

**DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES
COMBINED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2014**

TABLE OF CONTENTS

	PAGE
GOVERNANCE OFFICIALS	3
INDEPENDENT AUDITOR'S REPORT	4
MANAGEMENT'S DISCUSSION AND ANALYSIS	7
COMBINED FINANCIAL STATEMENTS	
Combined Statements of Net Position	15
Combined Statements of Activities	16
Combined Statements of Cash Flows	17
NOTES TO COMBINED FINANCIAL STATEMENTS	19
SUPPLEMENTARY INFORMATION	
<i>Financial Statements - Combining</i>	
Combining Statement of Net Position	37
Combining Statement of Activities	39
NON-FINANCIAL INFORMATION	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	42
Independent Auditors' General Comments and Other Supporting Data	44

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

GOVERNANCE OFFICIALS

As of JUNE 30, 2014

DOWNTOWN MEMPHIS CITY COMMISSION BOARD OF DIRECTORS

Ernest Strickland, Chairman
Bob Lundy, Vice Chairman

Sharon Leicham, Secretary
Al Lyons, Treasurer

Bill Boyd,
City Council Liaison

Barbara Cooper,
State Representative

Steve Basar
County Commissioner

Edmund Ford
City Councilman

Terry Woodard
George Little

Carl Person
Bobbi Gillis

Rick Copeland
Isaac Northern

Megan Arthur

George Shadroui

CENTER CITY REVENUE FINANCE CORPORATION

Luke Yancy, IV, Chairman
Walter Person, Treasurer

Carl Peacher-Ryan, Vice Chair
Marija Sokolov, Secretary

Sean Norris

Robert Spence, Jr.

Dana Burkett

Martin Truitt

Brandy Johnson-Ward

CENTER CITY DEVELOPMENT CORPORATION

Chairman Eric Mathews

Terence Patterson, Vice Chairman

Andre Jones, Secretary

Ernest Strickland

Tanja Mitchell

Bob Lundy

Melvin Jones

Sharon Leicham

DESIGN REVIEW BOARD

David Schuermann, Chairman

Ray Brown, Vice Chair

William Denton, Secretary

Rebecca Conrad

Carl Person

Greg Price

Nancy Jane Baker

Suhair Luack

DOWNTOWN PARKING AUTHORITY

Odell Horton, Chairman
Brandon Bryant, Vice Chairman

Mary Sharp, Secretary
Rick Wagers, Treasurer

C. Farris DeBoard

Graham Askew

Donnell Cobbins

ADMINISTRATIVE OFFICIALS

Paul H. Morris, President, CEO

Jim Street, VP Administration & Finance, CFO



CERTIFIED PUBLIC ACCOUNTANTS
ATRIUM 1, 6800 POPLAR AVE., STE. 210
GERMANTOWN, TENNESSEE 38138
(901) 523-8283 (901) 523-8287 FAX
www.zkcpas.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying combined financial statements of the Downtown Memphis Commission and Related Entities (the "DMC"), which comprise the statement of net position as of June 30, 2014, and the related statements of activities and cash flows for the period then ended and the related notes to the financial statements, which collectively comprise the DMC's combined financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinions

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective combined financial position of the DMC as of June 30, 2014, and the respective changes in net position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the combined financial statements that collectively comprise the DMC's basic combined financial statements. The governance schedule and the combining financial statements are presented for purposes of additional analysis and are not a required part of the basic combined financial statements.

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated, in all material respects, in relation to the basic combined financial statements as a whole. The governance schedule has not been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

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

Report on Summarized Comparative Information

We have previously audited DMC's 2013 combined financial statements and our report expressed an unmodified opinion on those audited combined financial statements. In our opinion, the selected, summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Zoraida Kaplan, PLLC

Germantown, Tennessee
November 17, 2014

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended JUNE 30, 2014

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, 2014. Please read it in conjunction with the DMC and Related Entities Financial Statements, which begin on page 15.

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 \$34,603,366 - an increase from the prior fiscal year of \$3,749,989 - or 11%.

DURING THE YEAR

- The organizations' total assets increased by \$2,934,346 or 6%.
- Current assets increased by \$939,685 or 11%.
- Current liabilities increased by \$11,545 or 1%.
- The total liabilities decreased by \$815,643 or 4%.
- Operating revenue increased by \$49,875 or <1%.
- Operating expense decreased by \$304,382 or 4%.

THE ANNUAL REPORT

This annual report consists of a series of financial statements. The Combined Statements of Net Position, Combined Statements of Activities, and the combined statement of 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 Net Position and Combined Statements of Activities 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, 2014 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, 2014

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 Net Position as of June 30, 2014

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Current assets	\$ 9,802,488	\$ 8,862,803	\$ 939,685
Other assets	45,835,086	43,840,425	1,994,661
Total assets	<u>\$ 55,637,574</u>	<u>\$ 52,703,228</u>	<u>\$ 2,934,346</u>
Current liabilities	\$ 1,506,061	\$ 1,494,516	\$ 11,545
Long-term liabilities	19,528,147	20,355,335	(827,188)
Total liabilities	<u>21,034,208</u>	<u>21,849,851</u>	<u>(815,643)</u>
Net position:			
Net investments in capital assets	14,892,293	15,177,766	(285,473)
Unrestricted	19,711,073	15,675,611	4,035,462
Total net position	<u>34,603,366</u>	<u>30,853,377</u>	<u>3,749,989</u>
Total liabilities and net position	<u>\$ 55,637,574</u>	<u>\$ 52,703,228</u>	<u>\$ 2,934,346</u>

Current assets increased from the prior year for the Downtown Memphis Commission in cash and cash equivalents related to operating cash held at year end and an increase in the cash reserve held. Accounts receivable also increased from the reimbursement due the DMC from Beale Street operations. Current assets increased for Center City Development Corporation as funds received from Center City Revenue Finance Corporation exceeded expenditures for new development and loan repayment exceeded new loans during the year. Downtown Parking Authority cash on hand increased from positive cash flow for garage operations.

Other assets increased due to increased Pilot Extension Fund revenue for CCRFC offset by reductions from the depreciation of fixed assets.

Current liabilities increased slightly for all entities in current maturities of long term debt and accounts payable.

Long term liabilities decreased due to debt repayments during the year, offset slightly by an increase in accrued interest due the City of Memphis by the Parking Authority for the 250 Peabody Place Garage.

Net assets increased for all entities except the DPA. The major increase was for CCRFC related to the Pilot Extension Fund.

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

For the Year Ended JUNE 30, 2014

FINANCIAL ANALYSIS (Continued)

Combined and Condensed Statements of Net Position as of June 30, 2013

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Current assets	\$ 8,862,803	\$ 7,069,644	\$ 1,793,159
Other assets	43,840,425	43,044,556	795,869
Total assets	<u>\$ 52,703,228</u>	<u>\$ 50,114,200</u>	<u>\$ 2,589,028</u>
Current liabilities	\$ 1,494,516	\$ 1,514,807	\$ (20,291)
Long-term liabilities	20,355,335	21,073,334	(717,999)
Total Liabilities	<u>21,849,851</u>	<u>22,588,141</u>	<u>(738,290)</u>
Net position:			
Net investments in capital assets	15,177,766	15,465,802	(288,036)
Unrestricted	15,675,611	12,060,257	3,615,354
Total net position	<u>30,853,377</u>	<u>27,526,059</u>	<u>3,327,318</u>
Total liabilities and net position	<u>\$ 52,703,228</u>	<u>\$ 50,114,200</u>	<u>\$ 2,589,028</u>

DMC's cash and cash equivalents increased slightly from 2012. Current assets increased for the Center City Development Corporation due to a \$2,000,000 grant received from the City of Memphis for blight remediation on the Chisca Hotel redevelopment project. However, Downtown Parking Authority's current assets decreased related to expenditures for improvements at the Commerce Square Garage and the Front Street Garage.

For the second consecutive year, other assets decreased for all entities, except Center City Revenue and Finance Corporation, due to depreciation of assets. Center City Revenue and Finance Corporation increased in the Pilot Extension Fund.

Current liabilities decreased in total primarily related to increases in current maturities of long-term debt for the Downtown Parking Authority and the DMC, offset by reductions in accounts payable for the DMC, Center City Development Corporation and the Downtown Parking Authority. Long-term liabilities decreased for the second year in a row related to debt repayment for the DMC, Crump Building and Downtown Parking Authority.

Net position invested in capital assets decreased due to depreciation of existing assets and no major new acquisitions. Unrestricted net position increased primarily related to the Pilot Extension Fund held by Center City Revenue and Finance Corporation.

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

For the Year Ended JUNE 30, 2014

FINANCIAL ANALYSIS (Continued)

Combined Statements of Activities as of June 30, 2014

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
OPERATING REVENUE			
Administrative income	\$ 5,783,190	\$ 4,352,811	\$ 1,430,379
Central Business Improvement District			
Assessment	3,112,375	2,662,183	450,192
Development income	5,290	9,907	(4,617)
Marketing income	7,723	9,400	(1,677)
Operations income	344,833	2,033,241	(1,688,408)
Parking Management	2,107,701	2,243,695	(135,994)
Total Operating Revenues	<u>11,361,112</u>	<u>11,311,237</u>	<u>49,875</u>
OPERATING EXPENSES			
Salaries and benefits	1,532,066	1,583,709	(51,643)
Advertising	98,170	45,714	52,456
Business community relations	621,079	963,212	(342,133)
Conferences and travel	3,830	1,160	2,670
Depreciation and amortization	1,553,165	1,528,424	24,741
Event production	123,184	137,665	(14,481)
Insurance	113,331	110,580	2,751
Office expenses	157,439	143,594	13,845
Other personnel expense	444,547	449,052	(4,505)
Parking garage management fees	817,908	995,429	(177,521)
Planning and development	246,392	226,166	20,226
Professional fees	635,475	494,272	141,203
Rent expense	319,245	318,523	722
Repairs and maintenance	198,876	171,688	27,188
Subscriptions and dues	7,049	6,950	99
Total Operating Expenses	<u>6,871,756</u>	<u>7,176,138</u>	<u>(304,382)</u>
OPERATING INCOME	<u>4,489,356</u>	<u>4,135,099</u>	<u>354,257</u>
NON-OPERATING REVENUE (EXPENSE)			
Interest income	134,228	110,584	23,644
Interest expense	(873,595)	(918,365)	44,770
Total Non-Operating Revenues (Expenses)	<u>(739,367)</u>	<u>(807,781)</u>	<u>68,414</u>
CHANGES IN NET POSITION	3,749,989	3,327,318	422,671
TOTAL NET POSITION - BEGINNING	<u>30,853,377</u>	<u>27,526,059</u>	<u>3,327,318</u>
TOTAL NET POSITION - ENDING	<u>\$ 34,603,366</u>	<u>\$ 30,853,377</u>	<u>\$ 3,749,989</u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

For the Year Ended JUNE 30, 2014

FINANCIAL ANALYSIS (*Continued*)

Operating revenue remained essentially the same for 2014 however the mix changed. Pilot Extension Fund revenue increased for CCRFC while CCDC revenue decreased because of the non-recurring grant received in 2013.

Operating expense decrease related to lower grant expenditures by CCRFC for the Main2Main Project for 2014 and lower operating expenses and maintenance for the parking garages.

Non-operating revenue/expense saw increased interest income for CCDC and reduced interest expense for all entities.

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

For the Year Ended JUNE 30, 2014

FINANCIAL ANALYSIS (Continued)

Combined Statements of Activities as of June 30, 2013

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
OPERATING REVENUES:			
Administrative income	\$ 4,352,811	\$ 5,149,916	\$ (797,105)
Central Business Improvement District Assessment	2,662,183	2,821,787	(159,604)
Development income	9,907	(183,597)	193,504
Marketing income	9,400	42,785	(33,385)
Operations income	2,033,241	10,000	2,023,241
Parking garage management	<u>2,243,695</u>	<u>1,629,165</u>	<u>614,530</u>
Total Operating Revenues	<u>11,311,237</u>	<u>9,470,056</u>	<u>1,841,181</u>
OPERATING EXPENSES:			
Salaries and benefits	1,583,709	1,591,575	(7,866)
Advertising	45,714	70,022	(24,308)
Business community relations	963,212	12,857	950,355
Conferences and travel	1,160	3,820	(2,660)
Depreciation and amortization	1,528,424	1,514,078	14,346
Event production	137,665	202,771	(65,106)
Insurance	110,580	93,287	17,293
Office expenses	143,594	156,907	(13,313)
Other personnel expenses	449,052	413,517	35,535
Parking garage management fees	995,429	554,684	440,745
Planning and development	226,166	346,886	(120,720)
Professional fees	494,272	439,448	54,824
Rent expense	318,523	318,744	(221)
Repairs and maintenance	171,688	112,401	59,287
Subscriptions and dues	<u>6,950</u>	<u>4,734</u>	<u>2,216</u>
Total Operating Expenses	<u>7,176,138</u>	<u>5,835,731</u>	<u>1,340,407</u>
OPERATING INCOME	<u>4,135,099</u>	<u>3,634,325</u>	<u>500,774</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest income	110,584	127,201	(16,617)
Net increase in the fair value of investments	-	9,543	(9,543)
Interest expense	<u>(918,365)</u>	<u>(908,254)</u>	<u>(10,111)</u>
Total Non-Operating Revenues (Expenses)	<u>(807,781)</u>	<u>(771,510)</u>	<u>(36,271)</u>
CHANGE IN NET POSITION	3,327,318	2,862,815	464,503
TOTAL NET POSITION - BEGINNING	<u>27,526,059</u>	<u>24,663,244</u>	<u>2,862,815</u>
TOTAL NET POSITION - ENDING	<u>\$ 30,853,377</u>	<u>\$ 27,526,059</u>	<u>\$ 3,327,318</u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

For the Year Ended JUNE 30, 2014

FINANCIAL ANALYSIS (*Continued*)

Operating revenue increased in 2013 primarily due to the grant of \$2,000,000 to the Memphis Center City Development Corporation from the City of Memphis for the renovation of the Chisca Hotel building on South Main Street and increased parking revenue due to the acquisition of the parking garage on Second Street. Operating revenue decreased at the DMC in the CBID assessments received and at the Center City Revenue and Finance Corporation due to less project fees collected for the Pilot Program.

Operating expenses increased at the Center City Revenue and Finance Corporation for grants paid for the Main2Main project to improve Main Street, and at the Parking Authority from the addition of the Second Street Parking Garage.

Non-operating revenue/expense changes were related to decreases in interest income, net decreases in fair value of investments and increased interest expense.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the DMC 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
114 N. Main Street
Memphis, TN 38103
E-mail: street@downtownmemphis.com

COMBINED FINANCIAL STATEMENTS

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

COMBINED STATEMENTS OF NET POSITION

JUNE 30,

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,956,002	\$ 4,960,631
Designated cash and cash equivalents	2,870,465	2,882,813
Loans receivable, current portion	461,723	440,990
Accounts receivable	220,811	156,954
Deferred charges	236,756	258,279
Prepaid expenses	<u>56,731</u>	<u>163,136</u>
Total current assets	<u>9,802,488</u>	<u>8,862,803</u>
NON-CURRENT ASSETS:		
Investments	638,125	542,017
Designated PILOT trust funds	12,664,987	9,314,499
Loans receivable, less current portion	1,139,491	1,292,685
Land	2,668,522	2,494,398
Depreciable assets, net of accumulated depreciation	<u>28,723,961</u>	<u>30,196,826</u>
Total non-current assets	<u>45,835,086</u>	<u>43,840,425</u>
TOTAL ASSETS	<u>55,637,574</u>	<u>52,703,228</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:		
Accounts payable and accrued expenses	427,619	467,610
Other liabilities	9,793	7,993
Current portion of capital lease payable	5,208	5,287
Current maturities of long-term debt	<u>1,063,441</u>	<u>1,013,626</u>
Total current liabilities	<u>1,506,061</u>	<u>1,494,516</u>
LONG-TERM LIABILITIES:		
Accrued interest	3,865,189	3,609,196
Reserves for contingencies	231,417	251,593
Capital lease payable, less current portion	-	5,208
Long-term debt, less current portion	<u>15,431,541</u>	<u>16,489,338</u>
Total long-term liabilities	<u>19,528,147</u>	<u>20,355,335</u>
TOTAL LIABILITIES	<u>21,034,208</u>	<u>21,849,851</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
NET POSITION:		
Net investment in capital assets	14,892,293	15,177,766
Unrestricted	<u>19,711,073</u>	<u>15,675,611</u>
TOTAL NET POSITION	<u>\$ 34,603,366</u>	<u>\$ 30,853,377</u>

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

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

COMBINED STATEMENTS OF ACTIVITIES

For the Years Ended JUNE 30,

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES:		
Administrative income	\$ 5,783,190	\$ 4,352,811
Central Business Improvement District Assessment	3,112,375	2,662,183
Development income	5,290	9,907
Marketing income	7,723	9,400
Operations income	344,833	2,033,241
Parking garage management	<u>2,107,701</u>	<u>2,243,695</u>
Total Operating Revenues	<u>11,361,112</u>	<u>11,311,237</u>
OPERATING EXPENSES:		
Salaries and benefits	1,532,066	1,583,709
Advertising	98,170	45,714
Business community relations	621,079	963,212
Conferences and travel	3,830	1,160
Depreciation and amortization	1,553,165	1,528,424
Event production	123,184	137,665
Insurance	113,331	110,580
Office expenses	157,439	143,594
Other personnel expenses	444,547	449,052
Parking garage management fees	817,908	995,429
Planning and development	246,392	226,166
Professional fees	635,475	494,272
Rent expense	319,245	318,523
Repairs and maintenance	198,876	171,688
Subscriptions and dues	<u>7,049</u>	<u>6,950</u>
Total Operating Expenses	<u>6,871,756</u>	<u>7,176,138</u>
OPERATING INCOME	<u>4,489,356</u>	<u>4,135,099</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	134,228	110,584
Interest expense	<u>(873,595)</u>	<u>(918,365)</u>
Total Non-Operating Revenues (Expenses)	<u>(739,367)</u>	<u>(807,781)</u>
CHANGE IN NET POSITION	3,749,989	3,327,318
TOTAL NET POSITION - BEGINNING	<u>30,853,377</u>	<u>27,526,059</u>
TOTAL NET POSITION - ENDING	<u><u>\$ 34,603,366</u></u>	<u><u>\$ 30,853,377</u></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>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 11,277,079	\$ 11,309,589
Cash paid to suppliers for goods and services	(3,718,311)	(4,066,011)
Cash paid to employees for services	<u>(1,532,066)</u>	<u>(1,583,709)</u>
Net Cash Provided By (Used In) Operating Activities	<u>6,026,702</u>	<u>5,659,869</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(270,815)	(287,611)
Adjustment of fixed assets	16,391	16,896
Amortization of bond issuance costs	21,523	-
Proceeds (payments) on capital lease, net	(5,287)	(4,905)
Debt repayment	(1,007,982)	(964,768)
Interest payments	<u>(617,602)</u>	<u>(662,271)</u>
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(1,863,772)</u>	<u>(1,902,659)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash earned on investments	134,228	110,584
Increase (decrease) in investments	238,197	(114,851)
Transfers (to) from designated PILOT trust funds	(3,684,793)	(2,059,164)
Increase in loans under Development Loan Program	(143,000)	-
Collections on loans receivable	<u>275,461</u>	<u>164,577</u>
Net Cash Provided By (Used In) Investing Activities	<u>(3,179,907)</u>	<u>(1,898,854)</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	983,023	1,858,356
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7,843,444</u>	<u>5,985,088</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 8,826,467</u>	<u>\$ 7,843,444</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR CONSIST OF:		
Undesignated cash and cash equivalents	\$ 5,956,002	\$ 4,960,631
Designated cash and cash equivalents	<u>2,870,465</u>	<u>2,882,813</u>
TOTAL	<u>\$ 8,826,467</u>	<u>\$ 7,843,444</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>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 4,489,356	\$ 4,135,099
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,553,165	1,528,424
Amortization of bond issue costs	-	21,523
(Increase) decrease in assets:		
Accounts receivables	(63,857)	(1,648)
Prepaid expenses	106,405	1,183
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(39,991)	(84,402)
Other liabilities	1,800	17,048
Reserves	<u>(20,176)</u>	<u>42,642</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 6,026,702</u></u>	<u><u>\$ 5,659,869</u></u>

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

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 2014

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

Measurement Focus, basis of accounting and financial statement presentation

The DMC prepares its financial statements in accordance with accounting principles generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. When an expense has been incurred for purposes for which both restricted and unrestricted net assets are available, the DMC will first apply restricted resources to such expense. In the statement of activities, income and expense will be reflected as from/used in operating activities, while non-operating income/expense, such as investment income/expense, will be presented below operating income/expense.

The DMC does not utilize encumbrance accounting. GASB 63 amends certain provisions of GASB 34 by changing the net assets concept to net position. Further, the introduction of deferred inflows and outflows of resources is added to the standard balance sheet as follows:

Deferred Outflows / Inflows of Resources

In accordance with GASB 63, in addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Commission has no items that meet this criterion.

Also, in addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Commission has no items that meet the criterion for this category.

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

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

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

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. In addition, one of the entities included herein, the Memphis Center City Development Corporation, files a Form 990, information return. The Downtown Memphis Commission and its related entities are subject to review by any of the various taxing authorities for up to four (4) years from the applicable entity's year end.

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.

Reclassifications

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

Subsequent Events

For the year ended June 30, 2014, the DMC has evaluated subsequent events for potential recognition and disclosure through November 17, 2014, the date the financial statements were approved for issuance.

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.

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

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

	<u>2014</u>	<u>2013</u>
Development Loan Program	\$ 2,401,121	\$ 2,231,391
Parking Garage Capital Reserve	110,591	95,493
Parking Garage Operating Reserve	43,753	42,929
Parking Garage Rental	315,000	315,000
PILOT Trust Funds	12,664,987	9,314,499
Public Improvement Program	<u>-</u>	<u>198,000</u>
Total	<u>\$ 15,535,452</u>	<u>\$ 12,197,312</u>

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

	<u>2014</u>	<u>2013</u>
Current Assets	\$ 2,870,465	\$ 2,882,813
Non-current Assets	<u>12,664,987</u>	<u>9,314,499</u>
Total designated unrestricted net position	<u>\$ 15,535,452</u>	<u>\$ 12,197,312</u>

Designated funds consist of the following:

<u>Custodian</u>	<u>Cash Instrument</u>	<u>2014</u>	<u>2013</u>
Deutsche Bank Trust Company Americas	Goldman Sachs Financial Square Treasury Obligations Mutual Fund	\$ 12,664,987	\$ 9,314,499
State of Tennessee, Treasury Department	State of Tennessee Local Government Investment Pool	2,469,344	2,651,423
First Tennessee Bank	Fidelity Government Portfolio	<u>401,121</u>	<u>231,391</u>
Total designated funds		<u>\$ 15,535,452</u>	<u>\$ 12,197,312</u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

Undesignated funds consist of the following:

<u>Custodian</u>	<u>Cash Instrument</u>	<u>2014</u>	<u>2013</u>
First Alliance Bank	Checking Account	\$ 58,440	\$ 58,189
State of Tennessee Treasury Department	State of Tennessee Local Government Investment Pool	5,699,494	4,871,065
SunTrust Bank	Checking Account	<u>198,068</u>	<u>31,377</u>
Total undesignated funds		<u>\$ 5,956,002</u>	<u>\$ 4,960,631</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, 2014 was made up of three (3) 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.

Loans receivable consists of the following:

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Amount due as of year end	\$ 1,692,714	\$ 1,825,175
Less: allowance for doubtful accounts	<u>(91,500)</u>	<u>(91,500)</u>
	1,601,214	1,733,675
Less: current portion of loans receivable	<u>(461,723)</u>	<u>(440,990)</u>
Long-term loans receivable	<u>\$ 1,139,491</u>	<u>\$ 1,292,685</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. ASC 820-10 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

NOTE 5 – FAIR VALUE MEASUREMENTS (Continued)

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.

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 Active Markets for Identical Assets (Level 1)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
June 30, 2014			
Fixed income bonds	\$ 638,125	\$ 638,125	\$ -
Development loans	1,601,214	-	1,601,214
Total	<u>\$ 2,239,339</u>	<u>\$ 638,125</u>	<u>\$ 1,601,214</u>
June 30, 2013			
Fixed income bonds	\$ 542,017	\$ 542,017	\$ -
Development loans	1,733,675	-	1,733,675
Total	<u>\$ 2,275,692</u>	<u>\$ 542,017</u>	<u>\$ 1,733,675</u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

NOTE 5 – FAIR VALUE MEASUREMENTS *(Continued)*

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, 2014

Beginning balance	\$ 1,733,675
Issuances and collections, net	<u>(132,461)</u>
Ending balance	<u>\$ 1,601,214</u>

June 30, 2013

Beginning balance	\$ 1,898,251
Issuances and collections, net	<u>(164,576)</u>
Ending balance	<u>\$ 1,733,675</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 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, 2014, was approximately 21 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.

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

NOTE 6 – INVESTMENTS (Continued)

- *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:

	<u>Carrying Amount</u>	
	<u>2014</u>	<u>2013</u>
FNMA, 0.825%, due December 23, 2014	\$ -	\$ 30,061
FNMA, 0.375%, due December 21, 2015	150,163	149,162
FNMA, 1.625%, due November 27, 2018	10,053	-
Total	<u>\$ 160,216</u>	<u>\$ 179,223</u>

As of June 30, 2014, the DMC had total investments of \$638,125, consisting of undesignated equities of \$122,351 and fixed income investments of \$515,774 with credit rating and maturities as follows:

Type of Investments	Credit Rating	<u>Maturity</u>				Carrying Value
		<u>Under 30 Days</u>	<u>31-180 Days</u>	<u>181-365 Days</u>	<u>1-5 Years</u>	
FNMA	Aaa	\$ -	\$ -	\$ -	\$ 160,216	\$ 160,216
Corporate	Aaa	-	24,997	-	40,438	65,435
Corporate	P-2	-	-	-	-	-
Corporate	A1	-	-	12,211	5,482	17,693
Corporate	A2	-	-	10,113	-	10,113
Corporate	A3	-	-	10,142	8,353	18,495
Corporate	Aa1	-	10,084	-	-	10,084
Corporate	Aa2	-	-	10,114	5,536	15,650
Corporate	Aa3	-	-	10,193	35,519	45,712
Corporate	Baa1	-	-	-	4,970	4,970
Corporate	Baa2	-	-	15,093	21,634	36,727
Corporate	Baa3	-	-	-	11,032	11,032
Corporate	NR	-	-	-	27,397	27,397
Mutual Funds		-	-	-	92,250	92,250
		<u>\$ -</u>	<u>\$ 35,081</u>	<u>\$ 67,866</u>	<u>\$ 412,827</u>	<u>\$ 515,774</u>
Equities-Common Stock						<u>122,351</u>
Total						<u>\$ 638,125</u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

NOTE 6 – INVESTMENTS (Continued)

As of June 30, 2013, the DMC had total investments of \$542,017, consisting of undesignated equities of \$61,576 and fixed income investments of \$480,441 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	\$ -	\$ -	\$ 30,061	\$ 149,162	\$ 179,223
Corporate	P-2	-	-	-	-	-
Corporate	A1	-	12,153	23,127	-	35,281
Corporate	A2	25,059	-	20,445	10,114	55,617
Corporate	A3	25,010	-	10,119	8,506	43,635
Corporate	Aa3	-	49,857	-	11,176	61,033
Corporate	Baa1	-	-	-	10,701	10,701
Corporate	Baa2	-	-	10,195	-	10,195
Mutual Funds		-	-	-	84,757	84,757
		<u>\$ 50,069</u>	<u>\$ 62,010</u>	<u>\$ 93,947</u>	<u>\$ 274,416</u>	<u>\$ 480,441</u>
Equities-Common Stock						<u>61,576</u>
Total						<u>\$ 542,017</u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

NOTE 6 – INVESTMENTS (Continued)

The Development Loan Program undesignated investments as of June 30, 2014 and 2013 are carried at fair value and include the following:

	Carrying Amount	
	2014	2013
Intrmntn Pwr UT Etm, 5.000%, due July 1, 2013	\$ -	\$ 25,010
Richomond VA Etm, 5.250%, due July 15, 2013	-	25,059
GE Capital Corp MTN, 4.000%, due December 15, 2013	-	12,153
National Rural Utilities, 4.250%, February 15, 2014	-	10,175
FNMA, 0.825%, due December 23, 2014	-	30,061
Medtronic Inc, 4.500%, due March 15, 2014	-	10,270
Arden Realty LP, 5.250%, due March 01, 2015	12,211	12,749
Citigroup Inc, 2.650%, due March 02, 2015	10,142	10,195
US Bancorp MTN, 3.150%, due March 04, 2015	10,193	10,378
Natl Bank Canada, 1.500%, due June 26, 2015	10,114	10,119
PNC Funding Corporation, 4.250%, due September 21, 2015	8,353	8,506
FNMA, 0.375%, due December 21, 2015	150,163	149,162
Massachusetts by Etm, 5.500%, due July 01, 2016	5,521	5,692
Hospira Inc, 6.050%, due March 30, 2017	11,032	10,701
Philadelphia PA, 4.000%, due June 15, 2017	5,482	5,484
Massachusetts St, 5.000%, due September 1, 2014	10,084	-
Citigroup MTN V-Q, 2.184%, due December 28, 2014	9,997	-
Williams Partners LP, 3.800%, due February 15, 2015	5,096	-
Arizona St Pre, 4.125%, due August 1, 2015	30,103	-
UNUM Group, 7.125%, due September 30, 2016	11,326	-
Viacom Inc, 2.500%, December 15, 2016	10,308	-
Cincinnati OH Econ, 3.600%, due November 1, 2017	5,416	-
Amazon.Com Inc, 1.200%, due November 29, 2017	4,970	-
Bank of NY Mello MTN, 2.100%, due August 1, 2018	10,142	-
FNMA, 1.625%, due November 27, 2018	10,053	-
FHLB V-A, 1.375%, due October 25, 2022	9,554	-
Baltimore Cnt MD, 5.000%, due September 1, 2026	10,994	-
Metro Council MN, 4.375%, due December 1, 2027	10,538	-
Baltimore MD Pre, 4.500%, due September 1, 2033	10,882	-
Regional Tran Co, 5.000%, due November 1, 2036	5,536	-
Schaumburg IL, 5.000%, due December 1, 2038	10,204	-

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

NOTE 6 – INVESTMENTS (Continued)

	Carrying Amount	
	2014	2013
Denver City Co Etm, 0.000%, due December 15, 2013	\$ -	\$ 49,857
Citigroup, Inc., 2.650%, due March 2, 2015	-	-
Wells Fargo MTN, 1.500%, due July 1, 2015	10,113	10,114
iShares Core U.S. Aggregate	6,564	-
iShares Intermediate Credit	39,668	19,389
iShares Barclays 1 -3 Year	-	42,012
iShares Iboxx HY Corp Bond	3,808	1,818
Powershares Senior Loan Port	-	5,940
SPDR Barclays S/T Corporate Bond ETF	42,210	15,599
GE Capital Bk Inc, 0.400%, due September 26, 2014	24,997	-
AFLAC, Inc.	-	4,068
AT&T, Inc.	1,591	1,593
Bank of America Corp	5,303	-
Cisco Systems, Inc.	7,455	4,259
Coca Cola Co	4,871	-
CSX Corp	3,543	-
Deere & Co.	7,244	2,844
eBay Inc Com	2,503	-
EMC Corp/Mass	4,609	2,953
Exxon Mobil Corp.	5,034	4,518
Ford Motor Co DEL 'new'	6,896	774
Freeportmcmoran Copper and Gold, Inc.	7,300	3,313
General Electric Corp.	6,964	6,145
HollyFrontier Corporation	4,806	-
J.P. Morgan Chase & Co.	8,931	5,543
Marathon Oil Corp.	7,186	1,556
Merck & Co Inc.	2,893	2,323
Microsoft Corp.	2,502	1,036
Mondelez International, Inc.	7,522	3,566
Oracle Corp.	6,080	1,536
Procter & Gamble Co.	3,144	3,080
Qualcomm Inc	3,960	-
U.S. Bancorp New	5,848	4,880
Alerian MLP ETF	2,375	893
iShares S&P Pref Stk	3,791	3,732
First Horizon National 6.200% PFD	-	2,966
Total	<u>\$ 638,125</u>	<u>\$ 542,017</u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

NOTE 7 – CAPITAL ASSETS, NET

Capital assets, as of June 30, 2014, consisted of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers & Retirements</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:					
Land	\$ 2,494,398	\$ 174,124	\$ -	\$ -	\$ 2,668,522
Constuction in progress	-	-	-	-	-
Total nondepreciable capital assets	<u>2,494,398</u>	<u>174,124</u>	<u>-</u>	<u>-</u>	<u>2,668,522</u>
Depreciable Capital Assets:					
Building	31,451,582	-	-	(16,391)	31,435,191
Streetscape improvements	6,543,492	-	-	-	6,543,492
Leasehold improvements	1,824,539	31,295	-	-	1,855,834
Furniture and equipment	1,216,301	65,396	-	-	1,281,697
Total depreciable capital assets	<u>41,035,914</u>	<u>96,691</u>	<u>-</u>	<u>(16,391)</u>	<u>41,116,214</u>
Accumulated depreciation:					
Building	(6,628,508)	(851,701)	-	-	(7,480,209)
Streetscape improvements	(2,866,467)	(444,987)	-	-	(3,311,454)
Leasehold improvements	(403,706)	(172,295)	-	-	(576,001)
Furniture and equipment	(940,407)	(84,182)	-	-	(1,024,589)
Total accumulated depreciation	<u>(10,839,088)</u>	<u>(1,553,165)</u>	<u>-</u>	<u>-</u>	<u>(12,392,253)</u>
Total Depreciable Capital Assets, net	<u>30,196,826</u>	<u>(1,456,474)</u>	<u>-</u>	<u>(16,391)</u>	<u>28,723,961</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>	<u>-</u>
Total Capital Assets, net	<u>\$ 32,691,224</u>	<u>\$ (1,282,350)</u>	<u>\$ -</u>	<u>\$ (16,391)</u>	<u>\$ 31,392,483</u>

Depreciation expense was \$1,553,165 for the year ended June 30, 2014.

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

NOTE 7 – CAPITAL ASSETS, NET (Continued)

Capital assets, as of June 30, 2013, consisted of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers and Retirements</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:					
Land	\$ 2,494,398	\$ -	\$ -	\$ -	\$ 2,494,398
Constuction in progress	1,127,588	-	(1,127,588)	-	-
Total nondepreciable capital assets	<u>3,621,986</u>	<u>-</u>	<u>(1,127,588)</u>	<u>-</u>	<u>2,494,398</u>
Depreciable Capital Assets:					
Building	31,468,478	-	-	(16,896)	31,451,582
Streetscape improvements	6,541,732	1,760	-	-	6,543,492
Leasehold improvements	551,672	145,279	1,127,588	-	1,824,539
Furniture and equipment	1,075,729	140,572	-	-	1,216,301
Total depreciable capital assets	<u>39,637,611</u>	<u>287,611</u>	<u>1,127,588</u>	<u>(16,896)</u>	<u>41,035,914</u>
Accumulated depreciation:					
Building	(5,776,515)	(851,993)	-	-	(6,628,508)
Streetscape improvements	(2,421,498)	(444,969)	-	-	(2,866,467)
Leasehold improvements	(259,428)	(144,278)	-	-	(403,706)
Furniture and equipment	(853,223)	(87,184)	-	-	(940,407)
Total accumulated depreciation	<u>(9,310,664)</u>	<u>(1,528,424)</u>	<u>-</u>	<u>-</u>	<u>(10,839,088)</u>
Total Depreciable Capital Assets, net	<u>30,326,947</u>	<u>(1,240,813)</u>	<u>1,127,588</u>	<u>(16,896)</u>	<u>30,196,826</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>	<u>-</u>
Total Capital Assets, net	<u>\$ 33,948,933</u>	<u>\$ (1,240,813)</u>	<u>\$ -</u>	<u>(16,896)</u>	<u>\$ 32,691,224</u>

Depreciation expense was \$1,528,424 for the year ended June 30, 2013.

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

NOTE 8 – LONG-TERM DEBT

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

	2014	2013
<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 \$46,274 for 2014 and \$50,481 for 2013 has been applied to the note balance in order to show it at present value.</p>	\$ 7,105,350	\$ 7,547,370
<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 *

* 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, 2014 and 2013, the accrued interest payable is \$3,856,856 and \$3,598,296, 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)

JUNE 30, 2014

NOTE 8 – LONG-TERM DEBT (Continued)

	<u>2014</u>	<u>2013</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.	\$ 1,250,000	\$ 1,635,000
4.46% note payable to Bank 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.	2,674,620	2,782,080
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>345,012</u>	<u>418,514</u>
	16,494,982	17,502,964
Less: current portion	<u>(1,063,441)</u>	<u>(1,013,626)</u>
Total Long-term debt	<u>\$ 15,431,541</u>	<u>\$ 16,489,338</u>

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

	<u>2014</u>			
	<u>Total Payment</u>	<u>Interest</u>	<u>Principal</u>	<u>2013 Principal</u>
Year Ending June 30,				
2014	\$ -	\$ -	\$ -	\$ 1,013,626
2015	1,699,820	636,379	1,063,441	1,063,440
2016	1,921,319	593,742	1,327,577	1,327,578
2017	1,846,825	546,815	1,300,010	1,300,010
2018	1,422,261	506,103	916,158	916,158
2019	1,360,967	474,303	886,664	886,664
2020-2024	6,956,789	1,859,383	5,097,406	5,095,969
2025-2029	854,070	24,070	830,000	830,000
2030-2034	-	-	-	-
2035-2039	<u>14,169,603</u>	<u>9,049,603</u>	<u>5,120,000</u>	<u>5,120,000</u>
	<u>30,231,654</u>	<u>13,690,398</u>	16,541,256	17,553,445
Less: discount to present value			(46,274)	(50,481)
Less: current portion			<u>(1,063,441)</u>	<u>(1,013,626)</u>
Total long-term debt			<u>\$15,431,541</u>	<u>\$16,489,338</u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

NOTE 8 – LONG-TERM DEBT (Continued)

	2014
Total beginning balance of long-term debt (including current portion)	\$ 17,553,445
Payments during year	(1,007,982)
Other	(4,207)
Ending balance	16,541,256
Less - Discount to present value	(46,274)
- Current Portion	(1,063,441)
	\$ 15,431,541

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:

	2014	2013
Year Ending June 30,		
2014	\$ -	\$ 320,287
2015	320,208	320,208
2016	315,000	315,000
2017	315,000	315,000
2018	315,000	315,000
Thereafter (*)		
Total minimum future rental payments	\$ 1,265,208	\$ 1,585,495

* See comment regarding the renewal option of DPA's lease with the City of Memphis earlier in this footnote.

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

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, 2014 and 2013 were \$57,726 and \$60,641, 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 – RESERVES FOR CONTINGENCIES

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

	<u>2014</u>	<u>2013</u>
Operating reserve	\$ 43,753	\$ 42,929
Capital Reserve	110,591	95,493
Potential refunds of Central Business Improvement District assessments resulting from property revaluations	<u>77,073</u>	<u>113,171</u>
Total	<u>\$ 231,417</u>	<u>\$ 251,593</u>

FINANCIAL STATEMENTS - COMBINING

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

COMBINING STATEMENT OF NET POSITION

JUNE 30, 2014

	Downtown Memphis Commission	Memphis Center City Development Corporation	Memphis Center City Revenue Finance Corporation (CCRFC)	Crump Building, Inc.	Downtown Parking Authority (DPA)	Elimination	Total
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	\$ 1,225,154	\$ 3,734,911	\$ -	\$ -	\$ 995,937	\$ -	\$ 5,956,002
Designated cash and cash equivalents	-	752,862	-	-	2,117,603	-	2,870,465
Loans receivable, current portion	-	461,723	-	-	-	-	461,723
Accounts receivable	88,533	-	-	-	132,278	-	220,811
Deferred charges	-	-	-	-	236,756	-	236,756
Prepaid expenses	12,748	-	-	-	43,983	-	56,731
Total current assets	<u>1,326,435</u>	<u>4,949,496</u>	<u>-</u>	<u>-</u>	<u>3,526,557</u>	<u>-</u>	<u>9,802,488</u>
NON-CURRENT ASSETS:							
Investments	-	638,125	-	-	-	-	638,125
Designated PILOT trust funds	-	-	12,664,987	-	-	-	12,664,987
Loans receivable, less current portion	-	1,139,491	-	-	-	-	1,139,491
Loan receivable from DPA	-	-	1,948,861	-	-	(1,948,861)	-
Land	-	174,124	-	-	2,494,398	-	2,668,522
Improvements in progress	-	-	-	-	-	-	-
Depreciable assets, net of accumulated depreciation	2,906,567	423,743	-	238,876	25,154,775	-	28,723,961
Total non-current assets	<u>2,906,567</u>	<u>2,375,483</u>	<u>14,613,848</u>	<u>238,876</u>	<u>27,649,173</u>	<u>(1,948,861)</u>	<u>45,835,086</u>
TOTAL ASSETS	<u>\$ 4,233,002</u>	<u>\$ 7,324,979</u>	<u>\$ 14,613,848</u>	<u>\$ 238,876</u>	<u>\$ 31,175,730</u>	<u>\$ (1,948,861)</u>	<u>\$ 55,637,574</u>
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES:							
Accounts payable and accrued expenses	\$ 46,324	\$ 2,054	\$ 12,650	\$ -	\$ 366,591	\$ -	\$ 427,619
Other liabilities	-	-	-	-	9,793	-	9,793
Current portion of capital lease payable	5,208	-	-	-	-	-	5,208
Current maturities of long-term debt	400,000	-	-	80,857	582,584	-	1,063,441
Total current liabilities	<u>451,532</u>	<u>2,054</u>	<u>12,650</u>	<u>80,857</u>	<u>958,968</u>	<u>-</u>	<u>1,506,061</u>
LONG-TERM LIABILITIES:							
Accrued interest	8,333	-	-	-	3,856,856	-	3,865,189
Reserves for contingencies	77,073	-	-	-	154,344	-	231,417
Capital lease payable, less current portion	-	-	-	-	-	-	-
Long-term debt, less current portion	850,000	-	-	264,155	14,317,386	-	15,431,541
Loan payable to CCRFC	-	-	-	-	1,948,861	(1,948,861)	-
Total long-term liabilities	<u>935,406</u>	<u>-</u>	<u>-</u>	<u>264,155</u>	<u>20,277,447</u>	<u>(1,948,861)</u>	<u>19,528,147</u>
TOTAL LIABILITIES	<u>1,386,938</u>	<u>2,054</u>	<u>12,650</u>	<u>345,012</u>	<u>21,236,415</u>	<u>(1,948,861)</u>	<u>21,034,208</u>
NET POSITION:							
Net investment in capital assets	1,651,359	597,867	-	(106,136)	12,749,203	-	14,892,293
Unrestricted	1,194,705	6,725,058	14,601,198	-	(2,809,888)	-	19,711,073
Total net position	<u>2,846,064</u>	<u>7,322,925</u>	<u>14,601,198</u>	<u>(106,136)</u>	<u>9,939,315</u>	<u>-</u>	<u>34,603,366</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 4,233,002</u>	<u>\$ 7,324,979</u>	<u>\$ 14,613,848</u>	<u>\$ 238,876</u>	<u>\$ 31,175,730</u>	<u>\$ (1,948,861)</u>	<u>\$ 55,637,574</u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

COMBINING STATEMENT OF NET POSITION

JUNE 30, 2013

	Downtown Memphis Commission	Memphis Center City Development Corporation	Memphis Center City Revenue Finance Corporation (CCRFC)	Crump Building, Inc.	Downtown Parking Authority (DPA)	Elimination	Total
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	\$ 1,058,440	\$ 2,906,305	\$ -	\$ -	\$ 995,886	\$ -	\$ 4,960,631
Designated cash and cash equivalents	-	1,039,556	-	-	1,843,257	-	2,882,813
Loans receivable, current portion	-	440,990	-	-	-	-	440,990
Accounts receivable	16,780	-	19,605	-	120,569	-	156,954
Deferred charges	-	-	-	-	258,279	-	258,279
Prepaid expenses	18,277	-	93,907	-	50,952	-	163,136
Total current assets	<u>1,093,497</u>	<u>4,386,851</u>	<u>113,512</u>	<u>-</u>	<u>3,268,942</u>	<u>-</u>	<u>8,862,803</u>
NON-CURRENT ASSETS:							
Investments	-	542,017	-	-	-	-	542,017
Designated PILOT trust funds	-	-	9,314,499	-	-	-	9,314,499
Loans receivable, less current portion	-	1,292,685	-	-	-	-	1,292,685
Loan receivable from DPA	-	-	1,961,108	-	-	(1,961,108)	-
Land	-	-	-	-	2,494,398	-	2,494,398
Improvements in progress	-	-	-	-	-	-	-
Depreciable assets, net of accumulated depreciation	3,283,103	464,078	-	301,891	26,147,754	-	30,196,826
Total non-current assets	<u>3,283,103</u>	<u>2,298,780</u>	<u>11,275,607</u>	<u>301,891</u>	<u>28,642,152</u>	<u>(1,961,108)</u>	<u>43,840,425</u>
TOTAL ASSETS	<u>\$ 4,376,599</u>	<u>\$ 6,685,631</u>	<u>\$ 11,389,119</u>	<u>\$ 301,891</u>	<u>\$ 31,911,094</u>	<u>\$ (1,961,108)</u>	<u>\$ 52,703,228</u>
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES:							
Accounts payable and accrued expenses	\$ 76,709	\$ 1,815	\$ 28,748	\$ -	\$ 360,338	\$ -	\$ 467,610
Other liabilities	2,377	-	-	-	5,616	-	7,993
Current portion of capital lease payable	5,287	-	-	-	-	-	5,287
Current maturities of long-term debt	385,000	-	-	76,634	551,992	-	1,013,626
Total current liabilities	<u>469,373</u>	<u>1,815</u>	<u>28,748</u>	<u>76,634</u>	<u>917,946</u>	<u>-</u>	<u>1,494,516</u>
LONG-TERM LIABILITIES:							
Accrued interest	10,900	-	-	-	3,598,296	-	3,609,196
Reserves for contingencies	113,171	-	-	-	138,422	-	251,593
Capital lease payable, less current portion	5,208	-	-	-	-	-	5,208
Long-term debt, less current portion	1,250,000	-	-	341,880	14,897,458	-	16,489,338
Loan payable to CCRFC	-	-	-	-	1,961,108	(1,961,108)	-
Total long-term liabilities	<u>1,379,279</u>	<u>-</u>	<u>-</u>	<u>341,880</u>	<u>20,595,284</u>	<u>(1,961,108)</u>	<u>20,355,335</u>
TOTAL LIABILITIES	<u>1,848,651</u>	<u>1,815</u>	<u>28,748</u>	<u>418,514</u>	<u>21,513,230</u>	<u>(1,961,108)</u>	<u>21,849,851</u>
NET POSITION:							
Net investment in capital assets	1,637,608	464,078	-	(116,623)	13,192,703	-	15,177,766
Unrestricted	890,340	6,219,738	11,360,371	-	(2,794,838)	-	15,675,611
Total net position	<u>2,527,948</u>	<u>6,683,816</u>	<u>11,360,371</u>	<u>(116,623)</u>	<u>10,397,865</u>	<u>-</u>	<u>30,853,377</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 4,376,599</u>	<u>\$ 6,685,631</u>	<u>\$ 11,389,119</u>	<u>\$ 301,891</u>	<u>\$ 31,911,095</u>	<u>\$ (1,961,108)</u>	<u>\$ 52,703,228</u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

COMBINING STATEMENT OF ACTIVITIES

For the Year Ended JUNE 30, 2014

	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	\$ 33,811	\$ -	\$ 5,749,379	\$ -	\$ -	\$ -	\$ 5,783,190
CBID assessment	3,112,375	-	-	-	-	-	3,112,375
Development income	-	5,290	-	-	-	-	5,290
Marketing income	7,723	-	-	-	-	-	7,723
Operations income	23,471	321,299	-	-	63	-	344,833
Parking garage management	-	-	-	-	2,107,701	-	2,107,701
Real estate income	300	-	-	112,440	-	(112,740)	-
Total Operating Revenues	<u>3,177,680</u>	<u>326,589</u>	<u>5,749,379</u>	<u>112,440</u>	<u>2,107,764</u>	<u>(112,740)</u>	<u>11,361,112</u>
OPERATING EXPENSES:							
Salaries and benefits	\$ 1,532,066	\$ -	\$ -	\$ -	\$ -	\$ -	1,532,066
Advertising	80,447	17,723	-	-	-	-	98,170
Business community relations	7,869	427	612,357	-	426	-	621,079
Conferences and travel	3,830	-	-	-	-	-	3,830
Depreciation and amortization	434,958	40,334	-	63,014	1,014,859	-	1,553,165
Event production	123,184	-	-	-	-	-	123,184
Insurance	29,929	-	-	-	83,402	-	113,331
Office expenses	154,818	1,295	-	198	1,128	-	157,439
Other personnel expenses	204,578	-	-	-	239,969	-	444,547
Parking garage management fees	-	-	-	-	817,908	-	817,908
Planning and development	35,609	210,783	-	-	-	-	246,392
Professional fees	164,798	62,367	313,988	6,598	87,724	-	635,475
Rent expense	116,985	-	-	-	315,000	(112,740)	319,245
Repairs and maintenance	126,961	27,925	-	-	43,990	-	198,876
Subscriptions and dues	7,049	-	-	-	-	-	7,049
Total Operating Expenses	<u>3,023,081</u>	<u>360,854</u>	<u>926,345</u>	<u>69,810</u>	<u>2,604,406</u>	<u>(112,740)</u>	<u>6,871,756</u>
OPERATING INCOME (LOSS)	<u>154,599</u>	<u>(34,265)</u>	<u>4,823,034</u>	<u>42,630</u>	<u>(496,642)</u>	<u>-</u>	<u>4,489,356</u>
NON-OPERATING REVENUE							
(EXPENSES):							
Interest income	1,648	72,555	-	-	60,025	-	134,228
Net increase (decrease) in the fair value of investments	-	-	-	-	-	-	-
Interest expense	(55,744)	-	-	(14,530)	(803,321)	-	(873,595)
Net transfers in (out)	217,613	600,819	(1,569,960)	(17,613)	769,141	-	-
Total Non-Operating Revenues (Expenses)	<u>163,517</u>	<u>673,374</u>	<u>(1,569,960)</u>	<u>(32,143)</u>	<u>25,845</u>	<u>-</u>	<u>(739,367)</u>
CHANGE IN NET POSITION	<u>318,116</u>	<u>639,109</u>	<u>3,253,074</u>	<u>10,487</u>	<u>(470,797)</u>	<u>-</u>	<u>3,749,989</u>
TOTAL NET POSITION - BEGINNING	<u>2,527,948</u>	<u>6,683,816</u>	<u>9,399,263</u>	<u>(116,623)</u>	<u>12,358,973</u>	<u>-</u>	<u>30,853,377</u>
TOTAL NET POSITION - ENDING	<u>\$ 2,846,064</u>	<u>\$ 7,322,925</u>	<u>\$ 12,652,337</u>	<u>\$(106,136)</u>	<u>\$ 11,888,176</u>	<u>\$ -</u>	<u>\$ 34,603,366</u>

DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES

COMBINING STATEMENT OF ACTIVITIES

For the Year Ended JUNE 30, 2013

	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	\$ -	\$ -	\$ 4,352,811	\$ -	\$ -	\$ -	\$ 4,352,811
CBID assessment	2,662,183	-	-	-	-	-	2,662,183
Development income	-	9,907	-	-	-	-	9,907
Marketing income	5,800	-	-	-	-	-	5,800
Operations income	33,193	2,000,000	-	-	48	-	2,033,241
Parking garage management	-	-	-	-	2,243,695	-	2,243,695
Real estate income	3,600	-	-	112,440	-	(112,440)	3,600
Total Operating Revenues	2,704,776	2,009,907	4,352,811	112,440	2,243,743	(112,440)	11,311,237
OPERATING EXPENSES:							
Salaries and benefits	\$ 1,583,709	\$ -	\$ -	\$ -	\$ -	\$ -	1,583,709
Advertising	41,926	3,788	-	-	-	-	45,714
Business community relations	8,769	-	954,443	-	-	-	963,212
Conferences and travel	1,160	-	-	-	-	-	1,160
Depreciation and amortization	432,856	40,334	-	63,279	991,955	-	1,528,424
Event production	137,665	-	-	-	-	-	137,665
Insurance	30,122	-	-	-	80,458	-	110,580
Office expenses	139,468	-	29	3,480	617	-	143,594
Other personnel expenses	190,957	-	-	-	258,095	-	449,052
Parking garage management fees	-	-	-	-	995,429	-	995,429
Planning and development	9,505	216,661	-	-	-	-	226,166
Professional fees	199,364	120,723	113,042	5,938	55,205	-	494,272
Rent expense	115,963	-	-	-	315,000	(112,440)	318,523
Repairs and maintenance	165,423	-	-	-	6,265	-	171,688
Subscriptions and dues	6,950	-	-	-	-	-	6,950
Total Operating Expenses	3,063,837	381,506	1,067,514	72,697	2,703,024	(112,440)	7,176,138
OPERATING INCOME (LOSS)	(359,061)	1,628,401	3,285,297	39,743	(459,281)	-	4,135,099
NON-OPERATING REVENUE							
(EXPENSES):							
Interest income	2,181	47,306	-	-	61,097	-	110,584
Net increase (decrease) in the fair value of investments	-	-	-	-	-	-	-
Interest expense	(71,327)	-	-	(20,559)	(826,479)	-	(918,365)
Net transfers in (out)	561,142	105,100	(1,205,475)	(11,142)	550,375	-	-
Total Non-Operating Revenues	491,996	152,406	(1,205,475)	(31,701)	(215,007)	-	(807,781)
CHANGE IN NET POSITION	132,935	1,780,807	2,079,822	8,042	(674,288)	-	3,327,318
TOTAL NET POSITION - BEGINNING	2,395,013	4,903,009	7,319,441	(124,665)	13,033,261	-	27,526,059
TOTAL NET POSITION - ENDING	\$ 2,527,948	\$ 6,683,816	\$ 9,399,263	\$ (116,623)	\$ 12,358,973	\$ -	\$ 30,853,377

NON-FINANCIAL INFORMATION



CERTIFIED PUBLIC ACCOUNTANTS
ATRIUM 1, 6800 POPLAR AVE., STE. 210
GERMANTOWN, TENNESSEE 38138
(901) 523-8283 (901) 523-8287 FAX
www.zkcpas.com

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the Downtown Memphis Commission and Related Entities as of and for the year ended June 30, 2014, and the related notes to the combined financial statements, which collectively comprise the Downtown Memphis Commission and Related Entities' basic combined financial statements, and have issued our report thereon dated November 17, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered Downtown Memphis Commission and Related Entities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of Downtown Memphis Commission and Related Entities' internal control. Accordingly, we do not express an opinion on the effectiveness of Downtown Memphis Commission and Related Entities' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's combined financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Downtown Memphis Commission and Related Entities' combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Germantown, Tennessee
November 17, 2014

**DOWNTOWN MEMPHIS COMMISSION AND RELATED ENTITIES
INDEPENDENT AUDITORS' GENERAL COMMENTS AND
OTHER SUPPORTING DATA**

JUNE 30, 2014

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.