

**CARTER STREET CORPORATION**

**Chattanooga, Tennessee**

**BASIC FINANCIAL STATEMENTS**

**June 30, 2008**

**JOHNSON, HICKEY & MURCHISON, P.C.**  
Certified Public Accountants  
Chattanooga, Tennessee

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

**Carter Street Corporation:**

We have audited the accompanying basic financial statements of Carter Street Corporation (a Tennessee not-for-profit corporation) as of June 30, 2008, as listed in the table of contents. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 audit provides 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 Carter Street Corporation, as of June 30, 2008, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2008, on our consideration of Carter Street Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Carter Street Corporation has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

*Johnson, Niskey & Menckson, P.C.*

August 19, 2008

**CARTER STREET CORPORATION**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

**ASSETS**

**CURRENT ASSETS:**

Cash	\$	743,931
Receivables -		
Event (net of allowance of \$12,000)		317,246
Prepaid expenses		61,920
Inventories		104,548
Parking		<u>2,700</u>
Total current assets		<u>1,230,345</u>

**CAPITAL ASSETS:**

Land		2,709,075
Trade Center		13,823,739
Skybox		50,000
Parking garage		5,256,262
Equipment		2,307,622
Furniture and fixtures		<u>572,592</u>
		24,719,290
Less accumulated depreciation		<u>13,193,350</u>
		<u>11,525,940</u>

**OTHER ASSETS:**

Parking, less current portion		<u>11,800</u>
		<u>\$ 12,768,085</u>

(The notes to basic financial statements are an integral part of these statements.)

## LIABILITIES AND NET ASSETS

### CURRENT LIABILITIES:

Accounts payable	\$ 36,363
Accrued expenses	134,340
Deferred revenues	10,000
Advance deposits	<u>51,882</u>

Total current liabilities	<u>232,585</u>
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### NET ASSETS:

Invested in capital assets	11,525,940
Unrestricted	<u>1,009,560</u>

	<u>12,535,500</u>
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\$ 12,768,085

(The notes to basic financial statements are an integral part of these statements.)

**CARTER STREET CORPORATION**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

<b>EVENT REVENUE</b>	\$ 5,092,138
<b>EVENT EXPENSES</b>	<u>2,895,221</u>
Net event revenue	<u>2,196,917</u>
<b>GARAGE REVENUE</b>	707,617
<b>GARAGE EXPENSES</b>	<u>46,422</u>
Net garage revenue	<u>661,195</u>
<b>OTHER REVENUE:</b>	
Rental income - hotel	<u>376,306</u>
<b>OPERATING EXPENSES:</b>	
Administrative expenses	2,011,844
Maintenance and supplies	351,055
General operating expenses	<u>1,202,351</u>
	<u>3,565,250</u>
Net loss from operations before depreciation and amortization	(330,832)
Amortization	(2,400)
Depreciation	<u>(586,749)</u>
Net loss from operations	<u>(919,981)</u>
<b>NONOPERATING REVENUE:</b>	
City appropriation	200,000
County appropriation	55,750
Interest income	<u>5,220</u>
	<u>260,970</u>
<b>DECREASE IN NET ASSETS</b>	(659,011)
<b>NET ASSETS:</b>	
Beginning of year	<u>13,194,511</u>
End of year	<u><u>\$ 12,535,500</u></u>

(The notes to basic financial statements are an integral part of these statements.)

**CARTER STREET CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from customers	\$ 6,472,400
Cash paid to suppliers	(4,076,378)
Cash paid to employees	<u>(2,503,124)</u>
 Net cash used by operating activities	 <u>(107,102)</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Cash paid for property and equipment	<u>(219,505)</u>
 Net cash used by capital and related financing activities	 <u>(219,505)</u>

**CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:**

Receipts from City of Chattanooga and Hamilton County	<u>255,750</u>
 Net cash provided by noncapital and related financing activities	 <u>255,750</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest income	<u>5,222</u>
 Net cash provided by investing activities	 <u>5,222</u>

**NET DECREASE IN CASH:**

	(65,635)
Cash - beginning of year	<u>809,566</u>
 Cash - end of year	 <u><u>\$ 743,931</u></u>

(The notes to basic financial statements are an integral part of these statements.)

**RECONCILIATION OF NET LOSS TO NET CASH  
USED BY OPERATING ACTIVITIES:**

Net loss form operations	\$ (919,981)
Adjustments to reconcile net loss to net cash used by operating activities -	
Depreciation and amortization	589,149
Net change in -	
Receivables	335,385
Inventories	(8,030)
Prepaid expenses	(3,543)
Accounts payable and accrued expenses	(61,036)
Deferred revenues	(10,000)
Advance deposits	<u>(29,046)</u>
 Net cash used by operating activities	 <u>\$ (107,102)</u>

(The notes to basic financial statements are an integral part of these statements.)

**CARTER STREET CORPORATION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Reporting Entity –**

Carter Street Corporation (the Corporation) is a nonprofit corporation organized by the City of Chattanooga, Tennessee (City) and Hamilton County, Tennessee (County). The Corporation serves as the coordinating body for the development, operation and management of the Chattanooga/Hamilton County Convention and Trade Center and parking garage and is lessor of the adjoining hotel.

Generally accepted accounting principles require that the basic financial statements present the accounts and operations of the Corporation and its component units, entities for which the Corporation is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Corporation's operations and data from these units, if any, are combined with data of the Corporation. Each discretely presented component unit, if any, would be reported in a separate column in the combined basic financial statements to emphasize that it is legally separate from the Corporation. As of June 30, 2008, and for the fiscal year then ended, the Corporation had no discretely presented component units or any component units required to be blended in these basic financial statements.

**Basis of presentation –**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The accompanying basic financial statements are presented using the accrual basis of accounting. In accordance with principles generally accepted in the United States of America, the Corporation applies all applicable Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, and all applicable Governmental Accounting Standards Board pronouncements. The measurement focus is upon determination of financial position, changes in net assets, and changes in cash flows. The generally accepted accounting principles used are those applicable to similar business in the private sector. Revenues are recognized when earned and expenses are recognized when incurred. All assets and liabilities (whether current or non-current) associated with the Corporation's activities are included in the statement of net assets. The reported net assets are segregated into invested in capital assets and unrestricted components.

**CARTER STREET CORPORATION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**Accounts receivables -**

Accounts receivables are reported at the outstanding principal amount net of an allowance for doubtful accounts. Finance charges are recorded when collected. Allowance for doubtful accounts is based upon managements' judgment after considering historical losses and existing economic conditions.

**Inventories -**

Inventories are recorded at the lower of cost (first-in, first-out method) or market.

**Estimates -**

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

**Capital Assets -**

Capital assets are stated at cost or fair value, if donated, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets. Additions and major renewals are capitalized and depreciated over their estimated useful lives. Repairs, maintenance and minor renewals are charged to operating expenses as incurred.

**Compensated Absences -**

The Corporation's policy is to compensate all full-time employees for earned but unused vacation pay. The accompanying financial statements include a liability for compensated absences.

**Cash Flows -**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and cash in banks.

**Net Assets -**

The Corporation's financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

**Invested in Capital Assets (net of related debt) -**

Is intended to reflect the portion of net assets which are associated with non-liquid capital assets less outstanding capital assets related debt.

**CARTER STREET CORPORATION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**Net Assets (continued)-**

**Restricted Net Assets:**

Represent net assets that have third party (statutory, bond covenant or granting agency) limitations on their use. The Corporation's policy is generally to use any restricted net asset first, as appropriate opportunities arise. As of June 30, 2008, the Corporation has no restricted net assets.

**Unrestricted Net Assets:**

Represent unrestricted net assets. While management may have categorized and segmented portions for various purposes, the Corporation has the unrestricted authority to revisit or alter these managerial decisions.

**Advertising Costs -**

The Corporation's policy is to expense advertising costs as incurred.

**Tax status -**

The Corporation has obtained approval for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

**(2) RENTAL REVENUE LEASES:**

In connection with the construction and development of the parking garage, trade center and supporting facilities, the Corporation entered into an agreement to lease these facilities to the City and County. The Corporation has also leased certain air rights along with 350 parking spaces to a private developer for the construction of a luxury hotel. The annual rental payments are due from the hotel at a minimum of \$300,000 plus a percentage of net cash flow as defined in the lease agreement. The lease expires in 2025 and provides for two successive fifteen-year renewal options.

Carter Street is now managing the facility under an interim management agreement signed jointly by the City of Chattanooga, Hamilton County, the Chattanooga Downtown Redevelopment Corporation and the Carter Street Corporation.

**CARTER STREET CORPORATION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**(3) RETIREMENT PLANS:**

The Corporation maintains a defined contribution employee plan. The plan covers substantially all employees who have attained the age of 21 and have at least one year of service with the Corporation. The plan provides that the Corporation shall make a pension contribution equal to 5% of eligible participants' annual compensation. Employees are 100% vested in the plan upon completion of three consecutive years of service. The amount of the employer's covered payroll for the year ended June 30, 2008, was \$2,011,605. The total payroll for all employees was \$2,358,821. The corporation's expense and contribution to the plan was \$84,944 for the year ended June 30, 2008.

The Corporation also has a supplemental retirement plan. Under this plan the Corporation will match 100% of eligible employees' elective contributions up to 1.5% of their annual salary. The Corporation's expense under this plan was \$18,175 for the year ended June 30, 2008.

**(4) RISK OF LOSS:**

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Commercial insurance is purchased by the Corporation to cover the risk of loss. There have been no losses greater than insurance coverage over the last three years.

**(5) CASH AND INVESTMENTS:**

The Corporation invests excess cash in interest-bearing accounts and overnight cash investments with local depository institutions as authorized by the Board of Directors and in accordance with applicable state laws. The Corporation's policy with respect to cash and overnight cash investments is to maximize investment earnings while maintaining an acceptable level of risk.

At June 30, 2008, the Corporation held no amounts in investments.

Custodial credit risk – the Corporation's policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105 percent of the value of the uninsured deposits. Those deposits must be

**CARTER STREET CORPORATION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**(5) CASH AND INVESTMENTS (Continued):**

covered by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Corporation's agent in the Corporation's name, or by the Federal Reserve Bank acting as third party agents. State statutes also authorize the Corporation to invest in repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. At June 30, 2008, all deposits were entirely covered by the Federal Deposit Insurance Corporation or the Tennessee Bank Collateral Pool.

**(6) CAPITAL ASSETS:**

A summary of changes in capital assets for the year ended June 30, 2008, is as follows –

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital assets (nondepreciable):				
Land	\$ 2,709,075	\$ -	\$ -	\$ 2,709,075
Capital assets (depreciable):				
Trade Center	13,726,073	97,666	-	13,823,739
Parking garage	5,256,262	-	-	5,256,262
Skybox	50,000	-	-	50,000
Equipment	2,185,783	121,839	-	2,307,622
Furniture and fixtures	<u>572,592</u>	<u>-</u>	<u>-</u>	<u>572,592</u>
	<u>24,499,785</u>	<u>\$ 219,505</u>	<u>\$ -</u>	<u>24,719,290</u>
Less: Accumulated depreciation				
Trade Center	7,300,653	346,491	-	7,647,144
Parking garage	2,880,174	131,407	-	3,011,581
Skybox	5,000	2,500	-	7,500
Equipment	1,894,084	85,081	-	1,979,165
Furniture and fixtures	<u>526,690</u>	<u>21,270</u>	<u>-</u>	<u>547,960</u>
	<u>12,606,601</u>	<u>\$ 586,749</u>	<u>\$ -</u>	<u>13,193,350</u>
Total capital assets	<u>\$11,893,184</u>			<u>\$11,525,940</u>



**INDEPENDENT AUDITORS' 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**

**Carter Street Corporation:**

We have audited the financial statements of Carter Street Corporation as of and for the year ended June 30, 2008, and have issued our report thereon dated August 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Carter Street Corporation'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 Carter Street Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

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

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Carter Street Corporation'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 and the governmental funding agencies and is not intended to be and should not be used by anyone other than those specified parties.

*Johnson, Niekey & Menckson, P.C.*

August 19, 2008