

**THE GULCH BUSINESS
IMPROVEMENT DISTRICT, INC.**

FINANCIAL STATEMENTS

December 31, 2008 and 2007

**THE GULCH BUSINESS
IMPROVEMENT DISTRICT, INC.**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Gulch Business Improvement District, Inc.
Nashville, Tennessee

We have audited the accompanying statements of net assets of The Gulch Business Improvement District, Inc. (a nonprofit organization), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion 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 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 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 Gulch Business Improvement District, Inc. as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2009, on our consideration of The Gulch Business Improvement District, Inc.'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 audits.

Management's discussion and analysis on pages 4 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 audits were conducted for the purpose of forming an opinion on the basic financial statements of The Gulch Business Improvement District, Inc. taken as a whole. The supporting information included in the report (shown on page 14) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Frasier, Dean + Howard, PLLC

June 19, 2009

THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

The following Management's Discussion and Analysis ("MD&A") of The Gulch Business Improvement District, Inc.'s (the "GBID") financial performance provides an introduction to the financial statements for the year ended December 31, 2008. The information contained in this MD&A should be considered in conjunction with the information contained in the GBID's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The GBID's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Government Accounting Standards Board. Revenues of the GBID are recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are capitalized and are depreciated over their estimated useful lives. See the notes to the financial statements for a summary of the GBID's significant accounting policies.

Following this discussion are the basic financial statements of the GBID, together with the notes, which are essential to a full understanding of the data contained in the financial statements. The GBID's basic financial statements are designed to provide readers with a broad overview of the GBID's financial status.

The *Statement of Net Assets* presents information on all of the GBID's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of the GBID's financial position.

The *Statement of Activities* presents information showing the change in the GBID's net assets during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are recorded and reported in this statement for some items that will result in cash flows in future periods.

The *Statement of Cash Flows* relates to the flows of cash and cash equivalents. Consequently, only transactions that affect the GBID's cash accounts are recorded in this statement.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL HIGHLIGHTS

Substantially all GBID operating revenue is from property-based assessments within a defined Gulch Business Improvement District (the "District"). Consistent with the State enabling legislation, property owners representing more than 50% of the total property owners in the District and more than 2/3 of the assessed value signed petitions agreeing to the assessment. Following a public hearing, the Metropolitan Council of Nashville and Davidson County established the District by an ordinance, with the power to levy assessment on property. Under terms of a Memorandum of Agreement between the Metropolitan Government of Nashville and Davidson County and the GBID, funds generated by this special assessment are collected with the regular property taxes and transferred to the GBID to fund services and initiatives that support and enhance the economic environment of the District.

THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2008

	<u>2008</u>	<u>2007</u>
Revenues		
Program revenues:		
Charges for services	\$ 32,913	\$ 34,525
General revenues:		
Contributions	<u>-</u>	<u>12,000</u>
Total revenues	<u>32,913</u>	<u>46,525</u>
Expenses		
Program expenses:		
Program management fees	55,203	21,800
Management and general	<u>10,804</u>	<u>5,537</u>
Total expenses	<u>66,007</u>	<u>27,337</u>
(Decrease) increase in net assets	<u>\$ (33,094)</u>	<u>\$ 19,188</u>

The operating revenue from the property tax assessment reported for the period ended December 31, 2008 is consistent with management expectations and that reported for the period ended December 31, 2007. The assessment revenues from the District are materially consistent with the ordinance established by the Metropolitan Council.

The program operating expenses reported for the period ended December 31, 2008 are significantly greater than those reported for the period ended December 31, 2007 resulting from the GBID incurring expenses for the entire 2008 year compared to the final four months of 2007. As is reported in the accompanying notes to the financial statements, the GBID provides substantially all of the support and services to its constituents through a management contract with the Nashville Downtown Partnership. Therefore, other than necessary administrative expenses, the remainder of the operating costs are incurred as a part of this contract.

As mentioned above, the net assets of the GBID represent the difference between its assets and its liabilities at a point in time. A change in the net asset balance from one year to the next is typically a result of the excess of revenues over expenses for the time period, or in some cases the excess of expenses over revenues. In most years, the GBID will not experience a significant change in its net assets, as substantially all its available revenue is designated to be utilized immediately to provide services to its target area. For the year ended December 31, 2008, the GBID experienced a decrease in net assets. This is due to operating expenses being significantly higher than assessment revenues.

	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 12,000	\$ 19,188
Liabilities	(25,906)	-
Net assets:		
Unrestricted	(25,906)	7,188
Temporarily restricted	<u>12,000</u>	<u>12,000</u>
Total net assets	<u>\$ (13,906)</u>	<u>\$ 19,188</u>

**THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2008**

OTHER ISSUES

Management is not aware of any facts or conditions that are expected to have a significant impact on either the GBID financial position or the results of its operations after the reporting date. A further discussion of the significant business relationships of the GBID can be found in the accompanying notes to the financial statements.

Respectfully submitted,



Dirk Melton
Treasurer
June 19, 2009

THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
STATEMENTS OF NET ASSETS
December 31, 2008 and 2007

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,000	\$ 16,313
Accounts receivable	-	2,875
Total assets	\$ 12,000	\$ 19,188
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 25,906	\$ -
Total liabilities	25,906	-
Net assets:		
Unrestricted	(25,906)	7,188
Temporarily restricted	12,000	12,000
Total net assets	(13,906)	19,188
Total liabilities and net assets	\$ 12,000	\$ 19,188

See accompanying notes to the financial statements.

THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
STATEMENTS OF ACTIVITIES
For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Charges for services	\$ 32,913	\$ 34,525
Operating expenses:		
Program management fees	55,203	21,800
Management and general	<u>10,804</u>	<u>5,537</u>
Total operating expense	<u>66,007</u>	<u>27,337</u>
Operating (loss) income - unrestricted	<u>(33,094)</u>	<u>7,188</u>
Nonoperating income:		
Contributions - temporarily restricted	<u>-</u>	<u>12,000</u>
Total nonoperating income	<u>-</u>	<u>12,000</u>
Change in net assets	(33,094)	19,188
Net assets - beginning of year	<u>19,188</u>	<u>-</u>
Net assets - end of year	<u><u>\$ (13,906)</u></u>	<u><u>\$ 19,188</u></u>

See accompanying notes to the financial statements.

THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received for services	\$ 35,788	\$ 31,650
Cash payments to suppliers for goods and services	<u>(40,101)</u>	<u>(27,337)</u>
Net cash (used in) provided by operating activities	<u>(4,313)</u>	<u>4,313</u>
Cash flows from noncapital financing activities:		
Cash received from contributors	<u>-</u>	<u>12,000</u>
Net cash provided by noncapital financing activities	<u>-</u>	<u>12,000</u>
Net (decrease) increase in cash and cash equivalents	(4,313)	16,313
Cash and cash equivalents - beginning of year	<u>16,313</u>	<u>-</u>
Cash and cash equivalents - end of year	<u>\$ 12,000</u>	<u>\$ 16,313</u>

See accompanying notes to the financial statements.

THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
For the years ended December 31, 2008 and 2007

	2008	2007
Reconciliation of operating income to cash provided by operating activities:		
Operating (loss) income	\$ (33,094)	\$ 7,188
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	2,875	(2,875)
Accounts payable	25,906	-
Net cash (used in) provided by operating activities	\$ (4,313)	\$ 4,313

See accompanying notes to the financial statements.

THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Gulch Business Improvement District, Inc. (the "Organization") was established in 2006 as a not-for-profit organization to administer special assessment revenues collected by the Metropolitan Government of Nashville and Davidson County, Tennessee ("Metro") for the Gulch Central Business Improvement District (the "District") under a memorandum of understanding with Metro. The agreement may be terminated by Metro upon thirty days notice. The assessments collected are to be used to make improvements to the District and to provide services within the District. Accordingly, the Organization is considered a component unit of Metro due to it being fiscally dependent on Metro.

The financial statements of the Organization are presented using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when incurred.

The Organization applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Organization has elected to apply all Financial Accounting Standards Board ("FASB") Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Revenue Recognition

Charges for services relate to revenue under the Organization's contract with Metro and are generally recognized as revenue when received or as deemed payable by Metro.

Taxation

The Organization is exempt from taxation under Section 501(c)(6) of the Internal Revenue Code. Accordingly, no provision has been made for federal income taxes in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, 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. Accordingly, actual results could differ from those estimates.

THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2008 and 2007

NOTE 2 – CASH AND CASH EQUIVALENTS

The Organization's cash and cash equivalent bank balances totaling \$12,000 and \$16,313 at December 31, 2008 and 2007, represent time deposits with banks. All the cash deposits are in a single financial institution and are carried at cost plus interest which approximates market. These deposits are insured up to the federal depository insurance coverage level. The Organization is authorized by its Board of Directors to make deposits into various checking, savings, and money market accounts.

NOTE 3 – CONCENTRATIONS

The Organization receives substantially all of its revenue from its agreement with Metro through local government special assessments. Should Metro discontinue this arrangement, the Organization would no longer be able to continue its operations without obtaining alternative sources of revenue.

The Organization also receives advances for operating expenses from MarketStreet Management, LLC, a company that provides administrative and other services for the Organization. Amounts payable to MarketStreet Management, LLC at December 31, 2008 totaled \$18,344.

NOTE 4 – CONTRACTS AND AGREEMENTS

The Organization has entered into various contracts and agreements in order to carry out its purpose of administering special assessment revenue collected by Metro for the benefit of the District. A brief description of such contracts and agreements follows.

Ordinance Establishing the District – This ordinance provides for the Organization to oversee program administration of the District in accordance with Tennessee law. The Organization's duties and responsibilities under the ordinance include, but are not limited to, providing services for improvement and operation of the District through security enhancement, marketing, and improving District beautification, sanitation, and maintenance. The term of the ordinance extends to January 1, 2017, and may be terminated upon receipt of a written petition filed by either (a) the owners of 75% of the assessed value of the taxable real property in the District or (b) 50% of the owners of record within the District.

During 2008, the ordinance was amended to significantly increase the special assessment for 2009 from \$0.15 to \$0.91 per \$100 of assessed value of real property with the assessment decreasing annually from 2010 through 2012.

Service Agreement – Effective August 1, 2007, the Organization entered into an agreement with Nashville Downtown Partnership, a nonprofit organization, to perform all the duties and responsibilities for clean and safe services for the District, as defined in the Memorandum of Agreement with Metro, in exchange for a monthly fee of \$4,600. During the year ended December 31, 2008 and 2007, the Organization recognized expense of \$55,203 and \$21,800, respectively, related to the agreement. There were no amounts payable under the agreement at December 31, 2008. The agreement expires July 31, 2008 and allows for one optional one-year renewal.

THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2008 and 2007

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2008 and 2007 consist of the following:

Board member contributions for marketing	\$ 12,000
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ADDITIONAL INFORMATION

THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
SCHEDULE OF EXPENDITURES OF METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY, TENNESSEE AWARDS
For the year ended December 31, 2008

<u>Grantor Agency</u>	<u>Program Name</u>	<u>Award Period</u>	<u>Cash Expenditures</u>
Metropolitan Government of Nashville and Davidson County, Tennessee	The Gulch Business Improvement District	January 1, 2008 to December 31, 2008	<u>\$ 40,101</u>



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
The Gulch Business Improvement District, Inc.
Nashville, Tennessee

We have audited the financial statements of The Gulch Business Improvement District, Inc. as of and for the year ended December 31, 2008, and have issued our report thereon dated June 19, 2009. 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 Gulch Business Improvement District, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Gulch Business Improvement District, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Gulch Business Improvement District, Inc.'s internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects The Gulch Business Improvement District, Inc.'s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of The Gulch Business Improvement District, Inc.'s financial statements that is more than inconsequential will not be prevented or detected by The Gulch Business Improvement District, Inc.'s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by The Gulch Business Improvement District, Inc.'s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Gulch Business Improvement District, Inc.'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 the board of directors, management, others within the organization, and awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Frasier, Dean + Howard, PLLC

June 19, 2009