THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.

FINANCIAL STATEMENTS

December 31, 2013 and 2012

THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.

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THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
INTRODUCTION

The Gulch Business Improvement District, Inc. (the "GBID") is pleased to present its Annual Financial Report for the years ended December 31, 2013 and 2012.

Responsibility and Controls

The GBID 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 GBID's system of internal accounting controls is evaluated on an ongoing basis by the GBID'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 GBID'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 GBID as of December 31, 2013 and 2012, 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 unmodified opinion of our independent external auditors, Frasier, Dean & Howard, PLLC is included in this report.

THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF
As of December 31, 2013

Board of Directors

Michael Lindseth	Chairman
Cindy Heath	Vice Chairman
Gayle Fuson	Secretary/Treasurer
Dirk Melton	Immediate Past Chair
Adam Burke	Board Member
John Dyke	Board Member
Erica Gilmore	Board Member
Thelma Harper	Board Member
Linus Hall	Board Member
Tom Harwell	Board Member
Harold Love	Board Member
Mike Turner	Board Member
Joe Wehby	Board Member
Jonathan Williams	Board Member
Nicole Woodworth	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
The Gulch Business Improvement District, Inc.
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements 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 and for the years ended December 31, 2013 and 2012, 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 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 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 opinion.

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, 2013 and 2012, and the changes in its financial position and 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 the Gulch Business Improvement District, Inc.'s basic financial statements. The introductory section (shown on pages 1 – 2) and the schedule of expenditures of Metropolitan Government of Nashville and Davidson County, Tennessee awards (shown on page 16) 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 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 any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Gulch Business Improvement District, Inc.'s internal control over financial reporting and compliance.

Frasier, Dean & Howard, PLLC

February 17, 2014

THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

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, 2013. 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 Position* presents information on all of the GBID'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 the GBID's financial position.

The *Statement of Revenues, Expenses, and Changes in Fund Net Position* presents information showing the change in the GBID'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 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

FINANCIAL HIGHLIGHTS (Continued)

Agreement between the Metropolitan Government of Nashville and Davidson County and the GBID, funds generated by this special assessment are collected with regular property taxes and transferred to the GBID to fund services and initiatives that support and enhance the economic environment of the District.

	2013	2012	2011
Revenues			
Program revenues:			
Charges for services	$ 185,330	$ 193,588	$ 135,885
General revenues:			
Other income	1,991	2,106	3,043
Total revenues	187,321	195,694	138,928
Expenses			
Program expenses:			
Program management fees	196,026	159,937	174,931
Management and general	22,950	24,178	24,974
Total expenses	218,976	184,115	199,905
Increase (decrease) in net position	$ (31,655)	$ 11,579	$ (60,977)

The operating revenue from the property tax assessment reported for the period ended December 31, 2013 is consistent with that reported for the period ended December 31, 2012 and consistent with the ordinance established by the Metropolitan Council which set the assessment rate.

The program operating expenses reported for the period ended December 31, 2013 are more than those reported for the period ended December 31, 2012. 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 position of the GBID represents the difference between its assets and its liabilities at a point in time. A change in the net position 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 position, 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, 2013, the GBID experienced an decrease in net position. This is due to assessment revenues being lower than operating expenses.

FINANCIAL HIGHLIGHTS (Continued)

	2013	2012	2011
Current and other assets	$ 230,005	$ 291,355	$ 250,910
Liabilities	(10,840)	(40,535)	(11,669)
Net position:			
Unrestricted	$ 219,165	$ 250,820	$ 239,241

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,

Thomas D. Turner
Assistant Treasurer
February 17, 2014

THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
STATEMENTS OF NET POSITION
December 31, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 224,501	$ 286,955
Prepaid expenses	5,504	4,400
Total assets	$ 230,005	$ 291,355
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	$ 10,840	$ 23,383
Deferred revenue	-	17,152
Total liabilities	10,840	40,535
Net position:		
Unrestricted	219,165	250,820
Total net position	219,165	250,820
Total liabilities and net position	$ 230,005	$ 291,355

See accompanying notes to the financial statements.

THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2013 and 2012

	2013	2012
Operating revenues:		
Charges for services	$ 185,330	$ 193,588
Total operating revenue	185,330	193,588
Operating expenses:		
Program management fees	196,026	159,937
Management and general	22,950	24,178
Total operating expense	218,976	184,115
Operating (loss) income	(33,646)	9,473
Nonoperating income:		
Other income	1,991	2,106
Total nonoperating income	1,991	2,106
Total changes in net position	(31,655)	11,579
Net position - beginning of year	250,820	239,241
Net position - end of year	$ 219,165	$ 250,820

See accompanying notes to the financial statements.

THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received for services	$ 168,178	$ 210,740
Cash payments to suppliers for goods and services	(232,623)	(172,401)
Net cash (used in) provided by operating activities	(64,445)	38,339
Cash flows from investing activities:		
Interest income	1,991	2,106
Net cash provided by investing activities	1,991	2,106
Net (decrease) increase in cash and cash equivalents	(62,454)	40,445
Cash and cash equivalents - beginning of year	286,955	246,510
Cash and cash equivalents - end of year	$ 224,501	$ 286,955

See accompanying notes to the financial statements.

THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2013 and 2012

	2013	2012
Reconciliation of operating income to		
cash (used in) provided by operating activities:		
Operating (loss) income	$ (33,646)	$ 9,473
Adjustments to reconcile operating (loss) income		
to net cash (used in) provided by operating activities:		
Changes in operating assets and liabilities:		
Prepaid expenses	(1,104)	-
Accounts payable	(12,543)	11,714
Deferred revenue	(17,152)	17,152
Net cash (used in) provided by operating activities	$ (64,445)	$ 38,339

See accompanying notes to the financial statements.

THE GULCH BUSINESS IMPROVEMENT DISTRICT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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 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.

Measurement Focus and Basis of Accounting

The financial statements of the Organization are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net position, operating income, changes in net position, and cash flows. All assets and liabilities, whether current or noncurrent, associated with the Organization's activities are reported.

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

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.

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.

Operating Revenues and Expenses

Operating revenues and expenses include revenues and expenses that are incurred when the Organization provides its services. It also includes all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2010 through 2013.

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 February 17, 2014, 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 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 cash and cash equivalent bank balances totaling $224,501 and $286,955 at December 31, 2013 and 2012, 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 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 – 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. The assessment rate was $0.20 per $100 of assessed value of real property for the years ended December 31, 2013 and 2012.

Service Agreement – Effective August 1, 2007, the Organization entered into an agreement with Nashville Downtown Partnership, a not-for-profit 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. During the years ended December 31, 2013 and 2012, the Organization recognized expense of $25,000 per annum, related to the agreement. There was no amount payable under this agreement at December 31, 2013. Amounts payable related to the agreement at December 31, 2012 totaled $2,083. The agreement expires March 31, 2015.

NOTE 4 – 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 5 – 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

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, 2013

Grantor Agency	Program Name	Award Period	Cash Expenditures
Metropolitan Government of Nashville and Davidson County, Tennessee	The Gulch Business Improvement District	January 1, 2013 to December 31, 2013	$ 185,330

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

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INDEPENDENT AUDITOR'S 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, 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 Gulch Business Improvement District, Inc. as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Gulch Business Improvement District Inc.'s basic financial statements, and have issued our report thereon dated February 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Gulch Business Improvement District, 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 the Gulch Business Improvement District, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Gulch Business Improvement District, 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 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.*

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

February 17, 2014