

**THE CHATTANOOGAN
CONFERENCE CENTER
(a portion of the operations of Chattanooga
Downtown Redevelopment Corporation)**

FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014



**HENDERSON HUTCHERSON
& MCCULLOUGH, PLLC**

THE CHATTANOOGAN CONFERENCE CENTER
(a portion of the operations of Chattanooga Downtown Redevelopment Corporation)

INDEX TO REPORT

JUNE 30, 2015 AND 2014

	PAGE
INDEPENDENT AUDITOR'S REPORT	1-2
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES AND NET ASSETS	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6-10



**HENDERSON HUTCHERSON
& MCCULLOUGH, PLLC**

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Chattanooga Downtown Redevelopment Corporation
Chattanooga, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of The Chattanooga Conference Center (a portion of the operations of Chattanooga Downtown Redevelopment Corporation) which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

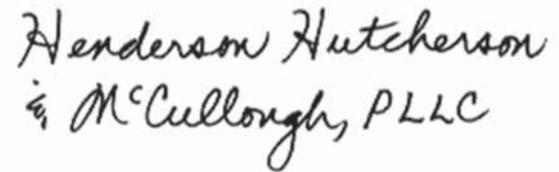
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Chattanooga Conference Center (a portion of the operations of Chattanooga Downtown Redevelopment Corporation) as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Chattanooga, Tennessee
September 16, 2015



Henderson Hutcherson
in McCullough, PLLC

THE CHATTANOOGAN CONFERENCE CENTER
(a portion of the operations of Chattanooga Downtown Redevelopment Corporation)

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2015 AND 2014

ASSETS		
	2015	2014
Cash and cash equivalents	\$ 951,355	\$ 1,326,910
Accounts receivable, net of allowances for doubtful accounts of \$36,885 in 2015 and \$37,555 in 2014	660,925	480,444
Inventory	100,144	106,988
Prepaid expenses	272,817	147,214
Other assets	<u>4,500</u>	<u>4,500</u>
TOTAL ASSETS	<u>\$ 1,989,741</u>	<u>\$ 2,066,056</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other accrued expenses	\$ 1,207,390	\$ 1,014,195
Due to Chattanooga Downtown Redevelopment Corporation	71,441	-
Deferred revenue	399,860	376,018
Replacement reserves	<u>311,050</u>	<u>858,911</u>
Total liabilities	1,989,741	2,249,124
NET ASSETS		
Unrestricted net assets	<u>-</u>	<u>(183,068)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,989,741</u>	<u>\$ 2,066,056</u>

THE CHATTANOOGAN CONFERENCE CENTER
(a portion of the operations of Chattanooga Downtown Redevelopment Corporation)

STATEMENTS OF ACTIVITIES AND NET ASSETS

YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
REVENUE		
Room charges	\$ 7,271,823	\$ 6,376,834
Food and beverage	3,603,654	3,281,281
Conference center	1,550,035	1,350,843
Other	<u>903,605</u>	<u>721,815</u>
 Total revenue	 <u>13,329,117</u>	 <u>11,730,773</u>
 COST OF SALES AND OPERATING EXPENSES		
Food cost	1,362,485	1,333,805
Other product/service cost	273,896	69,680
Salaries and benefits	5,660,129	5,471,450
Insurance	103,132	92,130
Energy	833,535	794,059
Service charges and other	34,361	40,641
Marketing, promotion and media	414,299	375,847
Credit card commissions	311,502	276,100
Data processing and other expenses	80,053	82,362
Management fees	418,341	376,454
Replacement reserve expense	664,444	585,136
Travel and entertainment	80,087	66,988
Other	<u>1,610,978</u>	<u>1,338,755</u>
 Total cost of sales and operating expenses	 <u>11,847,242</u>	 <u>10,903,407</u>
 NET INCOME	 1,481,875	 827,366
 OTHER CHANGES		
Payments to Chattanooga Downtown Redevelopment Corporation	<u>(1,298,807)</u>	<u>(965,806)</u>
 CHANGE IN NET ASSETS	 183,068	 (138,440)
 Net assets - Beginning of year	 <u>(183,068)</u>	 <u>(44,628)</u>
 Net assets - End of year	 <u>\$ -</u>	 <u>\$ (183,068)</u>

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

THE CHATTANOOGAN CONFERENCE CENTER
(a portion of the operations of Chattanooga Downtown Redevelopment Corporation)

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 183,068	\$ (138,440)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Change in operating assets and liabilities:		
Accounts receivable	(180,481)	(187,737)
Inventory	6,844	25,486
Prepaid expenses and other	(125,603)	(35,728)
Accounts payable and other accrued expenses	193,195	35,293
Due to Chattanooga Downtown Redevelopment Corporation	71,441	-
Deferred revenue	23,842	35,596
Replacement	<u>(547,861)</u>	<u>306,345</u>
Net cash from operating activities	<u>(375,555)</u>	<u>40,815</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(375,555)	40,815
Cash and cash equivalents - Beginning of year	<u>1,326,910</u>	<u>1,286,095</u>
Cash and cash equivalents - End of year	<u>\$ 951,355</u>	<u>\$ 1,326,910</u>

THE CHATTANOOGAN CONFERENCE CENTER
(a portion of the operations of Chattanooga Downtown Redevelopment Corporation)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

The Chattanooga Conference Center (the “Conference Center”) operates as a portion of the Chattanooga Downtown Redevelopment Corporation (CDRC), a not-for-profit entity. The Conference Center and CDRC are both located and operated in Chattanooga, Tennessee. CDRC is a component unit of the City of Chattanooga, Tennessee.

The Conference Center, which is owned by CDRC, consists of a conference center and hotel with a total of approximately 200 rooms and 24,500 square feet of conference meeting space. Substantially all of the Conference Center’s income is derived from conference meetings and overnight guests through the rental of rooms, sales of food and beverage, and the sale of gift shop items.

The accounting and reporting policies of the Conference Center conform with United States generally accepted accounting principles (GAAP) and practices within the not-for-profit industry. The Financial Accounting Standards Board (FASB) has adopted the FASB Accounting Standards Codification (ASC) as the single source of authoritative nongovernmental GAAP.

The accompanying financial statements include the revenues and expenses related to the daily operations of the Conference Center. The accompanying financial statements do not include the Conference Center’s fixed assets, which are held by CDRC. CDRC also records the debt service obligations for the tax-exempt bonds that were issued to develop the Conference Center. Payments to CDRC included in other changes on the statements of activities relates to the Conference Center’s use of CDRC’s facilities.

The Conference Center is operated by BMC – The Benchmark Management Company (Benchmark) under a management agreement by and between Benchmark and CDRC.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accompanying principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(Continued)

THE CHATTANOOGAN CONFERENCE CENTER
(a portion of the operations of Chattanooga Downtown Redevelopment Corporation)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Conference Center considers all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through an adjustment to a valuation allowance based on its assessment of historical and expected net collections. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowances and a credit to accounts receivable.

Inventory

Inventory, principally consisting of food and beverage and related items, is recorded at cost based on the first-in, first-out method of valuation.

Financial Statement Presentation

The Conference Center follows the guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Conference Center and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Conference Center or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If net assets were released from restrictions by incurring expenses satisfying the purpose of the grant or contribution within the same reporting period, those net assets have been classified as unrestricted.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by Conference Center. Generally, the donors of these assets permit the Conference Center to use all or part of the income earned on any related investments for general or specific purposes. At June 30, 2015, there were no permanently restricted net assets.

(Continued)

THE CHATTANOOGAN CONFERENCE CENTER
(a portion of the operations of Chattanooga Downtown Redevelopment Corporation)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Revenue received for future events and conferences is deferred and recognized in the periods to which it relates.

Income Tax Status

CDRC is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Therefore, as a portion of CDRC, the operations of the Conference Center are exempt from federal income tax and no income tax return is required to be filed.

Revenue Recognition

The Conference Center recognizes revenue only when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the fee for the arrangement is fixed or determinable; and collectability is reasonably assured.

Subsequent Events

Management has evaluated events and transactions subsequent to the statement of financial position date through the date of the independent auditor's report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has not identified any events or transactions requiring recognition or disclosure.

NOTE 2 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Conference Center to concentrations of credit risk consist principally of cash on deposit in financial institutions and accounts receivable. The Conference Center places its cash deposits with financial institutions and limits the amount of credit exposure to any one financial institution. From time to time, the Conference Center's cash balances exceed federal depository insurance coverage and management considers this to be a normal business risk. The Conference Center has not experienced any losses on its cash deposits. Concentrations of credit risk with respect to accounts receivable is limited due to the large number of customers. For group and catering customers, the Conference Center typically collects an initial deposit of 25 percent of the total contract. The Conference Center does not require collateral on accounts receivable.

THE CHATTANOOGAN CONFERENCE CENTER
(a portion of the operations of Chattanooga Downtown Redevelopment Corporation)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 3 – PREPAID EXPENSES

Prepaid expenses include, among other things, the cost of insurance and advertising.

These amounts are charged to expense during the period for which the benefit for these expenditures is received. Total advertising expense recognized for the years ended June 30, 2015 and 2014, is approximately \$257,400 and \$206,700, respectively.

NOTE 4 – MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

CDRC has entered into an agreement with Benchmark, whereby Benchmark will direct the management and operation of the Conference Center. Pursuant to the management agreement, CDRC is obligated to provide for any working capital shortfalls experienced by Benchmark relative to the operation of the Conference Center. The agreement expires June 30, 2016 and is up for rebid at that time.

Pursuant to this agreement, management fees payable based on occupancy, to Benchmark for the fiscal year ending June 30, 2015, are \$7.42 per occupied room per day.

The Conference Center periodically engages in related party transactions with Benchmark and other entities related to Benchmark for services related to management of the property including, among other things, accounting support, insurance and equipment purchases. Management fees totaled \$418,341 and \$376,454 for the years ended June 30, 2015 and 2014, respectively. Accounts payable at June 30, 2015 and 2014, included related party payables to Benchmark of \$59,617 and \$44,137, respectively.

NOTE 5 – REPLACEMENT RESERVES

The management agreement requires the Conference Center to allocate a portion of the annual revenues for the future replacements of capital expenses. The Conference Center accrues a liability for replacement reserves by recording replacement reserve expenses. The Conference Center's liability is reduced by amounts actually spent on capital expenses. The liability for replacement reserves at June 30, 2015 and 2014, is \$311,050 and \$858,911, respectively.

NOTE 6 – 401(k) INVESTMENT/RETIREMENT PLAN

The Benchmark 401(k) Investment/Retirement Plan (the "Plan") is available to the Conference Center employees to provide retirement and incidental benefits. Employees may contribute from 1% to 15% of their annual pre-tax compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The Conference Center may make discretionary matching contributions as determined by Benchmark. Conference Center contributions to the Plan for the years ended June 30, 2015 and 2014, totaled \$19,362 and \$21,922, respectively.

THE CHATTANOOGAN CONFERENCE CENTER
(a portion of the operations of Chattanooga Downtown Redevelopment Corporation)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 7 – BARTER TRANSACTIONS

The Conference Center engages in barter transactions for some advertising and sponsorship services. Barter transactions are recorded at the estimated fair value of the services provided, based on recent historical cash transactions. Barter revenue is recognized when the services are provided to the customer, and expense is recorded as prepaid trade agreements and amortized throughout the year. For the years ended June 30, 2015 and 2014, the Conference Center recognized approximately \$6,250 and \$16,148 of expense, respectively, from barter transactions. At June 30, 2015 and 2014 there were \$23,750 and \$3,800 of prepaid expenses related to barter transactions, respectively.

NOTE 8 – NET WORTH

Since all net income is paid to CDRC each year and not retained by the Conference Center, net worth is expected to be zero.