

**DEPOT REDEVELOPMENT CORPORATION OF  
MEMPHIS AND SHELBY COUNTY**  
Memphis, Tennessee

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**Financial Statements  
and Reports of Independent Auditors**

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For the Years Ended June 30, 2015 and June 30, 2014

**DEPOT REDEVELOPMENT CORPORATION OF  
MEMPHIS AND SHELBY COUNTY**  
Memphis, Tennessee

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# The Depot Redevelopment Corporation of Memphis and Shelby County

Managed by **EDGE**

December 9, 2015

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

Dear Board Members:

I am pleased to present the Depot Redevelopment Corporation of Memphis and Shelby County ("DRC") report on audited financial statements for the year ending June 30, 2015. The audit consists of 4 sections: Introduction, Independent Auditor's Report, Financial Statements, and the Report on Internal Controls and Compliance. This introductory section consists of the transmittal letter and a list of the Board of Directors and management staff. The next section contains the independent auditor's report and includes the management's discussion and analysis. The financial statements include the statements related to net position; revenues, expenses, and changes in net position; cash flows; and the related notes to the financial statements. The statutory reporting section includes the independent auditor's report on internal control over financial reporting and on compliance based on the audit of the financial statements.

The accuracy of the data and all audit disclosures are the responsibility of the DRC. To the best of our knowledge, information and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to represent the financial position and operations of the DRC.

## Overview

The DRC is an industrial development corporation organized as a public benefit corporation under TCA §7-53-101 et seq. In early FY 2012 the DRC sold the vast majority of the Memphis Depot Industrial Park, which it owned and operated, totaling 5.5± million sq. ft. of industrial space, to a private investor. The DRC retained one 25,059 sq. ft. industrial building constructed in 1940 and approximately 97.6 acres of vacant land.

In January/February 2011 the City of Memphis and Shelby County created the Economic Development Growth Engine Industrial Development Board of the City of Memphis and County of Shelby, Tennessee ("EDGE"), and made the EDGE Board of Directors the Board of the DRC, the Industrial Development Board of the City of Memphis and County of Shelby, Tennessee ("IDB"), and a majority of the Board of the Memphis and Shelby County Port Commission. In doing so, the City and County created a unified City/County economic development organization. Subsequent actions led to a common President/CEO for all four entities, as well as common General Counsel, accountants and auditors. EDGE now provides all staffing for the four entities; the DRC's office was closed in 2012.

The EDGE Board became the DRC Board in December 2011.

As a result of these two actions, the nature of the DRC's activities changed dramatically. The DRC currently leases its remaining building to a private entity and is marketing its remaining land. The DRC has used its financial resources to support several community initiatives, including the Mid-South Air Service Task Force and the Memphis and Shelby County Regional Economic Development Plan. In addition, the DRC loaned funds to the IDB for the Paul R. Lowery Road improvement project. Those funds will be repaid with a grant from the Delta Regional Authority ("DRA") secured by the IDB.

I would like to thank Banks Finley White & Co. and Cannon & Company, for their support in preparing the fiscal year 2015 audit. The audit of the DRC seeks to ensure fiscal transparency and accountability for the Board of Directors and the public. These financial statements were created utilizing the highest professional standards to achieve that goal.

Cordially,



Reid Dulberger  
President & CEO

**DEPOT REDEVELOPMENT CORPORATION OF  
MEMPHIS AND SHELBY COUNTY**  
MANAGEMENT OFFICIALS AND BOARD OF DIRECTORS  
For the Year Ended June 30, 2015

**PRESIDENT & CHIEF EXECUTIVE OFFICER**

Reid Dulberger

**BOARD OF DIRECTORS**

Al Bright, Jr., Chairman  
Thomas R. Dyer, Vice Chairman  
Natasha Donerson, Secretary  
Larry C. Jackson, Treasurer  
Steve Basar  
Wanda Halbert  
Charles A. Goforth  
Mark J. Halperin  
Deidre Carter Malone  
Jackson W. Moore  
Johnny B. Moore, Jr.

**GENERAL COUNSEL**

Mark E. Beutelschies



## INDEPENDENT AUDITOR'S 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, 2015 and June 30, 2014, 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



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, 2015 and June 30, 2014, and the respective changes in its 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***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the financial statements. Such 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. 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 financial statements, and other knowledge we obtained during our audit of the 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 financial statements that collectively comprise the Depot Redevelopment Corporation of Memphis and Shelby County's financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements.



The introductory section 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 also issued our report dated December 9, 2015, 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 PC*

Memphis, Tennessee  
December 9, 2015



**DEPOT REDEVELOPMENT CORPORATION OF  
MEMPHIS AND SHELBY COUNTY**

Management's Discussion and Analysis  
For the Year Ended June 30, 2015

**INTRODUCTION**

This section of the DRC annual financial report presents our discussion and analysis of the Organization's financial performance during the fiscal year ended June 30, 2015. This discussion and analysis of the DRC's financial performance provides an overview of its financial activities for the year ended June 30, 2015. The intent of this management's discussion and analysis is to look at the DRC's financial performance as a whole; readers should also review the transmittal letter, financial statements and notes to the financial statements to enhance their understanding of the DRC's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental and Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, issued June 1999. Certain comparative information between the current year and the two prior years is required to be presented in the MD&A.

As discussed in the notes, the Depot Redevelopment Corporation (DRC) was created to redevelop a former military facility. The majority of that facility, known as the Depot Business Park, approximately 5.5 million square feet of building space, was sold to a private entity in early FY 2012, with the net proceeds of that sale distributed to the City of Memphis and Shelby County in 2013 and 2014. The DRC retains ownership of one small building, currently leased to a private entity, plus vacant land which is for sale.

**FINANCIAL HIGHLIGHTS**

The DRC's total net position decreased \$0.16M or (3.28)% from 2014 to 2015. The change in total net position was generated primarily by a reduction in Accounts Payable. The DRC's total net position increased \$0.02M or 0.41% from 2013 to 2014. The change in total net position was caused by an increase in unrestricted assets.

Current assets decreased by \$0.14M from 2014 to 2015 due to a decrease in cash and cash equivalents, and in prepaid assets. Current assets decreased by \$0.02M or 0.43% from 2013 to 2014. This is due to a decrease in cash and cash equivalents.

**DEPOT REDEVELOPMENT CORPORATION OF  
MEMPHIS AND SHELBY COUNTY**

Management's Discussion and Analysis  
For the Year Ended June 30, 2015

Operating revenues increased \$0.01M or 20.00% from 2014 to 2015 due to an increase in rental income for DRC's industrial building. Operating revenues decreased \$0.01M or (16.67%) from 2013 to 2014. This is due to a reduction in rental income for DRC's industrial building.

Operating expenses decreased \$0.16M or (42.11%) from 2014 to 2015. This is primarily due to a \$0.1M reduction in grant funding for the Regional Economic Development Strategic Plan, a \$0.03M reduction in lawn mowing and a \$0.02M reduction in funding for the Mid-South Air Service Task Force, plus lower costs for maintenance & repairs, dues/memberships, and accounting/auditing fees.

Operating expenses increased \$0.16M or 72.73% from 2013 to 2014. This is primarily due to a \$0.24M grant from the DRC to fund the Memphis and Shelby County Regional Economic Development Strategic Plan and a \$0.02M grant from the DRC for the Mid-South Air Service Task Force, offset by lower FY 2014 costs for accounting, appraisal, audit and lawn care.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to DRC's financial statements. The financial statements comprise two components: 1) enterprise fund financial statements, and 2) notes to the financial statements.

Financial statements:

The DRC maintains one type of proprietary fund, an Enterprise Fund. Enterprise Funds are designed to reflect the business-type activity of the DRC.

Notes to the financial statements:

The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

*See next page*

**DEPOT REDEVELOPMENT CORPORATION OF  
MEMPHIS AND SHELBY COUNTY**

Management's Discussion and Analysis

For the Year Ended June 30, 2015

**Analysis of the DRC's Statement of Net Position**

Condensed financial information comparing the DRC's net position for the past three fiscal years is presented below:

*(amounts in millions of dollars)*

	<b>2015</b>	<b>2014</b>	<b>Difference</b>	<b>% Change</b>	<b>2013</b>	<b>Difference</b>	<b>% Change</b>
Current assets	\$ 4.51	\$ 4.65	\$ (0.14)	(3.01)%	\$ 4.67	\$ (0.02)	(0.43)%
Restricted assets	0.05	0.05	-	- %	0.05	-	- %
Capital assets	<u>0.21</u>	<u>0.23</u>	<u>(0.02)</u>	<u>(8.70)%</u>	<u>0.25</u>	<u>(0.02)</u>	<u>(8.00)%</u>
<b>Total Assets</b>	<b><u>4.77</u></b>	<b><u>4.93</u></b>	<b><u>(0.16)</u></b>	<b><u>(3.25)%</u></b>	<b><u>4.97</u></b>	<b><u>(0.04)</u></b>	<b><u>(0.80)%</u></b>
Payable from current assets	-	-	-	- %	0.06	(0.06)	(100.00)%
Payable from restricted assets	<u>0.05</u>	<u>0.05</u>	<u>-</u>	<u>- %</u>	<u>0.05</u>	<u>-</u>	<u>- %</u>
<b>Total Liabilities</b>	<b><u>0.05</u></b>	<b><u>0.05</u></b>	<b><u>-</u></b>	<b><u>- %</u></b>	<b><u>0.11</u></b>	<b><u>(0.06)</u></b>	<b><u>(54.55)%</u></b>
Net investment in capital assets	0.21	0.23	(0.02)	(8.70)	0.25	(0.02)	(8.00)
Unrestricted	<u>4.51</u>	<u>4.65</u>	<u>(0.14)</u>	<u>(3.01)%</u>	<u>4.61</u>	<u>0.04</u>	<u>0.87 %</u>
<b>Total Net Position</b>	<b><u>4.72</u></b>	<b><u>4.88</u></b>	<b><u>(0.16)</u></b>	<b><u>(3.28)%</u></b>	<b><u>4.86</u></b>	<b><u>0.02</u></b>	<b><u>0.41 %</u></b>
<b>Total Liabilities and Net Position</b>	<b>\$ <u>4.77</u></b>	<b>\$ <u>4.93</u></b>	<b>\$ <u>(0.16)</u></b>	<b><u>(3.25)%</u></b>	<b>\$ <u>4.97</u></b>	<b>\$ <u>(0.04)</u></b>	<b><u>(0.80)%</u></b>

**Revenues and Expenses**

Total operating revenues consist of lease revenue from a building owned by the DRC. Operating expenses consist of building maintenance, dues to the Depot Association for common area maintenance, lawn care, accounting and auditing fees.

*See next page*

**DEPOT REDEVELOPMENT CORPORATION OF  
MEMPHIS AND SHELBY COUNTY**

Management's Discussion and Analysis

For the Year Ended June 30, 2015

**Analysis of the DRC's Statement of Revenues, Expenses and Changes in Net Position**

Condensed financial information comparing the DRC's revenues, expenses and changes in net position for the past three fiscal years is presented below:

*(amounts in millions of dollars)*

<b>Operating Revenues</b>	<b>2015</b>	<b>2014</b>	<b>Difference</b>	<b>% Change</b>	<b>2013</b>	<b>Difference</b>	<b>% Change</b>
Leasing and CAM Income	\$ 0.06	\$ 0.05	\$ 0.01	20.00 %	\$ 0.06	\$ (0.01)	(16.67)%
Miscellaneous Income	-	-	-	%	-	-	%
<b>Total Operating Revenue</b>	<b>0.06</b>	<b>0.05</b>	<b>0.01</b>	<b>20.00 %</b>	<b>0.06</b>	<b>(0.01)</b>	<b>(16.67)%</b>
Operating expenses	<u>0.22</u>	<u>0.38</u>	<u>(0.16)</u>	<u>(42.11)%</u>	<u>0.22</u>	<u>0.16</u>	<u>72.73 %</u>
Operating Income	(0.16)	(0.33)	0.17	(51.52)%	(0.16)	(0.17)	106.25 %
Non-Operating Income (Expenses)							
Gain (loss) on sale of property	-	0.35	(0.35)	(100.00)%	-	0.35	0.00 %
Contribution - City of Memphis	-	-	-	0.00 %	(1.48)	1.48	(100.00)%
Contribution - Shelby County	-	-	-	0.00 %	(1.48)	1.48	(100.00)%
<b>Change in Net Position</b>	<b>(0.16)</b>	<b>0.02</b>	<b>(0.18)</b>	<b>(900.00)%</b>	<b>(3.11)</b>	<b>3.13</b>	<b>(100.64)%</b>
<b>Total Net Position-Beginning</b>	<b><u>4.88</u></b>	<b><u>4.86</u></b>	<b><u>0.02</u></b>	<b><u>0.41 %</u></b>	<b><u>7.97</u></b>	<b><u>(3.11)</u></b>	<b><u>(39.02)</u></b>
<b>Total Net Position-Ending</b>	<b>\$ <u>4.72</u></b>	<b>\$ <u>4.88</u></b>	<b>\$ <u>(0.16)</u></b>	<b><u>(3.28)%</u></b>	<b>\$ <u>4.86</u></b>	<b>\$ <u>0.02</u></b>	<b><u>0.41</u></b>

**Capital Assets**

Depreciation expense was approximately \$0.02 million during the year. Costs applied to gain on sale of property amounted to \$0, net of accumulated depreciation.

*See next page*



**DEPOT REDEVELOPMENT CORPORATION OF  
MEMPHIS AND SHELBY COUNTY**

Management's Discussion and Analysis  
For the Year Ended June 30, 2015

The following table summarizes the changes in capital assets between fiscal years 2015, 2014, and 2013.

	2015	2014	Difference	% Change	2013	Difference	% Change
Roadways, Streets, Utilities & Parking	\$ 0.11	\$ 0.11	\$ -	- %	\$ 0.11	\$ -	- %
Building improvements	0.20	0.20	-	- %	0.20	-	- %
Sewer and Water Construction	0.03	0.03	-	- %	0.03	-	- %
Fire Protection	0.03	0.03	-	- %	0.03	-	- %
Landscaping Construction	-	-	-	- %	-	-	- %
<b>Total</b>	<b>0.37</b>	<b>0.37</b>	<b>-</b>	<b>- %</b>	<b>0.37</b>	<b>-</b>	<b>- %</b>
Less Accumulated Depreciation	0.16	0.14	0.02	14.29 %	0.12	0.02	16.67 %
<b>Net Property &amp; Equipment</b>	<b>\$ 0.21</b>	<b>\$ 0.23</b>	<b>\$ (0.02)</b>	<b>(8.70)%</b>	<b>\$ 0.25</b>	<b>\$ (0.02)</b>	<b>(8.00)%</b>

### Discussion of Long Range Plans

It has always been part of DRC's management's long range plan to sell the DRC property. With the property sales mentioned above, this goal has been partially accomplished. Remaining are one industrial building and 85 acres of undeveloped land, not under contract. The City of Memphis and County of Shelby, Tennessee have formed a successor organization to manage and direct the business affairs of DRC and two other similar economic development corporations. The new organization is the Economic Development Growth Engine Industrial Development Board of the City of Memphis and County of Shelby, Tennessee (EDGE). The EDGE Board became the Board of the DRC in January 2012. In addition, the President & CEO of EDGE is the President & CEO of the DRC. EDGE staff serve the DRC and EDGE provides legal services to the DRC.

### Request for Information

This financial report is designed to provide a general overview of the DRC's finances for all those with an interest in such information. Questions concerning any of the information provided in this report or request for additional financial information may be addressed to Reid Dulberger, President & CEO, 100 Peabody Place, Suite 1100, Memphis, TN 38103.

**DEPOT REDEVELOPMENT CORPORATION OF  
MEMPHIS AND SHELBY COUNTY**

Statements of Net Position  
June 30, 2015 and June 30, 2014

**ASSETS**

	<u>2015</u>	<u>2014</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,001,330	\$ 2,139,129
Related party receivable	2,500,000	2,500,000
Prepaid insurance	<u>8,952</u>	<u>10,452</u>
Total Current Assets	<u>4,510,282</u>	<u>4,649,581</u>
<b>RESTRICTED ASSETS:</b>		
Restricted Cash - Tenants Security Deposits	<u>47,500</u>	<u>47,500</u>
Total Restricted Assets	<u>47,500</u>	<u>47,500</u>
<b>CAPITAL ASSETS (NET)</b>	<u>210,740</u>	<u>228,249</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,768,522</u>	<u>\$ 4,925,330</u>

**LIABILITIES AND NET POSITION**

<b>PAYABLE FROM CURRENT ASSETS:</b>		
Accounts payable-trade	\$ <u>1,199</u>	\$ <u>2,627</u>
Total Payable from Current Assets	<u>1,199</u>	<u>2,627</u>
<b>PAYABLE FROM RESTRICTED ASSETS:</b>		
Tenants security deposits	<u>47,500</u>	<u>47,500</u>
<b>TOTAL LIABILITIES</b>	<u>48,699</u>	<u>50,127</u>
<b>NET POSITION:</b>		
Net investments in capital assets	210,740	228,249
Unrestricted	<u>4,509,083</u>	<u>4,646,954</u>
Total Net Position	<u>4,719,823</u>	<u>4,875,203</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 4,768,522</u>	<u>\$ 4,925,330</u>

*See accompanying notes to the financial statements*

**DEPOT REDEVELOPMENT CORPORATION OF  
MEMPHIS AND SHELBY COUNTY**  
Statements of Revenues, Expenses, and Changes in Net Position  
For the Years Ended June 30, 2015 and June 30, 2014

	<u>2015</u>	<u>2014</u>
<b>OPERATING REVENUES:</b>		
Leasing and CAM income	\$ <u>56,592</u>	\$ <u>51,383</u>
TOTAL OPERATING REVENUES	<u>56,592</u>	<u>51,383</u>
<b>OPERATING EXPENSES:</b>		
Accounting and audit fees	15,643	19,909
Bank charges	4,767	4,946
Depreciation	17,509	17,509
Dues/memberships	28,683	37,762
Insurance	9,004	8,467
Lawn services	-	34,064
Legal services	-	664
Maintenance & repairs	-	5,800
Mid-South Air Service Task Force Grant	-	15,508
ED Plan Grant	<u>136,366</u>	<u>238,148</u>
TOTAL OPERATING EXPENSES	<u>211,972</u>	<u>382,777</u>
<b>OPERATING INCOME (LOSS)</b>	(155,380)	(331,394)
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Gain (loss) on sale of property	<u>-</u>	<u>348,925</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>-</u>	<u>348,925</u>
<b>CHANGE IN NET POSITION</b>	(155,380)	17,531
<b>TOTAL NET POSITION - BEGINNING OF YEAR</b>	<u>4,875,203</u>	<u>4,857,672</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<u>\$ 4,719,823</u>	<u>\$ 4,875,203</u>

*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, 2015 and June 30, 2014

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 56,592	\$ 51,382
Cash paid to suppliers for goods and services	<u>(194,391)</u>	<u>(424,238)</u>
Net Cash Provided By (Used in) Operating Activities	<u>(137,799)</u>	<u>(372,856)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Net Cash Provided By (Used in) Non-Capital Financing Activities	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Net proceeds from sale of capital assets	<u>-</u>	<u>348,925</u>
Net Cash Provided By (Used in) Capital and Related Financing Activities	<u>-</u>	<u>348,925</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net Cash Provided By (Used in) Investing Activities	<u>-</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(137,799)	(23,931)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,186,629</u>	<u>2,210,560</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 2,048,830</u>	<u>\$ 2,186,629</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR CONSIST OF:</b>		
Unrestricted cash and cash equivalents	\$ 2,001,330	\$ 2,139,129
Restricted cash and cash equivalents	<u>47,500</u>	<u>47,500</u>
<b>TOTAL</b>	<u>\$ 2,048,830</u>	<u>\$ 2,186,629</u>

*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, 2015 and June 30, 2014

*(Continued)*

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income/( loss)	\$ (155,380)	\$ (331,394)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	17,509	17,509
Prepaid insurance	1,500	(362)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	<u>(1,428)</u>	<u>(58,609)</u>
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	\$ <u>(137,799)</u>	\$ <u>(372,856)</u>

*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, 2015 and June 30, 2014

**NOTE 1 - ORGANIZATION:**

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, the 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.

During the year ended June 30, 2010, the DRC organized the Depot Owners Association, LLC ("Association"). 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 \$26,683 from the DRC for services rendered as of June 30, 2015.

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

There are no DRC staff or contracted employees.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

*Basis of Accounting*

The DRC 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 DRC'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.

The DRC 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, 2015. 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.

### *Leases*

The DRC is lessor under one lease agreement. The leases are classified as operating leases.

### *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 DRC purchases commercial insurance coverage for claims arising out of bodily injury or property damage as well as property insurance on the DRC'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 the DRC's name. As required by state statute, cash deposits in excess of Federal Deposit Insurance Corporation insurance are to be collateralized at 105%.



At June 30, 2015 and June 30, 2014, 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, 2015, the amounts held at this bank were in excess of \$1,057,028, which are collateralized by the local government pool. For the year ended June 30, 2014, the amounts held at this bank were in excess \$1,194,027, which are collateralized by the local government pool. The DRC held no temporary investments at June 30, 2015 and 2014.

#### *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. The 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, 2015 and 2014, the DRC had no temporary investments subject to repurchase agreements which were collateralized by uninsured and unregistered investments which are not in the 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, 2015 and 2014, the DRC held no investments.

**NOTE 4 - PROPERTY, PLANT AND EQUIPMENT:**

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

	2014	Additions	Deductions	2015
<b>DESCRIPTION</b>				
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	<u>200,432</u>	<u>-</u>	<u>-</u>	<u>200,432</u>
<b>TOTAL</b>	369,677	-	-	369,677
Less accumulated depreciation	<u>(141,428)</u>	<u>(17,509)</u>	<u>-</u>	<u>(158,937)</u>
<b>NET PROPERTY, PLANT AND EQUIPMENT</b>	<u>\$ 228,249</u>	<u>\$ (17,509)</u>	<u>\$ -</u>	<u>\$ 210,740</u>

Total depreciation expense for June 30, 2015 and June 30, 2014 was \$17,509 and \$17,509, respectively.

**NOTE 5 - CONTINGENCIES AND COMMITMENTS:**

In the normal course of operations, the DRC 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 DRC.

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.

*See next page*

**NOTE 6 - OPERATING LEASES:****Lessor:**

The DRC leases certain warehouse and office space to various lessees based on a fixed-fee and a percentage of the DRC's operating costs of common-areas (CAM). The lease terms range from 2 to 6 years. Lease income for the year ended June 30, 2015 and 2014 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**

<u>Year</u>	<u>As of June 30, 2015</u>
June 30, 2016	\$ 56,592
June 30, 2017	56,592
June 30, 2018	-
June 30, 2019	-
June 30, 2020	-
Thereafter	-
Total	<u>\$ 113,184</u>

**NOTE 7 - ECONOMIC DEPENDENCY - MAJOR CUSTOMERS:**

One tenant provided 100% of the leasing revenues, respectively, as of June 30, 2015 and 2014.

**NOTE 8 - RELATED PARTIES:**

A revolving line-of-credit agreement was executed between the DRC and the IDB in April 2012, 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, 2015 and 2014, a related party receivable of \$2,500,000 is due from the IDB.

**NOTE 9 - RECLASSIFICATIONS:**

Certain reclassifications to the June 30, 2014 financial statements have been made to conform with the June 30, 2015 presentation with no effect on changes in net position.

## **REPORT ON INTERNAL CONTROL AND COMPLIANCE**

**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***

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

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 the Depot Redevelopment Corporation of Memphis and Shelby County ("DRC"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise DRC's financial statements, and have issued our report thereon dated December 9, 2015.

**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.



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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. 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 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 internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Banks, Finley, White & Co.*  
Memphis, Tennessee  
December 9, 2015



**DEPOT REDEVELOPMENT CORPORATION OF  
MEMPHIS AND SHELBY COUNTY**  
Schedule of Prior Year Findings and Questioned Cost  
For the Year Ended June 30, 2015

There were no prior findings reported.