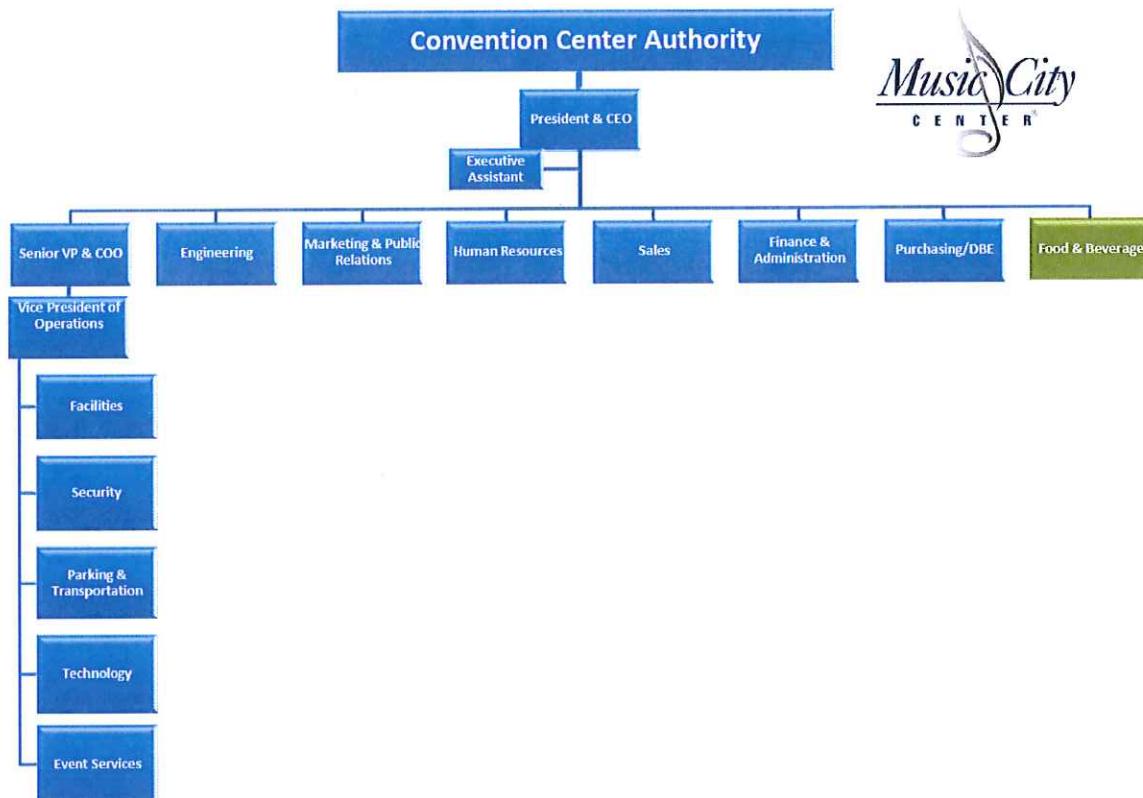
June 30, 2018, 2017 and 2016

The Authority Board has entered into an agreement with private developer, Oliver McMillian Spectrum Emery, related to the development of the Fifth + Broadway complex on the previous Nashville Convention Center site. As more fully described in note 11 to the financial statements, pending satisfaction of several terms of the agreement, the Authority has agreed to contribute to the construction of a parking garage and conference center on that site.

Finally, requests for additional financial information should be directed to Finance Department – Music City Center, 201 Fifth Avenue South, Nashville, TN 37203.

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Organization Chart (Unaudited)



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

Authority Members as of June 30, 2018 (Unaudited)

Marty Dickens, Chair

Irwin Fisher

Randy Goodman

Vonda McDaniel

Willie McDonald

David McMurry

Randy Rayburn

Renata Soto

Leigh Walton



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Nashville, TN 37219-2422

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying statements of net position of the Convention Center Authority of the Metropolitan Government of Nashville and Davidson County, Tennessee (the Authority), a component unit of the Metropolitan Government of Nashville and Davidson County, as of June 30, 2018 and 2017, and the related statements of revenue, expenses, and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2018 and 2017 and its changes in financial position, and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

**Other Matters***Required Supplementary Information*

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis on pages 1 through 4 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 inquiries, 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The introductory section on pages 5 and 6 is presented for purposes of additional analysis and is 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October __, 2018 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

October 30, 2018

**CONVENTION CENTER AUTHORITY OF THE
METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON
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Statements of Net Position

June 30, 2018 and 2017

Assets	2018	2017
Current assets:		
Cash and cash equivalents	\$ 124,392,411	80,323,854
Accounts receivable	2,167,684	2,394,988
Accrued interest receivable	197,828	76,021
Due from the primary government	133	2,567
Prepaid expenses	484,931	475,134
Restricted for construction funds:		
Cash and cash equivalents	24,288,358	58,788,827
Accrued interest receivable	4,267	1,633
Due from the primary government	15	—
Accounts receivable	—	245,427
Restricted for debt service and reserve funds:		
Cash and cash equivalents	20,315,809	20,651,657
Accrued interest receivable	189,137	150,846
Due from the primary government	10,917,002	10,145,257
Accounts receivable	3,703,928	3,548,540
Total current assets	<u>186,661,503</u>	<u>176,804,751</u>
Other noncurrent and capital assets:		
Restricted for debt service and reserve funds:		
Cash and cash equivalents	15,434,081	15,240,570
Investments	38,843,797	38,506,732
Total other noncurrent assets	<u>54,277,878</u>	<u>53,747,302</u>
Capital assets:		
Land	82,491,161	78,183,678
Art collection	1,183,844	1,183,844
Buildings and improvements	635,801,323	635,644,200
Furniture, machinery and equipment	5,653,475	3,887,312
Construction work in progress	50,751,893	4,805,374
Less accumulated depreciation	<u>(84,017,645)</u>	<u>(67,210,401)</u>
Total capital assets	<u>691,864,051</u>	<u>656,494,007</u>
Total other noncurrent and capital assets	<u>746,141,929</u>	<u>710,241,309</u>
Total assets	<u>\$ 932,803,432</u>	<u>887,046,060</u>
Deferred Outflows of Resources		
Deferred outflows, pensions	\$ —	—

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Statements of Net Position

June 30, 2018 and 2017

Liabilities	2018	2017
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,309,668	2,707,438
Accrued payroll	1,449,948	1,207,940
Due to the primary government	7,508,078	7,178
Unearned revenue	7,482,470	6,071,822
Liabilities payable from restricted assets:		
Construction funds:		
Accounts payable and accrued liabilities	6,848,526	2,954,223
Due to the primary government	—	1,872
Debt service and reserve funds:		
Accrued interest payable	20,010,477	20,251,657
Current portion of long-term debt	12,255,000	10,315,000
Total current liabilities	<u>58,864,167</u>	<u>43,517,130</u>
Noncurrent liabilities:		
Long-term revenue bonds payable	590,203,957	602,539,452
Net pension liability	380,133	233,451
Total noncurrent liabilities	<u>590,584,090</u>	<u>602,772,903</u>
Total liabilities	<u>\$ 649,448,257</u>	<u>646,290,033</u>
Deferred Inflows of Resources		
Deferred inflows, pensions	\$ 256,486	278,217
Net Position		
Net position:		
Net investment in capital assets	\$ 106,849,208	41,886,404
Restricted for debt retirement	69,393,277	67,991,944
Unrestricted	106,856,205	130,599,462
Total net position	<u>\$ 283,098,690</u>	<u>240,477,810</u>

See accompanying notes to financial statements.

Convention Center Authority

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Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2018 and 2017

	2018	2017
Operating revenue:		
Charges for services	\$ 26,113,064	25,163,940
Operating expense:		
Personal services	10,639,031	9,765,629
Contractual services	10,347,552	9,198,970
Supplies and materials	1,338,950	1,484,960
Depreciation	16,807,244	16,439,786
Other	1,096,021	935,122
Total operating expense	40,228,798	37,824,467
Operating loss	(14,115,734)	(12,660,527)
Nonoperating revenue (expense):		
Tourism tax revenue	102,539,865	92,365,781
Investment income	1,508,546	573,627
Other income	137,240	178,470
Interest expense	(27,492,066)	(27,904,252)
Other expense	(19,956,971)	(10,091,692)
Total nonoperating revenue, net	56,736,614	55,121,934
Income before capital contributions	42,620,880	42,461,407
Capital contributions	—	5,723
Increase in net position	42,620,880	42,467,130
Net position, beginning of year	240,477,810	198,010,680
Net position, end of year	\$ 283,098,690	240,477,810

See accompanying notes to financial statements.

**CONVENTION CENTER AUTHORITY OF THE
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Statements of Cash Flows

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Receipts from customers	\$ 27,753,450	30,756,937
Payments to suppliers	(12,189,190)	(11,890,159)
Payments to employees	(10,272,073)	(9,618,628)
Net cash provided by operating activities	<u>5,292,187</u>	<u>9,248,150</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(48,284,871)	(4,197,973)
Principal paid	(10,315,000)	(7,865,000)
Interest paid	(40,262,134)	(40,681,034)
Interest subsidy	12,448,394	12,518,566
Other (expense) revenue	(74,305)	341,352
Net cash used in capital and related financing activities	<u>(86,487,916)</u>	<u>(39,884,089)</u>
Cash flows from noncapital financing activities:		
Receipts from governments	101,612,732	84,093,778
Payments to hotel developer	(12,000,000)	(10,000,000)
Net cash provided by noncapital financing activities	<u>89,612,732</u>	<u>74,093,778</u>
Cash flows from investing activities:		
Purchases of investments	(7,676,068)	(34,748,274)
Proceeds from sales and maturities of investments	6,626,348	28,322,945
Interest income	2,058,468	1,081,189
Net cash provided by (used in) investing activities	<u>1,008,748</u>	<u>(5,344,140)</u>
Net changes in cash and cash equivalents	9,425,751	38,113,699
Cash and cash equivalents at beginning of year	<u>175,004,908</u>	<u>136,891,209</u>
Cash and cash equivalents at end of year	<u>\$ 184,430,659</u>	<u>175,004,908</u>

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Statements of Cash Flows

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (14,115,734)	(12,660,527)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	16,807,244	16,439,786
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Accounts receivable	227,304	(1,158,181)
Prepaid expenses	(9,797)	(1,093)
Due from the primary government	2,434	5,803,874
Deferred outflows of resources	106,575	568,283
Accounts payable and accrued liabilities	602,230	(267,154)
Accrued payroll	242,008	94,676
Due to the primary government	900	(2,858)
Unearned revenue	1,410,648	947,303
Net pension liability	146,682	(565,587)
Deferred inflows of resources	(128,307)	49,628
Total adjustments	<u>19,407,921</u>	<u>21,908,677</u>
Net cash provided by operating activities	<u>\$ 5,292,187</u>	<u>9,248,150</u>
Schedule of noncash capital and related financing activities:		
Amortization of bond premium	\$ 80,495	80,494
Capital contributions	—	5,723
Schedule of noncash investing activities:		
Unrealized gain on investments	\$ 712,655	790,866
Schedule of noncash noncapital financing activities:		
Due to primary government	\$ 7,500,000	—

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2018 and 2017

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The Convention Center Authority of the Metropolitan Government of Nashville and Davidson County, Tennessee (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 was responsible for the acquisition, development, and construction of a new convention center, the Music City Center, which was completed in May of 2013. The Authority is now responsible for the operation of the Music City Center.

The Authority is a public nonprofit corporation and public instrumentality of the Metropolitan Government and is a component unit of the Metropolitan Government (primary 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 U.S. generally accepted accounting principles as applied to governmental units. 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 and other available pooled funds.

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), the Tennessee Intermediate Term Investment Fund (ITIF), and the First Tennessee Bank Advisors Direct Holdings (FTB Direct Holdings). The LGIP and ITIF are maintained and managed by the State of Tennessee. Accordingly, the Authority's investments in the LGIP and ITIF have been determined based on the Pool's share price as of the financial reporting date. Investments in the FTB Direct Holdings are reported at fair value. 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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Amounts due from and due to the primary government – Amounts due from the primary 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 primary government consist primarily of the transfers outlined in the Memorandum of Understanding (MOU) signed in 2018 and discussed in detail in note 11 and 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 – 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 were capitalized as projects were constructed. Net interest cost incurred during the construction of facilities was capitalized as part of the cost of those facilities. Capital assets are generally defined as assets with individual cost in excess of \$10,000 and a useful life in excess of one year. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets. The estimated lives range from 3 to 50 years.

Deferred outflows of resources – In addition to assets, the statements of net position report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources related to pensions consist of certain differences between projected and actual actuarial results, certain differences between projected and actual investment earnings, certain changes in assumptions, and any contributions between the measurement and reporting dates.

Compensated absences – General policy of the Authority for former employees of the Metropolitan Government and for employees hired by the Authority, permits the accumulation, within certain limitations, of unused vacation days and sick leave. For Metropolitan Government employees retained by the Authority and employees hired directly by the Authority a maximum of 10 vacation days may be carried forward to the next year. Although sick pay may accumulate for all employees, no amounts are vested in the event of employee termination. Accumulated unpaid vacation pay is reported with accrued payroll.

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

Deferred inflows of resources – In addition to liabilities, the statements of net position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources

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Notes to Financial Statements

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(revenue) until that time. Deferred inflows of resources related to pensions consist of certain differences between projected and actual actuarial results, certain differences between projected and actual investment earnings, certain changes in assumptions, and any contributions between the measurement and reporting dates.

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.

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, 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 campus and on any convention center hotels.

Other revenue (expense) – Other revenue (expense) primarily consists of amounts remitted to the developer of a hotel constructed adjacent to the Music City Center and to Metropolitan Government in accordance with the MOU executed in May 2018 as discussed in note 11.

Capital contributions – Capital contributions represent transfers of capital assets from the Nashville Convention Center.

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.

(2) Cash and Investments

The Authority is authorized by state statutes and policy to invest funds that are not immediately needed in United States Treasury Bills, Bonds and Notes; the LGIP; the ITIF; the FTB Direct Holdings; 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 LGIP, ITIF, and FTB Direct Holdings.

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At June 30, 2018, the Authority had the following deposits and investments:

Investment type	Fair value	Weighted average maturity (in years)
Unrestricted funds:		
Cash on deposit	\$ 25,925	—
Metropolitan Government investment pool	<u>124,366,846</u>	(1)
Cash and cash equivalents	<u>124,392,771</u>	
Construction funds:		
Metropolitan Government investment pool	<u>24,288,358</u>	(1)
Cash and cash equivalents	<u>24,288,358</u>	
Debt service and reserve funds:		
Cash on deposit	305,332	—
Metropolitan Government investment pool	1,786,102	(1)
U.S. Treasury money market funds	<u>33,658,456</u>	—
Cash and cash equivalents	<u>35,749,890</u>	
U.S. government agencies	37,425,622	2
Municipal obligations	<u>1,418,175</u>	4
Total investments	<u>38,843,797</u>	
Total cash and investments	<u>\$ 223,274,816</u>	

(1) The weighted average maturity of the LGIP, ITIF, and FTB direct holdings at June 30, 2018 were 0.12, 2.95 and 0.69 years, respectively.

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At June 30, 2017, the Authority had the following deposits and investments:

Investment type	Fair value	Weighted average maturity (in years)
Unrestricted funds:		
Cash on deposit	\$ 26,000	—
Metropolitan Government investment pool	80,297,854	(1)
Cash and cash equivalents	80,323,854	
Construction funds:		
Metropolitan Government investment pool	58,788,827	(1)
Cash and cash equivalents	58,788,827	
Debt service and reserve funds:		
Cash on deposit	400,000	—
Metropolitan Government investment pool	2,688,000	(1)
U.S. Treasury money market funds	32,804,227	—
Cash and cash equivalents	35,892,227	
U.S. government agencies	37,058,062	4
Municipal obligations	1,448,670	5
Total investments	38,506,732	
Total cash and investments	\$ 213,511,640	

(1) The weighted average maturity of the LGIP, ITIF, and FTB direct holdings at June 30, 2017 were 0.12, 2.61 and 0.73 years, respectively.

(a) Cash

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. As of June 30, 2018 and 2017, 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 Authority's investment policy places no specific limit on the weighted average maturity of the investment portfolios. However, the average maturity of the portfolios is monitored and managed so that the changing interest rates will cause only minimal deviations in the net asset value. As of

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June 30, 2018 and 2017, 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, 2018 and 2017, all investments were insured or registered or the securities were held by the Authority or its agent in the Authority's name.

(c) Fair Value Measurement

GASB Statement No. 72, *Fair Value Measurement and Application*, categorizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs are inputs – other than quoted prices included in Level 1 – that are observable for an asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for an asset or liability.

For the Metropolitan Government investment pool, the input levels are not applicable to LGIP as investments are reported at amortized cost. The investments in ITIF are considered Level 2, and these investments in FTIB Short Pool are considered Level 1.

Investments in U.S. Treasury money market funds and U.S. government agencies are considered Level 1 and investments in municipal obligations are considered in Level 2.

(3) Accounts Receivable

Accounts receivable of \$5,871,612 at June 30, 2018 consisted of \$2,167,684 for operating events and \$3,703,928 of accrued tourism taxes. Accounts receivable of \$6,188,955 at June 30, 2017 consisted of \$2,394,988 for operating events, \$3,548,540 of accrued tourism taxes, and \$245,427 of utility reimbursements due from the Renaissance Hotel, Elmgton Property Management and Oliver McMillian Spectrum Emery for the previous Nashville Convention Center site prior to demolition.

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(4) Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital assets, not being depreciated:				
Land	\$ 78,183,678	4,307,483	—	82,491,161
Art collection	1,183,844	—	—	1,183,844
Construction in progress	4,805,374	45,946,519	—	50,751,893
Total capital assets, not being depreciated	<u>84,172,896</u>	<u>50,254,002</u>	<u>—</u>	<u>134,426,898</u>
Capital assets, being depreciated:				
Buildings and improvements	635,644,200	157,123	—	635,801,323
Furniture, machinery and equipment	3,887,312	1,766,163	—	5,653,475
Total capital assets, being depreciated	<u>639,531,512</u>	<u>1,923,286</u>	<u>—</u>	<u>641,454,798</u>
Less accumulated depreciation:				
Buildings and improvements	(65,199,057)	(15,905,192)	—	(81,104,249)
Furniture, machinery and equipment	(2,011,344)	(902,052)	—	(2,913,396)
Total accumulated depreciation	<u>(67,210,401)</u>	<u>(16,807,244)</u>	<u>—</u>	<u>(84,017,645)</u>
	<u>\$ 656,494,007</u>	<u>35,370,044</u>	<u>—</u>	<u>691,864,051</u>

The changes in land for the years ended June 30, 2018 and 2017 are due to the acquisition of a parcel of land at 424 Lafayette Street by the Authority in October 2017 and the closure of the condemnation case related to a certain parcel of land acquired for the Music City Center site as described in note 11.

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Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2017</u>
Capital assets, not being depreciated:				
Land	\$ 79,989,700	—	(1,806,022)	78,183,678
Art collection	1,183,844	—	—	1,183,844
Construction in progress	<u>—</u>	<u>4,805,374</u>	<u>—</u>	<u>4,805,374</u>
Total capital assets, not being depreciated	<u>81,173,544</u>	<u>4,805,374</u>	<u>(1,806,022)</u>	<u>84,172,896</u>
Capital assets, being depreciated:				
Buildings and improvements	635,466,263	177,937	—	635,644,200
Furniture, machinery and equipment	<u>3,342,298</u>	<u>545,014</u>	<u>—</u>	<u>3,887,312</u>
Total capital assets, being depreciated	<u>638,808,561</u>	<u>722,951</u>	<u>—</u>	<u>639,531,512</u>
Less accumulated depreciation:				
Buildings and improvements	(49,302,240)	(15,896,817)	—	(65,199,057)
Furniture, machinery and equipment	<u>(1,468,375)</u>	<u>(542,969)</u>	<u>—</u>	<u>(2,011,344)</u>
Total accumulated depreciation	<u>(50,770,615)</u>	<u>(16,439,786)</u>	<u>—</u>	<u>(67,210,401)</u>
	<u>\$ 669,211,490</u>	<u>(10,911,461)</u>	<u>(1,806,022)</u>	<u>656,494,007</u>

(5) Unearned Revenue

Unearned revenue of \$7,482,470 and \$6,071,822 represents deposits received for events scheduled to occur in future years at June 30, 2018 and 2017, respectively.

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(6) Long-Term Revenue Bonds Payable

Long-term debt activity during the year ended June 30, 2018, and descriptions of the amounts outstanding are as follows.

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Repayments/ amortization</u>	<u>Balance June 30, 2018</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 semiannually, maturing through July 1, 2026	\$ 45,090,000	—	(3,570,000)	41,520,000
Tourism Tax Revenue Bonds Federally Taxable, Series 2010A-2 (Build America Bonds – Direct Payment), bearing interest at 7.431% payable semiannually, 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 semiannually, maturing through July 1, 2043	414,645,000	—	(6,745,000)	407,900,000
Original issue premium	724,452	—	(80,495)	643,957
	<u>\$ 612,854,452</u>	<u>—</u>	<u>(10,395,495)</u>	<u>602,458,957</u>

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Long-term debt activity during the year ended June 30, 2017, and descriptions of the amounts outstanding are as follows.

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Repayments/ amortization</u>	<u>Balance June 30, 2017</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 semiannually, maturing through July 1, 2026	\$ 48,510,000	—	(3,420,000)	45,090,000
Tourism Tax Revenue Bonds Federally Taxable, Series 2010A-2 (Build America Bonds – Direct Payment), bearing interest at 7.431% payable semiannually, 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 semiannually, maturing through July 1, 2043	419,090,000	—	(4,445,000)	414,645,000
Original issue premium	804,946	—	(80,494)	724,452
	<u>\$ 620,799,946</u>	<u>—</u>	<u>(7,945,494)</u>	<u>612,854,452</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 was 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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The bond proceeds were used as follows:

Establishment of debt service reserve funds	\$ 40,040,199
Establishment of capitalized interest funds	22,287,870
Payment of bond issue costs	7,299,082
Retirement of MDHA Loan	46,313,567

The remaining \$508,575,611 of bond proceeds was deposited in construction funds to be drawn down as the Music City Center was 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. Subsequent to issuance of the bonds, the Federal government has reduced the credit. The credit reduction was 6.6% and 6.9% in the fiscal years ended June 30, 2018 and June 30, 2017, respectively. The Authority is not anticipating restoration of the credit to the original amount; however, the reduction is not expected to have a material impact on the ability to meet future debt payments.

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. No payments related to this financial guarantee have been made by the Metropolitan Government. Should any payments be made by the Metropolitan Government in the future, the agreements provide for recovering any such payments from the Authority's revenues after operating expenses are covered and annual principal and interest payments and certain other obligations are met.

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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>Estimated federal credit</u>
Year ending June 30:			
2019	\$ 12,255,000	39,712,513	(12,094,678)
2020	13,425,000	39,041,330	(11,935,773)
2021	13,965,000	38,315,407	(11,760,525)
2022	14,435,000	37,549,541	(11,575,229)
2023	15,095,000	36,718,109	(11,378,807)
2024–2028	86,660,000	169,343,938	(53,438,596)
2029–2033	107,160,000	137,245,873	(43,856,919)
2034–2038	133,755,000	95,502,308	(30,517,762)
2039–2043	166,985,000	43,366,003	(13,857,606)
2044–2045	38,080,000	1,326,242	(423,801)
	<u>\$ 601,815,000</u>	<u>638,121,264</u>	<u>(200,839,696)</u>

(7) Employee Benefit Plans

Certain employees of the Metropolitan Government's Nashville Convention Center were retained by the Authority to manage and operate the Music City Center. Those Metropolitan Government employees continue to be eligible to participate in the pension, other postemployment benefit (OPEB), and deferred compensation 457 plans of the Metropolitan Government. Only employees hired directly by the Authority are eligible to participate in the Authority's deferred compensation 401(k) plan.

(a) Pension Plans (Former Metropolitan Government Employees)

The Metropolitan Government sponsors or guarantees several single-employer pension plans, including (a) the closed City Plan (City Plan); (b) the Davidson County Employees' Retirement Plan (County Plan), both of which were closed to new members on April 1, 1963; and (c) the Metropolitan Employees' Benefit Trust Division A or B (Metro Plan). Division A of the Metro Plan was established at the inception of the Metropolitan Government on April 1, 1963, and was closed to new members on July 1, 1995. Division B of the Metro Plan was established on July 1, 1995.

All plans of the Metropolitan Government were established by or continue under the authority of the Metropolitan Charter, Article XIII, effective April 1, 1963. Approval of the Metropolitan Council is required to establish and amend benefit provisions. Article XIII also requires that all pension plans be actuarially sound. Administrative costs of the plans are financed by plan assets. The plans are administered by the Metropolitan Employee Benefit Board, an independent board created by the Metropolitan Charter. The financial position and results of operations of the pension plans are reported

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as fiduciary funds of the Metropolitan Government and, accordingly, are not included in the financial statements of the Authority.

Certain legacy employees of the Authority who were former employees of the Nashville Convention Center are members of the Metro Plan. Periodic contributions by the Authority to the Metro Plan are at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due. Contributions to closed plans are made on a pay-as-you-go basis by the Metropolitan Government whereby contributions are made in amounts sufficient to cover benefits paid during the year. Employees do not contribute to any of the Metropolitan Government pension plans.

Normal retirement for employees occurs at age 65 for Division A and age 60 for Division B and entitles employees to a lifetime monthly benefit as determined under the Metro Plan. Benefits fully vest upon completing five years of service for employees employed on or between October 1, 2001 and December 31, 2012 and who vest before leaving employment.

A net pension liability has been recorded in the financial statements of the Authority based on its pro rata share of the total net pension liability for the Metropolitan Government. The net pension liability was \$380,133 at June 30, 2018 and \$233,451 at June 30, 2017. The Authority's proportion of the Metro Plan's net pension liability at June 30, 2018 was 0.47% and at June 30, 2017 was 0.57%.

Certain differences between expected and actual actuarial results and certain differences between projected and actual investment earnings and certain changes in assumptions are recorded as either deferred outflows of resources or deferred inflows of resources. The deferred outflows of resources and deferred inflows of resources were \$0 and \$256,486, respectively, at June 30, 2018 and \$0 and \$278,217 respectively at June 30, 2017. The amounts will be recognized as pension expense in future years.

Contributions by the Authority to the Metro Plan totaled \$246,655 and \$214,144 for the years ended June 30, 2018 and June 30, 2017, respectively.

The Authority has recorded a net pension liability, deferred outflows of resources, and deferred inflows of resources, in accordance with GASB Statement No. 68, *Accounting and Reporting for Pensions – an amendment of GASB Statement No. 27*, related to its participation in the pension plans of the Metropolitan Government. The number of Authority employees participating in the pension plans is approximately 20, and disclosures and related information presented are limited due to the Authority's relative level of participation. Additional information regarding the pension plans of the Metropolitan Government Authority's relative is available in its Comprehensive Annual Financial Report, which can be obtained from the Department of Finance, Financial Operations, 700 2nd Ave South, PO Box 196300, Nashville, TN, 37219-6300, or <http://www.nashville.gov/Finance/Financial-Operations.aspx>.

(b) OPEB Plans (Former Metropolitan Government Employees)

Retirees in the Metro, City or County Plans may elect to participate in the Metropolitan Employees' Medical Benefit Plan (Benefit Plan), a single-employer defined benefit healthcare plan. The Benefit Plan is administered by the Employee Benefit Board and provides medical, dental and life insurance. The OPEBs were authorized by the Metropolitan Charter and Code. The financial position and results

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of operation of the Benefit Plan are reported as an internal service fund of the Metropolitan Government and, accordingly, are not included in the financial statements of the Authority.

The contribution requirements of the Benefit Plan members and the Metropolitan Government are established and may be amended by the Employee Benefit Board. The required contribution is based on projected pay-as-you-go financing requirements under which contributions are made in amounts sufficient to cover benefits paid, administrative costs, and anticipated inflationary increases. For health insurance, the Metropolitan Government contributes 75% of all premium payments, and the retirees contribute 25%. The Metropolitan Government also provides a 50% matching contribution on dental insurance for retirees that choose to participate. Finally, the Metropolitan Government provides life insurance at no charge to retirees.

As the Metropolitan Government has assumed the responsibility for funding these benefits, the Authority has accrued no liability as of June 30, 2018 or June 30, 2017. Actuarially determined OPEBs are reported in the government-wide statements of the Metropolitan Government; accordingly, no additional liability has been accrued in the financial statements of the Authority.

(c) *Deferred Compensation 457 Plan (Former Metropolitan Government Employees)*

The Metropolitan Government offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Metro employees, permits deferral of a portion of salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Because the assets are held in a trustee capacity, they are not included in the financial statements of the Metropolitan Government. No contributions are made to this plan by the Metropolitan Government or Convention Center Authority.

(d) *Deferred Compensation 401(k) Plan (Authority Employees)*

The Authority offers a 401(k) deferred compensation plan to its employees hired directly by the Authority. Former employees of the Nashville Convention Center are not eligible to participate in this plan. The plan permits deferral of a portion of salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Employees can contribute as much as is allowed by Federal law. The Authority matches 100% of employee contributions up to 3% of salary and 50% of employee contributions up to 5% of salary. Contributions by the Authority to the 401(k) Plan totaled \$153,269 and \$133,486 for the years ended June 30, 2018 and 2017, respectively. The plan is administered by the Authority. Financial statements for the plan can be obtained from the Convention Center Authority, c/o Music City Center, Human Resources, 201 Fifth Avenue South, Nashville, TN, 37203.

(8) 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 a maximum deductible of \$100,000 for each covered claim and has obtained excess insurance for any claims above that amount. These policies provide insurance for property, builder's risk, worker's compensation,

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automobile, general liability and other exposures. There have been no settlements exceeding insurance coverage since the inception of the Authority.

(9) Leases

On December 30, 2010, the Authority entered into a development agreement for the Country Music Hall of Fame and Museum Expansion with Omni Nashville, LLC (Omni) and into a development, lease and operating agreement with the Country Music Foundation, Inc. (Hall of Fame). Under the terms of the agreements, Omni constructed a connector (expansion project) between its headquarters hotel and the Hall of Fame, with funding from tax increment financing provided by the MDHA. Upon completion of construction, the connector was transferred to the Authority on June 20, 2014 and is now leased to the Hall of Fame for an initial term of 60 years. The annual lease payments for 2017-2019 include \$50,000 to be recorded as rental revenue by the Authority and \$200,000 to be deposited in an escrow account for future repair and maintenance of the space. Future minimum lease payments to the Authority will be as follows:

Years ending June 30:	<u>Annual payments</u>
2019	\$ 250,000
2020–2024	350,000
2025–2064	500,000
2065–2069	650,000
2070–2074	750,000

The Hall of Fame is responsible for all interior and exterior operating costs, insurance, maintenance and repairs. As required by the agreement, the Authority has established a reserve fund for the portion of the Hall of Fame annual payment reserved for future capital costs related to the connector. The carrying amount of the connector on the Authority's statement of net position at June 30, 2018, net of accumulated depreciation of \$3,805,800, is \$33,485,933. The carrying amount of the connector on the Authority's statement of net position at June 30, 2017, net of accumulated depreciation of \$2,873,509, is \$34,418,226.

(10) 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 Nashville Convention Center (NCC). Because the assets of the existing NCC were owned by the Metropolitan Government, the operations were accounted for as an enterprise fund of the Metropolitan Government. The operations of the NCC were discontinued during fiscal year 2017 in conjunction with the sale of the NCC land. See note 11.

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.

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(11) Commitments and Contingencies

On October 19, 2010, the Authority entered into a Development and Funding Agreement with 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 over a period of 20 years. These payments 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. No payments related to this financial guarantee have been made by the Metropolitan Government. Should any payments be made by the Metropolitan Government in the future, the agreements provide for recovering any such payments from the Authority's revenues after operating expenses are covered and annual principal and interest payments and certain other obligations are met.

These payments to Omni began after the hotel opened for business, including the renting of rooms. The amount remitted to Omni during the years ended June 30, 2018 and June 30, 2017 totaled \$12,000,000 and \$10,000,000, respectively. The schedule of future annual payments is expected to be as follows.

	<u>Annual payment</u>
Year ending June 30:	
2019–2026	\$ 12,000,000
2027–2033	15,000,000

The Authority has been involved in a previously pending condemnation case related to a parcel of land acquired for the Music City Center site for which a total of \$1,774,300 has been paid. This matter was tried before a jury August 29–31, 2016 and the Court entered an order of judgment on September 9, 2016 for an additional \$351,398 to be paid to the property owner. This judgment was well within the amounts reserved by the Authority. Thereafter, the property owner filed a motion for new trial with the Court, which was denied. The owner then filed a notice of appeal on February 24, 2017 which conducted oral arguments on October 6, 2017. That appeal was denied and subsequently the property owner filed a petition with the United States Supreme Court. That petition was denied in October of 2018 and the matter was officially closed.

In May 2015, the Metropolitan Council approved a redevelopment agreement related to the sale and development of the former NCC site that was under the management of the Authority. The final sale of the NCC land to Oliver McMillan Spectrum Emery Inc. closed on November 10, 2016. Along with the redevelopment agreement, the Authority agreed to contribute \$38,500,000 from its surplus tax revenue to partially fund the parking garage and conference center space at the Fifth + Broadway complex. Contributions continue to be made in periodic payments upon verification of ongoing construction and completion of specified work allowable for reimbursement.

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

Notes to Financial Statements

June 30, 2018 and 2017

In January of 2017 the Authority approved a budget of \$19,945,000 to begin construction on various capital projects on the MCC campus including an expansion of the exhibit hall concourse space, enclosure of the Davidson Ballroom terrace to increase prefunction space, and the construction of a new food and beverage outlet near exhibit hall D. These capital projects began immediately and are anticipated to be completely closed out in fiscal 2019.

In May of 2018, through an MOU agreement, the Authority committed to transferring a total of \$10,000,000 over the course of the following year to the Metropolitan Government. Such transfers consist of \$7,500,000 by September 30, 2018 related to fiscal 2017 and 2018 revenues and \$2,500,000 by August 31, 2019 related to fiscal 2019 revenues. In addition, beginning with fiscal 2020 the Authority agreed to transfer to the Metropolitan Government, on an annual basis, the greater of \$2,500,000 or five percent of revenues in excess of \$2,000,000. For the purposes of this agreement "revenues" refers to the hotel motel tax revenues, room occupancy tax revenues, and the MCC campus sales tax revenues received in that year. This transfer is contingent on the Authority's ability to fully fund its operating expenses, debt service and debt service reserves.

(12) Subsequent Events

On August 31, 2018 the Convention Center Authority purchased additional property at 719 4th Avenue South in Nashville for \$3,850,000. This lot will also be used as a marshalling yard for events and additional parking to supplement the garage at the Music City Center.

The Authority has evaluated subsequent events through October 30, 2018, the date the financial statements were available for issuance, and has determined that there are no other subsequent events that require additional disclosure.



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Convention Center Authority

12/4/2018

Attachment #2

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, Tennessee:

We have audited, 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, the financial statements of the Convention Center Authority of the Metropolitan Government of Nashville and Davidson County, Tennessee (the Authority) which comprise the statement of net position as of June 30, 2018 and the related statements of revenue, expenses, and changes in net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control 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 a combination of deficiencies, in internal control, 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.



Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

October 30, 2018