

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

Financial Statements
and Supplementary Information
For the Year Ended June 30, 2022

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Contents

	Page
Introductory Section	
Roster of Board of Directors and Management	2
Financial Section	
Independent Auditors' Report	3-5
Management's Discussion and Analysis	6-9
Governmental Fund Balance Sheet/Statement of Net Position	10
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities and Changes in Net Position	11
Notes to Financial Statements	12-20
Supplementary Information	
Schedule of Changes in Long-Term Debt by Individual Issue	21
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>	22-23
Schedule of Prior Year Findings	24

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Roster of Board of Directors and Management
June 30, 2022

Board of Directors

McKinley Martin Jr., Chairman

Kandace Stewart, Vice-Chairman

Sam Cantor, Treasurer

Ann W. Langston, Secretary

Emily Greer, Member

Deveney Perry, Member

Amy Schaftlein, Member

Management

Andrew Murray, President

Lobelina Cole-Smith, Chief Financial Officer



Independent Auditors' Report

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

Reports on the Audit of the Financial Statements

Opinions

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, 2022, 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.

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 of The City of Memphis and Shelby County Community Redevelopment Agency, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The City of Memphis and Shelby County Community Redevelopment Agency, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The City of Memphis and Shelby County Community Redevelopment Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatements when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Memphis and Shelby County Community Redevelopment Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The City of Memphis and Shelby County Community Redevelopment Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-9 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.

Supplementary 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 schedule of changes in long-term debt by individual issue is presented for purposes of additional analysis and is also not a required part of the basic financial statements. Such 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. The 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 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 schedule of changes in long-term debt by individual issue is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the financial statements. The other information comprises the introductory and roster of board of directors and management but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2024 on our consideration of The City of Memphis and Shelby County Community Redevelopment Agency'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 City of Memphis and Shelby County Community Redevelopment Agency's internal control over financial reporting and compliance.



Memphis, Tennessee
February 2, 2024

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

**Management’s Discussion and Analysis
June 30, 2022**

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 Accounting Standards Board, Statement No. 34 (GASB 34).

Financial Highlights

There are four 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
- Soulsville/South Memphis 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.

FY2022 saw robust redevelopment activity by the CRA 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 \$14,823,132 to \$8,451,428 at June 30, 2022, from the June 30, 2021, balance of \$23,274,560.

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

Net Position

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>Changes</u>
Uptown	\$ 11,789,312	\$ 29,319,134	\$ (17,529,822)
Uptown Expansion 2	590,835	403,008	187,827
Uptown Expansion 3	<u>56,545</u>	<u>12,996</u>	<u>43,549</u>
Uptown TIF	12,436,692	29,735,138	(17,298,446)
Highland Row	(7,241,139)	(7,146,765)	(94,374)
Binghampton	2,269,190	489,352	1,779,838
Operating	<u>986,685</u>	<u>196,835</u>	<u>789,850</u>
Total	<u>\$ 8,451,428</u>	<u>\$ 23,274,560</u>	<u>\$ (14,823,132)</u>

As noted above, individual fund balances fluctuated during the year. The Uptown TIF reflected a decrease consistent with increased redevelopment activity. The impact of deferred revenue changes along with minimal or no redevelopment activities in Uptown 2 TIF, Uptown 3 TIF and Binghampton TIF resulted in an increase in the fund balances 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, 2022, and 2021. These tables provide a snapshot of the economic resources (assets), and the claims on these resources (liabilities).

Statement of Net Position

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>Changes Increase (Decrease)</u>
Assets			
Cash	\$ 7,685,760	\$ 6,001,050	\$ 1,684,710
Escrow	637	152	485
Tax increment financing receivable - City of Memphis, net of allowance	4,557,073	4,322,063	235,010
Tax increment financing receivable - Shelby County, net of allowance	6,539,574	6,203,016	336,558
Due from City of Memphis		5,792,944	(5,792,944)
Due from Shelby County	51,292	65,604	(14,312)
Investment	4,349,318	17,206,072	(12,856,754)
Security deposit			
Capital assets being depreciated, net	4,500,173	4,681,008	(180,835)
Capital assets not being depreciated	<u>5,585,357</u>	<u>2,386,169</u>	<u>3,199,188</u>
Total assets	<u>\$ 33,269,184</u>	<u>\$ 46,658,078</u>	<u>\$ (13,388,894)</u>
Liabilities			
Accounts payable and accrued expenses	\$ 2,420,110	\$ 1,595,663	\$ 824,447
Due to City of Memphis	229,159		229,159
Accrued interest	204,374	209,463	(5,089)
Long-term liabilities			
Due within one year	435,000	305,000	130,000
Due after one year	<u>10,935,000</u>	<u>11,245,000</u>	<u>(310,000)</u>
Total liabilities	<u>14,223,643</u>	<u>13,355,126</u>	<u>868,517</u>
Deferred inflows of resources	<u>10,594,113</u>	<u>10,028,392</u>	<u>565,721</u>
Net position			
Restricted for debt service	637	152	485
Restricted for redevelopment	<u>8,450,791</u>	<u>23,274,408</u>	<u>(14,823,617)</u>
Total net position	<u>\$ 8,451,428</u>	<u>\$ 23,274,560</u>	<u>\$ (14,823,132)</u>

As redevelopment activity increased compared to the prior year, total assets decreased. In FY2022, investments decreased by \$12,856,754. Such decrease was primarily used to fund the \$25,096,987 increase in activity in the Uptown redevelopment area. At year-end, \$637 was being held for future Highland Row bond principal and interest payments.

In FY2022, cash balances increased by \$1,684,710, in part, due to the timing of collection transfers from the City of Memphis. The amount due from the City decreased by \$6,022,102 from \$5,792,944 in the prior year to a payable of \$229,158 in the current year. The decrease was due to the timing of transfers from the City of Memphis. TIF funding and related receivables increased during the current year by \$332,490 for the City of Memphis and \$336,558 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 funds. Investments are primarily with the Tennessee Local Government Investment Pool and U.S. Government Agency Securities. Investments at June 30, 2022, totaled \$4,349,318, representing a \$12,856,754 decrease from the June 30, 2021, total of \$17,206,072. As previously stated, the majority of this decrease is due to the funding of current year activity within the Uptown redevelopment area.

The \$180,835 decrease in capital assets being depreciated consists primarily of annual depreciation on the Highland Row parking garage. The \$5,585,357 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 \$824,447 compared to FY2021 due to the timing of vendor payments at year-end and the increase in redevelopment activity during the current year.

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 FY2021 is nominal. The debt decreased by a \$180,000 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, 2022</u>	<u>June 30, 2021</u>	<u>Changes</u>
Uptown	\$ 11,789,312	\$ 29,319,134	\$ (17,529,822)
Uptown Expansion 2	590,835	403,008	187,827
Uptown Expansion 3	<u>56,545</u>	<u>12,996</u>	<u>43,549</u>
Uptown TIF	12,436,692	29,735,138	(17,298,446)
Highland Row	(7,241,776)	(7,146,916)	(94,860)
Binghampton	2,269,190	489,352	1,779,838
Operating	<u>986,685</u>	<u>196,834</u>	<u>789,851</u>
Restricted for redevelopment	8,450,791	23,274,408	(14,823,617)
Restricted for debt service	<u>637</u>	<u>152</u>	<u>485</u>
Total	<u>\$ 8,451,428</u>	<u>\$ 23,274,560</u>	<u>\$ (14,823,132)</u>

For the Statement of activities and changes in net position, the major financial activity in FY2022 consisted of \$11,312,587 in TIF revenues and related interest income. While Uptown, Uptown Expansion 2, Uptown Expansion 3 and Highland TIF revenues were relatively stable compared to the prior year, receipt of TIF reports and retroactive payment for the Binghampton TIF of \$1,114,999, contributed to an increase of approximately \$2.5 million in revenue.

The \$3,252,047 change in operating expenses includes a \$2,705,903 increase in program expenses compared to FY2021, and increases in administrative costs. Developer expenses increased \$8,371,207 in FY2022 compared to FY2021, because of robust activity in the Uptown redevelopment.

Statement of Activities and Changes in Net Position

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>Changes Increase (Decrease)</u>
Revenues			
Tax increment financing - Shelby County	\$ 7,316,952	\$ 5,272,695	\$ 2,044,257
Tax increment financing - City of Memphis	3,930,591	3,440,145	490,446
Interest income	53,315	149,121	(95,806)
Other income	<u>11,729</u>	<u>6,200</u>	<u>5,529</u>
Total revenues	11,312,587	8,868,161	2,444,426
Expenditures/expenses			
Current			
Operating expenses	6,001,648	2,749,601	3,252,047
Depreciation	179,045	180,097	(1,052)
Bond issuance expenses	-	-	-
Debt service			
Bond interest payments	832,286	848,872	(16,586)
Capital outlays			
Development expenses	<u>19,122,740</u>	<u>10,751,533</u>	<u>8,371,207</u>
Total expenditures/expenses	<u>26,135,719</u>	<u>14,530,103</u>	<u>11,605,616</u>
Change in net position	(14,823,132)	(5,661,942)	(9,161,190)
Net position			
Beginning of year	<u>23,274,560</u>	<u>28,936,502</u>	<u>(5,661,942)</u>
End of year	<u>\$ 8,451,428</u>	<u>\$ 23,274,560</u>	<u>\$ (14,823,132)</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, 2022

	<u>General Fund</u>	<u>Adjustments (Note 2)</u>	<u>Statement of Net Position</u>
Assets			
Cash	\$ 7,685,760	\$ -	\$ 7,685,760
Escrow cash	637	-	637
Tax increment financing receivable - City of Memphis, net of allowance	4,557,073	-	4,557,073
Tax increment financing receivable - Shelby County, net of allowance	6,539,574	-	6,539,574
Due from Shelby County	51,292	-	51,292
Investment	4,349,318	-	4,349,318
Capital assets being depreciated, net	-	4,500,173	4,500,173
Capital assets not being depreciated	-	<u>5,585,357</u>	<u>5,585,357</u>
Total assets	<u>\$ 23,183,654</u>	10,085,530	33,269,184
Liabilities			
Accounts payable and accrued expenses	\$ 2,420,110	\$ -	\$ 2,420,110
Accrued interest	-	204,374	204,374
Due to City of Memphis	229,159	-	229,159
Long-term liabilities			
Due within one year	-	435,000	435,000
Due after one year	-	<u>10,935,000</u>	<u>10,935,000</u>
Total liabilities	2,649,269	11,574,374	14,223,643
Deferred inflows of resources			
Deferred tax increment financing revenues	11,035,771	(441,658)	10,594,113
Fund balance			
Fund balance			
Restricted for redevelopment	<u>9,498,614</u>	<u>(9,498,614)</u>	<u>-</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 23,183,654</u>		
Net position			
Restricted for debt service		637	637
Restricted for redevelopment		<u>8,450,791</u>	<u>8,450,791</u>
Total net position		<u>\$ 8,451,428</u>	<u>\$ 8,451,428</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, 2022

	General Fund	Adjustments	Statement of Activities
Revenues			
Tax increment financing - Shelby County	\$ 7,320,399	\$ (3,447)	\$ 7,316,952
Tax increment financing - City of Memphis	3,906,289	24,302	3,930,591
Interest income	53,315	-	53,315
Other income	<u>11,729</u>	<u>-</u>	<u>11,729</u>
Total revenues	11,291,732	20,855	11,312,587
Expenditures/expenses			
Current			
Operating expenses	9,199,046	(3,197,398)	6,001,648
Depreciation	-	179,045	179,045
Debt service			
Principal payment	180,000	(180,000)	-
Interest expense	837,375	(5,089)	832,286
Capital outlay			
Development expenses	<u>19,122,740</u>	<u>-</u>	<u>19,122,740</u>
Total expenditures/expenses	<u>29,339,161</u>	<u>(3,203,442)</u>	<u>26,135,719</u>
Excess of (deficiency) of revenues over expenditures	(18,047,429)	3,224,297	
Change in net position			(14,823,132)
Fund balance/net position			
Beginning of the year	<u>27,546,043</u>	<u>(4,271,483)</u>	<u>23,274,560</u>
End of the year	<u>\$ 9,498,614</u>	<u>\$ (1,047,186)</u>	<u>\$ 8,451,428</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, 2022

Note 1 - Summary of significant accounting policies

Reporting entity

The City of Memphis and Shelby County Community Redevelopment Agency (the "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"). The 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, 2022, the following redevelopment 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
- Soulsville/South Memphis Project

The Uptown Redevelopment Project was approved in 2001 as 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 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, 2022

Note 1 - Summary of significant accounting policies (continued)

Reporting entity (continued)

The Highland Row Project was approved in 2007 as 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 represents 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 projects' total life. Redevelopment in the expanded areas is 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.

The Soulsville/South Memphis Redevelopment Plan was approved June 2022. Redevelopment in the area is community-based and directed by a strategic plan. There is no development agreement.

Financial statement presentation

For special purpose governmental entities, such as the 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 the 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 the CRA as a whole. These statements include the financial activities of the 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 the CRA's purpose. Expenses are those that are clearly identifiable with the 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, 2022

Note 1 - Summary of significant accounting policies (continued)

Financial statement presentation (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, the 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 statements. Expenditures generally are recorded when a liability is incurred.

The 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 financial revenues are recognized as revenues in the year for which the related property taxes are levied.

Cash

The 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 the 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, 2022 exist for the following purposes:

Binghampton	\$ 1,734,061
Operating / Administrative	<u>5,951,699</u>
Total	<u>\$ 7,685,760</u>

Escrow cash

Escrow cash consists of \$637 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, 2022

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, 2022 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 \$4,349,318 as of June 30, 2022.

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. As of June 30, 2022, the allowance for doubtful accounts totaled \$0. 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 use 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, 2022

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, 2022 and February 2, 2024, 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 July 2022, the CRA board approved a community redevelopment plan for the Klondike area. The TIF area was approved by the City of Memphis and Shelby County governments in December 2022.

In July 2023, the CRA acquired the administrative office building and the adjacent Porter Leath Children's Center. The purchase price totaled \$620,000, with \$200,000 payable at closing, \$400,000 payable on July 1, 2027, and \$20,000 credited by the seller towards the purchase price to be used by the CRA for repairs of the facilities.

In March 2023, the CRA entered into two revolving line of credit agreements with a bank to support its redevelopment activities within the Uptown TIF area. One loan provides for borrowings of up to \$7,000,000, bears interest at 4.80%, and is payable in March 2026. The other loan provides for borrowings of up to \$3,000,000, bears interest at 6.07%, and is payable in April 2026.

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Notes to Financial Statements (Continued)
June 30, 2022

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

As of June 30, 2022, 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	\$ 9,498,614
Receivables earned but not available to pay for current year expenditures	441,658
Capital assets acquired, net	10,085,530
Long-term liabilities not due and payable in the current period	(11,370,000)
Interest on long-term debt not payable from current financial resources	<u>(204,374)</u>
Net position of governmental activities	\$ <u>8,451,428</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:

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 2022 are as follows:

2022	\$ 441,658
2021	<u>(420,803)</u>
Net difference	\$ <u>20,855</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 2022 are as follows:

Interest expense - 2022	\$ 204,374
Interest expense - 2021	<u>(209,463)</u>
Net difference	\$ <u>(5,089)</u>
Principal payment on long-term liabilities	\$ <u>180,000</u>

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Notes to Financial Statements (Continued)
June 30, 2022

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>(3,197,398)</u>
Depreciation expense	\$ <u>179,045</u>

Note 3 - Tax increment financing

The 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
Soulsville/South Memphis Project	May 2021

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 the 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, Binghampton (retroactive to fiscal year 2018), and Highland Row projects.

Please refer to the June 30, 2022, 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, 2022

Note 4 - Capital assets

Capital asset activity for the year ended June 30, 2022 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated				
Equipment	\$ 62,322	\$ -	\$ (1,790)	\$ 60,532
Building	5,146,648	-	-	5,146,648
Less accumulated depreciation	<u>(527,962)</u>	<u>(179,045)</u>	<u>-</u>	<u>(707,007)</u>
	4,681,008	(179,045)	(1,790)	4,500,173
Capital assets not being depreciated				
Land	<u>2,386,169</u>	<u>3,199,188</u>	<u>-</u>	<u>5,585,357</u>
Total capital assets, net	<u>\$ 7,067,177</u>	<u>\$ 3,020,143</u>	<u>\$ (1,790)</u>	<u>\$10,085,530</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>
2023	\$ 435,000	\$ 816,806
2024	345,000	794,959
2025	385,000	767,775
2026	425,000	739,863
2027	470,000	709,050
2028 - 2032	3,150,000	2,963,034
2033 - 2037	4,905,000	1,583,002
2038	<u>1,255,000</u>	<u>90,988</u>
	<u>\$ 11,370,000</u>	<u>\$ 8,465,477</u>

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Notes to Financial Statements (Continued)
June 30, 2022

Note 6 - Leasing arrangements

The CRA leased its office space under a lease agreement that called for monthly rent payments of \$3,900 through January 2023. Rent expense, including certain maintenance costs, totaled \$50,700 for the year ended June 30, 2022. Future minimum lease payments under the operating lease agreement total \$27,300 for 2023.

Note 7 - Related party transactions

Amounts due from Shelby County as of June 30, 2022 totaled \$51,292. Such amounts include \$12,739 in tax increment financing revenues collected by the County Trustee but not remitted to the CRA and \$38,553 in land purchase deposits for unexecuted property tax sales.

Amounts due to the City of Memphis as of June 30, 2022 totaled \$229,159. The amount due to the City represents tax increment financing revenues collected by the City Treasurer and remitted to the CRA in excess of what was owed to CRA as of June 30, 2022.

Note 8 - Commitments and contingencies

Loan commitment

In November 2020, the CRA authorized up to \$6 million in TIF funding via a subordinate cash flow loan secured by a second mortgage for the development of an affordable housing project. As of June 30, 2022, the final redevelopment agreement had not been executed.

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, 2022

	<u>Original Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Final Maturity Date</u>	<u>Outstanding June 30, 2021</u>	<u>Issued During Period</u>	<u>Paid and/or Matured During Period</u>	<u>Refunded During Period</u>	<u>Outstanding June 30, 2022</u>
Bonds payable									
Redevelopment Revenue Note Series 2016	\$ 12,500,000	7.25%	8/4/2016	4/1/2025	\$ 11,550,000	\$ -	\$ 180,000	\$ -	\$ 11,370,000



**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, 2022, 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 2, 2024.

Report on 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, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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
February 2, 2024

THE CITY OF MEMPHIS AND SHELBY COUNTY COMMUNITY REDEVELOPMENT AGENCY

Schedule of Prior Year Findings
For the Fiscal Year Ended June 30, 2022

Financial Statement Findings

Prior Year Finding Number	Finding Title	Status/Current Year Finding Number
2021-001	Unrecorded liability	Corrected