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:

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 48,000 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.

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 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.

There are other funds with revenue raised for a specific purpose. The County reports the following funds as Special Revenue Funds (all are nonmajor):

- Roads and Bridges Fund accounts for the proceeds received from the County's share of State Gasoline taxes and State Gas Inspection taxes. These revenues are used for the maintenance of public roads and bridges in the unincorporated areas of the County.
- Hotel and TDZ Taxes Fund accounts for the proceeds received from the hotel/motel tax levied by the County on hotel/motel occupancy within the County. Hotel/Motel tax is used to first provide debt service requirements at the Sports Authority on the FedEx Forum and then funding for the Convention and Visitors Bureau as provided in State law. Any remainder may be used for Convention Center debt, Convention Center operations and additional funding to the Convention and Visitors Bureau. This fund also accounts for incremental sales tax received from the "Tourist Development Zone" which was developed for the City of Memphis by State legislation. The State pays the City the State's share of sales tax; through an inter-local agreement most of the funds are paid to the County. The proceeds are used to pay for Convention Center debt and capital funding as authorized by the State of Tennessee.
- Sheriff Forfeitures Fund accounts for the proceeds from seizure and forfeiture of properties related to certain drug cases and property acquired and accumulated as a result of criminal offenses. These funds are used to fund further law enforcement efforts, drug investigation enforcement and certain non-recurring purposes.

- Data Processing Fund accounts for a separate computerization fee charged by the Courts and the County Register restricted by State statute. It is to be used for the purchase of computer equipment, upgrades, imaging systems and other related supplies and maintenance to support their data processing needs.
- Car Rental Tax Fund accounts for the tax proceeds on car rentals levied by the County. The proceeds are used only to help retire debt on bonds issued by the Memphis and Shelby County Sports Authority, Inc. for construction of the FedEx Forum.
- Health Services Restricted Fees Fund accounts for proceeds received from pollution control permits and fees for specific industries. There are also fees received for vector control services as a component of the fees collected through the City and County's utility services. These proceeds are used respectively, to control pollution and control rodents, mosquitoes and other pests in the County.
- Economic Development Fund accounts for certain funds designated by the County Commission "to achieve an increase in living standards that promotes an increase in per capita income, better education and health as well as environmental protection." Use of this fund was discontinued as of 6/30/10.
- Storm Water Fees Fund accounts for fees collected from unincorporated portions of the County for storm water expenses as specified in the Shelby County Code of Ordinances.

Additionally, the County reports the following fund types:

Proprietary Funds/Enterprise Funds are funds that report an activity for which a fee is charged to external users for goods or services. The County reports the following funds (all are nonmajor):

- Consolidated Codes Enforcement Fund
- Fire Services Fund
- Corrections Center Fund

Proprietary Funds/Internal Service Funds are a separate category of proprietary funds (all are nonmajor). These funds account for telecommunications, mail services, printing, group health 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.

Fiduciary Funds include the Pension Trust Fund and the OPEB Trust. The Pension Trust Fund accounts for the activities of the County's retirement plan, which accumulates resources for pension payments to employees. The OPEB Trust accounts for the fund used to accumulate and provide health and life insurance to retirees. Agency Funds account 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.

In consolidating internal activities in the government-wide financial statements, direct expenses are not eliminated from the various functional categories, whereas indirect expenses are eliminated. The net effect of the interfund services provided by internal service funds is reported as an adjustment to the expenses of the functional categories using those services.

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 including all taxes are reported as general revenues rather than as program revenues.

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 the purpose of an expenditure would permit the use of funds in more than one fund balance category, it is the County's policy to use funds in the order of restricted, committed, assigned and unassigned, unless the appropriation or specific funding source dictates a specific fund balance category.

(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 the average balance.

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. By policy investments in commercial paper must be rated A1/P1 by at least two rating services.

The Pension Trust Fund and the OPEB Trust are 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 Pension Trust Fund is also authorized to invest 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 proprietary fund financial statements. In governmental funds prepaid items are accounted for using the purchases method.

As of June 30, 2010, the County had net overpayments for the net pension obligation. These overpayments are reported in the assets section.

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 of $5,000 or more 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 post 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 Nonspendable, Restricted, Committed, Assigned and/or Unassigned fund balances.

- Nonspendable fund balance reflects amounts not in spendable form or amounts that legally or contractually must be maintained intact.
- Restricted fund balance reflects amounts subject to external enforceable legal restrictions that are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance reflects amounts whose use is constrained by limitations that the County imposes upon itself by the Shelby County Commission through resolution and shall remain binding unless removed in the same manner. The County Commission is the County's highest level of decision-making authority.

- Assigned fund balance reflects the County's intended use of resources. It allows decision making authority to be delegated to some other body or official. This authority is delegated by approved County Commission resolution. No formal action is required to remove this authority.
- Unassigned fund balance is the residual net resources.

Minimum Fund Balance Policy
The County Board of Commissioners, the County's legislative body, has by resolution adopted a formal fund balance policy. The policy specifies a minimum fund balance of between 15-25% of revenues for the general fund and 20-30% of revenues for the debt service fund.

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 $(6,275,002) of long-term liabilities and are not part of this reconciling amount. The details of this $(1,770,799,087) are as follows:

Bonds payable	$ (1,661,630,481)
Accreted value on bonds	(45,629,701)
Net premium and issuance cost on bonds issued	(27,324,005)
Compensated absences	(21,594,003)
Landfill postclosure	(3,262,246)
Claims and judgements	(355,848)
Net post employment benefit obligation	(11,002,803)
Net adjustment to reduce *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$ (1,770,799,087)

(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 $(6,314,687) difference are as follows:

Capital outlay	$	19,819,058
Developer contributions		710,000
Gain on asset disposals		154,791
Depreciation expense		(26,998,536)
Net adjustment to decrease *net changes in fund balances – total governmental funds to* arrive at *changes in net assets of governmental activities*	$	(6,314,687)

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 the repayment 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 first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $(77,827,920) difference are as follows:

Debt issued or incurred:		
Issuance of general obligation bonds	$	(120,000,000)
Premium on debt issued, net of issuance costs of $(3,841,260) and amortization of $5,845,177		2,003,917
Accretion of zero coupon bonds		(4,674,723)
Change in accrued interest expense		(432,114)
Long-term debt other than bonds		(55,120,000)
Principal repayments on general obligation debt		100,395,000
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$	(77,827,920)

Another element of that reconciliation is "changes in other long-term liabilities other than in internal service funds." The details of this $(7,054,197) difference are as follows:

Landfill post closure costs	$	98,585
Sick and annual leave		(371,214)
Net postemployment benefit obligations		(6,781,568)
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$	(7,054,197)

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(A) Budgetary Information

The revenues and expenditures accounted for in each of the General Fund, Special Revenue Funds, Debt Service Fund and Enterprise Funds 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 (i.e. revenue, personnel related expenditures or other expenditures) of the same division (group of departments). Any adjustments that 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.

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 do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

(B) Deficit Fund Equity

The deficit in the Grants Fund of $15,528,606 results from deferring revenue for amounts billed to grantors for program expenditures and for which payment had not been received within sixty days of the statement date.

IV. DETAILED NOTES ON ALL FUNDS

(A) Deposits and Investments

Shelby County Government, except for the Retirement System and OPEB Trust:
The County, including agency funds but excluding the retirement system and the OPEB Trust, had the following investments at June 30, 2010. Of the total investments per financial reports, $72,503,867 is reported on the Statement of Net Assets and $26,650,000 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	$ 25,003,867
Tennessee Local Government Investment Pool (LGIP)	133,845,292
Total investments for disclosure purposes	158,849,159
Add certificates of deposit reported as investments	74,150,000
Less amounts reported as cash equivalents	(133,845,292)
Total investments per financial reports	$ 99,153,867

<u>Custodial credit risk</u> 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.

<u>Interest rate risk</u> 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. All investments mature in two years or less.

<u>Credit risk</u> 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, 2010 the Retirement System had deposits of $207,000 that were not insured and were uncollateralized. At June 30, 2010 the Retirement System reported the following investments with carrying amounts as shown:

Domestic equity	$ 248,793,827
Fixed income	183,325,349
International equity	167,254,053
Hedge funds	115,307,325
Limited partnership interests	27,979,958
Private real estate	19,920,727
Total investments	$ 762,581,239

The fair values of fixed income investments grouped by maturity at June 30, 2010 are as follows:

Current to one year	$ 9,754,579
One to two years	7,217,408
Two to three years	10,556,679
Three to four years	9,005,793
Four to five years	8,080,896
Five years or more	105,998,848
	150,614,203
Funds with indeterminable maturities	32,711,146
Total	$ 183,325,349

At June 30, 2010 the Retirement System had $278,176,161 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, 2010. 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.

Shelby County OPEB Trust (Fiduciary Fund). At June 30, 2010 the OPEB Trust had deposits of $4,242,393 that were not insured and were uncollateralized; most of this was held in the Tennessee LGIP short term investment fund. At June 30, 2010 the OPEB Trust reported the following investments with carrying amounts as shown:

Domestic equity	$ 20,957,139
International equity	12,121,608
Fixed income	15,887,295
Private real estate	1,473,068
Alternative investments	7,781,426
Total investments	$ 58,220,536

(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 2010 tax bills were based was $19,657,378,625. The estimated market value was $66,374,654,928, making the overall assessed value 29.62% 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 92.61% of the original tax levy and 93.58% 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	$ 1.23
Debt service funds	.81
Boards of education	1.98
Countywide tax rate	$ 4.02
Debt service - rural school bonds	$ .04

The $0.04 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	Debt Service Fund	Education Fund	Total
Property taxes receivable	$ 297,227,599	$ 171,082,931	$ 404,893,703	$ 873,204,233
Less allowance for uncollectibles	(18,747,326)	(11,258,742)	(26,980,221)	(56,986,289)
	$ 278,480,273	$ 159,824,189	$ 377,913,482	$ 816,217,944

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 2010	$ 340,255	Land & Building
Promissory notes receivable due in various installments	10,409	None
Total General Fund	$ 350,664	
Debt Service Fund		
Mortgage loans receivable due in various monthly installments at interest rates ranging from 3.125% to 8.125% through 2020	$ 5,175,587	Land & Building
Capital Projects Fund		
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%	$ 2,530,000	None
Grants Fund		
Mortgage loans receivable due in various monthly installments at 0% to 5% interest through 2019	$ 1,911,210	Land & Building
Nonmajor Governmental Funds		
Promissory notes receivable due in various installments	$ 25,099	None

Note IV (G) includes details of deferred revenue relating to notes receivable. The Debt Service Fund has a note receivable from Shelby County Health Care Corporation in the amount of $677,113, which is 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 $218,375 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 two additional option terms of five years each available. The option term currently in effect will expire in 2013. The rental income is recognized as revenue in the Debt Service Fund. One of the properties has entered bankruptcy. At June 30, 2010 they owed $385,258 for which an allowance for doubtful accounts has been provided.

The County leases certain real property described as 150 Washington Avenue to the Shelby County Federal Credit Union for the sum of $120,000 over a period of five years. The term of the lease commenced on October 1, 2009 and will end September 30, 2014. The monthly installments of $2,000 are recognized as rental income in the General Fund.

The County leases certain real property with improvements described as Fire Station #65 to the City of Memphis, Tennessee through June 30, 2016, with no lease fees or charges. All charges for gas, water, sewer, electricity, light, heat, power, telephone, and other utilities and services used, rendered or supplied to or in connection with the leased premises will be paid for by the City of Memphis.

(E) Capital Assets

Capital asset activity of the primary government for the year ended June 30, 2010 is detailed below.

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets not being depreciated:					
Land	$ 21,487,689	$ 4,500,000	$ (6,395)	$ ---	$ 25,981,294
Construction in progress	12,438,249	7,490,660	---	(5,092,816)	14,836,093
Total not being depreciated	33,925,938	11,990,660	(6,395)	(5,092,816)	40,817,387
Capital assets being depreciated:					
Land improvements	13,837,753	91,516	(56,500)	210,372	14,083,141
Buildings	241,621,147	411,802	(447,027)	1,806,791	243,392,713
Equipment	91,926,502	6,067,332	(2,158,073)	3,075,653	98,911,414
Infrastructure	495,888,484	2,516,484	---	---	498,404,968
Total being depreciated	843,273,886	9,087,134	(2,661,600)	5,092,816	854,792,236
Less accumulated depreciation:					
Land improvements	4,865,592	477,925	(22,633)	---	5,320,884
Buildings	102,716,701	7,026,648	(358,737)	---	109,384,612
Equipment	49,141,344	7,006,384	(1,879,046)	---	54,268,682
Infrastructure	170,382,798	12,487,579	---	---	182,870,377
Total accumulated depreciation	327,106,435	26,998,536	(2,260,416)	---	351,844,555
Total capital assets being depreciated, net	516,167,451	(17,911,402)	(401,184)	5,092,816	502,947,681
Governmental activities capital assets, net	$ 550,093,389	$ (5,920,742)	$ (407,579)	$ ---	$ 543,765,068

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business type activities:					
Capital assets being depreciated:					
Land improvements	$ ---	$ 14,942	$ ---	$ ---	$ 14,942
Buildings	47,635,104	---	---	---	47,635,104
Equipment	9,227,045	660,519	(530,141)	---	9,357,423
Total being depreciated	56,862,149	675,461	(530,141)	---	57,007,469
Less accumulated depreciation:					
Buildings	24,000,304	1,112,184	---	---	25,112,488
Equipment	6,631,000	521,197	(412,098)	---	6,740,099
Total accumulated depreciation	30,631,304	1,633,381	(412,098)	---	31,852,587
Business-type activities capital assets, net	$ 26,230,845	$ (957,920)	$ (118,043)	$ ---	$ 25,154,882

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
Depreciable assets:		
General government	$ 23,528,500	$ 1,599,032
Planning and development	10,074	35,198
Public works	384,651,024	15,350,714
Corrections	2,083,369	91,425
Health services	5,303,389	502,681
Community services	4,455,178	200,285
Law enforcement	68,629,752	6,243,116
Judicial	12,187,980	2,100,566
Other elected officials	2,098,415	875,519
Total depreciable assets	502,947,681	26,998,536
Non-depreciable assets:		
Land	25,981,294	---
Construction in progress	14,836,093	---
Total non-depreciable assets	40,817,387	
Total Governmental activities	$ 543,765,068	$ 26,998,536

(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, 2010 was $3,241,389 for the primary government.

Capital Leases
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 the Ferrara truck was purchased for a total cost of $584,925.

The amortization of these leased assets is included as part of depreciation expense. The total remaining balance on the capital leases is $766,064.

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, 2010:

Fiscal Year	Operating Leases	Capital Leases
2011	$ 1,873,776	$ 183,384
2012	519,820	183,384
2013	367,311	183,384
2014	245,596	183,384
2015	238,437	72,395
2016-2020	---	72,395
Total minimum lease payments	3,244,940	878,326
Less: amount representing interest	---	(112,262)
Present value of minimum lease payments	$ 3,244,940	**$** 766,064

(G) Deferred Revenue

Deferred revenues consist of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Education Fund	Grants Fund	Nonmajor Gevernmental Fund	Totals
Unearned:							
Property taxes receivable	$ 258,430,400	$ 147,291,042	$ ---	$ 347,661,073	$ ---	$ ---	$ 753,382,515
Grant revenue	---	---	---	---	1,596,525	---	1,596,525
Advance project contributions	---	---	206,566	---	---	---	206,566
Not Available:							---
Property taxes receivable	16,447,159	10,605,589	---	25,680,426	---	---	52,733,174
Grant revenue	---	---	---	---	19,127,202	---	19,127,202
Notes receivable	350,664	5,175,587	2,530,000	---	1,911,210	25,099	9,992,560
Due from State	555,633	---	98,819	---	---	---	654,452
Due from other municipalities	15,160	---	---	---	---	---	15,160
Due from Shelby County Health Care Corporation	---	677,113	---	---	---	---	677,113
Other receivables	57,459	---	---	---	---	199	57,658
	$ 275,856,475	$ 163,749,331	$ 2,835,385	$ 373,341,499	$ 22,634,937	$ 25,298	$ 838,442,925

Internal service funds have deferred revenue of $3,883,021 for unearned premiums. The proprietary Consolidated Codes Enforcement Fund has deferred revenue of $84,892 for building permits and licensing fees paid in advance.

(H) Debt and Long-term Liabilities

Debt issued during current year:
In September 2009, the County issued General Obligation Bonds in a principal amount of $120,000,000. The bonds are being issued to refinance $120,000,000 of the County's outstanding capital Extendible Municipal Commercial Paper Notes. The $120,000,000 bond issue consisted of $60,000,000 in General Obligation Public Improvement and School Bonds 2009 Series B and $60,000,000 in General Obligation Public Improvement and School Bonds 2009 Series C (Federally Taxable – Build America Bonds – Direct Payment).

As of December 1, 2009 the County entered into a loan agreement with the State of Tennessee for $55,120,000 related to Qualified School Construction Bonds issued by the State on behalf of the County. The proceeds of this loan must be used for specific school capital projects. This loan is a general obligation of Shelby County, backed by the full faith and credit and unlimited taxing power of the County, as well as all State shared revenue. As this loan is very similar to the general obligation bonds, it is included with general obligation bonds hereafter in this note and is identified as "2009 QSCB Loan".

Changes in short term debt:
Extendible Municipal Commercial 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, 2009	Additions	Reductions	Balance June 30, 2010
2008 EMCP	$ 120,000,000	$ ---	$ 120,000,000	$ ---
Total	$ 120,000,000	$ ---	$ 120,000,000	$ ---

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

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Due Within One Year
Governmental activities:					
Bonds and loans payable	$ 1,627,860,459	$ 179,794,723	$ (100,395,000)	$ 1,707,260,182	$ 110,960,572
Net premium and issuance cost of bonds issued	29,327,922	4,162,154	(6,166,071)	27,324,005	5,411,908
Claims and judgments	7,037,805	75,519	(570,034)	6,543,290	11,710
Landfill postclosure care costs	3,360,831	---	(98,585)	3,262,246	111,848
Sick and annual leave	21,323,992	10,211,385	(9,825,909)	21,709,468	13,836,517
Net post employment benefit obligations	4,234,617	6,809,670	---	11,044,287	---
Total governmental activities	$ 1,693,145,626	$ 201,053,451	$ (117,055,599)	$ 1,777,143,478	$ 130,332,555
Business-type activities:					
Capitalized lease obligations	$ 906,177	$ ---	$ (140,113)	$ 766,064	$ 146,823
Sick and annual leave	4,869,249	2,018,153	(1,622,973)	5,264,429	3,531,905
Net post employment benefit obligations	1,035,218	1,585,755	---	2,620,973	---
Total business-type activities	$ 6,810,644	$ 3,603,908	$ (1,763,086)	$ 8,651,466	$ 3,678,728

Bonds and loans payable additions include $4,674,723 accretion of zero coupon bonds.

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end $115,465 of sick and annual leave payable, $6,187,442 of claims and judgments payable, and $41,484 of post employment benefit obligations from the internal service funds are included in the above amounts. All other long-term liabilities of governmental activities other than debt are liquidated by the general fund.

General obligations bonds and loans:
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. The following bond issues are outstanding:

Description	Date Issued	Interest Rates	Principal Balance	Last Maturity Date
1996B Refunding Issue	11/01/1996	5.00 - 6.00	$ 31,476,064	12/01/2016
1997B Refunding Issue	11/01/1997	4.50 - 5.75	16,904,416	08/01/2016
1999B Refunding Issue	02/01/1999	3.55 -5.25	19,115,000	04/01/2013
2001A Public Imp/Schools	12/01/2001	4.50 - 5.00	6,249,999	04/01/2011
2001A Refunding Issue (a)	03/01/2001	Variable	9,800,000	03/01/2011
2003A Public Imp/Schools	06/10/2003	4.375 - 5.00	108,445,000	03/01/2028
2003A Special Rural Schools	12/02/2003	2.50 - 5.00	26,880,000	11/01/2028
2004A Public Imp/Schools	03/31/2004	3.00 - 5.00	26,274,999	04/01/2014
2004B Public Imp/Schools (a)	04/15/2004	Variable	237,705,003	04/01/2030
2005A Refunding Issue	03/10/2005	3.00 - 5.00	342,525,000	04/01/2025
2006A Public Imp/Schools	02/22/2006	5.00	46,415,000	03/01/2016
2006B Public Imp/Schools (a)	02/22/2006	Variable	159,590,000	03/01/2031
2006C Refunding Issue (a)	11/30/2006	Variable	241,875,000	12/01/2031
2009A Refunding Issue	04/02/2009	2.75 - 5.00	213,255,000	04/01/2022
2009A Public Imp/Schools	09/30/2009	2.25 - 5.00	60,000,000	04/01/2024
2009C Public Imp/Schools	09/30/2009	2.25 - 5.00	60,000,000	04/01/2024
2009 QSCB Loan	12/01/2009	1.515	55,120,000	09/15/2026
			1,661,630,481	
		Accreted Value of Bonds	45,629,701	
		Total General Obligation Bonds	$ 1,707,260,182	

(a) Interest rate swap agreements are in place related to these bond issues, as explained below in this note.

These bonds represent borrowings for the following:

General government	$ 476,449,093
Education	1,185,181,388
	1,661,630,481
Accreted value of bonds	45,629,701
	$ 1,707,260,182

Interest expense in the Debt Service Fund during the fiscal year ended June 30, 2010 was $69,936,731. Entity wide interest was $70,146,945 which includes interest paid for the Debt Service Fund and interest paid on the short term commercial program for the Capital Improvement Projects Fund.

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, $138,005,000 of outstanding bonds that were advance refunded prior to Fiscal Year 2010 are considered defeased at June 30, 2010. Specific defeased maturities are shown on the combining and other statements and schedules for General Obligation Bonds.

The County is indebted for serial bonds and capital appreciation bonds and notes and variable bonds with interest rates varying from 2.50% to 6.00%. 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 variable rate bond notes are 5.345% for the 2001 Series A General Obligation Weekly Adjustable/Fixed Rate Bonds, 2.996% for the 2004 Series B General Obligation Variable Rated 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 $220,550,000 and 4.26% on the notional amount of $21,320,000 for the 2006 Series C Variable Rate Demand Refunding Bonds are as follows:

Years Ended June 30	Principal	Interest	Total
2011	$ 107,807,784	$ 69,178,040	$ 176,985,824
2012	93,761,208	80,195,371	173,956,579
2013	86,019,051	81,541,616	167,560,667
2014	97,127,057	64,245,623	161,372,680
2015-2019	467,638,379	245,395,252	713,033,631
2020-2024	415,067,013	128,312,716	543,379,729
2025-2029	291,069,989	54,465,150	345,535,139
2030-2033	103,140,000	9,519,603	112,659,603
	1,661,630,481	732,853,371	2,394,483,852
Accreted value of Bonds	45,629,701	(45,629,701)	---
	$ 1,707,260,182	$ 687,223,670	$ 2,394,483,852

Interest rate swap agreements:
As of June 30, 2010 Shelby County has six interest rate swap agreements, described below. Each of these Swaps have been evaluated using the GASB 53 guidelines and all have been determined to be hedgeable.

Swap One: Executed with Morgan Guaranty Trust Company on 12/18/1998 in connection with the 1992 Series and 1993 A Bonds and subsequently kept in place for the General Obligation Weekly Adjustable/Fixed Rate Refunding Bonds, 2001 Series A (which refunded a portion of the 1992 and 1993 issues):

Swap Objective: Shelby 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	5.35%	SIFMA	$1,025,000

Swap Terms:
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: The swap, as of June 30, 2010 has a net value of ($315,092). The total mark-to-market was ($479,310) of which approximately ($164,218) is accrued interest from 3/1/2010 to the valuation date, June 30, 2010. 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 June 30, 2010, below are the principal and interest requirements of the debt and the net swap payments (assuming SIFMA equals its current level of .25% for the term of the swap). Interest and 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
2011	$ 9,800,000	$ 34,018	$ 489,510	$ 10,323,528
Total	$ 9,800,000	$ 34,018	$ 489,510	$ 10,323,528

Credit Risk: Because the swap has a negative value on June 30, 2010, 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.

Swaps Two and Three: In April 2009, the 2008 Series A General Obligation Refunding Bonds and the 2008 Series B General Obligation Variable Rate Demand Refunding Bonds were refunded and the related swaps were transferred to the 2004B General Obligation Bonds and a swap related to the 2004B General Obligation Bonds was cancelled. One transferred swap was executed with Goldman Sachs Mitsui Marines Derivative Products (Goldman) on 1/15/1999 in connection with the 1999 Series A General Obligation Variable Rate Demand and subsequently kept in place for the 2008 Series B Bonds (which refunded the 1999 issue) and the second transferred swap was executed with Loop Financial Products (LFP) on 6/23/2005 in connection with the 2008 Series A General Obligation Refunding Bonds (which refunded a portion of the 1998 issue).

Swap Objective: These two swaps were issued to (i) lower it's borrowing costs by entering into a swap in connection with its 1998 Series A General Obligation Variable Rate Demand Refunding Bonds and (ii) to take advantage of 40 year lows in interest rates to refund high coupon debt and to receive an upfront cash payment for capital expenditures to reduce debt issuance in the future.

Swap Terms:

Trade Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Underlying Index	Upfront Cash Payment
1/15/1999	1/28/1999	4/1/2020	$96,150,000	4.115%	7.6% 1 - month	None
6/23/2005	3/1/2008	3/1/2022	$121,485,000	4.660%	SIFMA	$8,571,000

On 1/28/1999, the Goldman swap became effective at the same time the 1999 Series A General Obligation Variable Rate Demand Refunding Bonds were issued. On May 1, 2008, the 2008 Series B General Obligation Variable Rate Demand Refunding Bonds refunded the 1999 Series A General Obligation Variable Rate Demand Refunding Bonds. The 2008 Series B bonds kept the swap in place but changed the type of the underlying variable rate bonds from auction rate securities to variable rate demand bonds. In April 2009, the 2008 Series B Bonds were refunded and this swap was transferred to the 2004B General Obligation Bonds. 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 76.6% of 1-month LIBOR. The swap and refunding bonds have the same original notional amount of $96,150,000 and have the same principal amortization and maturity. On 3/1/2008 the County received a payment of $8,571,000 from the Counterparty for granting the Counterparty, Loop Financial Products the right to enter into a swap on 6/23/2005. The swap was exercised and the County refunded a portion of its 1998 Series A 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 4.66% and receive SIFMA. The swap has 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: The swaps, as of June 30, 2010 have a net value of ($28,685,825) consisting of ($7,781,925) for the Goldman swap and ($20,813,899) for the LFP swap. The total mark-to-market was ($26,617,252) and ($2,068,572) is accrued interest from 3/1/2010 to the valuation date, June 30, 2010. 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: These swaps are in conjunction with the 2004B General Obligation Bonds which have a principal balance at June 30, 2010 of $237,705,000. The two swaps have a notional amount of $198,185,000 and have a more rapid maturity than the Bonds. The cash flows below assume that for the LFP swap SIFMA equals its current level, as of 6/30/10 of .25% and for the Goldman swap 1-month LIBOR equals its current level of .35% for the term of the swaps. Interest and net swap payments will fluctuate as SIFMA and LIBOR change.

Fiscal Year Ended June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Net Swap Payments	Total
2011	$ ---	$ 831,968	$ 8,703,536	$ 9,535,504
2012	---	831,968	8,231,702	9,063,670
2013	---	831,968	7,594,131	8,426,099
2014	---	831,968	6,717,741	7,549,709
2015	8,290,000	831,968	5,600,185	14,722,153
2016	9,120,000	802,953	4,594,125	14,517,078
2017	10,030,000	771,033	3,797,388	14,598,421
2018	11,030,000	735,928	2,997,644	14,763,572
2019	12,140,000	697,323	2,182,268	15,019,591
2020	13,350,000	654,833	1,372,205	15,377,038
2021	14,685,000	608,108	688,865	15,981,973
2022	16,155,000	556,710	175,100	16,886,810
2023	17,770,000	500,168	---	18,270,168
2024	19,545,000	437,973	---	19,982,973
2025	21,500,000	369,565	---	21,869,565
2026	13,775,000	294,315	---	14,069,315
2027	15,150,000	246,103	---	15,396,103
2028	16,665,000	193,078	---	16,858,078
2029	18,335,000	134,750	---	18,469,750
2030	20,165,000	70,578	---	20,235,578
Total	$ 237,705,000	$ 11,233,258	$ 52,654,890	$ 301,593,148

Credit Risk: The County has credit exposure to Goldman and LFP equivalent to the fair value of the swaps. If Goldman or Loop 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 Aa1/AAA by Moody's and Standard & Poor's, respectively. The current ratings of Loop are AA-/Aa1/A+ by Fitch, Moody's and Standard & Poor's, respectively. The County could also be exposed to credit risk depending on the fair value of the swap at any given time. To mitigate credit risk, if Standard & Poor's and Moody's rates the credit worthiness of LFP (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 Moody's treasuries or cash will be pledged.

Termination Risk If either swap has an unanticipated termination or the County exercises its option to terminate, the County may owe a termination payment to Goldman and/or Loop equal to the fair value of the swap at that time, if 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.

As of June 30, 2010, LFP has a credit guarantee from Deutsche Bank AG, rated Aa1/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 maturity in 2022.

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 Goldman of 76.6% of 1-month LIBOR or the receipt from LFP of SIFMA. This basis differential could cause the expected savings 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 on the Goldman swap. There is no tax risk on the LFP swap.

Swaps Four and Five: 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:

SwapTerms:

Option Notification Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Underlying Index	Upfront Cash Payment
11/29/2006	12/1/2006	12/1/2011	$52,615,000	4.27%	SIFMA	$1,503,000
N/A	11/30/2006	12/1/2031	$231,160,000	3.83%	SIFMA	None

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.
The County received a payment of $1,503,000 on 12/1/2006 from the Morgan Keegan Financial Products, Inc. for entering into a swaption on the trade date of 6/23/2005. 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: The swaps, as of June 30, 2010 have a net value of ($22,452,852). The total mark-to-market was ($23,149,465) of which approximately ($696,613) is accrued interest from 6/1/2010 to the valuation date, June 30, 2010. 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 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 June 30, 2010 (assuming SIFMA equals its current level of .25% for the term of the Swap). Interest and net swap payments will fluctuate as SIFMA changes.

Fiscal Year	Fixed Rate Bonds		Net Swap	
Ended June 30	Principal	Interest	Payment	Total
2011	$ 22,825,000	$ 3,350,862	$ 8,305,718	$ 34,481,580
2012	5,980,000	3,141,453	7,767,973	16,889,426
2013	4,725,000	3,063,629	7,550,311	15,338,940
2014	4,910,000	2,993,584	7,377,700	15,281,284
2015	5,105,000	2,920,777	7,198,282	15,224,059
2016	5,300,000	2,845,134	7,032,413	15,177,547
2017	5,515,000	2,766,510	6,818,127	15,099,637
2018	5,725,000	2,684,797	6,616,763	15,026,559
2019	9,195,000	2,576,330	6,349,641	18,120,971
2020	9,640,000	2,439,403	6,029,554	18,108,956
2021	24,080,000	2,194,263	5,408,859	31,683,122
2022	25,285,000	1,835,386	4,524,501	31,644,887
2023	26,290,000	1,460,443	3,600,538	31,350,981
2024	27,330,000	1,070,633	2,646,319	31,046,952
2025	6,530,000	824,475	2,032,198	9,386,673
2026	6,785,000	727,677	1,793,660	9,306,337
2027	7,050,000	627,098	1,545,807	9,222,905
2028	7,325,000	522,594	1,291,714	9,139,308
2029	7,610,000	414,019	1,020,719	9,044,738
2030	7,910,000	301,190	742,679	8,953,870
2031	8,220,000	183,928	453,711	8,857,639
2032	8,540,000	62,085	153,457	8,755,541
Total	$ 241,875,000	$ 39,006,270	$ 96,260,644	$ 377,141,912

Credit Risk: Because both swaps have a negative value on June 30, 2010, the County does not have credit risk. However, if the fair value of the swaps 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 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 long-term, unsecured, unenhanced debt rating below A3 by Moody’s or A- by Standard & Poor’s, an Additional Termination Event has occurred.

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 Six: 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.

SwapTerms:

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 3/1/2016 4.43% thereafter	SIFMA

On 2/14/2006, the County entered into a fixed payer swap with an effective date of 2/22/2006. Under the terms of the swap, the County pays a fixed rate of 3.503% until 3/1/2016 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. As of June 30, 2010 the notional amounts of the 2006B GSMMDP swap and the 2006B MKFP swap are $119,590,000 and $40,000,000 respectively.

Fair Value of Swap: The swap, as of June 30, 2010 has a net value of ($26,687,381). The total mark-to-market was ($28,500,572) of which approximately ($1,813,191) is accrued interest from 3/1/2010 to the valuation date, June 30, 2010. 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.

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 June 30, 2010 (assuming SIFMA equals its current level of .25% for the term of the Swap). Interest and 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
2011	$ ---	$ 427,600	$ 5,031,873	$ 5,459,473
2012	---	427,600	5,030,342	5,457,942
2013	---	427,600	5,031,873	5,459,473
2014	---	427,600	5,031,873	5,459,473
2015	---	427,600	5,031,873	5,459,473
2016	---	427,600	5,030,342	5,457,942
2017	7,425,000	427,600	6,511,272	14,363,872
2018	2,020,000	407,717	6,208,332	8,636,049
2019	---	402,308	6,125,916	6,528,224
2020	2,705,000	402,308	6,124,476	9,231,784
2021	8,505,000	395,024	6,015,552	14,915,576
2022	9,575,000	372,250	5,668,548	15,615,798
2023	7,130,000	346,610	5,277,888	12,754,498
2024	7,450,000	327,517	4,985,812	12,763,329
2025	23,900,000	307,457	4,683,024	28,890,481
2026	26,130,000	243,457	3,707,904	30,081,361
2027	20,110,000	173,486	2,641,800	22,925,286
2028	6,625,000	119,635	1,820,884	8,565,519
2029	12,680,000	101,797	1,551,012	14,332,809
2030	6,055,000	67,842	1,033,668	7,156,510
2031	19,280,000	51,628	786,624	20,118,252
Total	$ 159,590,000	$ 6,712,236	$ 93,330,888	$ 259,633,124

Credit Risk: Because the swap has a negative value on June 30, 2010, 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 3/1/2016. 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.

Claims and Judgments
The County has recognized long-term debt liabilities for claims and judgments of $6,543,290 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) Fund Balances by Purpose

Following is more detailed information on the governmental fund balances**:**

	General Fund	Debt Service Fund	Capital Projects Fund	Education Fund	Grants Fund	Nonmajor Special Revenue Funds	Total
Fund balances:							
Restricted for:							
Grants and sponsored projects	$ ---	$ ---	$ ---	$ ---	$ 14,313,849	$ ---	$ 14,313,849
Special revenue activities	567,558	---	---	---	---	17,549,023	18,116,581
Educational projects and funding	---	7,486,042	56,560,548	9,136,859	---	---	73,183,449
Conservation projects	---	---	52,474	---	---	---	52,474
Committed to:							
Approved carryforward appropriations	799,402	---	8,234,947	---	---	---	9,034,349
Public improvement and educational projects	---	95,043,193	---	---	---	---	95,043,193
Assigned to:							
Purchase order encumbrances	1,096,493	---	7,452,384	---	---	---	8,548,877
Infrastructure and administrative improvements	---	---	29,039,256	---	---	---	29,039,256
Unassigned	75,694,460	---	---	---	(29,842,455)	---	45,852,005
Total fund balances	$ 78,157,913	$ 102,529,235	$ 101,339,609	$ 9,136,859	$ (15,528,606)	$ 17,549,023	$ 293,184,033

(J) Interfund Receivables, Payables and Transfers

Interfund receivables and payables consist of the following:

Receivable Fund	Payable Fund	Amount
General Fund	Enterprise Funds	$ 892,772
	Internal Service Funds	55,647
	Grant Funds	25,291,733
Debt Service Fund	General Fund	2,846,727
Nonmajor Governmental Funds	General Fund	1,363,569
Total		$ $30,450,448

Due To/From Component Units

Receivable Entity	Payable Entity		Amount
Debt Service Fund	The Med (component unit)	$	677,113
The Med (component unit)	General Fund		266,519
Board of Education (component unit)	Capital Projects Fund		6,258,000
Education Fund	Board of Education (component unit)		21,815
Total		$	$7,223,447

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 Med (component unit) from the General Fund represents expenses accrued at year-end but not yet paid to the Med. The balance payable to the Education Fund from the Board of Education (component unit) represents the amount overpaid to the Board of Education for the fiscal year.

The total due to component units disclosed here, $6,524,519, is less than the amount disclosed on the Statement of Net Assets due to $8,045,677 of deferred revenues in the funds that are earned but unavailable and are payable to the component unit when they become available.

Transfers during the year were as follows:

Transfers Out:	Transfers In:	Amounts
General Fund	Enterprise Funds	$ 7,859,837
	Debt Service Fund	542,182
	Grants Fund	3,032,312
	Nonmajor Governmental Funds	1,281,456
	Internal Service Funds	1,000,000
Debt Service Fund	Capital Projects Fund	6,564,000
Capital Projects Fund	Debt Service Fund	2,298,008
	Grants Funds	33,199
Grants Fund	General Fund	1,957,164
	Grants Fund	593,268
	Enterprise Funds	180,111
Nonmajor Governmental Funds	General Fund	1,400,759
	Debt Service Fund	6,805,989
	Grants Fund	143,323
	Capital Projects Fund	5,506,200
Total transfers out of govermental fund types		39,197,808
Enterprise Funds	Grants Fund	356,653
Internal Service Funds	General Fund	631,374
Total transfers out by proprietary fund types		988,027
Total all fund types		$ 40,185,835

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.

(K) 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 (property taxes, other local taxes, state revenue, federal and local revenue, charges for services, fines, fees and permits, investment income) are classified as other revenue.

Other revenue for the year ended June 30, 2010 is detailed below:

	General Fund	Debt Service Fund	Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
Private donor grants	$ 16,592	$ ---	$ 6,745,594	$ ---	$ 6,762,186
Miscelleanous income	277,740	3,550,000	604,858	---	4,432,598
Forfeitures and seizures	203,707	---	---	3,543,151	3,746,858
Housing principal & interest	---	940,261	154,670	---	1,094,931
Total other income	$ 498,039	$ 4,490,261	$ 7,505,122	$ 3,543,151	$ 16,036,573

Miscellaneous income in the Debt Service Fund includes $3,500,000 received from the City of Memphis for the County's 50% interest in the Pyramid Arena; previously an organization jointly governed with the City of Memphis.

(L) Risk Financing and Related Insurance Issues

Shelby County maintains a self-insured Group Health Insurance Fund for its active employees and their dependents, funded by participation of both the County and its employees. Incurred but not reported (IBNR) claims liabilities of the Group Health 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 Health Insurance Fund:

	2010	2009
Insurance claims liabilities at the beginning of the fiscal year	$ 3,814,805	$ 4,964,463
Incurred claims and claim adjustment expenses	45,552,416	43,111,666
Payment of claims and claim adjustment expenses	(45,384,887)	(44,261,324)
Claims and claim adjustment liabilities at the end of the fiscal year	$ 3,982,334	$ 3,814,805

The County maintains a self-insured Tort Liability Fund funded by premiums paid by departments using County vehicles and by transfers 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:

	2010	2009
Claims and claim adjustment liabilities at the beginning of the fiscal year	$ 3,423,043	$ 3,736,493
Incurred claims and claim adjustment expenses	276,004	172,063
Payment of claims and claim adjustment expenses	(625,099)	(485,513)
Claims and claim adjustment liabilities at the end of the fiscal year	$ 3,073,948	$ 3,423,043

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:

	2010	2009
Claims and claim adjustment liabilities at the beginning of the fiscal year	$ 6,874,384	$ 7,143,487
Incurred claims and claim adjustment expenses	3,803,216	2,922,079
Payment of claims and claim adjustments expense	(4,084,584)	(3,191,182)
Claims and claim adjustment liabilities at the end of the fiscal year	$ 6,593,016	$ 6,874,384

The total of claims liability disclosed here, $13,649,298 is less than the sum of claims reported on the Statement of Net Assets and the long-term claims disclosed in Note IV (H) due to a $355,848 long term liability to be paid by the general fund.

(M) Contingencies and Commitments

The County's governmental funds have obligations at fiscal year-end contingent upon contractors' and vendors' performance, for outstanding purchase orders and outstanding contracts. These obligations are included in the restricted, committed or assigned fund balances in the governmental funds.

The amounts of these encumbrances are as follows:

General Fund	Capital Projects Fund	Grants Fund	Nonmajor Governmental Funds	Total
$ 1,724,623	$ 7,595,350	$ 10,855,512	$ 256,716	$ 20,432,201

The Capital Projects Fund had additional commitments specific to capital projects of $55,354,180 as of June 30, 2010.

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 (N).

(N) 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 Community Redevelopment Agency (CRA)
The Community Redevelopment Agency (CRA) is empowered to do all things necessary to plan, finance and implement development and redevelopment activities in blighted areas of Memphis and Shelby County. The CRA monitors trusts established to fund debt issued with repayment to be provided by tax increment financing for the Uptown Redevelopment project and the Highland Row project. Three board members are appointed by the City mayor with approval of the City Council, three members are appointed by the County mayor with approval of the County Commission and one member is jointly appointed by the City and County mayors with joint approval by the City Council and County Commission. All board member terms are for four years. No financial report was available for the CRA.

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, 2010 the County contributed $2,500,000 to the operations of the Convention Center from the hotel/motel tax fund. 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. 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 $208,047,862, net of discounted bond issuance, owed as of December 31, 2009, plus $3,363,045 accrued 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, 2010 the County transferred to the Sports Authority for debt service purposes the amount of $1,663,783 from car rental taxes and $14,996,596 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.

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 $122,610 for insurance on the facility. Since the PBA's only assets are the ownership rights to the FedEx Forum Arena, and since there has been no financial activity for the fiscal year, the Tennessee Comptroller of the Treasury has granted approval for an exemption from the annual audit requirement. As of December 31, 2007 - the most recent financial statements available - the PBA reported assets of $209,123,653 and net assets of $209,123,653.

The following is a summary of the financial information of the joint ventures, as of and for the year ended June 30, 2010 (not covered by the report of independent accountants):

	Convention Center	Port Commision	Sports Authority
Assets	$ 11,179,378	$ 27,106,762	$ 45,605,947
Liabilities	2,000,124	6,911,984	215,602,767
Net Assets	9,179,254	20,194,778	(169,996,820)
Operating Revenues	4,197,902	2,479,812	---
Operating Expenses	7,299,982	2,383,654	9,456,054
Other Revenues	2,761,682	115,501	16,405,343
Other Expenses	202,170	540,637	6,098,663
Change in Net Assets	(542,568)	(328,978)	850,626

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, 2010 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, a 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 $2,530,000 as of June 30, 2010. During the year ended June 30, 2010 the Depot repaid $175,000 of principal on this note plus $133,950 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.

(O) Other Postemployment Benefits

Retired employees of the County and former employees receiving long-term disability benefits through the County's program may participate in postemployment benefits (health and life insurance) through the Shelby County OPEB Trust (Trust). The Trust is a single-employer defined benefit plan. The benefits provided are health insurance and life insurance. Financial statements for the Trust can be obtained from Administrator of Finance, Shelby County Government, 160 N. Main Street, Suite 1150, Memphis, Tennessee 38103.

Annual OPEB Cost and Net OPEB Obligations
The County's OPEB cost and net OPEB obligations to the Trust for the current year were as follows:

Annual Required Contribution (ARC)	$	29,093,000
Interest on Net OPEB Obligation		277,000
Adjustment to ARC		(363,000)
Annual OPEB Cost		29,007,000
Contributions made (Per Actuarial Report)		(20,611,575)
Increase in Net OPEB Obligation		8,395,425
Net OPEB Obligation beginning of year		5,269,835
Net OPEB Obligation end of year	$	13,665,260

The OPEB Trust has been in existence for only three years. Limited trend information may be seen from the table that follows. Note that a special, one-time employer contribution of $23,892,191 was made in FY 2008.

Fiscal Year Ended	Annual OPEB Costs (AOC)	Actual Contributions	Percentage of AOC Contributed	Net OPEB Obligation
June 30, 2010	$ 29,007,000	$ 20,611,575	71.1%	$ 13,665,260
June 30, 2009	31,600,000	18,329,123	58.0%	5,269,835
June 30, 2008	34,227,000	42,228,042	123.4%	(8,001,042)

For government-wide and proprietary funds the County reports OPEB expenses and net OPEB obligation using the economic resources measurement focus and the accrual basis of accounting. In governmental funds expenses are reported at amounts paid or payable to the Trust in the current year.

Funded Status and Funding Progress:
As of July 1, 2009, the most recent actuarial valuation date, the plan was 15.1% funded. The actuarial accrued liability for benefits was $303 million, and the actuarial value of assets was $46 million, resulting in an unfunded actuarial accrued liability; (UAAL) of $258 million. The covered payroll (Annual payroll of active employees covered by the plan) was $248 million and the ratio of the UAAL to the covered payroll was 103.7%.

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation, Method and Assumptions

Valuation date	July 1, 2009
Actuarial cost method	Projected unit credit
Amortization method	Closed 30 year level dollar period beginning July 1, 2007
Remaining amortization period	28 years as July 1, 2009
Asset valuation method	Market value
Rate of investment return	5.25%
Projected salary increases	4.00%
Healthcare cost trend rate	9.5% graded to 5.0% over 9 years

(P) 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 2010 were based on the actuarial report as of June 30, 2009.

In accordance with the actuarial valuation as of June 30, 2009 the employer contribution rate required was 6.83% 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 $28,771,378 ($19,393,150 employer contributions and $9,378,228 employee contributions). The actuarial required employer contribution of $16,652,005 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.

Annual Pension Cost and Net Pension Obligation
The county's annual pension cost and net pension obligation to the System for the current year were as follows:

Annual Required Contribution (ARC)	$	16,652,005
Interest on Net Pension Obligation		(2,662,496)
Adjustment to ARC		3,828,154
Annual Pension Cost		17,817,663
Contributions made (Per Actuarial Report)		(19,393,150)
Increase in Net Pension Obligation		(1,575,487)
Net Pension Obligation beginning of year		(32,272,678)
Net Pension Obligation end of year	$	(33,848,165)

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	$ 17,817,663	108.8%	$ (33,848,165)
June 30, 2009	$ 16,222,013	115.5%	$ (32,272,678)
June 30, 2008	$ 13,671,108	137.1%	$ (29,761,627)

Funded Status and Funding Progress:
As of June 30, 2010 the most recent actuarial valuation date, the plan was 97.1 percent funded. The actuarial accrued liability for benefits was $1,084 million, and the actuarial value of assets was $1,053 million, resulting in an unfunded actuarial liability (UAAL) of $31 million. The covered payroll (Annual payroll of active employees covered by the plan) was $267 million and the ratio of the UAAL to the covered payroll was 11.7%.

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation, Method and Assumptions

Valuation date	June 30, 2010
Actuarial cost method	Projected unit credit actuarial cost method
Amortization method	Amortizations are based on level dollar method and the period closed.
Remaining amortization period	16 years on June 30, 2010
Asset valuation method	10-year smoothing method
Rate of investment return	8.25%
Projected salary increases	Graded salary scale (3.00% to 8.50%)
Cost-of-living adjustments	CPI –U up to 4.00% per year for Plan A and Plan C

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.

(Q) Subsequent Events

In October 2010 the State of Tennessee issued Qualified School Construction Bonds of which $67,260,000 has been allocated to Shelby County in the form of loan repayable over 17 years. Shelby County has agreed to provide the proceeds of this loan to the Memphis City Schools and Shelby County Schools for specific approved school construction projects.