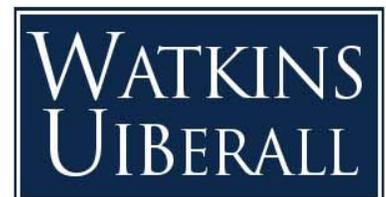


**MEMPHIS AND SHELBY COUNTY  
PORT COMMISSION**

**FINANCIAL STATEMENTS**

June 30, 2012 and 2011



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, 2012

## **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 and for the years ended June 30, 2012 and 2011, 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, 2012 and 2011, 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 13, 2012 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 13, 2012

MEMPHIS AND SHELBY COUNTY PORT COMMISSION

STATEMENTS OF NET ASSETS

June 30, 2012 and 2011

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	<u>Assets</u>	
	<u>2012</u>	<u>2011</u> <u>(as restated)</u>
Current Assets		
Equity in cash and investment pool	\$ 1,549,606	\$ 932,021
Escrow deposits	13,157,624	-
Due from City of Memphis	730,350	-
Due from Shelby County	730,350	-
Lease receivables	1,353,857	438,240
Miscellaneous receivables	582	445
Total current assets	<u>17,522,369</u>	<u>1,370,706</u>
Noncurrent Assets		
Capital assets, net	53,694,730	25,308,759
Due from City of Memphis	19,607,500	-
Due from Shelby County	19,607,500	-
Net investment in lease	385,824	360,331
Total noncurrent assets	<u>93,295,554</u>	<u>25,669,090</u>
Total assets	<u>\$ 110,817,923</u>	<u>\$ 27,039,796</u>

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

**MEMPHIS AND SHELBY COUNTY PORT COMMISSION**

**STATEMENTS OF NET ASSETS (Continued)**

June 30, 2012 and 2011

	<u>Liabilities</u>	
	<u>2012</u>	<u>2011 (as restated)</u>
Current Liabilities		
Accounts payable	\$ 108,446	\$ 74,026
Accrued interest	445,700	-
Deferred revenue	1,333,446	510,765
Accrued vacation, sick, and other leave benefits	143,952	229,468
Due to EDGE	1,042,552	800,000
Due to Shelby County	-	45,018
Net premium and issuance - current	59,241	-
Revenue bonds-current	1,015,000	-
Total current liabilities	<u>4,148,337</u>	<u>1,659,277</u>
Noncurrent Liabilities		
Deferred revenue	-	203,548
Revenue bonds	39,215,000	-
Net premium and issuance costs of bonds issued	<u>1,347,735</u>	<u>-</u>
Total noncurrent liabilities	<u>40,562,735</u>	<u>203,548</u>
Total liabilities	<u>44,711,072</u>	<u>1,862,825</u>
	<u>Net Assets</u>	
Net Assets		
Invested in capital assets, net of related debt	26,622,354	25,308,759
Unrestricted	<u>39,484,497</u>	<u>(131,788)</u>
Total net assets	<u>66,106,851</u>	<u>25,176,971</u>
Total liabilities and net assets	<u>\$ 110,817,923</u>	<u>\$ 27,039,796</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, 2012 and 2011

	<u>2012</u>	<u>2011</u> (as restated)
Operating Revenues		
Charges for services	\$ 2,533,134	\$ 2,499,479
Other revenue	240,016	70,949
Total operating revenues	<u>2,773,150</u>	<u>2,570,428</u>
Operating Expenses		
Materials and supplies	500,891	455,700
Personnel services	476,628	501,931
Depreciation	752,508	734,606
Amortization	20,591	-
Federal grant expenditures	74,545	-
Total operating expenses	<u>1,825,163</u>	<u>1,692,237</u>
Operating income	947,987	878,191
Non-Operating Revenues (Expenses)		
Contributed capital	42,140,575	-
Interest income	127,455	81,989
Gain (loss) on sale of assets	35,603	35,603
Payment to EDGE for revenue share	(1,046,124)	(800,000)
Payment to Shelby County for revenue share	-	(819,061)
Interest expense	(1,275,616)	-
Total non-operating revenues (expenses)	<u>39,981,893</u>	<u>(1,501,469)</u>
Capital contributions due to debt forgiveness	<u>-</u>	<u>5,605,471</u>
Change in net assets	40,929,880	4,982,193
Net assets, beginning of year	<u>25,176,971</u>	<u>20,194,778</u>
Net assets, end of year	<u>\$ 66,106,851</u>	<u>\$ 25,176,971</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows Provided By (Used For) Operating Activities:		
Receipts from services	\$ 2,236,650	\$ 2,431,253
Payments to suppliers	(541,153)	(419,941)
Payments to employees	(562,144)	(488,508)
Other receipts	<u>240,016</u>	<u>70,949</u>
Net cash provided by operating activities	1,373,369	1,593,753
Cash Flows From (Used For) Noncapital Financing Activities:		
Advances (refund of advances) from City of Memphis	-	(1,491,837)
Payments to Shelby County	(45,018)	(430,325)
Payments to EDGE	<u>(803,572)</u>	<u>-</u>
Net cash used for noncapital financing activities	(848,590)	(1,922,162)
Cash Flows From (Used For) Capital and Related Financing Activities:		
Acquisition of capital assets	(29,138,479)	(45,411)
Capital contribution	-	5,605,471
Payment for bond issuance costs	(334,597)	-
Principal paid on capital debt	-	(4,160,657)
Interest paid on capital debt	-	(230,532)
Proceeds from the issuance of debt	42,585,941	-
Proceeds from sale of capital asset	<u>10,110</u>	<u>9,570</u>
Net cash from capital and related financing activities	13,122,975	1,178,441
Cash Flows From (Used For) Investing Activities:		
Investment income	<u>127,455</u>	<u>81,989</u>
Net increase in equity in cash and investment pool	13,775,209	932,021
Equity in cash and investment pool and escrow deposits		
- beginning of the year	<u>932,021</u>	<u>-</u>
Equity in cash and investment pool and escrow deposits		
- end of the year	<u>\$ 14,707,230</u>	<u>\$ 932,021</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:		
Operating income	\$ 947,987	\$ 878,191
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	752,508	734,606
Amortization	20,591	-
Changes in operating assets and liabilities:		
Lease receivables	(915,617)	(15,630)
Miscellaneous receivables	(137)	7,738
Accounts payable	34,420	40,639
Accrued expenses	-	(12,618)
Deferred revenue	619,133	(52,596)
Accrued vacation, sick, and other leave benefits	(85,516)	13,423
Total adjustments	<u>425,382</u>	<u>715,562</u>
Net cash provided by operating activities	<u>\$ 1,373,369</u>	<u>\$ 1,593,753</u>
Supplemental Disclosure of Noncash Operating, Capital and related financing activities		
Deferred rent recognized related to payment of expenses	<u>\$ 218,000</u>	<u>\$ 218,000</u>
Interest on debt paid by the City of Memphis and Shelby County	<u>\$ 899,875</u>	<u>\$ -</u>
Principal on debt paid by the City of Memphis and Shelby County	<u>\$ 565,000</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, 2012 and 2011

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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 rent that will be earned on leased buildings and tracts of land.

### 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 – DEPOSITS WITH FINANCIAL INSTITUTION**

The Port has \$13,157,624 deposited at Regions Bank and Trust. The amount is collateralized by treasury and agency securities up to 105% of the total amount deposited.

### NOTE 3 – CAPITAL ASSETS

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

	2012			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 4,823,630	\$ -	\$ -	\$ 4,823,630
Construction in progress	-	29,138,479	-	29,138,479
Total capital assets not being depreciated	4,823,630	29,138,479	-	33,962,109
Capital assets, being depreciated:				
Buildings	767,845	-	-	767,845
Improvements	29,329,900	-	-	29,329,900
Machinery and equipment	879,008	-	-	879,008
Total capital assets being depreciated	30,976,753	-	-	30,976,753
Less accumulated depreciation for:				
Buildings	(762,208)	(1,025)	-	(763,233)
Improvements	(9,101,100)	(611,296)	-	(9,712,396)
Machinery and equipment	(628,316)	(140,187)	-	(768,503)
Total accumulated depreciation	(10,491,624)	(752,508)	-	(11,244,132)
Total capital assets, being depreciated, net	20,485,129	(752,508)	-	19,732,621
Capital assets, net	<u>\$ 25,308,759</u>	<u>\$ 28,385,971</u>	<u>\$ -</u>	<u>\$ 53,694,730</u>
	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	45,411	-	879,008
Total capital assets being depreciated	30,931,342	45,411	-	30,976,753
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)	(148,866)	-	(628,316)
Total accumulated depreciation	(9,757,018)	(734,606)	-	(10,491,624)
Total capital assets, being depreciated, net	21,174,324	(689,195)	-	20,485,129
Capital assets, net	<u>\$ 25,997,954</u>	<u>\$ (689,195)</u>	<u>\$ -</u>	<u>\$ 25,308,759</u>

#### 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:

	<u>2012</u>	<u>2011</u>
Total minimum lease payments	\$ 2,781,183	\$ 2,871,295
Less amounts representing interest	<u>(1,332,111)</u>	<u>(1,412,113)</u>
Gross investment in lease	1,449,072	1,459,182
Less unearned income	<u>(1,063,248)</u>	<u>(1,098,851)</u>
Net investment in lease	<u><u>\$ 385,824</u></u>	<u><u>\$ 360,331</u></u>

#### NOTE 5 – REVENUE BONDS

The Port has entered into an agreement between Shelby County, the City of Memphis, and Electrolux to fund the construction of the Electrolux facility with the use of debt issued by both the County and the City. The County and the City each guarantee the debt, which is payable solely from the County's and City's covenants to timely appropriate from legally available non-ad valorem revenues, although the debt is in the name of the Port Commission and is being held on the financial statements of the Port. The Port is under no obligation to pay the debt principal or interest. To reflect that the Port has no obligation to pay the debt, receivables from the City of Memphis and Shelby County have been booked for the principal and will be booked for the interest as it becomes due. Coupon rates on the 24 year, 7 month bonds range from 2.0% to 5.25% over the lives of the bonds.

Future amortizations of debt principal and interest expense related to such are as follows for the years ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,015,000	\$ 1,782,800	\$ 2,797,800
2014	1,050,000	1,752,350	2,802,350
2015	1,080,000	1,720,850	2,800,850
2016	1,125,000	1,676,850	2,801,850
2017	1,145,000	1,654,350	2,799,350
Thereafter	<u>34,815,000</u>	<u>18,381,650</u>	<u>53,196,650</u>
Total	<u><u>\$ 40,230,000</u></u>	<u><u>\$ 26,968,850</u></u>	<u><u>\$ 67,198,850</u></u>

The long-term liability activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One year
Revenue bonds	\$ -	\$ 40,795,000	\$ (565,000)	\$ 40,230,000	\$ 1,015,000
Net premium and issuance costs	-	1,456,344	(49,368)	1,406,976	59,241
	<u>\$ -</u>	<u>\$ 42,251,344</u>	<u>\$ (614,368)</u>	<u>\$ 41,636,976</u>	<u>\$ 1,074,241</u>

The long-term liability activity for the year ended June 30, 2011 was as follows:

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

## **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 \$348,117 and \$299,905 for the years ended June 30, 2012 and 2011, respectively. Total payroll was \$378,721 and \$326,948 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011. 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, 2012, 2011, and 2010 the Port Commission's contributions to the Plans of \$27,849, \$23,992, and \$34,633, respectively, were equal to the required contributions for each year.

## **NOTE 7 – 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 \$26,249 for 2012. At June 30, 2012, the number of retirees eligible for health and medical benefits is 3,817. 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, 2012 and 2011, the Port Commission's accrual for the OPEB plan was \$45,778 and \$134,251, respectively.

**NOTE 8 – LEASING ACTIVITIES**

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:

2013	\$ 2,281,391
2014	2,123,468
2015	1,671,303
2016	1,392,998
2017	1,102,821
Thereafter	<u>928,711</u>
Total	<u>\$ 9,500,692</u>

**NOTE 9 – RELATED PARTY TRANSACTIONS**

Excess Revenue Distribution

In accordance with the Joint Resolution of the Board of Commissioners of Shelby County and the Council of the City of Memphis, TN, any excess operating revenues of the Port Commission are distributed to the Economic Development Growth Engine Industrial Development Board of the City of Memphis and County of Shelby, TN (EDGE).

**NOTE 10 – 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 11 – 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 2012 and 2011, 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, 2012 and 2011, revenue of \$218,000 and \$218,000, respectively, has been recognized while the deferred amount at June 30, 2012 and 2011 was \$203,548 and \$421,548, respectively.

## **NOTE 13 – PRIOR-PERIOD ADJUSTMENTS**

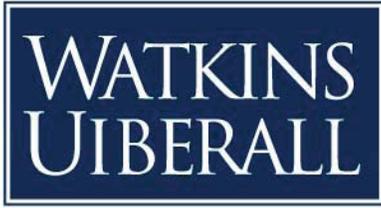
The Port determined that the fiscal year ended June 30, 2011 should be restated. The following accounts were understated (overstated) by the amounts shown here:

Capital assets, net	\$	31,788
Due to EDGE	\$	800,000
Deferred revenue	\$	164,228
Charges for services	\$	(164,228)
Materials and supplies	\$	(45,411)
Depreciation	\$	13,623
Payment to EDGE for revenue share	\$	800,000

Adjustments have been made accordingly to correct the amounts. The result of the entries is a \$932,440 decrease in the change in net assets, a \$964,228 decrease in unrestricted net assets and a \$31,788 increase in net assets invested in capital assets, net of related debt in the year ended June 30, 2011.

## **NOTE 14 – SUBSEQUENT EVENT**

Management has evaluated its June 30, 2012 financial statements for subsequent events through December 13, 2012, the date the financial statements were available to be issued. Beginning January 1, 2013, all but one employee of the Port Commission will become full time employees of EDGE. EDGE will be responsible for the salaries of these employees, but the Port Commission will be paying EDGE for staffing and administrative services.



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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, 2012 and have issued our report thereon dated December 13, 2012. 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

Management of the Port Commission is responsible for establishing and maintaining effective 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 and responses, 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 and responses 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*.

The Port Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Port's response and, accordingly, we express no opinion on it.

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 13, 2012

**MEMPHIS AND SHELBY COUNTY PORT COMMISSION**

**SCHEDULE OF FINDINGS AND RESPONSES**

For the Year Ended June 30, 2012

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**MATERIAL WEAKNESS**

2012-1 Material Journal Entry

Condition: After the audit of the 2011 financial statements was completed, the Port discovered that a material journal entry should have been made to accrue a payable to EDGE for its portion of the net operating income for that fiscal year.

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

Effect: The Port Commission's 2011 financial statements were materially misstated.

Recommendations: The Port Commission should implement a review process that would help detect material misstatements such as the absence of this yearly accrual.

Response: The Port Commission will take action to determine the amount that should be accrued and make the entry prior to issuance of the audit report.

**MEMPHIS AND SHELBY COUNTY PORT COMMISSION**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

June 30, 2012

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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 require 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.

Current Status: The Port Commission addressed the issues and made improvements throughout the year, resulting in fewer material misstatements for the fiscal year ended June 30, 2012.