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

Report on Audit of Financial Statements

For the Year Ended December 31, 2011

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

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INTRODUCTORY SECTION

MEMPHIS AND SHELBY COUNTY
SPORTS AUTHORITY, INC.
DIRECTORY
December 31, 2011

BOARD MEMBERS

Bill McGaughey, Chairman
Willie Gregory, Vice Chairman
Lang Wiseman, Secretary/Treasurer
Pat Carter
Nisha Powers
Frank Childress
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, 2011, 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, 2011, 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.

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In accordance with Government Auditing Standards, we have also issued our report dated June 11, 2012, 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 11, 2012

MEMPHIS AND SHELBY COUNTY
SPORTS AUTHORITY, INC.

STATEMENT OF NET ASSETS
December 31, 2011

ASSETS

		2011
ASSETS:		
Restricted assets:		
Cash equivalents	$	38,067,973
Due from other governments		1,465,640
Interest receivable		99
Investments		18,568,256
TOTAL ASSETS	$	58,101,968

LIABILITIES AND NET ASSETS

LIABILITIES:		
Accounts payable	$	47,453
Accrued interest		4,922,395
Long-term liabilities:		
Due within one year		3,925,000
Due in excess of one year		202,066,871
TOTAL LIABILITIES		210,961,719
NET ASSETS:		
Restricted		58,101,968
Unrestricted		(210,961,719)
Total Net Assets		(152,859,751)
TOTAL LIABILITIES AND NET ASSETS	$	58,101,968

The accompanying notes are an integral part of the financial statements

MEMPHIS AND SHELBY COUNTY SPORTS AUTHORITY, INC.

STATEMENT OF ACTIVITIES
December 31, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Service	Net (Expense) Revenue and Changes in Net Assets: Total
Primary government			
Government activities:			
Professional fees	$ 27,469	$ -	$ (27,469)
Capital purchases and repairs	612,908	-	(612,908)
Licenses	20	-	(20)
Interest and expenses on debt	12,619,262	-	(12,619,262)
Amortization of bond and swap costs	210,358	-	(210,358)
	$ 13,470,017	$ -	(13,470,017)
General revenues:			
Net Swap receipt (payment)			-
Amortization of prior swap proceeds			339,130
Investment income			1,027,519
Restricted revenues:			
Car rental tax			1,811,752
Sales tax			2,707,803
Hotel/Motel tax			9,908,786
Seat rental fees			988,028
Payments in lieu of tax			2,500,000
Investment Income			7,450
Total revenues			19,290,468
Change in net assets			5,820,451
Net assets - beginning			(158,680,202)
Net assets - ending			$ (152,859,751)

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, 2011

ASSETS

	2011
Assets:	
Restricted assets:	
Cash and cash equivalents	$ 38,067,973
Due from other governments	286,827
Interest receivable	99
Investments	18,568,256
Total Assets	$ 56,923,155

LIABILITIES AND FUND BALANCE

Liabilities:	
Accounts payable	$ 47,453
Restricted deferred revenue	-
Total Liabilities	47,453
Fund Balance:	
Restricted	56,875,702
Total Fund Balance	56,875,702
TOTAL LIABILITIES AND FUND BALANCE	$ 56,923,155

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, 2011

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

Fund balance - total governmental funds (Page 6)	$ 56,875,702
Receivables not available to pay for current expenditures and, therefore, are deferred in the funds.	1,178,812
Long-term liabilities, including notes, bonds and leases payable, are not due in the current period and, therefore, are not reported in the funds.	(222,895,305)
Payables, such as accrued interest payable, are not due and payable in the current period, and therefore are not reported in the funds.	(4,922,395)
Unamortized swap proceeds recorded as revenue in the fund statements and recorded as liability in the statement of net assets.	(2,684,783)
Unamortized bond discount and premium is expensed in the fund statements and recorded as an liability in the statement of net assets.	19,588,218
Net assets - governmental activities (Page 4)	$ (152,859,751)

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, 2011

		2011
REVENUES:		
General revenues:		
Investment income	$	1,027,519
Net Swap receipt (payment)		-
Restricted revenues:		
Taxes		17,836,825
Investment income		7,450
Total Revenues		18,871,794
EXPENDITURES:		
Current:		
Professional fees		27,469
Capital purchases and repairs		612,908
Licenses		20
Debt service:		
Principal and refunding		3,650,000
Interest		11,388,742
Other debt service expenditures		58,223
Total Expenditures		15,737,362
Excess (deficiency) of revenues over expenditures		3,134,432
OTHER FINANCING SOURCES (USES):		
Refunding bonds issued		-
Payment to bond refunding escrow agent		-
Total Other Financing Sources and Uses		-
NET CHANGE IN FUND BALANCE		3,134,432
FUND BALANCE - BEGINNING		53,741,270
FUND BALANCE - ENDING	$	56,875,702

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, 2011

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)	$	3,134,432
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		79,516
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.		3,650,000
Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities.		(375,548)
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.		(1,007,079)
Changes in net assets of governmental activities (Page 5)	$	5,820,451

The accompanying notes are an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2011

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 Authority's Senior Bonds (as defined herein) 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 and Fund Bakance

The Authority reports fund balance in its governmental funds in the classifications prescribed by GASB Statement 54. By doing so, the Authority reflects the amount to which they are "bound to honor constraints on the specific purposes for which amounts in the fund can be spent." Of the five categories allowed by GASB Statement 54, the Authority reports only one of these components in the 2011 fiscal year, which is Restricted. 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, 2011.

D. Recent Accounting Standards

Issued December 2010, effective for periods after December 15, 2011, the Authority will adopt GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The objective of this Statement is to reduce the need to rely on sources outside of the GASB's literature to locate the necessary accounting guidance for the governmental environment.

This will allow those who prepare or audit financial statements for state and local governments, to access the applicable guidance with greater ease and certainty. Statement No. 62 is intended to specifically identify and consolidate the accounting and financial reporting provisions that apply to state and local governments.

In June 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides financial reporting guidance for deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position. The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. Statement 63 also amends certain provisions of Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. The provisions of this Statement are effective for fiscal years beginning after December 15, 2011. The Authority is currently evaluating what effect, if any, adoption of GASB Statement No. 63 will have on its financial statements.

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 $(47,925) difference are as follows:

Sales tax received in February and March 2012	$	709,555
Sales tax received in February and March 2011		(670,575)
Car rental tax received in February and March 2012		257,138
Car rental tax received in February and March 2010		(170,022)
Seat Rental Fees February and March 2012		212,119
Seat Rental Fees February and March 2011		(258,699)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive in net assets of governmental activities	$	79,516

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, 2011, investments of the Authority consisted of the following:

	Weighted Average Maturity (Months)		Fair Value or Carrying Amount
Commercial Paper	4	$	18,568,256

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, 2011, 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, 2011, 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	$ 1,075,646
Change in fair value of investments	(18,114)
Investment related expenses	(30,013)
Total investment income	$ 1,027,519

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:

<u>Seat Rental Fees</u>
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.

<u>Sales Tax Rebate</u>
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.

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

<u>City-wide Hotel/Motel Tax</u>
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.

<u>County-wide Hotel/Motel Tax</u>
The County Hotel/Motel Tax pays debt service related to the Cook Convention Center Bonds 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.

<u>Memphis Light, Gas, & Water Division Payment in Lieu of Tax</u>
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	$ 393,001
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	$ 432,492 *
Net receipts/(disbursements)	$ 39,491 *
Fair Value of Swap Agreement	$ (2,839,469)

*Based on the period November 1, 2010 to November 1, 2011, there were no significant changes between November 1, 2011 and December 31, 2011 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, 2011 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, 2011 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, 2011, 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%	$	2,705,000
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%		705,000
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%		26,415,000
		222,895,305
Accretion discount		(16,847,502)
Total	$	206,047,803

Revenue bond debt service requirements to maturity are as follows:

Year ending December 31,	Principal	Interest	Net Swap Payment
2012	$ 3,925,000	$ 16,945,182	$ 38,838
2013	5,270,000	16,770,912	38,128
2014	5,685,000	16,558,766	37,141
2015	5,530,000	16,317,713	36,066
2016	5,555,000	16,077,144	35,024
2017-2020	45,570,000	55,143,257	95,741
2021-2025	64,545,000	31,130,201	-
2026-2030	45,910,000	12,327,639	-
2031-2034	40,905,305	4,076,272	-
	$ 222,895,305	$ 185,347,086	$ 280,938

The net swap payments will vary accordingly, based on the interest rates at December 31, 2011. 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	$ 226,545,305	$ -	$ (3,650,000)	$ -	$ 222,895,305	$ 3,925,000
Net discount, premium and issuance cost of bonds issued	(20,595,326)	-	1,007,108	-	(19,588,218)	-
Swap Proceeds	3,023,915	-	(339,130)	-	2,684,785	-
Total	$ 208,973,894	$ -	$ (2,982,022)	$ -	$ 205,991,872	$ 3,925,000

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, 2011, 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, 2011, and have issued our report thereon dated June 11, 2012. 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 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 11, 2012