

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

**Financial Statements
and Reports of Independent Auditors**

For the Years Ended June 30, 2020 and June 30, 2019

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

Memphis, Tennessee

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DEPOT REDEVELOPMENT CORP. OF MEMPHIS & SHELBY COUNTY

Managed by **EDGE**

December 15, 2020

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 ("the DRC") report on audited financial statements for the year ending June 30, 2020. The audit consists of 4 sections: Introductory, Financial, Basic Financial Statements, and Statutory Reporting. This introductory section consists of the letter of transmittal and the list of management officials and the Board of Directors. The financial section begins with the auditor's report and includes the management discussion and analysis. The statistical section includes the statements related to net position, cash flows and the related financial notes. The statutory reporting section concludes the report by discussing internal controls and compliance related to the financial statements.

The accuracy of the data and all audit disclosures is 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 late FY2011, 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. In April of 2017, EDGE assumed management responsibilities for the Greater Memphis Alliance for a Competitive Workforce (GMACW). Subsequent actions led to a common President/CEO for all five entities, as well as common General Counsel, accountants, and auditors. EDGE now provides all staffing for the five entities; the DRC's office was closed in 2012.

The EDGE Board became the DRC Board in January 2012.

As a result of these two actions, the nature of the DRC's activities changed dramatically. The DRC sold its remaining building to a private entity in December of 2016 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, the Memphis and Shelby County Regional Economic Development Plan and the Greater Memphis Alliance for a Competitive Workforce. In addition, the DRC loaned funds to the Industrial Development Board of Memphis and Shelby County (IDB) for the Paul R. Lowery Road improvement project. Part of those funds were repaid with a grant from the Delta Regional Authority ("DRA"). The balance is held as collateralized certificates of deposit as a performance security for the DRA grant. The DRA also provided funding to EDGE for the partial demolition of the Public Dock on Presidents Island, and for Economic Development Capacity Building Grants for the six suburban Chambers of Commerce in Shelby County.

I would like to thank Banks, Finley, White & Co. and Alexander Thompson Arnold, PLLC (ATA) for their support in preparing the fiscal year 2020 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 and CEO
The Depot Redevelopment Corporation
of Memphis and Shelby County

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

MANAGEMENT OFFICIALS AND BOARD OF DIRECTORS
For the Year Ended June 30, 2020

PRESIDENT & CHIEF EXECUTIVE OFFICER

Reid Dulberger

BOARD OF DIRECTORS

Al Bright, Chairman
Tom Dyer, Vice Chairman
Dr. Florence Jones, Secretary
Larry C. Jackson, Treasurer
Natasha Donerson
Edmund Ford, Sr.
Mickell Lowery
Mark J. Halperin
Jackson W. Moore
Johnny B. Moore, Jr.
Cary Vaughn

AUDIT COMMITTEE

Larry C. Jackson
Mark J. Halperin
Jackson W. Moore

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 (the "DRC"), a component unit of the Economic Development Growth Engine Industrial Development Board of the City of Memphis and County of Shelby, Tennessee, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the 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, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the net position, changes in net position, and cash flows of the DRC and do not purport to, and do not, present fairly the financial position of the Economic Development Growth Engine Industrial Development Board of the City of Memphis and County of Shelby, Tennessee, as of June 30, 2020, and the changes in net position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

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 7 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 DRC'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 15, 2020, 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 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 DRC's internal control over financial reporting and compliance.

Banks, Finley, White & Co

Memphis, Tennessee
December 15, 2020

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

Management's Discussion and Analysis
For the Year Ended June 30, 2020

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, 2020. This discussion and analysis of the DRC's financial performance provides an overview of its financial activities for the year ended June 30, 2020. 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 primarily 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 2012 and 2013. The DRC retains ownership of vacant land which is for sale.

FINANCIAL HIGHLIGHTS

The DRC's total net position decreased (0.33)M or (9.79)% from 2019 to 2020. The change in total net position was due to a decrease in current assets.

Current assets decreased by (0.33)M or (26.8)% from 2019 to 2020 due to a decrease in cash and cash equivalents.

Operating revenues were \$0 in 2019 and 2020 due to the sale of the DRC's remaining building in December 2016 and the termination of leasing and CAM income.

Operating expenses decreased (0.86)M or ((71.1)%) from 2019 to 2020. This is primarily due to EDGE not invoicing for its funding to GMACW.

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

Management's Discussion and Analysis
For the Year Ended June 30, 2020

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.

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)

	2020	2019	Difference	% Change	2018	Difference	% Change
Current assets	\$ 0.90	\$ 1.23	\$ (0.33)	(26.83)%	\$ 1.64	\$ (0.41)	(25.00)%
Restricted assets	-	-	-	- %	0.80	(0.80)	(100.00)%
Other assets	<u>2.19</u>	<u>2.19</u>	<u>-</u>	<u>- %</u>	<u>2.19</u>	<u>-</u>	<u>- %</u>
Total Assets	<u>3.09</u>	<u>3.42</u>	<u>(0.33)</u>	<u>(9.65)%</u>	<u>4.63</u>	<u>(1.21)</u>	<u>(26.13)%</u>
Payable from current assets	0.05	0.05	-	- %	0.05	-	- %
Total Liabilities	<u>0.05</u>	<u>0.05</u>	<u>-</u>	<u>- %</u>	<u>0.05</u>	<u>-</u>	<u>- %</u>
Unrestricted	<u>3.04</u>	<u>3.37</u>	<u>(0.33)</u>	<u>(9.79)%</u>	<u>4.58</u>	<u>(1.21)</u>	<u>(26.42)%</u>
Total Net Position	<u>3.04</u>	<u>3.37</u>	<u>(0.33)</u>	<u>(9.79)%</u>	<u>4.58</u>	<u>(1.21)</u>	<u>(26.42)%</u>
Total Liabilities and Net Position	<u>\$ 3.09</u>	<u>\$ 3.42</u>	<u>\$ (0.33)</u>	<u>(9.65)%</u>	<u>\$ 4.63</u>	<u>\$ (1.21)</u>	<u>(26.13)%</u>

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

Management's Discussion and Analysis
For the Year Ended June 30, 2020

Revenues and Expenses

Total operating revenues consisted of lease revenue from a building owned by the DRC and sold in December of 2016. Operating expenses consist of dues to the Depot Association for common area maintenance, lawn care, accounting, auditing and legal fees, as well as funding to support GMACW and the economic development activities of the six suburban Chambers of Commerce in Shelby County.

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)

Operating Revenues	2020	2019	Difference	% Change	2018	Difference	% Change
Miscellaneous Income	\$ -	\$ -	-	- %	\$ 0.01	(0.01)	(100.00)%
Total Operating Revenue	-	-	-	- %	0.01	(0.01)	(100.00)%
Operating expenses	0.35	1.21	(0.86)	(71.07)%	0.06	1.15	1,916.67 %
Operating Income	(0.35)	(1.21)	0.86	(71.07)%	(0.05)	(1.16)	2,320.00 %
Non-Operating Income (Expenses)							
Gain (loss) on sale of property	-	-	-	0.00 %	-	-	0.00 %
Interest income	0.02	-	0.02	0.00 %	-	-	0.00 %
Change in Net Position	(0.33)	(1.21)	0.88	(72.73)%	(0.05)	(1.16)	2,320.00 %
Total Net Position-Beginning	3.37	4.58	(1.21)	(26.42)%	4.63	(0.05)	(1.08)
Total Net Position-Ending	\$ 3.04	\$ 3.37	\$ (0.33)	(9.79)%	\$ 4.58	\$ (1.21)	(26.42)

Capital Assets

DRC held no capital assets for the years ended 2020, 2019, and 2018. There was no depreciation expense during the year.

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

Management's Discussion and Analysis
For the Year Ended June 30, 2020

Discussion of Long-Range Plans

It has always been part of the DRC's management's long-range plan to sell the DRC property. With the property sales mentioned above, this goal has been substantially accomplished. Remaining are 70 acres of undeveloped land. In addition to marketing its remaining land, the DRC will continue working with the other EDGE-related entities to further economic development in Memphis and Shelby County.

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, 2020 and 2019

ASSETS

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 901,466	\$ 1,231,965
Prepaid insurance and owner's association	<u>1,759</u>	<u>1,745</u>
Total Current Assets	<u>903,225</u>	<u>1,233,710</u>
 OTHER ASSETS:		
Related party receivable - IDB	1,200,000	1,200,000
Related party receivable - EDGE	<u>988,521</u>	<u>988,521</u>
Total	<u>2,188,521</u>	<u>2,188,521</u>
 TOTAL ASSETS	 <u><u>\$ 3,091,746</u></u>	 <u><u>\$ 3,422,231</u></u>

LIABILITIES AND NET POSITION

PAYABLE FROM CURRENT ASSETS:		
Accounts payable-trade	\$ <u>49,525</u>	\$ <u>48,160</u>
Total Payable from Current Assets	<u>49,525</u>	<u>48,160</u>
 TOTAL LIABILITIES	 <u>49,525</u>	 <u>48,160</u>
 NET POSITION:		
Unrestricted	<u>3,042,221</u>	<u>3,374,071</u>
Total Net Position	<u>3,042,221</u>	<u>3,374,071</u>
 TOTAL LIABILITIES AND NET POSITION	 <u><u>\$ 3,091,746</u></u>	 <u><u>\$ 3,422,231</u></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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING EXPENSES:		
Accounting and audit fees	\$ 19,561	\$ 19,047
Bank charges	-	1,453
Dues/memberships	29,523	29,348
Insurance	1,611	1,766
Legal services	4,800	4,800
Grants to GMACW- affiliate	-	834,481
Grants to Suburban Chamber of Commerce	300,000	315,000
TOTAL OPERATING EXPENSES	<u>355,495</u>	<u>1,205,895</u>
OPERATING INCOME (LOSS)	(355,495)	(1,205,895)
NON-OPERATING REVENUES (EXPENSES):		
Interest Income	<u>23,645</u>	<u>7</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>23,645</u>	<u>7</u>
CHANGE IN NET POSITION	(331,850)	(1,205,888)
TOTAL NET POSITION - BEGINNING OF YEAR	<u>3,374,071</u>	<u>4,579,959</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 3,042,221</u>	<u>\$ 3,374,071</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash payments to other suppliers for goods or services	\$ (54,145)	\$ -
Cash payments for grants to others	<u>(300,000)</u>	<u>(1,205,611)</u>
Net Cash Provided By (Used in) Operating Activities	<u>(354,145)</u>	<u>(1,205,611)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Net Cash Provided By (Used in) Capital and Related Financing Activities	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	<u>23,646</u>	<u>7</u>
Net Cash Provided By (Used in) Investing Activities	<u>23,646</u>	<u>7</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(330,499)	(1,205,604)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,231,965</u>	<u>2,437,569</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 901,466</u>	<u>\$ 1,231,965</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income/(loss)	\$ (355,495)	\$ (1,205,895)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	-	-
(Increase) decrease in assets:		
Prepaid insurance	(15)	923
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	<u>1,365</u>	<u>(639)</u>
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	<u>\$ (354,145)</u>	<u>\$ (1,205,611)</u>

See accompanying notes to the financial statements

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

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

Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

In 2011, the Depot Redevelopment Corporation of Memphis and Shelby County ("DRC"), along with the Industrial Development Board of the City of Memphis and County of Shelby, Tennessee ("IDB") and the Memphis and Shelby County 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 Memphis City Council and Shelby County Commission. 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. 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 \$29,523 and \$29,348 from the DRC for services rendered as of June 30, 2020 and 2019, respectively.

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

In December 2016, the DRC sold its remaining building and recorded related assets. On September 11, 2018, the DRC contracted to sell its remaining 67.35 acres for \$233,390. The sale was delayed when issues were identified concerning transfer of the property to the DRC from the U.S. Government. These issues were resolved on August 26, 2020 and the sale is expected to close in November - December 2020.

There are no DRC staff or contracted employees.

The DRC is a component unit of EDGE and is included in the financial statements of EDGE. These financial statements are not intended to present the net position, results of operations, or cash flows of EDGE.

Basis of Presentation and Accounting

The DRC is considered to be a special-purpose government engaged in a business-type activity since its existence is to satisfy a very narrow purpose. It 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 in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred, if measurable.

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

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. At years ended June 30, 2020 and 2019, there was no balance due from the tenant.

Investments

For June 30, 2020 and 2019, the DRC held no investments. The DRC adopted GASB Statement No. 72, *Fair Value Measurement and Application*, during FY16.

Net Position

The net position of proprietary funds is classified into three components. "Net investments in capital assets" consists of capital assets, net of accumulated depreciation, plus capital related deferred outflows of resources and reduced by capital related borrowings and deferred inflows of resources. The "Restricted" category of net position consists of assets that must be used for a particular purpose as specified by creditors, grantors, or contributions external to the DRC. The "Unrestricted" category of net position consists of the remaining net position that does not meet the definition of the other two categories.

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.

Use of 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 and Expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the DRC are related to leasing building space to a tenant. Operating expenses for proprietary funds include the cost of sales and services, administration expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Due to the sale of the building, the DRC no longer receives operating revenues from leasing.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:

Deposit and Investment Risk

Balances in the deposit accounts are insured by federal depository insurance. As required by state statute, cash deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance limit are to be collateralized at 105%; either with securities pledged by a financial institution held in trust in the DRC's name or classified as public funds, which is held in local government investment pools.

At June 30, 2020 and 2019, the DRC maintained bank accounts at local banks. Accounts at these banks are insured by the FDIC up to \$250,000. For the years ended June 30, 2020 and June 30, 2019, the amounts held at these banks were in excess of \$651,466 and \$986,307, respectively, which are collateralized by the Federal Home Loan Bank of Dallas.

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.

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. The DRC's credit risk relates primarily to cash and cash equivalents.

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, 2020 and 2019, 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, 2020 and 2019, the DRC held no investments.

NOTE 3 - RELATED PARTY TRANSACTIONS:

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. The original maturity date of December 31, 2015 was extended to December 1, 2020 during the year ended June 30, 2016. The line-of-credit carries a 0% interest rate. As of June 30, 2020 and 2019, a related party receivable of \$1,200,000 and \$1,200,000 is due from the IDB, respectively.

Additionally, EDGE owes the DRC \$988,521 and \$988,521 as of June 30, 2020 and 2019, respectively. Subsequent to year-end, this loan was forgiven by DRC in July 2020.

The DRC granted The Greater Memphis Alliance for a Competitive Workforce, a component unit of EDGE, \$- and \$834,481 as of June 30, 2020 and 2019, to be used for operations, respectively.

NOTE 4 - 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, the DRC has a potential liability of \$801,000 concerning certain public utilities. \$800,925 has been placed into an escrow account. In FY2019, the Board authorized the funds in the escrow account be transferred to DRC's checking account as this liability no longer exists.

NOTE 5 - INSURANCE COVERAGE:

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 6 - RECLASSIFICATIONS:

Certain reclassifications to the June 30, 2019 financial statements have been made to conform with the June 30, 2020 presentation with no effect on changes in net position.

NOTE 7 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS:

The new GASB lease accounting standard for governmental organizations, GASB Statement No. 87, Leases, was proposed during 2017 and released in June of 2017. It was initially effective for reporting periods that begin subsequent to December 15, 2019.

In May 2020, the GASB issue Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which delayed the GASB 87 effective date by 18 months. This pronouncement now requires the adoption of GASB 87 for all fiscal years that begin subsequent to June 15, 2021. However, the requirement to restate all prior periods presented, if applicable, remains. Management has elected to delay implementation until 2020 and does not expect the new standard to have a material impact on the financial statements.

NOTE 8 - SUBSEQUENT EVENTS:

Subsequent events have been evaluated through December 15, 2020, which is the financial statement issuance date. In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. The outbreak of the novel coronavirus has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. The coronavirus pandemic and government response are creating disruption in global supply chains and adversely impacting many industries. The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. While the disruption is currently expected to be temporary, there is uncertainty around the duration. Therefore, while management expects this matter to negatively impact the organization's business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time.

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 (the "DRC"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the DRC's financial statements as listed in the table of contents, and have issued our report thereon dated December 15, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the DRC's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 15, 2020

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

**Schedule of Prior Year Findings and Questioned Costs
For the Year Ended June 30, 2020**

There were no prior findings reported.