

CARTER STREET CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2014



**HENDERSON HUTCHERSON
& MCCULLOUGH, PLLC**

CARTER STREET CORPORATION

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CARTER STREET CORPORATION

ROSTER OF OFFICIALS

JUNE 30, 2014

BOARD OF DIRECTORS

Chairperson
Jim Hudson III

Vice Chairperson
Curtis Johnson

Treasurer:
Hicks Armor

Secretary:
Paul A. McDaniel

Assistant Secretary:
Bill Raines

BOARD MEMBERS

Don Mercer
Anne Wilkins



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Carter Street Corporation
Chattanooga, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Carter Street Corporation, a Tennessee nonprofit organization and joint venture between the City of Chattanooga, TN and Hamilton County, TN, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Carter Street Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

1200 MARKET STREET | CHATTANOOGA, TN 37402 | T 423.756.7771 | F 423.265.8125 | WWW.HHMCPAS.COM

AN INDEPENDENT MEMBER OF THE BDO SEIDMAN ALLIANCE

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Carter Street Corporation as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Carter Street Corporation. The roster of officials is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has not been subjected to the auditing procedures applied in the audit of the 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 issued our report dated September 12, 2014, on our consideration of Carter Street Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Carter Street Corporation's internal control over financial reporting and compliance.

Chattanooga, Tennessee
September 12, 2014

*Henderson Hutcherson
& McCullough, PLLC*

CARTER STREET CORPORATION

STATEMENT OF NET POSITION

JUNE 30, 2014

ASSETS	
CURRENT ASSETS	
Event cash	\$ 464,942
Reserves cash	660,000
Capital improvements cash	493,234
Event receivables, net of allowance of \$1,000	450,807
Prepaid expenses	51,135
Inventories	<u>48,359</u>
Total current assets	2,168,477
CAPITAL ASSETS	<u>9,308,494</u>
TOTAL ASSETS	<u><u>\$ 11,476,971</u></u>
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Accounts payable	\$ 44,100
Accrued expenses	123,132
Deferred revenue	10,000
Advance deposits	<u>73,886</u>
Total current liabilities	<u>251,118</u>
NET POSITION	
Investment in capital assets	9,308,494
Restricted	22,797
Unrestricted	<u>1,894,562</u>
Total net assets	<u>11,225,853</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 11,476,971</u></u>

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

CARTER STREET CORPORATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2014

OPERATING REVENUE	\$ 6,230,108
COST OF OPERATING	<u>2,637,598</u>
Net operating revenue	<u>3,592,510</u>
OPERATING EXPENSES	
Administrative expenses	1,894,676
Maintenance and supplies	398,853
General operating expenses	<u>1,074,580</u>
Total operating expenses	<u>3,368,109</u>
Net income from operations before depreciation and amortization	224,401
Less depreciation and amortization	<u>626,525</u>
Net loss from operations	<u>(402,124)</u>
NONOPERATING REVENUE	
City appropriation	100,000
CVB appropriation	<u>200,000</u>
Total nonoperating revenue	<u>300,000</u>
Net loss before capital contributions	(102,124)
CAPITAL CONTRIBUTIONS	<u>200,000</u>
INCREASE IN NET POSITION	97,876
NET POSITION	
Beginning of year	<u>11,127,977</u>
End of year	<u>\$ 11,225,853</u>

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

CARTER STREET CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 5,843,532
Cash paid to suppliers	(3,121,250)
Cash paid to employees	<u>(2,856,947)</u>
Net cash from operating activities	<u>(134,665)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	200,000
Loss on disposal of assets	11,327
Cash paid for capital assets	<u>(176,514)</u>
Net cash from capital and related financing activities	<u>34,813</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts from City of Chattanooga and Chattanooga Visitor's Bureau	<u>300,000</u>
Net cash from noncapital and financing activities	<u>300,000</u>
NET INCREASE IN CASH	200,148
Cash - beginning of year	<u>1,418,028</u>
Cash - end of year	<u>\$ 1,618,176</u>

CARTER STREET CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

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

Net loss from operations	\$ (402,124)
Adjustments to reconcile operating net loss to net cash from operating activities:	
Depreciation and amortization	615,198
Net change in:	
Event receivables	(218,251)
Inventories	5,274
Prepaid expenses	17,731
Accounts payable and accrued expenses	4,505
Advanced deposits	(146,998)
Deferred revenues	<u>(10,000)</u>
Net cash from operating activities	<u>\$ (134,665)</u>

CARTER STREET CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Presentation

The accompanying basic financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All assets and liabilities (whether current or non-current) associated with the Corporation's activities are included in the statement of net position. The reported net position is segregated into investment in capital assets, restricted and unrestricted components.

Operating and Non-operating Revenues

Revenue received from the City of Chattanooga and the Chattanooga Visitor's Bureau is considered non-operating revenue. All other revenue, including income from events, is considered operating revenue.

Event Receivables

The carrying amount of event receivables is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management reviews each receivable balance that exceeds 60 days from the invoice date, and, based on historical bad-debt experience and management's evaluation of customer credit worthiness, management estimates that portion, if any, of the balance that will not be collected. No interest is charged on delinquent receivables.

Inventories

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

Estimates

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

(Continued)

CARTER STREET CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

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

Compensated Absences

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

Cash Flows

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

Net Position

The Corporation's financial statements utilize a net position presentation. Net position is categorized as investment in capital assets, restricted and unrestricted.

Invested in capital assets is intended to reflect the portion of net position which is associated with non-liquid capital assets less outstanding capital assets related debt.

Restricted net position represents the portion that has third party (statutory, bond covenant or granting agency) limitations on its use. The Corporation's policy is generally to use any restricted position first, as appropriate opportunities arise. At June 30, 2014 the restricted net position balance represents funds received from the City of Chattanooga and the Chattanooga Visitor's Bureau for capital asset purposes.

Unrestricted net assets represent net assets that are not subject to donor-imposed stipulations. While management may have categorized and segmented portions for various purposes, the Corporation has the unrestricted authority to revisit or alter these managerial decisions.

Advertising Costs

The Corporation's policy is to expense advertising costs as incurred. Advertising costs included in expense totaled \$27,499.

(Continued)

CARTER STREET CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Status

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

NOTE 2 – RENTAL REVENUE LEASES

The Corporation has leased certain air rights along with 350 parking spaces to a private developer for the construction of a luxury hotel. The annual rental payments are due from the hotel at a minimum of \$300,000 plus a percentage of net cash flow as defined in the lease agreement. The lease expires in 2025 and provides for two successive fifteen-year renewal options.

NOTE 3 – RETIREMENT PLANS

The Corporation maintains a defined contribution employee benefit plan. The plan covers substantially all employees who have attained the age of 21 and have at least one year of service with the Corporation. The plan provides that the Corporation shall make an annual matching contribution up to 1.5% of eligible participants' annual compensation. The Corporation shall also make a profit sharing contribution equal to 5% of eligible participants' annual compensation. Employees are 100% vested in the plan upon completion of three consecutive years of service. The Corporation's expense and contribution to the plan was \$108,914 for the year ended June 30, 2014. Contributions to the plan by employees for the year ended June 30, 2014 totaled \$75,106.

NOTE 4 – RISK OF LOSS

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

NOTE 5 – CASH AND INVESTMENTS

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

At June 30, 2014, the Corporation held no amounts in investments.

(Continued)

CARTER STREET CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 5 – CASH AND INVESTMENTS (Continued)

Custodial credit risk – The Corporation’s policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105 percent of the value of the uninsured deposits. Those deposits must be covered by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Corporation’s agent in the Corporation’s name, or by the Federal Reserve Bank acting as third party agents. State statutes also authorize the Corporation to invest in repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. At June 30, 2014, all deposits were entirely covered by the Federal Deposit Insurance Corporation or the Tennessee Bank Collateral Pool.

NOTE 6 – NET OPERATING REVENUE

Details of net operating revenue for the year ended June 30, 2014, are as follows:

	<u>Events</u>	<u>Garage</u>	<u>Hotel Rental</u>	<u>Total</u>
Operating revenue	\$ 4,986,753	\$ 783,076	\$ 460,279	\$ 6,230,108
Cost of operating	<u>2,637,598</u>	<u>-</u>	<u>-</u>	<u>2,637,598</u>
	<u>\$ 2,349,155</u>	<u>\$ 783,076</u>	<u>\$ 460,279</u>	<u>\$ 3,592,510</u>

NOTE 7 – RELATED PARTY TRANSACTIONS

The City and the County, through the Chattanooga Visitors Bureau (CVB), both appropriate funds to the Corporation for general operations throughout the year. For the period ended June 30, 2014, the City appropriated \$200,000 and the CVB appropriated \$300,000.

CARTER STREET CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 8 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2014, is as follows:

	Balance			Balance
	June 30, 2013	Additions	Retirements	June 30, 2014
Capital assets (non-depreciable)				
Land	\$ 2,709,075	\$ -	\$ -	\$ 2,709,075
Construction in process	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	2,709,075	-	-	2,709,075
Capital assets (depreciable)				
Trade center	14,438,174	50,564	(2,987)	14,485,751
Parking garage	5,551,560	-	-	5,551,560
Skybox	50,000	-	-	50,000
VIP/First TN Parking	22,000	-	-	22,000
Equipment	2,535,858	125,950	(2,257,850)	403,958
Furniture and fixtures	<u>644,496</u>	<u>-</u>	<u>(204,669)</u>	<u>439,827</u>
	<u>23,242,088</u>	<u>176,514</u>	<u>(2,465,506)</u>	<u>20,953,096</u>
Less accumulated depreciation				
Trade center	9,456,418	376,098	(2,644)	9,829,872
Parking garage	3,696,873	173,500	-	3,870,373
Skybox	20,000	2,500	-	22,500
VIP/First TN Parking	18,250	2,000	-	20,250
Equipment and furniture	<u>3,001,116</u>	<u>61,100</u>	<u>(2,451,534)</u>	<u>610,682</u>
	<u>16,192,657</u>	<u>\$ 615,198</u>	<u>\$ 2,454,178</u>	<u>14,353,677</u>
Total capital assets	<u>\$ 9,758,506</u>			<u>\$ 9,308,494</u>

NOTE 9 – SUBSEQUENT EVENTS

The Corporation has evaluated events and transactions subsequent to the statement of net assets date through the date of the auditor's report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has not identified any items requiring disclosure.



HENDERSON HUTCHERSON
& MCCULLOUGH, PLLC

Certified Public Accountants

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

To the Board of Directors of
Carter Street Corporation

We have audited, 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, the financial statements of Carter Street Corporation, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated September 12, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Carter Street Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Carter Street Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Carter Street Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 Carter Street Corporation's 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.

Chattanooga, Tennessee
September 12, 2014

Henderson Hutcherson
& McCullough, PLLC

CARTER STREET CORPORATION

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2014

CURRENT YEAR FINDINGS

None reported.

PRIOR YEAR FINDINGS

None reported.