

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

Financial Statements
For the Year Ended June 30, 2021

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Contents

	Page
Roster of Board of Directors and Management	2
Independent Auditors' Report	3-5
Management's Discussion and Analysis	6-10
Governmental Fund Balance Sheet/Statement of Net Position	11
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities and Changes in Net Position	12
Notes to Financial Statements	13-22
Supplementary Information	
Schedule of Changes in Long-Term Debt by Individual Issue	23
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 <i>Government Auditing Standards</i>	24-25
Schedule of Findings and Responses	26
Schedule of Prior Year Findings	27

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Roster of Board of Directors and Management
June 30, 2021

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

Kandace Stewart, Member

Management

Rosalyn Willis, President



5100 Poplar Ave., 30th Floor ■ Memphis, TN 38137
Main: 901.685.5575 ■ Fax: 901.685.5583 ■ www.mhmcpa.com

Independent Auditors' 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, 2021, 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.

Auditors' 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, 2021, 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

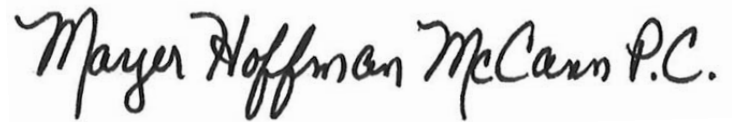
Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise The City of Memphis and Shelby County Community Redevelopment Agency's basic financial statements. The supplementary information section is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates 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 audits 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 July 13, 2022, 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
July 13, 2022

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

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2021

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 two)
- 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.

FY2021 saw robust redevelopment activity as the organization resumed project work after the governmental lockdown caused by the COVID-19 pandemic. Because of the increased activity, the total net position of the CRA decreased by \$5,661,942 to \$23,274,560 at June 30, 2021 from the June 30, 2020 balance of \$28,936,502.

Below is a listing to give a better understanding of the net positions by individual project.

Net Position

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Changes</u>
Uptown	\$ 29,319,134	\$ 34,218,336	\$ (4,899,202)
Uptown Expansion 2	403,008	293,459	109,549
Uptown Expansion 3	<u>12,996</u>	<u>16,664</u>	<u>(3,668)</u>
Uptown TIF	29,735,138	34,528,459	(4,793,321)
Highland Row	(7,146,764)	(6,942,710)	(204,054)
Binghampton	489,352	514,707	(25,355)
Operating	<u>196,834</u>	<u>836,046</u>	<u>(639,212)</u>
Total	<u>\$ 23,274,560</u>	<u>\$ 28,936,502</u>	<u>\$ (5,661,942)</u>

As noted above, individual fund balances fluctuated during the year and generally reflected decreases consistent with increased redevelopment activity. However, the impact of deferred revenue changes resulted in a decrease in the Uptown Expansion 3 fund balance compared to the prior year.

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.

Comparative Financial Statements

The following tables provide a comparative analysis of the CRA's financial position as of the fiscal years ended June 30, 2021, and 2020. These tables provide a snapshot of the economic resources (assets), and the claims on these resources (liabilities).

Statement of Net Position

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Changes Increase (Decrease)</u>
Assets			
Cash	\$ 6,001,050	\$ 8,305,419	\$ (2,304,369)
Escrow	152	46,800	(46,648)
Tax increment financing receivable - City of Memphis, net of allowance	4,322,063	3,617,070	704,993
Tax increment financing receivable - Shelby County, net of allowance	6,203,016	5,545,344	657,672
Due from City of Memphis	5,792,944	3,057,109	2,735,835
Due from Shelby County	65,604	2,551	63,053
Investment	17,206,072	24,020,381	(6,814,309)
Security deposit		596	(596)
Capital assets being depreciated, net	4,681,008	4,812,584	(131,576)
Capital assets not being depreciated	<u>2,386,169</u>	<u>687,885</u>	<u>1,698,284</u>
Total assets	<u>\$ 46,658,078</u>	<u>\$ 50,095,739</u>	<u>\$ (3,437,661)</u>

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Changes Increase (Decrease)</u>
Liabilities			
Accounts payable and accrued expenses	\$ 1,595,663	\$ 463,983	\$ 1,131,680
Accrued interest	209,463	213,916	(4,453)
Long-term liabilities			
Due within one year	305,000	245,000	60,000
Due after one year	<u>11,245,000</u>	<u>11,525,000</u>	<u>(280,000)</u>
Total liabilities	<u>13,355,126</u>	<u>12,447,899</u>	<u>907,227</u>
Deferred inflows of resources	<u>10,028,392</u>	<u>8,711,338</u>	<u>1,317,054</u>
Net position			
Restricted for debt service	152	46,800	(46,648)
Restricted for redevelopment	<u>23,274,408</u>	<u>28,889,702</u>	<u>(5,615,294)</u>
Total net position	<u>\$ 23,274,560</u>	<u>\$ 28,936,502</u>	<u>\$ (5,661,942)</u>

As redevelopment activity increased compared to the prior year, total assets decreased. In FY2021, investments decreased by \$6,814,309. Such decrease was primarily used to fund the \$6,761,742 increase in activity in the Uptown redevelopment area. At year-end, \$152 was being held for future Highland Row bond principal and interest payments.

In FY2021, cash balances decreased by \$2,304,369, in part, due to the timing of collection transfers from the City of Memphis. The amount due from the City increased by \$2,735,835 from \$3,057,109 in the prior year to \$5,792,944 in the current year. TIF funding and related receivables increased during the current year by \$704,993 for the City of Memphis and \$657,672 for Shelby County.

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 Shelby County funds. Investments are primarily with the Tennessee Local Government Investment Pool and U.S. Government Agency Securities. Investments at June 30, 2021, totaled \$17,206,072, representing a \$6,814,309 decrease from the June 30, 2020, total of \$24,020,381. As previously stated, the majority of this decrease is due to the funding of current year activity within the Uptown redevelopment area.

The \$131,576 decrease in capital assets being depreciated consists primarily of annual depreciation on the Highland Row parking garage. The \$2,386,169 in capital assets not being depreciated consists of the Highland Row parking garage land and properties being held for future redevelopment.

Accounts payable and accrued expenses increased by \$1,131,680 compared to FY2020 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 FY2020 is nominal. The debt decreased by a \$220,000 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, 2021</u>	<u>June 30, 2020</u>	<u>Changes</u>
Uptown	\$ 29,319,134	\$ 34,218,336	\$ (4,899,202)
Uptown Expansion 2	403,008	293,459	109,549
Uptown Expansion 3	<u>12,996</u>	<u>16,664</u>	<u>(3,668)</u>
Uptown TIF	29,735,138	34,528,459	(4,793,321)
Highland Row	(7,146,916)	(6,989,510)	(157,406)
Binghampton	489,352	514,707	(25,355)
Operating	<u>196,834</u>	<u>836,046</u>	<u>(639,212)</u>
Restricted for redevelopment	23,274,408	28,889,702	(5,615,294)
Restricted for debt service	<u>152</u>	<u>46,800</u>	<u>(46,648)</u>
Total	<u>\$ 23,274,560</u>	<u>\$ 28,936,502</u>	<u>\$ (5,661,942)</u>

For the Statement of activities and changes in net position, the major financial activity in FY2021 consisted of \$8,868,161 in TIF revenues and related interest income. While TIF revenues were relatively stable compared to the prior year, interest income decreased by \$477,167 consistent with the decrease in investment balances held at the County.

In FY2021, the CRA relocated its offices and increased its focus on program activities. The \$1,062,824 change in operating expenses includes a \$922,130 increase in program expenses compared to FY2020, and increases in administrative costs. Developer expenses increased \$6,761,742 in FY2021 compared to FY2020, because of robust activity in the Uptown redevelopment.

Statement of Activities and Changes in Net Position

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Changes Increase (Decrease)</u>
Revenues			
Tax increment financing - Shelby County	\$ 5,272,695	\$ 5,190,964	\$ 81,731
Tax increment financing - City of Memphis	3,440,145	3,451,699	(11,554)
Interest income	149,121	626,288	(477,167)
Other income	<u>6,200</u>	<u>84,199</u>	<u>(77,999)</u>
Total revenues	8,868,161	9,353,150	(484,989)
Expenditures/expenses			
Current			
Operating expenses	2,749,601	1,686,777	1,062,824
Depreciation	180,097	174,160	5,937
Bond issuance expenses	-	-	-
Debt service			
Bond interest payments	848,872	867,658	(18,786)
Capital outlays			
Development expenses	<u>10,751,533</u>	<u>3,989,791</u>	<u>6,761,742</u>
Total expenditures/expenses	<u>14,530,103</u>	<u>6,718,386</u>	<u>7,811,717</u>

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Changes Increase (Decrease)</u>
Change in net position	\$ (5,661,942)	\$ 2,634,764	\$ (8,296,706)
Net position			
Beginning of year	<u>28,936,502</u>	<u>26,301,738</u>	<u>2,634,764</u>
End of year	<u>\$ 23,274,560</u>	<u>\$ 28,936,502</u>	<u>\$ (5,661,942)</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), 850 N. Manassas Street, Memphis, Tennessee 38107.

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Governmental Fund Balance Sheet/Statement of Net Position
June 30, 2021

	<u>General Fund</u>	<u>Adjustments (Note 2)</u>	<u>Statement of Net Position</u>
Assets			
Cash	\$ 6,001,050	\$ -	\$ 6,001,050
Escrow cash	152	-	152
Tax increment financing receivable - City of Memphis, net of allowance	4,322,063	-	4,322,063
Tax increment financing receivable - Shelby County, net of allowance	6,203,016	-	6,203,016
Due from City of Memphis	5,792,944	-	5,792,944
Due from Shelby County	65,604	-	65,604
Investment	17,206,072	-	17,206,072
Capital assets being depreciated, net	-	4,681,008	4,681,008
Capital assets not being depreciated	<u>-</u>	<u>2,386,169</u>	<u>2,386,169</u>
Total assets	<u>\$ 39,590,901</u>	7,067,177	46,658,078
Liabilities			
Accounts payable and accrued expenses	\$ 1,595,663	\$ -	\$ 1,595,663
Accrued interest	-	209,463	209,463
Long-term liabilities			
Due within one year	-	305,000	305,000
Due after one year	<u>-</u>	<u>11,245,000</u>	<u>11,245,000</u>
Total liabilities	1,595,663	11,759,463	13,355,126
Deferred inflows of resources			
Deferred tax increment financing revenues	10,449,195	(420,803)	10,028,392
Fund balance			
Fund balance			
Restricted for redevelopment	<u>27,546,043</u>	<u>(27,546,043)</u>	<u>-</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 39,590,901</u>		
Net position			
Restricted for debt service		152	152
Restricted for redevelopment		<u>23,274,408</u>	<u>23,274,408</u>
Total net position		<u>\$ 23,274,560</u>	<u>\$ 23,274,560</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, 2021

	General Fund	Adjustments	Statement of Activities
Revenues			
Tax increment financing - Shelby County	\$ 5,190,517	\$ 82,178	\$ 5,272,695
Tax increment financing - City of Memphis	3,411,173	28,972	3,440,145
Interest income	149,121	-	149,121
Other income	<u>6,200</u>	<u>-</u>	<u>6,200</u>
Total revenues	8,757,011	111,150	8,868,161
Expenditures/expenses			
Current			
Operating expenses	4,495,810	(1,746,209)	2,749,601
Depreciation	-	180,097	180,097
Debt service			
Principal payment	220,000	(220,000)	-
Interest expense	853,325	(4,453)	848,872
Capital outlay			
Development expenses	<u>10,751,533</u>	<u>-</u>	<u>10,751,533</u>
Total expenditures/expenses	<u>16,320,668</u>	<u>(1,790,565)</u>	<u>14,530,103</u>
Excess of (deficiency) of revenues over expenditures	(7,563,657)	1,901,715	
Change in net position			(5,661,942)
Fund balance/net position			
Beginning of the year	<u>35,109,700</u>	<u>(6,173,198)</u>	<u>28,936,502</u>
End of the year	<u>\$ 27,546,043</u>	<u>\$ (4,271,483)</u>	<u>\$ 23,274,560</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, 2021

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.

As of June 30, 2021, 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 two)
- 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 the Memphis Division of 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 paid for ongoing management and maintenance of lots held in the land bank (MLB-Uptown, LLC) for redevelopment. During fiscal 2020, all properties held by the land bank were transferred to the CRA for ongoing management and maintenance.

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Notes to Financial Statements (Continued)
June 30, 2021

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 2 Redevelopment Project was approved in November 2017 and the Uptown Expansion 3 Redevelopment Project was approved in September 2019. Both projects were approved as amendments to the Community Redevelopment Plan for the Uptown area. Because of their 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 areas are community-based and directed by a strategic plan. There are no redevelopment agreements.

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, 2021

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 local financial institutions. 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, 2021 exist for the following purposes:

Uptown	\$ 5,463,904
Uptown Expansion	76,884
Binghampton	<u>460,262</u>
Total	<u>\$ 6,001,050</u>

Escrow cash

Escrow cash consists of \$152 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, 2021

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, 2021, Annual Comprehensive Financial Report (ACFR) for Shelby County for more information on the County's investments. CRA's allocable share of the County's investments was \$17,206,072 as of June 30, 2021.

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, 2021, the allowance for doubtful accounts totaled \$433,043. 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, 2021

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. Donated capital assets are recorded at acquisition cost at the date of donation. 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, 2021 and July 13, 2022, 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 December 2021, the CRA board approved a community redevelopment plan for the South Memphis/Soulsville area. The TIF area is subject to approval by the City of Memphis and Shelby County governments.

In December 2021, Shelby County changed the TIF accounting method used for the Binghampton TIF from the aggregate method to the parcel method. In addition, the County made the change retroactive to the TIF's inception beginning with the 2017 tax levy year. The financial impact of the County's action will impact TIF revenue recognition in fiscal 2022.

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Notes to Financial Statements (Continued)
June 30, 2021

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

As of June 30, 2021, amounts reported for governmental activities in the statement of net position (page 11) 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	\$ 27,546,043
Receivables earned but not available to pay for current year expenditures	420,803
Capital assets acquired, net	7,067,177
Long-term liabilities not due and payable in the current period	(11,550,000)
Interest on long-term debt not payable from current financial resources	<u>(209,463)</u>
Net position of governmental activities	\$ <u>23,274,560</u>

Amounts reported for governmental activities in the statement of activities (page 12) 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:

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 2021 are as follows:

2021	\$ 420,803
2020	<u>(309,653)</u>
Net difference	\$ <u>111,150</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 2021 are as follows:

Interest expense - 2021	\$ 209,463
Interest expense - 2020	<u>(213,916)</u>
Net difference	\$ <u>(4,453)</u>
Principal payment on long-term liabilities	\$ <u>220,000</u>

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Notes to Financial Statements (Continued)
June 30, 2021

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

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 follows:

Capital outlays	\$ <u>1,746,209</u>
Depreciation expense	\$ <u>180,097</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 2 Redevelopment Project	May 2016
Binghampton Project	May 2016
Uptown Expansion 3 Redevelopment Project	May 2018

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 2 (retroactive to fiscal year 2018), Uptown Expansion 3, and Highland Row projects. The aggregate method is used for the Binghampton project.

Please refer to the June 30, 2021, ACFRs for the City of Memphis and Shelby County for more information regarding property tax revenues.

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Notes to Financial Statements (Continued)
June 30, 2021

Note 4 - Capital assets

Capital asset activity for the year ended June 30, 2021 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated				
Equipment	\$ 13,801	\$ 48,521	\$ -	\$ 62,322
Building	5,146,648	-	-	5,146,648
Less accumulated depreciation	<u>(347,865)</u>	<u>(180,097)</u>	-	<u>(527,962)</u>
	4,812,584	(131,576)	-	4,681,008
Capital assets not being depreciated				
Land	<u>687,885</u>	<u>1,698,284</u>	-	<u>2,386,169</u>
Total capital assets, net	<u>\$ 5,500,469</u>	<u>\$ 1,566,708</u>	<u>\$ -</u>	<u>\$ 7,067,177</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.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 305,000	\$ 835,562
2023	310,000	815,263
2024	345,000	794,959
2025	385,000	767,775
2026	425,000	739,863
2027 - 2031	2,870,000	3,169,737
2032 - 2036	4,500,000	1,910,624
2037 - 2038	<u>2,410,000</u>	<u>265,713</u>
	<u>\$ 11,550,000</u>	<u>\$ 9,299,496</u>

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Notes to Financial Statements (Continued)
June 30, 2021

Note 6 - Lease commitments

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 with the lessor in December 2020, related to the potential purchase of the leased space and certain surrounding property. The lease agreement is for a period of twenty-four (24) months at \$3,900 per month. Rent expense was \$19,500 for the year ending June 30, 2021. Future minimum lease payments under the operating lease agreement are as follows:

<u>Year</u>	
2022	\$ 46,800
2023	<u>27,300</u>
	<u>\$ 74,100</u>

Note 7 - Related party transactions

Amounts due from the City of Memphis as of June 30, 2021, totaled \$5,792,944. 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, 2021, totaled \$65,604. Such amounts include \$8,686 in tax increment financing revenues collected by the County Trustee but not remitted to the CRA, and \$56,918 in land purchase deposits for unexecuted property tax sales.

Note 8 - Commitments and contingencies

Legal

As of June 30, 2021, the CRA had a litigation matter related to the normal course of business. The matter was dismissed subsequent to year-end and accordingly, no estimated loss contingency was deemed necessary for such legal matter.

Loan commitment

During the year, the CRA authorized up to \$6 million in TIF funding via a subordinate cashflow loan secured by a second mortgage for the development of an affordable housing project. As of June 30, 2021, the final redevelopment agreement had not been executed.

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Notes to Financial Statements (Continued)

June 30, 2021

Note 9 - Risks and uncertainties

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 and safety of our employees and community partners. The novel coronavirus has continued to spread and significantly affect local and worldwide economic activity. 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.

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, 2021

	<u>Original Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Final Maturity Date</u>	<u>Outstanding June 30, 2020</u>	<u>Issued During Period</u>	<u>Paid and/or Matured During Period</u>	<u>Refunded During Period</u>	<u>Outstanding June 30, 2021</u>
Bonds payable									
Redevelopment Revenue Note Series 2016	\$ 12,500,000	7.25%	8/4/2016	4/1/2025	\$ 11,770,000	\$ -	\$ 220,000	\$ -	\$ 11,550,000



5100 Poplar Ave., 30th Floor ■ Memphis, TN 38137
Main: 901.685.5575 ■ Fax: 901.685.5583 ■ www.mhmcpa.com

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, 2021, 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 July 13, 2022.

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, and therefore, material weaknesses and significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified a deficiency in internal control over financial reporting described as item 2021-001 in the accompanying Schedule of Findings and Responses that we consider to be a significant deficiency.

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*.

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
July 13, 2022

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Schedule of Findings and Responses
June 30, 2021

The following represents a significant deficiency in internal control over financial reporting:

2021-001 - Unrecorded liability

Criteria - Policies and procedures should ensure that all accounting transactions are properly recorded in the correct fiscal year.

Condition - A transaction for development expenses and the related liability was not recorded in the proper period resulting in the understatement of development expenses and accounts payable as of the end of the fiscal year.

Cause - For the transaction noted above, the internal control procedures over timely recognition of expenses were not performed in accordance with the procedures established by the management of CRA.

Effect - Noncompliance with the established internal control procedures over the accounting and financial reporting function increases the risk that the financial statements will be materially misstated.

Recommendation - We recommend that management review policies and procedures over accounts payable cutoff to ensure the recording of all accounting transactions in the proper period.

Response - The subject transaction occurred in August 2021, as the CRA transitioned from its full-time accountant to temporary personnel in the accounting area. Based on management's review, the recording of the transaction in the incorrect period is attributed to human error. As noted, the action resulted in the unaudited development expenses being understated. The auditors examined transactions for the year under audit (July 1, 2020 – June 30, 2021), and for the year subsequent to the audit period (July 1, 2021, - July 5, 2022). During the sampling of transactions for the two-year period, the auditors did not identify any other transaction indicating improper accounts payable cutoff. Therefore, it is management's conclusion that the design of the internal control system over financial reporting is functioning as intended, the policies and procedures over accounts payable cutoff are adequate, and no further action is deemed warranted. In addition, management is in the process of hiring a full-time CFO to fill the vacant accounting position and the likelihood of a repeat occurrence will be further minimized.

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Schedule of Prior Year Findings
For the Fiscal Year Ended June 30, 2021

There were no prior findings reported.