MEMPHIS AND SHELBY COUNTY
SPORTS AUTHORITY, INC.
Memphis, Tennessee

Report on Audit of Financial Statements

For the Year Ended December 31, 2010

MEMPHIS AND SHELBY COUNTY
SPORTS AUTHORITY, INC.
Memphis, Tennessee

TABLE OF CONTENTS

PAGE

INTRODUCTORY SECTION
Directory....1

FINANCIAL SECTION
Independent Auditors' Report....2 - 3

BASIC FINANCIAL STATEMENTS
Government-wide Financial Statements
Statement of Net Assets....4

Statement of Activities....5

Fund Financial Statements
Governmental Funds
Balance Sheet....6

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets....7

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds....8

Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities....9

Notes to the Financial Statements....10 - 21

INTERNAL CONTROL AND COMPLIANCE SECTION
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards....22 - 23

INTRODUCTORY SECTION

MEMPHIS AND SHELBY COUNTY
SPORTS AUTHORITY, INC.
DIRECTORY
December 31, 2010

BOARD MEMBERS

Bill McGaughey, Chairman
Willie Gregory, Vice Chairman
Ben Daniel, Secretary/Treasurer
Pat Carter
Ernest L. Gunn
R. C. Johnson
Valerie Morris
Mark Rosenberg
Van Weinberg

COUNSEL

Bruce Brooke
Memphis, TN 38103

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Banks, Finley, White & Co.
Memphis, Tennessee

FINANCIAL SECTION

BANKS, FINLEY, WHITE & CO.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Memphis and Shelby County Sports Authority, Inc.
Memphis, Tennessee

We have audited the accompanying financial statements of the governmental activities and the major fund of the Memphis and Shelby County Sports Authority, Inc. (the Authority), a jointly governed organization of Shelby County and the City of Memphis, Tennessee, as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Authority has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority, as of December 31, 2010, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

P.O. BOX 1774 • MEMPHIS, TENNESSEE 38101
1450 POPLAR AVENUE • MEMPHIS, TENNESSEE 38104-2901 • (901) 274-6702 • (901) 274-6154 FAX

In accordance with Government Auditing Standards, we have also issued our report dated June 14, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions, laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Banks, Finley, White & Co.

Memphis, Tennessee
June 14, 2011

MEMPHIS AND SHELBY COUNTY
SPORTS AUTHORITY, INC.

STATEMENT OF NET ASSETS
December 31, 2010

ASSETS

	2010
CURRENT ASSETS:	
Cash and cash equivalents	$ 113,318
Investments	538,285
Restricted assets:	
Cash equivalents	33,807,196
Due from other governments	2,006,434
Interest receivable	404
Investments	18,376,421
TOTAL ASSETS	$ 54,842,058

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	$ 1,520
Accrued interest	4,546,846
Long-term liabilities:	
Due within one year	3,650,000
Due in excess of one year	205,323,894
TOTAL LIABILITIES	213,522,260
NET ASSETS:	
Unrestricted	(158,680,202)
Total Net Assets	(158,680,202)
TOTAL LIABILITIES AND NET ASSETS	$ 54,842,058

The accompanying notes are an integral part of the financial statements

MEMPHIS AND SHELBY COUNTY
SPORTS AUTHORITY, INC.

STATEMENT OF ACTIVITIES
December 31, 2010

Functions/Programs	Expenses	Program Revenues: Charges for Service	Net (Expense) Revenue and Changes in Net Assets: Total
Primary government			
Government activities:			
Professional fees	$ 25,969	$ -	$ (25,969)
Capital purchases and repairs	1,281,869	-	(1,281,869)
Licenses	20	-	(20)
Interest and expenses on debt	12,708,673	-	(12,708,673)
Amortization of bond and swap costs	210,358	-	(210,358)
	$ 14,226,889	$ -	(14,226,889)
General revenues:			
Net Swap receipt (payment)			29,572
Amortization of prior swap proceeds			339,130
Investment income			1,053,553
Restricted revenues:			
Car rental tax			1,957,800
Sales tax			3,539,965
Hotel/Motel tax			14,996,596
Seat rental fees			1,126,891
Payments in lieu of tax			2,500,000
Total revenues			25,543,507
Change in net assets			11,316,618
Net assets - beginning			(169,996,820)
Net assets - ending			$ (158,680,202)

The accompanying notes are an integral part of the financial statements

MEMPHIS AND SHELBY COUNTY
SPORTS AUTHORITY, INC.
(Governmental Funds)

BALANCE SHEET
As of December 31, 2010

ASSETS

	2010
Assets:	
Cash and cash equivalents	$ 113,318
Investments	538,285
Restricted assets:	
Cash and cash equivalents	33,807,196
Due from other governments	907,166
Interest receivable	404
Investments	18,376,421
Total Assets	$ 53,742,790

LIABILITIES AND FUND BALANCE

Liabilities:	
Accounts payable	$ 1,520
Restricted deferred revenue	-
Total Liabilities	1,520
Fund Balance:	
Unreserved, undesignated	650,083
Reserved	53,091,187
Total Fund Balance	53,741,270
TOTAL LIABILITIES AND FUND BALANCE	$ 53,742,790

The accompanying notes are an integral part of the financial statements

MEMPHIS AND SHELBY COUNTY
SPORTS AUTHORITY, INC.

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

For the Year Ended December 31, 2010

Amounts reported for the governmental activities in the statement of net assets (Page 4) are different because:

Fund balance - total governmental funds (Page 6)	$	53,741,270
Receivables not available to pay for current expenditures and, therefore, are deferred in the funds.		1,099,269
Long-term liabilities, including notes, bonds and leases payable, are not due in the current period and, therefore, are not reported in the funds.		(226,545,307)
Payables, such as accrued interest payable, are not due and payable in the current period, and therefore are not reported in the funds.		(4,546,846)
Unamortized swap proceeds recorded as revenue in the fund statements and recorded as liability in the statement of net assets.		(3,023,913)
Unamortized bond discount and premium is expensed in the fund statements and recorded as an liability in the statement of net assets.		20,595,325
Net assets - governmental activities (Page 4)	$	(158,680,202)

The accompanying notes are an integral part of the financial statements

MEMPHIS AND SHELBY COUNTY
SPORTS AUTHORITY, INC.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(GOVERNMENTAL FUNDS)
For the Year Ended December 31, 2010

	2010
REVENUES:	
General revenues:	
Investment income	$ 1,053,552
Net Swap receipt (payment)	18,586
Restricted revenues:	
Taxes	24,162,228
Investment income	10,985
Total Revenues	25,245,351
EXPENDITURES:	
Current:	
Professional fees	25,969
Capital purchases and repairs	1,281,869
Licenses	20
Debt service:	
Principal and refunding	3,107,224
Interest	11,518,285
Other debt service expenditures	31,419
Total Expenditures	15,964,786
Excess (deficiency) of revenues over expenditures	9,280,565
OTHER FINANCING SOURCES (USES):	
Refunding bonds issued	-
Payment to bond refunding escrow agent	-
Total Other Financing Sources and Uses	-
NET CHANGE IN FUND BALANCE	9,280,565
FUND BALANCE - BEGINNING	44,460,704
FUND BALANCE - ENDING	$ 53,741,269

The accompanying notes are an integral part of the financial statements

MEMPHIS AND SHELBY COUNTY
SPORTS AUTHORITY, INC.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010

Amounts reported for the governmental activities in the statement of activities (Page 5) are different because:

Net change in fund balance - total governmental funds (Page 8)	$	9,280,566
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(47,925)
The proceeds of refunding long-term debt provided current financial resources of governmental fund. These transactions do not have any effect on net assets.		-
The repayment of long-term debt uses current financial resources of governmental fund. These transactions do not have any effect on net assets.		3,105,000
Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities.		(359,987)
Swap proceeds are reported as revenue in the governmental funds, but are recorded as liability and amortized in the statement of activities.		339,130
Amortization of bond discount/premium are reported as an expense in the statement of activities, but as they are related to bonds, do effect governmental funds net assets.		(1,000,166)
Changes in net assets of governmental activities (Page 5)	$	11,316,618

The accompanying notes are an integral part of the financial statements

MEMPHIS AND SHELBY COUNTY
SPORTS AUTHORITY, INC.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity

The Memphis and Shelby County Sports Authority, Inc. (the Authority) is a jointly governed organization of Shelby County and the City of Memphis, Tennessee. The Authority was chartered in 1997 under Tennessee Code Annotated 7-67-101 the "Sports Authority Act of 1993". Pursuant to this state statute, the Authority is a public non-profit organization and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Authority was established to promote community development through sporting events. The Authority is deemed a government entity for financial reporting purposes.

B. 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The fund financial statements of the Authority are presented as a general fund, which is in the governmental fund category.

The accompanying 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. The Authority has determined a period of availability of sixty days after the end of the current fiscal period. Expenditures are recorded when the related liability is incurred, as under accrual accounting.

The most significant source of income is restricted for debt service payments. The County, City, and State have pledged various sources of revenue for repayment of the Bonds (described in Note 3C). The proceeds are deposited directly with the bond trustee and are reflected as restricted revenue on the Authority's books.

The Authority does not adopt a budget.

C. Assets, Liabilities, and Net Assets

Deposits and Investments

State statutes imply that the Authority must invest in the same type of investments allowed by the County and City, such as, certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations by the U.S. government or its agencies, repurchase agreements, as approved by the state director of local finance, and the state's local government investment pool. The invested funds must comply with Tennessee Code Annotated 5-8-301. The statute requires invested funds to the collateralized in accordance with state law.

Restricted Cash and Investments

Cash and Investments representing the proceeds of the 2002 Series Senior, and 2009 Series Senior and Subordinate Revenue Bonds and any debt service collections have been classified as restricted in the financial statements. These funds represent monies legally restricted for the construction of the project (described in Note 3C) and debt service of the Bonds.

Capital Assets

The Authority has not adopted a capitalization policy for the recording of capital assets. The Authority does not hold title to any real estate and at present does not have ownership of any other capital assets.

Deferred Revenue

Revenue that is measurable but not available for use is deferred in the fund financial statements. Deferred revenue consists of various tax revenues that can be reasonably estimated but may not be available for use on current period expenditures.

Net Assets

Governmental fund financial statements report all funds that have not been restricted or designated as unreserved. Government-wide financial statements report net assets in two categories 1) Unrestricted and 2) Restricted for arena construction and debt service.

Application of Restricted Funds

The Authority has elected to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Comparability and Consistency

The Authority has chosen not to present comparative statements for the fiscal year ended December 31, 2010.

D. Recent Accounting Standards

Issued June 2010, for periods beginning after June 2010, MSCSA will adopt GASB Statement No. 59, Financial Instruments Omnibus effective January 2011. The objective of this Statement is to improve existing standards regarding financial reporting of certain financial instruments and external investment pools. Statement No. 59 is intended to increase the consistency of measurements for financial instruments and provide clarification of existing standards to improve financial reporting in ways that benefit both users and preparers of financial reports.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

A. 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 reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities 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 states that "Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds." The details of this $(221,562) difference are as follows:

Sales tax received in February and March 2011	$	670,575
Sales tax received in February and March 2010		(713,402)
Car rental tax received in February and March 2011		258,669
Car rental tax received in February and March 2010		(233,907)
Seat Rental Fees February and March 2011		170,022
Seat Rental Fees February and March 2010		(199,882)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive in net assets of governmental activities	$	(47,925)

NOTE 3 - DETAILED NOTES ON ALL FUNDS:

A. Deposits and Investments

The Authority has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" for financial reporting of deposit and investment risks.

At December 31, 2010, investments of the Authority consisted of the following:

	Weighted Average Maturity (Months)	Fair Value or Carrying Amount
Commercial Paper	4	$ 18,376,421

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from interest rate risks, the Authority generally limits its investments to those with maturities of one year or less. The Authority's investment portfolio did not experience any significant fluctuations in fair value during the year.

Custodial Credit Risk

The Authority's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1 - State statute required that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Authority's agent in the Authority's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the Authority to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction. As of December 31, 2010, all bank deposits were fully collateralized or insured.

Credit Risk

The Authority's policies are designed to maximize investment earnings, while protecting the security of principal and providing adequate liquidity, in accordance with all applicable state laws. At December 31, 2010, the Authority's investments in commercial paper are rated P-1 by Moody's and A1+ by Standard and Poor's.

Investment Activity

Investment activity is reported as a net amount in the financial statements, but is made up of the following components:

Interest income	$ 1,074,016
Change in fair value of investments	(8,464)
Investment related expenses	(12,000)
Total investment income	$ 1,053,552

B. Capital Assets

The capital assets acquired by Memphis and Shelby County Sports Authority, Inc. are recorded as expenditures at the time of purchase; consequently, no fixed assets are included in their fund financial statements. The ownership and title to the arena was conveyed to the Memphis and Shelby County Public Building Authority, therefore, the asset is reflected in the books and records of the Public Building Authority.

C. Long-term Debt

2002 Bond Issue

The Authority issued revenue bonds on May 29, 2002. The bonds were issued as the Memphis and Shelby County Sports Authority, Inc. Revenue Bonds, 2002 Series A (Memphis Arena Project) in the aggregate principal amount of $113,325,000 and The Memphis and Shelby County Sports Authority, Inc., Revenue Bonds, 2002 Series B (Memphis Arena Project) in the aggregate principal amount of $88,965,000, collectively referred to as the "2002 Senior Bonds". The 2002 Senior Bonds were issued to provide funds to: a) pay a portion of the costs of the constructing, acquiring, erecting, extending, improving, equipping, renovating and repairing an arena facility b) pay the costs of acquiring a site or sites necessary and convenient for the Arena and demolishing the structures on the Arena site, c) pay any architectural, engineering, legal and consulting costs incident thereto, including start-up and other capitalized costs, d) initially fund a Debt Service Reserve Fund and other reserve funds and e) pay related costs of issuance, collectively, the uses referred to as (“the Project”).

The 2002 Senior Bonds were issued under the Sports Authority Act of 1993, Tennessee Code Annotated, Section 7-67-101 et seq., and applicable provisions of Title 9, Chapter 21, Tennessee Code Annotated (the “Act”), and were issued pursuant to a Trust Indenture dated as of May 1, 2002 (the “Indenture”) between the Authority and Wachovia Bank, National Association, as trustee (now, U. S. Bank) (the “Trustee”).

In conjunction with the 2002 Senior Bonds, subordinated bonds were issued as part of the financing package. Those bonds are referred to as: 2002 Series C Subordinate Lien Revenue Bonds, with an original principal amount of $18,535,000, 2002 Series D Junior Subordinate Lien Revenue Bonds, with an original principal amount of $2,699,414 and, 2002 Series E Junior Subordinate Lien Revenue Bonds, with an original principal amount of $1,300,891, collectively referred to as the “Subordinate Bonds”. The Subordinate Bonds are supported by a lien on the Seat Use Fees, Sales Tax Rebate and Car Rental Taxes subject and subordinate to the first and prior lien of the 2002 Senior Bonds on such Revenues.

Advance Refunding (2007)
On April 3, 2007, the Authority issued Refunding Revenue Bonds. The bonds issued are referred to as The Memphis and Shelby County Sports Authority, Inc. Variable Rate Demand Revenue Refunding Bonds, 2007 Series A (Memphis Arena Project) in the aggregate principal amount of $69,150,000; The Memphis and Shelby County Sports Authority, Inc. Variable Rate Demand Revenue Refunding Bonds, 2007 Series B (Memphis Arena Project) in the aggregate principal amount of $60,725,000, collectively referred as the "2007 Variable Rate Bonds"; The Memphis and Shelby County Sports Authority, Inc. Revenue Refunding Bonds, 2007 Series C (Memphis Arena Project) in the aggregate principal amount of $28,935,000 and The Memphis and Shelby County Sports Authority, Inc. Revenue Refunding Bonds, 2007 Series D (Memphis Arena Project) in the aggregate principal amount of $28,525,000, collectively referred as the "2007 Fixed Rate Bonds". The 2007 Fixed Rate Bonds have interest rates ranging from 4.00% to 5.00%. The 2007 Variable Rate Bonds and the 2007 Fixed Rate Bonds collectively are referred as the "2007 Refunding Bonds". The Refunding Bonds were issued to advance refund all or a portion of the certain series of the Authority's 2002 Senior Bonds. The 2007 Refunding Bonds were issued on a parity and secured by an equal charge and lien on the Trust Estate along with all non-refunded 2002 Senior Bonds.

The Authority used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2002 Senior Bonds. As a result, that portion of the 2002 Senior Bonds has been considered defeased, and the Authority has removed the liability from its accounts. The outstanding principal of the defeased bonds is $180,680,000 at December 31, 2010.

The 2007 Variable Rate Bonds were refunded on July 9, 2009.

Advance Refunding (2009)
On July 9, 2009, the Authority issued Refunding Revenue Bonds. The bonds issued are referred to as The Memphis and Shelby County Sports Authority, Inc. Revenue Refunding Bonds, 2009 Series A (Memphis Arena Project) in the aggregate principal amount of $69,150,000; The Memphis and Shelby County Sports Authority, Inc. Revenue Refunding Bonds, 2009 Series B (Memphis Arena Project) in the original aggregate principal amount of $75,700,000 collectively referred as the "Series 2009 Senior Refunding Bonds". The Series 2009 Senior Refunding Bonds have interest rates ranging from 4.875% to 5.620%. The Series 2009 Senior Refunding Bonds were issued to refund all of the outstanding principal balance of the Authority's 2007 Variable Rate Bonds to pay all or a portion of termination payments in connection with the termination of certain interest rate swaps related to the 2007 Variable Rate Bonds to fund a deposit to the Debt Service Reserve Fund and to pay related costs of issuance.

The 2002 Senior Bonds, the 2007 Fixed Rate Bonds and the 2009 Senior Refunding Revenue Bonds are referred to as "the Senior Bonds".

Pursuant to the Interlocal Agreement, the City and the County have agreed to replenish the Debt Service Reserve Fund in the event that a draw is required to make a debt service payment on the Senior Bonds.

The Senior Bonds will be repaid by the following revenue sources:

Seat Rental Fees
Seat rental fees for all paid events are to be paid to the City and the County at a rate of $1.15 per seat sold. The City and County have in turn pledged that revenue to the payment of the Senior Bonds until paid in full.

Sales Tax Rebate
The state is obligated by law to remit state and local sales taxes (except that portion designated for education (.5%) paid on sale of admissions, sale of concessions, and sale of NBA franchise goods and products. This obligation was effective for 30 years beginning October 1, 2001.

Car Rental Taxes
The County has pledged certain Car Rental Taxes to the repayment of the Senior Bonds until they are paid in full.

City-wide Hotel/Motel Tax
The 1.75% Room Occupancy Tax has been pledged dedicated until June 30, 2016 to the payment of debt service for the expansion of Cook Convention Center. Thereafter, the City has dedicated all City Hotel/Motel Tax Revenues to pay debt service on the Senior Bonds.

County-wide Hotel/Motel Tax
The County Hotel/Motel Tax pays debt service on the Cook Convention Center Bonds, the County Bonds issued for the Pyramid, and a specified amount to the Convention and Visitors Bureau, which have a claim on the County Hotel/Motel Tax Revenues prior to the claim of the Bonds. The County agrees to pay over to the Authority, for the benefit of the holders of the Bonds, an amount to be paid from County Hotel/Motel Tax Revenues as detailed in the indenture.

Memphis Light, Gas, & Water Division Payment in Lieu of Tax
The City has pledged in lieu of tax payments received from the City's Water Division of MLGW until the end of 2028.

2004 Swap Agreement

Objective of the swap

Effective August 13, 2004, the Authority entered into an interest rate swap agreement in connection with its 2002 Senior Bonds as a means of for the purpose of managing interest costs of the Authority.

Terms and fair values

Under the swap the Authority received $5,200,000 at closing and received four additional annual payments of $200,000 beginning November 1, 2005. The Authority received the final annual installment on November 1, 2008. The Authority will receive a variable payment equal to a percentage of the floating-rate taxable London Interbank Offering Rate (LIBOR) index based on an "Enhanced LIBOR" payment formula and pay a variable payment based on the SIFMA Municipal Swap Index ("SIFMA"). The swap had a notional amount of $202,290,000 equal to the outstanding principal balance on the bonds on August 13, 2004. The notional value of the swap decreases on the same schedule as the bond principal payments until termination on November 1, 2019.

The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events. The Authority also has the option to early terminate the agreement in whole or part up until November 1, 2019. Any early termination of the agreement would be settled based on the fair value of the agreement at the date of termination.

Corresponding Bond Series	2002 Series A & B
Initial Notional Amount	$ 202,290,000
Current Notional Amount	$ 187,245,000
Up-front Cash Payment to the Authority	$ 5,200,000
Effective Date	8/11/2004
Termination Date	11/1/2019
Final Bond Maturity	Same as original
Authority pays	SIFMA Index
Payments made by the Authority	$ 492,322
Authority Receives	Lessor of a. and b. a. USD-LIBOR where: USD-LIBOR=> of: i) 1-month LIBOR x .69% ii) (1-month LIBOR x .56% plus .44% b. 1 month LIBOR = USD-LIBOR-BBA
Payments received by the Authority	$ 510,918 *
Net receipts/(disbursements)	$ 113,999 *
Fair Value of Swap Agreement	$ (5,082,472)

*Based on the period November 1, 2009 to November 1, 2010, there were no significant changes between November 1, 2010 and December 31, 2010 that would cause an additional receivable/payable to be recorded.

The valuation of derivatives transactions provided are indicative values based on mid-market levels as of the close of business on the date they are provided. The valuation provided is derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions, The valuation is for disclosure purposes only and does not represent the actual terms of the agreement.

Below is a list of risks inherent in the type of swap the Authority entered into:

Tax Risk
The risk that changes or proposed changes in tax laws or events relating to the tax-exempt status of the Authority's obligations or of tax-exempt obligations generally will cause interest rates on the debt of the Authority to increase.

Basis Risk
The Authority bears basis risk or the risk that it could incur a shortfall between SIFMA and the "Enhanced LIBOR" variable rate received on the swap. The most likely cause of such a permanent shortfall would be a substantial reduction in U.S. marginal income tax rates. The likelihood of a reduction of sufficient magnitude so as to greatly reduce or eliminate the incremental savings from the swaps was estimated to be small.

Credit Risk
The Authority at December 31, 2010 had no credit risk since the swap had a negative value. If the value were a positive amount then the Authority would be exposed to credit risk with Goldman Sachs Capital Markets, L.P. The Goldman Sachs ratings at December 31, 2010 were Aa3/A by Moody's and Standard and Poor's, respectively. The swap agreement contains a collateral agreement with the counterparties. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement.

Termination Risk
The risk that the Authority may have to pay a substantial sum of money if the swap is negative and a termination occurs prior to its otherwise stated termination date or if the Agreement terminates for some other reason, including the occurrence of an event of default or a termination event in respect of either party to the Agreement.

General long-term debt at December 31, 2010, is comprised of the following:

Bonds Payable:	
The Authority issued $113,325,000 of 2002 Series A Revenue Bonds in May of 2002. The bonds mature serially with interest from 2.50% to 5.50%	$ 5,165,000
The Authority issued $88,965,000 of 2002 Series B Revenue Bonds in May of 2002. The bonds mature serially with interest from 2.50% to 5.50%	1,400,000
The Authority issued $18,535,000 of 2002 Series C Revenue Bonds in May of 2002. The bonds mature in 2031 with interest paid annually at 5.00%	15,285,000
The Authority issued $2,699,415 of 2002 Series D Revenue Bonds in May of 2002. The bonds mature in 2031 with interest paid at maturity at 6.00%	2,699,414
The Authority issued $1,300,891 of 2002 Series E Revenue Bonds in May of 2002. The bonds mature in 2034 with interest paid at maturity at 6.00%	1,300,891
The Authority issued $69,150,000 of 2009 Series A Revenue Bonds in July of 2009. The bonds mature serially with interest from 4.875% to 5.3755%	69,150,000
The Authority issued $75,700,000 of 2009 Series B Revenue Bonds in July of 2009. The bonds mature serially with interest from 5.000% to 5.620%	75,700,000
The Authority issued $28,935,000 of 2007 Series C Revenue Bonds in April of 2007. The bonds mature serially with interest at 5%	28,935,000
The Authority issued $28,525,000 of 2007 Series D Revenue Bonds in April of 2007. The bonds mature serially with interest from 4% to 5%	26,910,000
	226,545,305
Accretion discount	(17,792,226)
Total	$ 208,753,079

Revenue bond debt service requirements to maturity are as follows:

Year ending December 31,	Principal	Interest	Net Swap Payment
2011	$ 3,650,000	$ 16,917,331	$ 17,976
2012	3,925,000	16,945,182	17,673
2013	5,270,000	16,770,912	17,345
2014	5,685,000	16,558,766	16,889
2015	5,530,000	16,317,713	16,394
2015-2019	38,350,000	62,191,801	59,342
2020-2024	64,240,000	31,130,201	-
2025-2029	42,500,000	14,566,089	-
2030-2034	57,395,305	8,134,092	-
	$ 226,545,305	$ 199,532,087	$ 145,619

The net swap payments will vary accordingly, based on the interest rates at December 31, 2010. As interest rates change, the swap payments will vary accordingly.

Changes in long-term liabilities are as follows:

	Beginning Balance	Additions	Reductions	Reclass	Ending Balance	Due Within One Year
Revenue Bonds	$ 229,650,305	$ -	$ (3,105,000)	$ -	$ 226,545,305	$ 3,650,000
Net discount, premium and issuance cost of bonds issued	(21,602,443)	-	(210,358)	1,217,475	(20,595,326)	-
Swap Proceeds	3,363,045	-	(339,130)	-	3,023,915	-
Total	$ 211,410,907	$ -	$ (3,654,488)	$ 1,217,475	$ 208,973,894	$ 3,650,000

See next page

NOTE 4 - OTHER INFORMATION:

A. Risk Management

The Authority is exposed to various risks related to general liability. Management deems those risks to be relatively insignificant. During the fiscal year ended December 31, 2010, the Authority did not have any insurance to cover those risks, but it is covered by the general liability policy of Shelby County.

B. Risks and Uncertainties

As discussed more fully in footnote 3C Long-Term Debt, numerous revenue sources are used to finance the revenue bonds. These sources are sensitive to cyclical economic changes. The cyclical economic changes can impact the amount of revenue collected and remitted to the Authority by the City and County.

INTERNAL CONTROL AND COMPLIANCE SECTION

BANKS, FINLEY,
WHITE & CO.
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Memphis and Shelby County Sports Authority, Inc.

We have audited the financial statements of the governmental activities and the major fund of the Memphis and Shelby County Sports Authority, Inc. (Authority), a jointly governed organization of Shelby County and the City of Memphis, Tennessee, as of and for the year ended December 31, 2010, and have issued our report thereon dated June 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Memphis and Shelby County Sports Authority, Inc.'s internal control over financial reporting as a basis over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing theft assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

P.O. BOX 1774 • MEMPHIS, TENNESSEE 38101
1450 POPLAR AVENUE • MEMPHIS, TENNESSEE 38104-2901 • (901) 274-6702 • (901) 274-6154 FAX

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Memphis and Shelby County Sports Authority, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance and other matters with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Board of Directors, management, the Shelby County Commission, City of Memphis Council and the State of Tennessee Comptroller's Office, Division of County Audit and is not intended to be and should not be used by anyone other than these specified parties.

Banks, Finley, White & Co.

Memphis, Tennessee
June 14, 2011