

**MEMPHIS AND SHELBY COUNTY
PORT COMMISSION**

FINANCIAL STATEMENTS

June 30, 2011 and 2010



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, 2011

Executive Director

James R. Richardson

Board of Directors

Johnny B. Moore, Jr., Chairman

Tom Needham

Dwan Gilliom

Thomas R. Dyer

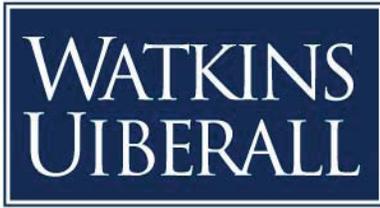
Charles Goforth.

Mark J. Halperin

Deidre Malone

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, 2011 and 2010, 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, 2011 and 2010, 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 22, 2011 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 22, 2011

MEMPHIS AND SHELBY COUNTY PORT COMMISSION

STATEMENTS OF NET ASSETS

June 30, 2011 and 2010

<u>Assets</u>		
	<u>2011</u>	<u>2010</u>
Current Assets		
Equity in cash and investment pool	\$ 932,021	\$ -
Lease receivables	438,240	422,610
Miscellaneous receivables	445	8,183
Due from Shelby County	-	343,718
Total current assets	<u>1,370,706</u>	<u>774,511</u>
Noncurrent Assets		
Capital assets, net	25,276,971	25,997,954
Net investment in lease	360,331	334,297
Total noncurrent assets	<u>25,637,302</u>	<u>26,332,251</u>
Total assets	<u>27,008,008</u>	<u>27,106,762</u>
<u>Liabilities</u>		
Current Liabilities		
Accounts payable	74,026	33,387
Accrued expenses	-	116,832
Deferred revenue	346,537	345,361
Accrued vacation, sick, and other leave benefits	229,468	216,045
Due to Shelby County	45,018	-
Due to City of Memphis	-	1,491,837
General obligation bonds-current	-	445,547
Total current liabilities	<u>695,049</u>	<u>2,649,009</u>
Noncurrent Liabilities		
Accrued interest	-	126,317
Deferred revenue	203,548	421,548
General obligation bonds payable	-	3,715,110
Total noncurrent liabilities	<u>203,548</u>	<u>4,262,975</u>
Total liabilities	<u>898,597</u>	<u>6,911,984</u>
<u>Net Assets</u>		
Net Assets		
Invested in capital assets, net of related debt	25,276,971	21,837,297
Unrestricted	<u>832,440</u>	<u>(1,642,519)</u>
Total net assets	<u>\$ 26,109,411</u>	<u>\$ 20,194,778</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Charges for services	\$ 2,663,707	\$ 2,469,444
Other revenue	70,949	10,368
Total operating revenues	<u>2,734,656</u>	<u>2,479,812</u>
Operating Expenses		
Materials and supplies	501,111	1,089,486
Personnel services	501,931	577,424
Depreciation	720,983	716,744
Total operating expenses	<u>1,724,025</u>	<u>2,383,654</u>
Operating income	1,010,631	96,158
Non-Operating Revenues (Expenses)		
Interest income	81,989	81,516
Gain (loss) on sale of assets	35,603	33,985
Payment to Shelby County for revenue share	(819,061)	(332,207)
Interest expense	-	(208,430)
Total non-operating revenues (expenses)	<u>(701,469)</u>	<u>(425,136)</u>
Capital contributions due to debt forgiveness	<u>5,605,471</u>	<u>-</u>
Change in net assets	5,914,633	(328,978)
Net assets, beginning of year	<u>20,194,778</u>	<u>20,523,756</u>
Net assets, end of year	<u>\$ 26,109,411</u>	<u>\$ 20,194,778</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows Provided By (Used For) Operating Activities:		
Receipts from services	\$ 2,431,253	\$ 2,267,622
Payments to suppliers	(465,352)	(363,191)
Payments to employees	(488,508)	(523,685)
Other receipts	70,949	10,368
Net cash provided by operating activities	<u>1,548,342</u>	<u>1,391,114</u>
Cash Flows From (Used For) Noncapital Financing Activities:		
Advances (refund of advances) from City of Memphis	(1,491,837)	(127,984)
Payments to Shelby County	<u>(430,325)</u>	<u>(1,028,141)</u>
Net cash used for noncapital financing activities	<u>(1,922,162)</u>	<u>(1,156,125)</u>
Cash Flows From (Used For) Capital and Related Financing Activities:		
Acquisition of capital assets	-	(48,505)
Capital contribution	5,605,471	
Principal paid on capital debt	(4,160,657)	(180,363)
Interest paid on capital debt	(230,532)	(92,915)
Proceeds from sale of capital asset	9,570	5,028
Net cash from (used for) capital and related financing activities	<u>1,223,852</u>	<u>(316,755)</u>
Cash Flows From (Used For) Investing Activities:		
Investment income	<u>81,989</u>	<u>81,516</u>
Net increase (decrease) in equity in cash and investment pool	932,021	(250)
Equity in cash and investment pool - beginning of the year	<u>-</u>	<u>250</u>
Equity in cash and investment pool - end of the year	<u><u>\$ 932,021</u></u>	<u><u>\$ -</u></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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:		
Operating income	\$ 1,010,631	\$ 96,158
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	720,983	716,744
Changes in operating assets and liabilities:		
Lease receivables	(15,630)	(7,328)
Miscellaneous receivables	7,738	(8,183)
Accounts payable	40,639	(2,570)
Accrued expenses	(12,618)	737,048
Deferred revenue	(216,824)	(194,494)
Accrued vacation, sick, and other leave benefits	13,423	53,739
Total adjustments	<u>537,711</u>	<u>1,294,956</u>
Net cash provided by operating activities	<u>\$ 1,548,342</u>	<u>\$ 1,391,114</u>
Supplemental Disclosure of Non-Cash Operating Transaction		
Payment of expenses in exchange for deferred rent	<u>\$ -</u>	<u>\$ 737,048</u>
Deferred rent recognized related to payment of expenses	<u>\$ 218,000</u>	<u>\$ 97,500</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, 2011 and 2010

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 a building, 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 2 – CAPITAL ASSETS

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

	2011			
	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	833,597	-	-	833,597
Total capital assets being depreciated	30,931,342	-	-	30,931,342
Less accumulated depreciation for:				
Buildings	(761,184)	(1,024)	-	(762,208)
Improvements	(8,516,384)	(584,716)	-	(9,101,100)
Machinery and Equipment	(479,450)	(135,243)	-	(614,693)
Total accumulated depreciation	(9,757,018)	(720,983)	-	(10,478,001)
Total capital assets, being depreciated, net	21,174,324	(720,983)	-	20,453,341
Capital assets, net	<u>\$ 25,997,954</u>	<u>\$ (720,983)</u>	<u>\$ -</u>	<u>\$ 25,276,971</u>
	2010			
	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	785,092	48,505	-	833,597
Total capital assets being depreciated	30,882,837	48,505	-	30,931,342
Less accumulated depreciation for:				
Buildings	(760,159)	(1,025)	-	(761,184)
Improvements	(7,931,668)	(584,716)	-	(8,516,384)
Machinery and Equipment	(348,447)	(131,003)	-	(479,450)
Total accumulated depreciation	(9,040,274)	(716,744)	-	(9,757,018)
Total capital assets, being depreciated, net	21,842,563	(668,239)	-	21,174,324
Capital assets, net	<u>\$ 26,666,193</u>	<u>\$ (668,239)</u>	<u>\$ -</u>	<u>\$ 25,997,954</u>

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>2011</u>	<u>2010</u>
Total minimum lease payments	\$ 2,871,295	\$ 2,957,311
Less amounts representing interest	<u>(1,412,113)</u>	<u>(1,488,560)</u>
Gross investment in lease	1,459,182	1,468,751
Less unearned income	<u>(1,098,851)</u>	<u>(1,134,454)</u>
Net investment in lease	<u>\$ 360,331</u>	<u>\$ 334,297</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%.

During the year, a joint resolution was passed to waive all existing debt owed by the Port Commission due to Shelby County and the City of Memphis. As of June 30, 2011, the Port Commission has no outstanding debt to the City of Memphis or Shelby County. The write off of the debt owed to the City of Memphis resulted in a \$5,605,471 capital contribution shown on the statement of revenues, expenses and changes in net assets.

As part of the joint resolution, the Economic Development Growth Engine Industrial Board (“EDGE”) was created as a Tennessee Not-for-Profit Corporation in an effort to unite economic development programs. The resolution requires that the Port Commission consolidate within EDGE and five members of the Port Commission board be replaced by members of the board of EDGE.

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 \$299,905 and \$432,917 for the years ended June 30, 2011 and 2010, respectively. Total payroll was \$326,984 and \$458,517 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010. 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, 2011, 2010, and 2009 the Port Commission's contributions to the Plans of \$23,992, \$34,633, and \$32,758, 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 \$28,640 for 2011. At June 30, 2011, the number of retirees eligible for health and medical benefits is 3,742. 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 \$141.61 per month for retiree-only coverage and \$132.60 to \$297.69 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, 2011 and 2010, the Port Commission's accrual for the OPEB plan was \$134,251 and \$83,879, 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:

2012	\$ 2,260,794
2013	1,451,933
2014	1,603,606
2015	819,559
2016	752,369
Thereafter	<u>251,856</u>
Total	<u>\$ 7,140,117</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, 2011, 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 by \$250,000. The Port Commission is disputing the remaining amount of \$713,000. 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

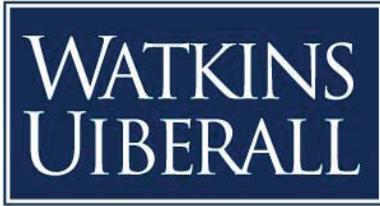
The Port Commission participates in the City’s self-insured health and medical benefits plan. The City’s Health Insurance-Internal Service Fund charges premiums to the Port Commission which are used to pay claims and to fund the City’s accrual for “incurred but not reported” (IBNR) claims and administrative 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 2011 and 2010, 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 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. For the years ending June 30, 2011 and 2010, revenue of \$218,000 and \$97,500, respectively, has been recognized while the deferred amount at June 30, 2011 and 2010 was \$421,548 and \$639,548, respectively.

NOTE 13 – SUBSEQUENT EVENT

In August 2011 Morgan Keegan agreed to purchase Series 2011 Development Revenue Bonds in the amount of \$40,795,000. The proceeds of the bonds will be used to pay the costs of acquisition and construction of the infrastructure improvements and developments within the Port Commission's boundaries and jurisdiction.



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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, 2011 and have issued our report thereon dated December 22, 2011. 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 *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 our auditing procedures for the purpose of expressing our 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings to be a material weakness.

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.

A handwritten signature in black ink that reads "Watkins Mikusall, PLLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee
December 22, 2011

MEMPHIS AND SHELBY COUNTY PORT COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2011

MATERIAL WEAKNESS

2011-1 Material Journal Entries

Condition: During the audit, several material journal entries were made to the Port Commission's financial statements to write off debt, correct net assets, and record revenue.

Criteria: Internal controls should be in place that requires a review process that would help prevent, mitigate or detect material misstatements.

Effect: The Port Commission's financial statements were materially misstated.

Recommendations: The Port Commission should implement a review process of the accounting records that would allow the detection of such misstatements.

Response: The Port Commission will review accounting records to ensure accuracy during the year. Additionally, City of Memphis City Council distribution lists have been amended to include the Port Commission Secretary so that future resolutions and ordinances affecting the Port Commission will be properly addressed for accounting reporting. The Port Commission Secretary will work with the City Council liaison to ensure clear communication and document flow.