

**DOWNTOWN MEMPHIS COMMISSION AND
RELATED ENTITIES
COMBINED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2012 and 2011**

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DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

GOVERNANCE OFFICIALS

Year Ended June 30, 2012

**DOWNTOWN MEMPHIS CITY COMMISSION
BOARD OF DIRECTORS**

Ernest Strickland, Chairman
Bob Lundy, Vice Chairman
Stuart McGehee, Secretary
Al Lyons, Treasurer
Bobbi Gillis
Mark Hendricks

Bill Boyd, City Council Liaison
Barbara Cooper, State Representative
Steve Basar, County Commissioner
Megan Arthur
Isaac Northern
George Shadroui

**MEMPHIS AND SHELBY COUNTY CENTER CITY DEVELOPMENT CORPORATION
BOARD OF DIRECTORS**

Jay Lindy, Chairman
Bob Lundy
Melvin Jones
Andre Jones

Stuart McGehee
Tanja Mitchell
Terrence Patterson
Ernest Strickland

**MEMPHIS AND SHELBY COUNTY CENTER CITY REVENUE FINANCE CORPORATION
BOARD OF DIRECTORS**

Robert Spence, Jr., Chairman
Luke Yancy, IV, Vice Chairman
Dana Burkett
Wesley Grace
Brandy Johnson-Ward

Carla Peacher-Ryan, Secretary
Martin Truitt, Treasurer
Sean Norris
Walter Person

**MEMPHIS AND SHELBY COUNTY DOWNTOWN PARKING AUTHORITY
BOARD OF DIRECTORS**

Odell Horton, Chairman
Brandon Bryant, Vice Chairman
Graham Askew

Mary Sharp, Secretary
Rick Wagers, Treasurer
Donnell Cobbins

ADMINISTRATIVE OFFICIALS

Paul H. Morris, President, CEO

Jim Street, VP Administration & Finance, CFO



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Downtown Memphis Commission and Related Entities
Memphis, Tennessee

We have audited the accompanying combined statements of financial position of the Downtown Memphis Commission and Related Entities (the "DMC") as of June 30, 2012 and 2011, 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 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. 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 opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the DMC as of June 30, 2012 and 2011, and the combined revenues, expenses and 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 December 11, 2012, on our consideration of the DMC'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 DMC. This information is the responsibility of the DMC'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.

Bowdla Kaplan, PLLC

Germantown, Tennessee
December 11, 2012

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended JUNE 30, 2012

As management of the Downtown Memphis Commission and Related Entities (the "DMC"), we offer readers of the organizations' financial statements this narrative and analysis of the financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the DMC and Related Entities Financial Statements, which begin on page 11.

The DMC 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 DMC exceeded its liabilities at the close of the most recent fiscal year by \$27,526,059 - an increase from the prior fiscal year of \$2,862,815 - or 12%. Thirty-seven percent of that account has been designated for specific purposes by the boards.

DURING THE YEAR

- The organizations' total assets increased by \$1,846,211, or 4%.
- Current assets decreased by \$817,442, or -10%.
- Current liabilities decreased by \$948,444, or -39%.
- The total liabilities decreased by \$1,016,604, or -4%.
- Operating revenue decreased by \$2,505,480, or -21%.
- Operating expense decreased by \$155,205, or -3%.

THE ANNUAL REPORT

This annual report consists of a series of financial statements. The Combined Statements of Financial Position, Combined Statements of Revenues, Expenses and Changes in Net Assets, and Cash Flows provide information of the combined activities of the DMC as a whole. The supplementary information provided reflects the activity of the individual entities that make up the combined totals.

Our analysis of the DMC as a whole follows. The Combined Statements of Financial Position and Combined Statements of Revenues, Expenses and Changes in Net Assets include all assets, liabilities, revenues and expenses of the DMC 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, 2012 are taken into account, regardless of when cash is received or paid. The two statements report the DMC's net assets and changes in them. The DMC's net assets - the difference between assets and liabilities - can be viewed as one way to measure its financial health or financial position.

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

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

For the Year Ended JUNE 30, 2012

THE ANNUAL REPORT (*Continued*)

The Notes to the Financial Statements provide additional information that is essential to the complete understanding of the data provided in the statements.

The supplemental information is provided to identify the financial impact of the variety of activities of the individual entities that comprise the DMC.

FINANCIAL ANALYSIS

Combined and Condensed Statements of Financial Position

	June 30,		Increase (Decrease)
	2012	2011	
Current Assets	\$ 7,069,644	\$ 7,887,086	\$ (817,442)
Other Assets	43,044,556	40,380,903	2,663,653
Total Assets	<u>\$50,114,200</u>	<u>\$48,267,989</u>	<u>\$ 1,846,211</u>
Current Liabilities	\$ 1,514,807	\$ 2,463,251	\$ (948,444)
Long Term Liabilities	21,073,334	21,141,494	(68,160)
Total Liabilities	<u>22,588,141</u>	<u>23,604,745</u>	<u>(1,016,604)</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	15,465,802	11,598,138	3,867,664
Unrestricted - Designated	10,007,668	10,696,093	(688,425)
Undesignated	2,052,589	2,369,013	(316,424)
Total Net Assets	<u>27,526,059</u>	<u>24,663,244</u>	<u>2,862,815</u>
Total Liabilities and Net Assets	<u>\$50,114,200</u>	<u>\$48,267,989</u>	<u>\$ 1,846,211</u>

Current Assets held by Center City Development Corporation increased during the year because of development loan repayments. However, the Downtown Parking Authority's Current Assets decreased related to expenditures for improvements at the Commerce Square Garage and the Front Street Parking Garage.

Other Assets increased for the Parking Authority through the acquisition of the First Parking Garage. Center City Development Corporation's Other Assets decreased due to loan repayments while Center City Revenue and Finance Corporation's Other Assets increased through the PILOT Extension Fund.

Current Liabilities decreased for the Parking Authority because of the payoff of the Gayoso Garage bond and the reduction of current maturities of long term debt.

Net Assets invested in Capital Assets increased because of the acquisition of the First Parking Garage, causing total net assets to increase. Net Assets designated for specific purposes are associated with commitments of the CCDC, the CCRFC and the Parking Authority related to their programs in subsequent periods. The commitments include approved development loans, public infrastructure projects, funds committed for debt service, various development incentive programs, and construction projects.

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

For the Year Ended JUNE 30, 2012

FINANCIAL ANALYSIS (Continued)

Combined Statements of Revenues, Expenses and Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
OPERATING REVENUE			
Administrative income	\$ 5,149,916	\$ 7,476,902	\$(2,326,986)
Central Business Improvement			
District Assessment	2,821,787	2,875,447	(53,660)
Development income	(183,597)	22,601	(206,198)
Marketing income	42,785	41,675	1,110
Operations income	10,000	11,881	(1,881)
Parking Management	1,629,165	1,547,030	82,135
Total Operating Revenues	<u>9,470,056</u>	<u>11,975,536</u>	<u>(2,505,480)</u>
OPERATING EXPENSES			
Salaries and benefits	1,591,575	1,611,517	(19,942)
Advertising	70,022	153,334	(83,312)
Business community relations	12,857	23,046	(10,189)
Conferences and travel	3,820	7,046	(3,226)
Depreciation and amortization	1,514,078	1,222,126	291,952
Event production	202,771	203,260	(489)
Insurance	93,287	89,938	3,349
Office expenses	156,907	165,438	(8,531)
Other personnel expense	413,517	312,790	100,727
Parking garage management fees	554,684	706,053	(151,369)
Planning and development	346,886	590,262	(243,376)
Professional fees	439,448	472,831	(33,383)
Rent expense	318,744	319,205	(461)
Repairs and maintenance	112,401	103,558	8,843
Loss on disposal of assets	-	2,325	(2,325)
Subscriptions and dues	4,734	8,207	(3,473)
Total Operating Expenses	<u>5,835,731</u>	<u>5,990,936</u>	<u>(155,205)</u>
OPERATING INCOME	<u>3,634,325</u>	<u>5,984,600</u>	<u>(2,350,275)</u>
NON-OPERATING REVENUE (EXPENSE)			
Interest income	127,201	83,648	43,553
Net increase (decrease) in investments	9,543	16,519	(6,976)
Interest expense	(908,254)	(1,062,852)	154,598
Total Non-Operating Revenues (Expenses)	<u>(771,510)</u>	<u>(962,685)</u>	<u>191,175</u>
NET INCOME	2,862,815	5,021,915	(2,159,100)
TOTAL NET ASSETS - BEGINNING	<u>24,663,244</u>	<u>19,641,329</u>	<u>5,021,915</u>
TOTAL NET ASSETS - ENDING	<u>\$27,526,059</u>	<u>\$24,663,244</u>	<u>\$ 2,862,815</u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

For the Year Ended JUNE 30, 2012

FINANCIAL ANALYSIS (*Continued*)

Operating Revenue decreased primarily in Administration Income at Center City Revenue and Finance Corporation related to a 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 decreased for the DMC related to CBID assessment fees.

Operating Expense decreased at the DMC after the increases experienced in 2010 related to the retirement and replacement of the president. However, Operating Expenses increased at all other entities due to:

- Development grants of CCDC
- Legal fees at CCRFC
- Increased depreciation and maintenance at the Parking Authority

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Downtown Memphis Commission 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:

DOWNTOWN MEMPHIS COMMISSION
VICE PRESIDENT OF ADMINISTRATION AND FINANCE, CFO
114 N. MAIN STREET
MEMPHIS, TN 38103

E-MAIL: street@downtownmemphis.com

COMBINED FINANCIAL STATEMENTS

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES**COMBINED STATEMENTS OF FINANCIAL POSITION****For the Years Ended JUNE 30,**

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,232,755	\$ 2,890,946
Designated cash and cash equivalents	2,752,333	4,087,315
Loans receivable, current portion	485,129	380,670
Accounts receivable	155,306	114,096
Deferred charges	279,802	301,326
Prepaid expenses	164,319	112,733
Total current assets	<u>7,069,644</u>	<u>7,887,086</u>
NON-CURRENT ASSETS:		
Investments	427,166	490,968
Designated PILOT trust funds	7,255,335	6,608,778
Loans receivable, less current portion	1,413,122	1,973,489
Land	2,494,398	2,095,140
Improvements in progress	1,127,588	187,256
Depreciable assets, net of accumulated depreciation	<u>30,326,947</u>	<u>29,025,272</u>
Total non-current assets	<u>43,044,556</u>	<u>40,380,903</u>
TOTAL ASSETS	<u><u>\$ 50,114,200</u></u>	<u><u>\$ 48,267,989</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 552,012	\$ 604,322
Other liabilities	(9,055)	35,539
Current portion of capital lease payable	4,904	4,550
Current maturities of long-term debt	966,946	1,818,840
Total current liabilities	<u>1,514,807</u>	<u>2,463,251</u>
LONG-TERM LIABILITIES:		
Accrued interest	3,353,102	3,111,373
Reserves for contingencies	208,951	143,980
Capital lease payable, less current portion	10,495	15,399
Long-term debt, less current portion	<u>17,500,786</u>	<u>17,870,742</u>
Total long-term liabilities	<u>21,073,334</u>	<u>21,141,494</u>
TOTAL LIABILITIES	<u><u>22,588,141</u></u>	<u><u>23,604,745</u></u>
NET ASSETS:		
Invested in capital assets, net of related debt	15,465,802	11,598,138
Unrestricted -		
Board designated	10,007,668	10,696,093
Other unrestricted	<u>2,052,589</u>	<u>2,369,013</u>
Total net assets	<u>27,526,059</u>	<u>24,663,244</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 50,114,200</u></u>	<u><u>\$ 48,267,989</u></u>

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

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

**COMBINED STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS**

For the Years Ended JUNE 30,

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Administrative income	\$ 5,149,916	\$ 7,476,902
Central Business Improvement District Assessment	2,821,787	2,875,447
Development income	(183,597)	22,601
Marketing income	42,785	41,675
Operations income	10,000	11,881
Parking garage management	1,629,165	1,547,030
Total Operating Revenues	<u>9,470,056</u>	<u>11,975,536</u>
OPERATING EXPENSES:		
Salaries and benefits	1,591,575	1,611,517
Advertising	70,022	153,334
Business community relations	12,857	23,046
Conferences and travel	3,820	7,046
Depreciation and amortization	1,514,078	1,222,126
Event production	202,771	203,260
Insurance	93,287	89,938
Office expenses	156,907	165,438
Other personnel expenses	413,517	312,790
Parking garage management fees	554,684	706,053
Planning and development	346,886	590,262
Professional fees	439,448	472,831
Rent expense	318,744	319,205
Repairs and maintenance	112,401	103,558
Loss on disposal of assets	-	2,325
Subscriptions and dues	4,734	8,207
Total Operating Expenses	<u>5,835,731</u>	<u>5,990,936</u>
OPERATING INCOME	<u>3,634,325</u>	<u>5,984,600</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	127,201	83,648
Net increase in the fair value of investments	9,543	16,519
Interest expense	(908,254)	(1,062,852)
Total Non-Operating Revenues (Expenses)	<u>(771,510)</u>	<u>(962,685)</u>
INCREASE IN NET ASSETS	2,862,815	5,021,915
TOTAL NET ASSETS - BEGINNING	<u>24,663,244</u>	<u>19,641,329</u>
TOTAL NET ASSETS - ENDING	<u>\$ 27,526,059</u>	<u>\$ 24,663,244</u>

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

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

COMBINED STATEMENTS OF CASH FLOWS

For the Years Ended JUNE 30,

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 9,493,817	\$ 11,633,494
Cash paid to suppliers for goods and services	(2,887,476)	(3,515,101)
Cash paid to employees for services	<u>(1,591,575)</u>	<u>(1,611,517)</u>
Net Cash Provided By (Used In) Operating Activities	<u>5,014,766</u>	<u>6,506,876</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(4,155,340)	(5,620,089)
Amortization of bond issuance costs	21,524	21,523
Proceeds (payments) on capital lease, net	(4,550)	(4,220)
Debt repayment	(1,212,941)	(1,696,694)
Interest payments	<u>(666,528)</u>	<u>(814,901)</u>
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(6,017,835)</u>	<u>(8,114,381)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash earned on investments	136,743	100,977
Proceeds from sales of investments	554,811	870,940
Purchase of investments	(491,009)	(878,090)
Transfers (to) from designated PILOT trust funds	(646,557)	1,168,686
Loans (made) written-off under Development Loan Program	184,668	(936,621)
Collections on loans receivable	<u>271,240</u>	<u>307,938</u>
Net Cash Provided By (Used In) Investing Activities	<u>9,896</u>	<u>633,830</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(993,173)	(973,675)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6,978,261</u>	<u>7,951,936</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,985,088</u>	<u>\$ 6,978,261</u>
CASH AND CASH EQUIVALENTS, END OF YEAR CONSIST OF:		
Undesignated cash and cash equivalents	\$ 3,232,755	\$ 2,890,946
Designated cash and cash equivalents	<u>2,752,333</u>	<u>4,087,315</u>
TOTAL	<u>\$ 5,985,088</u>	<u>\$ 6,978,261</u>

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

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)

For the Years Ended JUNE 30,

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 3,634,325	\$ 5,984,600
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,514,078	1,222,126
(Increase) decrease in assets:		
Accounts receivables	(41,210)	(29,500)
Prepaid expenses	(51,586)	(20,695)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(52,310)	(368,215)
Other liabilities	(53,502)	28,777
Reserves	64,971	(310,217)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 5,014,766</u>	<u>\$ 6,506,876</u>

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

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended JUNE 30, 2012 and 2011

NOTE 1 – ORGANIZATION

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

- The Downtown Memphis Commission (the "DMC") was formed in January 1977 by the Council of the City of Memphis, Tennessee. Shelby County became a partner in the organization shortly thereafter. During 2012, the Memphis Center City Commission changed the name to Downtown Memphis Commission. The purpose of the DMC is to represent an official partnership between the governments of the City of Memphis and Shelby County, Tennessee and the private business community. The DMC promotes, manages, and coordinates the comprehensive redevelopment of the center city area. The DMC 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 DMC 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 DMC 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 DMC operating expenses over operating revenues, if any.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended JUNE 30, 2012 and 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

The DMC 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.

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 DMC 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 DMC 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 Downtown Memphis 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.

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended JUNE 30, 2012 and 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

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

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

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.

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

	<u>2012</u>	<u>2011</u>
Development Loan Program	\$ 2,116,635	\$ 1,724,905
Parking Garage Debt Service	-	922,390
Parking Garage Capital Reserve	80,369	65,507
Parking Garage Operating Reserve	42,329	42,765
Parking Garage Rental	315,000	315,000
PILOT Trust Funds	7,255,335	7,604,526
Public Improvement Program	198,000	21,000
Total	<u>\$ 10,007,668</u>	<u>\$ 10,696,093</u>

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

	<u>2012</u>	<u>2011</u>
Current Assets	\$ 2,752,333	\$ 4,087,315
Non-current Assets	7,255,335	6,608,778
Total	<u>\$ 10,007,668</u>	<u>\$ 10,696,093</u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended JUNE 30, 2012 and 2011

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

Designated funds consist of the following:

<u>Custodian</u>	<u>Cash Instrument</u>	<u>2012</u>	<u>2011</u>
Deutsche Bank Trust Company Americas	Goldman Sachs Financial Square Treasury Obligations Mutual Funds	\$ 7,255,335	\$ 7,604,526
SunTrust Bank	Business Money Market Accounts	-	923,209
State of Tennessee, Treasury Department	State of Tennessee Local Government Investment Pool	2,405,586	1,944,729
First Tennessee Bank	Fidelity Government Portfolio	346,747	223,629
Total designated funds		<u>\$ 10,007,668</u>	<u>\$ 10,696,093</u>

Undesignated funds consist of the following:

<u>Custodian</u>	<u>Cash Instrument</u>	<u>2012</u>	<u>2011</u>
First Alliance Bank	Checking Account	\$ 57,926	\$ 57,545
State of Tennessee Treasury Department	State of Tennessee Local Government Investment Pool	3,138,582	2,798,496
SunTrust Bank	Checking Account	36,247	34,905
Total undesignated funds		<u>\$ 3,232,755</u>	<u>\$ 2,890,946</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 15th 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, 2012 was made up of four (4) loans. Loans determined to be uncollectible are written off when the debtor no longer exists (e.g. bankrupt, expired, etc.). The DMC does not write the loan off if the individual or entity can have a judgment placed against them that may ultimately be collected.

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended JUNE 30, 2012 and 2011

NOTE 4 – LOANS RECEIVABLE (Continued)

Loans receivable consists of the following:

	Year Ended June 30,	
	2012	2011
Amount due as of year end	\$ 1,989,751	\$ 2,445,659
Less: allowance for doubtful accounts	<u>(91,500)</u>	<u>(91,500)</u>
	1,898,251	2,354,159
Less: current portion of loans receivable	<u>(485,129)</u>	<u>(380,670)</u>
Long-term loans receivable	<u><u>\$ 1,413,122</u></u>	<u><u>\$ 1,973,489</u></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.
- *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 DMC'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 DMC 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.

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended JUNE 30, 2012 and 2011

NOTE 5 – FAIR VALUE MEASUREMENTS (Continued)

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>(Level 1)</u>	<u>(Level 3)</u>
June 30, 2012			
Fixed income bonds	\$ 427,166	\$ 427,166	\$ -
Development loans	1,989,751	-	1,989,751
Total	<u>\$ 2,416,917</u>	<u>\$ 427,166</u>	<u>\$ 1,989,751</u>
June 30, 2011			
Fixed income bonds	\$ 490,968	\$ 490,968	\$ -
Development loans	2,445,659	-	2,445,659
Total	<u>\$ 2,936,627</u>	<u>\$ 490,968</u>	<u>\$ 2,445,659</u>

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.

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

June 30, 2012	
Beginning balance	\$ 2,445,659
Issuances and collections, net	(455,908)
Ending balance	<u>\$ 1,989,751</u>
June 30, 2011	
Beginning balance	\$ 1,825,196
Issuances and collections, net	620,463
Ending balance	<u>\$ 2,445,659</u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended JUNE 30, 2012 and 2011

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 DMC 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 DMC has the ability and generally has the intention to hold all investments until their respective maturity dates. The average maturity of the DMC's pooled cash and investments as of June 30, 2012, was approximately 12 months. If it becomes necessary or strategically prudent for the DMC to sell a security prior to maturity, the DMC'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 DMC'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:

	Carrying Amount	
	2012	2011
FHLB, 2.050%, due August 10, 2012	-	25,045
FNMA, 1.150 %, due August 26, 2013	-	100,112
FNMA, 1.375%, due January 13, 2014	-	25,121
FHLB, 1.000%, due June 27, 2014	-	74,917
FNMA, 1.020%, due August 8, 2014	75,054	-
FNMA, 0.625%, due August 28, 2014	100,059	-
FNMA, 0.825%, due December 23, 2014	30,100	-
Total	\$ 205,213	\$ 225,195

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended JUNE 30, 2012 and 2011

NOTE 6 – INVESTMENTS (Continued)

As of June 30, 2012, the DMC had total undesignated fixed income investments of \$427,166, with credit rating and maturities as follows:

Type of Investments	Credit Rating	Maturity				Carrying Value
		Under 30 Days	31-180 Days	181-365 Days	1-5 Years	
FNMA	Aaa	\$ -	\$ -	\$ -	\$ 205,213	\$ 205,213
Corporate	Aa3	-	49,531	-	-	49,531
Corporate	A2	-	10,099	41,016	10,008	61,123
Corporate	A3	10,000	50,628	30,672	9,999	101,299
Corporate	NR	10,000	-	-	-	10,000
		<u>\$ 20,000</u>	<u>\$ 110,258</u>	<u>\$ 71,688</u>	<u>\$ 225,220</u>	<u>\$ 427,166</u>

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

Type of Investments	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	A1	40,948	-	-	-	40,948
Corporate	A2	120,773	-	-	-	120,773
Corporate	A3	82,925	-	-	-	82,925
Corporate	Baa1	10,519	-	-	-	10,519
		<u>\$ 465,847</u>	<u>\$ 25,121</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 490,968</u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended JUNE 30, 2012 and 2011

NOTE 6 – INVESTMENTS (Continued)

The Development Loan Program undesignated investments as of June 30, 2012 and 2011 are carried at fair value and include the following investments:

	Carrying Amount	
	2012	2011
FHLB, 2.050 %, due August 10, 2012	\$ -	\$ 25,045
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
FNMA, 1.020%, due August 8, 2014	75,055	-
FNMA, 0.650%, due August 28, 2014	100,059	-
FNMA, 0.825%, due December 23, 2014	30,100	-
General Dynamics Corp., 1.800%, due July 15, 2011	-	10,005
McCormick & Co., 5.800%, due July 15, 2011	-	10,015
BB & T Corporaton, 3.100%, due July 28, 2011	-	10,017
George Washington Uni, 1.650%, due September 15, 2011	-	10,015
BellSouth Corporation, 6.000%, due October 15, 2011	-	15,228
MetLife Inc., 6.125%, due December 1, 2011	-	10,224
Goldman Sachs, 6.600%, due January 15, 2012	-	10,309
Chugach Electric, 6.200%, due 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
Pfizer, Inc., 4.450%, March 15, 2012	-	10,285
Praxair, Inc., 6.375%, due April 1, 2012	-	10,439
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
M & T Bank Corp., 5.375%, due May 24, 2012	-	10,410
Alltell Corp., 7.000%, due July 1, 2012	10,000	10,608
Science Applications, 6.250 %, due July 1, 2012	10,000	10,495
Southern Power, 6.250 %, due July 15, 2012	-	10,519
Key Bank NA MTN, 5.500%, due September 17, 2012	10,091	-
Pitney Bowes, Inc., 4.625%, due October 1, 2012	10,099	10,403
Citigroup, Inc., 5.300%, due October 17, 2012	10,125	10,495
Cooper US, Inc., 5.250%, due November 15, 2012	10,165	-
MetLife Inc., 5.375%, due December 15, 2012	10,197	-
Thermo Fisher Scientific, 2.150%, December 28, 2012	10,049	10,184
John Deere Capital Corp., 5.100%, due January 15, 2013	10,251	-
Amvescap PLC, 5.375%, due February 27, 2013	10,261	-
Avon Products, Inc., 4.800%, due March 1, 2013	10,128	10,563
Du Pont Nemours MTN, 4.125%, due March 6, 2013	10,233	10,538
Caterpillar Finl MTN, 2.000%, due April 5, 2013	10,114	-
Citigroup, Inc., 5.500%, due April 11, 2013	10,283	-
American Express MTN, 5.875%, due May 2, 2013	10,417	10,765
Denver City Co Etm, 0.000%, due December 15, 2013	49,532	-
Citigroup, Inc., 2.650%, due March 2, 2015	9,999	-
Wells Fargo MTN, 1.500%, due July 1, 2015	10,008	-
Total	<u>\$ 427,166</u>	<u>\$ 490,968</u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended JUNE 30, 2012 and 2011

NOTE 7 – CAPITAL ASSETS, NET

Capital assets, as of June 30, 2012, consisted of the following:

	Beginning Balance	Additions	Transfers and Retirements	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 2,095,140	\$ 399,258	\$ -	\$ 2,494,398
Constuction in progress	187,256	1,089,877	(149,545)	1,127,588
Total nondepreciable capital assets	<u>2,282,396</u>	<u>1,489,135</u>	<u>(149,545)</u>	<u>3,621,986</u>
Depreciable Capital Assets:				
Building	30,056,232	2,507,476	149,545	32,713,253
Streetscape improvements	5,190,487	-	-	5,190,487
Leasehold improvements	1,051,012	55,570	-	1,106,582
Furniture and equipment	524,127	103,162	-	627,289
Total depreciable capital assets	<u>36,821,858</u>	<u>2,666,208</u>	<u>149,545</u>	<u>39,637,611</u>
Accumulated depreciation:				
Building	(5,564,679)	(684,349)	-	(6,249,028)
Streetscape improvements	(1,503,680)	(917,818)	-	(2,421,498)
Leasehold improvements	(352,820)	93,392	-	(259,428)
Furniture and equipment	(375,407)	(5,303)	-	(380,710)
Total accumulated depreciation	<u>(7,796,586)</u>	<u>(1,514,078)</u>	<u>-</u>	<u>(9,310,664)</u>
Total Depreciable Capital Assets, net	<u>29,025,272</u>	<u>1,152,130</u>	<u>149,545</u>	<u>30,326,947</u>
Intangible asset:				
Internet domain name	13,000	-	-	13,000
Amortization:				
Internet domain name	(13,000)	-	-	(13,000)
Intangible asset, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets, net	<u>\$ 31,307,668</u>	<u>\$ 2,641,265</u>	<u>\$ -</u>	<u>\$ 33,948,933</u>

Depreciation expense was \$1,514,078 for the year ended June 30, 2012.

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended JUNE 30, 2012 and 2011

NOTE 7 – CAPITAL ASSETS, NET (Continued)

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

	Beginning Balance	Additions	Transfers and Retirements	Ending Balance
Nondepreciable Capital Assets:				
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>
Depreciable Capital Assets:				
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>
Accumulated depreciation:				
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>
Total Depreciable Capital Assets, net	<u>17,264,819</u>	<u>4,346,836</u>	<u>7,413,617</u>	<u>29,025,272</u>
Intangible asset:				
Internet domain name	13,000	-	-	13,000
Amortization:				
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>
Total Capital Assets, net	<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.

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended JUNE 30, 2012 and 2011

NOTE 8 – LONG-TERM DEBT

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

	<u>2012</u>	<u>2011</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 \$54,688 for 2012 and \$58,895 for 2011 has been applied to the note balance in order to show it at present value.</p>	\$ 7,877,897	\$ 8,282,847
<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. The bond was paid in full on December 5, 2011.</p>	-	3,367,943

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended JUNE 30, 2012 and 2011

NOTE 8 – LONG-TERM DEBT (Continued)

	<u>2012</u>	<u>2011</u>
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.	5,120,000 *	5,120,000 *
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.	2,005,000	2,360,000
4.46% note payable to Bank of Tennessee for purchase of the First Parking Garage by the Downtown Parking Authority. Payments of principal and interest of \$18,757 are due monthly, maturing June 5, 2032.	2,975,000	-
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.	489,835	558,792
	<u>18,467,732</u>	<u>19,689,582</u>
Less: current portion	<u>(966,946)</u>	<u>(1,818,840)</u>
Total Long-term debt	<u>\$ 17,500,786</u>	<u>\$ 17,870,742</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, 2012 and 2011, the accrued interest payable is \$3,339,736 and \$3,081,176, respectively, and is included in Long-Term Liabilities in the accompanying Combined Statement of Financial Position.

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended JUNE 30, 2012 and 2011

NOTE 8 – LONG-TERM DEBT (Continued)

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

	<u>2012</u>	<u>2011</u>
Year Ending June 30,		
2012	\$ -	\$ 1,818,840
2013	966,946	966,946
2014	2,025,391	2,006,634
2015	1,233,593	1,214,836
2016	1,176,857	1,158,100
2017	781,463	762,706
Thereafter	<u>12,338,170</u>	<u>11,883,415</u>
	18,522,420	19,811,477
Less: discount to present value	(54,688)	(58,895)
Less: current portion	<u>(966,946)</u>	<u>(1,881,840)</u>
Total long-term debt	<u><u>\$ 17,500,786</u></u>	<u><u>\$ 17,870,742</u></u>

NOTE 9 – LEASES

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.

The DMC 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.

Minimum future lease payments under capital leases having remaining terms in excess of one year are as follows:

	<u>2012</u>	<u>2011</u>
Year Ending June 30,		
2012	\$ -	\$ 4,550
2013	4,904	4,904
2014	5,469	5,469
2015	<u>5,026</u>	<u>5,025</u>
Total minimum future rental payments	<u><u>\$ 15,399</u></u>	<u><u>\$ 19,948</u></u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended JUNE 30, 2012 and 2011

NOTE 10 – RETIREMENT PLAN

On July 31, 1987, the DMC established a defined contribution retirement plan for all salaried employees, effective August 1, 1986. The DMC 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, 2012 and 2011 were \$61,361 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.

NOTE 12 – RISK MANAGEMENT

The DMC 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 DMC'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 four 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:

Net operating loss carry forward	\$	-	\$	2,397
Unused investment tax credit		188,155		193,587
Property and equipment		(17,652)		(25,795)
Valuation allowance		(170,503)		(170,189)
Total	\$	-	\$	-

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended JUNE 30, 2012 and 2011

NOTE 14 – RESERVES FOR CONTINGENCIES

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

	June 30,	
	2012	2011
Operating reserve	\$ 42,329	\$ 27,765
Capital Reserve	80,369	65,272
Potential refunds of Central Business Improvement District assessments resulting from property revaluations	86,253	50,943
Total	<u>\$ 208,951</u>	<u>\$ 143,980</u>

FINANCIAL STATEMENTS - COMBINING

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

COMBINING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012

	Downtown Memphis Commission	Memphis Center City Development Corporation	Memphis Center City Revenue Finance Corporation	Crump Building, Inc.	Downtown Parking Authority	Total
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 870,719	\$ 1,366,215	\$ -	\$ -	\$ 995,821	\$ 3,232,755
Designated cash and cash equivalents	-	724,645	-	-	2,027,688	2,752,333
Loans receivable, current portion	-	485,129	-	-	-	485,129
Accounts receivable	26,122	-	-	-	129,184	155,306
Deferred charges	-	-	-	-	279,802	279,802
Prepaid expenses	18,350	-	92,721	-	53,248	164,319
Total current assets	<u>915,191</u>	<u>2,575,989</u>	<u>92,721</u>	<u>-</u>	<u>3,485,743</u>	<u>7,069,644</u>
NON-CURRENT ASSETS:						
Investments	-	427,166	-	-	-	427,166
Designated PILOT trust funds	-	-	7,255,335	-	-	7,255,335
Loans receivable, less current portion	-	1,413,122	-	-	-	1,413,122
Land	-	-	-	-	2,494,398	2,494,398
Improvements in progress	-	-	-	-	1,127,588	1,127,588
Depreciable assets, net of accumulated depreciation	3,679,999	504,411	-	365,170	25,777,367	30,326,947
Total non-current assets	<u>3,679,999</u>	<u>2,344,699</u>	<u>7,255,335</u>	<u>365,170</u>	<u>29,399,353</u>	<u>43,044,556</u>
TOTAL ASSETS	<u>\$ 4,595,190</u>	<u>\$ 4,920,688</u>	<u>\$ 7,348,056</u>	<u>\$ 365,170</u>	<u>\$ 32,885,096</u>	<u>\$ 50,114,200</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES:						
Accounts payable and accrued expenses	\$ 67,604	\$ 17,179	\$ 28,615	\$ -	\$ 438,614	\$ 552,012
Other liabilities	12,554	500	-	-	(22,109)	(9,055)
Current portion of capital lease payable	4,904	-	-	-	-	4,904
Current maturities of long-term debt	370,000	-	-	72,633	524,313	966,946
Total current liabilities	<u>455,062</u>	<u>17,679</u>	<u>28,615</u>	<u>72,633</u>	<u>940,818</u>	<u>1,514,807</u>
LONG-TERM LIABILITIES:						
Accrued interest	13,367	-	-	-	3,339,735	3,353,102
Reserves for contingencies	86,253	-	-	-	122,698	208,951
Capital lease payable, less current portion	10,495	-	-	-	-	10,495
Long-term debt, less current portion	1,635,000	-	-	417,202	15,448,584	17,500,786
Total long-term liabilities	<u>1,745,115</u>	<u>-</u>	<u>-</u>	<u>417,202</u>	<u>18,911,017</u>	<u>21,073,334</u>
TOTAL LIABILITIES	<u>2,200,177</u>	<u>17,679</u>	<u>28,615</u>	<u>489,835</u>	<u>19,851,835</u>	<u>22,588,141</u>
NET ASSETS:						
Invested in capital assets, net of related debt	1,659,600	504,411	-	(124,665)	13,426,456	15,465,802
Unrestricted -						
Board designated	-	724,645	7,255,335	-	2,027,688	10,007,668
Other unrestricted	735,413	3,673,953	64,106	-	(2,420,883)	2,052,589
Total net assets	<u>2,395,013</u>	<u>4,903,009</u>	<u>7,319,441</u>	<u>(124,665)</u>	<u>13,033,261</u>	<u>27,526,059</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,595,190</u>	<u>\$ 4,920,688</u>	<u>\$ 7,348,056</u>	<u>\$ 365,170</u>	<u>\$ 32,885,096</u>	<u>\$ 50,114,200</u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

COMBINING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2011

	Downtown Memphis Commission	Memphis Center City Development Corporation	Memphis Center City Revenue Finance Corporation	Crump Building, Inc.	Downtown Parking Authority	Total
ASSETS						
CURRENT ASSETS:						
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
Total current assets	<u>640,234</u>	<u>1,721,108</u>	<u>49,370</u>	<u>-</u>	<u>5,476,374</u>	<u>7,887,086</u>
NON-CURRENT ASSETS:						
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
Total non-current assets	<u>4,072,422</u>	<u>3,020,103</u>	<u>6,608,778</u>	<u>428,830</u>	<u>26,250,770</u>	<u>40,380,903</u>
TOTAL ASSETS	<u>\$ 4,712,656</u>	<u>\$ 4,741,211</u>	<u>\$ 6,658,148</u>	<u>\$ 428,830</u>	<u>\$ 31,727,144</u>	<u>\$ 48,267,989</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES:						
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
Total current liabilities	<u>492,902</u>	<u>6,504</u>	<u>37,401</u>	<u>68,840</u>	<u>1,857,604</u>	<u>2,463,251</u>
LONG-TERM LIABILITIES:						
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
Total long-term liabilities	<u>2,087,075</u>	<u>-</u>	<u>-</u>	<u>489,952</u>	<u>18,564,467</u>	<u>21,141,494</u>
TOTAL LIABILITIES	<u>2,579,977</u>	<u>6,504</u>	<u>37,401</u>	<u>558,792</u>	<u>20,422,071</u>	<u>23,604,745</u>
NET ASSETS:						
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	-	(1,517,197)	2,369,013
Total net assets	<u>2,132,679</u>	<u>4,734,707</u>	<u>6,620,747</u>	<u>(129,962)</u>	<u>11,305,073</u>	<u>24,663,244</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,712,656</u>	<u>\$ 4,741,211</u>	<u>\$ 6,658,148</u>	<u>\$ 428,830</u>	<u>\$ 31,727,144</u>	<u>\$ 48,267,989</u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

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

For the Year Ended JUNE 30, 2012

	Downtown Memphis Commission	Memphis Center City Development Corporation	Memphis Center City Revenue Finance Corporation	Crump Building, Inc.	Downtown Parking Authority	Elimination	Total
OPERATING REVENUES:							
Administrative income	\$ -	\$ -	\$ 5,149,916	\$ -	\$ -	\$ -	\$ 5,149,916
CBID assessment	2,821,787	-	-	-	-	-	2,821,787
Development income	-	(183,597)	-	-	-	-	(183,597)
Marketing income	42,785	-	-	-	-	-	42,785
Operations income	10,000	-	-	-	-	-	10,000
Parking garage management	-	-	-	-	1,629,165	-	1,629,165
Real estate income	-	-	-	112,440	-	(112,440)	-
Total Operating Revenues	2,874,572	(183,597)	5,149,916	112,440	1,629,165	(112,440)	9,470,056
OPERATING EXPENSES:							
Salaries and benefits	\$ 1,591,575	\$ -	\$ -	\$ -	\$ -	\$ -	1,591,575
Advertising	60,476	-	-	-	9,546	-	70,022
Business community relations	11,440	400	417	-	600	-	12,857
Conferences and travel	3,820	-	-	-	-	-	3,820
Depreciation and amortization	429,169	40,335	-	63,660	980,914	-	1,514,078
Event production	202,771	-	-	-	-	-	202,771
Insurance	27,451	-	-	-	65,836	-	93,287
Office expenses	156,471	-	-	-	436	-	156,907
Other personnel expenses	188,669	-	-	-	224,848	-	413,517
Parking garage management fees	-	-	-	-	554,684	-	554,684
Planning and development	73,213	273,673	-	-	-	-	346,886
Professional fees	116,448	74,264	153,815	3,015	91,906	-	439,448
Rent expense	116,184	-	-	-	315,000	(112,440)	318,744
Repairs and maintenance	106,991	-	-	-	5,410	-	112,401
Subscriptions and dues	4,734	-	-	-	-	-	4,734
Total Operating Expenses	3,089,412	388,672	154,232	66,675	2,249,180	(112,440)	5,835,731
OPERATING INCOME (LOSS)	(214,840)	(572,269)	4,995,684	45,765	(620,015)	-	3,634,325
NON-OPERATING REVENUE (EXPENSES):							
Interest income	1,773	63,373	-	-	62,055	-	127,201
Net increase (decrease) in the fair value of investments	-	9,543	-	-	-	-	9,543
Interest expense	(86,282)	-	-	(28,827)	(793,145)	-	(908,254)
Net transfers in (out)	561,684	667,653	(4,296,990)	(11,641)	3,079,294	-	-
Total Non-Operating Revenues (Expenses)	477,175	740,569	(4,296,990)	(40,468)	2,348,204	-	(771,510)
CHANGE IN NET ASSETS	262,335	168,300	698,694	5,297	1,728,189	-	2,862,815
TOTAL NET ASSETS - BEGINNING	2,132,678	4,734,709	6,620,747	(129,962)	11,305,072	-	24,663,244
TOTAL NET ASSETS - ENDING	\$ 2,395,013	\$ 4,903,009	\$ 7,319,441	\$ (124,665)	\$ 13,033,261	\$ -	\$ 27,526,059

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

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

For the Year Ended JUNE 30, 2011

	Downtown Memphis Commission	Memphis Center City Development Corporation	Memphis Center City Revenue Finance Corporation	Crump Building, Inc.	Downtown Parking Authority	Elimination	Total
OPERATING REVENUES:							
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
OPERATING EXPENSES:							
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
Search and relocation expenses	-	-	-	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
NON-OPERATING REVENUE (EXPENSES):							
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	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



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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**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Downtown Memphis Commission and Related Entities
Memphis, Tennessee

We have audited the combined financial statements of the Downtown Memphis Commission and Related Entities (the "DMC"), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the DMC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the DMC'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 DMC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the DMC'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 DMC'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 DMC'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*.

This report is intended for the information and use of the audit committee, management, others within the DMC, 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 cursive script that reads "Borcola Kaplan, PLLC".

Germantown, Tennessee
December 11, 2012

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

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

JUNE 30, 2012

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.