MEMPHIS AND SHELBY COUNTY SPORTS AUTHORITY, INC.

FINANCIAL STATEMENTS

December 31, 2013

WATKINS UIBERALL

Watkins Uiberall, PLLC
Certified Public Accountants & Financial Advisors
Independent Member of BKR International

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Memphis and Shelby County Sports Authority, Inc.

Board Members and Counsel

December 31, 2013

Board Members

Bill McGaughey, Chairman
Jim Dugger, Vice Chairman
Lang Wiseman, Secretary/Treasurer
Pat Carter
Wren Baker
Nisha Powers
Frank Childress, Jr.
Valerie Morris
Mark Rosenberg
Will Thompson

Counsel

Bruce Brooke
Memphis, TN 38103

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Watkins Uiberall, PLLC
Memphis, TN

WATKINS UIBERALL

Watkins Uiberall, PLLC
Certified Public Accountants
Independent Member of BKR International

1661 Aaron Brenner Drive • Suite 300
Memphis, Tennessee 38120
901.761.2720 • Fax: 901.683.1120

210 East Main Street • Suite 2C
Tupelo, Mississippi 38804
662.269.4014 • Fax: 662.269.4016

www.wucpas.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2014, 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* in considering the Authority's internal control over financial reporting and compliance.

Watkins Uiberall, PLLC

Memphis, Tennessee
June 18, 2014

MEMPHIS AND SHELBY COUNTY
SPORTS AUTHORITY, INC.

STATEMENT OF NET POSITION

December 31, 2013

ASSETS	
Restricted assets:	
Cash equivalents	$ 37,886,223
Due from other governments	1,738,477
Interest receivable	99
Investments	18,386,304
Total assets	58,011,103
DEFERRED OUTFLOWS OF RESOURCES	
Deferred derivative outflow	464,014
LIABILITIES	
Accounts payable	80
Accrued interest	5,734,311
Unearned revenue - payments in lieu of taxes	1,250,000
Long-term liabilities:	
Due within one year	5,685,000
Due in excess of one year (net of unamortized discounts and premium on debt)	195,500,844
Total liabilities	208,170,235
DEFERRED INFLOWS OF RESOURCES	
Derivative instruments fair value	464,014
NET POSITION	
Restricted	58,011,103
Unrestricted	(208,170,235)
Total net position	$ (150,159,132)

The accompanying notes are an integral part of the financial statements

MEMPHIS AND SHELBY COUNTY
SPORTS AUTHORITY, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2013

Functions/Programs	Expenses	Program Revenues: Charges for Service	Net (Expense) Revenue and Changes in Net Assets: Total
Primary government			
Governmental activities:			
Professional fees and licenses	$ 14,020	$ -	$ (14,020)
Bank and trust fees	13,551		(13,551)
Interest and expenses on debt	11,424,147	-	(11,424,147)
Amortization of bond and swap costs	670,572	-	(670,572)
	$ 12,122,290	$ -	(12,122,290)
General revenues:			
Net swap receipt			155,772
Amortization for prior swap proceeds			339,130
Net investment income			1,063,251
Car rental tax			1,901,825
Sales tax			4,908,853
Hotel/Motel tax			5,574,906
Seat rental fees			1,139,201
Payments in lieu of tax			2,500,000
Total revenues			17,582,938
Change in net position			5,460,648
Net position - beginning, as previously reported			(152,230,729)
Prior period adjustment			(3,389,051)
Net position - beginning, as restated			(155,619,780)
Net position - ending			$ (150,159,132)

The accompanying notes are an integral part of the financial statements

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

BALANCE SHEET

December 31, 2013

ASSETS		
Restricted assets:		
Cash and cash equivalents	$	37,886,223
Due from other governments		1,738,477
Interest receivable		99
Investments		18,386,304
Total assets	$	58,011,103
LIABILITIES		
Accounts payable	$	80
Unearned revenue - payments in lieu of taxes		1,250,000
Total liabilities		1,250,080
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - rental car taxes		141,307
Unavailable revenue - sales tax		376,420
Total deferred inflows of resources		517,727
FUND BALANCE		
Restricted		56,243,296
Total liabilities, deferred inflows of resources, and fund balance	$	58,011,103

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 POSITION

For the Year Ended December 31, 2013

Amounts reported for governmental activities in the statement of net position are different because:	
Total governmental fund balance	$ 56,243,296
Receivables not available to pay for current expenditures and, therefore, are deferred inflows of resources in the funds.	517,727
Long-term liabilities, including bonds payable, are not due and payable the current period and, therefore, are not reported in the funds.	(213,700,305)
Payables, such as accrued interest payable, are not due and payable in the current period, and therefore are not reported in the funds.	(5,734,311)
Unamortized swap proceeds recorded as revenue in the fund statements and recorded as liability in the statement of net position.	(2,006,522)
Unamortized bond discount and premium is expensed in the fund statements and recorded as a liability in the statement of net position.	14,520,983
Net position of governmental activities	$(150,159,132)

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, 2013

REVENUES	
General revenues:	
Taxes and seat rentals	$ 15,910,964
Net investment income	1,063,251
Net swap receipt	155,772
Total revenues	17,129,987
EXPENDITURES	
Current:	
Professional fees	14,000
Licenses	20
Bank and trust fees	13,553
Debt service:	
Principal and refunding	5,270,000
Interest	11,007,977
Total expenditures	16,305,550
Net change in fund balance	824,437
Fund balance - beginning of the year	55,418,859
Fund balance - end of the year	$ 56,243,296

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, 2013

Amounts reported for the governmental activities in the statement of net activities are different because:		
Net changes in fund balance - total governmental funds	$	824,437
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		113,821
The repayment of long-term debt uses current financial recources of governmental fund. These transactions do not have any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The amount is the net effect of these differences in the treatment of long-term debt and related items.		4,599,428
Interest is reported as an expenditure when due in the governmental funds, but it is accrued on outstanding debt on the statement of activities.		(416,168)
Swap proceeds are reported as revenue in the governmental funds, but are as liability and amortized in the statement of activities.		339,130
Changes in net position of governmental activities	$	5,460,648

The accompanying notes are an integral part of the financial statements

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". 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. However, debt service expenditures are recorded only when payment is due.

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 fund balance

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 deposits, obligations of the U.S. Treasury, agencies and instrumentalities, obligations by the U.S. governments 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 outflows of resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so is not recognized as an outflow of resources (expense/expenditure) until then. The Authority only has one items that qualifies for reporting in this category; the fair value of derivative instruments.

Deferred inflows of resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an increase to net position that applies to a future period and is not recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category; the fair value of derivative instruments.

Net position and fund balance

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 2013 fiscal year, which is Restricted. Government-wide financial statements report net position 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 position are available.

Comparability and consistency

The Authority has chosen not to present comparative statements for the fiscal year ended December 31, 2013.

NOTE 2 – 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 position.

The governmental fund balance sheet includes reconciliation between fund balance – governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "unamortized bond discount and premium is expensed in the fund statements and recorded as a liability in the statement of net position." The details of this $14,520,983 are as follows:

Accreted value of bonds	$ 12,968,043
Premium on bonds issued	(2,183,989)
Discount on bonds issued	3,736,929
Net adjustment to increase net change in fund balance - total governmental funds to arrive at change in net position of governmental activities	$ 14,520,983

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 position of governmental activities as reported in the government –wide statement of activities. One element of that reconciliation explains that “the repayment of long-term debt uses current financial resources of governmental funds. These transactions do not have any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The detail of this $4,599,428 difference is as follows:

Amortization of bond premiums, discounts, and accretion	$ (670,572)
Principal repayments of general obligation debt	5,270,000
Net adjustment to increase net change in fund balance - total governmental funds to arrive at change in net position of governmental activities	$ 4,599,428

Another element of that reconciliation states that “revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.” The details of this $113,821 difference are as follows:

Sales tax received in March 2014	$ 376,420
Sales tax received in February and March 2013	(7,896)
Car rental tax received in March 2014	141,307
Car rental tax received in February and March 2013	(263,890)
Seat rental fees February and March 2013	(132,120)
Net adjustment to increase net changes in fund balances total governmental funds to arrive at change net position of governmental activities	$ 113,821

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, 2013, investments of the Authority consisted of the following:

	Weighted Average Maturity (Months)	Fair Value or Carrying Amount
Commercial Paper	4	$ 18,386,304

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, 2013, 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, 2013, the Authority's investments in commercial paper are rated P-1 by Moody's and A 1 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	$	1,086,751
Investment related expenses		(23,500)
Total investment income	$	1,063,251

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 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 to 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 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 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 5.50%. 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 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 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 of $2,500,000 annually 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 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 decreased in accordance with the terms of the swap agreement.

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	$	180,680,000
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	$	198,311
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	$	354,083
Net receipts/disbursements	$	155,772
Fair Value of Swap Agreement	$	(464,014)

Based on the period November 1, 2012 to November 1, 2013, there were no significant changes between November 1, 2013 and December 31, 2013 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 SIFMAand 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, 2013 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, 2013 were Aa2/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.

Revenue bond debt service requirements to maturity are as follows:

General long-term debt at December 31, 2013, is comprised of the following:

Bonds Payable:

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 issed $69,150,000 of 2009 Series A Revenue Bonds in July of 2009. The bonds mature serially with interest fron 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%		25,950,000
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%		23,615,000
	$	213,700,305

Year ending December 31,	Principal	Interest	Net Swap Payment
2014	$ 5,685,000	$ 11,263,103	$ 155,346
2015	5,530,000	11,022,050	150,786
2016	5,555,000	10,781,481	146,362
2017	10,285,000	10,548,661	141,920
2018	10,730,000	10,077,256	257,554
2019-2023	63,935,000	41,878,781	-
2024-2028	71,075,000	26,452,477	-
2029-2033	39,604,414	7,899,049	-
2034	1,300,891	124,458	-
	$ 213,700,305	$ 130,047,316	$ 851,968

The net swap payments will vary accordingly, based on the interest rates at December 31, 2013. As interest rates change, the swap payments will vary accordingly.

Changes in long-term liabilities are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	$ 218,970,305	$ -	$ (5,270,000)	$ 213,700,305	$ 5,685,000
Net discount, premium and accretion of bonds issued	(18,581,110)	-	4,060,126	(14,520,984)	-
Swap proceeds	2,345,655	-	(339,132)	2,006,523	-
Total	$ 202,734,850	$ -	$ (1,549,006)	$ 201,185,844	$ 5,685,000

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, 2013, 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.

NOTE 5 – PRIOR PERIOD ADJUSTMENTS

Prior to January 1, 2012, debt issuance costs were deferred and amortized over the life of the debt; however, with the implementation of Governmental Accounting Standards Board Statement No. 65, debt issuance costs become period costs. An adjustment to decrease beginning net position of $3,515,431 has been recognized for accumulated debt issuance costs on the government – wide financial statements.

It was discovered during the audit period that the 2002 bond issue costs were being amortized for longer than the life of the bond, which resulted in an overstatement of prior year expense of $126,380. A prior period adjustment was made on the statement of activities to increase beginning net position in the amount of $126,380.

WATKINS UIBERALL

Watkins Uiberall, PLLC
Certified Public Accountants
Independent Member of BKR International

1661 Aaron Brenner Drive • Suite 300
Memphis, Tennessee 38120
901.761.2720 • Fax: 901.683.1120

210 East Main Street • Suite 2C
Tupelo, Mississippi 38804
662.269.4014 • Fax: 662.269.4016

www.wucpas.com

INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States of America and the statements applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities 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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Watkins Uiberall, PLLC

Memphis, Tennessee
June 18, 2014