





KPMG LLP
1900 Nashville City Center
511 Union Street
Nashville, TN 37219-1735

Independent Auditors' Report

The Honorable Mayor and Members of Council
The Metropolitan Government of Nashville and Davidson County, Tennessee:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Metropolitan Government of Nashville and Davidson County, Tennessee (the Government) as of and for the year ended June 30, 2007, which collectively comprise the Government's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the Government's nonmajor governmental, nonmajor enterprise, internal service, and fiduciary funds, as well as the financial statements of the Sports Authority Fund, which are presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2007, as listed in the table of contents. We also have audited the financial statements of each of the discretely presented component units of the Government, as of and for the year ended June 30, 2007 as presented in the Government's basic financial statements, except as described in the last two sentences of this paragraph. These financial statements are the responsibility of the Government's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following discretely presented component units: the Nashville District Management Corporation, the Metropolitan Development and Housing Agency, the Electric Power Board, the Metropolitan Transit Authority, the Metropolitan Nashville Airport Authority, the Emergency Communications District, and the Industrial Development Board, which reflect 81% of the total assets and 89% of the total revenues of the aggregate discretely presented component units of the Government. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government'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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Metropolitan Government of Nashville and Davidson County, Tennessee as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and the General Purpose School Fund for the year then ended in conformity with U.S. generally accepted accounting principles. In addition, in our opinion, based

on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of each of the nonmajor governmental, nonmajor enterprise, internal service, and fiduciary funds; the Sports Authority Fund; and each of the discretely presented component units, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements of the Hospital Authority of Nashville and Davidson County, Tennessee (a component unit of the Government) have been prepared assuming that the Hospital Authority will continue as a going concern. As discussed in Note 11E in the accompanying financial statements, Metropolitan Nashville General Hospital (a fund of the Hospital Authority) has experienced recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. The Hospital Authority management's plans in regard to these matters are also described in Note 11E. The financial statements of the Hospital Authority do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2007 on our consideration of the Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages A-1 through A-11, the condition rating of the transportation network, the schedule of funding progress, and the schedule of employer contributions, on B-102 through B-103, B-104 through B-107, and B-108 through B-109, respectively, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Government's basic financial statements and each of the nonmajor governmental, nonmajor enterprise, internal service, and fiduciary funds; the Sports Authority Fund; and the financial statements of each of the discretely presented component units. The schedules on pages C-13, C-14 and C-15, and on pages G-2 through G-35, which are also the responsibility of the management of the Government, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Government. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory and statistical data sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Government. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

October 31, 2007

