I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Reporting Entity

Shelby County, Tennessee (the County) is governed by an elected mayor and a thirteen member Board of Commissioners. As required by generally accepted accounting principles, these financial statements present the County (the primary government) and its component units, entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of a government's operations. The County has no blended component units. Each discreetly presented component unit is reported in a separate column in the combining component unit financial statements (see notes below for descriptions) with combined totals in government-wide financial statements to emphasize that they are legally separate from the government. Each discretely presented component unit has a June 30 year-end and their separate financial statements are available as indicated below. The significant accounting policies followed by component units are generally the same as those followed by the primary government.

Discretely Presented Component Units:

Major Component Units

Shelby County Board of Education (the Board of Education) – The Board of Education includes all the public schools in Shelby County outside the City of Memphis, serving over 44,000 students. The Board of Education has a separately elected governing board but is fiscally dependent on the County. The County levies taxes for the Board's operation, approves its operating budget and issues debt for its capital projects. The operations of the Shelby County Board of Education are reported as a governmental component unit. Financial statements for the Board can be obtained from Shelby County Board of Education, 160 South Hollywood, Memphis, Tennessee 38112, (901) 321-2500.

Shelby County Health Care Corporation, d/b/a Regional Medical Center at Memphis (The Med) – The Med provides both inpatient and outpatient hospital services to residents of Shelby County and the surrounding area. The County Mayor appoints The Med Board of Directors and substantial funding is provided by the County. The Med is reported as a proprietary component unit. Financial statements for The Med can be obtained from Shelby County Health Care Corporation, C/O Regional Medical Center at Memphis, 877 Jefferson Avenue, Memphis, Tennessee 38103, (901) 545-8234.

Other Component Units

Agricenter International, Inc. (the Agricenter) – The purpose of the Agricenter is to promote educational and applied research endeavors intended for the improvement of agriculture by the establishment of one convenient location for exhibition, demonstration, research, education and meetings by agribusiness industry, related organizations, and government agencies. The Agricenter Commission members are appointed by the County Mayor and confirmed by the County Board of Commissioners. Some funding is provided by the County. Agricenter International, Inc. is reported as a proprietary component unit. Financial statements for the Agricenter can be obtained from Agricenter International, Inc., Suite 9, 7777 Walnut Grove Road, Memphis, Tennessee 38120, (901) 757-7777.

Emergency Communications District of Shelby County, Tennessee, d/b/a Shelby County 9-1-1 District (the District) – The District was established in 1984, pursuant to provisions of T.C.A. Title 7, Chapter 86 of the State of Tennessee. The District is responsible for establishing local emergency telephone service and a primary emergency telephone number for the residents of Shelby County. The District is governed by a nine-member board of directors, appointed by the County Mayor and approved by the County Board of Commissioners. The District's board has the authority to levy an emergency telephone service charge to be used to fund the operation of the District. The District must obtain County Commission approval before the

issuance of most debt and the County Commission has the ability to adjust the District's service charges. The District is reported as a proprietary component unit. Financial statements for the District can be obtained from Shelby County 9-1-1 District, 6470 Haley Road, Memphis, Tennessee 38134, (901) 380-3911.

(B) Governmental Accounting Standards

The financial statements of the County have been prepared in accordance with *generally accepted accounting principles* (GAAP) followed in the United States of America. In the United States the Governmental Accounting Standards Board (GASB) is the established and recognized standard-setting body for governmental accounting and financial reporting. The GASB periodically issues new or revised standards that are implemented by the County.

Private-sector accounting standards are established by the Financial Accounting Standards Board (FASB). FASB standards issued on or before November 30, 1989, are generally followed for the government-wide financial statements and the fund financial statements for proprietary funds to the extent those standards do not conflict with or contradict GASB pronouncements. In accordance with GASB Statement No. 20, paragraph 7, governments have the option to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The County has elected not to apply subsequent FASB standards.

(C) Government-wide and Fund Financial Statements

The government-wide financial statements - the statement of net assets and the statement of activities - report information on all of the nonfiduciary activities of the primary government and its component units. For the most part the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Similarly, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary (enterprise) funds are reported as separate columns in the fund financial statements.

(D) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except that agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

In determining availability the government generally considers property taxes, sales taxes, car rental taxes and grants associated with the current fiscal period to be available if they are collected within sixty days of the end of the current fiscal year; these are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Other taxes and fees are generally recorded as revenue when they are received either because they are not measurable until received or they are not collected soon enough after the current period to pay liabilities of the current period.

The County reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the accumulation of resources for and the payment of principal, interest and related costs on long-term general obligation debt of governmental funds.

The *Capital Projects Fund* accounts for the acquisition and construction of major capital facilities and equipment. The primary funding source is bond proceeds.

The *Education Fund* accounts for tax collections allocated for school operations. Taxes are collected and allocated to the Shelby County Board of Education and the Board of Education of the Memphis City Schools based on average daily attendance.

The *Grants Fund* accounts for the receipt and expenditure of federal, state and local government grants and designated contributions to be used for approved programs.

The County reports the following major proprietary (enterprise) funds:

The *Consolidated Codes Enforcement Fund* accounts for the operations of the Memphis and Shelby County Office of Construction Codes Enforcement and related planning functions. Revenues are generated through permit and inspection fees charged by the office.

The *Fire Services Fund* accounts for operations of the Shelby County Fire Department. The Fire Department services most areas of Shelby County not within any municipality. Revenues are generated through fees charged to residents in the service area.

The *Corrections Center Fund* accounts for the operations of the Shelby County Corrections Center. Approximately 80% of the population at this facility are State prisoners. For State prisoners, the State reimburses the County's actual cost per prisoner day, including depreciation expense and indirect costs.

Additionally, the County reports the following fund types:

Internal Service Funds are a separate category of proprietary funds. These funds account for telecommunications, mail services, printing, group health and life insurance, other employer insurance, and tort liability insurance provided to other departments and agencies of the County, or to other governments on a cost reimbursement basis.

The *Pension Trust Fund* is a fiduciary fund. It accounts for the activities of the County's retirement plan, which accumulates resources for pension payments to employees.

Agency Funds are also fiduciary funds. It accounts for assets held by the County's constitutional officers and other elected officials in an agent capacity for governments, litigants, heirs and others. Agency funds are custodial in nature and do not involve measurement of results of operations.

The effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Similarly, general revenues include all taxes.

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 enterprise funds and of the government's internal service funds are charges to customers for sales, services, and insurance. Operating expenses for enterprise funds and internal service 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.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources, as they are needed.

(E) Assets, Liabilities and Equity

Deposits and Investments
Cash and cash equivalents include cash on hand, demand deposits, savings accounts and short-term investments with maturities of three months or less at the time of purchase. The County pools substantially all of its cash and cash equivalents. Each fund participating owns a pro rata share in the pool. Investment earnings of the pool are allocated monthly to each fund based upon average balances.

Deposits with the State Treasurer's Local Government Investment Pool (LGIP) may be withdrawn with a maximum of one day's notice, are classified as cash equivalents and are valued at cost. The LGIP is not registered with the SEC as an investment company. However the LGIP has a policy that it will – and does – operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. State statutes require the State Treasurer to administer the LGIP under the same terms and conditions, including collateral requirements, as required for other funds invested by the Treasurer. The reported value of the pool is the same as the fair value of the pool shares.

Investments of the government as well as its component units are generally stated at fair value. Fair value is based on quoted market prices, if available, or estimated using quoted market prices for similar securities. The County

uses amortized cost on all investments that mature within a year or less of the date of purchase. State statutes authorize the County to make direct investments in obligations of the U.S. Treasury, obligations issued or guaranteed by any U.S. Government agency, LGIP, bonds of any state or political subdivision, repurchase agreements, prime banker's acceptances and prime commercial paper. The maximum maturity is two years.

The Pension Trust Fund is authorized to invest in common and preferred stocks, corporate bonds rated B3 or better, commercial paper rated A2/P2 or better, real estate, venture capital investments, co-mingled investment funds, and call option writing programs. Investment parameters require that no more than 70% of total investments be in stock, no more than 5% in real estate, and no more than 12% in international equities. The Board of Administration has also authorized investments in limited partnerships.

Receivables and Payables
Property taxes are recorded as revenues in the fiscal year for which levied. Property taxes based on property values during the current fiscal year but levied for the next fiscal year are recorded as receivables and deferred revenue. Allowances for doubtful accounts are maintained for receivables which historically experience uncollectible accounts.

Inventories and Prepaid Items
Inventories are valued at cost on a first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets
Capital assets, which include land, land improvements, buildings, building improvements, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure includes roads, bridges, sidewalks, and similar items. Equipment includes software and communications systems. Capital assets are defined by the government as assets with an initial, individual cost greater than $5,000 and an estimated useful life in excess of two years. Land is included regardless of cost. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Land improvements, buildings, building improvements, equipment and infrastructure of the primary government, as well as the component units, are depreciated using the straight line method. The following estimated useful lives are used:

Assets	Years
Land improvements	10-30
Buildings	30-40
Building Improvements	10-30
Equipment	3-20
Infrastructure	10-50

Deferred Revenue
Deferred revenue includes amounts that were unearned and amounts that were receivable and measurable at year-end but were not available to finance expenditures for the current year. Deferred revenues primarily include

unearned or unavailable revenues from property taxes, hotel/motel taxes, operating subsidies received in advance and notes receivable. Government-wide financial statements include only unearned revenue but governmental funds may include both unearned and unavailable revenue.

Claims and Judgments

Claims and judgments which can be reasonably estimated and could result in probable material losses to the County have been given proper recognition under U.S. generally accepted accounting principles. For governmental funds and similar fund types, the liability is recognized within the applicable fund if it is expected to be liquidated with expendable, available financial resources. All other material unpaid claims and judgments are recorded as a liability in the governmental activities of the primary government. In proprietary and similar fund types, probable and measurable loss contingencies are recorded as incurred within the applicable fund.

Landfill Postclosure Care Costs

State and federal laws and regulations require the County to perform certain maintenance and monitoring functions for thirty years after closure of its landfill sites. The amount reported as postclosure care liability at year-end represents the estimated postclosure care costs that have not been paid for the Walnut Grove and Shake Rag Road landfills. The estimate is based on what it would cost to perform all postclosure care as of the year-end. Actual future costs may differ due to inflation, changes in technology, or changes in regulations. The landfills have been closed and the County has no landfills currently in operation. No County assets are restricted for landfill closure costs. However, the County has entered into a surety contract in lieu of a performance bond as a commitment to comply with the terms set forth in its 30 year post-closure maintenance plan for the Shake Rag Road landfill. This surety contract is with the State of Tennessee under the State’s cooperative agreement with the Environmental Protection Agency (EPA). There is no surety contract pertaining to the Walnut Grove landfill.

Compensated Absences

County employees are granted sick and annual leave in varying amounts in accordance with administrative policies and union memorandums of understanding. Accumulated vacation days are required to be used annually, with a maximum accumulation of one and one-half times the amount of leave an employee can earn in a year. In the event of termination or retirement, the employees are paid for accumulated vacation days. Generally, employees are paid for accumulated sick leave, not to exceed the lesser of 75 days or $5,772, only upon retirement. Certain exceptions to this policy occur in accordance with the terms of various union agreements.

All sick and annual pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets and Fund Equity
Entity-wide and proprietary funds net assets are classified into three components. “Invested in capital assets, net of related debt” consists of capital assets net of accumulated depreciation and reduced by outstanding debt used to finance purchase or construction of those assets. “Restricted” net assets are noncapital net assets that must be used for a particular purpose as specified by creditors, grantors, or contributors external to the County. “Unrestricted” net assets are remaining net assets that do not meet the definition of the other two categories.

In the governmental funds financial statements, fund equity is reported as either “reserved” or “unreserved” fund balances. Reserved fund balances are not available for appropriation or are legally restricted by outside parties for use for a particular purpose. Some unreserved fund balances are available for use only for purposes of the particular fund. Designations of fund balance represent tentative management plans that are subject to change.

Interest Rate Swaps
Shelby County has entered into several interest rate swap agreements to modify interest rates on outstanding debt. Amounts received to enter swap agreements are recorded as revenue in the Debt Service Fund. In the government-wide financial statements, such amounts are amortized over the life of the swap agreement. These agreements provide for net interest payments to or from the County which are also recorded in the Debt Service Fund.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and net assets or fund balances. Estimates also affect the disclosure of 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.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

(A) Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” Internal service funds include $6,916,300 of long-term liabilities and are not part of this reconciling amount. The details of this $1,862,659,110 are as follows:

Bonds payable	$ 1,782,004,280
Accreted value on bonds	38,103,688
Net premium and issuance cost on bonds issued	16,123,158
Compensated absences	22,509,150
Landfill postclosure	3,521,581
Claims and judgements	397,253
Net adjustment to reduce *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$ 1,862,659,110

(B) Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense."

The details of this $4,529,170 difference are as follows:

Capital outlay	$ 19,423,650
Developer Contributions	2,251,000
Depreciation expense	(26,203,820)
Net adjustment to increase *net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities*	$ (4,529,170)

Another element of that reconciliation states that "the issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while repayments of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $65,635,187 difference are as follows:

Debt issued or incurred:	
Issuance of general obligation bonds	$ 286,775,000
Premium on debt issued, net of issuance costs and amortization	(195,974)
Accretion of zero coupon bonds	1,701,187
Change in accrued interest expense	(1,110,476)
Principal repayments:	
General obligation debt	(80,044,550)
Refunding	(141,490,000)
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 65,635,187

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The revenues and expenditures accounted for in each of the General Fund, Special Revenue Funds and Debt Service Fund have legally adopted budgets and are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements that govern County operations. The County Board of Commissioners approves and appropriates the budgets for these funds annually.

Expenditures may not exceed appropriations by line item at the department level. The County Mayor is authorized to transfer budgeted amounts between line items of the same category (personnel related versus all other types of expenditures) of the same division (group of departments). Any adjustments that create a new line item, increase

the total budget, or require transfers between divisions, categories or funds must be approved by the County Board of Commissioners. The reported budgetary data has been revised for amendments authorized during the year and thereafter.

All funds requiring legally adopted budgets have budgets which are adopted on a basis consistent with U.S. generally accepted accounting principles. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all capital projects funds. Encumbrances represent significant commitments related to unperformed purchase orders, contracts, or other commitments for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for future expenditures of funds are recorded in order to reserve that portion of the applicable appropriation - is utilized in the governmental funds during the year to facilitate effective budgetary control. Encumbrances outstanding at year-end are reported as reservations of the applicable fund balances but do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

IV. DETAILED NOTES ON ALL FUNDS

(A) Deposits and Investments

Shelby County Government, except for the Retirement System:
The County, including agency funds but excluding the retirement system, had the following investments at June 30, 2007. Of the total investments per financial reports, $52,099,350 is reported on the Statement of Net Assets and $3,800,000 is reported on the on the Statement of Fiduciary Net Assets for the constitutional officers agency fund.

All investments are valued at cost, amortized cost, or fair value as disclosed in Note I (E) above:

U.S. Government agency securities	$ 21,949,350
Commercial paper	37,363,625
Tennessee Local Government Investment Pool (LGIP)	275,489,733
Total investments for disclosure purposes	334,802,708
Add certificates of deposit reported as investments	33,950,000
Less amounts reported as cash equivalents	(312,853,358)
Total investments per financial reports	$ 55,899,350

Custodial credit risk Bank deposits and certificates of deposit of the County, consistent with State statutes, are covered by federal depository insurance (FDIC) or are collateralized by a multiple financial institution collateral pool administered by the Treasurer of the State of Tennessee. On limited occasions the County may have deposits with financial institutions that do not participate in the State collateral pool; in these instances separate collateral equal to at least 105% of the uninsured deposit is collateralized and held in the County's name by a third party. These provisions covered all County deposits at year-end.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Both State statutes and the County's investment policy limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investments of $21,949,350 mature between one and two years and all other investments mature in one year or less.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Both State statutes and the County's investment policy limit permissible investments or impose collateral and custody provisions as specified above or in Note I (E) to significantly limit credit risk. By policy investments in

commercial paper must be rated A1/P1 by at least two rating services. Although the LGIP itself is unrated, its types of investments and maturities provide a similar level of credit risk.

The County Trustee handles Shelby County School Board investments with the LGIP. Those investments are not included above but are reported in the component units figures within this report and are disclosed in the separately issued financial report of the Board of Education.

Shelby County Retirement System (Fiduciary Fund). At June 30, 2007 the Retirement System had deposits of $33,092,264 that were not insured and were uncollateralized. At June 30, 2007 the Retirement System reported the following investments with carrying amounts as shown:

Domestic equity	$ 478,012,718
Fixed income	177,101,515
International equity	165,132,475
Hedge funds	158,378,070
Limited partnership interests	28,570,511
Private real estate	6,709,410
Total investments	$ 1,013,904,699

The fair values of fixed income investments grouped by maturity at June 30, 2007 are as follows:

Current to one year	$ 13,094,934
One to two years	5,040,097
Two to three years	8,519,437
Three to four years	14,900,852
Four to five years	10,771,089
Five years or more	96,685,414
	149,011,823
Funds with indeterminable maturities	28,089,692
Total	$ 177,101,515

At June 30, 2007 the Retirement System had $338,405,674 of investments with exposure to foreign currency risk.

The above information was taken from the publicly available financial report of the Retirement System for the year ended June 30, 2007. The report includes more information on the credit quality of investments in fixed income debt securities and the investments with foreign currency risk. The report may be obtained from the Shelby County Retirement System, Suite 950, 160 N. Main Street, Memphis, Tennessee 38103.

(B) Property Taxes Receivable

Property taxes attach an enforceable lien on property on January 1 of each year. The various types of property are assessed at a percentage of market value as follows:

Farm and residential real property	25%
Commercial/industrial real property	40%
Commercial/industrial tangible personal property	30%
Commercial/industrial intangible personal property	40%
Public utilities real/personal property	55%

The assessed value on which the fiscal 2007 tax bills were based was $17,502,758,132. The estimated market value was $58,862,669,304, making the overall assessed value 29,73% of the estimated market value. Taxes are due October 1 and delinquent March 1 of the following year. Current tax collections for the year were 94.26% of the original tax levy and 94.65% of the adjusted tax levy. The property tax levy has no legal limit. The rate, as permitted by Tennessee state law and County charter, is set annually on or after July 1, by the County Board of Commissioners and collected by the County Trustee.

The County allocated the property tax per $100 of the assessed value as follows:

General fund	$ 1.22
Debt service funds	.80
Boards of education	2.02
Countywide tax rate	$ 4.04
Debt service - rural school bonds	$ .05

The $0.05 for debt service on rural school bonds only applies to properties outside the city of Memphis.

Property taxes receivable as of year-end, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Education Fund	Debt Service Fund	Total
Property taxes receivable	$ 239,015,701	$ 392,614,610	$ 159,398,663	$ 791,028,974
Less allowance for uncollectibles	(14,164,425)	(22,585,450)	(9,050,300)	(45,800,175)
	$ 224,851,276	$ 370,029,160	$ 150,348,363	$ 745,228,799

Note IV(G) includes detail of deferred revenue relating to property taxes.

(C) Notes Receivable

Notes receivable consist of the following:

	Amount	Collateral
General Fund		
Property loans receivable due in various installments at 6.5% interest through 2007	$ 354,776	Land & Building
Grants Fund		
Mortgage loans receivable due in various installments at 0% to 5.0% interest through 2019	$ 568,133	Land & Building
Capital Projects Fund		
Mid South Coliseum note due in annual installments of $21,993 including interest at 6.26% through 2014	$ 159,889	None
Less: Allowance for doubtful accounts	(159,889)	
Depot Redevelopment note due in annual payments plus semi-annual interest payments through August 1, 2020. Interest rates range from 4.75% to 5.625%	3,090,000	None
Rock-N-Soul Museum note due in 10 annual installments of $100,000 plus interest at 5.00% through August 31, 2010	1,000,000	None
Less: Allowance for doubtful accounts	(1,000,000)	
Total Capital Projects Fund	$ 3,090,000	
Debt Service Fund		
Mortgage loans receivable due in various monthly installments at interest rates ranging from 3.125% to 8.125% through 2020	$ 7,244,904	Land & Building

In fiscal 2002 an allowance for doubtful accounts was established in the amount of $1,000,000 for the Rock-N-Soul Museum. In fiscal year 2007 an allowance for doubtful accounts was established in the amount of $159,889 for the Mid-South Coliseum.

Note IV(G) includes details of deferred revenue relating to notes receivable. The Debt Service Fund and the Capital Projects Fund have notes receivable from Shelby County Health Care Corporation in the amounts of $2,823,318 and $2,640,172 respectively, which are classified as due from component units for financial statement purposes.

(D) Leases Receivable

The County leases certain real property described as Shelby Place Restaurant for the sum of $192,500 annually, plus additional rent of 5% of gross sales less taxes after recoupment of base rent and in lieu of tax payments. The term of the lease commenced on March 1, 1993. There are three additional option terms of five years each available. The option term currently in effect will expire in 2008. The rental income is recognized as revenue in the Debt Service Fund. One of the properties has entered bankruptcy. At June 30, 2007 they owed $210,125 for which an allowance for doubtful accounts has been provided.

(E) Capital Assets

Capital asset activity of the primary government for the year ended June 30, 2007 is detailed below.

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 20,216,371	$ 152,360	$ ---	$ 20,368,731
Construction in progress	26,532,542	4,500,180	(5,404,005)	25,628,717
Total not being depreciated	46,748,913	4,652,540	(5,404,005)	45,997,448
Capital assets being depreciated:				
Land improvements	12,700,920	37,780	---	12,738,700
Buildings	228,162,468	4,442,824	---	232,605,292
Equipment	75,006,873	16,398,752	(9,527,277)	81,878,348
Infrastructure	470,618,593	3,613,517	---	474,232,110
Total being depreciated	786,488,854	24,492,873	(9,527,277)	801,454,450
Less accumulated depreciation:				
Land improvements	3,513,360	447,116	---	3,960,476
Buildings	83,051,420	6,306,357	---	89,357,777
Equipment	41,874,060	6,392,851	(8,091,362)	40,175,549
Infrastructure	131,865,146	13,112,899	---	144,978,045
Total accumulated depreciation	260,303,986	26,259,223	(8,091,362)	278,471,847
Total capital assets being depreciated, net	526,184,868	(1,766,350)	(1,435,915)	522,982,603
Governmental activities capital assets, net	$ 572,933,781	$ 2,886,190	$ (6,839,920)	$ 568,980,051
Business type activities:				
Capital assets being depreciated:				
Buildings	$ 46,640,853	$ ---	$ ---	$ 46,640,853
Equipment	7,972,375	1,776,268	(148,464)	9,600,179
Total being depreciated	54,613,228	1,776,268	(148,464)	56,241,032
Less accumulated depreciation:				
Buildings	20,773,657	1,062,239	---	21,835,896
Equipment	5,904,402	741,191	(148,464)	6,497,129
Total accumulated depreciation	26,678,059	1,803,430	(148,464)	28,333,025
Business-type activities capital assets, net	$ 27,935,169	$ (27,162)	$ ---	$ 27,908,007

Increases to accumulated depreciation in governmental activities include depreciation expense of $26,203,820 and accumulated depreciation associated with assets transferred in from enterprise funds of $55,404. Depreciable land improvements consist of renovations to public park lands and parking lots.

A summary of governmental capital assets, net and depreciation expense by function follows:

	Capital Assets Net	Depreciation Expense
Governmental activities:		
General government	$ 36,434,329	$ 2,464,810
Planning and development	17,292	9,859
Public works	423,896,626	16,367,215
Corrections	27,761,733	136,558
Health services	5,748,523	574,506
Community services	2,088,823	52,006
Law enforcement	36,839,647	4,582,900
Judicial	8,401,182	1,372,588
Other elected officials	2,163,179	643,378
	543,351,334	26,203,820
Construction in progress	25,628,717	---
Total Governmental activities	$ 568,980,051	$ 26,203,820

(F) Lease Obligations

Operating Leases
The County leases office space and other equipment under operating leases expiring during the next five years. Rent expense for the year ended June 30, 2007 was $3,489,735 for the primary government.

Capital Lease
The County has capital leases related to the acquisition of three Emergency One C550 Typhoon Pumper trucks and a Ferrara Inferno Aerial Ladder truck for the Fire Services Fund, a business-type activity. The Emergency One trucks were purchased at a total cost of $863,307 and at June 30, 2007 have accumulated depreciation of $273,381. The Ferrara truck was purchased at a total cost of $584,925 and at June 30, 2007 has accumulated depreciation of $4,874.

The following is a schedule by years of future minimum rental payments required under operating leases and capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2007:

Fiscal Year	Operting Leases	Capital Leases
2008	$ 1,766,497	$ 183,384
2009	1,274,243	183,384
2010	1,175,873	183,384
2011	849,289	183,384
2012	11,040	183,384
2013-2018	---	511,558
Total mimimun lease payments	5,076,942	1,428,478
Less: amount representing interest	---	(257,482)
Present value of mimimum lease payments	$ 5,076,942	$ 1,170,996

(G) Deferred Revenue

Deferred revenues consist of the following:

	General Fund	Debt Service Fund	Education Fund	Grants Fund	Capital Projects Fund	Nonmajor Governmental Fund	Totals
Unearned:							
Property taxes receivable	$ 210,000,000	$ 141,100,000	$ 347,000,000	$ —	$ —	$ —	$ 698,100,000
Grant revenue	—	—	—	5,551,351	—	—	5,551,351
Not Available:							—
Property taxes receivable	12,724,153	7,687,391	20,555,295	—	—	—	40,966,839
Notes receivable	354,776	7,244,904	—	568,133	3,090,000	—	11,257,813
Due from Shelby County						—	—
Health Care Corporation	—	2,823,318	—	—	2,640,172	—	5,463,490
Other	2,212,860	—	—	—	51,999	1,504,969	3,769,828
	$ 225,291,789	$ 158,855,613	$ 367,555,295	$ 6,119,484	$ 5,782,171	$ 1,504,969	$ 765,109,321

Internal service funds have deferred revenue of $3,296,424 for unearned premiums. The proprietary Consolidated Codes Enforcement Fund has deferred revenue of $95,204 for building permits and licensing fees paid in advance.

(H) Debt and Long-term Liabilities

Changes in short term debt:
The County has two types of short-term debt. Tax anticipation notes (TANS) are issued for short-term cash flow requirements due to the timing of property tax collections. Extendible Municipal Commerical Paper (EMCP) notes are issued to fund capital projects; the notes are paid when long-term bonds are issued. Following is a schedule of short-term debt for the current fiscal year:

	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007
2006 TANS	$ ---	$ 50,000,000	$ (50,000,000)	$ ---
2005 EMCP	10,000,000	130,000,000	(140,000,000)	---
Total	$ 10,000,000	$ 180,000,000	$ (190,000,000)	$ ---

Changes in long-term liabilities:
Changes in long-term liabilities during the year were:

	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Governmental activities:					
Bonds payable	$ 1,753,166,331	$ 288,476,187	$ (221,534,550)	$ 1,820,107,968	$ 87,915,651
Net premium and issuance cost of bonds issued	16,319,132	4,577,482	(4,773,456)	16,123,158	3,748,800
Claims and judgements	6,200,828	2,405,228	(1,384,167)	7,221,889	19,669
Landfill postclosure care costs	3,585,320	---	(63,739)	3,521,581	74,575
Sick and annual leave	20,616,372	12,904,541	(10,920,099)	22,600,814	14,198,147
Total governmental activities	$ 1,799,887,983	$ 308,363,438	$ (238,676,011)	$ 1,869,575,410	$ 105,956,842
Business-type activities:					
Capitalized lease obligations	$ 721,717	$ 584,925	$ (135,646)	$ 1,170,996	$ 135,646
Sick and annual leave	4,330,776	2,132,267	(2,025,922)	4,437,121	2,706,575
Total business-type activities	$ 5,052,493	$ 2,717,192	$ (2,161,568)	$ 5,608,117	$ 2,842,221

General obligations bonds:
These obligations are direct general obligations of the County, are backed by its full faith and credit and the unlimited taxing power of the County and represent borrowings for the following:

General government	$ 626,558,892
Education	1,155,445,388
	1,782,004,280
Accreted value of bonds	38,103,688
	$ 1,820,107,968

Interest expense in the Debt Service Fund during the fiscal year ended June 30, 2007 was $80,102,622. Entity wide interest was $87,802,538, which includes interest paid for the Debt Service Fund, interest paid on the short term commercial paper program for the Capital Improvement Projects Fund, and interest paid on the Tax Anticipation Notes.

The County defeased certain bonds by placing the proceeds of the new bonds in irrevocable trusts to provide for all future debt service requirements on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. Of the original principal, $380,480,000 of outstanding bonds that were advance refunded prior to Fiscal Year 2007 are considered defeased at June 30, 2007. Specific defeased maturities are shown on the combining and other statements and schedules for General Obligation Bonds.

In December 2006, $286,775,000 in General Obligation Variable Rate Demand Refunding Bonds, 2006 Series C were issued to refinance and retire $140 million of the outstanding 2005 Series A Capital Outlay Extendible Municipal Commercial Paper (EMCP) Notes, and to refund specific maturities of the 1996 Series B Refunding Bonds, the 1999 Series A Public Improvement and School Bonds, the 1999 Series Public Improvement and School Bonds, and the 2001 Series A Public Improvement and School Bonds. The net proceeds of the refunding portion of the 2006 Series C Bonds were issued to purchase direct obligations of the U.S. Government, which were deposited into an irrevocable trust with an escrow agent. The effect of this transaction was to refinance existing debt at a lower rate and generate a savings of $7,628,965.

The County is indebted for serial bonds and capital appreciation bonds and notes and variable bonds with interest rates varying from 2.50% to 6.75%. In the Debt Service Fund the County accrued interest on the variable rate bonds only; all fixed rate unmatured interest is recognized as an expenditure when due.

All unmatured interest which is due in future years is disclosed in the table below. The County has no legal debt limit. Debt service requirements for principal and interest in future years, using the actual rate on fixed rate bonds and notes and 4.115% for the 1999 Series A Variable Demand Refunding Bonds, 6.035% for the 2000 Series A General Obligation Weekly Adjustable/Fixed Rate Bonds Refunding, 5.345% for the 2001 Series A General Obligation Weekly Adjustable/Fixed Rate Bonds, 3.041% for the 2004 Series B General Obligation Variable Rate Demand Public Improvement and School Bonds, 3.503% for the 2006 Series B General Obligation Weekly Adjustable/Fixed Rate Bonds from 2/22/2006 to 3/1/2016 and a rate of 4.430%. from 3/1/2016 to 3/1/2031, and 3.83% on the notional amount of $234,160,000 and 4.26% notional amount of $52,615,000 for the 2006 Series C Variable Demand Refunding Bonds are as follows:

Years Ended June 30	Principal	Interest	Total
2008	$ 87,915,650	$ 77,293,351	$ 165,209,001
2009	92,513,150	73,032,394	165,545,544
2010	100,280,000	65,134,769	165,414,769
2011	105,450,000	60,590,791	166,040,791
2012	88,911,807	71,344,378	160,256,185
2013	80,904,649	73,066,948	153,971,597
2014	91,582,656	56,087,079	147,669,735
2015	89,132,795	52,268,182	141,400,977
2016	90,428,077	45,017,372	135,445,449
2017	82,015,496	46,530,703	128,546,199
2018	87,360,000	35,009,551	122,369,551
2019	85,640,000	30,988,339	116,628,339
2020	82,030,000	27,293,843	109,323,843
2021	78,140,000	23,425,816	101,565,816
2022	74,865,000	20,163,121	95,028,121
2023	70,360,000	17,161,319	87,521,319
2024	67,520,000	14,390,245	81,910,245
2025	65,370,000	12,024,393	77,394,393
2026	56,220,000	9,506,588	65,726,588
2027	52,705,000	7,301,782	60,006,782
2028	41,955,000	5,355,551	47,310,551
2029	40,535,000	3,695,721	44,230,721
2030	34,130,000	2,301,774	36,431,774
2031	27,500,000	1,125,073	28,625,073
2032	8,540,000	163,541	8,703,541
	1,782,004,280	830,272,624	2,612,276,904
Accreted value of Bonds	38,103,688	(38,103,688)	---
	$ 1,820,107,968	$ 792,168,936	$ 2,612,276,904

Interest rate swap agreements:
As of June 30, 2007 Shelby County has ten interest rate swap agreements, described as follows:

Swap One: Executed with Morgan Guaranty Trust Company on 12/18/1998 in Connection with the General Obligation Weekly Adjustable / Fixed Rate Refunding Bonds, 2000 Series A:
Swap Objective: Shelby County (the "County") received an upfront payment from the Counterparty for entering into a swaption. This swaption gave the Counterparty the option to cause the County to enter into a swap in which the County would pay a fixed rate and receive a floating rate. Upon exercise of the option, the County would currently refund a portion of its 1992 Series A Refunding Bonds with variable rate bonds and enter into a fixed payer swap.

Swap Terms:

Trade Date	Option Notification Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Underlying Index	Upfront Cash Payment
12/18/1998	11/30/1999	12/2/1999	3/1/2008	$16,600,000	6.035%	SIFMA	$ 1,275,000

On 12/18/1998, the County received $1,275,000 for granting the Counterparty, Morgan Guaranty Trust Company ("Morgan"), the right to enter into a swap on a future date. In 1998, this payment represented the present value savings of the refunding as of 1999. Morgan had the right to exercise the option by notifying the County on 11/30/1999. The option was exercised and the swap began on 12/2/1999 with the County paying 6.035% and receiving SIFMA until 3/1/2008, the maturity date of the bonds. The swap and refunding bonds had the same original notional amount of $16,600,000 and have the same principal amortization.

Fair Value of Swap and Option: The swap, as of 6/30/2007 has a net value of ($38,280). The total mark-to-market was ($57,136) of which approximately ($18,856) is accrued interest from 3/1/2007 to the valuation date, 6/30/2007. The fair values take into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any payments to be received. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. The swap valuation disclosed is performed by an independent third party with no vested interest in the transaction.

Associated Debt and Swap Payments: This swap is in conjunction with the General Obligation Weekly Adjustable / Fixed Rate Refunding Bonds, 2000 Series A that refunded a portion of the 1992 Series A Bonds. Below are the principal and interest requirements of the debt and the net swap payments as of 6/30/2007 (assuming SIFMA equals its current level of 3.73% for the term of the swap). The net swap payments will fluctuate as SIFMA changes.

Fiscal Year Ended June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Net Swap Payments	Total
2008	$ 2,500,000	$ 92,995	$ 57,370	$ 2,650,364
Total	$ 2,500,000	$ 92,995	$ 57,370	$ 2,650,364

Credit Risk: The risk that a counterparty will not fulfill its obligations. Because the swap has a negative value on 6/30/2007, the County does not have credit risk to Morgan. However, if swap rates increase and the fair value of the swap moves in favor of the County, credit risk would be present.

Termination Risk: The risk that a derivative's unscheduled end will affect the County's asset/liability strategy or will present the County with potentially significant unscheduled termination payments to the counterparty. If the swap has an unanticipated termination and the swap has a negative fair value due to a decline in swap rates, the County may owe a termination payment to Morgan equal to the fair value of the swap at that time. Also, if the swap is terminated, the County will be exposed to interest rate risk because the variable rate bonds will no longer carry a synthetic fixed rate.

Interest Rate Risk: The risk that changes in interest rates will adversely affect the fair values of the County's financial instruments or the County's cash flows. Currently, the County does not have interest rate risk because it is paying a fixed rate on the swap. However, if for some unforeseen reason the swap is terminated prior to maturity; the County will have interest rate risk associated with the outstanding variable rate bonds until maturity in 2008.

Basis Risk: The risk that arises when variable interest rates on a derivative and an associated bond or other interest-paying financial instrument are based on different indexes. As long as there is not a direct relationship between the floating rate received from the Counterparty and the rate at which the variable rate bonds remarket, the County is exposed to basis risk. Basis risk exists if the County's bonds remarket higher than SIFMA, which is the rate received from the Counterparty. Thus, the expected cost savings may not be achieved.

Swap Two: Executed with Morgan Guaranty Trust Company on 12/18/1998 in Connection with the General Obligation Weekly Adjustable / Fixed Rate Refunding Bonds, 2001 Series A:

Swap Objective: The County received an upfront payment from the Counterparty for entering into a swaption. This swaption gave the Counterparty the option to cause the County to enter into a swap in which the County would pay a fixed rate and receive a floating rate. Upon the Counterparty's exercise of the option, the County would currently refund a portion of its 1992 Series B and 1993 Series A G.O. Refunding Bonds with variable rate bonds and enter into a fixed payer swap.

Swap Terms:

Trade Date	Option Notification Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Underlying Index	Upfront Cash Payment
12/18/1998	11/29/2000	12/1/2000	3/1/2011	$ 21,800,000	5.345%	SIFMA	$ 1,025,000

On 12/18/1998, the swaption was executed and the County received $1,025,000 for granting the Counterparty, Morgan Guaranty Trust Company, the right to enter into a swap on a future date. In 1998, this payment represented the present value savings of the refunding as of 12/1/2000. Morgan had the right to exercise the option by notifying the County on 11/29/2000. The option was exercised and the swap began on 12/1/2000 with the County paying 5.345% and receiving SIFMA until 3/1/2011, the maturity date of the bonds. The swap and refunding bonds had the same original notional amount of $21,800,000 and have the same principal amortization.

Fair Value of Swap and Option: As of 6/30/2007, there is no fair value for the option because it has been exercised. The swap, as of 6/30/2007 has a net value of ($622,216). The total mark-to-market was ($692,449) of which approximately $70,233 is accrued interest from 3/1/2007 to the valuation date, 6/30/2007. This fair value was measured by a swap pricing system in which the future net settlement swap payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dates implied from the current yield curve.

Associated Debt and Swap Payments: This swap is in conjunction with the General Obligation Weekly Adjustable / Fixed Rate Refunding Bonds, 2001 Series A which refunded a portion of the 1992 Series B and 1993 Series A Bonds. As of 6/30/2007, below are the principal and interest requirements of the debt and the net swap payments

(assuming SIFMA equals its current level of 3.73% for the term of the swap). The net swap payments will fluctuate as SIFMA changes.

Fiscal Year	Variable Rate Bonds		Net Swap	
Ended June 30	Principal	Interest	Payments	Total
2008	$ 1,100,000	$ 492,237	$ 213,436	$ 1,805,673
2009	1,200,000	451,320	197,030	1,848,350
2010	1,200,000	406,928	177,650	1,784,578
2011	9,800,000	362,535	158,270	10,320,805
Total	$ 13,300,000	$ 1,713,020	$ 746,386	$ 15,759,406

Credit Risk: Because the swap has a negative value on 6/30/2007, the County does not have credit risk to Morgan. However, if swap rates increase and the fair value of the swap moves in favor of the County, credit risk would be present.

Termination Risk: If the swap has an unanticipated termination and the swap has a negative fair value due to a decline in swap rates, the County may owe a termination payment to Morgan equal to the fair value of the swap at that time.

Interest Rate Risk: Currently, the County does not have interest rate risk because it is paying a fixed rate on the swap. However, if for some unexpected reason the swap is terminated prior to maturity; the County will have interest rate risk associated with the variable rate bonds until maturity in March 2011.

Basis Risk: As long as there is not a direct relationship between the floating rate received from the Counterparty and the rate at which the variable rate bonds remarket, the County is exposed to basis risk. Basis risk exists if the County's bonds remarket higher than SIFMA, which is the rate received from the Counterparty. Thus, the expected cost savings may not be achieved.

Swap Three: Executed with Goldman Sachs Mitsui Marines Derivative Products on 1/15/1999 in Connection with the 1999 Series A General Obligation Variable Rate Demand Refunding Bonds:

Swap Objective: In order to lower its borrowing costs, the County entered into a swap in connection with its 1999 Series A General Obligation Variable Rate Demand Refunding Bonds. The variable rate bonds were issued to advance refund a portion of various outstanding G.O. bond issues. At the time, the synthetic fixed rate swap was favorable when compared to savings that could be achieved with a traditional fixed rate refunding bond issue. Additionally, the County entered into this tax language swap to effectively lower the fixed rate it would pay on the swap.

Swap Terms:

Trade Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Underlying Index
1/15/1999	1/28/1999	4/1/2020	$ 96,150,000	4.115%	Actual Bond Rate or Alternative Index until 1/1/2007; 76.6% 1-month LIBOR thereafter

On 1/28/1999, the swap became effective at the same time the 1999 Series A General Obligation Variable Rate Demand Refunding Bonds were issued. Under the terms of the swap, the County pays 4.115% to the Counterparty, Goldman Sachs Mitsui Marines Derivative Products, L.P. ("Goldman"), and in return receives the Actual Bond

Rate or an Alternative Index. If certain events occur, Goldman has the option to cause the Floating Rate Index to be converted from the Actual Bond Rate to the Alternate Index, or vice versa. The Alternate Index is either the SIFMA index or 65% of 30 day commercial paper. However, beginning 1/1/2007, the County received 76.6% 1-month LIBOR instead of the Alternate Index. The swap and refunding bonds had the same original notional amount of $96,150,000 and have the same principal amortization and maturity.

Fair Value of Swap: As of 6/30/2007, the swap had a positive fair value of $504,363, assuming Goldman pays the County 76.6% of 1-month LIBOR from 1/1/2007 to maturity. This fair value was measured by a swap pricing system in which the future net swap settlement payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dates implied from the current yield curve.

Associated Debt and Swap Payments: This swap is in conjunction with the 1999 Series A General Obligation Variable Rate Demand Refunding Bonds that advance refunded portions of several bond issues. As of 6/30/2007, below are the principal and interest requirements of the debt and the net swap payments. The cash flows below assume that SIFMA equals its current level, as of 6/30/2007, of 3.73% and 1-month LIBOR equals its current level of 5.32% for the term of the swap, and Goldman pays the County 76.6% of 1-month LIBOR thereafter until maturity. The net swap payments will fluctuate as SIFMA, and LIBOR change.

Fiscal Year	Variable Rate Bonds		Net Swap	
Ended June 30	Principal	Interest	Payments	Total
2008	$ 16,225,000	$ 3,549,146	$ 27,344	$ 19,801,490
2009	625,000	2,942,296	31,505	3,598,801
2010	675,000	2,919,047	64,278	3,658,325
2011	9,650,000	2,893,938	30,987	12,574,925
2012	13,325,000	2,534,980	19,541	15,879,520
2013	9,300,000	2,036,595	21,824	11,358,420
2014	14,625,000	1,690,656	18,115	16,333,771
2015	12,750,000	1,146,638	12,283	13,908,921
2016	4,100,000	672,366	5,183	4,777,549
2017	4,250,000	519,017	5,563	4,774,580
2018	4,500,000	360,926	3,868	4,864,794
2019	4,675,000	193,536	2,074	4,870,610
2020	525,000	19,635	152	544,787
Total	$ 95,225,000	$ 21,478,776	$ 242,717	$ 116,946,493

Credit Risk: The County has credit exposure to Goldman equivalent to the fair value of the swap. If Goldman fails to perform under the terms of the swap contract, the County could have a loss equal to that mark-to-market value. The current ratings of Goldman are Aaa/AAA by Moody's and Standard & Poor's, respectively.

Termination Risk: If the swap has an unanticipated termination or the County exercises its option to terminate, the County may owe a termination payment to Goldman equal to the fair value of the swap at that time, if swap rates have declined and the fair value is negative to the County. The County or Goldman may terminate the swap contract if either party fails to perform under the swap contract or if either party's credit rating falls below A3 from Moody's and/or A- from Standard & Poor's. The County also has the option to terminate the contract with at least 30 days notice to Goldman. The County will not exercise its termination option if a payment would be payable by the County unless the County provides evidence to Goldman that a termination payment will be made on the Early Termination Date.

Interest Rate Risk: Currently, the County does not have interest rate risk because it is paying a fixed rate on the swap. However, if for some unforeseen reason the swap is terminated prior to maturity; the County will have interest rate risk associated with the outstanding variable rate bonds until maturity in April 2020.

Basis Risk: The County is exposed to basis risk. The basis risk arises from the difference between the actual interest rate paid on the variable rate bonds and the receipt from Goldman of 76.6% of 1-month LIBOR. This basis differential could cause the expected savings to not be achieved.

Tax Risk: The County receives a percentage of the 1-month LIBOR index. Changes or proposed changes to the tax laws relating to the tax-exempt status of municipal bonds may result in an increase to the cost of funds.

Swap Four: Executed with Morgan Stanley Capital Services, Inc. on 3/18/04 in Connection with 2004 Series B General Obligation Public Improvement and School Bonds:

Swap Objective: On March 18, 2004, the County entered into a swap that will produce a synthetic fixed rate in connection with its variable rate bonds. Under the terms of the swap, the County will pay a fixed rate of 2.696% and receive 70% of 1-month LIBOR. The County entered into this fixed payer swap in order to hedge variable rate exposure and take advantage of the low fixed payer swap rates.

Swap Terms:

Trade Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Underlying Index
03/18/2004	04/22/2004	04/1/2014	$ 235,000,000	2.696%	70% of 1 Month LIBOR

On 4/22/2004, the swap became effective at the same time the 2004 G.O. Variable Rate Public Improvement and School Bonds were issued. Under the terms of the swap, the County pays 2.696% to the Counterparty, Morgan Stanley Capital Services, Inc. (Morgan Stanley), and in return receives 70% of 1 Month LIBOR. The original swap notional was $235,000,000 while the bonds original notional was $237,705,000. The Bonds and swap also have different principal amortization and maturity. The bonds mature April 1, 2030. The swap matures in 2014 because the County wanted a fixed component via the swap for 10 years and in 2014, the County wanted the flexibility to take on variable rate exposure, enter into another fixed payer swap, or issue fixed rate debt. The notional amount decreases from $235,000,000 to $135,000,000 effective April 1, 2009 through the termination date of April 1, 2014.

Fair Value of Swap and Option: As of 6/30/2007, the swap had a fair value of $10,732,636. This fair value was measured by a swap pricing system in which the future net settlement swap payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dates implied from the current yield curve.

Associated Debt and Swap Payments: This swap is in conjunction with the 2004 G.O. Variable Rate Public Improvement and School Bonds. As of 6/30/07, below are the principal and interest requirements of the debt and the net swap payments. The cash flows below assume that SIFMA equals it current level of 3.73% for the term of the swap, and Morgan Stanley pays 70% of 1 Month LIBOR to the County which as of 6/30/07 equals 3.724% (5.32% x 70%). The net swap payments will fluctuate as 70% of LIBOR changes.

Fiscal Year Ended June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Net Swap Payments	Total
2008	$ ---	$ 8,977,072	$ (2,561,657)	$ 6,415,415
2009	---	8,977,072	(2,537,347)	6,439,725
2010	---	8,977,072	(1,457,625)	7,519,447
2011	---	8,977,072	(1,457,625)	7,519,447
2012	---	8,977,072	(1,471,590)	7,505,482
2013	---	8,977,072	(1,457,625)	7,519,447
2014	---	8,977,072	(1,457,625)	7,519,447
2015	8,290,000	8,977,072	---	17,267,072
2016	9,120,000	8,664,419	---	17,784,419
2017	10,030,000	8,318,573	---	18,348,573
2018	11,030,000	7,940,298	---	18,970,298
2019	12,140,000	7,524,307	---	19,664,307
2020	13,350,000	7,066,454	---	20,416,454
2021	14,685,000	6,560,200	---	21,245,200
2022	16,155,000	6,006,363	---	22,161,363
2023	17,770,000	5,397,086	---	23,167,086
2024	19,545,000	4,726,901	---	24,271,901
2025	21,500,000	3,985,722	---	25,485,722
2026	13,775,000	3,174,861	---	16,949,861
2027	15,150,000	2,655,345	---	17,805,345
2028	16,665,000	2,083,971	---	18,748,971
2029	18,335,000	1,452,003	---	19,787,003
2030	20,165,000	760,512	---	20,925,512
Total	$ 237,705,000	$ 148,133,591	$ (12,401,094)	$ 373,437,497

Credit Risk: The County has credit exposure to Morgan Stanley equivalent to the fair value of $10,732,636. If Morgan Stanley fails to perform under the terms of the swap contract, the County could have a loss equal to that mark-to-market value. As of 6/30/2007, the ratings of Morgan Stanley are Aa3/AA- by Moody's and Standard & Poor's, respectively. To mitigate credit risk, if Standard & Poor's and Moody's rates the creditworthiness of Morgan Stanley's senior, unsecured, unenhanced debt below a rating of "A" in the case of Standard & Poor's or "A2" in the case of Moody's, treasuries or cash will be pledged.

Termination Risk: If the swap has an unanticipated termination, the County may owe a termination payment to Morgan Stanley equal to the fair value of the swap at that time, if swap rates have fallen and the fair value is negative to the County. If either Standard & Poor's or Moody's rates the creditworthiness of either party's long-term, unsecured, and unsubordinated debt, deposit or letter of credit obligations below Baa1 by Moody's or BBB+ by Standard & Poor's, an Additional Termination Event has occurred. As of 6/30/2007, Morgan Stanley has a rating of Aa3/AA- by Moody's and Standard & Poor's, respectively.

Interest Rate Risk: Currently, the County does not have interest rate risk because it is paying a fixed rate on the swap. However, if for some unforeseen reason the swap is terminated prior to maturity; the County will have interest rate risk associated with the outstanding variable rate bonds until bond maturity.

Basis Risk: As long as there is not a direct relationship between the floating rate received from the Counterparty and the rate at which the variable rate bonds remarket, the County is exposed to basis risk. The basis risk will arise

from the difference between the actual interest rate paid on the variable rate bonds and the receipt from Morgan Stanley of 70% of 1-month LIBOR. This basis differential could cause the expected cost of funds to increase.

Tax Risk: Changes or proposed changes to the tax laws relating to the tax-exempt status of municipal bonds may result in an increase to the cost of funds because the County is receiving a percentage of a taxable index and paying SIFMA (tax-exempt index) on the underlying variable rate bonds.

Swap Five: Executed with Rice Financial Products Company on 10/25/2004 in Connection with the 1999 Series B General Obligation Public Improvement and School Bonds:

Swap Objective: In order to potentially lower its borrowing costs and achieve potential savings on a portion of its outstanding fixed rate debt without an additional bond issue, the County entered into a basis swap in connection with its 1999 Series B General Obligation Public Improvement and School Bonds. The intent of this Basis Swap when executed was to lower the County's net cost of borrowing with respect to the 1999 Series B Bonds being swapped while preserving the County's ability to advance refund the 1999 Series B Bonds on a tax-exempt basis on a later date.

Swap Terms:

Trade Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Underlying Index
10/25/2004	10/27/2004	6/1/2019	$75,000,000	4.16%	4.95% - Adjustment Factor

Under the terms of the swap, the County pays 4.16% to the Counterparty, Rice Financial Products Company ("RFP"), and in return receives 4.95% - Adjustment Factor. The adjustment factor is equal to (SIFMA / (1-.65) – 6 Month LIBOR). Essentially, the County will receive a fixed spread of 79 basis points, and this fixed spread will be adjusted every six months based on the actual performance and relationship between the SIFMA index and six-month LIBOR.

Fair Value of Swap: The swap, as of 6/30/07, has a net value of $742,849. This fair value was measured by a swap pricing system in which the future net swap settlement payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dates implied from the current yield curve.

Associated Debt and Swap Payments: This swap was executed in conjunction with the 1999 Series B General Obligation Public Improvement and School Bonds of which a portion has been advance refunded. As of 6/30/2007, below are the net swap payments (assuming SIFMA equals its current level of 3.73% and 6 month LIBOR equals 5.38475% for the term of the swap). The net swap payments will fluctuate as SIFMA and 6 month LIBOR change

Fiscal Year Ended June 30	Fixed Rate Bonds Principal	Fixed Rate Bonds Interest	Swap Principal	Net Swap (Payment) Receipt
2008	$ 3,000,000	$ 1,510,000	$ 2,690,000	$ 289,612
2009	3,000,000	1,367,500	2,690,000	278,669
2010	---	1,225,000	2,690,000	267,065
2011	---	1,225,000	2,690,000	255,461
2012	---	1,225,000	2,690,000	243,301
2013	---	1,225,000	3,135,000	232,253
2014	---	1,225,000	3,585,000	218,729
2015	---	1,225,000	3,765,000	203,264
2016	---	1,225,000	3,900,000	186,597
2017	---	1,225,000	4,030,000	170,199
2018	---	1,225,000	4,300,000	152,815
2019	---	1,225,000	31,125,000	134,265
2020	---	1,225,000	---	---
2021	5,500,000	1,225,000	---	---
2022	6,025,000	950,000	---	---
2023	6,350,000	648,750	---	---
2024	6,625,000	331,250	---	---
Total	$ 30,500,000	$ 19,507,500	$ 67,290,000	$ 2,632,230

Credit Risk: The County has credit exposure to RFP equivalent to the fair value of $742,849. If RFP fails to perform under the terms of the swap contract, the County could have a loss equal to that mark-to-market value. The obligations of RFP under the swap agreement are guaranteed by a surety bond that was issued by AAA rated Ambac Assurance Corporation (“Ambac”).

Termination Risk: If the swap has an unanticipated termination, the County may owe a termination payment to RFP equal to the fair value of the swap at that time. The County or RFP may terminate the swap contract if either party fails to perform under the swap contract. Also, with respect to both the County and RFP, if Ambac’s credit rating falls below A3 from Moody’s and/or A- from Standard & Poor’s, an Additional Termination Event occurs. With respect to the County, if the County has no issues of rated senior debt or it fails to have at least one issue with an unenhanced rating of at least Baa1 by Moody’s or BBB+ by Standard & Poor’s, then an Additional Termination Event will occur.

Interest Rate Risk: Currently, the County does not have interest rate risk because it is paying a fixed rate on the swap. However, if for some unforeseen reason the swap is terminated prior to June 1, 2019; the County will have interest rate risk associated with the outstanding variable rate bonds until the bond maturity in 2024.

Basis Risk: Depending on the relationship between the SIFMA and 6 month LIBOR index, the County could be exposed to basis risk. If the SIFMA / LIBOR ratio is greater than (1 – Marginal Tax Rate of 35%) then the fixed spread of 79 basis points that the County receives will be reduced. This basis differential could cause the expectation of lowering the net cost of borrowing to not be achieved.

Tax Risk: Changes or proposed changes to the tax laws relating to the tax-exempt status of municipal bonds may result in an increase to the cost of funds.

Swap Six: Executed with Goldman Sachs Mitsui Marines Derivative Products on 11/2/2006 and Morgan Keegan Financial Products, Inc. on 6/23/2005 in Connection with 2006 Series C General Obligation Variable Rate Demand Refunding Bonds:

Swap Objective: These two swaps were issued to take advantage of low interest rates, to refund high coupon debt, and to receive an upfront cash payment to pay for capital expenditures to reduce debt issuance in the future.

Trade Date	Notification Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Floating Rate Index	Upfront Cash Payment
6/23/2005	11/29/2006	12/1/2006	12/1/2011	$ 52,615,000	4.26%	SIFMA	$ 1,503,000
11/2/2007	N/A	11/30/2006	12/1/2011	$234,160,000	3.83%	SIFMA	None

Swap Terms:
The County received a payment of $1,503,000 on 12/1/06 from the Morgan Keegan Financial Products, Inc. for entering into a swaption on the trade date of 6/23/05. This swaption gave the Counterparty the option to cause the County to enter into a swap on August 1, 2007. The swap was exercised and the County refunded a portion of its 1996 Series B General Obligation Refunding Bonds with variable rate bonds and entered into a fixed payer swap in which the County will pay a fixed rate of 4.26% and receive SIFMA. The notional amount on the swap is originally $52,615,000. The termination date of this swap with Morgan is 12/1/2011. The County also entered into a swap on 11/2/2006 with Goldman Sachs Mitsui Marines Derivative Products with an effective date of 11/30/2006 for the 2006C Refunding Bonds. There was no upfront payment with Goldman. The County refunded a portion of its 1999 Series A Public Improvement Bonds, a portion of its 1999 Series B Public Improvement and School Bonds and a portion of its 2001 Series A Public Improvement and School Bonds. The bonds were refunded with variable rate bonds and entered into a fixed payer swap in which the County will pay a fixed rate of 3.83% to Goldman and receive SIFMA. The notional amount on the swap with Goldman is originally $234,160,000. The Goldman swap has a termination date of 12/1/2031.

Fair Value of Swap and Option: As of 6/30/2007, the swaps had a fair value of $6,537,772. The Morgan swap value was ($709,186) and the Goldman swap was $7,246,959. These fair values were measured by a swap pricing system in which the future net swap settlement payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dates implied from the current yield curve.

Associated Debt and Swap Payments: This swap is in conjunction with 2006 Series C General Obligation Variable Rate Demand Refunding Bonds. This analysis assumes the Morgan swap stays in place until 12/1/2011 and the Goldman swap stays in place until maturity in 2031. Below are the principal and interest requirements of the debt and the net swap payments as of 6/30/07 (assuming SIFMA equals its current level of 3.73% for the term of the Swap). The net swap payments will fluctuate as SIFMA changes.

Fiscal Year Ended June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Net Swap Payments	Total
2008	$ 6,795,000	$ 10,578,802	$ 646,639	$ 18,020,441
2009	7,080,000	10,339,462	634,079	18,053,541
2010	31,025,000	9,626,857	541,260	41,193,117
2011	22,825,000	8,619,803	400,855	31,845,657
2012	5,980,000	8,081,118	357,115	14,418,233
2013	4,725,000	7,880,922	323,044	12,928,966
2014	4,910,000	7,700,737	315,673	12,926,410
2015	5,105,000	7,513,446	308,012	12,926,458
2016	5,300,000	7,318,861	320,589	12,939,450
2017	5,515,000	7,116,609	291,780	12,923,389
2018	5,725,000	6,906,408	283,182	12,914,590
2019	9,195,000	6,627,388	271,938	16,094,326
2020	9,640,000	6,275,153	274,871	16,190,024
2021	24,080,000	5,644,552	232,474	29,957,026
2022	25,285,000	4,721,372	194,726	30,201,098
2023	26,290,000	3,756,863	155,275	30,202,138
2024	27,330,000	2,754,110	120,639	30,204,749
2025	6,530,000	2,120,891	87,216	8,738,108
2026	6,785,000	1,871,886	77,031	8,733,917
2027	7,050,000	1,613,157	66,447	8,729,604
2028	7,325,000	1,344,328	58,886	8,728,214
2029	7,610,000	1,065,027	44,027	8,719,054
2030	7,910,000	774,786	32,155	8,716,941
2031	8,220,000	473,138	19,816	8,712,954
2032	8,540,000	159,707	6,996	8,706,703
Total	$ 286,775,000	$ 130,885,383	$ 6,064,725	$ 423,725,108

Credit Risk: Because the Morgan swap has a negative value on 6/30/2007, the County does not have credit risk to MKFP. However, if the fair value of the swap moves in favor of the County, credit risk would be present. There is credit risk with the Goldman swap. To mitigate credit risk, if Standard & Poor's and Moody's rates the creditworthiness of either MKFP's or Goldman's (or the Credit Support Provider's) senior, unsecured, unenhanced debt below a rating of "A" in the case of Standard & Poor's or "A2" in the case of Moody's, treasuries or cash will be pledged.

Termination Risk: An out-of-the-ordinary event may occur that causes the contract to be terminated. At the time of termination, if the swap has a negative fair value, the County would be liable to MKFP or Goldman for a payment equal to the fair value. If either Standard & Poor's or Moody's rates the creditworthiness of either party's (or the Credit Support Provider's) long-term, unsecured, unenhanced debt rating below A3 by Moody's or A- by Standard & Poor's, an Additional Termination Event has occurred with respect to the Goldman swap.

Interest Rate Risk: Currently, the County does not have interest rate risk because it is paying a fixed rate on the swap. However, if for some unforeseen reason the swap is terminated prior to maturity, the County will have interest rate risk associated with the outstanding variable rate bonds until maturity in 2031.

Basis Risk: As long as there is not a direct relationship between the floating rate received from the Counterparty and the rate at which the variable rate bonds remarket, the County is exposed to basis risk. Basis risk exists if the

County's bonds remarket higher than SIFMA, which is the rate received from the Counterparty. Thus, the expected cost savings may not be achieved

Swap Seven: Executed with Morgan Keegan Financial Products on 6/23/2005 in Connection with the Anticipated 2007 Series A General Obligation Refunding Bonds:

Swap Objective: The County will receive a payment of $2,070,000 on 8/1/07 from the Counterparty for entering into a swaption on the trade date of 6/23/05. This swaption gives the Counterparty the option to cause the County to enter into a swap on August 1, 2007. If the Counterparty exercises the option, the County will currently refund a portion of its 1997 Series B General Obligation Refunding Bonds with variable rate bonds and enter into a fixed payer swap in which the County will pay a fixed rate and receive a floating rate. The County entered into this swaption to take advantage of 40 year lows in interest rates to refund high coupon debt and to receive an upfront cash payment to pay for capital expenditures to reduce debt issuance in the future.

Swap Terms:

Trade Date	Notification Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Floating Rate Index	Upfront Cash Payment
6/23/2005	7/30/2007	8/1/2007	8/1/2019	$31,450,000	4.61%	SIFMA	$ 2,070,000

On 6/23/2005, the County entered into a swaption with Morgan Keegan Financial Products ("MKFP"), and the County was paid $2,070,000 by MKFP for this option. The County elected to receive the payment on the call date of 8/1/07. As the option was exercised, the County issued variable rate refunding bonds and entered into a fixed payer swap in which the County will pay 4.61% and receive the SIFMA index. The swap has the same amortization and maturity as the underlying bond issue. The fixed swap rate of 4.61% was set at a rate that, when added to the assumed ongoing expenses for the variable rate bonds and the costs of issuance for the underlying variable rate bonds, would equal the average coupon on the outstanding 1997 Series B General Obligation Refunding Bonds.

Fair Value of Swap and Option: As of 6/30/2007, the swaption had a fair value of $632,254. This fair value was measured using an option pricing model, such as the Black-Scholes model, that considers probabilities, volatilities, time, underlying prices, and other variables.

Associated Debt and Swap Payments: The swap is associated with a potential future refunding issue, the 2007 Series A General Obligation Refunding Bonds.

Credit Risk: The swap contract could expose the County to credit risk, depending on the fair value of the swap at that time. To mitigate credit risk, if Standard & Poor's and Moody's rates the creditworthiness of MKFP's (or the Credit Support Provider's) senior, unsecured, unenhanced debt below a rating of "A" in the case of Standard & Poor's or "A2" in the case of Moody's, treasuries or cash will be pledged.

Termination Risk: An out-of-the-ordinary event may occur that causes the contract to be terminated. At the time of termination, if the swap has a negative fair value, the County would be liable to MKFP for a payment equal to the fair value. If either Standard & Poor's or Moody's rates the creditworthiness of either party's (or the Credit Support Provider's) long-term, unsecured, unenhanced debt rating below Baa3 by Moody's or BBB- by Standard & Poor's, an Additional Termination Event has occurred. As of 6/30/2006, MKFP has a credit guarantee from Deutsche Bank AG, rated Aa3/AA- by Moody's and Standard & Poor's, respectively.

Basis Risk: Currently, the County is not exposed to basis risk. If the option is exercised in the future, as long as there is not a direct relationship between the floating rate received from MKFP (SIFMA Index) and the rate at

which the variable rate bonds remarket, the County is exposed to basis risk. Basis risk will exist if the County's bonds remarket higher than SIFMA, which is the rate received from the Counterparty. Thus, the expected cost savings may not be achieved.

Market Access Risk: The County may be exposed to market access risk if the County is not able to issue the variable rate refunding bonds in the future because of some unforeseen event. If the option is exercised and the refunding bonds are not issued, the 1997 bonds would not be refunded but the County would still have to make swap payments as required by the swap contract, if it isn't terminated. Thus, because of this, the expected cost savings may not be realized.

Swap Eight: Executed with Loop Financial Products on 6/23/2005 in Connection with the Anticipated 2008 Series A General Obligation Refunding Bonds:

Swap Objective: The County will receive a payment of $8,571,000 on 3/1/08 from the Counterparty for entering into a swaption on the trade date of 6/23/05. This swaption gives the Counterparty the option to cause the County to enter into a swap on March 1, 2008. If the Counterparty exercises the option, the County will currently refund a portion of its 1998 Series A General Obligation Refunding Bonds with variable rate bonds and enter into a fixed payer swap in which the County will pay a fixed rate and receive a floating rate. The County entered into this swaption to take advantage of 40 year lows in interest rates to refund high coupon debt and to receive an upfront cash payment to pay for capital expenditures to reduce debt issuance in the future.

Swap Terms:

Trade Date	Notification Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Floating Rate Index	Upfront Cash Payment
6/23/2005	2/28/2008	3/1/2008	3/1/2022	$121,485,000	4.66%	SIFMA	$8,571,000

On 6/23/2005, the County entered into a swaption with Loop Financial Products ("LFP"), and the County will be paid $8,571,000 by LFP for this option. The County elected to receive the payment on the call date of 3/1/08. If the option is exercised, the County will issue variable rate refunding bonds and enter into a fixed payer swap in which the County will pay 4.66% and receive the SIFMA index. The potential swap will have the same amortization and maturity as the underlying bond issue. The fixed swap rate of 4.66% was set at a rate that, when added to the assumed ongoing expenses for the variable rate bonds and the costs of issuance for the underlying variable rate bonds, would equal the average coupon on the outstanding 1998 Series A General Obligation Refunding Bonds.

Fair Value of Swap and Option: As of 6/30/2007, the swaption had a fair value of $2,653,662. This fair value was measured using an option pricing model, such as the Black-Scholes model, that considers probabilities, volatilities, time, underlying prices, and other variables.

Associated Debt and Swap Payments: The swap is associated with a potential future refunding issue, the 2008 Series A General Obligation Refunding Bonds.

Credit Risk: The swap contract could expose the County to credit risk, depending on the fair value of the swap at that time. To mitigate credit risk, if Standard & Poor's and Moody's rates the creditworthiness of LFP's (or the Credit Support Provider's) senior, unsecured, unenhanced debt below a rating of "A" in the case of Standard & Poor's or "A2" in the case of Moody's, treasuries or cash will be pledged.

Termination Risk: An out-of-the-ordinary event may occur that causes the contract to be terminated. At the time of termination, if the swap has a negative fair value, the County would be liable to LFP for a payment equal to the fair

value. If either Standard & Poor's or Moody's rates the creditworthiness of either party's (or the Credit Support Provider's) long-term, unsecured, unenhanced debt rating below Baa3 by Moody's or BBB- by Standard & Poor's, an Additional Termination Event has occurred. As of 6/30/2007, LFP has a credit guarantee from Deutsche Bank AG, rated Aa3/AA- by Moody's and Standard & Poor's, respectively.

Basis Risk: Currently, the County is not exposed to basis risk. If the option is exercised in the future, as long as there is not a direct relationship between the floating rate received from LFP (SIFMA Index) and the rate at which the variable rate bonds remarket, the County is exposed to basis risk. Basis risk will exist if the County's bonds remarket higher than SIFMA, which is the rate received from the Counterparty. Thus, the expected cost savings may not be achieved.

Market Access Risk: The County may be exposed to market access risk if the County is not able to issue the variable rate refunding bonds in the future because of some unforeseen event. If the option is exercised and the refunding bonds are not issued, the 1998 bonds would not be refunded but the County would still have to make swap payments as required by the swap contract, if it isn't terminated. Thus, because of this, the expected cost savings may not be realized.

Swap Nine: Executed with Goldman Sachs Mitsui Marines Derivative Products and Morgan Keegan Financial Products, Inc. on 2/14/06 in Connection with 2006 Series B General Obligation Variable Rate Demand Public Improvement and School Bonds:

Swap Objective: On February 14, 2006, the County entered into a swap that will produce a synthetic fixed rate in connection with its variable rate bonds. Under the terms of the swap, the County will pay a fixed rate and receive the SIFMA index. The County entered into this fixed payer swap in order to hedge variable rate exposure on the underlying bonds.

Swap Terms:

Executed Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Floating Rate Index
2/14/2006	2/22/2006	3/1/2031	$159,590,000	3.503% Until 3/1/16; 4.43% thereafter	SIFMA

On 2/14/06, the County entered into a fixed payer swap with an effective date of 2/22/06. Under the terms of the swap, the County pays a fixed rate of 3.503% until 3/1/16 and 4.43% thereafter to the Counterparties, MKFP and Goldman. In return, the County receives the SIFMA index. Goldman's portion of the swap is $119,590,000 and MKFP's portion is $40,000,000.

Fair Value of Swap and Option: As of 6/30/2007, the swaps had a fair value of ($305,755). This fair value was measured using an option pricing model, such as the Black-Scholes model, that considers probabilities, volatilities, time, underlying prices, and other variables.

Associated Debt and Swap Payments: This swap is in conjunction with 2006 Series B General Obligation Variable Rate Demand Public Improvement and School Bonds. This analysis assumes both swaps stay in place until maturity in 2031. Below are the principal and interest requirements of the debt and the net swap payments as of 6/30/07 (assuming SIFMA equals its current level of 3.73% for the term of the Swap). The net swap payments will fluctuate as SIFMA changes.

Fiscal Year Ended June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Net Swap Payments	Total
2008	$ ---	$ 5,907,210	$ (378,578)	$ 5,528,632
2009	---	5,907,210	(362,269)	5,544,941
2010	---	5,907,210	(362,269)	5,544,941
2011	---	5,907,210	(362,269)	5,544,941
2012	---	5,907,210	(378,578)	5,528,632
2013	---	5,907,210	(362,269)	5,544,941
2014	---	5,907,210	(362,269)	5,544,941
2015	---	5,907,210	(362,269)	5,544,941
2016	---	5,907,210	(378,578)	5,528,632
2017	7,425,000	5,907,210	1,117,130	14,449,340
2018	2,020,000	5,632,534	1,065,155	8,717,689
2019	---	5,557,807	1,051,015	6,608,822
2020	2,705,000	5,557,807	1,035,671	9,298,478
2021	8,505,000	5,457,187	1,032,080	14,994,267
2022	9,575,000	5,142,558	972,545	15,690,103
2023	7,130,000	4,788,346	905,520	12,823,866
2024	7,450,000	4,524,583	843,119	12,817,702
2025	23,900,000	4,247,459	803,460	28,950,919
2026	26,130,000	3,363,316	636,160	30,129,476
2027	20,110,000	2,396,678	453,250	22,959,928
2028	6,625,000	1,652,742	307,918	8,585,660
2029	12,680,000	1,406,306	266,105	14,352,411
2030	6,055,000	937,229	177,344	7,169,573
2031	19,280,000	713,234	134,960	20,128,194
Total	$ 159,590,000	$ 110,449,886	$ 7,492,084	$ 277,531,970

Credit Risk Because the swap has a negative value on 6/30/2007, the County does not have credit risk. However, if swap rates increase and the fair value of the swap moves in favor of the County, credit risk would be present.

Termination Risk: Goldman and MKFP have the right to terminate the swap on 3/1/16. If the swap is terminated on the optional termination date, neither party is liable for a termination payment. Also, if the swap is terminated, the County will be exposed to interest rate risk because the variable rate bonds will no longer carry a synthetic fixed rate.

Interest Rate Risk: Currently, the County does not have interest rate risk because it is paying a fixed rate on the swap. However, if for some unforeseen reason the swap is terminated prior to maturity, the County will have interest rate risk associated with the outstanding variable rate bonds until maturity in 2031.

Basis Risk: As long as there is not a direct relationship between the floating rate received from the Counterparty and the rate at which the variable rate bonds remarket, the County is exposed to basis risk. Basis risk exists if the County's bonds remarket higher than SIFMA, which is the rate received from the Counterparty. Thus, the expected cost savings may not be achieved.

Swap Ten: Executed with Morgan Keegan Financial Products, Inc. on 5/15/2006 in Connection with 2004 Series B General Obligation Public Improvement and School Bonds:

Swap Objective: On May 15, 2006, the County entered into a basis swap that potentially will produce cash flow savings in the future. Under the terms of the swap, the County will pay a floating rate of 70% of 1-month LIBOR and receive 65.3172% of 5-year LIBOR from MKFP. The intent of this Basis Swap when executed was to lower the County's net cost by layering this Basis Swap on top of the existing 70% of 1-month LIBOR fixed payer swap associated with the 2004 Series B Bonds.

Swap Terms:

Executed Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Floating Rate Paid	Floating Rate Received
5/15/2006	6/1/2006	4/1/2014	$235,000,000	70% 1- month LIBOR	65.3172% of 5-year LIBOR

On 5/15/06, the County entered into a basis swap that became effective on 6/1/06. Under the terms of the swap, the County receives a floating rate of 65.3172% of 5-year LIBOR from MKFP and pays 70% of 1-month LIBOR.

Fair Value of Swap and Option: As of 6/30/2007, the swap had a negative fair value of ($587,559). This fair value was measured by a swap pricing system in which the future net settlement swap payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dates implied from the current yield curve.

Associated Debt and Swap Payments: This swap is in conjunction with 2004 Series B General Obligation Public Improvement and School Bonds. As of 6/30/2007, below are the principal and interest requirements of the debt and the net swap payments. The cash flows below assume that SIFMA equals its current level, as of 6/30/2007 of 3.73%, 70% of 1-month LIBOR equals its current level of 3.724%, and 65.3172% of 5-year LIBOR equals its current level of 3.6029%.

Fiscal Year	Variable Rate Bonds		Net Swap	
Ended June 30	Principal	Interest	Payments	Total
2008	$ ---	$ 8,977,072	$ 430,450	$ 9,407,522
2009	---	8,977,072	406,140	9,383,212
2010	---	8,977,072	233,314	9,210,386
2011	---	8,977,072	233,314	9,210,386
2012	---	8,977,072	247,280	9,224,352
2013	---	8,977,072	233,314	9,210,386
2014	---	8,977,072	233,314	9,210,386
2015	---	8,977,072	---	17,267,072
2016	8,290,000	8,664,419	---	17,784,419
2017	9,120,000	8,318,573	---	18,348,573
2018	10,030,000	7,940,298	---	18,970,298
2019	11,030,000	7,524,307	---	19,664,307
2020	12,140,000	7,066,454	---	20,416,454
2021	13,350,000	6,560,200	---	21,245,200
2022	14,685,000	6,006,363	---	22,161,363
2023	16,155,000	5,397,086	---	23,167,086
2024	17,770,000	4,726,901	---	24,271,901
2025	19,545,000	3,985,722	---	25,485,722
2026	21,500,000	3,174,861	---	16,949,861
2027	13,775,000	2,655,345	---	17,805,345
2028	15,150,000	2,083,971	---	18,748,971
2029	16,665,000	1,452,003	---	19,787,003
2030	18,335,000	760,512	---	20,925,512
Total	$ 237,705,000	$ 148,133,591	$ 2,017,126	$ 387,855,717

Credit Risk: Because the swap has a negative value on 6/30/2007, the County does not have credit risk to MKFP. However, if the fair value of the swap moves in favor of the County, credit risk would be present. To mitigate credit risk, if Standard & Poor's and Moody's rates the creditworthiness of MKFP's (or the Credit Support Provider's) senior, unsecured, unenhanced debt below a rating of "A" in the case of Standard & Poor's or "A2" in the case of Moody's, treasuries or cash will be pledged.

Termination Risk: If the swap has an unanticipated termination, the County may owe a termination payment to MKFP equal to the fair value of the swap at that time, if the fair value is negative to the County. If either Standard & Poor's or Moody's rates the creditworthiness of either party's long-term, unsecured, and unsubordinated debt, deposit or letter of credit obligations below Baa3 by Moody's or BBB- by Standard & Poor's, an Additional Termination Event has occurred. As of 6/30/2006, MKFP has a credit guarantee from Deutsche Bank AG, rated Aa3/AA- by Moody's and Standard & Poor's, respectively.

Basis Risk: The County is exposed to basis risk. The basis risk will arise from the difference between the receipt from MKFP of 65.3172% 5-year LIBOR and the payment to MKFP of 70% of 1-month LIBOR. This basis differential could cause the expected cost of funds to increase.

Claims and Judgments

The County has recognized long-term debt liabilities for claims and judgments of $7,221,889 in accordance with its accounting policy explained in Note I (E). The liabilities are based on property damage and personal injury

lawsuits arising in the course of operations. The County believes this is a reasonable measure of the ultimate settlement of these matters.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

(I) Interfund Receivables, Payables and Transfers

Interfund receivables and payables consist of the following:

Receivable Fund	Payable Fund	Amount
General Fund	Solid Waste	$ 995
	Grants Fund	3,913,397
	Corrections Center	850,648
Debt Service Fund	General Fund	1,341,282
Capital Projects Fund	General Fund	1,341,282
Nonmajor Governmental Funds	General Fund	1,418,443
Total		$ 8,866,047

Due To/From Component Units

Receivable Entity	Payable Entity	Amount
Debt Service Fund	The Med (component unit)	$ 2,823,318
Capital Projects Fund	The Med (component unit)	2,640,172
Board of Education (component unit)	Education Fund	799,156
Board of Education (component unit)	Capital Projects Fund	12,500,000
Total		$ 18,762,646

The interfund amounts payable by the general fund result from collection of fees and taxes by a designated elected official that are revenue of the receivable funds; however the custody of the funds at year-end was with the collecting official and funds were not yet available to the receiving funds. The interfund amounts receivable by the general fund represent amounts advanced to the payable funds to cover short-term cash flow requirements. The receivables from The Med (component unit) represent the balance of loans made by the County to The Med that are repayable over a period of years. The amount payable to the Board of Education (component unit) from the Education Fund represent revenues accrued at year-end but not yet paid to the Board of Education. The amount owed from the Capital Projects Fund represents capital funding appropriated to the Board of Education but not disbursed as of year-end.

Transfers during the year were as follows:

Transfers Out:	Transfers In:	Amounts:
General Fund	Corrections Center Fund	$ 10,615,000
	Capital Projects Fund	11,758,868
	Grants Fund	2,672,117
	Nonmajor Governmental Funds	1,136,438
	Internal Service Funds	712,802
Debt Service Fund	General Fund	322,700
	Capital Projects Fund	6,156,000
Capital Projects Fund	Debt Service Fund	852,207
	Internal Service Funds	800,000
Nonmajor Governmental Funds	General Fund	2,315,405
	Debt Service Fund	6,366,212
	Capital Projects Fund	37,841
	Grants Fund	70,319
Grants Fund	General Fund	3,845,573
	Grants Fund	689,682
	Consolidated Codes Enforcement	113,207
	Corrections Center Fund	33,000
	Nonmajor Governmental Funds	50,000
Total transfers out by governmental fund types		48,547,371
Correction Center Fund	General Fund	2,393,037
	Grants Fund	53,140
Consolidated Codes Enforcement Fund	General Fund	748,240
	Grants Fund	222,943
Fire Services Fund	General Fund	537,898
	Grants Fund	170,048
Internal Service Funds	General Fund	399,400
	Internal Fund	841,932
Total transfers out by proprietary fund types and Internal Service Funds		5,366,638
Total all fund types		$ 53,914,009

Transfers are used to (1) move revenue from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

(J) Other Revenue

The other revenue classification is used in the combined, combining and individual fund financial statements and in the supplemental schedules and statistical section of the comprehensive annual financial report. This category is one of the revenue line items included in the legally adopted budget approved annually by the Board of Commissioners. Certain revenue accounts which are not accurately described by any of the other revenue classifications included in the budget (local taxes, local revenues, state revenue, federal revenue, patient service revenue, elected officials' fees and fines) are classified as other revenue.

Other revenue for the year ended June 30, 2007 is detailed below:

	General Fund	Debt Service Fund	Capital Projects Fund	Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
Investment income	$ 9,158,385	$ 3,790,416	$ 7,426,076	$ 283,469	$ 954,016	$ 21,612,362
Miscellaneous income	341,183	20	48,001	373,437	---	762,641
Total other revenue	$ 9,499,568	$ 3,790,436	$ 7,474,077	$ 656,906	$ 954,016	$ 22,375,003

(K) Risk Financing and Related Insurance Issues

Shelby County maintains a self-insured Group Hospital Insurance Fund for its active and retired employees and their dependents, funded by participation of both the County and its employees. Incurred but not reported (IBNR) claims liabilities of the Group Hospital Insurance Fund were actuarially determined. This calculation was based on prior years' claims expense and the current year's actual claims incurred. The long term liabilities for IBNR claims are presented at present value. The schedule below presents the changes in IBNR liabilities for the past two years for the Group Hospital Insurance Fund:

	2007	2006
Insurance claims liabilities at the beginning of the fiscal year	$ 5,933,578	$ 8,557,807
Incurred claims and claim adjustment expenses:	54,005,957	48,922,460
Payment of claims and claim adjustment expenses	(53,911,783)	(51,546,689)
Claims and claim adjustment liabilities at the end of the fiscal year	$ 6,027,752	$ 5,933,578

The County maintains a self-insured Tort Liability Fund funded by premiums paid by departments using county vehicles and by an operating transfer from the General Fund. Claims liabilities of the Tort Liability Fund were estimated based on prior years' claims expense, current year's actual claims, and a review of pending litigation through the County Attorney. The schedule below presents the changes in claims liabilities for the past two years for the Tort Liability Fund:

	2007	2006
Claim and claim adjustment liabilities at the beginning of the fiscal year	$ 3,201,353	$ 2,987,679
Incurred claims and claim adjustment expenses	1,531,522	1,701,956
Payment of claims and claim adjustments expense	(1,307,655)	(1,488,282)
Claims and claim adjustment liabilities at the end of the fiscal year	$ 3,425,220	$ 3,201,353

The County maintains a self-insured Employer Insurance Fund for on-the-job injuries and unemployment compensation, funded by premiums paid by County departments based on a percentage of salary costs. Claims liabilities of the Employer Insurance Fund were estimated based on prior year's claims expense and current year's actual claims incurred.

The schedule below presents the changes in claims liabilities for the past two years for the Employer Insurance Fund:

	2007	2006
Claims and claim adjustment liabilities at the beginning of the fiscal year	$ 5,769,615	$ 6,379,944
Incurred claims and claim adjustment expenses	3,422,126	2,380,587
Payment of claims and claim adjustments expenses	(2,435,205)	(2,990,916)
Claims and claim adjustments liabilities at the end of the fiscal year	$ 6,756,536	$ 5,769,615

The County's other insurance fund is the Group Life Insurance Fund, which reported insurance premium expenses of $3,546,204 for the year ended June 30, 2007. This Fund was closed as of June 30, 2007 since the County is now purchasing term life insurance from a commercial insurer rather than operating a self-insurance fund.

(L) Contingencies and Commitments

The County has commitments at fiscal year-end for outstanding purchase orders and outstanding contracts reported as reserves for encumbrances of the governmental funds. In addition, commitments for capital projects total $79,416,523 as of June 30, 2007.

The Memphis and Shelby County Sports Authority, Inc. is a joint venture organization that has issued revenue bonds for construction of a sports and entertainment facility. Although the City of Memphis and Shelby County are not legally liable for the debt, they have agreed to share equally in the payment of the debt if the Authority is unable to pay. See further explanations in Note IV (M).

(M) Joint Ventures, Jointly Governed Organizations and Related Organizations

Joint Ventures:
Joint ventures are defined in generally accepted accounting principles as organizations owned, operated or governed by two or more participants where no single participant has the ability to unilaterally control the financial or operating policies of the joint venture. Participants must maintain an ongoing financial responsibility for, or financial interest in, the joint venture. The following organizations qualify as joint ventures of Shelby County. References to the appointment of members of boards or commissions include both those appointed and those serving ex officio. Appointment usually includes confirmation by the appropriate legislative body.

Memphis and Shelby County Convention Center Commission (the Convention Center)
The Convention Center operates the 300,000 square foot multi-use Memphis Cook Convention Center and the 2,100 seat Cannon Center for the Performing Arts. The Convention Center is a joint venture between the City of Memphis (City) and the County and is overseen by an eight-member board. The City and County each appoint four board members. The board is responsible for reporting the results of operations semi-annually to both the City and the County. The City and County share equally in the profits of the Convention Center and are responsible for funding any deficit from operations in the same proportion. During the year ended June 30, 2007 the County contributed $3,039,788 to the operations of the Convention Center from the general fund; the City contributed a like amount. The County also contributed $159,314 from capital improvement funds. The County does not hold an equity interest in this entity. A third party under contract handles day-to-day promotion, operation, and management of the Convention Center. Financial statements for the Convention Center may be obtained from Memphis Cook Convention Center, 255 N. Main Street, Memphis, Tennessee 38103.

Memphis and Shelby County Port Commission (the Port Commission)
The Port Commission manages and develops industrial properties and has the authority for the direct development of the riverfront within Shelby County, except from the mouth of the Wolf River south to the I-55 bridge. The Port Commission is a joint venture between the City and the County and is overseen by a seven-member board. The City appoints four of the board members and the County appoints three members. Any deficits of the Port Commission are funded equally by the City and the County and excess revenues are distributed equally to the City and the County. The City and the County must approve the issuance of debt by or for the Port Commission. The County does not hold an equity interest in this entity. During the year ended June 30, 2007 no funds were exchanged between the Port Commission and the County. Subsequently, a payment was received August 31, 2007 for $635,659. Financial statements for the Port Commission may be obtained from the Memphis and Shelby County Port Commission, P.O. Box 13142, Memphis, Tennessee 38113.

Memphis and Shelby County Sports Authority, Inc. (the Authority)
The Authority was chartered in 1997 under a State statute that permits sports authorities to receive certain sales taxes generated by major league sports franchises. In 2001 the City of Memphis and Shelby County entered into the “Memphis Arena Project Agreement” to bring a NBA professional team to Memphis. A major part of that agreement required the construction of a new multipurpose sports and entertainment facility. Financing for construction of this facility (now known as FedExForum) has been done through the Authority. The Authority has issued long-term debt with principal of $218,600,305 owed as of December 31, 2006, plus $7,480,150 accrued interest and swap liabilities. Title to the facility is held by the New Memphis Arena Public Building Authority of Memphis and Shelby County, a joint venture; see below for more information on that entity. The Authority’s revenue bonds are payable from seat rental fees, certain state sales taxes generated by the professional basketball team, car rental taxes, City and County-wide hotel/motel taxes, and in lieu of tax payments by the Memphis Light Gas and Water Division.

The Sports Authority is a joint venture between the City of Memphis and the County and has a board whose members are jointly appointed by the City and the County. Although the bond indentures state that the City and County are not legally liable for the indebtedness of the Authority, under agreement the City and County have agreed to pay, in equal amounts, the debt if the Authority is unable to pay. During the year ended June 30, 2007 the County transferred to the Sports Authority for debt service purposes the amount of $1,947,599 from car rental taxes and $5,185,516 from hotel/motel taxes. Financial statements for the Memphis and Shelby County Sports Authority, Inc. may be obtained from the Memphis Convention & Visitor’s Bureau, 47 Union Avenue, Memphis, Tennessee 38103.

Mid-South Coliseum (the Coliseum)
The Coliseum operates a multi-purpose sports and entertainment facility with a seating capacity of approximately 11,500. The Coliseum is a joint venture between the City of Memphis and the County and is overseen by a five-member board. The City appoints two board members, the County appoints two members and one is jointly appointed by the City and County. The City and County share in profits or fund any deficits from operations in a ratio of 60% and 40%, respectively. The County does not hold an equity interest in this entity. As a result of a non-compete clause in the agreement with the National Basketball Association Franchise Owners for the operation of the new arena (FedExForum), the future financial viability of this facility is questionable. The County has advised the City of Memphis that it will participate in no further operating costs of the Coliseum. The City of Memphis is exploring alternative uses of the entire Fairgrounds complex and those plans could include demolition of the Coliseum or a use other than as a revenue-producing facility. At June 30, 2007 the County is owed $159,889, plus accrued interest of $30,487 by the Coliseum evidenced by a note with installments due through FY 2014; no payments have been made since FY 2004. In fiscal year 2007 the County reserved the amount of the note. During the year the County paid the Coliseum $3,296 for use of the facility. Financial statements for the Coliseum may be obtained from the Mid-South Coliseum, The Fairgrounds, 996 Early Maxwell Boulevard, Memphis, Tennessee 38104.

New Memphis Arena Public Building Authority of Memphis and Shelby County (New PBA)
The New PBA was created in August 2001 by Shelby County and the City of Memphis. It is a nonprofit corporation established under statutes of the State of Tennessee. In June 2001 the City of Memphis, Shelby County, and HOOPS, L.P. (the NBA franchise ownership entity) entered into the "Memphis Arena Project Agreement." Under this agreement a new arena would be constructed and leased to HOOPS, L.P. as part of the agreement to bring a professional basketball (NBA) team to Memphis. The primary purpose of the New PBA was to construct and hold title to this new multi-purpose sports and entertainment facility (now known as FedExForum). Construction of the facility is complete and the facility has been leased to and is being operated by HOOPS, L.P. as noted above.

Funding for construction of the facility was provided primarily through the Memphis and Shelby County Sports Authority, Inc., a separate joint venture as explained above. However, the New PBA holds title to the building.

The New PBA is a joint venture between the City of Memphis and the County. It is governed by a Board of Directors whose members are jointly appointed by the City of Memphis and Shelby County. The City and County maintain an ongoing financial responsibility for subsidies to finance the New PBA's capital expenditures and operations. The County also paid $144,776 for insurance on the facility. Financial statements for the New PBA may be obtained from the New Memphis Arena PBA, 195 Linden Avenue, Memphis, Tennessee 38103.

Pyramid Arena
In November 1987 the City of Memphis and the County entered into a joint venture arrangement creating the Public Building Authority of Memphis and Shelby County (PBA). The PBA is a not-for-profit corporation created for the purpose of constructing the Pyramid, a multipurpose facility with the primary use as a basketball arena. The City and the County each separately issued bonds for their share of the construction cost of the Pyramid, with the debt remaining an obligation of the issuer. The Pyramid was then leased back jointly to the City and the County for operation. The County does not hold an equity interest in the PBA. The PBA currently exists solely to hold title to the building and has no ongoing financial operations. On July 1, 1991 the City and County jointly entered into a contract with a third party (SMG) to manage, operate, market and promote the Pyramid. The term of the contract was for the three-year period July 1, 1991 to June 30, 1994, with a renewal clause for up to three additional five-year terms. The current renewal period expires June 30, 2009.

The City and County will each appropriate one-half of the necessary funds to sustain operations based upon each government's approval of an operating budget. During the year ended June 30, 2007 the County contributed $335,000 to the operating budget of the Pyramid and paid directly $115,636 as its 50% share of the cost of property insurance. Excess operating revenue net of management fees and operating expenses, as defined under the management agreement, will be paid to the City and the County upon demand. As provided for in the management agreement, cash in excess of $500,000 will also be paid to the City and the County upon demand. No excess cash was returned in fiscal year 2007. As a result of a non-compete clause in the agreement with the National Basketball Association Franchise Owners for the operation of the new arena (FedExForum), the future financial viability of this facility is questionable. There will be ongoing maintenance costs even if the facility is closed. Financial statements for the Pyramid Arena Operations may be obtained from the Pyramid Arena, One Auction Street, Memphis, Tennessee 38105.

The following is a summary of the financial information of the joint ventures, as of and for the year ended June 30, 2007 (not covered by the report of independent accountants)

	Convention Center (c)	Port Commission (b)	Sports Authority (a)	Mid-South Coliseum	New Arena PBA (a)	Pyramid Arena
Assets	---	$ 28,277,311	$ 48,216,420	$ 1,104,820	$ 216,349,646	$ 283,497
Liabilities	---	8,342,254	226,101,050	1,372,279	3,020	97,161
Net Assets	---	19,935,057	(177,884,630)	(267,459)	216,346,626	186,336
Operating Revenues	---	2,150,090	---	2,098,853	267,642	173,076
Operating Expenses	---	2,558,011	1,440,507	2,464,716	7,410,470	1,183,773
Other Revenue	---	113,549	17,242,699	4,076	1,500	670,000
Other Expenses	---	269,330	11,702,228	11,215	---	---
Change in Net Assets	---	(563,702)	4,099,964	(373,002)	(7,141,328)	(340,697)

(a) Fiscal year-end December 31, 2006. (b) From unaudited financial statements. (c) Not Available

Jointly Governed Organizations:

The County in conjunction with the City of Memphis has joint control of the following organizations through the appointment of their boards. They are not considered joint ventures because the County and the City do not retain an ongoing financial responsibility or financial interest. There were no financial transactions between the County and the organizations in the fiscal year ending June 30, 2007 unless noted below.

The *Depot Redevelopment Corporation of Memphis and Shelby County (Depot)* was established by the City and County to determine and establish a reuse plan and management strategy for the Memphis Depot. The United States Government closed the former military supply depot. The mayors of the City and County appoint the nine board members for six-year terms with approval of the City Council and the County Commission. The County has a note receivable from the Depot with a principal balance of $3,090,000 as of June 30, 2007. During the year ended June 30, 2007 the Depot repaid $165,000 of principal on this note plus $162,881 of interest.

The *Industrial Development Board of Memphis and Shelby County* operates as a nonprofit corporation for the purpose of promoting industrial development in the City and County. The City appoints four board members, the County appoints four members and one is jointly appointed by the City and County for six-year terms, with approval by the City Council and the County Commission.

The *Memphis and Shelby County Center City Commission* is responsible for promotion and redevelopment of the Memphis Center City area. The mayors of the City and County appoint the twenty board members for three-year terms, with approval by the City Council and the County Commission.

The *Memphis and Shelby County Center City Downtown Parking Authority* manages five downtown parking garages and establishes and coordinates uniform parking policies and parking management in the downtown Memphis area. The mayors of the City and County appoint the seven-member board.

The *Memphis Center City Revenue Finance Corporation (Finance Corporation)* is a nonprofit corporation established jointly by the City and the County under the laws of the State of Tennessee. The Finance Corporation provides various forms of financial assistance to development projects. The City appoints four board members, the County appoints four members and one is jointly appointed by the City and County for six-year terms, with approval by the City Council and the County Commission.

Related Organizations:

The County appoints a voting majority of the board of the following organizations but is not financially accountable for the organizations:

- *Health, Housing and Education Facilities Board*
- *Shelby County Housing Authority*

The *Memphis and Shelby County Airport Authority* owns and operates Memphis International Airport and two general aviation airports. Six of the seven board members are appointed by the City of Memphis mayor and one by the County mayor, all for seven-year terms, subject to confirmation by the Memphis City Council. The Airport Authority is a component unit of the City of Memphis.

The Shelby County Health Care Corporation (The Med) is a component unit of the County. The Med has an investment in *Memphis Managed Care Corporation* (MMCC), a TennCare MCO, that pays The Med a fixed per diem for inpatient services and pays for outpatient services on a fee for service basis**.** The investment was valued at $17,190,358 at June 30, 2007.

(N) Other Post–Employment Benefits

In addition to providing benefits, the County provides certain health care and life insurance benefits for retired employees in accordance with policy established by the County Board of Commissioners. Substantially all of the County's employees may become eligible for those benefits if they reach normal retirement age while working for the County. The cost of retiree health care and life insurance benefits is recognized as an expenditure as claims are paid. For 2007 the County provided these life insurance benefits to 1,724 retirees and health care benefits to 1,822 retirees at a total cost of $12,794,221.

(O) Pensions

Shelby County Retirement System

Plan Description
The Shelby County Retirement System (the System) is a single employer defined benefit public employee retirement system (PERS) established by Shelby County, Tennessee. The System is administered by a board, the majority of whose members are nominated by the Shelby County mayor, subject to approval by the Shelby County Board of Commissioners. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Shelby County Retirement System, Suite 950, 160 N. Main, Memphis, Tennessee 38103 or calling (901) 545-3370.

Substantially all full-time and permanent part-time employees of the County are required, as a condition of employment, to participate in the System. The Shelby County Board of Commissioners establishes the System's benefits and contribution provisions. Once becoming a participant, a person will continue to participate as long as he or she is an employee of the County. The System provides retirement as well as survivor and disability defined benefits.

The System consists of three plans (Plans A, B and C) which are legally one reporting entity. Plan B is a contributory defined benefit pension plan for employees hired prior to December 1, 1978. Plan A is a non-contributory defined benefit pension plan for employees hired between December 1, 1978 and February 28, 2005, and those employees that elected to transfer to Plan A from Plan B before January 1, 1981. Plan C is a contributory defined benefit pension plan that became effective September 1, 2005 and includes all employees hired after February 28, 2005, all former Plan A "public safety employees" who were required to move to Plan C to preserve

their right to retire with unreduced benefits with 25 years of service, and other former Plan A participants who elected to move to Plan C.

Funding Policy

The Board of Administration of the Shelby County, Tennessee Retirement System (the Board) establishes the System's funding policy for employee contribution requirements. The Shelby County Board of Commissioners establishes the System's funding policy for employer contribution requirements. The County does not receive the actuarial report until several months into the fiscal year to which the report relates. Due to budgetary procedures the County makes contributions based on the latest actuarial report received at the date a new fiscal year's budget is being prepared. Contributions for fiscal year 2007 were based on the actuarial report as of July 1, 2005.

In accordance with the actuarial valuation as of July 1, 2005 the employer contribution rate required was 4.27% of covered payroll of participants. Plan B participants contribute an additional 8.0% of their earnings, with some exceptions for employees of Plan B with more than 35 years of service. Plan C participants contribute 6.0% of their earnings. In addition, certain public safety employees remaining in Plan A contribute 2.65% of their compensation. This resulted in total contributions of $26,950,047 ($18,758,647 employer contributions and $8,191,400 employee contributions). The actuarial required employer contribution of $11,037,956 is significantly impacted by the amortization of the actuarial surplus that results from investment results in prior years. The County has chosen to fund a level amount that is approximately the normal cost for benefits earned.

The significant actuarial assumptions used to compute these actuarially determined contribution requirements are the same as those used to compute the net pension obligation.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2005	$ 9,645,830	195%	---
June 30, 2006	10,322,629	182%	---
June 30, 2007	11,037,956	170%	---

Actuarial Valuation, Method and Assumptions

Valuation date	July 1, 2005 for contribution requirement July 1, 2006 rolled forward to June 30, 2007 for funding progress
Actuarial cost method	Projected unit credit service pro-rate cost method
Amortization method	18-year amortization as of July 1, 2005 of excess assets over 100% of actuarial accrued liability (20 year period beginning July 1, 2003)
Remaining amortization period	16 years on June 30, 2007
Asset valuation method	10-year smoothing method
Rate of investment return	Funding Progress: 8.25% Contribution: 8.25%
Projected salary increases	Funding Progress: 4.00% Contribution: 4.00%
Cost-of-living adjustments	Funding Progress: 2.5% Contribution: 2.5%

Schedule of Funding Progress

Actuarial Valuation Date of June 30	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability/ (Surplus)	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability/ (Surplus) as a Percentage of Covered Payroll
2002	$ 797,091,379	$ 720,839,196	$ (76,252,183)	110.6%	$ 233,148,476	(32.7%)
2003	794,201,990	769,753,615	(24,448,375)	103.2%	237,197,193	(10.3%)
2004	841,335,004	737,329,388	(104,005,616)	114.1%	246,685,081	(42.2%)
2005	885,049,492	780,800,809	(104,248,683)	113.4%	253,031,826	(41.2%)
2006	933,730,481	860,178,582	(73,551,899)	108.6%	241,403,735	(30.5%)
2007	992,143,395	934,829,366	(57,314,029)	106.1%	251,059,875	(22.8%)

More detailed information on all Plans is available in the System's separately issued financial report.

Pension plans of the component units:

The primary government does not act in a trustee capacity for the assets of the pension plans of the component units.

Shelby County Board of Education (the Board of Education)
On behalf of its teachers, the Board of Education contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0203 or can be accessed at www.treasury.state.tn.us.

All non-teachers employed by the Board of Education are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by TCRS. The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.

Shelby County Health Care Corporation (the Med)
Effective July 1, 1985 the Med established the Regional Medical Center at Memphis Retirement Investment Plan, a defined contribution pension plan. In a defined contribution plan benefits depend solely on amounts contributed to the plan plus investment earnings. Financial statements of the Regional Medical Center at Memphis Retirement Investment Plan are available from Shelby County Health Care Corporation, 877 Jefferson Avenue, Memphis, Tennessee 38103.

More details about all plans of component units are available in the separately issued financial reports of the component units and in the separately issued financial reports of the retirement plans as noted above.

(P) Subsequent Events

In July 2007, Shelby County Board of Commissioners approved the issuance of General Obligation Variable Rate Demand Refunding Bonds in a principal amount of $31,450,000. The bonds are being issued to refund a portion of bonds from the 1997 Series B General Obligation Refunding bonds. The bond closed July 31, 2007. In conjunction with the new Variable Rate Demand Refunding Bonds, the County has also entered into a swap agreement. The swap agreement will synthetically fix the variable rate of the refunding bonds.

In October 2007, the Shelby County Board of Commissioners approved the 2007 Series Tax Anticipation Note Program in the amount of $30,000,000 to provide for cash flow requirements due to the timing of property tax collection. The Tax Anticipation Notes will be paid off on or before June 30, 2008.