NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.

FINANCIAL STATEMENTS

December 31, 2012 and 2011

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.

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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, 2012 and 2011.

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, 2012 and 2011, 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, 2012

Board of Directors

Robert C. H. Mathews, III	Chairman
Greg Sligh	Vice Chairman, Secretary/Treasurer
John Fleming	Board Member
Richard Fletcher	Board Member
Libby Funke	Board Member
Tony Giarratana	Board Member
Erica Gilmore	Board Member
John Gupton	Board Member
Thelma Harper	Board Member
Mary Pruitt	Board Member
Phil Ryan	Board Member
Brenda Sanderson	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

FRASIERDEAN HOWARDCPAs

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Nashville District Management Corporation, Inc. (a nonprofit organization), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Nashville District Management Corporation, Inc. as of December 31, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the Unites States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 – 8 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.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Nashville District Management Corporation, Inc.'s basic financial statements. The introduction (shown on pages 1 – 2) and the schedule of expenditures of Metropolitan Government of Nashville and Davidson County, Tennessee awards (shown on page 18) are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The schedule of expenditures of Metropolitan Government of Nashville and Davidson County, Tennessee awards 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of Metropolitan Government of Nashville and Davidson County, Tennessee awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introduction 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 March 5, 2013, 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 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 Nashville District Management Corporation, Inc.'s internal control over financial reporting and compliance.

Frasier, Dean + Howard, PLLC

March 5, 2013

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

The following Management's Discussion and Analysis of Nashville District Management Corporation, Inc.'s ("NDMC") financial performance provides an introduction to the financial statements for the year ended December 31, 2012. The information contained in this MD&A should be considered in conjunction with the information contained in NDMC's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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 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 NDMC's significant accounting policies.

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

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

The *Statement of Activities* presents information showing the change in NDMC's net position during the fiscal year. All changes in net position 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 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 NDMC, funds generated by

FINANCIAL HIGHLIGHTS (Continued)

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

	2012	2011	2010
Revenues:			
Program revenues:			
Charges for services	$ 1,370,619	$ 1,559,021	$ 1,470,354
General revenues:			
Contributions	42,120	42,120	57,120
Other income	44,315	44,536	40,855
Total revenues	1,457,054	1,645,677	1,568,329
Expenses:			
Program expenses:			
Program management fees	1,363,090	1,551,834	1,474,912
Management and general	12,507	21,231	21,038
General expenses:			
Non-cash lease expense	81,864	81,864	81,864
Total expenses	1,457,461	1,654,929	1,577,814
Change in net position	$ (407)	$ (9,252)	$ (9,485)

The operating revenue from the property tax assessment reported for the period ended December 31, 2012 is consistent with management expectations and is materially consistent with that reported for the period ended December 31, 2011. The assessment revenues from the CBID are in accordance 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, 2012 are materially consistent with those reported for the period ended December 31, 2011. As is reported in the accompanying notes to the financial statements, NDMC provides substantially all of the support and services to its constituents through a management contract with 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 position 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, NDMC will not experience a significant change in its net position, 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, 2012, and much like prior years, NDMC

FINANCIAL HIGHLIGHTS (Continued)

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

	2012	2011	2010
Current and other assets	$ 307,358	$ 323,702	$ 243,014
Capital assets – net	203	610	9,862
Total assets	307,561	324,312	252,876
Current liabilities	(304,192)	(320,536)	(239,848)
Net position:			
Invested in capital assets	203	610	9,862
Unrestricted	3,166	3,166	3,166
Total net position	$ 3,369	$ 3,776	$ 13,028

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 D. Turner
Assistant Treasurer
March 5, 2013

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
STATEMENTS OF NET POSITION
December 31, 2012 and 2011

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	$ 304,582	$ 320,673
Prepaid expenses	2,776	3,029
Total current assets	307,358	323,702
Capital assets:		
Leasehold improvements	135,512	135,512
Furniture and equipment	18,697	18,697
Total capital assets	154,209	154,209
Less accumulated depreciation	(154,006)	(153,599)
Total capital assets (net of accumulated depreciation)	203	610
Total assets	$ 307,561	$ 324,312
Liabilities and Net Position		
Liabilities:		
Current liabilities:		
Accounts payable-Nashville Downtown Partnership, Inc.	$ 278,946	$ 320,536
Deferred revenue	25,246	-
Total liabilities	304,192	320,536
Net Position:		
Invested in capital assets	203	610
Unrestricted	3,166	3,166
Total net position	3,369	3,776
Total liabilities and net position	$ 307,561	$ 324,312

See accompanying notes to the financial statements.

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2012 and 2011

	2012	2011
Operating revenues:		
Charges for services	$ 1,370,619	$ 1,559,021
Operating expenses:		
Program management fees	1,363,090	1,551,834
Management and general	12,507	21,231
Total operating expense	1,375,597	1,573,065
Operating loss	(4,978)	(14,044)
Nonoperating income (expense):		
Contributions	42,120	42,120
Other income	44,315	44,536
Non-cash lease expense	(81,864)	(81,864)
Total nonoperating income	4,571	4,792
Change in net position	(407)	(9,252)
Net position - beginning of year	3,776	13,028
Net position - end of year	$ 3,369	$ 3,776

See accompanying notes to the financial statements.

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received for services	$ 1,395,865	$ 1,522,995
Cash payments to suppliers for goods and services	(1,416,527)	(1,447,099)
Net cash (used in) provided by operating activities	(20,662)	75,896
Cash flows from investing activities:		
Interest income	4,571	4,792
Net cash provided by investing activities	4,571	4,792
Net (decrease) increase in cash and cash equivalents	(16,091)	80,688
Cash and cash equivalents - beginning of year	320,673	239,985
Cash and cash equivalents - end of year	$ 304,582	$ 320,673

See accompanying notes to the financial statements.

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2012 and 2011

	2012	2011
Reconciliation of operating loss to net cash (used in) provided by operating activities:		
Operating loss	$ (4,978)	$ (14,044)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation	407	9,252
Changes in operating assets and liabilities:		
Prepaid expenses	253	-
Accounts payable	(41,590)	116,714
Deferred revenue	25,246	(36,026)
Net cash (used in) provided by operating activities	$ (20,662)	$ 75,896

See accompanying notes to the financial statements.

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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).

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, 2009 through 2012.

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 5, 2013, 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 position 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 $304,582 and $320,673 at December 31, 2012 and 2011, 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 $54,000 of uninsured deposits as of December 31, 2012. The Organization is authorized by its board of directors to make deposits into various checking, savings, and money market accounts.

NOTE 3 – CAPITAL ASSETS

Capital assets and related accumulated depreciation activity for the year ended December 31, 2012 was as follows:

	Balance 12/31/2011	Additions	Retirements	Balance 12/31/2012
Capital assets:				
Leasehold improvements	$ 135,512	$ -	$ -	$ 135,512
Furniture and equipment	18,697	-	-	18,697
Total capital assets	154,209	-	-	154,209
Less accumulated depreciation:				
Leasehold improvements	(134,902)	(407)	-	(135,309)
Furniture and equipment	(18,697)	-	-	(18,697)
Total accumulated depreciation	(153,599)	(407)	-	(154,006)
Net capital assets	$ 610	$ (407)	$ -	$ 203

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

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

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 2012 and 2011 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, 2012 and 2011, respectively. Future minimum lease payments required under the lease as of December 31, 2012 are as follows:

Year ending December 31,	
2013	$ 62,495
2014	64,358
2015	66,295
2016	68,286
2017	70,326
	$ 331,760

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, 2012 and 2011, the Organization recognized expense of $1,363,090 and $1,551,834, respectively, related to the agreement. Amounts payable under the agreement totaled $278,946 and $320,536 at December 31, 2012 and 2011, respectively. The agreement extends through December 31, 2017.

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 – 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, 2012

Grantor Agency	Program Name	Award Period	Cash Expenditures
Metropolitan Government of Nashville and Davidson County, Tennessee	Nashville Central Business Improvement District	January 1, 2012 to December 31, 2012	$ 1,370,619

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

FRASIERDEAN HOWARDCPAs

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.
Nashville, Tennessee

We have audited, in accordance with the 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 governmental activities and each major fund of Nashville District Management Corporation, Inc. as of for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Nashville District Management Corporation Inc.'s basic financial statements, and have issued our report thereon dated March 5, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Nashville District Management Corporation, Inc.'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Nashville District Managements Corporation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Nashville District Management Corporation, Inc.'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 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.

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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.*

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Frasier, Dean & Howard, PLLC

March 5, 2013