DEPOT REDEVELOPMENT CORPORATION OF
MEMPHIS AND SHELBY COUNTY
Memphis, Tennessee

Financial Statements
and Reports of Independent Auditors

For the Years Ended June 30, 2013 and June 30, 2012

DEPOT REDEVELOPMENT CORPORATION OF
MEMPHIS AND SHELBY COUNTY
Memphis, Tennessee

TABLE OF CONTENTS

PAGE

INDEPENDENT AUDITORS' REPORT..1 - 2

FINANCIAL STATEMENTS:

Statements of Net Position..3

Statements of Revenues and Expenses and Changes
in Net Position..4

Statements of Cash Flows..5 - 6

Notes to the Financial Statements..7 - 19

REPORT ON INTERNAL CONTROL AND COMPLIANCE:

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*........................20 - 21

BANKS, FINLEY,
WHITE & CO.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Depot Redevelopment Corporation
of Memphis and Shelby County
Memphis, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Depot Redevelopment Corporation of Memphis and Shelby County ("DRC") as of and for the years ended June 30, 2013 and June 30, 2012, and the related statements of revenues, expenses and changes in net position and cash flows, and the related notes to the financial statements, which collectively comprise DRC's 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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

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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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of the DRC as of June 30, 2013 and June 30, 2012, and the respective changes in net position and cash flows thereof for the years then ended in conformity 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 financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2014, on our consideration of the DRC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DRC's internal control over financial reporting and compliance.

Banks, Finley, White & Co

Memphis, Tennessee
March 17, 2014

DEPOT REDEVELOPMENT CORPORATION OF
MEMPHIS AND SHELBY COUNTY
Statements of Net Position

ASSETS

	June 30, 2013	June 30, 2012
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,163,060	$ 9,960,164
Related party receivable	2,500,000	654,893
Prepaid insurance	10,090	10,468
Total Current Assets	4,673,150	10,625,525
RESTRICTED ASSETS:		
Restricted Cash - Tenants Security Deposits	47,500	47,500
Total Restricted Assets	47,500	47,500
CAPITAL ASSETS (NET)	245,758	263,267
TOTAL ASSETS	$ 4,966,408	$ 10,936,292

LIABILITIES AND NET POSITION

	2013	2012
PAYABLE FROM CURRENT ASSETS:		
Accounts payable-trade	$ 61,236	$ 168,785
Accrued liabilities	-	2,744,398
Total Payable from Current Assets	61,236	2,913,183
PAYABLE FROM RESTRICTED ASSETS:		
Tenants security deposits	47,500	47,500
TOTAL LIABILITIES	108,736	2,960,683
NET POSITION:		
Invested in capital assets, net of related debt	245,758	263,267
Unrestricted	4,611,914	7,712,342
Total Net Position	4,857,672	7,975,609
TOTAL LIABILITIES AND NET POSITION	$ 4,966,408	$ 10,936,292

See accompanying notes to the financial statements

DEPOT REDEVELOPMENT CORPORATION OF
MEMPHIS AND SHELBY COUNTY
Statements of Revenues and Expenses and Changes in Net Position
For the Years Ended June 30, 2013 and June 30, 2012

	2013	2012
OPERATING REVENUES:		
Leasing and CAM income	$ 58,177	$ 630,232
Interest income	-	1,313
Miscellaneous revenue	1,156	13,324
TOTAL OPERATING REVENUES	59,333	644,869
OPERATING EXPENSES:		
Advertising	-	6,000
Accounting	16,194	58,201
Appraisals	6,000	-
Audit	18,011	22,000
Bad debt	-	37,263
Bank charges	3,423	26
Brokerage fees	-	36,197
Depreciation	17,509	252,023
Interest	-	47,381
Salaries and benefits	-	256,043
Dues/memberships	34,626	16,765
Telephone	867	11,457
Utilities	-	28,778
Insurance	10,219	49,685
Office supplies	-	8,860
Office services	-	800
Lawn services	38,540	68,358
Maintenance & repairs	1,500	44,963
Rent - equipment	-	4,987
Professional fees	-	20,623
Security	-	15,056
Software purchased and computer support	-	5,014
Temporary help-intern	-	33,916
Travel	-	111
Training & conferences	-	133
Mid-South Air Service Task Force Grant	72,487	-
Miscellaneous	748	12,094
TOTAL OPERATING EXPENSES	220,124	1,036,734
OPERATING INCOME (LOSS)	(160,791)	(391,865)
NON-OPERATING INCOME (EXPENSES):		
Gain (loss) on sale of property	-	(11,165,766)
Contribution - City of Memphis	(1,478,573)	(8,942,222)
Contribution - Shelby County	(1,478,573)	(8,942,222)
INCOME (LOSS)	(3,117,937)	(29,442,075)
CHANGE IN NET POSITION	(3,117,937)	(29,442,075)
TOTAL NET POSITION--BEGINNING	7,975,609	37,417,684
TOTAL NET POSITION--ENDING	$ 4,857,672	$ 7,975,609

See accompanying notes to the financial statements

DEPOT REDEVELOPMENT CORPORATION OF
MEMPHIS AND SHELBY COUNTY
Statements of Cash Flows
For the Years Ended June 30, 2013 and June 30, 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 59,334	$ 636,082
Cash received from other sources	-	1,313
Cash paid to suppliers for goods and services	(174,785)	(380,499)
Cash paid to employees for services	-	(273,927)
Net Cash Provided By (Used in) Operating Activities	(115,451)	(17,031)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Contribution to City of Memphis	(1,478,573)	(8,942,222)
Contributions to Shelby County	(1,478,573)	(8,942,222)
Line of Credit advances to IDB	(1,845,107)	(654,893)
Net Cash Provided By (Used in) Non-Capital Financing Activities	(4,802,253)	(18,539,337)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	-	(160,785)
Debt repayment	-	(4,555,000)
Net proceeds (payments) of line-of-credit	-	(3,735,600)
Net proceeds from sale of capital assets	-	35,074,368
Interest paid on long-term debt	-	(118,758)
Net Cash Provided By (Used in) Capital and Related Financing Activities	-	26,504,225
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase (decrease) in tenant security deposits	-	(547,209)
Net payments to dispose of assets	(2,879,400)	-
Net Cash Provided By (Used in) Investing Activities	(2,879,400)	(547,209)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,797,104)	7,400,648
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,007,664	2,607,016
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,210,560	$ 10,007,664
CASH AND CASH EQUIVALENTS, END OF YEAR CONSIST OF:		
Unrestricted cash and cash equivalents	$ 2,163,060	$ 9,960,164
Restricted cash and cash equivalents	47,500	47,500
TOTAL	$ 2,210,560	$ 10,007,664
Schedule of Non-cash Investing and Financing Activities:		
Cost of disposal of assets financed by accrued liabilities	$ -	$ 2,868,439

See accompanying notes to the financial statements

DEPOT REDEVELOPMENT CORPORATION OF MEMPHIS AND SHELBY COUNTY

Statements of Cash Flows

For the Years Ended June 30, 2013 and June 30, 2012

(Continued)

	2013	2012
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income/(loss)	$ (160,791)	$ (391,865)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	17,509	252,023
Interest expense	-	118,758
Adjustment to receivables for bad debts	-	(149,000)
(Increase) decrease in assets:		
Tenant accounts receivables	-	178,855
Prepaid insurance	378	50,283
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	27,453	13,243
Due to City of Memphis	-	(17,884)
Accrued interest payable	-	(71,378)
Unearned leasing income	-	(66)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ (115,451)	$ (17,031)

See accompanying notes to the financial statements

DEPOT REDEVELOPMENT CORPORATION OF
MEMPHIS AND SHELBY COUNTY
Notes to the Financial Statements
For the Years Ended June 30, 2013 and June 30, 2012

NOTE 1 - ORGANIZATION:

The DRC was formed on February 4, 1997 by a joint resolution adopted by the Memphis City Council and the County Commission of Shelby County, Tennessee and is jointly governed. The Organization is not considered to be a component unit of the City of Memphis or Shelby County because these primary governments are not considered financially accountable for the Organization. The intent of the Board is that the costs of operating the Organization on a continuing basis is recovered through leasing income.

The primary purpose of the DRC is to secure from the United States Department of Defense the land, building, and equipment of the Memphis Defense Depot (closed as a military base in 1997); enter into agreements to acquire, construct, improve, lease, operate and dispose of property; and to promote the redevelopment of the Memphis Depot for the citizens of the City and County. The closed military base is now called the Memphis Depot Business Park. Currently, approximately 4,100,000 square feet of space is being leased by firms using it primarily for manufacturing and distributing. The park has about 4,250,000 square feet in leasable space.

DRC applied to the Department of the Army by letter dated March 23, 1998 for an Economic Development Conveyance (EDC) pursuant to Section 2905 of the Defense Base Closure and Realignment Act of 1990, as amended (10 U.S.C. § 2687 note), and amended that application by letter dated December 7, 1999 for a No-Cost EDC pursuant to the National Defense Authorization Act for FY 2000, Public Law 106-65, Section 2821 (EDC Application).

In accordance with Section 2905(b)(4) of the Base Closure Act, PL 101-510 (1990), as amended by Section 2821 of the National Defense Authorization Act for Fiscal Year 2000, PL 106-65 (1999), the Department of the Army agreed to convey to the DRC and the DRC agreed to accept the conveyance of approximately Five Hundred Thirty (530) acres, more or less, by means of a No-Cost Economic Development Conveyance.

The DRC entered into a Memorandum of Agreement with the Department of the Army for the transfer of a portion of Defense Distribution Depot of Memphis, Tennessee on December 16, 2001. The Memorandum of Agreement provides that the DRC shall use the proceeds from any sale, lease, or other use of the property received by it during the seven years following May 2002 to support the economic development of or related to the property of the DRC. The DRC agreed to make every effort to reinvest the proceeds within seven years following May 2002. The use of the proceeds to pay for, or offset the cost of, public investment on or related to the property includes the following categories: road construction, transportation management facilities, storm and sanitary sewer construction, police and fire protection facilities and other public facilities, utility repair, maintenance and construction, building rehabilitation, historic property preservation, pollution prevention equipment or facilities, demolition, disposal of hazardous material, landscaping, grading, and other site or public improvements, and planning, engineering, and transportation costs for, or the marketing of, the development and reuse of the property. Other activities on the property of the DRC that are directly related to those listed above may also be considered appropriate, allowable use of proceeds. The DRC shall demonstrate that other uses are directly related to those listed above and directly benefit economic redevelopment and long-term job generation efforts of the DRC. The DRC is required to reinvest the proceeds for the economic development and/or job producing activities on or related to the property. The DRC shall forward all proceeds that are not appropriately reinvested pursuant to the terms of the agreement to the Department of the Army.

In March 2011, the Department of the Army quit claimed to DRC all its rights, title, and interest in the DRC property, which terminates the Memorandum of Agreement with the Department of the Army.

During the year ended June 30, 2010, the DRC organized the Depot Owners Association, LLC. The Association was formed to maintain, administer and enforce the covenants and restrictions, and collect and disburse the assessments and charges provided for the efficient preservation and maintenance of the values and amenities of the real property known as The Memphis Depot Business Park. The Association received $15,840 from the DRC for services rendered as of June 30, 2013.

In 2011, the DRC, along with the Industrial Development Board (IDB) and the Port Commission, were consolidated into the Economic Development Growth Engine Industrial Development Board of the City of Memphis and County of Shelby, TN (EDGE), which was established in January-February 2011, per joint resolution of the Shelby County Commissioners and the Memphis City Council. Consequently, DRC's board was dissolved December 2011 and EDGE's board members became its members. The EDGE board began service in August 2011. Consequently, EDGE Board members became the DRC's Board members in December 2011.

In August and September 2011, substantially all of the property known as the Memphis Depot Business Park was sold or transferred.

New Accounting Standards Adopted

In fiscal year 2013, DRC was required to adopt four new statements of financial accounting standards issued by the Governmental Accounting Standards Board:

--Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*

--Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

--Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

--Statement No. 65, *Items Previously Responded as Assets and Liabilities*

--Statement No. 66, *Technical Corrections- 2012 - an amendment of GASB Statements No. 10 and No. 62*

Statement No. 60, establishes recognition, measurement and disclosure requirements for Service Concession Arrangement for both transferors and governmental operators. A Service Concession Arrangement is an arrangement between a transferor (government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration and the operator collects and is compensated by fees from third parties.

Effective for fiscal year 2013, the City adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain FASB and American Institute of Certified Public Accountants' AICPA") accounting and financial reporting guidance issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

GASB Statement No. 62 also supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, thereby eliminating the election provided in that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

In June of 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement provides financial reporting guidance for deferred outflows of resources, which are consumptions of net position by the government that is applicable to a future reporting period, and deferred inflows of resources, which are acquisitions of net position by the government that is applicable to a future reporting period.

Statement No. 63 amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The adoption of Statement No. 63 resulted in a change in the presentation of the Statement of Net Assets to what is now referred to as the Statement of Net Position, and the term "net assets" is changed to "net position" throughout the financial statements. Statement No. 63 also amends the reporting of the "net investments in capital assets" component of the net position. This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are now required to be included in this component of net position.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources and deferred inflow of resources should be limited to those instances identified by the Government Accounting Standards Board in authoritative pronouncements that are established after applicable due process. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The Organization consists of an enterprise fund. The enterprise fund is classified as a proprietary fund by GASB and is accounted for using a total economic resources measurement focus. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The financial statements of the DRC are prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

Operating revenues and expenses generally result from leasing building space to tenants. Operating expenses include costs of maintaining the Organization's property including administrative expenses and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Grants or other contributions and related expenses are reported as non-operating revenues and expenses.

Pursuant to GASB Statement No. 20, as amended, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Organization applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Organization has elected to not apply FASB Statements and Interpretations issued after November 30, 1989.

The Organization is not required to demonstrate statutory compliance with its annual operating budget. Accordingly, budgetary data is not included in the financial statements.

Infrastructure Capital Assets

Infrastructure capital assets consist mainly of roads, curbs and gutters, streets and sidewalks, drainage systems, landscape construction, and lighting systems and are recorded at historical cost.

Property, Plant and Equipment

Purchased or constructed capital assets are reported at historical cost. The DRC uses a $1,000 threshold capitalization level. During construction of assets, interest incurred on related construction debt, less interest earned from investments whose use is restricted to capital improvements, is capitalized from the time of borrowing until completion of the project. No interest was capitalized during the year ended June 30, 2013. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

ASSET CLASS	ESTIMATED USEFUL LIVES
Infrastructure	30 years
Buildings	20 years
Building Improvements	20 years
Maintenance and Pickup Trucks	5 years
Office and Warehouse Equipment	5-10 years
Fire Protection System	10 years

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and highly liquid short-term investments with maturities of three months or less at date of acquisition.

Tenant Accounts Receivable

The DRC provides an allowance for doubtful accounts equal to the estimated uncollectible portion. This estimate is based on historical collection experience and a review of the current status of tenant accounts receivable. The allowance for doubtful accounts was $- and $- for the years ended June 30, 2013 and 2012, respectively.

Leases

The Organization is lessor under numerous lease agreements. The leases are classified as operating leases.

Compensated Absences

The staff of the DRC are employees of the City of Memphis or a third-party employment agency. Therefore, compensated absences employees are reported in the City of Memphis' Comprehensive Annual Financial Report and the DRC is not responsible for compensated absences for third-party employees. As of June 30, 2012, there are no DRC staff or contracted employees.

Income Taxes

No provisions for federal income taxes are required since the DRC is an agency established under the ordinances of the State of Tennessee Industrial Development Corporation Act.

Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Operating and Non-Operating Revenues

Operating revenues include any income derived from leasing operations and/or any proceeds from items sold that were used to support leasing operations. Non-operating revenues are comprised of funds received from outside sources such as grant income.

Risk Management

The Organization purchases commercial insurance coverage for claims arising out of bodily injury or property damage as well as property insurance on the Organization's property, which includes earthquake and flood coverage. There were no significant reductions in insurance coverage over the prior year. Additionally, there were no significant settlements which exceeded insurance coverages for each of the past three years.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:

Deposit and investment risk

Each day the DRC's excess funds are swept into a temporary investment account under the terms of repurchase agreements with its financial institutions. The balances remaining in the deposit accounts are insured by federal depository insurance. The temporary investments are collateralized with securities pledged by the financial institutions. The pledged securities are held in trust by the financial institutions but not in DRC's name. As required by state statue, cash deposits in excess of Federal Deposit Insurance Corporation insurance are to be collateralized at 105%.

At June 30, 2013 and June 30, 2012, the DRC maintained a bank account at a local bank. Accounts at this bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. For the year ended June 30, 2013, the amounts held at this bank were in excess of $1,210,560. For the year ended June 30, 2012, the amounts held at this bank were not in excess of the insured amounts. The Organization held no temporary investments at June 30, 2013.

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. The DRC only invests excess funds on an overnight basis under the terms of a repurchase agreement. DRC limits its interest rate risk through the short-term nature of its investments.

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. The DRC has no formal policy on managing credit risk.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the DRC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2013 and 2012, the DRC had no temporary investments subject to repurchase agreements which were collateralized by uninsured and unregistered investments which are not in DRC's name. The DRC has no policy on custodial credit risk.

Concentration of Credit Risk

The DRC places no limit on the amount that it may invest in any one issuer. At June 30, 2013 and 2012, the DRC held no investments.

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment, including infrastructure, consist of the following:

DESCRIPTION	2012	Additions	Deductions	2013
Roadways, Streets, Utilities & Parking	$ 108,020	$ -	$ -	$ 108,020
Sewer & Water Construction	33,126	-	-	33,126
Fire Protection System	26,183	-	-	26,183
Landscape Construction	1,916	-	-	1,916
Building Improvements	200,432	-	-	200,432
TOTAL	369,677	-	-	369,677
Less accumulated depreciation	(106,410)	(17,509)	-	(123,919)
NET PROPERTY, PLANT AND EQUIPMENT	$ 263,267	$ (17,509)	$ -	$ 245,758

Total depreciation expense for June 30, 2013 and June 30, 2012 was $17,509 and $252,023, respectively.

As referenced in Note 1, substantially all of the DRC's property was sold. The total sales price was $37,304,000, and total cost and accumulated depreciation was $43,371,693, which resulted in an initial loss of $6,067,693. Additionally, various payments were made for legal fees, grant repayments, professional fees and other expenses related to the sale totaled $5,098,073. The total loss of the sale of property was $11,165,766.

NOTE 5 - LONG-TERM OBLIGATIONS:

6-A Long-term Obligation Activity

As noted previously, the staff of the DRC are employees of the City of Memphis or a third-party employment agency. Therefore, any cost or liability for Pension Plans or Other Post Employment Benefits for employees are reported in the City of Memphis' Comprehensive Annual Financial Report and the DRC is not responsible for these cost or liabilities for third-party employees. As of June 30, 2012, there were no DRC staff or contract employees.

6-B Long-term Line-of-Credit Obligation

DRC's $7,000,000 non-revolving line-of-credit was repaid prior to June 30, 2013 with the proceeds from the sale of property mentioned in Note 1 . The line-of-credit had a maturity date of June 30, 2015. According to the note agreement, DRC paid interest only at 4.97% beginning January 30, 2010 through June 30, 2011. Commencing July 30, 2011, DRC paid principal and interest in forty-eight (48) equal monthly installments of principal including interest at 4.97%. The credit line was secured by a negative pledge of all of the Organization's fixed assets, and an assignment of rents and leases of the Organization.

The debt was payable from leasing income and other revenue. The following is schedule of debt maturities on outstanding issues as of June 30, 2013.

As of June 30, 2012, long-term obligations were repaid with the proceeds from the sale of property mentioned in Note 1.

NOTE 6 - CONTINGENCIES AND COMMITMENTS:

As of June 30, 2012, the DRC receives a portion of its revenue from government grants and contracts, all of which are subject to audit by government agencies. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by government agencies. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audit, except that a Department of Commerce, Economic Development Administration (EDA) grant received by DRC in prior years may require partial repayment of funds to cover any potential claims made by EDA as a result of the sale of DRC property. As of June 30, 2012, the contingencies mentioned above no longer exist, due to the sale of property mentioned in Note 1.

In the normal course of operations, the Organization is subject to claims and litigation. Management is of the opinion that, based on information presently available, no matters exist that would have a material adverse effect on the financial position and results of operations of the Organization.

In connection with the repayment of funds to the EDA, DRC has a potential liability of $801,000 concerning certain public utilities. An escrow account, in the amount of $800,925, was created subsequent to June 30, 2012. Additionally, $135,000 was subsequently paid to the Delta Regional Authority with funds received from the sale of property mentioned in Note 1.

NOTE 7 - DEFINED BENEFIT RETIREMENT PLANS:

General - The DRC participates in the City of Memphis Retirement System. Although the DRC is a separate entity, plan benefits have not been allocated to employees of the DRC. Consequently, disclosures will follow guidelines for cost-sharing, multiple employer public employee retirement systems. The Retirement System is established under Chapter 25, Code of Ordinances, City of Memphis, Tennessee and is administered by a Board of Administration under the direction of the Mayor. The Retirement System is included in the City's general purpose financial statements as a pension trust fund. That report may be obtained by writing to the City of Memphis, Comptroller's Office, 125 N. Main Street, Memphis, TN 38103.

Plan Description - Substantially all full-time salaried employees are required to participate in one of two contributory defined benefit pension plans (the Plans). Plan A is for salaried employees hired prior to July 1, 1978, and Plan B is for salaried employees hired thereafter. Hourly employees are eligible for coverage under a supplemental retirement plan based on their wages under the Federal Insurance Contribution Act (Social Security). The DRC's payroll for all employees covered by the plans was $- and $67,486 for the years ended June 30, 2013 and June 30, 2012.

The Plans provide retirement benefits as well as death and disability benefits. Retirement benefits vest after ten years of service. General employees under Plan A may retire after completion of twenty-five years of service or, if earlier, after age sixty and completion of ten years of service. Under Plan B, general employees may retire after completion of 25 years of service or if earlier, after meeting any of the following:

(1) After age sixty-five and the completion of five years of service
(2) After age sixty and the completion of ten years of service

Funding Policy - Plan members are required to contribute 5% and 8% for Plan A and Plan B, respectively, of their annual covered salary, and the DRC is required to contribute the remaining amount necessary to fund the Plan, using the actuarial basis specified by statute. The contribution requirements of Plan members and the DRC are established and may be amended by the Board of Administration. The DRC's contributions to the Plan for the years ended June 30, 2013 and June 30, 2012 were $- and $4,023, respectively, equal to the required contributions for each year.

Per the substantial sale of property that occurred in August and September 2011, no DRC employees are part of the City of Memphis Retirement System. As mentioned above in Note 5, as of June 30, 2012, there were no DRC staff or contract employees.

See next page

NOTE 8 - LEASES:

Lessor:

The DRC leases certain warehouse and office space to various lessees based on a fixed-fee and a percentage of the Organization's operating costs of common-areas (CAM). The lease terms range from 2 to 6 years. Lease income for the year ended June 30, 2013 is shown net of rent credits of $-. The following is a schedule of anticipated minimum future revenues on non-cancelable agreements:

Schedule of Anticipated Minimum Future Revenues

Year	As of June 30, 2013
June 30, 2014	$ 56,592
June 30, 2015	56,592
June 30, 2016	56,592
June 30, 2017	56,592
June 30, 2018	-
Thereafter	-
Total	$ 226,368

Lessee:

The DRC leases various office and warehouse equipment for use in operations. The leases are month to month. Equipment lease expenses were $0 and $1,973, respectively for June 30, 2013 and June 30, 2012.

NOTE 9 - ECONOMIC DEPENDENCY - MAJOR CUSTOMERS:

After closing of sale of property in August 2011, all DRC tenant income was assigned to purchaser, except for one parcel remaining with the DRC. Two tenants provided 44.1% and 22.6% of the leasing revenues, respectively as of June 30, 2012.

NOTE 10 - RELATED PARTIES:

In April 2012, a revolving line-of-credit agreement was executed between the DRC and the IDB, in which a total of $2,500,000 is available for the DRC to lend to the IDB. Repayment, unless extended, shall be made by the maturity date of December 31, 2015. The line-of-credit carries a 0% interest rate. As of June 30, 2013, a related party receivable of $2,500,000 is due from the IDB.

NOTE 11 - RECLASSIFICATIONS:

Certain reclassifications to the June 30, 2012 financial statements have been made to conform with the June 30, 2013 presentation with no effect on changes in net position.

REPORT ON INTERNAL CONTROL AND COMPLIANCE

BANKS, FINLEY,
WHITE & CO.
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*

Board of Directors
Depot Redevelopment Corporation
of Memphis and Shelby County
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 financial statements of the Depot Redevelopment Corporation of Memphis and Shelby County ("DRC"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise DRC's financial statements, and have issued our report thereon dated March 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DRC'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 opinions on the financial statements, but not for the purpose of expression an opinion on the effectiveness of DRC's internal control. Accordingly, we do not express an opinion on the effectiveness of DRC'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 DRC'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.

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

Compliance and Other Matters

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

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 compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this communication is not suitable for any other purpose.

Banks, Finley, White & Co.

Memphis, Tennessee
March 17, 2014