

**MEMPHIS CENTER CITY COMMISSION  
AND RELATED ENTITIES  
COMBINED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
JUNE 30, 2011 and 2010**

## TABLE OF CONTENTS

	<u>PAGE</u>
GOVERNANCE OFFICIALS	3
INDEPENDENT AUDITOR'S REPORT	4
MANAGEMENT'S DISCUSSION AND ANALYSIS	6
FINANCIAL STATEMENTS - COMBINED	
COMBINED STATEMENTS OF FINANCIAL POSITION	11
COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	12
COMBINED STATEMENTS OF CASH FLOWS	13
NOTES TO COMBINED FINANCIAL STATEMENTS	15
FINANCIAL STATEMENTS - COMBINING	
COMBINING STATEMENT OF FINANCIAL POSITION	30
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	32
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	34
INDEPENDENT AUDITORS' GENERAL COMMENTS AND OTHER SUPPORTING DATA	36

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**GOVERNANCE OFFICIALS**

**Year Ended June 30, 2011**

**Memphis and Shelby County Center City Commission  
Board of Directors**

Councilman William Boyd  
Representative Barbara Cooper  
Megan Arthur  
Commissioner Walter Bailey  
Isaac Northern, Jr.  
Carl Person  
Bobbi Gillis

Stuart McGehee  
Mark Hendricks  
George Little  
Bob Lundy  
Al Lyons  
Rick Copeland  
George Shadroui

**Memphis and Shelby County Center City Development Corporation  
Board of Directors**

Jay Lindy, Chairman  
Craig Dillihunt, Treasurer  
Eric Mathews, Secretary  
Angel Price  
Andre Jones

Bobbi Gillis  
Mark C. Hendricks  
Melvin Jones  
Ernest Strickland

**Memphis and Shelby County Center City Revenue Finance Corporation  
Board of Directors**

Robert Spence, Chairman  
Wesley Grace, Vice Chairman  
Martin Truitt, Treasurer  
Walter Person  
Luke Yancey, IV

Lucy Shaw  
Brandy Johnson-Ward  
Carla Peacher-Ryan  
Dana Burkett

**Memphis and Shelby County Downtown Parking Authority  
Board of Directors**

Odell Horton, Chairman  
Brandon Bryant, Vice Chairman  
Cathy Simmons, Treasurer  
Mary Sharp, Secretary

Graham Askew  
Casey Lipford  
Richard Wagers, Jr.

**Administrative Officials**

Paul H. Morris, President, CEO

Jim Street, VP Admin. & Finance, CFO



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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Memphis Center City Commission  
and Related Entities  
Memphis, Tennessee

We have audited the accompanying combined statements of financial position of the Memphis Center City Commission and Related Entities (Commission) as of June 30, 2011 and 2010, and the related combined statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

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 combined 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 opinions.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of June 30, 2011 and 2010, and the changes in net assets and 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 a report dated November 10, 2011 on our consideration of the Commission'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 audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic combined financial statements. The accompanying list of Governance Officials and the combining schedules are supplementary information presented for purposes of additional analysis of the basic combined financial statements rather than to present the financial position and results of operations of the individual entities, and are not a required part of the basic combined financial statements of the Commission. This information is the responsibility of the Commission's management. The combining schedules have been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic combined financial statements taken as a whole. The list of Governance Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Zouela Kaplan, P.I.C.E.*

Germantown, Tennessee  
November 10, 2011

## MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2011

As management of the Center City Commission and Related Entities (Center City Commission), we offer readers of the organizations' financial statements this narrative and analysis of the financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the Center City Commission and Related Entities Financial Statements, which begin on page 11.

The Center City Commission was created for the primary purpose of improving the economy of Memphis and Shelby County by coordinating an aggressive public/private program to promote the redevelopment and economic growth of the Central Business Improvement District (CBID). The CBID boundaries include a six and one-half square mile area of Memphis bounded by the Mississippi River on the west, the Wolf River on the north, Crump Boulevard on the south, and Danny Thomas Boulevard on the east, plus an extension bounded by Danny Thomas on the west, Watkins Street on the east, Poplar Avenue on the north and Linden Avenue on the south.

#### **Financial Highlights**

The total assets of the Center City Commission exceeded its liabilities at the close of the most recent fiscal year by \$24,663,244 - an increase from the prior fiscal year of \$5,021,915 - or 25%. Forty-three percent of that amount has been designated for specific purposes by the boards.

#### **During the year**

The organizations' total assets increased by \$2,920,110, or 6%.

Current assets decreased by \$957,543, or -10%.

Current liabilities decreased by \$251,928, or -9%.

The total liabilities decreased by \$2,101,805, or -8%.

Operating revenue increased by \$4,026,461, or 50%.

Operating expense increased by \$849,067, or 16%.

#### **The Annual Report**

This annual report consists of a series of financial statements. The Statement of Financial Position, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows provide information of the combined activities of the Center City Commission as a whole. The supplementary information provided on pages 30-33 reflects the activity of the individual entities that make up the combined totals.

Our analysis of the Center City Commission as a whole follows. The Combined Statements of Financial Position (page 11) and Combined Statements of Revenues, Expenses and Changes in Net Assets (page 12) include all assets, liabilities, revenues and expenses of the Center City Commission using the accrual basis of accounting, an accounting method used by most private sector companies. All of the revenues and expenses for the fiscal year ending June 30, 2011 are taken into account, regardless of when cash is received or paid. The two statements report the Center City Commission's net assets and changes in them. The Center City Commission's net assets - the difference between assets and liabilities - can be viewed as one way to measure its financial health or financial position.

The Statements of Cash Flows (pages 13-14) provide information about the sources and uses of funds, and the changes in cash and cash equivalents during the twelve-month reporting period.

The Notes to the Financial Statements (pages 15-28) provide additional information that is essential to the complete understanding of the data provided in the statements.

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Year Ended June 30, 2011**

The supplemental information (pages 30-33) is provided to identify the financial impact of the variety of activities of the individual entities that comprise the Center City Commission.

**Financial Analysis**

<b>Combined and Condensed Statements of Financial Position</b>			
	<b>2011</b>	<b>2010</b>	<b>Increase (Decrease)</b>
Current Assets	\$ 7,887,086	\$ 8,844,629	\$ (957,543)
Other Assets	40,380,903	36,503,250	3,877,653
Total Assets	\$48,267,989	\$45,347,879	\$ 2,920,110
Current Liabilities	\$ 2,463,251	\$ 2,715,179	\$ (251,928)
Long Term Liabilities	21,141,494	22,991,371	(1,849,877)
Total Liabilities	\$23,604,745	\$25,706,550	\$ (2,101,805)
Net Assets:			
Invested in Capital Assets			
Net of Related Debt	11,598,138	5,499,262	6,098,876
Unrestricted -			
Designated	10,696,093	13,407,286	(2,711,193)
Undesignated	2,369,013	734,781	1,634,232
Total Net Assets	24,663,244	19,641,329	5,021,915
	\$48,267,989	\$45,347,879	\$ 2,920,110

Current Assets held by Center City Development Corporation decreased due to public improvement development grants paid during the year and new retail incentives paid. Current Assets also decreased due to the Downtown Parking Authority spending cash for the completion of construction of the Gayoso Garage on Main Street.

Other Assets increased for the Parking Authority through the acquisition of the One Commerce Square Garage, decreased for CCRFC in the Pilot Extension Fund and increased for CCDC for streetscape improvements and new development and retail loans. Center City Commission other assets decreased due to depreciation expense.

Current Liabilities of the Downtown Parking Authority decreased because of no construction obligations outstanding at year end.

Long-Term Liabilities decreased due to the debt service payments at CCC, Crump Building and the Parking Authority.

Net Assets designated for specific purposes are associated with commitments of the Center City Development Corporation, the Center City Revenue and Finance Corporation and the Parking Authority related to their programs in subsequent periods. The commitments include approved development loans,

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**Year Ended June 30, 2011**

public infrastructure projects, funds committed for debt service, various development incentive programs and construction projects. Net assets increased for the Parking Authority due to acquisition of the One Commerce Square Garage through a grant from the City of Memphis and debt repayment. Net assets decreased for CCRFC due to reductions in the Pilot Extension Fund.

**Combined Statements of Revenues, Expenses and Changes in Net Assets**

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
<b>OPERATING REVENUES:</b>			
Administrative income	\$ 7,476,902	\$ 3,888,981	\$ 3,587,921
Central Business Improvement District Assessment	2,875,447	2,744,129	131,318
Development income	22,601	30,026	(7,425)
Marketing income	41,675	52,426	(10,751)
Operations income	11,881	34,604	(22,723)
Parking garage management	<u>1,547,030</u>	<u>1,198,909</u>	<u>348,121</u>
Total Operating Revenues	<u>11,975,536</u>	<u>7,949,075</u>	<u>4,026,461</u>
<b>OPERATING EXPENSES:</b>			
Salaries and benefits	1,611,517	1,743,430	(131,913)
Advertising	153,334	265,200	(111,866)
Business community relations	23,046	8,804	14,242
Conferences and travel	7,046	21,015	(13,969)
Depreciation and amortization	1,222,126	993,354	228,772
Event production	203,260	189,578	13,682
Insurance	89,938	72,494	17,444
Office expenses	165,438	152,987	12,451
Other personnel expenses	312,790	193,299	119,491
Parking garage management fees	706,053	620,205	85,848
Planning and development	590,262	162,240	428,022
Professional fees	472,831	262,903	209,928
Rent expense	319,205	317,095	2,110
Repairs and maintenance	103,558	81,987	21,571
Loss on disposal of assets	2,325	-	2,325
Search and relocation expenses	-	51,078	(51,078)
Subscriptions and dues	8,207	6,200	2,007
Total Operating Expenses	<u>5,990,936</u>	<u>5,141,869</u>	<u>849,067</u>
<b>OPERATING INCOME</b>	<u>5,984,600</u>	<u>2,807,206</u>	<u>3,177,394</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest income	83,648	74,306	9,342
Net increase in the fair value of investments	16,519	15,624	895
Interest expense	<u>(1,062,852)</u>	<u>(907,676)</u>	<u>(155,176)</u>
Total Non-Operating Revenues (Expenses)	<u>(962,685)</u>	<u>(817,746)</u>	<u>(144,939)</u>
<b>INCREASE IN NET ASSETS</b>	5,021,915	1,989,460	3,032,455
<b>TOTAL NET ASSETS - BEGINNING</b>	<u>19,641,329</u>	<u>17,651,869</u>	<u>1,989,460</u>
<b>TOTAL NET ASSETS - ENDING</b>	<u>\$ 24,663,244</u>	<u>\$ 19,641,329</u>	<u>\$ 5,021,915</u>

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Year Ended June 30, 2011**

**Combined Statements of Revenues, Expenses and Changes in Net Assets (Continued)**

Operating Revenue increased primarily in Administrative Revenue at Center City Revenue and Finance Corp. related to the grant from the City of Memphis for the One Commerce Square project and at the Parking Authority related to the addition of the Gayoso Garage and increased revenue at all garages except the 250 Peabody Garage. Operating Revenue increased for CCC related to CBID assessment fees.

Operating Expense decreased at CCC after the increases experienced in 2010 related to the retirement and replacement of the President. However, Operating Expense increased at all other entities: for development grants at CCDC, legal fees at CCRFC and increase depreciation and maintenance at the Parking Authority.

Non-Operating Revenue/Expense changes were related to entity transfers that off-set each other and increased interest expense.

**Requests for Information**

This financial report is designed to provide a general overview of the Center City Commission finances for all those with interest in the agency. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Center City Commission  
Jim Street  
Vice President of Administration and Finance, CFO  
114 N. Main Street  
Memphis, TN 38103  
E-mail: [street@downtownmemphis.com](mailto:street@downtownmemphis.com)

**COMBINED FINANCIAL STATEMENTS**

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**COMBINED STATEMENTS OF FINANCIAL POSITION**

**Year Ended June 30,**

<b>ASSETS</b>		
	<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,890,946	\$ 2,322,114
Designated cash and cash equivalents	4,087,315	5,629,822
Loans receivable, current portion	380,670	393,213
Accounts receivable	114,096	84,596
Deferred charges	301,326	322,849
Prepaid expenses	<u>112,733</u>	<u>92,035</u>
Total current assets	<u>7,887,086</u>	<u>8,844,629</u>
<b>NON-CURRENT ASSETS:</b>		
Investments	490,968	483,818
Designated PILOT trust funds	6,608,778	7,777,464
Loans receivable, less current portion	1,973,489	1,332,263
Land	2,095,140	2,044,013
Improvements in progress	187,256	7,600,873
Depreciable assets, net of accumulated depreciation	<u>29,025,272</u>	<u>17,264,819</u>
Total non-current assets	<u>40,380,903</u>	<u>36,503,250</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 48,267,989</u></u>	<u><u>\$ 45,347,879</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 604,322	\$ 972,536
Other liabilities	35,539	6,762
Current portion of capital lease payable	4,550	4,220
Current maturities of long-term debt	<u>1,818,840</u>	<u>1,731,661</u>
Total current liabilities	<u>2,463,251</u>	<u>2,715,179</u>
<b>LONG-TERM LIABILITIES:</b>		
Accrued interest	3,111,373	2,862,612
Reserves for contingencies	143,980	454,197
Capital lease payable, less current portion	15,399	19,948
Long-term debt, less current portion	<u>17,870,742</u>	<u>19,654,614</u>
Total long-term liabilities	<u>21,141,494</u>	<u>22,991,371</u>
<b>TOTAL LIABILITIES</b>	<u>23,604,745</u>	<u>25,706,550</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	11,598,138	5,499,262
Unrestricted -		
Board designated	10,696,093	13,407,286
Other unrestricted	<u>2,369,013</u>	<u>734,781</u>
Total net assets	<u>24,663,244</u>	<u>19,641,329</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 48,267,989</u></u>	<u><u>\$ 45,347,879</u></u>

The accompanying notes are an integral part of these financial statements.

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**  
**COMBINED STATEMENTS OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET ASSETS**

**Year Ended June 30,**

	<b>2011</b>	<b>2010</b>
<b>OPERATING REVENUES:</b>		
Administrative income	\$ 7,476,902	\$ 3,888,981
Central Business Improvement District Assessment	2,875,447	2,744,129
Development income	22,601	30,026
Marketing income	41,675	52,426
Operations income	11,881	34,604
Parking garage management	1,547,030	1,198,909
Total Operating Revenues	11,975,536	7,949,075
<b>OPERATING EXPENSES:</b>		
Salaries and benefits	1,611,517	1,743,430
Advertising	153,334	265,200
Business community relations	23,046	8,804
Conferences and travel	7,046	21,015
Depreciation and amortization	1,222,126	993,354
Event production	203,260	189,578
Insurance	89,938	72,494
Office expenses	165,438	152,987
Other personnel expenses	312,790	193,299
Parking garage management fees	706,053	620,205
Planning and development	590,262	162,240
Professional fees	472,831	262,903
Rent expense	319,205	317,095
Repairs and maintenance	103,558	81,987
Loss on disposal of assets	2,325	-
Search and relocation expenses	-	51,078
Subscriptions and dues	8,207	6,200
Total Operating Expenses	5,990,936	5,141,869
<b>OPERATING INCOME</b>	<b>5,984,600</b>	<b>2,807,206</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Interest income	83,648	74,306
Net increase in the fair value of investments	16,519	15,624
Interest expense	(1,062,852)	(907,676)
Total Non-Operating Revenues (Expenses)	(962,685)	(817,746)
<b>INCREASE IN NET ASSETS</b>	<b>5,021,915</b>	<b>1,989,460</b>
<b>TOTAL NET ASSETS - BEGINNING</b>	<b>19,641,329</b>	<b>17,651,869</b>
<b>TOTAL NET ASSETS - ENDING</b>	<b>\$ 24,663,244</b>	<b>\$ 19,641,329</b>

The accompanying notes are an integral part of these financial statements.

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**COMBINED STATEMENTS OF CASH FLOWS**

**Year Ended June 30,**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 11,633,494	\$ 8,128,756
Cash paid to suppliers for goods and services	(3,515,101)	(2,530,324)
Cash paid to employees for services	<u>(1,611,517)</u>	<u>(1,743,430)</u>
Net Cash Provided By (Used In) Operating Activities	<u>6,506,876</u>	<u>3,855,002</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(5,620,089)	(3,446,488)
Unamortized bond issuance costs	21,523	21,523
Proceeds (payments) on capital lease, net	(4,220)	24,168
Debt repayment	(1,696,694)	(1,606,277)
Interest payments	<u>(814,901)</u>	<u>(646,542)</u>
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(8,114,381)</u>	<u>(5,653,616)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash earned on investments	100,977	89,930
Proceeds from sales of investments	870,940	260,396
Purchase of investments	(878,090)	(370,408)
Transfers (to) from designated PILOT trust funds	1,168,686	(1,764,355)
Loans made under Development Loan Program	(936,621)	(356,264)
Collections on loans receivable	<u>307,938</u>	<u>244,558</u>
Net Cash Provided By (Used In) Investing Activities	<u>633,830</u>	<u>(1,896,143)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(973,675)</b>	<b>(3,694,757)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>7,951,936</u>	<u>11,646,693</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 6,978,261</u></u>	<u><u>\$ 7,951,936</u></u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR CONSIST OF:</b>		
Undesignated cash and cash equivalents	\$ 2,890,946	\$ 2,322,114
Designated cash and cash equivalents	<u>4,087,315</u>	<u>5,629,822</u>
<b>TOTAL</b>	<u><u>\$ 6,978,261</u></u>	<u><u>\$ 7,951,936</u></u>

The accompanying notes are an integral part of these financial statements.

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**COMBINED STATEMENTS OF CASH FLOWS (Continued)**

**Year Ended June 30,**

	<u>2011</u>	<u>2010</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 5,984,600	\$ 2,807,206
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,222,126	993,354
(Increase) decrease in assets:		
Accounts receivables	(29,500)	(19,854)
Prepaid expenses	(20,695)	(20,238)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(368,215)	(94,648)
Other liabilities	28,777	(10,353)
Reserves	(310,217)	199,535
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 6,506,876</u>	<u>\$ 3,855,002</u>

The accompanying notes are an integral part of these financial statements.

# MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES

## NOTES TO COMBINED FINANCIAL STATEMENTS

Year Ended June 30, 2011 and 2010

### NOTE 1 – ORGANIZATION

These financial statements are a combination of the following related entities:

- The Memphis Center City Commission (the "Commission") was formed in January 1977 by the Council of the City of Memphis, Tennessee. Shelby County became a partner in the organization shortly thereafter. The purpose of the Commission is to represent an official partnership between the governments of the City of Memphis and Shelby County, Tennessee and the private business community. The Commission promotes, manages, and coordinates the comprehensive redevelopment of the center city area. The Commission also appoints and administers the Center City Design Review Board.
- The Memphis Center City Revenue Finance Corporation ("CCRFC") is a state-chartered industrial development board. The CCRFC implements the provisions of the Tennessee Industrial Development Act involving revenue bonds and property tax relief for downtown development.
- The Memphis Center City Development Corporation ("CCDC") administers the Development Loan Program, Public Improvements Program, and other programs designed to assist private development projects. The CCDC is tax-exempt under Section 501(c)(3) of the Internal Revenue Code.
- Crump Building, Inc. ("CBI") is a corporation owned by CCDC and was created in June 1997 to own and manage the real estate activities of The Crump Building located at 114 North Main Street. The Commission moved their offices to The Crump Building in September, 1997. CBI, a for-profit corporation, is subject to federal and state income tax.
- The Downtown Parking Authority ("DPA") is a municipal parking authority chartered by the State of Tennessee. The DPA was designed to establish uniform parking policies and coordinate parking management. The DPA is responsible for initiating strategic planning for existing and future parking facilities and facilitating continuing development in downtown Memphis.

The annual operating funds for the Commission are derived primarily from an assessment from the Central Business Improvement District ("CBID") and contributions from private sources. Fees generated through incentives and programs offered by the CCRFC are contributed to CCDC for the purpose of funding development projects and funding the excess of Commission operating expenses over operating revenues, if any.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Basis of Accounting*

The financial statements of the Commission are prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

The Commission adopted GASB Statement #20, "Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Accounting", and elected to apply Financial Accounting Standards Board statements and interpretations issued after November 30, 1989.

#### *Cash and Cash Equivalents*

Cash equivalents include time deposits with maturities of three months or less when purchased.

# MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES

## NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

Year Ended June 30, 2011 and 2010

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Capital Assets*

Land, construction in progress, buildings, streetscape improvements, leasehold improvements and furniture and equipment are stated at cost. Equipment under leases, which are essentially purchase agreements, are capitalized. The Commission provides for depreciation using the straight-line method over the estimated useful lives of the assets, ranging from 2 – 40 years. Expenditures over \$500, for single items, and \$1,000, for groups of items, are capitalized.

#### *Income Taxes*

Except for Crump Building, Inc., no provision for federal and state income taxes has been provided since the Commission is an agency established under the ordinances of the City of Memphis. Crump Building, Inc. accounts for income taxes in accordance with the FASB Accounting Standards Codification Subtopic 740-10 regarding Income Taxes, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the period in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

#### *Basis of Presentation*

The Combined financial statements include the accounts of Memphis Center City Commission, Memphis Center City Revenue Finance Corporation, Memphis Center City Development Corporation, Downtown Parking Authority, and Crump Building, Inc.

#### *Use of Estimates*

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

#### *Reclassifications*

Certain reclassifications have been made to the prior year financial statement numbers in order for them to conform to the current year presentation.

### NOTE 3 - CASH AND CASH EQUIVALENTS

#### **A. Designated Cash and Cash Equivalents**

Designated cash and cash equivalents includes the Development Loan Program (see Note 4), the Public Improvements Program, and the rental of various parking garages owned by the City of Memphis administered through the Downtown Parking Authority. The funds designated under the Development Loan Program are used to provide low-interest loans to qualified property owners. The Public Improvements Program is committed to certain downtown development projects for related public improvements and provides funds from Payment In Lieu of Taxes ("PILOT") fees for eligible improvements within the public right-of-way.

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**

**Year Ended June 30, 2011 and 2010**

**NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)**

The designated cash and cash equivalent balances as of June 30, are designated for the following:

	<u>2011</u>	<u>2010</u>
Development Loan Program	\$ 1,724,905	\$ 841,310
Parking Garage Debt Service	922,390	3,193,507
Parking Garage Capital Reserve	65,507	118,708
Parking Garage Operating Reserve	42,765	42,680
Parking Garage Rental	315,000	315,000
PILOT Trust Funds	7,604,526	8,773,138
Public Improvement Program	<u>21,000</u>	<u>122,943</u>
Total	<u>\$ 10,696,093</u>	<u>\$ 13,407,286</u>

The funds included in the above programs are reflected in the accompanying combined Statement of Financial Position as follows:

	<u>2011</u>	<u>2010</u>
Current Assets	\$ 4,087,315	\$ 5,629,822
Non-current Assets	<u>6,608,778</u>	<u>7,777,464</u>
Total	<u>\$ 10,696,093</u>	<u>\$ 13,407,286</u>

Designated funds consist of the following:

<u>Custodian</u>	<u>Cash Instrument</u>	<u>2011</u>	<u>2010</u>
Deutsche Bank Trust Company Americas	Goldman Sachs Financial Square Treasury Obligations Mutual Funds	\$ 7,604,526	\$ 8,773,138
SunTrust Bank	Business Money Market Accounts	923,209	3,193,507
State of Tennessee, Treasury Department	State of Tennessee Local Government Investment Pool	1,944,729	1,164,519
First Tennessee Bank	Fidelity Government Portfolio	<u>223,629</u>	<u>276,123</u>
Total designated funds		<u>\$ 10,696,093</u>	<u>\$ 13,407,286</u>

**B. Undesignated Cash and Cash Equivalents**

As required by Tennessee Code Annotated, Section 5-8-201, all of the Commission's cash and cash equivalents in bank statement balances, designated and undesignated, are either insured or collateralized.

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**

**Year Ended June 30, 2011 and 2010**

**NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)**

Undesignated funds consist of the following:

<u>Custodian</u>	<u>Cash Instrument</u>	<u>2011</u>	<u>2010</u>
First Alliance Bank	Checking Account	\$ 57,545	\$ 57,026
State of Tennessee Treasury Department	State of Tennessee Local Government Investment Pool	2,798,496	2,235,355
SunTrust Bank	Checking Account	34,905	29,733
		<u>\$ 2,890,946</u>	<u>\$ 2,322,114</u>

**NOTE 4 – LOANS RECEIVABLE**

The CCDC Development Loan Program provides financing for property owners for building improvements. As these loans are collected, the funds are deposited in the Development Loan Program designated cash funds. Per the promissory note on all loans, they are past due if unpaid on the 15<sup>th</sup> of the month the payment is due. The allowance for doubtful accounts is based on the balances of the loans or percentage of the loan balance that has been determined to be uncollectible; which at June 30, 2011 was made up of three (3) loans, plus 1% of the total outstanding balance. Loans determined to be uncollectible are written off when the debtor no longer exists (e.g. bankrupt, expired, etc.). The Commission doesn't write the loan off if the individual or entity can have a judgment placed against them that may ultimately be collected.

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Loans receivable consists of the following:		
Amount due as of year end	\$ 2,445,659	\$ 1,825,196
Less: allowance for doubtful accounts	(91,500)	(99,720)
	<u>2,354,159</u>	<u>1,725,476</u>
Less: current portion of loans receivable	(380,670)	(393,213)
Long-term loans receivable	<u>\$ 1,973,489</u>	<u>\$ 1,332,263</u>

**NOTE 5 – FAIR VALUE MEASUREMENTS**

The FASB Accounting Standards Codification Subtopic 820-10 *Fair Value Measurements*, (formerly SFAS No. 157), defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**

**Year Ended June 30, 2011 and 2010**

**NOTE 5 – FAIR VALUE MEASUREMENTS (Continued)**

- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The estimated fair value of the Commission's financial instruments has been determined by management using available market information. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the fair values are not necessarily indicative of the amounts that the Commission could realize in a current market exchange. The use of different market assumptions may have a material effect on the estimated fair value amounts. The carrying amounts of cash, cash equivalents, accounts payable, and long- term debt are a reasonable estimate of their fair value.

All financial assets that are measured at fair value on a recurring basis (at least annually) have been segregated into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date. These assets measured at fair value on a recurring basis are summarized in the table below:

	<u>Fair Value</u>	<u>Fair Value Measurements Using:</u>	
		<u>Quoted Prices in</u>	<u>Significant</u>
		<u>Active Markets for</u>	<u>Unobservable</u>
		<u>Identical Assets</u>	<u>Inputs</u>
		<u>(Level 1)</u>	<u>(Level 3)</u>
<b>June 30, 2011</b>			
Fixed income bonds	\$ 490,968	\$ 490,968	\$ -
Development loans	2,445,659	-	2,445,659
<b>Total</b>	<b>\$ 2,936,627</b>	<b>\$ 490,968</b>	<b>\$ 2,445,659</b>
<b>June 30, 2010</b>			
Fixed income bonds	\$ 483,818	\$ 483,818	\$ -
Certificate of deposit	-	-	-
Development loans	1,825,196	-	1,825,196
<b>Total</b>	<b>\$ 2,309,014</b>	<b>\$ 483,818</b>	<b>\$ 1,825,196</b>

*Level 1 Fair Value Measurements*

The fair value of the fixed income bonds is based on the closing prices reported on the active market where the individual bonds are traded.

*Level 3 Fair Value Measurements*

The fair value of development loans approximates the amortized cost of the loans because the loans are secured by each loan holder's property deed. The following table provides further details of the Level 3 fair value measurements.

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**

**Year Ended June 30, 2011 and 2010**

**NOTE 5 – FAIR VALUE MEASUREMENTS (Continued)**

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

**June 30, 2011**

Beginning balance	\$ 1,825,196
Issuances and collections, net	<u>620,463</u>
Ending balance	<u><u>\$ 2,445,659</u></u>

**June 30, 2010**

Beginning balance	\$ 1,764,770
Issuances and collections, net	<u>60,426</u>
Ending balance	<u><u>\$ 1,825,196</u></u>

**NOTE 6 – INVESTMENTS**

*Investments* - Funds will be invested in low risk instruments that allow access to the funds at the point that they are needed for expenditures with financial institutions that provide collateral as required by Tennessee Statute.

*Investment Risk Disclosures*

- Interest rate risk - Interest rate risk is the risk that changes in market rates will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Additionally, the fair values of the investments may be highly sensitive to interest rate fluctuations. One of the ways that the Commission manages its exposure to interest rate risk is by the purchasing of a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion is maturing or coming close to maturing evenly over time, as necessary to provide the cash flow and liquidity needs for operations.

The Commission has the ability and generally has the intention to hold all investments until their respective maturity dates. The average maturity of the Commission's pooled cash and investments as of June 30, 2011, was approximately 12 months. If it becomes necessary or strategically prudent for the Commission to sell a security prior to maturity, the Commission's investment policy allows for occasional restructuring of the portfolio to minimize the loss of market value and/or to maximize cash flows.

- Credit risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization.
- Concentration of credit risk – The Commission's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Office of Congressional and Government Affairs. Investments in any one issuer that represents 5% or more of total investments (except for U.S. Treasury securities, mutual funds, and external investment pools) are as follows:

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**

**Year Ended June 30, 2011 and 2010**

**NOTE 6 – INVESTMENTS (Continued)**

	Carrying Amount	
	2011	2010
FHLB-STEP, 1.125 %, due July 23, 2012	\$ -	\$ 75,023
FHLB, 3.050 %, due October 22, 2010	-	50,437
FHLB, 2.050 %, due August 10, 2012	25,045	25,351
FHLB, 1.000 %, due June 27, 2014	74,917	
FNMA, 1.550 %, due October 5, 2012	-	50,125
FHLB, 1.500 %, due December 10, 2012	-	100,156
FNMA, 1.150 %, due August 26, 2013	100,112	-
FNMA, 1.375 %, due January 13, 2014	25,121	-
<b>Total</b>	<b>\$ 99,962</b>	<b>\$ 301,093</b>

As of June 30, 2011, the Commission had total undesignated fixed income investments of \$490,968, with credit rating and maturities as follows:

Type of Investment	Credit Rating	Maturity				Carrying Value
		Under 30 Days	31-180 Days	181-365 Days	1-5 Years	
FHLB	Aaa	\$ 99,962	\$ -	\$ -	\$ -	\$ 99,962
FNMA	Aaa	100,112	25,121	-	-	125,233
Corporate	P-2	10,608	-	-	-	10,608
Corporate	Baa1	10,519	-	-	-	10,519
Corporate	A1	40,948	-	-	-	40,948
Corporate	A2	120,773	-	-	-	120,773
Corporate	A3	82,925	-	-	-	82,925
		\$ 465,847	\$ 25,121	\$ -	\$ -	\$ 490,968

As of June 30, 2010, the Commission had total undesignated fixed income investments of \$483,818, with credit rating and maturities as follows:

Type of Investment	Credit Rating	Maturity				Carrying Value
		Under 30 Days	31-180 Days	181-365 Days	1-5 Years	
FHLB	Aaa	\$ 75,023	\$ 50,437	\$ -	\$ 125,508	\$ 250,968
FHLMC	Aaa	-	-	-	50,125	50,125
Corporate	A1	-	10,045	-	20,717	30,762
Corporate	A2	-	-	20,456	58,332	78,788
Corporate	A3	-	-	20,560	21,569	42,129
Corporate	Baa1	-	10,043	-	21,003	31,046
		\$ 75,023	\$ 70,525	\$ 41,016	\$ 297,254	\$ 483,818

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**

**Year Ended June 30, 2011 and 2010**

**NOTE 6 – INVESTMENTS (Continued)**

The Development Loan Program undesignated investments as of June 30, 2011 and 2010 are carried at fair value and include the following investments:

	Carrying Amount	
	2011	2010
Bank One Corporation, 7.875%, due August 1, 2010	\$ -	\$ 10,045
Commonwealth Edison, 4.740%, due August 15, 2010	-	10,043
John Deere Capital Corp., 4.000%, due March 15, 2011	-	10,109
Diageo Finance BV, 3.875 %, due April 1, 2011	-	10,157
Rochester Gas & Electric, 6.950%, due April 1, 2011	-	10,403
Morgan Stanley, 6.750 %, due April 15, 2011	-	10,346
FHLB-STEP, 1.125 %, due July 23, 2012	-	75,023
FHLB, 3.050 %, due October 22, 2010	-	50,437
FHLB, 2.050 %, due August 10, 2012	25,045	25,351
FNMA, 1.550 %, due October 5, 2012	-	50,125
FNMA, 1.150 %, due August 16, 2013	100,112	-
FNMA, 1.375%, due January 13, 2014	25,121	-
FHLB, 1.000%, due June 27, 2014	74,917	-
FHLB, 1.500 %, due December 10, 2012	-	100,156
General Dynamics Corp., 1.800%, due July 15, 2011	10,005	10,068
McCormick & Co., 5.800%, due July 15, 2011	10,015	10,470
BB & T Corporaton, 3.100%, due July 28, 2011	10,017	10,168
George Washington Uni, 1.650%, due September 15, 2011	10,015	-
BellSouth Corporation, 6.000%, due October 15, 2011	15,228	15,924
MetLife Inc., 6.125%, due December 1, 2011	10,224	-
Goldman Sachs, 6.600%, due January 15, 2012	10,309	-
Chugach Electric, 6.200%, de February 1, 2012	10,290	-
Paccar Inc., 6.375%, due February 15, 2012	10,339	-
National Rural Utilities, 7.250%, March 1, 2012	10,440	10,966
Pfizer, Inc., 4.450%, March 15, 2012	10,285	10,550
Praxair, Inc., 6.375%, due April 1, 2012	10,439	10,905
M & T Bank Corp., 5.375%, due May 24, 2012	10,410	10,637
Apache Corp, 6.250%, due April 15, 2012	10,436	-
Boeing Cap Corp MTN 6.350%, due April 15, 2012	12,360	-
Amvescap PLC, 5.625%, due April 17, 2012	10,391	-
Alltell Corp., 7.000%, due July 1, 2012	10,608	-
Science Applications, 6.250 %, due July 1, 2012	10,495	10,932
Southern Power, 6.250 %, due July 15, 2012	10,519	10,887
Thermo Fisher Scientific, 2.150%, December 28, 2012	10,184	10,116
Pitney Bowes, Inc, 4.625%, due October 1, 2012	10,403	-
Citigroup, Inc., 5.300%, due October 17, 2012	10,495	-
Avon Products, Inc, 4.800%, due March 1, 2013	10,563	-
Du Pont Nemours MTN, 4.125%, due March 6, 2013	10,538	-
American Express MTN, 5.875%, due May 2, 2013	10,765	-
	<u>\$ 490,968</u>	<u>\$ 483,818</u>
Total		

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**

**Year Ended June 30, 2011 and 2010**

**NOTE 7 – CAPITAL ASSETS, NET**

Capital assets, as of June 30, 2011, consisted of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers and Retirements</u>	<u>Ending Balance</u>
<b>Nondepreciable Capital Assets:</b>				
Land	\$ 2,044,013	\$ 51,127	\$ -	\$ 2,095,140
Constuction in progress	7,600,873	-	(7,413,617)	187,256
Total nondepreciable capital assets	<u>9,644,886</u>	<u>51,127</u>	<u>(7,413,617)</u>	<u>2,282,396</u>
<b>Depreciable Capital Assets:</b>				
Building	17,540,901	5,101,714	7,413,617	30,056,232
Streetscape improvements	5,122,769	67,718	-	5,190,487
Leasehold improvements	787,155	263,857	-	1,051,012
Furniture and equipment	774,672	135,673	(386,218)	524,127
Total depreciable capital assets	<u>24,225,497</u>	<u>5,568,962</u>	<u>7,027,399</u>	<u>36,821,858</u>
<b>Accumulated depreciation:</b>				
Building	(4,806,847)	(757,832)	-	(5,564,679)
Streetscape improvements	(1,156,713)	(346,967)	-	(1,503,680)
Leasehold improvements	(283,999)	(68,821)	-	(352,820)
Furniture and equipment	(713,119)	(48,506)	386,218	(375,407)
Total accumulated depreciation	<u>(6,960,678)</u>	<u>(1,222,126)</u>	<u>386,218</u>	<u>(7,796,586)</u>
<b>Total Depreciable Capital Assets, net</b>	<u>17,264,819</u>	<u>4,346,836</u>	<u>7,413,617</u>	<u>29,025,272</u>
<b>Intangible asset:</b>				
Internet domain name	13,000	-	-	13,000
<b>Amortization:</b>				
Internet domain name	<u>(13,000)</u>	<u>-</u>	<u>-</u>	<u>(13,000)</u>
Intangible asset, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Capital Assets, net</b>	<u>\$ 26,909,705</u>	<u>\$ 4,397,963</u>	<u>\$ -</u>	<u>\$ 31,307,668</u>

Depreciation expense was \$1,222,126 for the year ended June 30, 2011.

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**

**Year Ended June 30, 2011 and 2010**

**NOTE 7 – CAPITAL ASSETS, NET (Continued)**

Capital assets, as of June 30, 2010, consisted of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers and Retirements</u>	<u>Ending Balance</u>
<b>Nondepreciable Capital Assets:</b>				
Land	\$ 2,044,013	\$ -	\$ -	\$ 2,044,013
Constuction in progress	4,819,642	2,781,231	-	7,600,873
Total nondepreciable capital assets	<u>6,863,655</u>	<u>2,781,231</u>	<u>-</u>	<u>9,644,886</u>
<b>Depreciable Capital Assets:</b>				
Building	17,540,900	-	-	17,540,900
Streetscape improvements	4,520,143	602,627	-	5,122,770
Leasehold improvements	770,589	16,566	-	787,155
Furniture and equipment	728,608	46,064	-	774,672
Total depreciable capital assets	<u>23,560,240</u>	<u>665,257</u>	<u>-</u>	<u>24,225,497</u>
<b>Accumulated depreciation:</b>				
Building	(4,225,049)	(581,798)	-	(4,806,847)
Streetscape improvements	(835,281)	(321,432)	-	(1,156,713)
Leasehold improvements	(224,733)	(59,266)	-	(283,999)
Furniture and equipment	(682,261)	(30,858)	-	(713,119)
Total accumulated depreciation	<u>(5,967,324)</u>	<u>(993,354)</u>	<u>-</u>	<u>(6,960,678)</u>
<b>Intangible asset:</b>				
Internet domain name	13,000	-	-	13,000
<b>Amortization:</b>				
Internet domain name	<u>(13,000)</u>	<u>-</u>	<u>-</u>	<u>(13,000)</u>
Intangible asset, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Capital Assets, net</b>	<u>\$ 24,456,571</u>	<u>\$ 2,453,134</u>	<u>\$ -</u>	<u>\$ 26,909,705</u>

Depreciation expense was \$993,354 for the year ended June 30, 2010.

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**

**Year Ended June 30, 2011 and 2010**

**NOTE 8 – LONG-TERM DEBT**

Long-term debt consisted of the following as of June 30:

	<u>2011</u>	<u>2010</u>
<p>Taxable revenue serial bonds series 2004 issued pursuant to a Trust Indenture secured by revenue from Pilot Extension Fund, for the refinancing of the construction cost of 250 Peabody Place Garage. Interest is payable semi-annually on June 1, and December 1, of each year commencing June 1, 2005. The interest on the serial bonds varies from 3.09% to 4.09%. There are two term bonds with interest rates of 5% and 5.8%. The term bonds were sold at a discount and the yield effective interest rates are 5.05% and 5.9%. The bonds mature at various dates through June 1, 2025. The term bonds are subject to mandatory sinking fund installment redemptions prior to maturity, pursuant to the terms of the Indenture at a redemption price equal to the principal amount to be redeemed, plus accrued interest, without premium on the dates and in the respective principal amounts, as defined in the Indenture. The bonds maturing on or after December 1, 2015 can be redeemed at the option of the Bond Trustee on or after December 1, 2014. A discount of \$58,895 for 2011, and \$63,102 for 2010 has been applied to the note balance in order to show it at present value.</p>	\$ 8,282,847	\$ 8,631,898
<p>Taxable revenue bond series 2008 issued pursuant to a Trust Indenture secured by revenue from the Pilot Extension Fund, for the construction cost of the 100 S Main Garage project. Interest is payable semi-annually on June 5 and December 5 of each year, commencing June 5, 2009. The interest rate is 5.15% per annum. The bond matures December 5, 2015. The bond is subject to a mandatory sinking fund not less than the principal next to become due pursuant to the terms of the indenture.</p>	3,367,943	4,310,394
<p>Borrowings from the City of Memphis for the construction of the Peabody Place Garage. Balance will accrue 5.05% simple interest beginning when the construction is complete. The note is secured by deed of trust, fixture filing and assignment of rents. Total principal and accrued interest is due July 29, 2034.</p>	5,120,000 *	5,120,000 *

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**

**Year Ended June 30, 2011 and 2010**

**NOTE 8 – LONG-TERM DEBT (Continued)**

	<u>2011</u>	<u>2010</u>
Borrowings from the City of Memphis for Streetscape Improvement Projects recommended by Center City Commission's Streetscape Master Plan and the Center City Commission's Way Funding Master Plan. Interest is payable in November and May of each year at a rate of 4%. The note is secured by \$500,000 in additional CBID special assessment fees.	2,360,000	2,700,000
5.375% note payable to a bank, due in 180 monthly installments of \$8,149, maturing June 1, 2018. The loan is secured by a first mortgage deed of trust on the Crump Building.	<u>558,792</u>	<u>623,983</u>
	19,689,582	21,386,275
Less: current portion	<u>(1,818,840)</u>	<u>(1,731,661)</u>
Total Long-term debt	<u>\$ 17,870,742</u>	<u>\$ 19,654,614</u>

\* No principal or interest is payable on this note to the City of Memphis, for the construction of the Peabody Place Garage, until its maturity on July 24, 2034. At June 30, 2011 and 2010, the accrued interest payable is \$3,081,176 and \$2,822,616, respectively, and is included in Long-Term Liabilities in the accompanying Combined Statement of Financial Position.

Estimated principal payments due in each of the next five fiscal years and thereafter are as follows:

Year Ending June 30,		
2010	\$ -	\$ -
2011	-	1,731,661
2012	1,818,840	1,818,840
2013	1,912,633	1,912,633
2014	2,006,634	2,006,634
2015	1,214,836	1,214,836
Thereafter	<u>12,858,534</u>	<u>12,764,773</u>
	19,811,477	21,449,377
Less: discount to present value	(58,895)	(63,102)
Less: current portion	<u>(1,881,840)</u>	<u>(1,731,661)</u>
Total long-term debt	<u>\$ 17,870,742</u>	<u>\$ 19,654,614</u>

**NOTE 9 – LEASES**

The Commission entered into a five (5) year capital lease/purchase agreement with Business Communications of Memphis, Inc. in May 2010, for a new Toshiba 200IP telephone system. Under the terms of the lease/purchase agreement, monthly payments of \$491 are to be made, beginning June 30, 2011 and ending May 31, 2015.

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**

**Year Ended June 30, 2011 and 2010**

**NOTE 9 – LEASES (Continued)**

The Commission leases some of its office equipment under agreements classified as operating leases. Also, the Commission occupies office space in the Crump Building under the agreement calling for lease payments equal to the debt plus 15% on the Crump Building loan plus building expenses relating to the Commission's occupancy. Total lease related expense was \$427,440 for the years ended June 30, 2011 and 2010.

In March 1999, the Downtown Parking Authority entered into a master lease with the City of Memphis ("City") to lease certain parking garages and associated real estate. Under the terms of the master lease, the DPA was assigned the City's rights and obligations under the existing leases associated with the leased property. The initial term of the lease expires in 2018, but can be renewed for an additional ten years. Under the terms of the lease, DPA pays \$315,000 per year. Additional rents are payable to the City equal to the amount of operating revenues in excess of operating expenses, as defined in the master lease.

Minimum future lease payments under capital and non-cancelable operating leases having remaining terms in excess of one year are as follows:

Year Ending June 30,	2011	2010
2010	\$ -	\$ -
2011	-	431,660
2012	431,989	431,989
2013	338,644	338,644
2014	320,287	320,287
2015	320,208	320,208
2016	315,000	315,000
Thereafter	630,000	630,000
Total minimum future rental payments	\$ 2,356,128	\$ 2,787,788

**NOTE 10 – RETIREMENT PLAN**

On July 31, 1987, the Commission established a defined contribution retirement plan for all salaried employees, effective August 1, 1986. The Commission contributes 5% of each participant's annual salary. Participants vest in employer's contributions at a rate of 20% per year.

Funds contributed are deposited and investment earnings are credited to each employee's account. Employees are entitled only to funds deposited on their behalf.

The amount contributed to the retirement plan and expensed for the years ended June 30, 2011 and 2010 were \$61,688 and \$63,008, respectively.

**NOTE 11 – CONTINGENCIES AND COMMITMENTS**

The Center City Revenue Finance Corporation (CCRFC) also has claims made against it in the form of mechanics liens arising out of construction of several projects. CCRFC's liability with respect to such liens is limited to its interest in the property leased to the projects. There has been no liability accrued because the outcome is uncertain.

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**

**Year Ended June 30, 2011 and 2010**

**NOTE 12 – RISK MANAGEMENT**

The Commission is exposed to the normal risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission's policy is to minimize these risks through the purchase of commercial insurance. Settled claims have not exceeded the commercial insurance coverage in the past three years.

**NOTE 13 – INCOME TAXES**

Crump Building, Inc. is a taxable corporation. The company's deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income tax assets consist of the following:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Net operating loss carry forward	\$ 2,397	\$ 21,031
Unused investment tax credit	193,587	193,587
Property and equipment	(25,795)	(17,387)
Valuation allowance	<u>(170,189)</u>	<u>(197,231)</u>
Total	<u>\$ -</u>	<u>\$ -</u>

Crump Building, Inc. at June 30, 2011, has a federal net operating loss carryover of \$7,051, which can be carried forward to 2023.

**NOTE 14 – RESERVES FOR CONTINGENCIES**

The 1997 Development Agreement between the Downtown Parking Authority and Belz Enterprises requires the following reserves:

	<u>2011</u>	<u>2010</u>
Operating reserve	\$ 27,765	\$ 42,680
Capital Reserve	65,272	118,708
Potential refunds of Central Business Improvement District assessments resulting from property revaluations	<u>50,943</u>	<u>292,809</u>
Total	<u>\$ 143,980</u>	<u>\$ 454,197</u>

## **COMBINING FINANCIAL STATEMENTS**

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**COMBINING STATEMENT OF FINANCIAL POSITION**

**June 30, 2011**

**ASSETS**

	<b>Memphis Center City Commission</b>	<b>Memphis Center City Development Corporation</b>	<b>Memphis Center City Revenue Finance Corporation</b>	<b>Crump Building, Inc.</b>	<b>Downtown Parking Authority</b>	<b>Total</b>
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 602,479	\$ 595,413	\$ -	\$ -	\$ 1,693,054	\$ 2,890,946
Designated cash and cash equivalents	-	745,025	-	-	3,342,290	4,087,315
Loans receivable, current portion	-	380,670	-	-	-	380,670
Accounts receivable	21,421	-	-	-	92,675	114,096
Deferred charges	-	-	-	-	301,326	301,326
Prepaid expenses	16,334	-	49,370	-	47,029	112,733
<b>Total current assets</b>	<b>640,234</b>	<b>1,721,108</b>	<b>49,370</b>	<b>-</b>	<b>5,476,374</b>	<b>7,887,086</b>
<b>NON-CURRENT ASSETS:</b>						
Investments	-	490,968	-	-	-	490,968
Designated PILOT trust funds	-	-	6,608,778	-	-	6,608,778
Loans receivable, less current portion	-	1,973,489	-	-	-	1,973,489
Land	-	-	-	-	2,095,140	2,095,140
Improvements in progress	-	10,900	-	-	176,356	187,256
Depreciable assets, net of accumulated depreciation	4,072,422	544,746	-	428,830	23,979,274	29,025,272
<b>Total non-current assets</b>	<b>4,072,422</b>	<b>3,020,103</b>	<b>6,608,778</b>	<b>428,830</b>	<b>26,250,770</b>	<b>40,380,903</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,712,656</b>	<b>\$ 4,741,211</b>	<b>\$ 6,658,148</b>	<b>\$ 428,830</b>	<b>\$ 31,727,144</b>	<b>\$ 48,267,989</b>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES:</b>						
Accounts payable and accrued expenses	\$ 121,352	\$ 5,004	\$ 37,401	\$ -	\$ 440,565	\$ 604,322
Other liabilities	12,000	1,500	-	-	22,039	35,539
Current portion of capital lease payable	4,550	-	-	-	-	4,550
Current maturities of long-term debt	355,000	-	-	68,840	1,395,000	1,818,840
<b>Total current liabilities</b>	<b>492,902</b>	<b>6,504</b>	<b>37,401</b>	<b>68,840</b>	<b>1,857,604</b>	<b>2,463,251</b>
<b>LONG-TERM LIABILITIES:</b>						
Accrued interest	15,733	-	-	-	3,095,640	3,111,373
Reserves for contingencies	50,943	-	-	-	93,037	143,980
Capital lease payable, less current portion	15,399	-	-	-	-	15,399
Long-term debt, less current portion	2,005,000	-	-	489,952	15,375,790	17,870,742
<b>Total long-term liabilities</b>	<b>2,087,075</b>	<b>-</b>	<b>-</b>	<b>489,952</b>	<b>18,564,467</b>	<b>21,141,494</b>
<b>TOTAL LIABILITIES</b>	<b>2,579,977</b>	<b>6,504</b>	<b>37,401</b>	<b>558,792</b>	<b>20,422,071</b>	<b>23,604,745</b>
<b>NET ASSETS:</b>						
Invested in capital assets, net of related debt	1,692,474	555,646	-	(129,962)	9,479,980	11,598,138
Unrestricted -						
Board designated	-	745,025	6,608,778	-	3,342,290	10,696,093
Other unrestricted	440,205	3,434,036	11,969	-	(1,517,196)	2,369,013
<b>Total net assets</b>	<b>2,132,679</b>	<b>4,734,707</b>	<b>6,620,747</b>	<b>(129,962)</b>	<b>11,305,073</b>	<b>24,663,244</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,712,656</b>	<b>\$ 4,741,211</b>	<b>\$ 6,658,148</b>	<b>\$ 428,830</b>	<b>\$ 31,727,144</b>	<b>\$ 48,267,989</b>

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**COMBINING STATEMENT OF FINANCIAL POSITION**

**June 30, 2010**

**ASSETS**

	<b>Memphis Center City Commission</b>	<b>Memphis Center City Development Corporation</b>	<b>Memphis Center City Revenue Finance Corporation</b>	<b>Crump Building, Inc.</b>	<b>Downtown Parking Authority</b>	<b>Total</b>
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 518,233	\$ 1,193,075	\$ -	\$ -	\$ 610,806	\$ 2,322,114
Designated cash and cash equivalents	-	964,253	-	-	4,665,569	5,629,822
Loans receivable, current portion	-	393,213	-	-	-	393,213
Accounts receivable	49,603	-	-	-	34,993	84,596
Deferred charges	-	-	-	-	322,849	322,849
Prepaid expenses	16,796	-	45,497	-	29,742	92,035
<b>Total current assets</b>	<b>584,632</b>	<b>2,550,541</b>	<b>45,497</b>	<b>-</b>	<b>5,663,959</b>	<b>8,844,629</b>
<b>NON-CURRENT ASSETS:</b>						
Investments	-	483,818	-	-	-	483,818
Designated PILOT trust funds	-	-	7,777,464	-	-	7,777,464
Loans receivable, less current portion	-	1,332,263	-	-	-	1,332,263
Land	-	-	-	-	2,044,013	2,044,013
Improvements in progress	-	-	-	-	7,600,873	7,600,873
Depreciable assets, net of accumulated depreciation	4,413,494	582,537	-	463,514	11,805,274	17,264,819
<b>Total non-current assets</b>	<b>4,413,494</b>	<b>2,398,618</b>	<b>7,777,464</b>	<b>463,514</b>	<b>21,450,160</b>	<b>36,503,250</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,998,126</b>	<b>\$ 4,949,159</b>	<b>\$ 7,822,961</b>	<b>\$ 463,514</b>	<b>\$ 27,114,119</b>	<b>\$ 45,347,879</b>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES:</b>						
Accounts payable and accrued expenses	\$ 75,887	\$ 4,895	\$ 20,789	\$ 18,372	\$ 852,593	\$ 972,536
Other liabilities	10,310	1,500	-	-	(5,048)	6,762
Current portion of capital leases payable	4,220	-	-	-	-	4,220
Current maturities of long-term debt	340,000	-	-	65,245	1,326,416	1,731,661
<b>Total current liabilities</b>	<b>430,417</b>	<b>6,395</b>	<b>20,789</b>	<b>83,617</b>	<b>2,173,961</b>	<b>2,715,179</b>
<b>LONG-TERM LIABILITIES:</b>						
Accrued interest	18,000	-	-	-	2,844,612	2,862,612
Reserves for contingencies	292,809	-	-	-	161,388	454,197
Capital lease payable, current portion	19,948	-	-	-	-	19,948
Long-term debt, less current portion	2,360,000	-	-	558,737	16,735,877	19,654,614
<b>Total long-term liabilities</b>	<b>2,690,757</b>	<b>-</b>	<b>-</b>	<b>558,737</b>	<b>19,741,877</b>	<b>22,991,371</b>
<b>TOTAL LIABILITIES</b>	<b>3,121,174</b>	<b>6,395</b>	<b>20,789</b>	<b>642,354</b>	<b>21,915,838</b>	<b>25,706,550</b>
<b>NET ASSETS:</b>						
Invested in capital assets, net of related debt	1,689,327	582,537	-	(160,469)	3,387,867	5,499,262
Unrestricted -						
Board designated	-	964,253	7,777,464	-	4,665,569	13,407,286
Other unrestricted	187,625	3,395,974	24,708	(18,371)	(2,855,155)	734,781
<b>Total net assets</b>	<b>1,876,952</b>	<b>4,942,764</b>	<b>7,802,172</b>	<b>(178,840)</b>	<b>5,198,281</b>	<b>19,641,329</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,998,126</b>	<b>\$ 4,949,159</b>	<b>\$ 7,822,961</b>	<b>\$ 463,514</b>	<b>\$ 27,114,119</b>	<b>\$ 45,347,879</b>

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS**

**Year Ended June 30, 2011**

	Memphis Center City Commissin Corporation	Memphis Center City Development Corporation	Memphis Center City Revenue Finance Corporation	Crump Building, Inc.	Downtown Parking Authority	Elimination	Total
<b>OPERATING REVENUES:</b>							
Administrative income	\$ -	\$ -	\$ 7,476,902	\$ -	\$ -	\$ -	\$ 7,476,902
CBID assessment	2,875,447	-	-	-	-	-	2,875,447
Development income	-	22,601	-	-	-	-	22,601
Marketing income	41,675	-	-	-	-	-	41,675
Operations income	11,881	-	-	-	-	-	11,881
Parking garage management	-	-	-	-	1,547,030	-	1,547,030
Real estate income	-	-	-	112,440	-	(112,440)	-
Total Operating Revenues	2,929,003	22,601	7,476,902	112,440	1,547,030	(112,440)	11,975,536
<b>OPERATING EXPENSES:</b>							
Salaries and benefits	1,611,517	-	-	-	-	-	1,611,517
Advertising	153,334	-	-	-	-	-	153,334
Business community relations	21,774	459	394	-	419	-	23,046
Conferences and travel	7,046	-	-	-	-	-	7,046
Depreciation and amortization	424,928	40,178	-	63,517	693,503	-	1,222,126
Event production	203,260	-	-	-	-	-	203,260
Insurance	27,196	-	-	-	62,742	-	89,938
Office expenses	144,689	200	-	18,714	1,835	-	165,438
Other personnel expenses	191,808	-	-	-	120,982	-	312,790
Parking garage management fees	-	-	-	-	706,053	-	706,053
Planning and development	60,395	529,867	-	-	-	-	590,262
Professional fees	69,605	66,230	250,183	2,380	84,433	-	472,831
Rent expense	116,645	-	-	-	315,000	(112,440)	319,205
Repairs and maintenance	92,034	-	-	-	11,524	-	103,558
Loss on disposal of assets	-	-	-	2,325	-	-	2,325
Subscriptions and dues	8,207	-	-	-	-	-	8,207
Total Operating Expenses	3,132,438	636,934	250,577	86,936	1,996,491	(112,440)	5,990,936
OPERATING INCOME (LOSS)	(203,435)	(614,333)	7,226,325	25,504	(449,461)	-	5,984,600
<b>NON-OPERATING REVENUE (EXPENSES):</b>							
Interest income	2,679	42,011	-	-	38,958	-	83,648
Net increase (decrease) in the fair value of investments	-	16,519	-	-	-	-	16,519
Interest expense	(100,611)	-	-	(32,532)	(929,709)	-	(1,062,852)
Net transfers in (out)	557,093	347,748	(8,407,750)	55,906	7,447,003	-	-
Total Non-Operating Revenues (Expenses)	459,161	406,278	(8,407,750)	23,374	6,556,252	-	(962,685)
CHANGE IN NET ASSETS	255,726	(208,055)	(1,181,425)	48,878	6,106,791	-	5,021,915
TOTAL NET ASSETS - BEGINNING	1,876,952	4,942,764	7,802,172	(178,840)	5,198,281	-	19,641,329
TOTAL NET ASSETS - ENDING	\$ 2,132,678	\$ 4,734,709	\$ 6,620,747	\$ (129,962)	\$ 11,305,072	\$ -	\$ 24,663,244

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET ASSETS**  
**Year Ended June 30, 2010**

	Memphis Center City Commission	Memphis Center City Development Corporation	Memphis Center City Revenue Finance Corporation	Crump Building, Inc.	Downtown Parking Authority	Elimination	Total
<b>OPERATING REVENUES:</b>							
Administrative income	\$ -	\$ -	\$ 3,888,981	\$ -	\$ -	\$ -	\$ 3,888,981
CBID assessment	2,744,129	-	-	-	-	-	2,744,129
Development income	-	30,026	-	-	-	-	30,026
Marketing income	52,426	-	-	-	-	-	52,426
Operations income	34,604	-	-	-	-	-	34,604
Parking garage management	-	-	-	-	1,198,909	-	1,198,909
Real estate income	-	-	-	112,440	-	(112,440)	-
<b>Total Operating Revenues</b>	<b>2,831,159</b>	<b>30,026</b>	<b>3,888,981</b>	<b>112,440</b>	<b>1,198,909</b>	<b>(112,440)</b>	<b>7,949,075</b>
<b>OPERATING EXPENSES:</b>							
Salaries and benefits	1,743,430	-	-	-	-	-	1,743,430
Advertising	265,200	-	-	-	-	-	265,200
Business community relations	7,144	481	690	-	489	-	8,804
Conferences and travel	21,015	-	-	-	-	-	21,015
Depreciation and amortization	422,219	20,089	-	63,230	487,816	-	993,354
Event production	189,578	-	-	-	-	-	189,578
Insurance	27,262	-	-	-	45,232	-	72,494
Office expenses	148,036	-	-	3,206	1,745	-	152,987
Other personnel expenses	188,837	-	-	-	4,462	-	193,299
Parking garage management fees	-	-	-	-	620,205	-	620,205
Planning and development	105,650	56,590	-	-	-	-	162,240
Professional fees	50,422	47,686	105,844	3,771	55,180	-	262,903
Rent expense	114,535	-	-	-	315,000	(112,440)	317,095
Repairs and maintenance	80,976	-	-	-	1,011	-	81,987
Search and relocation expenses	51,078	-	-	-	-	-	51,078
Subscriptions and dues	6,200	-	-	-	-	-	6,200
<b>Total Operating Expenses</b>	<b>3,421,582</b>	<b>124,846</b>	<b>106,534</b>	<b>70,207</b>	<b>1,531,140</b>	<b>(112,440)</b>	<b>5,141,869</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(590,423)</b>	<b>(94,820)</b>	<b>3,782,447</b>	<b>42,233</b>	<b>(332,231)</b>	<b>-</b>	<b>2,807,206</b>
<b>NON-OPERATING REVENUE</b>							
<b>(EXPENSES):</b>							
Interest income	4,246	55,173	-	-	14,887	-	74,306
Net increase (decrease) in the fair value of investments	-	14,690	764	-	170	-	15,624
Interest expense	(112,559)	-	-	(35,945)	(759,172)	-	(907,676)
Net transfers	495,179	(269,739)	(2,007,025)	(25,990)	1,807,575	-	-
<b>Total Non-Operating Revenues (Expenses)</b>	<b>386,866</b>	<b>(199,876)</b>	<b>(2,006,261)</b>	<b>(61,935)</b>	<b>1,063,460</b>	<b>-</b>	<b>(817,746)</b>
<b>CHANGE IN NET ASSETS</b>	<b>(203,557)</b>	<b>(294,696)</b>	<b>1,776,186</b>	<b>(19,702)</b>	<b>731,229</b>	<b>-</b>	<b>1,989,460</b>
<b>TOTAL NET ASSETS - BEGINNING</b>	<b>2,080,509</b>	<b>5,237,460</b>	<b>6,025,986</b>	<b>(159,138)</b>	<b>4,467,052</b>	<b>-</b>	<b>17,651,869</b>
<b>TOTAL NET ASSETS - ENDING</b>	<b>\$ 1,876,952</b>	<b>\$ 4,942,764</b>	<b>\$ 7,802,172</b>	<b>\$ (178,840)</b>	<b>\$ 5,198,281</b>	<b>\$ -</b>	<b>\$ 19,641,329</b>



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

To the Board of Directors  
Memphis Center City Commission  
And Related Entities  
Memphis, Tennessee

We have audited the combined financial statements of the Memphis Center City Commission and Related Entities (Commission), as of and for the year ended June 30, 2011, and have issued our report thereon dated November 10, 2011. 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 the Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Commission'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 the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission'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 the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters, 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*.

We have provided to the Board of Directors the communications required by professional standards in a separate letter to them dated November 10, 2011.

This report is intended for the information and use of the audit committee, management, others within the Commission, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Boreola Kaplan, PLLC". The signature is written in a cursive, flowing style.

Germantown, Tennessee  
November 10, 2011

**MEMPHIS CENTER CITY COMMISSION AND RELATED ENTITIES**

**INDEPENDENT AUDITORS' GENERAL COMMENTS  
AND OTHER SUPPORTING DATA**

**June 30, 2011**

**Required disclosures related to the auditor**

Name of Lead Auditor: W. Marcus Rountree  
Firm: Zoccola Kaplan, PLLC  
Firm Address: 6800 Poplar Avenue, Suite 210, Germantown, TN 38138  
Firm Telephone Number: (901) 523-8283  
Firm Federal I.D. Number: 62-1152935

All other supporting data has been presented elsewhere in this report.