

**MEMPHIS AND SHELBY COUNTY
PORT COMMISSION**
Memphis, Tennessee

Financial Statements and
Reports of Independent Auditors

For the Years Ended June 30, 2013 and 2012

**MEMPHIS AND SHELBY COUNTY
PORT COMMISSION
Memphis, Tennessee**

TABLE OF CONTENTS

PAGE

LIST OF MANAGEMENT OFFICIALS AND THE BOARD
OF DIRECTORS

INDEPENDENT AUDITORS' REPORT1 - 3

FINANCIAL STATEMENTS:

Statements of Net Position4 - 5

Statements of Revenues, Expenses,
and Changes in Net Position 6

Statements of Cash Flows7 - 8

Notes to the Financial Statements 9 - 20

REPORT ON INTERNAL CONTROL AND COMPLIANCE:

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..... 21 - 22

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS23

**MEMPHIS AND SHELBY COUNTY
PORT COMMISSION**
MANAGEMENT OFFICIALS AND BOARD OF DIRECTORS
For the Year Ended June 30, 2013

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

Mark Beutelschies, Legal Counsel

Larry Jackson, Secretary

Janet Moore, Treasurer

INDEPENDENT AUDITORS' REPORT

Board of Directors
Memphis and Shelby County Port Commission
Memphis, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Memphis and Shelby County Port Commission (the "Port Commission"), a related entity of the Economic Development Growth Engine Industrial Development Board of the City of Memphis and County of Shelby, Tennessee, as of and for the year then ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Port Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.



Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of the Memphis and Shelby County Port Commission, as of June 30, 2013, and the respective changes in net position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Audit

The financial statements of the prior year ended June 30, 2012 were audited by a predecessor auditor whose unmodified report was issued dated December 13, 2012. The predecessor auditor stated that the Port Commission did not present 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.

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Memphis and Shelby County Port Commission's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.



The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2014, on our consideration of the Port Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port Commission's internal control over financial reporting and compliance.

Banks, Finley, White & Co.

Memphis, Tennessee
March 17, 2014

**MEMPHIS AND SHELBY COUNTY
PORT COMMISSION**
Statements of Net Position
June 30, 2013 and 2012

ASSETS

	2013	2012
CURRENT ASSETS:		
Cash and cash equivalents	\$ 91,650	\$ -
Equity in cash and investment pool	2,601,649	1,549,606
Escrow deposits	589,283	13,157,624
Due from City of Memphis	744,034	730,350
Due from Shelby County	744,034	730,350
Lease receivables	1,245,879	1,353,857
Miscellaneous receivables	-	582
Total Current Assets	6,016,529	17,522,369
NONCURRENT ASSETS:		
Capital assets, net	23,903,620	24,556,251
Capital assets held for future development	41,662,477	29,138,479
Due from City of Memphis	19,082,510	19,607,500
Due from Shelby County	19,082,510	19,607,500
Net investment in lease	410,748	385,824
Total Noncurrent Assets	104,141,865	93,295,554
TOTAL ASSETS	\$ 110,158,394	\$ 110,817,923

See accompanying notes to the financial statements

**MEMPHIS AND SHELBY COUNTY
PORT COMMISSION**
Statements of Net Position
June 30, 2013 and 2012
(Continued)

LIABILITIES AND NET POSITION

	2013	2012
CURRENT LIABILITIES:		
Accounts payable	\$ 62,613	\$ 108,446
Accrued interest	438,088	445,700
Unearned revenue	964,343	1,333,446
Revenue received in advance	208,509	-
Accrued vacation, sick, and other leave benefits	-	143,952
Due to EDGE	1,264,683	1,042,552
Net bond premium - current	83,951	59,241
Revenue bonds - current	1,050,000	1,015,000
Total Current Liabilities	4,072,187	4,148,337
NONCURRENT LIABILITIES:		
Revenue bonds	38,165,000	39,215,000
Net bond premium	1,825,935	1,347,735
Total Noncurrent Liabilities	39,990,935	40,562,735
TOTAL LIABILITIES	44,063,122	44,711,072
NET POSITION:		
Invested in capital assets, net of related debt	26,940,380	26,622,354
Unrestricted	39,154,892	39,484,497
Total Net Position	66,095,272	66,106,851
TOTAL LIABILITIES AND NET POSITION	\$ 110,158,394	\$ 110,817,923

See accompanying notes to the financial statements

**MEMPHIS AND SHELBY COUNTY
PORT COMMISSION**

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2013 and 2012

	2013	2012
OPERATING REVENUES:		
Charges for services	\$ 2,411,032	\$ 2,533,134
Other revenue	<u>106,337</u>	<u>240,016</u>
TOTAL OPERATING REVENUES	<u><u>2,517,369</u></u>	<u><u>2,773,150</u></u>
 OPERATING EXPENSES:		
Materials and supplies	396,198	500,891
Personnel services	440,044	476,628
Depreciation	666,637	752,508
Amortization	-	20,591
Federal grant expenditures	-	74,545
TOTAL OPERATING EXPENSES	<u><u>1,502,879</u></u>	<u><u>1,825,163</u></u>
 OPERATING INCOME	<u><u>1,014,490</u></u>	<u><u>947,987</u></u>
 NON-OPERATING REVENUE (EXPENSES):		
Contributed capital	1,775,188	42,140,575
Interest income	80,870	127,455
Gain (loss) on sale of assets	428,686	35,603
Payment to EDGE for revenue share	(1,032,715)	(1,046,124)
Bond sale expense	(575,762)	-
Interest expense	<u>(1,702,336)</u>	<u>(1,275,616)</u>
TOTAL NON-OPERATING REVENUE (EXPENSES)	<u><u>(1,026,069)</u></u>	<u><u>39,981,893</u></u>
 CHANGE IN NET POSITION	<u><u>(11,579)</u></u>	<u><u>40,929,880</u></u>
 TOTAL NET POSITION - BEGINNING OF YEAR	<u><u>66,106,851</u></u>	<u><u>25,176,971</u></u>
 TOTAL NET POSITION - END OF YEAR	<u><u>\$ 66,095,272</u></u>	<u><u>\$ 66,106,851</u></u>

See accompanying notes to the financial statements

**MEMPHIS AND SHELBY COUNTY
PORT COMMISSION**
Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Receipts from services	\$ 2,369,095	\$ 2,236,650
Payments to suppliers	(442,031)	(541,153)
Payments to employees	(402,028)	(562,144)
Other receipts	<u>156,919</u>	<u>240,016</u>
Net Cash Provided By (Used in) Operating Activities	<u>1,681,955</u>	<u>1,373,369</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Advances (refund of advances) from City of Memphis	-	-
Payments to Shelby County	-	(45,018)
Payments to EDGE	<u>(1,042,552)</u>	<u>(803,572)</u>
Net Cash Provided By (Used in) Non-Capital Financing Activities:	<u>(1,042,552)</u>	<u>(848,590)</u>
CASH FLOWS FROM (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(12,548,601)	(29,138,479)
Capital contribution	2,797,800	-
Payment for bond issuance costs	-	(334,597)
Principal paid on capital debt	(1,015,000)	-
Interest paid on capital debt	(1,782,800)	-
Proceeds from the issuance of debt	-	42,585,941
Proceeds from sale of capital asset	<u>403,680</u>	<u>10,110</u>
Net cash from capital and related financing activities	(12,144,921)	13,122,975
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:		
Investment income	<u>80,870</u>	<u>127,455</u>
NET INCREASE IN CASH AND INVESTMENT POOL	(11,424,648)	13,775,209
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>14,707,230</u>	<u>932,021</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,282,582</u>	<u>\$ 14,707,230</u>
Cash and cash equivalents consist of the following:		
Cash and cash equivalents	\$ 91,650	\$ -
Equity in cash and investment pool	2,601,649	1,549,606
Escrow deposits	<u>589,283</u>	<u>13,157,624</u>
Total cash and cash equivalents	<u>\$ 3,282,582</u>	<u>\$ 14,707,230</u>

See accompanying notes to the financial statements

**MEMPHIS AND SHELBY COUNTY
PORT COMMISSION**
Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012
(Continued)

	2013	2012
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 1,014,490	\$ 947,987
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	666,637	752,508
Amortization	-	20,591
Changes in operating assets and liabilities:		
Lease receivables	118,657	(915,617)
Miscellaneous receivables	582	(137)
Accounts payable	(45,833)	34,420
Due to EDGE - Operating portion	231,968	-
Deferred revenue	(160,594)	619,133
Accrued vacation, sick, and other leave benefits	(143,952)	(85,516)
Total adjustments	667,465	425,382
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,681,955	\$ 1,373,369
Supplemental Disclosure of Non-cash Capital and Related Financing Activities:		
Excess operating income due to EDGE	\$ 1,264,683	\$ -
Bond sales expenses written off	\$ 575,762	\$ -
Amortization of bond premium	\$ (72,582)	\$ -
Allocation of lease income related to lease/sales agreement	\$ 35,603	\$ -
Deferred rent recognized related to payment of expenses	\$ 203,548	\$ 218,000
Interest on debt paid by the City of Memphis and Shelby County	\$ -	\$ 899,875
Principal on debt paid by the City of Memphis and Shelby County	\$ -	\$ 565,000

See accompanying notes to the financial statements

**MEMPHIS AND SHELBY COUNTY
PORT COMMISSION**
Notes to the Financial Statements
For the Years Ended June 30, 2013 and 2012

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 Mayors of the City and County may appoint representatives as ex officio voting members of the board.

In 2011, the Port Commission, along with the Industrial Development Board (IDB) and the Depot Redevelopment Corporation of Memphis and Shelby County (DRC) were consolidated into EDGE, which was established in January-February 2011, per Joint Resolution of the Memphis City Council and Shelby County Commission. Consequently, the Port Commission's board was dissolved December 2011 and EDGE's board members became its members.

Effective January 1, 2013, five of six Port Commission employees became employees of EDGE, and EDGE began providing staffing and accounting services for the Port Commission.

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.

Recent Accounting Standards

In fiscal year 2013, the Port Commission was required to adopt four new statements of financial accounting standards issued by the Governmental Accounting Standards Board:

--Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*

--Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

--Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

--Statement No. 65, *Items Previously Reported as Assets and Liabilities*

--Statement No. 66, *Technical Corrections- 2012 - an amendment of GASB Statements No. 10 and No. 62*

Statement No. 60, establishes recognition, measurement and disclosure requirements for Service Concession Arrangement for both transferors and governmental operators. As of June 30, 2013, the Port Commission was determined not to have any Concession Arrangements.

Effective for fiscal year 2013, the Port Commission adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain FASB and American Institute of Certified Public Accountants' ("AICPA") accounting and financial reporting guidance issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

GASB Statement No. 62 also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

In June of 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The statement provides financial reporting guidance for deferred outflows of resources, which are consumptions of net position by the government that is applicable to a future reporting period, and deferred inflows of resources, which are acquisitions of net position by the government that is applicable to a future reporting period.

Statement No. 63 amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The adoption of Statement No. 63 resulted in a change in the presentation of the Statement of Net Assets to what is now referred to as the Statement of Net Position, and the term "net assets" is changed to "net position" throughout the financial statements. Statement No. 63 also amends the reporting of the "net investments in capital assets" component of the net position. This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are now required to be included in this component of net position.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As of June 30, 2013, it was determined that the Port Commission had no deferred inflows or outflows to disclose in the financial statements.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources and deferred inflow of resources should be limited to those instances identified by the Government Accounting Standards Board in authoritative pronouncements that are established after applicable due process. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4.

Cash and Cash Equivalents

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 expensed for maintenance and repairs are charged to expense as incurred.

Unearned Revenue and Revenue Received in Advance

Unearned revenue represents rent that will be earned in the subsequent period on leased buildings and tracts of land. Revenue received in advance represents rent received in advance of period earned.

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 INSTITUTIONS AND INVESTMENTS:

The Port has cash and cash equivalents and escrow balances of \$680,933 deposited at various financial institutions. The amount is collateralized by treasury and agency securities up to 105% of the total amount deposited.

See next page

As of June 30, 2013 and 2012, the Port Commission was holding \$44,662,477 and \$29,138,479, respectively, in capital assets for future development under the terms of a contract with Electrolux Home Products. These amounts are shown as construction in progress in the above tables.

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>2013</u>	<u>2012</u>
Total minimum lease payments	\$ 2,691,071	\$ 2,781,183
Less amounts representing interest	<u>(1,252,679)</u>	<u>(1,332,111)</u>
Gross investment in lease	1,438,392	1,449,072
Less unearned income	<u>(1,027,644)</u>	<u>(1,063,248)</u>
Net investment in lease	<u>\$ 410,748</u>	<u>\$ 385,824</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 year ending June 30:

	Principal	Interest	Total
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
2018	1,200,000	1,602,100	2,802,100
Thereafter	33,615,000	16,779,550	50,394,550
Total	<u>\$ 39,215,000</u>	<u>\$ 25,186,050</u>	<u>\$ 64,401,050</u>

The long-term liability activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One year
Revenue bonds	\$ 40,230,000	\$ -	\$ 1,015,000	\$ 39,215,000	\$ 1,050,000
Net premium	1,730,231	252,507	72,852	1,909,886	83,951
Net issuance costs	<u>(323,255)</u>	<u>-</u>	<u>(323,255)</u>	<u>-</u>	<u>-</u>
	<u>\$ 41,636,976</u>	<u>\$ 252,507</u>	<u>\$ 764,597</u>	<u>\$ 41,124,886</u>	<u>\$ 1,133,951</u>

Net issuance costs of \$323,255 and \$252,507 were written off in fiscal year 2013 as a result of adopting GASB 63.

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

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

See next page

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 Office, 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 \$113,038 and \$348,117 for the years ended June 30, 2013 and 2012, respectively. Total payroll was \$261,055 and \$378,721 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012. 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, 2013, 2012, and 2011, the Port Commission's contributions to the Plans of \$9,043, \$27,849, and \$23,992, respectively, were equal to the required contributions for each year.

Effective January 1, 2013, all except one employee of the Port Commission became members of the EDGE 401(k) retirement plan. These employees were paid \$109,093 in pension benefits as a result of the change.

The EDGE 401(k) Retirement Plan covers all hourly and salaried full-time employees, beginning the first of the month following six months employment with EDGE. As the plan currently stands, the Company matches employee contributions after employees have been with the Company six months. Matching is computed as follows: the Company will match dollar-for-dollar on the first 3% that the employee defers from their compensation and will match 50% of any amounts deferred between 3% and 5%, up to a maximum of 5%. (For example, if the employee defers 4%, EDGE matches with 3.5%, and if the employee defers 5% EDGE matches with 4%). The Port Commission paid \$5,301 in employer contributions for the year ended June 30, 2013.

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 2013. At June 30, 2013, 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 Office, 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, 2013 and 2012, the Port Commission's accrual for the OPEB plan was \$- and \$45,778, respectively.

Effective January 1, 2013, the employees of the Port Commission were no longer participants of the City's OPEB Plan, however, they are covered under the EDGE's retirement plan, which currently does not offer an OPEB plan.

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:

2014	\$	2,670,997
2015		2,375,346
2016		1,923,869
2017		1,771,041
2018		1,165,187
Thereafter		9,755,514
Total	\$	<u>19,661,954</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). As of June 30, 2013, the Port Commission owes the EDGE \$1,264,683 and paid the EDGE \$1,042,552.

NOTE 10 – COMMITMENTS AND CONTINGENCIES:

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.

Leases

As of June 30, 2013, the Port Commission has entered into seven Lease Agreements with Option to Purchase with current tenants. The agreements provide for certain termination, default, inspection and title provisions.

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 2013 and 2012, 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. Effective January 1, 2013, only one of the Port Commission employees remained covered by the City's health insurance program. Effective June 30, 2013, all Port Commission employees were covered by EDGE's workers compensation insurance.

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.

It was 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, 2013 and 2012, revenue of \$203,548 and \$218,000, respectively, has been recognized while the deferred amount at June 30, 2013 and 2012 was \$- and \$203,548, respectively.

REPORT ON INTERNAL CONTROL AND COMPLIANCE

**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***

Board of Directors
Memphis and Shelby County Port Commission
Memphis, Tennessee

We have audited, in accordance with the 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, the financial statements of the Memphis and Shelby County Port Commission ("Port Commission"), a related entity of the Economic Development Growth Engine Industrial Development Board of the City of Memphis and County of Shelby, Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Memphis and Shelby County Port Commission's basic financial statements, and have issued our report thereon dated March 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Memphis and Shelby County Port Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Memphis and Shelby County Port Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Memphis and Shelby County Port Commission's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Memphis and Shelby County Port Commission's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Banks, Finley, White & Co.
Memphis, Tennessee
March 17, 2014

**MEMPHIS AND SHELBY COUNTY
PORT COMMISSION
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2013**

2012-1 Material Journal Entry

Condition:

After the audit of the 2011 financial statements was completed, the Port Commission 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.

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.

Status:

Cleared