

**NASHVILLE DISTRICT MANAGEMENT
CORPORATION, INC.**

FINANCIAL STATEMENTS

December 31, 2011 and 2010

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.

TABLE OF CONTENTS

	Page
Introduction.....	1 – 2
Independent Auditor’s Report.....	3 – 4
Management’s Discussion and Analysis.....	5 – 7
Audited Financial Statements:	
Statements of Net Assets	8
Statements of Activities	9
Statements of Cash Flows.....	10 – 11
Notes to Financial Statements.....	12 – 16
Additional Information:	
Schedule of Expenditures of Metropolitan Government of Nashville and Davidson County, Tennessee Awards.....	17
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	18 – 19

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.

INTRODUCTION

The Nashville District Management Corporation, Inc. (the “NDMC”) is pleased to present its Annual Financial Report for the years ended December 31, 2011 and 2010.

Responsibility and Controls

The NDMC has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The NDMC’s system of internal accounting controls is evaluated on an ongoing basis by the NDMC’s internal financial staff. Frasier, Dean & Howard, PLLC, our external auditors, also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Management believes that its policies and procedures provide guidance and reasonable assurance that the NDMC’s operations are conducted according to management’s intentions and to a high standard of business ethics. In management’s opinion, the financial statements present fairly, in all material respects, the financial position of the NDMC as of December 31, 2011 and 2010, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Audit Assurance

The unqualified opinion of our independent external auditors, Frasier, Dean & Howard, PLLC is included in this report.

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
As of December 31, 2011

Board of Directors

Ronald V. Gobbell	Chairman
Robert C. H. Mathews, III	Vice Chairman, Secretary/Treasurer
John Fleming	Board Member
Richard Fletcher	Board Member
Libby Funke	Board Member
Erica Gilmore	Board Member
Thelma Harper	Board Member
Robert A. McCabe, Jr.	Board Member
Mary Pruitt	Board Member
Phil Ryan	Board Member
Brenda Sanderson	Board Member
J. Ronald Scott	Board Member

Executive Staff

Thomas D. Turner	President and Chief Executive Officer Nashville Downtown Partnership
Sally E. Connelly	Executive Vice President Nashville Downtown Partnership
Julie Hays	Finance Manager Nashville Downtown Partnership



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Nashville District Management Corporation, Inc.
Nashville, Tennessee

We have audited the accompanying statements of net assets of Nashville District Management Corporation, Inc. (a nonprofit organization), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee as of December 31, 2011 and 2010, 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 Nashville District Management Corporation, Inc. as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years 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 March 15, 2012, on our consideration of Nashville District Management Corporation, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 – 7 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 obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Nashville District Management Corporation, Inc. taken as a whole. The additional information included in the report (shown on page 17) is presented for purposes of additional analysis and is not a required part of the financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section 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 assurance on it.

Frasier, Dean + Howard, PLLC

March 15, 2012

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011

The following Management's Discussion and Analysis of the Nashville District Management Corporation, Inc.'s (the "NDMC") financial performance provides an introduction to the financial statements for the year ended December 31, 2011. The information contained in this MD&A should be considered in conjunction with the information contained in the NDMC's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The NDMC'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 NDMC 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 NDMC's significant accounting policies.

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

The *Statement of Net Assets* presents information on all of the NDMC'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 NDMC's financial position.

The *Statement of Activities* presents information showing the change in the NDMC'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 NDMC'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 the NDMC's operating revenue is from property-based assessments within a defined Central Business Improvement District ("CBID"). Consistent with the State enabling legislation, property owners representing more than 50% of the total property owners in the CBID 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 CBID 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 NDMC, funds generated by

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2011

FINANCIAL HIGHLIGHTS (Continued)

this special assessment are collected with the regular property taxes and transferred to the NDMC to fund services and initiatives that support and enhance the economic environment of the CBID.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,559,021	\$ 1,470,354	\$ 1,195,131
General revenues:			
Contributions	42,120	57,120	57,120
Other income	<u>44,536</u>	<u>40,855</u>	<u>40,680</u>
Total revenues	<u>1,645,677</u>	<u>1,568,329</u>	<u>1,292,931</u>
Expenses:			
Program expenses:			
Program management fees	1,551,834	1,474,912	1,200,441
Management and general	21,231	21,038	19,983
General expenses:			
Non-cash lease expense	<u>81,864</u>	<u>81,864</u>	<u>81,864</u>
Total expenses	<u>1,654,929</u>	<u>1,577,814</u>	<u>1,302,288</u>
Decrease in net assets	<u>\$ (9,252)</u>	<u>\$ (9,485)</u>	<u>\$ (9,357)</u>

The operating revenue from the property tax assessment reported for the period ended December 31, 2011 is consistent with management expectations and that reported for the period ended December 31, 2010. The assessment revenues from the CBID are materially consistent with the ordinance established by the Metropolitan Council for 2008 through 2017 which expanded the geographic area and assessment rate.

Similarly, the program operating expenses reported for the period ended December 31, 2011 are consistent with those reported for the period ended December 31, 2010. As is reported in the accompanying notes to the financial statements, the NDMC provides substantially all of the support and services to its constituents through a management contract with the Nashville Downtown Partnership, Inc. 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 NDMC 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 NDMC will not experience a significant change in its net assets, as substantially all of its available revenue is designed to be utilized immediately to provide services to its target area. For the year ended December 31, 2011, and much like prior years, the

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2011

FINANCIAL HIGHLIGHTS (Continued)

NDMC experienced a decrease in net assets. This was due to the annual depreciation expense recognized on the capital (fixed asset) acquisitions incurred related to its office space.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 323,702	\$ 243,014	\$ 198,722
Capital assets	<u>610</u>	<u>9,862</u>	<u>18,125</u>
Total assets	324,312	252,876	216,847
Other liabilities	<u>(320,536)</u>	<u>(239,848)</u>	<u>(194,334)</u>
Net assets:			
Invested in capital assets	610	9,862	18,125
Unrestricted	<u>3,166</u>	<u>3,166</u>	<u>4,388</u>
Total net assets	<u>\$ 3,776</u>	<u>\$ 13,028</u>	<u>\$ 22,513</u>

OTHER ISSUES

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

Respectfully submitted,



Thomas Turner
Assistant Treasurer
March 15, 2012

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
STATEMENTS OF NET ASSETS
December 31, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 320,673	\$ 239,985
Prepaid expenses	3,029	3,029
Total current assets	323,702	243,014
Capital assets:		
Leasehold improvements	135,512	135,512
Furniture and equipment	18,697	43,599
Computer equipment	-	2,000
Total capital assets	154,209	181,111
Less accumulated depreciation	(153,599)	(171,249)
Total capital assets (net of accumulated depreciation)	610	9,862
Total assets	\$ 324,312	\$ 252,876
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable-Nashville Downtown Partnership, Inc.	\$ 320,536	\$ 203,822
Deferred revenue	-	36,026
Total liabilities	320,536	239,848
Net assets:		
Invested in capital assets	610	9,862
Unrestricted	3,166	3,166
Total net assets	3,776	13,028
Total liabilities and net assets	\$ 324,312	\$ 252,876

See accompanying notes to the financial statements.

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2011 and 2010

	2011	2010
Operating revenues:		
Charges for services	\$ 1,559,021	\$ 1,470,354
Operating expenses:		
Program management fees	1,551,834	1,474,912
Management and general	21,231	21,038
Total operating expense	1,573,065	1,495,950
Operating loss	(14,044)	(25,596)
Nonoperating income (expense):		
Contributions	42,120	57,120
Other income	44,536	40,855
Non-cash lease expense	(81,864)	(81,864)
Total nonoperating income	4,792	16,111
Change in net assets	(9,252)	(9,485)
Net assets - beginning of year	13,028	22,513
Net assets - end of year	\$ 3,776	\$ 13,028

See accompanying notes to the financial statements.

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received for services	\$ 1,522,995	\$ 1,467,382
Cash payments to suppliers for goods and services	<u>(1,447,099)</u>	<u>(1,437,979)</u>
Net cash provided by operating activities	<u>75,896</u>	<u>29,403</u>
Cash flows from noncapital and related financing activities:		
Cash received from contributors	<u>-</u>	<u>15,000</u>
Net cash provided by noncapital and related financing activities	<u>-</u>	<u>15,000</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	<u>-</u>	<u>(1,222)</u>
Net cash used in capital and related financing activities	<u>-</u>	<u>(1,222)</u>
Cash flows from investing activities:		
Interest income	<u>4,792</u>	<u>1,111</u>
Net cash provided by investing activities	<u>4,792</u>	<u>1,111</u>
Net increase in cash and cash equivalents	80,688	44,292
Cash and cash equivalents - beginning of year	<u>239,985</u>	<u>195,693</u>
Cash and cash equivalents - end of year	<u>\$ 320,673</u>	<u>\$ 239,985</u>

See accompanying notes to the financial statements.

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of operating loss to net cash provided		
by operating activities:		
Operating loss	\$ (14,044)	\$ (25,596)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	9,252	9,485
Changes in operating assets and liabilities:		
Accounts payable	116,714	48,486
Deferred revenue	(36,026)	(2,972)
Net cash provided by operating activities	\$ 75,896	\$ 29,403

See accompanying notes to the financial statements.

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Nashville District Management Corporation, Inc. (the “Organization”) was established in 1998 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 Nashville Central Business Improvement District (“CBID”) 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 CBID and to provide services within CBID. Based upon the criteria set forth by the Governmental Accounting Standards Board (“GASB”), it has been determined that the Organization is a component unit due to it being fiscally dependent on Metro.

The financial statements of the Organization have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when incurred.

The Organization applies all relevant GASB pronouncements. 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. The Organization maintains its deposits in financial institutions at balances that, at times, may exceed federally insured limits.

Capital Assets

Capital assets are reported at cost at the date of purchase, at fair market value at the date of gift, if the value is readily determinable, or other reasonable basis, as determined by management, if such value is unknown. Depreciation is calculated using the straight-line method to allocate the cost of the assets, as so determined, to operations over their estimated useful lives, which range from three to seven years.

Taxation

The Organization is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision has been made for federal income taxes in the accompanying financial statements. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

The Organization follows FASB ASC guidance related to unrecognized tax benefits. The guidance clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements. Tax years remaining open for examination include the years ended December 31, 2008 through 2011.

Revenue Recognition

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

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.

Subsequent Events

The Organization evaluated subsequent events through March 15, 2012, when these financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of net assets date but prior to the filing of this report that would have a material impact on the financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

The Organization's unrestricted cash and cash equivalent bank balances totaling \$320,673 and \$239,985 at December 31, 2011 and 2010, respectively, represent time deposits with banks. All the cash deposits are in a single financial institution and are carried at cost plus interest which approximates fair value. These deposits are insured up to the federal depository insurance coverage level, which results in approximately \$70,000 of uninsured deposits as of December 31, 2011. The Organization is authorized by its board of directors to make deposits into various checking, savings, and money market accounts.

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 3 – CAPITAL ASSETS

Capital assets and related accumulated depreciation activity for the year ended December 31, 2011 was as follows:

	<u>Balance</u> <u>12/31/2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2011</u>
Capital assets:				
Leasehold improvements	\$ 135,512	\$ -	\$ -	\$ 135,512
Furniture and equipment	43,599	-	(24,902)	18,697
Computer equipment	<u>2,000</u>	<u>-</u>	<u>(2,000)</u>	<u>-</u>
Total capital assets	<u>181,111</u>	<u>-</u>	<u>(26,902)</u>	<u>154,209</u>
Less accumulated depreciation:				
Leasehold improvements	(126,008)	(8,894)	-	(134,902)
Furniture and equipment	(43,241)	(358)	24,902	(18,697)
Computer equipment	<u>(2,000)</u>	<u>-</u>	<u>2,000</u>	<u>-</u>
Total accumulated depreciation	<u>(171,249)</u>	<u>(9,252)</u>	<u>26,902</u>	<u>(153,599)</u>
Net capital assets	<u>\$ 9,862</u>	<u>\$ (9,252)</u>	<u>\$ -</u>	<u>\$ 610</u>

Capital assets and related accumulated depreciation activity for the year ended December 31, 2010 was as follows:

	<u>Balance</u> <u>12/31/2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2010</u>
Capital assets:				
Leasehold improvements	\$ 134,290	\$ 1,222	\$ -	\$ 135,512
Furniture and equipment	43,599	-	-	43,599
Computer equipment	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>2,000</u>
Total capital assets	<u>179,889</u>	<u>1,222</u>	<u>-</u>	<u>181,111</u>
Less accumulated depreciation:				
Leasehold improvements	(117,319)	(8,689)	-	(126,008)
Furniture and equipment	(42,445)	(796)	-	(43,241)
Computer equipment	<u>(2,000)</u>	<u>-</u>	<u>-</u>	<u>(2,000)</u>
Total accumulated depreciation	<u>(161,764)</u>	<u>(9,485)</u>	<u>-</u>	<u>(171,249)</u>
Net capital assets	<u>\$ 18,125</u>	<u>\$ (8,263)</u>	<u>\$ -</u>	<u>\$ 9,862</u>

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 4 – COMMITMENTS AND CONTINGENCIES

The Organization leases office space under a noncancelable operating lease which expires December 2017. The space is paid for and used by Nashville Downtown Partnership, Inc. (Note 5), a related nonprofit organization. In connection with the lease, the lessor provided reduced rent totaling \$42,120 during 2011 and 2010 that has been reflected in the accompanying financial statements as contributions, with a corresponding charge to non-cash lease expense. Under the terms of the lease, the lessor will continue to provide reduced rent of similar amounts each year of the lease. The lease provides for additional rent to be payable in the event property taxes and/or building operating costs increase from base year amounts. Rent expense totaled \$81,864 for the years ended December 31, 2011 and 2010, respectively. Future minimum lease payments required under the lease as of December 31, 2011 are as follows:

<u>Year ending December 31,</u>	
2012	\$ 56,026
2013	62,495
2014	64,358
2015	66,295
2016	68,286
Thereafter	<u>70,326</u>
	<u>\$ 387,786</u>

NOTE 5 – 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 CBID. A brief description of such contracts and agreements follows.

Memorandum of Agreement with Metro – This agreement provides for the Organization to oversee program administration of CBID in accordance with Tennessee law. The Organization’s duties and responsibilities under the agreement include, but are not limited to, providing services for improvement and operation of CBID through security enhancement, downtown marketing, and improving downtown beautification, sanitation, and maintenance. The agreement expires December 31, 2017. The agreement may be terminated by Metro upon thirty days notice.

Service Agreement – Effective January 1, 2008, the Organization entered into an agreement with Nashville Downtown Partnership, Inc., a related nonprofit organization, to perform all the duties and responsibilities for day-to-day management and implementation of services and improvements for the CBID, as defined in the Memorandum of Agreement with Metro, in exchange for substantially all revenues received from CBID assessments. During the years ended December 31, 2011 and 2010, the Organization recognized expense of \$1,435,121 and \$1,474,912, respectively, related to the agreement. Amounts payable under the agreement totaled \$320,536 and \$203,822 at December 31, 2011 and 2010, respectively. The agreement extends through December 31, 2017.

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 6 – 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.

NOTE 7 – LINE OF CREDIT

During 2011, the Organization extended its line of credit with a financial institution. Borrowings under this agreement bear interest at a variable rate of LIBOR plus 3.6% adjusted quarterly with a minimum rate of 5% and require monthly payments of interest only. As of December 31, 2011 and 2010, the Organization had no borrowings on this line of credit. The amount available under the agreement is \$100,000. The agreement matures in November 2012 and is guaranteed by Nashville Downtown Partnership, Inc.

NOTE 8 – RISK MANAGEMENT AND INSURANCE ARRANGEMENTS

The Organization is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors or omissions, and natural disasters. The Organization carries commercial insurance for these risks of loss. There have been no claims resulting from these risks in any of the past three fiscal years.

ADDITIONAL INFORMATION

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
SCHEDULE OF EXPENDITURES OF METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY, TENNESSEE AWARDS
For the year ended December 31, 2011

<u>Grantor Agency</u>	<u>Program Name</u>	<u>Award Period</u>	<u>Cash Expenditures</u>
Metropolitan Government of Nashville and Davidson County, Tennessee	Nashville Central Business Improvement District	January 1, 2011 to December 31, 2011	<u>\$ 1,559,021</u>

* The Schedule of Expenditures of Metropolitan Government of Nashville and Davidson County, Tennessee Awards is prepared using the accrual basis of accounting.



**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
Nashville District Management Corporation, Inc.

We have audited the financial statements of Nashville District Management Corporation, Inc. as of and for the year ended December 31, 2011, and have issued our report thereon dated March 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Nashville District Management Corporation, Inc. is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered Nashville District Management Corporation, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Nashville District Management Corporation, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Nashville District Management Corporation, Inc.'s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nashville District Management Corporation, 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.

Frazer, Dean + Howard, PLLC

March 15, 2012