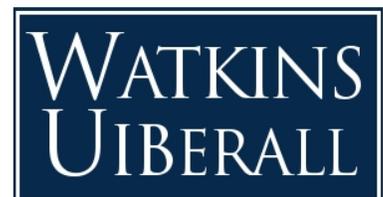


**MEMPHIS AND SHELBY COUNTY  
PORT COMMISSION**

**FINANCIAL STATEMENTS**

June 30, 2010 and 2009



Watkins Uiberall, PLLC  
Certified Public Accountants & Financial Advisors  
Independent Member of BKR International

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# **Memphis and Shelby County Port Commission**

Management Officials and Board of Directors

June 30, 2010

## **Interim Executive Director**

James R. Richardson

## **Board of Directors**

Thomas E. Fisher, Chairman

H. E. Folk, III

Col. Theodore C. Fox, III

Dwan Gilliom

Aubrey J. Howard

Johnny B. Moore, Jr.

Billy Orgel

Fred Acuff, Legal Counsel

Janet Moore, Secretary/Treasurer



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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, 2010 and 2009, 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 opinions.

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, 2010 and 2009, and the respective changes in financial position and cash flows 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 16, 2010 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Memphis and Shelby County Port Commission. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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 financial statements.

*Watkins Mikusall, PLLC*

Memphis, Tennessee  
December 16, 2010

**MEMPHIS AND SHELBY COUNTY PORT COMMISSION**

**STATEMENTS OF NET ASSETS**

June 30, 2010 and 2009

<u>Assets</u>		
	<u>2010</u>	<u>2009</u>
Current Assets		
Equity in cash and investment pool	\$ -	\$ 250
Lease receivables	422,610	415,282
Miscellaneous receivables	8,183	-
Due from Shelby County	<u>343,718</u>	<u>-</u>
Total current assets	774,511	415,532
Noncurrent Assets		
Capital assets, net	25,997,954	26,666,193
Net investment in lease	<u>334,297</u>	<u>305,340</u>
Total noncurrent assets	<u>26,332,251</u>	<u>26,971,533</u>
Total assets	27,106,762	27,387,065
<u>Liabilities</u>		
Current Liabilities		
Accounts payable	33,387	48,574
Accrued expenses	116,832	115,017
Deferred revenue	345,361	224,355
Accrued vacation, sick, and other leave benefits	216,045	162,306
Due to Shelby County	-	352,216
Due to City of Memphis	1,491,837	1,619,821
General obligation bonds-current	<u>445,547</u>	<u>422,571</u>
Total current liabilities	2,649,009	2,944,860
Noncurrent Liabilities		
Accrued interest	126,317	-
Deferred revenue	421,548	-
General obligation bonds payable	<u>3,715,110</u>	<u>3,918,449</u>
Total noncurrent liabilities	<u>4,262,975</u>	<u>3,918,449</u>
Total liabilities	6,911,984	6,863,309
<u>Net Assets</u>		
Net Assets		
Invested in capital assets, net of related debt	21,837,297	22,325,173
Unrestricted	<u>(1,642,519)</u>	<u>(1,801,417)</u>
Total net assets	<u>\$ 20,194,778</u>	<u>\$ 20,523,756</u>

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, 2010 and 2009

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	<u>2010</u>	<u>2009</u>
Operating Revenues		
Charges for services	\$ 2,469,444	\$ 2,243,184
Other revenue	10,368	222,044
Total operating revenues	<u>2,479,812</u>	<u>2,465,228</u>
 Operating Expenses		
Materials and supplies	1,089,486	497,805
Personnel services	577,424	532,930
Depreciation	716,744	685,445
Total operating expenses	<u>2,383,654</u>	<u>1,716,180</u>
 Operating income	96,158	749,048
 Non-Operating Revenues (Expenses)		
Interest income	81,516	81,199
Gain (loss) on sale of assets	33,985	32,367
Payment to Shelby County for revenue share	(332,207)	(700,623)
Interest expense	(208,430)	(230,033)
Total non-operating revenues (expenses)	<u>(425,136)</u>	<u>(817,090)</u>
 Change in net assets	(328,978)	(68,042)
 Net assets, beginning of year	<u>20,523,756</u>	<u>20,591,798</u>
 Net assets, end of year	<u><u>\$ 20,194,778</u></u>	<u><u>\$ 20,523,756</u></u>

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows From (Used For) Operating Activities:		
Receipts from services	\$ 2,267,622	\$ 2,174,698
Payments to suppliers	(363,191)	(470,856)
Payments to employees	(523,685)	(510,370)
Other receipts	10,368	222,044
Net cash provided by operating activities	<u>1,391,114</u>	<u>1,415,516</u>
Cash Flows From (Used For) Noncapital Financing Activities:		
Advances (refund of advances) from City of Memphis	(127,984)	331,913
Payments to Shelby County	<u>(1,028,141)</u>	<u>(1,128,460)</u>
Net cash provided (used) by noncapital financing activities	<u>(1,156,125)</u>	<u>(796,547)</u>
Cash Flows From (Used For) Capital and Related Financing Activities:		
Acquisition of capital assets	(48,505)	(59,286)
Principal paid on capital debt	(180,363)	(401,494)
Interest paid on capital debt	(92,915)	(240,225)
Proceeds from sale of capital asset	5,028	837
Net cash provided (used) by capital and related financing activities	<u>(316,755)</u>	<u>(700,168)</u>
Cash Flows From (Used For) Investing Activities:		
Investment income	<u>81,516</u>	<u>81,199</u>
Net cash provided by investing activities	<u>81,516</u>	<u>81,199</u>
Net decrease in equity in cash and investment pool	(250)	-
Equity in cash and investment pool - beginning of the year	<u>250</u>	<u>250</u>
Equity in cash and investment pool - end of the year	<u>\$ -</u>	<u>\$ 250</u>

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, 2010 and 2009

---

	<u>2010</u>	<u>2009</u>
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:		
Operating income	\$ 96,158	\$ 749,048
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	716,744	685,445
Changes in operating assets and liabilities:		
Lease receivables	(7,328)	(83,184)
Miscellaneous receivables	(8,183)	6,512
Accounts payable	(2,570)	20,616
Accrued expenses	737,048	(179)
Deferred revenue	(194,494)	14,698
Accrued vacation, sick, and other leave benefits	53,739	22,560
Total adjustments	<u>1,294,956</u>	<u>666,468</u>
Net cash provided by operating activities	<u>\$ 1,391,114</u>	<u>\$ 1,415,516</u>
Supplemental Disclosure of Non-Cash Operating Transaction		
Payment of expenses in exchange for deferred rent	<u>\$ 737,048</u>	<u>\$ -</u>
Deferred rent recognized related to payment of expenses	<u>\$ 97,500</u>	<u>\$ -</u>

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

# MEMPHIS AND SHELBY COUNTY PORT COMMISSION

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

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### **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 – 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:

	<u>2010</u>	<u>2009</u>
Total minimum lease payments	\$ 2,957,311	\$ 3,039,231
Less amounts representing interest	<u>(1,488,560)</u>	<u>(1,565,452)</u>
Gross investment in lease	1,468,751	1,473,779
Less unearned income	<u>(1,134,454)</u>	<u>(1,168,439)</u>
Net investment in lease	<u><u>\$ 334,297</u></u>	<u><u>\$ 305,340</u></u>

**NOTE 4 – 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:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	554,759	93,124	647,883
2016-2018	<u>1,668,545</u>	<u>222,489</u>	<u>1,891,034</u>
Total	<u><u>\$ 4,160,657</u></u>	<u><u>\$ 956,045</u></u>	<u><u>\$ 5,116,702</u></u>

The long-term liability activity for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
General obligation bonds	<u>\$ 4,341,020</u>	<u>\$ -</u>	<u>\$ (180,363)</u>	<u>\$ 4,160,657</u>

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

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

## **NOTE 5 – 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 \$432,917 and \$409,469 for the years ended June 30, 2010 and 2009, respectively. Total payroll was \$458,517 and \$430,905 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009. 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, 2010, 2009, and 2008 the Port Commission's contributions to the Plans of \$34,633, \$32,758, and \$28,466, respectively, were equal to the required contributions for each year.

## **NOTE 6 – OTHER POST EMPLOYMENT BENEFITS**

### Plan Description

Employees of the Port Commission participate in the City's OPEB plan. The City's OPEB plan provides medical and life insurance benefits to eligible retired City of Memphis General, Police, Fire and Airport Authority employees and their dependents based on firmly-established past practices. The primary benefit for eligible retirees is postretirement medical coverage through either a Preferred Provider Organization (PPO/Basic) or a Point of Service Plan (POS/Premier). Of premiums paid for retiree health and medical benefits and life insurance, 70 % is paid by the General Fund (with the remaining 30% paid by the retirees) and is recognized as an expenditure, which totaled \$25,582 for 2010. At June 30, 2010, the number of retirees eligible for health and medical benefits is 3,697. The City also provides two life insurance benefits: The first is a self-insured death benefit and the second is a continuation of active life insurance. The authority to conduct the general operation and administration of the single employer plan is vested with the City. Separate financial statements for the plan are not issued. The Retirement System is included in the City's general purpose financial statements. That report may be obtained by writing to the City of Memphis, Comptroller's, 125 N. Main Street, Memphis, TN, 38103.

### Funding Policy

The contribution requirements of the plan members and the City are established and may be amended by the City. OPEB eligible members receiving benefits contribute \$66.30 to \$134.47 per month for retiree-only coverage and \$132.60 to \$266.68 per month for retiree and family coverage depending on medical plan coverage selected. The City pays for medical costs in excess of required retiree premiums and may elect through adoption of the City's annual budget ordinance to contribute an amount in excess of the total annual benefit payments to a qualified trust for the purpose of funding future OPEB benefits. In fiscal year 2009, the City adopted and established an OPEB Trust for the exclusive purpose of pre-funding and providing for payment of OPEB benefits under the plan. The City's receipt of Medicare Part D prescription drug subsidies is included in operating income.

### Annual OPEB Cost

For the years ended June 30, 2010 and 2009, the Port Commission's accrual for the OPEB plan was \$83,879 and \$40,359, respectively.

### **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:

2011	\$ 2,422,437
2012	1,620,876
2013	1,419,059
2014	1,645,613
2015	994,832
Thereafter	<u>613,469</u>
Total	<u>\$ 8,716,286</u>

### **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, 2010, 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 \$250,000. 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 2010 and 2009, 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.

#### **NOTE 11 – RECLASSIFICATIONS**

Certain prior year amounts have been reclassified to conform to current year presentations.

#### **NOTE 12 – COST SHARING AGREEMENT**

On March 24, 2010, the Port Commission entered into a cost sharing agreement with Nucor Steel Memphis, Inc. to complete dredging expenses. Nucor Steel Memphis, Inc. paid for the dredging in the amount of \$737,048 and the Port Commission will reimburse them by waiving the annual payments on their leases. As of June 30, 2010, revenue of \$97,500 was recognized while the remaining \$639,548 is deferred at year end.



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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, 2010 and have issued our report thereon dated December 16, 2010. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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 deficiencies, 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 Mikusall, PLLC*

Memphis, Tennessee  
December 16, 2010