

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

Report on Audited Financial Statements

For the Years Ended June 30, 2015 and 2014

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

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INTERNATIONAL
PORT OF MEMPHIS

Managed by EDGE®

Randy Richardson
Executive Director

December 22, 2015

Port Board Members
Memphis and Shelby County Port Commission
Memphis, Tennessee

Dear Board Members:

I am pleased to present the Memphis and Shelby County Port Commission report on audited financial statements for the year ending June 30, 2015. The audit consists of 4 sections: Introductory, Financial, Basic Financial Statements, and Statutory Reporting. This introductory section consists of the letter of transmittal and the list of management officials and the Board of Directors. The financial section begins with the independent auditor's report and includes the management discussion and analysis. The basic financial statements section includes the statements related to net position, revenues, expenses, and changes in net position, cash flows and the related notes to the financial statements. The statutory reporting section includes the independent auditor's report on internal control over financial reporting and on compliance based on the audit of the financial statements.

The accuracy of the data and all audit disclosures is the responsibility of the Memphis and Shelby County Port Commission. To the best of our knowledge information and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to represent the financial position and operations of the Memphis and Shelby County Port Commission.

Port Overview

The Port of Memphis, which has jurisdiction from miles 715.5 to 741.0 on the Mississippi River, consists of three separate slack-water harbors: Pidgeon Industrial Harbor and McKellar Lake Harbor in the southern part of the city and Wolf River Harbor in the northern part of the city.

Waterborne operations within The Port of Memphis handled 14.1 million short tons in 2013, the most recent year for which waterborne commerce statistics have been reported by the U.S. Army Corp of Engineers. The tonnage handled in 2013 remained down from the peak of 19.1 million short tons in 2006. The Port of Memphis is ranked 41st among all U.S. coastal and inland ports based on total annual tonnage.

The Port of Memphis is open to year-round, open-water navigation. Petroleum products, food

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and farm products, coal, crude materials including cement, sand and stone, and chemicals are the categories of materials that comprise the largest percentages of cargo handled at the Port.

The Port of Memphis is designated as a Port of Entry and a Foreign Trade Zone. Port of Entry status allows imported cargo to be shipped directly to Memphis where it is inspected and receives U.S. Customs clearance. Foreign Trade Zone status allows goods to be imported duty-free for assembly, manufacture or storage. These goods may then be exported duty-free, or sold in a U.S. Customs territory after the proper duty is paid.

Because of its central North American location and transportation infrastructure, Memphis is known worldwide for its multi-modal distribution and logistics capabilities. The Port of Memphis is a critical element in that transportation infrastructure. The Port of Memphis is connected by rail and interstate highways to most major markets and is located at one of the few points in the U.S. where cargo can cross the Mississippi River by rail and truck.

Interstate 40, Interstate 55 and seven major U.S. highways converge near the Port of Memphis. Forty-five states can be reached by two-day truck service from the Port. Cargo arriving at the Port of Memphis can reach more major markets overnight than from any other city in the U.S.

Five Class I rail systems serve Memphis: BN, CN, CSX, Norfolk Southern and Union Pacific. A rail to truck inter-modal terminal, Intermodal Gateway Memphis, is located in Frank Pidgeon Industrial Park as a cooperative effort of the CN and CSX railroad and the Port of Memphis. Cargo arriving at the Port of Memphis can be shipped by single system rail to 49 states, Mexico and Canada.

The only petroleum refinery in Tennessee is located at The Port of Memphis. Pipelines and storage facilities supply fuel to the Memphis International Airport, located approximately 10 miles away. The Memphis International Airport is the global hub for FedEx.

Finally, I would like to thank the Port Commission staff, BFW & Co., and Cannon & Company for their support in preparing the fiscal year 2015 audit. The audit of the Memphis and Shelby County Port Commission seeks to ensure fiscal transparency and accountability for the Board of Directors and the public. These financial statements were created utilizing the highest professional standards to achieve that goal.

Sincerely,

A handwritten signature in blue ink, appearing to read "Randy Richardson", is written over a light blue horizontal line.

Randy Richardson
Executive Director

**MEMPHIS AND SHELBY COUNTY
PORT COMMISSION**
MANAGEMENT OFFICIALS AND BOARD OF DIRECTORS
For the Year Ended June 30, 2015

PRESIDENT

Reid Dulberger

EXECUTIVE DIRECTOR

James R. Richardson

BOARD OF DIRECTORS

Johnny B. Moore, Jr. Chairman
Tom Needham
Dwan Gilliom
Deidre Malone
Thomas R. Dyer
Charles Goforth
Mark J. Halperin
Larry Jackson, Secretary/Treasurer

GENERAL COUNSEL

Mark Beutelschies

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 ("the EDGE"), as of and for the years then ended June 30, 2015 and 2014, 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 financial position of the governmental activities, of the Memphis and Shelby County Port Commission, as of June 30, 2015 and 2014, and the respective changes in financial position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 9 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 December 22, 2015, 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.

Memphis, Tennessee
December 22, 2015

**MEMPHIS AND SHELBY COUNTY
PORT COMMISSION
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

INTRODUCTION

The discussion and analysis of the Port Commission's financial performance provides an overview of its financial activities for the fiscal year ended June 30, 2015. The intent of this management discussion and analysis is to look at the Port Commission's financial performance as a whole; readers should also review the transmittal letter, financial statements and notes to the financial statements to enhance their understanding of the Port Commission's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2015 are as follows:

- Total net position decreased from \$25.5 million in 2014 to \$18.1 million in 2015, primarily due to transfer of land at the Pidgeon Industrial Park to EDGE.
- There was substantially no change in operating revenue due to property available for lease and tenant occupancy remaining the same.
- Total operating expenses decreased from \$1.6 million in 2014 to \$1.5 million in 2015, an decrease of \$(0.1) million.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Port Commission's basic financial statements. The basic financial statements comprise two components: 1) enterprise fund financial statements, and 2) notes to the financial statements.

Financial statements:

The Port Commission maintains one type of proprietary fund, an Enterprise Fund. Enterprise Funds are designed to reflect the business-type activity of the Port Commission.

Notes to the financial statements:

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Enterprise fund financial analysis

The Statement of Net Position for June 30, 2015 has been summarized and compared with net position for 2014. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Port Commission's assets, as a whole, exceeded liabilities at June 30, 2015 and 2014 by \$18.1 million and \$25.5 million, respectively.

(amounts expressed in millions of dollars)

	<u>2015</u>	<u>2014</u>	<u>Difference</u>	<u>% Change</u>	<u>2013</u>	<u>Difference</u>	<u>% Change</u>
Assets:							
Current assets	\$ 10.2	\$ 7.9	\$ 2.3	29.1 %	\$ 6.0	\$ 1.9	32 %
Capital assets	15.2	23.3	(8.1)	(34.8)%	65.6	(42.3)	(64)%
Noncurrent assets - other	<u>36.3</u>	<u>37.5</u>	<u>(1.2)</u>	(3.2)%	<u>38.6</u>	<u>(1.1)</u>	(3)%
Total Assets	<u>61.7</u>	<u>68.7</u>	<u>(7.0)</u>	(10.2)%	<u>110.2</u>	<u>(41.5)</u>	(38)%
Liabilities:							
Long-term liabilities	37.6	38.8	(1.2)	(3.1)%	40.0	(1.2)	(3)%
Other liabilities	<u>6.0</u>	<u>4.4</u>	<u>1.6</u>	36.4 %	<u>4.1</u>	<u>0.3</u>	7 %
Total Liabilities	<u>43.6</u>	<u>43.2</u>	<u>0.4</u>	0.9 %	<u>44.1</u>	<u>(0.9)</u>	(2)%
Net Position:							
Net investments in capital assets	15.5	23.7	(8.2)	(34.6)%	26.9	(3.2)	(12)%
Unrestricted	<u>2.6</u>	<u>1.8</u>	<u>0.8</u>	44.4 %	<u>39.2</u>	<u>(37.4)</u>	(95)%
Total Net Position	<u>\$ 18.1</u>	<u>\$ 25.5</u>	<u>\$ (7.4)</u>	(29.0)	<u>\$ 66.1</u>	<u>\$ (40.6)</u>	(61)%

Capital assets (e.g., land, buildings, improvements, machinery and equipment and construction in progress) are 24.6% of the total assets. These assets are not available for future spending. The construction in progress for FY 2014 was completed during the year ended June 30, 2015 and conveyed to Electrolux.

Non-current assets consist of assets available to repay the outstanding revenue bonds. Long-term liabilities consists of the revenue bond debt.

Enterprise fund activities during fiscal year 2015, decreased the Port Commission's net position by \$(7,389,884) or (29.0)% of total net position as compared to a decrease of \$(40,525,573) or less than 1.0% during fiscal year 2014. The primary factor for the decrease can be attributed to the conveyance of constructed property and land to Electrolux.

Changes in Net Position (*amounts expressed in millions of dollars*)

	2015	2014	Difference	% Change	2013	Difference	% Change
Operating revenues	\$ 2.7	\$ 2.7	\$ -	- %	\$ 2.5	\$ 0.2	DIV/0 %
Operating expenses	<u>1.5</u>	<u>1.6</u>	<u>(0.1)</u>	(6.3)%	<u>1.5</u>	<u>0.1</u>	(23.8)%
Operating income	<u>1.2</u>	<u>1.1</u>	<u>0.1</u>	9.1 %	<u>1.0</u>	<u>0.3</u>	11.0 %
Non-operating revenue (expenses):							
Contributed capital	1.7	1.7	-	- %	1.8	(0.1)	DIV/0 %
Gain (Loss) on sale of assets	-	1.1	(1.1)	(100.0)%	0.4	0.7	(0.4)%
Conveyance obligation expense	-	(41.8)	41.8	- %	-	(41.8)	20.0 %
Payment to EDGE for revenue share	(1.2)	(1.1)	(0.1)	9.1 %	(1.0)	(0.1)	(11.0)%
Interest expense	(1.6)	(1.7)	0.1	(5.9)%	(1.7)	-	- %
Other	<u>(7.5)</u>	<u>0.1</u>	<u>(7.6)</u>	(7,600.0)%	<u>(0.5)</u>	<u>0.6</u>	- %
Total non-operating revenue (expenses)	<u>(8.6)</u>	<u>(41.7)</u>	<u>33.1</u>	(79.4)	<u>(1.0)</u>	<u>(40.7)</u>	1.3 %
Change in Net Position	<u>(7.4)</u>	<u>(40.6)</u>	<u>33.2</u>	-	<u>-</u>	<u>(40.6)</u>	- %
Net Position -Beginning of year	<u>25.5</u>	<u>66.1</u>	<u>(40.6)</u>	(61.4)	<u>66.1</u>	<u>-</u>	- %
Net Position -End of year	<u>\$ 18.1</u>	<u>\$ 25.5</u>	<u>\$ (7.4)</u>	(29.0)	<u>\$ 66.1</u>	<u>\$ (40.6)</u>	(227.9)%

Revenues

Total operating revenues consist of short and long-term lease agreements with tenants occupying land and buildings of the Port Commission.

Expenses

Operating expenses include activities directly linked to the Port Commission's enterprise activities. The components include materials and supplies, personnel services, and depreciation.

Capital Assets

The Port Commission's investment in capital assets for its enterprise fund as of June 30, 2015, shown in the table below, amounts to 15.2 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and equipment and furniture. Overall, capital assets decreased 8.1 million for fiscal year 2014.

Capital Assets, net of depreciation (*amounts expressed in millions of dollars*)

	2015	2014	Difference	% Change	2013	Difference	% Change
Land	\$ 4.4	\$ 4.8	\$ (0.4)	(8.3)%	\$ 4.8	\$ -	- %
Construction in progress	-	-	-	DIV/0 %	41.7	(41.7)	(100.0)%
Buildings	-	-	-	- %	-	-	- %
Improvements	10.8	18.5	(7.6)	(41.3)%	19.0	(0.6)	(3.2)%
Machinery and equipment	-	0.1	(0.1)	(100.0)%	0.1	-	- %
Total	<u>\$ 15.2</u>	<u>\$ 23.4</u>	<u>\$ (8.1)</u>	(34.6)%	<u>\$ 65.6</u>	<u>\$ (42.3)</u>	(64.5)%

Long-term Debt

The Port Commission 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.

Long-term Debt (*amounts expressed in millions of dollars*)

	2015	2014	Difference	% Change	2013	Difference	% Change
Revenue bonds	\$ 36.0	\$ 37.1	\$ (1.1)	(3.0)%	\$ 38.2	\$ (1.1)	(2.9)%
Net premium	<u>1.7</u>	<u>1.7</u>	<u>-</u>	- %	<u>1.8</u>	<u>(0.1)</u>	(5.6)%
Total	<u>\$ 37.7</u>	<u>\$ 38.8</u>	<u>\$ (1.1)</u>	(2.8)%	<u>\$ 40.0</u>	<u>\$ (1.2)</u>	(3.0)%

Economic Factors and Next Year's Budget

The overall economic impact of the Port of Memphis, the Memphis and Shelby County Port Commission and the business entities operating as tenants and within its jurisdiction is \$8.46 billion annually. This figure is the value of all goods and services produced within the Shelby County economy as a result of the Port and its related operations. This does not include the one-time impact of capital investments made by Port-related entities.

The number of jobs supported within Shelby County by the Port and all related operations is 20,115. This includes more than 7,145 jobs directly employed by all Port-related operations and more than 12,835 indirect jobs that exist elsewhere in the Shelby County economy in support of the Port and related operations. These indirect jobs are employed in a broad range of activities such as trucking, warehousing, customs brokerage, maintenance services, business services, personal services and retail.

As a result of this economic activity, Memphis and Shelby County governments receive \$43.3 million in locally levied tax revenues each year. This revenue comes from local sales tax, local business permits and taxes, other taxes such as hotel/motel tax and property taxes paid by businesses and individuals employed as a result of Port-related operations. This tax revenue calculation does not include tax revenues collected by the state and federal government and returned to local government entities.

Fiscal year 2015 will include a number of large projects that will enhance Port operations and benefits Shelby County and Memphis for decades. The Port of Memphis has contracted with Smith Seckman Reid, engineers to develop a master plan for redevelopment of the Port Commission owned public dock facility on Presidents Island. The current waterfront dock facility was constructed in 1953. The facility was the first to incorporate multi-modal transfers between barge, rail and truck. After 61 years of service, the facility is due for an upgrade. The new facility design will seek to provide the versatility of the old facility while drastically increasing throughput, efficiency and diversity in the materials handled. Preliminary engineering will be completed this winter.

The Pidgeon Industrial Park continues to develop. Detailed engineering is underway for a 6,800 ft. expansion of the Paul R. Lowry Road in the park. The roadway extension construction is anticipated to start in the summer of 2015. The extended Paul R. Lowry road will provide access to the south end of the future 600-acre CN Ridgeport Logistics Center located in the southeast quadrant of Pidgeon Industrial park. The future roadway extension will also open the 500-acre Electrolux supplier park in the southwest quadrant for development. Additionally, construction is anticipated to start this summer on the expansion of the Intermodal Gateway Memphis facility in the Pidgeon Industrial park. The expansion will double the size of the current intermodal facility and provide the Canadian National and CSX railroads with significantly increased capacities to America's distribution center.

The 2015, overall fiscal year budget will be substantially the same as fiscal year 2014, with the movement of dollars to areas within the budget of related to the projects listed previously. The Port Commission will be seeking federal, state, local and private partners to move forward with these exciting opportunities.

Requests for information

This financial report is designed to provide a general overview of the Port Commission's finances for all those with an interest in the Port Commission's finances. Questions concerning any of the information provided in this report or request for additional financial information may be addressed to:

Memphis and Shelby County Port Commission
Executive Director
1115 Riverside Blvd.
Memphis, Tennessee 38106

**MEMPHIS AND SHELBY COUNTY
PORT COMMISSION**
Statements of Net Position
June 30, 2015 and 2014

ASSETS

	2015	2014
CURRENT ASSETS:		
Cash and cash equivalents	\$ 7,117,004	\$ 4,762,017
Escrow deposits	381,705	422,860
Due from City of Memphis	772,106	755,106
Due from Shelby County	772,106	755,106
Lease receivables	1,139,625	1,229,613
Prepaid insurance	<u>13,523</u>	<u>12,794</u>
Total Current Assets	<u>10,196,069</u>	<u>7,937,496</u>
NONCURRENT ASSETS:		
Capital assets, not being depreciated	4,351,501	4,783,116
Capital assets, being depreciated, net	10,806,578	18,533,799
Due from City of Memphis	17,980,000	18,542,500
Due from Shelby County	17,980,000	18,542,500
Net investment in lease	<u>458,753</u>	<u>435,069</u>
Total Noncurrent Assets	<u>51,576,832</u>	<u>60,836,984</u>
TOTAL ASSETS	<u>\$ 61,772,901</u>	<u>\$ 68,774,480</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:		
Accounts payable	\$ 37,797	\$ 50,724
Accrued interest	419,213	430,213
Unearned revenue	874,035	918,115
Revenue received in advance	315,240	305,693
Due to EDGE	3,119,816	1,509,100
Net bond premium - current	83,951	83,951
Revenue bonds - current	<u>1,125,000</u>	<u>1,080,000</u>
Total Current Liabilities	<u>5,975,052</u>	<u>4,377,796</u>
NONCURRENT LIABILITIES:		
Revenue bonds	35,960,000	37,085,000
Net bond premium	<u>1,658,034</u>	<u>1,741,985</u>
Total Noncurrent Liabilities	<u>37,618,034</u>	<u>38,826,985</u>
TOTAL LIABILITIES	<u>43,593,086</u>	<u>43,204,781</u>
NET POSITION:		
Net investment in capital assets	15,539,784	23,739,775
Unrestricted	<u>2,640,031</u>	<u>1,829,924</u>
Total Net Position	<u>18,179,815</u>	<u>25,569,699</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 61,772,901</u>	<u>\$ 68,774,480</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 Position
For the Years Ended June 30, 2015 and 2014

	2015	2014
OPERATING REVENUES:		
Charges for services	\$ 2,545,328	\$ 2,480,253
Other revenue	<u>112,340</u>	<u>184,306</u>
TOTAL OPERATING REVENUES	<u>2,657,668</u>	<u>2,664,559</u>
OPERATING EXPENSES:		
Materials and supplies	438,446	485,122
Personnel services	453,228	461,240
Depreciation	<u>606,558</u>	<u>615,917</u>
TOTAL OPERATING EXPENSES	<u>1,498,232</u>	<u>1,562,279</u>
OPERATING INCOME	<u>1,159,436</u>	<u>1,102,280</u>
NON-OPERATING REVENUE (EXPENSES):		
Contributed capital	1,710,140	1,744,306
Interest income	78,800	79,120
Gain (loss) on sale of assets	35,603	1,145,377
Conveyance obligation expense	(39,454)	(41,826,731)
Payment to EDGE for revenue share	(1,156,234)	(1,109,400)
Transfer of capital assets	(7,552,277)	-
Interest expense	<u>(1,625,898)</u>	<u>(1,660,525)</u>
TOTAL NON-OPERATING REVENUE (EXPENSES)	<u>(8,549,320)</u>	<u>(41,627,853)</u>
CHANGE IN NET POSITION	(7,389,884)	(40,525,573)
TOTAL NET POSITION - BEGINNING OF YEAR	<u>25,569,699</u>	<u>66,095,272</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 18,179,815</u>	<u>\$ 25,569,699</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, 2015 and 2014

	2015	2014
CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Receipts from services	\$ 2,803,236	\$ 2,731,781
Payments to suppliers	(452,097)	(509,805)
Payments to employees	1,253	(11,541)
Other receipts	-	-
Net Cash Provided By (Used in) Operating Activities	2,352,392	2,210,435
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Payments to EDGE	-	(1,264,683)
Net Cash Provided By (Used in) Non-Capital Financing Activities:	-	(1,264,683)
CASH FLOWS FROM (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	-	(223,383)
Capital contribution	2,801,741	2,842,585
Payment for bond costs	(39,454)	-
Principal paid on capital debt	(1,080,000)	(1,050,000)
Interest paid on capital debt	(1,720,847)	(1,752,350)
Proceeds from sale of capital asset	-	1,139,691
Net cash from capital and related financing activities	(38,560)	956,543
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:		
NET INCREASE IN CASH AND INVESTMENT POOL	2,313,832	1,902,295
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,184,877	3,282,582
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 7,498,709	\$ 5,184,877
Cash and cash equivalents consist of the following:		
Cash and cash equivalents	\$ 7,117,004	\$ 4,762,017
Escrow deposits	381,705	422,860
Total cash and cash equivalents	\$ 7,498,709	\$ 5,184,877

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, 2015 and 2014
(Continued)

	2015	2014
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ <u>1,159,436</u>	\$ <u>1,102,280</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	606,558	615,917
Loss on sale of lease	90,112	-
Changes in operating assets and liabilities:		
Lease receivables	89,988	16,266
Prepaid expenses	(728)	(12,794)
Accounts payable	(12,922)	(11,889)
Due to EDGE - Operating portion	454,481	449,699
Unearned revenue	(44,080)	(46,228)
Revenue received in advance	<u>9,547</u>	<u>97,184</u>
Total adjustments	<u>1,192,956</u>	<u>1,108,155</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,352,392</u>	<u>\$ 2,210,435</u>
Supplemental Disclosure of Non-cash Capital and Related Financing Activities:		
Transfer of property to EDGE	\$ <u>7,552,277</u>	\$ <u>(40,716,957)</u>
Excess operating income due to EDGE	\$ <u>1,156,235</u>	\$ <u>1,059,401</u>
Amortization of bond premium	\$ <u>(83,951)</u>	\$ <u>(83,950)</u>
Allocation of lease income related to lease/sales agreement	\$ <u>23,684</u>	\$ <u>24,321</u>

The accompanying notes are an integral part of the financial statements

**MEMPHIS AND SHELBY COUNTY
PORT COMMISSION**

Notes to the Financial Statements
For the Year Ended June 30, 2015

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 is a joint venture between the City of Memphis (the “City”) and the Shelby County (the “County”).

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 the EDGE, which was established in January-February 2011, per Joint Resolution of the Memphis City Council and Shelby County Commission. The Private Acts were amended to enable the Port Commission to conform the size, qualification, and appointment process of commissioners of the Port Commission to that of the EDGE. The Port Commission is governed by five Commissioners selected from members of the Board of Directors of the Edge.

Effective January 1, 2013, the Port Commission entered into a service agreement with the EDGE by which the EDGE provides management and staffing which in all aspects include and comply with the requirements of the Port Commission's enabling acts.

Basis of Accounting and Revenue Recognition

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 become measurable and expenses are recognized when incurred, if measurable.

Recent Accounting Standards

In fiscal year 2015, the Port Commission was not required to adopt any new statements of financial accounting standards issued by the Governmental Accounting Standards Board.

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. During FY 2014, the balance in the POOL was transferred to the Port Commission's separate checking account.

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:

For June 30, 2015 and 2014, the Port has cash and cash equivalents of \$7,117,004 and \$4,762,017, respectively, deposited at one financial institution. The financial institution is a member of the Tennessee State Collateral Pool and has pledged securities in joint-custody at the Federal Reserve Bank to the State of Tennessee Treasurer. The financial institution's required collateral requirement is 105% of market value, less the allowable FDIC limitation. Funds held at other financial institutions do not exceed the FDIC limitation.

See next page

Depreciation expense for June 30, 2015 and 2014 was \$606,558 and \$615,917, respectively.

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>2015</u>	<u>2014</u>
Total minimum lease payments	\$ 2,691,071	\$ 2,691,071
Less amounts representing interest	<u>(1,275,881)</u>	<u>(1,263,962)</u>
Gross investment in lease	1,415,190	1,427,109
Less unearned income	<u>(956,437)</u>	<u>(992,040)</u>
Net investment in lease	<u>\$ 458,753</u>	<u>\$ 435,069</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
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
2019	1,230,000	1,572,100	2,802,100
2020	1,290,000	1,512,100	2,802,100
Thereafter	<u>31,095,000</u>	<u>13,695,350</u>	<u>44,790,350</u>
Total	<u>\$ 37,085,000</u>	<u>\$ 21,712,850</u>	<u>\$ 58,797,850</u>

The long-term liability activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One year
Revenue bonds	\$ 38,165,000	\$ -	\$ (1,125,000)	\$ 39,290,000	\$ 1,125,000
Net bond premium	<u>1,825,935</u>	<u>-</u>	<u>(83,951)</u>	<u>1,909,886</u>	<u>83,951</u>
	<u>\$ 39,990,935</u>	<u>\$ -</u>	<u>\$ (1,208,951)</u>	<u>\$ 41,199,886</u>	<u>\$ 1,208,951</u>

The long-term liability for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Revenue bonds	\$ 39,215,000	\$ -	\$ 1,050,000	\$ 38,165,000
Net bond premium	<u>1,909,886</u>	<u>-</u>	<u>83,951</u>	<u>1,825,935</u>
	<u>\$ 41,124,886</u>	<u>\$ -</u>	<u>\$ 1,133,951</u>	<u>\$ 39,990,935</u>

NOTE 6 - RETIREMENT PLAN:

Effective April 15, 2013, all the employees of the Port Commission became members of the EDGE 401(k) Retirement Plan, a tax-deferred employee savings plan.

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%).

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS:

Effective January 1, 2013, the employees of the Port Commission were no longer participants of the City of Memphis' 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:

2016	\$	2,943,612
2017		2,578,817
2018		2,065,324
2019		1,900,295
2020		1,794,564
Thereafter		<u>8,495,063</u>
Total	\$	<u><u>19,777,675</u></u>

NOTE 9 – RELATED PARTY TRANSACTIONS:

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 EDGE. As of June 30, 2015, the Port Commission owes the EDGE \$3,119,816 and paid the EDGE \$1,509,100.

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, 2015, the Port Commission has entered into six 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 purchases commercial insurance for 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 June 30, 2013, all Port Commission employees were covered by the EDGE's workers compensation insurance.

REPORT ON INTERNAL CONTROL AND COMPLIANCE

**INDEPENDENT AUDITORS' 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 governmental activities of 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, 2015, and the related notes to the financial statements, which collectively comprise the Port Commission's basic financial statements, and have issued our report thereon dated December 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Port Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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, Jolley, White & Co.
Memphis, Tennessee
December 22, 2015