MEMPHIS AND SHELBY COUNTY PORT COMMISSION

FINANCIAL STATEMENTS

June 30, 2009 and 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Memphis and Shelby County Port Commission
Memphis, Tennessee

We have audited the accompanying financial statements of the Memphis and Shelby County Port Commission (the "Port Commission") as of June 30, 2009 and 2008, and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the Port Commission's management. Our responsibility is to express an opinion on the 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Memphis and Shelby County Port Commission, as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2009 on our consideration of the Port Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The Port Commission has not presented the management's discussion and analysis as required by GASB 34, *Basic Financial Statements–and Management's Discussion and Analysis–For State and Local Governments*, that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Watkins Uiberall, PLLC.

Memphis, Tennessee
December 7, 2009

MEMPHIS AND SHELBY COUNTY PORT COMMISSION

STATEMENTS OF NET ASSETS

June 30, 2009 and 2008

	2009	2008
Assets		
Current Assets		
Equity in cash and investment pool	$ 250	$ 250
Lease receivables	415,282	332,098
Miscellanous receivables	-	6,512
Total current assets	415,532	338,860
Noncurrent Assets		
Capital assets, net	26,666,193	27,292,352
Net investment in lease	305,340	273,810
Total noncurrent assets	26,971,533	27,566,162
Total assets	27,387,065	27,905,022
Liabilities		
Current Liabilities		
Accounts payable	48,574	27,958
Accrued expenses	115,017	125,388
Deferred revenue	224,355	209,657
Accrued vacation, sick, and other leave benefits	162,306	139,746
Due to Shelby County	352,216	780,053
Due to City of Memphis	1,619,821	1,287,908
General obligation bonds-current	422,571	401,493
Total current liabilities	2,944,860	2,972,203
Noncurrent Liabilities		
General obligation bonds payable	3,918,449	4,341,021
Total liabilities	6,863,309	7,313,224
Net Assets		
Net Assets		
Invested in capital assets	26,666,193	27,292,352
Unrestricted	(6,142,437)	(6,700,554)
Total net assets	$ 20,523,756	$ 20,591,798

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

MEMPHIS AND SHELBY COUNTY PORT COMMISSION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2009 and 2008

	2009	2008
Operating Revenues		
Charges for services	$ 2,243,184	$ 1,917,599
Other revenue	222,044	70,284
Total operating revenues	2,465,228	1,987,883
Operating Expenses		
Materials and supplies	497,805	432,846
Personnel services	532,930	457,940
Depreciation	685,445	600,380
Total operating expenses	1,716,180	1,491,166
Operating income	749,048	496,717
Non-Operating Revenues (Expenses)		
Interest income	81,199	85,496
Gain (loss) on sale of assets	32,367	1,240,957
Payment to Shelby County for revenue share	(700,623)	(1,194,206)
Interest expense	(230,033)	(250,419)
Total non-operating revenues (expenses)	(817,090)	(118,172)
Change in net assets	(68,042)	378,545
Net assets, beginning of year	20,591,798	20,213,253
Net assets, end of year	$ 20,523,756	$ 20,591,798

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

MEMPHIS AND SHELBY COUNTY PORT COMMISSION

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows From (Used For) Operating Activities:		
Receipts from services	$ 2,174,698	$ 1,980,227
Proceeds from grants	-	(1,000)
Payments to suppliers	(470,856)	(496,520)
Payments to employees	(510,370)	(431,199)
Other receipts	222,044	70,284
Net cash provided by operating activities	1,415,516	1,121,792
Cash Flows From (Used For) Noncapital Financing Activities:		
Advances (refund of advances) from City of Memphis	331,913	(244,120)
Payments to Shelby County	(1,128,460)	(1,449,812)
Net cash provided (used) by noncapital financing activities	(796,547)	(1,693,932)
Cash Flows From (Used For) Capital and Related Financing Activities:		
Acquisition of capital assets	(59,286)	(31,615)
Principal paid on capital debt	(401,494)	(381,248)
Interest paid on capital debt	(240,225)	(259,875)
Proceeds from sale of capital asset	837	1,159,382
Net cash provided (used) by capital and related financing activities	(700,168)	486,644
Cash Flows From (Used For) Investing Activities:		
Investment income	81,199	85,496
Net cash provided by investing activities	81,199	85,496
Net increase in equity in cash and investment pool	-	-
Equity in cash and investment pool - beginning of the year	250	250
Equity in cash and investment pool - end of the year	$ 250	$ 250

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

MEMPHIS AND SHELBY COUNTY PORT COMMISSION

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended June 30, 2009 and 2008

Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:		
Operating income	$ 749,048	$ 496,717
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	685,445	600,380
Changes in operating assets and liabilities:		
Lease receivables	(83,184)	(41,351)
Miscellaneous receivables	6,512	15,548
Accounts payable	20,616	(21,907)
Accrued expenses	(179)	(23,670)
Deferred revenue	14,698	102,979
Accrued vacation, sick, and other leave benefits	22,560	(6,904)
Total adjustments	666,468	625,075
Net cash provided by operating activities	$ 1,415,516	$ 1,121,792

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Structure

The Memphis and Shelby County Port Commission (the "Port Commission") was formed in 1947 under the Tennessee Private Acts of 1947, Chapter 500, as subsequently amended. The Port Commission's purpose is to promote regional economic development while enhancing the natural environment. The Port Commission, a joint venture between the City of Memphis (the "City") and the Shelby County (the "County"), is managed by a seven member Board of Commissioners. Three of the commissioners are appointed by the City and two are appointed by the County. In addition, the mayor's of the City and County may appoint representatives as ex officio voting members of the board.

Basis of Accounting

The financial statements of the Port Commission are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

GASB Statement No. 20

The Port Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Accounting," and elected not to apply Financial Accounting Standards Board statements and interpretations issued after November 30, 1989.

Cash and Cash Equivalents and Investments

The Port Commission considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Port Commission's equity in cash and investment pool (the "Pool") is also considered to be cash equivalents based on the pools of availability of cash.

Property and Equipment

Property and equipment are stated at cost. Assets having a useful life of more than one year and a cost of $5,000 or more are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 4 to 60 years. Amounts expended for maintenance and repairs are charged to expense as incurred and expenditures for major renewals and betterments are capitalized.

Deferred Revenue

Deferred revenue represents rentals received in advance for building and tracts of land and federal grant revenue received before expenditures are made.

Contributions

Contributions of assets are recorded at fair market value at the date of receipt.

Taxes

The Port Commission is exempt from payment of federal and state income, property, and certain other taxes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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.

Revenue and Expense Recognition

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Port Commission are related to rental revenue. The Port Commission also recognizes grant revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 3 – CAPITAL ASSETS

Changes in capital assets were as follows for the years ended June 30:

	2009			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 4,823,630	$ -	$ -	$ 4,823,630
Capital assets, being depreciated:				
Buildings	767,845	-	-	767,845
Improvements	29,329,900	-	-	29,329,900
Machinery and Equipment	725,807	59,285	-	785,092
Total capital assets being depreciated	30,823,552	59,285	-	30,882,837
Less accumulated depreciation for:				
Buildings	(759,048)	(1,111)	-	(760,159)
Improvements	(7,346,952)	(584,716)	-	(7,931,668)
Machinery and Equipment	(248,830)	(99,617)	-	(348,447)
Total accumulated depreciation	(8,354,830)	(685,444)	-	(9,040,274)
Total capital assets, being depreciated, net	22,468,722	(626,159)	-	21,842,563
Capital assets, net	$ 27,292,352	$ (626,159)	$ -	$ 26,666,193

	2008			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 4,823,630	$ -	$ -	$ 4,823,630
Capital assets, being depreciated:				
Buildings	767,845	-	-	767,845
Improvements	29,329,900	-	-	29,329,900
Machinery and Equipment	694,192	31,615	-	725,807
Total capital assets being depreciated	30,791,937	31,615	-	30,823,552
Less accumulated depreciation for:				
Buildings	(758,108)	(940)	-	(759,048)
Improvements	(6,762,236)	(584,716)	-	(7,346,952)
Machinery and Equipment	(234,106)	(14,724)	-	(248,830)
Total accumulated depreciation	(7,754,450)	(600,380)	-	(8,354,830)
Total capital assets, being depreciated, net	23,037,487	(568,765)	-	22,468,722
Capital assets, net	$ 27,861,117	$ (568,765)	$ -	$ 27,292,352

NOTE 4 – NET INVESTMENT IN LEASE

In 2000, the Port Commission entered a thirty-year lease-purchase agreement to sell land to another party. The agreement provides for annual payments of $81,920 for the first ten years, $90,108 for the next ten years, $99,120 for the final ten year period, and a balloon payment of $1,024,000 at the end of the lease term. Title of the property transfers at the end of the lease term. The lease is accounted for by the Port Commission as a sales-type lease. The transaction resulted in a gain on the sale of $1,475,923 that will be recognized over the life of the lease using the installment method of gain recognition. The net investment in lease consists of the following at June 30:

	2009	2008
Total minimum lease payments	$ 3,039,231	$ 3,039,231
Less amounts representing interest	(1,565,452)	(1,564,615)
Gross investment in lease	1,473,779	1,474,616
Less unearned income	(1,168,439)	(1,200,806)
Net investment in lease	$ 305,340	$ 273,810

NOTE 5 – GENERAL OBLIGATION BONDS PAYABLE

The Port Commission shared in the proceeds of two general obligation bonds issued by the City. The bonds are direct obligations of the City, which has pledged full faith and credit and taxing power to the punctual payment of principal and interest. The Port Commission is required to repay its proportionate share of principal and interest for each bond at the time such obligations become due. The interest rates for the two bonds range from 5.0% to 6.0%.

Future debt service requirements are as follows for the years ending June 30:

	Principal	Interest	Total
2010	$ 422,571	$ 219,232	$ 641,803
2011	445,547	196,926	642,473
2012	470,421	173,274	643,695
2013	496,560	148,304	644,864
2014	524,825	121,928	646,753
2015-2018	1,981,096	189,296	2,170,392
Total	$ 4,341,020	$ 1,048,960	$ 5,389,980

The long-term liability activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
General obligation bonds	$ 4,742,514	$ -	$ (401,494)	$ 4,341,020

The long-term liability activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
General obligation bonds	$ 5,123,762	$ -	$ (381,248)	$ 4,742,514

NOTE 6 – RETIREMENT PLAN

Plan Description

Employees of the Port Commission are members of the City of Memphis Retirement System (the "Retirement System"), a single employee defined benefit pension plan administered by the Board of Administration under the direction of the Mayor. Benefits are determined by a formula using the member's twelve-month average salary and years of service. Although the Port Commission is a separate entity, Plan benefits have not been allocated to employees of the Port Commission. Consequently, disclosures will follow guidelines for cost sharing, multiple employer public employee retirement systems. The Retirement System is established under Chapter 25, Code of Ordinances, City of Memphis, Tennessee. The Retirement System is included in the City's general purpose financial statements as a pension trust fund. That report may be obtained by writing to the City of Memphis, Comptroller's, 125 N. Main Street, Memphis, TN, 38103.

Plan Participation

Substantially, all full-time salaried employees are required to participate in one of two contributory defined benefit pension plans (the "Plans"). The 1948 Plan is for salaried employees hired before July 1, 1978, and the 1978 Plan is for salaried employees hired thereafter. Permanent, full-time employees in job classifications covered by contract with the Social Security Administration are not participants of the Retirement System as they are covered under the Federal Insurance Contribution Act (Social Security). The Port Commission's payroll for employees covered by the Plans was $409,469 and $355,822 for the years ended June 30, 2009 and 2008 respectively. Total payroll was $430,905 and $371,585 for the years ended June 30, 2009 and 2008 respectively.

Plan Benefits

The Plans provide retirement benefits as well as death benefits. Members of the 1948 plan are eligible for retirement after the earlier of 25 years of service or at age sixty with ten years of service. Members of the 1978 plan become eligible for retirement after the earlier of 25 years of service, after age sixty with ten years of service, or after age sixty-five with five years of service.

Funding Policy

Plan members hired before 1978 are required to contribute 5% and members hired after 1978 are required to contribute 8% of their annual covered salary at June 30, 2009 and 2008. The contribution requirements of plan participants and the Port Commission are established and may be amended by the Board of Administration.

Annual Pension Cost

For the years ended June 30, 2009, 2008, and 2007 the Port Commission's contributions to the Plans of $32,758, $28,466, and $20,765, respectively, were equal to the required contributions for each year.

NOTE 7 – LEASE OBLIGATION

The Port Commission has entered into various operating leases for the rental of buildings and tracts of land. Future minimum rental income under operating leases that have initial or noncancellable lease terms in excess of one year is due as follows for the years ended June 30:

2010	$ 2,502,449
2011	1,765,181
2012	1,446,375
2013	1,384,561
2014	1,388,314
Thereafter	1,341,246
Total	$ 9,828,126

NOTE 8 – RELATED PARTY TRANSACTIONS

Excess Revenue Distribution and Deficit Funding

In accordance with the Tennessee Private Acts of 1947, any excess revenues of the Port Commission are distributed to the City and the County in a sum equal to what would be the City and County taxes on the property owned by the City and County, managed and controlled by the Port Commission. Any deficits of the Port Commission are funded equally by the City and the County. These transactions are reported as operating expenses.

Unrestricted General Fund Amounts

For the year ended June 30, 2009, Shelby County received for its unrestricted general fund amounts equal to fifty percent of excess revenues of the Port Commission. This transaction is reported as a non-operating expense.

NOTE 9 – COMMITMENTS AND CONTIGENCIES

MLGW Dispute

The Port Commission contracted with Memphis Light, Gas, & Water ("MLGW") for the installation of facilities relating to the development of Frank C. Pidgeon Industrial Park. MLGW originally claimed that the Port Commission owed an additional $963,000 for the utility installations. MLGW has since reduced their claim to $713,000. The Port Commission is disputing this amount. Since the ultimate amount to be paid to MLGW, if any, cannot be determined at this time, no amount relating to this claim has been recorded in the financial statements.

NOTE 10 – RISK MANAGEMENT

The Port Commission participates in the City's self-insured health and medical benefits plan. The City's Health Insurance-Internal Service Fund charges premiums to the Port Commission which are used to pay claims and to fund the City's accrual for "incurred but not reported" (IBNR) claims and administrative cost of health and medical benefits program. Additionally, the Port Commission participates in the City's self-insurance program for on-the-job injury claims. The City charges the Port Commission for claims as they are processed. During fiscal years 2009 and 2008, there were no significant on-the-job injury claims incurred. The Port Commission purchases commercial insurance for other potential risks such as theft, property damage, and public liability. In the prior three years ending June 30, settlements did not exceed insurance coverage.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Commissioners
Memphis and Shelby County Port Commission
Memphis, Tennessee

We have audited the financial statements of the Memphis and Shelby County Port Commission (the "Port Commission") as of and for the year ended June 30, 2009 and have issued our report thereon dated December 7, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Port Commission's internal control over financial reporting as a basis for designing out auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Port Commission's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Port Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Port Commission's financial statements that is more than inconsequential will not be prevented or detected by the Port Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Port Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Port Commission'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.*

This report is intended solely for the information and use of management, the Board of Commissioners, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Watkins Uiberall, PLLC

Memphis, Tennessee
December 7, 2009