

**THE CITY OF MEMPHIS AND SHELBY COUNTY
COMMUNITY REDEVELOPMENT AGENCY**

Financial Statements
For the Year Ended June 30, 2019

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

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**THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT
AGENCY**

Roster of Board of Directors and Management
June 30, 2019

Board of Directors

McKinley Martin Jr., Chairman

R. Miles Mason, Sr., Vice-Chairman

Sam Cantor, Treasurer

Ann W. Langston, Secretary

Kevin Spragling, Member

Britney Thornton, Member

Dynisha Woods, Member

Management

Rosalyn Willis, President



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Independent Auditor's Report

Board of Directors
The City of Memphis and Shelby County Community Redevelopment Agency
Memphis, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund (general fund) of The City of Memphis and Shelby County Community Redevelopment Agency as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise The City of Memphis and Shelby County Community Redevelopment Agency's basic 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 audits. 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 audits 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund (general fund) of The City of Memphis and Shelby County Community Redevelopment Agency as of June 30, 2019, and the respective changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic 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 City of Memphis and Shelby County Community Redevelopment Agency's basic financial statements. The supplementary information section is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2021, on our consideration of The City of Memphis and Shelby County Redevelopment Agency'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 solely 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 effectiveness of 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 City of Memphis and Shelby County Redevelopment Agency's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." The signature is written in a cursive, flowing style.

Memphis, Tennessee
February 15, 2021

**THE CITY OF MEMPHIS AND SHELBY COUNTY
COMMUNITY REDEVELOPMENT AGENCY**

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2019

The Management’s Discussion and Analysis of the Memphis and Shelby County Community Redevelopment Agency (CRA) is designed to assist the reader in focusing on significant financial issues, provide an overview of financial activity, identify changes in the financial position, and identify individual financial concerns.

This Management’s Discussion and Analysis is presented in accordance with the requirements of the Governmental Standards Board, Statement No. 34 (GASB 34).

Financial Highlights

There are three redevelopment projects currently approved by the CRA, City of Memphis, and Shelby County Government, as follows:

- Uptown Redevelopment Project (including the Uptown project area through TIF amendment one)
- Highland Row Project
- Binghampton Project

It is important to note that all projects receive tax increment financing (“TIF”) from their respective approved areas. Also important is that TIF money received from one redevelopment project cannot be used to pay for redevelopment outside of its respective boundaries. In other words, Uptown TIF money may only be spent within the Uptown area. Highland Row TIF revenue may only be spent within the Highland Row boundaries. However, up to 5% of the TIF money, from each project, may be used for operating expenses of the CRA. While the CRA’s financial statements are presented as one fund, the money is tracked separately per redevelopment program and operating expenses.

FY2018 was a year of transition for the CRA, as management of the agency was transferred from the Memphis and Shelby County Division of Planning and Development to the CRA, effective January 1, 2018. Therefore, FY2019 represents the CRA’s first full year of operations as a separate agency. Under new management, redevelopment activity was more robust during the year. The total net position of the CRA at June 30, 2019, was \$26,301,738, increasing \$4,841,537 from the June 30, 2018 balance of \$21,460,201.

Below is a listing of each fund balance to give a better understanding of the projects and individual fund balances.

Fund Balance/Net Position

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Changes</u>
Uptown	\$ 31,306,173	\$ 25,942,361	\$ 5,363,812
Uptown Expansion	<u>200,735</u>	<u>63,552</u>	<u>137,183</u>
Uptown TIF	31,506,908	26,005,913	5,500,995
Highland Row	(6,745,240)	(6,116,163)	(629,077)
Binghampton	338,476	161,497	176,979
Operating	<u>1,201,594</u>	<u>1,408,954</u>	<u>(207,360)</u>
Total	<u>\$ 26,301,738</u>	<u>\$ 21,460,201</u>	<u>\$ 4,841,537</u>

Note the overall positive balances for both Operating and Uptown Redevelopment. Both posted gains for the fiscal year in spite of increased development activity in the original Uptown project redevelopment area. During FY2018, the Uptown redevelopment project area was amended and identified as Uptown Expansion for TIF calculation purposes. Though funding for the project started with the 2017 tax levy year, no redevelopment activity occurred during FY2019.

The Highland Row redevelopment project which began its major activity during FY2017 issued bonds for its cash flow. The \$12,500,000 in private placement bonds were used to pay for the redevelopment upfront, creating a negative net position at the start of the project. Tax increment revenue received from the Highland Row area is being used to pay for the principal and interest on the bonds. The project was substantially completed in FY2017, and the parking garage, owned by the CRA, was made operational in FY2019.

During the prior year, one new redevelopment area (Binghampton) was approved for TIF funding. Though funding for Binghampton started with the 2017 tax levy year, no redevelopment activity occurred during FY2019. As a result, Binghampton's positive net position increased in FY2019 compared to FY2018.

Comparative Financial Statements

The following tables provide a comparative analysis of the CRA's financial position as of the fiscal years ended June 30, 2019, and 2018. These tables provide a snapshot of the economic resources (assets), and the claims on these resources (liabilities).

Statement of Net Position

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Changes Increase (Decrease)</u>
Assets			
Cash	\$ 4,471,271	\$ 4,252,766	\$ 218,505
Escrow	46,323	423,212	(376,889)
Tax increment financing receivable - City of Memphis, net of allowance	3,663,941	3,762,724	(98,783)
Tax increment financing receivable - Shelby County, net of allowance	5,367,264	5,497,506	(130,242)
Due from City of Memphis	131,354	117,014	14,340
Due from Shelby County	126,795		126,795
Investment	28,493,322	23,053,865	5,439,457
Capital assets being depreciated, net	4,984,343	3,729	4,980,614
Capital assets not being depreciated	<u>620,125</u>	<u>5,716,648</u>	<u>(5,096,523)</u>
Total assets	<u>\$ 47,904,738</u>	<u>\$ 42,827,464</u>	<u>\$ 5,077,274</u>

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Changes Increase (Decrease)</u>
Liabilities			
Accounts payable and accrued expenses	\$ 708,913	\$ 372,293	\$ 336,620
Accrued interest	217,914	221,458	(3,544)
Long-term liabilities			
Due within one year	220,000	195,000	25,000
Due after one year	<u>11,770,000</u>	<u>11,990,000</u>	<u>(220,000)</u>
Total liabilities	<u>12,916,827</u>	<u>12,778,751</u>	<u>138,076</u>
Deferred inflows of resources	<u>8,686,173</u>	<u>8,588,512</u>	<u>97,661</u>
Net position			
Restricted for debt service	46,323	30,094	16,229
Restricted for redevelopment	<u>26,255,415</u>	<u>21,430,107</u>	<u>4,825,308</u>
Total net position	<u>\$ 26,301,738</u>	<u>\$ 21,460,201</u>	<u>\$ 4,841,537</u>

While redevelopment activity increased compared to the prior year, cash remained fairly stable. At the end of FY2018, the Bond Trustee agent bank balance of \$423,212 consisted of approximately \$393,000 being held for developer expenses related to Highland Row and approximately \$30,000 for future bond principal and interest payments. The escrow cash balance decreased during the year by \$376,889 due to the \$393,000 developer payment offset by a slight cash increase of \$15,928. At year-end, \$46,323 was being held for future bond principal and interest payments.

There were no changes in the TIF funding areas during FY2019. As a result, TIF receivables remained relatively stable compared to the prior year.

The CRA keeps a portion of the tax incremental property taxes collected from Shelby County with the Shelby County Trustee's office. This revenue is jointly invested with other funds. Investments are primarily with the Tennessee Local Government Investment Pool and U.S. Government Agency Securities. Investments at June 30, 2019, totaled \$28,493,322, representing a \$5,439,457 increase from the June 30, 2018, total of \$23,053,865. The majority of this increase is due to the funding of current year activity within the Uptown redevelopment area primarily from cash balances held at a local bank.

During FY2019, the Highland Row parking garage became operational. As a result, the \$4,980,614 increase in capital assets being depreciated and \$5,096,523 reduction in capital assets not being depreciated reflect the impact of the parking garage and related accumulated depreciation. The \$620,125 in capital assets not being depreciated consists of the Highland Row parking garage land and properties being held for future redevelopment.

Accounts payable increased by \$336,620 compared to FY2018 due to the timing of vendor payments at year-end.

As the \$12,500,000 Highland Row Bonds issued in FY2017 amortize, the most significant liability for the CRA continues to be the remaining principal balance and related accrued interest expense. Since the bonds are fixed rate, the change in accrued interest compared to FY2018 is nominal. The debt changed by the amount of a \$195,000 principal payment made during the year.

Finally, we discussed the net position above, but also of note is the allocation of restricted balances:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Changes</u>
Uptown	\$ 31,306,173	\$ 25,942,361	\$ 5,363,812
Uptown Expansion	<u>200,735</u>	<u>63,552</u>	<u>137,183</u>
Uptown TIF	31,506,908	26,005,913	5,500,995
Highland Row	(6,791,563)	(6,146,257)	(645,306)
Binghampton	338,476	161,497	176,979
Operating	<u>1,201,594</u>	<u>1,408,954</u>	<u>(207,360)</u>
Restricted for redevelopment	26,255,415	21,430,107	4,825,308
Restricted for debt service	<u>46,323</u>	<u>30,094</u>	<u>16,229</u>
Total	<u>\$ 26,301,738</u>	<u>\$ 21,460,201</u>	<u>\$ 4,841,537</u>

For the Statement of activities and changes in net position, the major financial activity in FY2019 consisted of \$9,273,009 in TIF revenues and related interest income, representing a \$674,045 increase over FY2018. TIF revenue increased primarily due to recognition of TIF revenue from the Uptown Expansion redevelopment area. Interest income increased by \$291,398 in FY2019 compared to FY2018 primarily due to earnings on an increased average balance in investments, and earnings on cash balances at a local bank.

As previously mentioned, management of the CRA was transferred effective January 1, 2018. As a result, the increase in operating expenses in FY2019 reflect a full year of administrative staff and other expenses compared to a partial year for such expenses in FY2018. In FY2019, depreciation expense increased by \$173,223 compared to FY2018 primarily due to the Highland Row parking garage becoming operational at the beginning of the year. FY2019 reflects a significant increase in capital outlays/developer expenses as management continues to ramp up redevelopment activity post-transitioning to a separate agency. \$381,233 in capital outlays/developer expenses for Highland Row in FY2019 consists of a final developer payment related to the parking garage and trustee fees, compared to trustee fees only in FY2018. In addition, approximately \$2 million were expended for Uptown redevelopment compared to \$607,837 in FY2018.

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Changes Increase (Decrease)</u>
Revenues			
Tax increment financing - Shelby County	\$ 5,233,703	\$ 4,924,490	\$ 309,213
Tax increment financing - City of Memphis	3,401,376	3,327,942	73,434
Interest income	<u>637,930</u>	<u>346,532</u>	<u>291,398</u>
Total revenues	9,273,009	8,598,964	674,045
Expenditures/expenses			
Current			
Operating expenses	1,005,869	674,533	331,336
Depreciation	173,464	241	173,223
Bond issuance expenses	-	-	-
Debt service			
Bond interest payments	879,868	892,648	(12,780)
Capital outlays			
Development expenses	<u>2,372,271</u>	<u>610,337</u>	<u>1,761,934</u>
Total expenditures/expenses	<u>4,431,472</u>	<u>2,177,759</u>	<u>2,253,713</u>
Net change in fund balance/net assets	4,841,537	6,421,205	(1,579,668)
Fund balance/net assets			
Beginning of year	<u>21,460,201</u>	<u>15,038,996</u>	<u>6,421,205</u>
End of year	<u>\$ 26,301,738</u>	<u>\$ 21,460,201</u>	<u>\$ 4,841,537</u>

Contact Information

This financial report is designed to provide a general overview of the CRA's finances and to demonstrate the CRA's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the President, The City of Memphis and Shelby County Community Redevelopment Agency (CRA), 170 North Main Street, 6th Floor, Memphis, Tennessee 38103.

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Governmental Fund Balance Sheet/Statement of Net Position
June 30, 2019

	<u>General Fund</u>	<u>Adjustments (Note 2)</u>	<u>Statement of Net Position</u>
Assets			
Cash	\$ 4,471,271	\$ -	\$ 4,471,271
Escrow cash	46,323	-	46,323
Tax increment financing receivable - City of Memphis, net of allowance	3,663,941	-	3,663,941
Tax increment financing receivable - Shelby County, net of allowance	5,367,264	-	5,367,264
Due from City of Memphis	131,354	-	131,354
Due from Shelby County	126,795	-	126,795
Investment	28,493,322	-	28,493,322
Capital assets being depreciated, net	-	4,984,343	4,984,343
Capital assets not being depreciated	<u>-</u>	<u>620,125</u>	<u>620,125</u>
Total assets	<u>\$ 42,300,270</u>	5,604,468	47,904,738
Liabilities			
Accounts payable and accrued expenses	\$ 708,913	\$ -	\$ 708,913
Accrued interest	-	217,914	217,914
Long-term liabilities			
Due within one year	-	220,000	220,000
Due after one year	<u>-</u>	<u>11,770,000</u>	<u>11,770,000</u>
Total liabilities	708,913	12,207,914	12,916,827
Deferred inflows of resources			
Deferred tax increment financing revenues	8,986,325	(300,152)	8,686,173
Fund balance			
Fund balance			
Restricted for redevelopment	<u>32,605,032</u>	<u>(32,605,032)</u>	<u>-</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 42,300,270</u>		
Net position			
Restricted for debt service		46,323	46,323
Restricted for redevelopment		<u>26,255,415</u>	<u>26,255,415</u>
Total net position		<u>\$ 26,301,738</u>	<u>\$ 26,301,738</u>

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

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/
Statement of Activities and Changes in Net Position
For the Year Ended June 30, 2019

	General Fund	Adjustments	Statement of Activities
Revenues			
Tax increment financing - Shelby County	\$ 5,284,631	\$ (50,928)	\$ 5,233,703
Tax increment financing - City of Memphis	3,620,188	(218,812)	3,401,376
Interest income	<u>637,930</u>	<u>-</u>	<u>637,930</u>
Total revenues	9,542,749	(269,740)	9,273,009
Expenditures/expenses			
Current			
Operating expenses	1,063,424	(57,555)	1,005,869
Depreciation	-	173,464	173,464
Debt service			
Principal payment	195,000	(195,000)	-
Interest expense	883,412	(3,544)	879,868
Capital outlay			
Development expenses	<u>2,372,271</u>	<u>-</u>	<u>2,372,271</u>
Total expenditures/expenses	<u>4,514,107</u>	<u>(82,635)</u>	<u>4,431,472</u>
Excess of revenues over expenditures	5,028,642	(187,105)	
Change in net position			4,841,537
Fund balance/net position			
Beginning of the year	<u>27,576,390</u>	<u>(6,116,189)</u>	<u>21,460,201</u>
End of the year	\$ <u><u>32,605,032</u></u>	\$ <u><u>(6,303,294)</u></u>	\$ <u><u>26,301,738</u></u>

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

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Notes to Financial Statements
June 30, 2019

Note 1 - Summary of significant accounting policies

Reporting entity

The City of Memphis and Shelby County Community Redevelopment Agency (CRA) was established through a joint ordinance between the Council of the City of Memphis and the Board of Commissioners of Shelby County in June 2001. The CRA is a jointly governed organization between the City of Memphis (the "City") and Shelby County (the "County"). CRA is considered a special purpose government entity whose purpose is to ameliorate the slum and blight conditions within the City of Memphis and unincorporated areas of Shelby County.

The CRA was managed by the Memphis and Shelby County Division of Planning and Development through December 31, 2017. Effective January 1, 2018, management of the jointly governed agency was transferred to the CRA through memoranda of understanding between the Memphis and Shelby County Division of Planning and Development and the CRA, dated September 29, 2017, and March 14, 2018.

On November 4, 2013, the Shelby County Commission approved a resolution limiting any future tax increment financing "TIF" projects to 15 years after the fiscal year in which the financing is approved. Previously, this period had been 30 years as specified in the *Community Redevelopment Act of 1998*, Section 14(10). Also, any property which is tax exempt at any time within a two-year period prior to application for its inclusion in a tax increment financing project and will be developed or redeveloped by the tax increment financing project developer, shall not qualify for inclusion in the tax increment financing of the project. This resolution is for any future projects approved by the Shelby County Commission and does not affect the two projects in existence as of June 30, 2017. Furthermore, this is a Shelby County resolution only and does not apply to the City of Memphis tax increment financing.

To date, the following projects have been approved by the CRA, City of Memphis, and Shelby County Government:

- Uptown Redevelopment Project (including the Uptown Expansion project area through TIF amendment one)
- Highland Row Project
- Binghampton Project

The Uptown Redevelopment Project was approved in 2001 and is a collaborative effort between the CRA, the Memphis Housing Authority (MHA) and Housing and Community Development (HCD). These three entities worked with St. Jude and the Federal Hope VI program for a public/private reinvestment within a six square mile area. In 2004, a single purpose land bank entity was established to hold property for exclusive use by the CRA. The CRA pays for ongoing management and maintenance of lots held in the land bank (MLB-Uptown, LLC) for redevelopment.

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Notes to Financial Statements (Continued)
June 30, 2019

Note 1 - Summary of significant accounting policies (continued)

Reporting entity (continued)

The Highland Row Project was approved in 2007 and is a public/private reinvestment collaboration between the CRA and Highland Row, LLC developers. The project consists of redevelopment of land in the Highland Avenue area for mixed use (residential and retail) and the construction of a parking garage. During fiscal 2017, a CRA-Highland Row bond issue in the amount of \$12,500,000 was completed. The bond proceeds were used for site work and construction of the parking garage, which represent the CRA-funded portion of the redevelopment activity.

The Uptown Expansion Redevelopment Project was approved in November 2017 as an amendment to the Community Redevelopment Plan for the Uptown area. Because of its relationship to the original Uptown Redevelopment Project, the remaining years on the original TIF are used for the project's total life. Redevelopment in the expanded area is community-based and directed by a strategic plan. There is no redevelopment agreement.

The Binghampton Community Redevelopment Plan was approved in November 2017. Redevelopment in the area is community-based and directed by a strategic plan. There is no redevelopment agreement.

Financial statement presentation

For special purpose governmental entities, such as CRA, engaged in a single governmental program, the fund financial statements and the government-wide financial statements may be combined using a columnar format that reconciles individual line items of the fund financial data to government-wide data in a separate column on the face of the financial statements. The accompanying financial statements are presented in this format.

Fund financial statements are designed to present financial information of CRA at a more detailed level (and to demonstrate legal compliance). The focus of fund financial statements is on major funds. CRA's only major individual government fund is the general fund and it is reported as a separate column in the accompanying financial statements.

The government-wide financial statements (i.e., the statement of net position and the statement of activities and changes in net position) report information about CRA as a whole. These statements include the financial activities of CRA.

Revenues include tax increment financing derived from property taxes from the City and County, which are all restricted to meeting the operational requirements of CRA's purpose. Expenses are those that are clearly identifiable with CRA's specific purpose. Government-wide financial statements are presented as a separate column in the accompanying financial statements.

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Notes to Financial Statements (Continued)
June 30, 2019

Note 1 - Summary of significant accounting policies (continued)

Measurement focus, basis of accounting, and financial statement presentation

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable, earned and available. Tax increment financing revenues are considered earned in the year for which the related property taxes are levied. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, CRA considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Such amounts earned and collected within 60 days of the end of the current fiscal period have been recognized as revenues in the governmental fund financial statement. Expenditures generally are recorded when a liability is incurred.

CRA reports the general fund as its only major governmental fund. The general fund is used to account for all financial resources.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Tax increment financing revenues are recognized as revenues in the year for which the related property taxes are levied.

Cash

CRA's banking activity is accomplished through accounts with a local financial institution. The collective accounts represent the net activity of all cash receipts and cash disbursements related to CRA. As discussed in note 3, 5% of annual tax increment financing is set aside to pay for CRA's administrative costs. Cash balances at June 30, 2019 exist for the following purposes:

Uptown	\$ 3,673,006
Uptown Expansion	76,884
Binghampton	280,177
Administrative	<u>441,204</u>
Total	<u>\$ 4,471,271</u>

Escrow cash

Escrow cash consists of \$46,323 restricted for payment of long-term liabilities related to the Highland Row redevelopment project (see note 5).

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Notes to Financial Statements (Continued)
June 30, 2019

Note 1 - Summary of significant accounting policies (continued)

Investment

A portion of the incremental property taxes collected on behalf of CRA from Shelby County are retained by the Shelby County Trustee and jointly invested with other funds. The County's investments include U.S. Government Agency Securities which are stated at fair value based upon quoted market prices, if available, estimated quoted prices for similar securities, or amounts provided by commercial pricing services. The County's investments also include investments in the Tennessee Local Government Investment Pool which is measured at the net asset value and commercial paper, certificates of deposit, and other cash equivalents which are measured at amortized cost. See the June 30, 2019, Comprehensive Annual Financial Report (CAFR) for Shelby County for more information on the County's investments. CRA's allocable share of the County's investments was \$28,493,322 as of June 30, 2019.

Tax increment financing receivables

Tax increment financing receivables represent that portion of City and County property tax revenue due to the CRA. Property taxes are recorded as revenue in the fiscal year for which levied. Property taxes based upon property values during the current fiscal year but levied for the next fiscal year are recorded as receivables and deferred inflows of resources. Allowances for doubtful accounts are maintained for estimated uncollectible receivables. As of June 30, 2019, the allowance for doubtful accounts totaled \$310,285. See note 3 for further discussion of tax increment financing.

Deferred inflows/outflows of resources

Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* established categories titled deferred inflows of resources and deferred outflows of resources which are to be stated separately from assets and liabilities, respectively. Deferred inflows of resources represent an acquisition of net assets that are applicable to a future reporting period. Deferred outflows of resources represent a consumption of net assets that are applicable to a future reporting period.

Capital assets being depreciated

Capital assets, which include property and equipment, are reported in the accompanying statement of net position. Such assets are recorded at historical cost if purchased or constructed. The cost of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are thirty (30) years for buildings and five (5) years for equipment.

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Notes to Financial Statements (Continued)
June 30, 2019

Note 1 - Summary of significant accounting policies (continued)

Capital assets not being depreciated

As part of its redevelopment activities, the CRA acquires land for eventual disposition to developers of Board-approved housing or commercial projects. These properties are held until sold and/or conveyed for redevelopment and, along with Highland Row garage land, are not depreciated by the CRA.

Net position and fund balance

In the government-wide financial statements, net position is reported as restricted for debt service and redevelopment as assets are legally restricted for the specific purpose of redeveloping the previously identified project areas in Memphis, Tennessee. In the fund financial statements, fund balance is reported as restricted for redevelopment, as the use of such fund balance is imposed by law through enabling legislation.

Use of estimates

Estimates used in the preparation of financial statements require management to make assumptions that affect the recorded amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

Events occurring after reporting date

Management has evaluated events and transactions that have occurred between June 30, 2019 and February 15, 2021, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements and noted the following items for disclosure.

In August 2019, the CRA entered into a temporary access agreement with a local nonprofit to use CRA-owned land for parking through November 30, 2019.

In August 2019, thirty-four (34) properties, including the Chism Trail site, were legally transferred from Memphis Land Bank Uptown, LLC to the CRA.

COVID-19

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global health pandemic and recommended containment and mitigation measures worldwide. Subsequent to that date, the Mayors of Shelby County and the City of Memphis ordered citizens and businesses to follow specific measures designed to slow the spread of the virus. In accordance with regulatory guidance, the Board has taken actions to protect the health

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Notes to Financial Statements (Continued)
June 30, 2019

Note 1 - Summary of significant accounting policies (continued)

COVID-19 (continued)

and safety of our employees and community partners. In recent developments, the Food and Drug Administration (FDA) has approved two vaccines and implementation of a nationwide vaccination plan is currently underway. At this time, we cannot reasonably predict the extent to which the economic disruption caused by the pandemic may impact property values, TIF financing and related redevelopment activities, or financial position over the long term.

In January 2021, the CRA entered into a lease agreement for office space to relocate its operations, effective February 1, 2021. Such lease agreement represents Phase I of a Memorandum of Understanding executed in December 2020, related to the potential purchase of the leased space and certain surrounding property.

Subsequent to year end, the CRA had a pending litigation matter related to the normal course of business. In the opinion of the CRA's management, the ultimate disposition of such matter will not have a material adverse effect on the organization's financial condition. Accordingly, no estimated lost contingency is recorded for such pending legal matter.

Note 2 - Reconciliation of government-wide and fund financial statements

As of June 30, 2019, amounts reported for governmental activities in the statement of net position (page 10) differ from the governmental fund balance. Such differences are reported in the "Adjustments" column of the accompanying governmental funds balance sheet/statement of net position. The following schedule provides more information regarding these adjustments.

Governmental fund balance	\$ 32,605,032
Receivables earned but not available to pay for current year expenditures	300,152
Capital assets acquired, net	5,604,468
Long-term liabilities not due and payable in the current period	(11,990,000)
Interest on long-term debt not payable from current financial resources	<u>(217,914)</u>
Net position of governmental activities	<u>\$ 26,301,738</u>

Amounts reported for governmental activities in the statement of activities (page 11) differ from amounts reported for governmental fund revenues, expenditures, and changes in fund balance. Such differences are reported in the "Adjustments" column of the accompanying statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities and changes in net position. These differences affect revenues, expenses/expenditures, and other financing sources (uses). These differences are summarized as follows:

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Notes to Financial Statements (Continued)
June 30, 2019

Note 2 - Reconciliation of government-wide and fund financial statements (continued)

Revenues: Revenues in the statement of activities that do not provide current resources are not reported as revenues in the general fund. Such revenues for fiscal 2019 and 2018 are as follow:

2019	\$ 300,152
2018	<u>(569,892)</u>
Net difference	\$ <u>(269,740)</u>

Expenditures/expenses: Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the general fund until such expenses require the use of current financial resources, including interest expense. Repayments of certain long-term liabilities consume current financial resources of the general fund and are reported as expenditures for debt service. Such expenses for fiscal 2019 are as follow:

Interest expense - 2019	\$ 217,914
Interest expense - 2018	<u>(221,458)</u>
Net difference	\$ <u>(3,544)</u>
Principal payment on long-term liabilities	\$ <u>195,000</u>

Capital outlays are reported as expenditures in the general fund; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Such amounts are as follow:

Capital outlays	\$ <u>57,555</u>
Depreciation expense	\$ <u>173,464</u>

Note 3 - Tax increment financing

CRA is funded through tax increment financing provided through City and County property taxes collected on properties contained in the geographic boundaries of the various community redevelopment areas as set aside through respective joint ordinances of the City and County. The tax increment financing is based upon an "increment" which is the difference between applying each taxing authority's current property tax rate to the current year assessed value and applying each taxing authority's base year property tax rate to the base year assessed value for a parcel. The base year assessed values for each of the CRA's projects follow:

Uptown Redevelopment Project	May 2000
Highland Row Project	May 2007
Uptown Expansion Redevelopment Project	May 2016
Binghampton Project	May 2016

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Notes to Financial Statements (Continued)
June 30, 2019

Note 3 - Tax increment financing (continued)

Tax increment financing is computed by reducing the increment by the debt service portion of the tax rate and trustee fees, where applicable. In accordance with each TIF area's joint ordinance, 95% of the computed amount is to be funded to CRA upon collection of property taxes. The *Uniformity in Tax Increment Financing Act of 2012* provided taxing authorities the option to use the parcel method or the aggregate method for determining the TIF increment. TIF revenue from the City is based on the parcel method for all projects. TIF revenue from the County is based on the parcel method for the Uptown, Uptown Expansion (retroactive to fiscal year 2018), and Highland Row projects. The aggregate method is used for the Binghampton project.

Please refer to the June 30, 2019, CAFRs for the City of Memphis and Shelby County for more information regarding property tax revenues.

Note 4 - Capital assets

Capital asset activity for the year ended June 30, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated				
Equipment	\$ 3,970	\$ 7,430	\$ -	\$ 11,400
Building	-	5,146,648	-	5,146,648
Less accumulated depreciation	<u>(241)</u>	<u>(173,464)</u>	-	<u>(173,705)</u>
	3,729	4,980,614	-	4,984,343
Capital assets not being depreciated				
Land	570,000	50,125	-	620,125
Construction in progress	<u>5,146,648</u>	-	<u>(5,146,648)</u>	-
	<u>5,716,648</u>	<u>50,125</u>	<u>(5,146,648)</u>	<u>620,125</u>
Total capital assets, net	<u>\$ 5,720,377</u>	<u>\$ 5,030,739</u>	<u>\$ (5,146,648)</u>	<u>\$ 5,604,468</u>

Note 5 - Long-term liabilities

In August, 2016, \$12,500,000 in private placement revenue bonds were issued for Highland Row redevelopment. The bonds have an interest rate of 7.25% and mature on April 1, 2038, with an option to call on April 1, 2025. TIF funds received from the Highland Row project are used to pay the principal and interest on the bonds. As stated in the Redevelopment Revenue Note Series 2016, the CRA shall not be obligated to pay principal and interest other than from pledged revenues held for that purpose.

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Notes to Financial Statements (Continued)
June 30, 2019

Note 5 - Long-term liabilities (continued)

Debt service requirements for the long-term liabilities are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 220,000	\$ 871,657
2021	245,000	853,325
2022	280,000	835,562
2023	310,000	815,263
2024	345,000	794,959
2025 - 2029	2,370,000	3,530,787
2030 - 2034	3,775,000	2,482,685
2035 - 2038	<u>4,445,000</u>	<u>840,239</u>
	<u>\$ 11,990,000</u>	<u>\$ 11,024,477</u>

Note 6 - Related party transactions

Amounts due from the City of Memphis as of June 30, 2019, totaled \$131,354. Such amounts represent tax increment financing revenues collected by the City Treasurer but not remitted to the CRA.

Amounts due from Shelby County as of June 30, 2019, totaled \$126,795. Such amounts represent tax increment financing revenues collected by the County Trustee but not remitted to the CRA.

During the prior year, the CRA incurred costs of services provided by personnel of the Memphis and Shelby County Division of Planning and Development through May 4, 2018. Amounts due to the City of Memphis as of June 30, 2019, related to such services totaled \$74,360.

SUPPLEMENTARY INFORMATION

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Schedule of Changes in Long-Term Debt by Individual Issue
For the Year Ended June 30, 2019

	<u>Original Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Final Maturity Date</u>	<u>Outstanding June 30, 2018</u>	<u>Issued During Period</u>	<u>Paid and/or Matured During Period</u>	<u>Refunded During Period</u>	<u>Outstanding June 30, 2019</u>
Bonds payable									
Redevelopment Revenue Note Series 2016	\$ 12,500,000	7.25%	8/4/2016	4/1/2025	\$ 12,185,000	\$ -	\$ 195,000	\$ -	\$ 11,990,000



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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
The City of Memphis and Shelby County Community Redevelopment Agency
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 governmental activities and the major fund (general fund) of The City of Memphis and Shelby County Community Redevelopment Agency (CRA) as of and for the year ended June 30, 2019, and the related notes to the financial statements which collectively comprise The City of Memphis and Shelby County Community Redevelopment Agency's basic financial statements and have issued our report thereon dated February 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CRA's internal control over financial reporting (internal control) as a basis for designing 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 CRA's internal control. Accordingly, we do not express an opinion on the effectiveness of CRA'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 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 the 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 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 CRA'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*.

Management's Response to Findings

Management's responses to the findings identified in our prior year audit are described in the Schedule of Prior Year Findings and Responses. We did not audit management's responses, and accordingly, we express no opinion on them.

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 CRA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CRA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." The signature is written in a cursive, flowing style.

Memphis, Tennessee
February 15, 2021

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Schedule of Prior Year Findings
For the Fiscal Year Ended June 30, 2019

2018-001 - Accounting and financial reporting

Criteria - Policies and procedures should ensure that accounting transactions are properly recorded and accurate monthly financial statements are timely prepared.

Condition - The accounting records of the CRA have not been maintained to record a complete and accurate record of all transactions. Such transactions that were not accurately recorded relate to revenues from tax increment financing, deferred inflows of resources, developer expenses, receivable of tax increment financing due from the City of Memphis, and capitalization of a parking garage owned by the CRA. As a result, accurate monthly financial statements have not been timely prepared.

Cause - Prior to January 2018, all of the accounting of the CRA was performed by the Memphis and Shelby County Division of Planning and Development. Beginning in 2018, the accounting function was outsourced to an outside accounting firm.

Effect - A lack of effective controls over the accounting and financial reporting function increases the risk that the financial statements will be materially misstated.

Recommendation - We recommend that management implement policies and procedures to ensure the proper recording of all accounting transactions and the timely preparation of monthly financial statements.

Current Status - Fully implemented. A full-time accountant has been hired and accounting functions transferred to the CRA in the prior year and outsourced for six (6) months are now being performed internally. Management has implemented its policies and procedures to ensure the proper recording of all accounting transactions and the timely preparation of monthly financial statements.

2018-002 - Restatement of prior year net position

Criteria - The CRA should record all assets to which it has a legal right of ownership.

Condition - In fiscal 2017, the CRA paid for the construction costs of a parking garage related to the Highland Row Project. The deed to the garage property was transferred to the CRA but the assets were not properly recognized on the Statement of Net Position as of June 30, 2017.

Cause - Management of the CRA was not aware of the transfer of ownership of the garage to the CRA.

Effect - On the June 30, 2017 Statement of Net Position, the amount of capital assets and net position were understated by \$5,702,648, and on the 2017 statement of activities, the amount of development expenses were overstated by \$5,702,648.

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Schedule of Prior Year Findings (Continued)
June 30, 2019

2018-002 - Restatement of prior year net position (continued)

Recommendation - We recommend that management implement policies and procedures for the review of all executed redevelopment and other agreements to ensure that all assets which are owned by the CRA are being properly recognized in the financial statements and all other terms set forth in the agreements are accounted for properly. We further recommend oversight by the Board of Directors on the execution of significant agreements.

Current Status - Fully implemented. A full-time accountant has been hired and the process used in fiscal 2017 for reviewing agreements and recognizing assets is now being performed internally. Management has reviewed and revised its policies and procedures to ensure the proper recording of all accounting transactions, including the financial impact of executed redevelopment and other agreements. Further, management's review of existing policies and procedures includes implementation of a process to properly account for other terms as set forth in agreements. The Board of Directors currently approves, through board resolution, all significant agreements.

2018-003 - Unrecorded tax increment financing revenue

Criteria - The CRA should record all tax increment financing revenue in the year for which the related property taxes are levied when the revenue has been collected within the current fiscal period and for the period 60 days subsequent to the end of the fiscal period.

Condition - In fiscal 2018, the CRA did not recognize any revenue for the Uptown Expansion Redevelopment Plan and the Binghampton Community Redevelopment Plan.

Cause - In fiscal 2018, the CRA approved the Uptown Expansion Redevelopment Plan and the Binghampton Community Redevelopment Plan. The parcel reconciliation for these areas, however, was not completed prior to the TIF effective date of January 1, 2018 for the City of Memphis and Shelby County to calculate the amount of revenues collected for these projects on a timely basis.

Effect - The total amount of revenue to be recorded in fiscal 2018 was unknown; however, the maximum amount of the potential error is \$225,168. This error consists of an overstatement of deferred inflows of resources on the June 30, 2018 Governmental Fund Balance Sheet and an understatement of revenues on the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance for the fiscal year ended June 30, 2018 of up to \$225,168.

Recommendation - We recommend that management implement policies and procedures to ensure the timely completion and communication of the parcel reconciliation with both The City of Memphis and Shelby County regarding all projects with tax increment financing due to the CRA and the proper recognition of tax increment financing revenue that has been collected by The City of Memphis and Shelby County within the current fiscal period and for the period 60 days subsequent to the end of the fiscal period.

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Schedule of Prior Year Findings (Continued)
June 30, 2019

2018-003 - Unrecorded tax increment financing revenue (continued)

Current Status - Fully implemented. A full-time accountant has been hired whose responsibilities include coordination with other staff and maintenance of TIF parcel databases. Communication among the three entities is coordinated by the CRA for parcel reconciliation purposes. Management reviews its parcel reconciliation process timeline and procedures to identify potential opportunities for improvement to ensure timely parcel reconciliations.

2018-004 - Retention of disbursement documentation

Criteria - The CRA should maintain supporting documentation for all redevelopment disbursements.

Condition - The management of CRA was unable to locate certain records related to redevelopment disbursements that were requested as a part of the audit process, specifically check request forms prepared by the Memphis and Shelby County Division of Planning and Development authorizing payment.

Cause - The CRA was managed by the Memphis and Shelby County Division of Planning and Development through December 31, 2017. Effective January 1, 2018, management of the jointly governed agency was transferred to the CRA through memoranda of understanding between the Memphis and Shelby County Division of Planning and Development and the CRA. The accounting records including all of the physical documents were transferred from the Memphis and Shelby County Division of Planning and Development to management of the jointly governed agency.

Effect - During the audit process, we noted that the documentation supporting certain redevelopment disbursements made during the period of July 1, 2017 to December 31, 2017, as noted above, could not be located by management. As a result, documentation for certain disbursements selected by us as part of the audit process was not provided.

Recommendation - We recommend that management implement policies and procedures for document retention and file maintenance. A clear, written record-retention policy can help ensure that the appropriate records are available when they are needed.

Current Status - Fully implemented. Management has implemented appropriate policies and procedures for document retention and file maintenance, as demonstrated by the ability to locate supporting documentation for all disbursements requested that were executed under the direction of current management. Management is in the process of reviewing and augmenting the documentation of its accounting policies and procedures to provide clear references and to retain institutional knowledge.