I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Reporting Entity

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

Discretely Presented Component Units:

Major Component Units

Shelby County Board of Education (the Board of Education) – The Board of Education includes all the public schools in Shelby County outside the City of Memphis, serving over 45,000 students. The Board of Education has a separately elected governing board but is fiscally dependent on the County. The County levies taxes for the Board's operation, approves its operating budget and issues debt for its capital projects. The operations of the Shelby County Board of Education are reported as a governmental component unit. Financial statements for the Board can be obtained from Shelby County Board of Education, 160 South Hollywood, Memphis, Tennessee 38112, (901) 321-2500.

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

Other Component Units

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

Emergency Communications District of Shelby County, Tennessee, d/b/a Shelby County 9-1-1 District (the District) – The District was established in 1984, pursuant to provisions of T.C.A. Title 7, Chapter 86 of the State of Tennessee. The District is responsible for establishing local emergency telephone service and a primary emergency telephone number for the residents of Shelby County. The District is governed by a nine-member board of directors, appointed by the County Mayor and approved by the County Board of Commissioners. The District's board has the authority to levy an emergency telephone service charge to be used to fund the operation of the District. The District must obtain County Commission approval before the issuance of most debt and the County Commission has the ability to adjust the District's service charges. The District is reported as a proprietary component unit. Financial statements for the District can be obtained from Shelby County 9-1-1 District, 6470 Haley Road, Memphis, Tennessee 38134, (901) 380-3911.

(B) Governmental Accounting Standards

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

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

(C) Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

The County reports the following major governmental funds:

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

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

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

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

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

Additionally, the County reports the following fund types:

Proprietary Funds/Enterprise Funds are funds that report an activity for which a fee is charged to external users for goods or services. The County reports the following funds (all are nonmajor):
- Memphis and Shelby County Office of Consolidated Codes Enforcement
- Shelby County Fire Department
- Shelby County Corrections Center

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

Fiduciary Funds include the Pension Trust Fund and the OPEB Trust. The Pension Trust Fund accounts for the activities of the County's retirement plan, which accumulates resources for pension payments to employees. The OPEB Trust accounts for the fund used to accumulate and provide health and life insurance to retirees. Agency Funds account for assets held by the County's constitutional officers and other elected officials in an agent capacity for governments, litigants, heirs and others. Agency funds are custodial in nature and do not involve measurement of results of operations.

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service funds are charges to customers for sales, services, and insurance. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

(E) Assets, Liabilities and Equity

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

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

Investments of the government as well as its component units are generally stated at fair value. Fair value is based on quoted market prices, if available, or estimated using quoted market prices for similar securities. The County uses amortized cost on all investments that mature within a year or less of the date of purchase. State statutes authorize the County to make direct investments in obligations of the U.S. Treasury, obligations issued or guaranteed by any U.S. Government agency, LGIP, bonds of any state or political subdivision, repurchase agreements, prime banker's acceptances and prime commercial paper. The maximum maturity is two years.

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

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

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

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

As of June 30, 2008, the County had net overpayments for the net pension obligation and for other post employment benefits. These overpayments are reported as prepaids and deferred charges.

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

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

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

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

Deferred Revenue
Deferred revenue includes amounts that were unearned and amounts that were receivable and measurable at year-end but were not available to finance expenditures for the current year. Deferred revenues primarily include unearned or unavailable revenues from property taxes, hotel/motel taxes, operating subsidies received in advance and notes receivable. Government-wide financial statements include only unearned revenue but governmental funds may include both unearned and unavailable revenue.

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

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

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

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

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

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

Net Assets and Fund Equity
Entity-wide and proprietary funds net assets are classified into three components. "Invested in capital assets, net of related debt" consists of capital assets net of accumulated depreciation and reduced by outstanding debt used to finance purchase or construction of those assets. "Restricted" net assets are noncapital net assets that must be used

for a particular purpose as specified by creditors, grantors, or contributors external to the County. "Unrestricted" net assets are remaining net assets that do not meet the definition of the other two categories.

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

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

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and net assets or fund balances. Estimates also affect the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." Internal service funds include $7,242,614 of long-term liabilities and are not part of this reconciling amount. The details of this $1,773,008,617 are as follows:

Bonds payable	$	1,695,408,631
Accreted value on bonds		39,616,529
Net premium and issuance cost on bonds issued		12,248,176
Compensated absences		21,094,218
Landfill postclosure		3,447,006
Claims and judgements		377,584
Loans payable		816,473
Net adjustment to reduce *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$	1,773,008,617

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

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

The details of this $7,662,354 difference are as follows:

Capital outlay	$ 17,918,605
Developer Contributions	1,567,000
Depreciation expense	(27,147,959)
Net adjustment to increase *net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities*	$ (7,662,354)

Another element of that reconciliation states that "the issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while repayments of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $94,061,066 difference are as follows:

Debt issued or incurred:	
Issuance of general obligation bonds	$ 231,935,000
Premium on debt issued, net of issuance costs and amortization	(3,874,981)
Capital Financing Loan Proceeds	816,473
Accretion of zero coupon bonds	1,512,842
Change in accrued interest expense	(5,919,750)
Principal repayments:	
General obligation debt	(87,915,650)
Refunding	(230,615,000)
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ (94,061,066)

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(A) Budgetary Information

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

Expenditures may not exceed appropriations by line item at the department level. The County Mayor is authorized to transfer budgeted amounts between line items of the same category (personnel related versus all other types of expenditures) of the same division (group of departments). Any adjustments that create a new line item, increase the total budget, or require transfers between divisions, categories or funds must be approved by the County Board of Commissioners. The reported budgetary data has been revised for amendments authorized during the year and thereafter.

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

(B) Deficit Fund Equity

The deficit in the Capital Projects Fund of $23,173,636 results from the use of short-term debt (notes payable of $37,300,000 as of June 30, 2008) to fund capital projects, pending the issuance of long-term debt.

IV. DETAILED NOTES ON ALL FUNDS

(A) Deposits and Investments

Shelby County Government, except for the Retirement System:
The County, including agency funds but excluding the retirement system, had the following investments at June 30, 2008. Of the total investments per financial reports, $142,460,203 is reported on the Statement of Net Assets and $9,750,000 is reported on the on the Statement of Fiduciary Net Assets for the constitutional officers agency fund.

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

U.S. Government agency securities	$ 127,060,203
Tennessee Local Government Investment Pool (LGIP)	176,965,201
Total investments for disclosure purposes	304,025,404
Add certificates of deposit reported as investments	25,150,000
Less amounts reported as cash equivalents	(176,965,201)
Total investments per financial reports	$ 152,210,203

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Both State statutes and the County's investment policy limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All investments mature in two years or less.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Both State statutes and the County's investment policy limit permissible investments or impose collateral and custody provisions as specified above or in Note I (E) to significantly limit credit risk. By policy investments in commercial paper must be rated A1/P1 by at least two rating services. Although the LGIP itself is unrated, its types of investments and maturities provide a similar level of credit risk.

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

Shelby County Retirement System (Fiduciary Fund). At June 30, 2008 the Retirement System had deposits of $910,090 that were not insured and were uncollateralized. At June 30, 2008 the Retirement System reported the following investments with carrying amounts as shown:

Domestic equity	$ 415,698,225
Fixed income	167,715,980
International equity	159,350,730
Hedge funds	158,897,578
Limited partnership interests	25,936,287
Private real estate	11,297,944
Total investments	$ 938,896,744

The fair values of fixed income investments grouped by maturity at June 30, 2008 are as follows:

Current to one year	$ 7,969,193
One to two years	6,510,674
Two to three years	10,186,124
Three to four years	8,302,821
Four to five years	4,576,440
Five years or more	100,066,466
	149,011,823
Funds with indeterminable maturities	28,089,692
Total	$ 167,715,980

At June 30, 2008 the Retirement System had $326,685,225 of investments with exposure to foreign currency risk.

The above information was taken from the publicly available financial report of the Retirement System for the year ended June 30, 2008. The report includes more information on the credit quality of investments in fixed income debt securities and the investments with foreign currency risk. The report may be obtained from the Shelby County Retirement System, Suite 950, 160 N. Main Street, Memphis, Tennessee 38103.

(B) Property Taxes Receivable

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

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

The assessed value on which the fiscal 2008 tax bills were based was $17,720,591,975. The estimated market value was $59,900,899,755, making the overall assessed value 29.58% of the estimated market value. Taxes are due October 1 and delinquent March 1 of the following year. Current tax collections for the year were 94.16% of the original tax levy and 94.38% of the adjusted tax levy. The property tax levy has no legal limit. The rate, as permitted by Tennessee state law and County charter, is set annually on or after July 1, by the County Board of Commissioners and collected by the County Trustee.

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

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

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

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

	General Fund	Debt Service Fund	Education Fund	Total
Property taxes receivable	$ 245,551,629	$ 163,603,780	$ 404,057,563	$ 813,212,972
Less allowance for uncollectibles	(12,235,286)	(7,947,894)	(19,671,191)	(39,854,371)
	$ 233,316,343	$ 155,655,886	$ 384,386,372	$ 773,358,601

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

(C) Notes Receivable

Notes receivable consist of the following:

	Amount	Collateral
General Fund		
Property loans receivable due in various installments at 6.5% interest	$ 340,255	Land & Building
Debt Service Fund		
Mortgage loans receivable due in various monthly installments at interest rates ranging from 3.125% to 8.125% through 2020	$ 6,491,624	Land & Building
Capital Projects Fund		
Mid South Coliseum note due in annual installments of $21,993 including interest at 6.26% through 2014	$ 159,889	None
Less: Allowance for doubtful accounts	(159,889)	
Depot Redevelopment note due in annual payments plus semi-annual interest payments through August 1, 2020. Interest rates range from 4.75% to 5.625%	2,915,000	None
Total Capital Projects Fund	$ 2,915,000	
Grants Fund		
Mortgage loans receivable due in various installments at 0% to 5.0% interest through 2019	$ 663,908	Land & Building

An allowance for doubtful accounts was established in the amount of $159,889 for the Mid-South Coliseum in a prior year. See Note IV (M) for additional information about the Mid-South Coliseum.

Note IV(G) includes details of deferred revenue relating to notes receivable. The Debt Service Fund and the Capital Projects Fund have notes receivable from Shelby County Health Care Corporation in the amounts of $2,188,565 and $2,254,455 respectively, which are classified as due from component units for financial statement purposes.

(D) Leases Receivable

The County leases certain real property described as Shelby Place Restaurant for the sum of $201,125 annually, plus additional rent of 5% of gross sales less taxes after recoupment of base rent and in lieu of tax payments. The term of the lease commenced on March 1, 1993. The option term currently in effect began March 1, 2008 with two additional option terms of five years each available. The rental income is recognized as revenue in the Debt Service Fund. One of the properties has entered bankruptcy. At June 30, 2008 they owed $250,258 for which an allowance for doubtful accounts has been provided.

(E) Capital Assets

Capital asset activity of the primary government for the year ended June 30, 2008 is detailed below.

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets not being depreciated:					
Land	$ 20,368,731	$ 945,511	$ (120,313)	$ 153,279	$ 21,347,208
Construction in progress	25,628,717	8,426,505	(268,290)	(20,627,245)	13,159,687
Total not being depreciated	45,997,448	9,372,016	(388,603)	(20,473,966)	34,506,895
Capital assets being depreciated:					
Land improvements	12,738,700	174,108	---	390,165	13,302,973
Buildings	232,605,292	1,673,706	(92,711)	3,132,068	237,318,355
Equipment	81,878,348	6,650,884	(2,105,317)	4,390,516	90,814,431
Infrastructure	474,232,110	2,706,340	---	12,917,964	489,856,414
Total being depreciated	801,454,450	11,205,038	(2,198,028)	20,830,713	831,292,173
Less accumulated depreciation:					
Land improvements	3,960,476	451,076	---	---	4,411,552
Buildings	89,357,777	6,573,408	(68,670)	---	95,862,515
Equipment	40,175,549	7,280,103	(1,932,149)	365,402	45,888,905
Infrastructure	144,978,045	12,843,372	---	---	157,821,417
Total accumulated depreciation	278,471,847	27,147,959	(2,000,819)	365,402	303,984,389
Total capital assets being depreciated, net	522,982,603	(15,942,921)	(197,209)	20,465,311	527,307,784
Governmental activities capital assets, net	$ 568,980,051	$ (6,570,905)	$ (585,812)	$ (8,655)	$ 561,814,679
Business type activities:					
Capital assets being depreciated:					
Buildings	$ 46,640,853	$ 885,962	$ ---	$ ---	$ 47,526,815
Equipment	9,600,179	275,071	(229,569)	(356,747)	9,288,934
Total being depreciated	56,241,032	1,161,033	(229,569)	(356,747)	56,815,749
Less accumulated depreciation:					
Buildings	21,835,896	1,062,634	---	---	22,898,530
Equipment	6,497,129	639,705	(222,579)	(365,402)	6,548,853
Total accumulated depreciation	28,333,025	1,702,339	(222,579)	(365,402)	29,447,383
Business-type activities capital assets, net	$ 27,908,007	$ (541,306)	$ (6,990)	$ 8,655	$ 27,368,366

Depreciable land improvements consist of renovations to public park lands and parking lots.

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

	Capital Assets Net	Depreciation Expense
Governmental activities:		
General government	$ 23,434,010	$ 1,361,791
Planning and development	12,946	29,837
Public works	428,670,847	15,924,256
Corrections	880,090	102,793
Health services	5,464,382	577,945
Community services	4,258,116	137,840
Law enforcement	71,062,969	5,978,690
Judicial	12,738,525	1,923,400
Other elected officials	2,133,107	1,111,407
	548,654,992	27,147,959
Construction in progress	13,159,687	---
Total Governmental activities	$ 561,814,679	$ 27,147,959

(F) Lease Obligations

Operating Leases
The County leases office space and other equipment under operating leases expiring during the next five years. Rent expense for the year ended June 30, 2008 was $3,792,069 for the primary government.

Capital Lease
The County has capital leases related to the acquisition of three Emergency One C550 Typhoon Pumper trucks and a Ferrara Inferno Aerial Ladder truck for the Fire Services Fund, a business-type activity. The Emergency One trucks were purchased at a total cost of $863,307 and at June 30, 2008 have accumulated depreciation of $359,712. The Ferrara truck was purchased at a total cost of $584,925 and at June 30, 2008 has accumulated depreciation of $34,120.

The following is a schedule by years of future minimum rental payments required under operating leases and capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2008:

Fiscal Year	Operating Leases	Capital Leases
2009	$ 1,817,656	$ 183,384
2010	1,329,353	183,384
2011	1,012,384	183,384
2012	173,255	183,384
2013	128,874	183,384
2014-2018	---	328,175
Total minimum lease payments	4,461,522	1,245,095
Less: amount representing interest	---	(205,210)
Present value of minimum lease payments	$ 4,461,522	$ 1,039,885

(G) Deferred Revenue

Deferred revenues consist of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Education Fund	Grants Fund	Nonmajor Gov. Fund	Totals
Unearned:							
Property taxes receivable	$215,002,000	$ 144,259,958	$ ---	$ 355,986,785	$ ---	$ ---	$ 715,248,743
Grant revenue	---	---	---	---	4,670,616	---	4,670,616
Not Available:							---
Property taxes receivable	16,027,665	9,758,783	---	24,623,681	---	---	50,410,129
Notes receivable	340,255	6,491,624	2,915,000	---	663,908	---	10,410,787
Due from State	10,018	254,226	3,161,970			---	3,426,214
Due from Shelby County Health Care Corporation	---	2,188,565	2,254,455	---	---	---	4,443,020
Other	1,052,790	---	244,229	---	---	1,155,106	2,452,125
	$232,432,728	$ 162,953,156	$ 8,575,654	$ 380,610,466	$ 5,334,524	$ 1,155,106	$ 791,061,634

Internal service funds have deferred revenue of $3,760,570 for unearned premiums. The proprietary Consolidated Codes Enforcement Fund has deferred revenue of $98,997 for building permits and licensing fees paid in advance.

(H) Debt and Long-term Liabilities

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

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008
2007 TANS	$ ---	$ 30,000,000	$ (30,000,000)	$ ---
2008 EMCP	---	37,300,000	---	37,300,000
Total	$ ---	$ 67,300,000	$ (30,000,000)	$ 37,300,000

Changes in long-term liabilities:

Changes in long-term liabilities during the year were:

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
Governmental activities:					
Bonds payable	$ 1,820,107,968	$ 233,447,842	$ (318,530,650)	$ 1,735,025,160	$ 92,193,150
Loans Payable	---	1,190,000	(373,527)	816,473	255,329
Net premium and issuance cost of bonds issued	16,123,158	---	(3,874,981)	12,248,177	3,837,007
Claims and judgments	7,221,889	4,442,304	(4,088,278)	7,575,915	10,597
Landfill postclosure care costs	3,521,581	---	(74,575)	3,447,006	86,175
Sick and annual leave	22,600,814	10,340,615	(11,746,267)	21,195,162	12,969,861
Total governmental activities	$ 1,869,575,410	$ 249,420,761	$ (338,688,278)	$ 1,780,307,893	$ 109,352,119
Business-type activities:					
Capitalized lease obligations	$ 1,170,996	$ 6,112	$ (137,223)	$ 1,039,885	$ 133,708
Sick and annual leave	4,437,121	2,020,308	(1,558,420)	4,899,008	3,158,068
Total business-type activities	$ 5,608,117	$ 2,026,420	$ (1,695,643)	$ 5,938,893	$ 3,291,776

Bonds payable reductions include $1,512,842 accretion of zero bonds.

General obligations bonds:
These obligations are direct general obligations of the County, are backed by its full faith and credit and the unlimited taxing power of the County. The following bond issues are outstanding, combining bonds issued for school purposes and other purposes:

Description	Date Issued	Interest Rates	Principal Balance	Last Maturity Date
1992A Refunding Issue	04/01/1992	6.45-6.50	$ 1,703,150	03/01/2009
1993A Refunding Issue	05/15/1993	3.40-5.50	6,730,000	03/01/2010
1996A Economic Development Refunding	11/01/1996	4.05-5.20	1,900,000	08/01/2008
1996B Refunding Issue	11/01/1996	5.00-6.00	31,476,065	12/01/2016
1997A Special Purpose Refunding	05/01/1997	5.25-5.60	2,320,000	08/01/2009
1997B Refunding Issue	11/01/1997	4.50-5.75	50,029,416	08/01/2016
1999A Public Imp/Schools	02/15/1999	4.00-5.00	2,200,000	05/01/2009
1999B Public Imp/Schools (a)	05/01/1999	4.75-5.00	3,000,000	06/01/2009
1999B Refunding Issue	02/01/1999	3.55-5.25	38,655,000	04/01/2013
2000A Public Improvement	10/01/2000	4.75-5.625	7,400,000	04/01/2010
2000B Refunding Issue	10/01/2000	5.00	2,700,000	04/01/2009
2001A Public Imp/Schools	12/01/2001	4.50-5.00	18,050,000	04/01/2011
2001A Refunding Issue (a)	03/01/2001	Variable	12,200,000	03/01/2011
2003A Public Imp/Schools	06/10/2003	4.375-5.00	112,700,000	03/01/2028
2003A Special Rural Schools	12/02/2003	2.50-5.00	28,695,000	11/01/2028
2004A Public Imp/Schools	03/31/2004	3.00-5.00	36,105,000	04/01/2014
2004B Public Imp/Schools (a)	04/15/2004	Variable	237,705,000	04/01/2030
2005A Refunding Issue	03/10/2005	3.0-5.0	363,445,000	04/01/2025
2006A Public Imp/Schools	02/22/2006	5.00	66,890,000	03/01/2016
2006B Public Imp/Schools (a)	02/22/2006	Variable	159,590,000	03/01/2031
2006C Refunding Issue (a)	11/30/2006	Variable	279,980,000	12/01/2031
2007A Refunding Issue (a)	07/31/2007	Variable	31,450,000	08/01/2019
2008A Refunding Issue (a)	03/03/2008	Variable	121,485,000	03/01/2022
2008B Refunding Issue (a)	05/01/2008	Variable	79,000,000	04/01/2020
			1,695,408,631	
		Accreted Value of Bonds	39,616,529	
		Total General Obligation Bonds	$1,735,025,160	

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

These bonds represent borrowings for the following:

General government	$ 591,254,337
Education	1,104,154,294
	1,695,408,631
Accreted value of bonds	39,616,529
	$ 1,735,025,160

Interest expense in the Debt Service Fund during the fiscal year ended June 30, 2008 was $71,915,887. Entity wide interest was $71,866,481, which includes interest paid for the Debt Service Fund, interest paid on the short term commercial paper program for the Capital Improvement Projects Fund, and interest paid on the Tax Anticipation Notes.

The County defeased certain bonds by placing the proceeds of the new bonds in irrevocable trusts to provide for all future debt service requirements on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. Of the original principal, $380,480,000 of outstanding bonds that were advance refunded prior to Fiscal Year 2008 are considered defeased at June 30, 2008. Specific defeased maturities are shown on the combining and other statements and schedules for General Obligation Bonds.

In July 2007, $31,450,000 in General Obligation Variable Rate Demand Refunding Bonds, 2007 Series A were issued to refund specific maturities totaling $30,815,000 of the 1997 Series B Refunding Bonds of which the County paid an additional 1% premium in the amount of $308,150 resulting in an aggregate difference of $326,850 which paid the cost of issuance on the Bonds. The net proceeds of the refunding portion of the 2007 Series A Bonds were issued to purchase direct obligations of the U.S. Government, which were deposited into an irrevocable trust with an escrow agent. This refunding was completed during Fiscal Year 2008. The effect of this transaction was to refinance existing debt at a lower rate and generate a savings of $85,984.

In March 2008, $121,485,000 in General Obligation Variable Rate Demand Refunding Bonds, 2008 Series A were issued to refund specific maturities totaling $120,800,000 of the 1998 Series A Refunding Bonds resulting in aggregate difference of $685,000 which paid the cost of issuance on the Bonds. The net proceeds of the refunding portion of the 2008 Series A Bonds were issued to purchase direct obligations of the U.S. Government, which were deposited into an irrevocable trust with an escrow agent. This refunding was completed during Fiscal Year 2008. The effect of this transaction was to refinance existing debt at a lower rate and generate a savings of $8,729,534.

In May 2008, $79,000,000 in General Obligation Variable Rate Demand Refunding Bonds, 2008 Series B were issued to refund specific maturities totaling $79,000,000 of the 1999 Series A Refunding Bonds, effectively converting the auction rate securities to variable rate demand bonds. The 1999 Series A Bonds were hedged with an interest rate swap. This interest rate swap was maintained as a hedge against the 2008 Series B Bonds.

In February 2008, the Shelby County Board of Commissioners authorized the issuance of up to $120,000,000 in Capital Outlay Extendible Municipal Commercial Paper (EMCP) Notes, 2008 Series A Program. The aggregate outstanding principal amount may not exceed $120,000,000 at any time. The Notes were issued in anticipation of the County’s issuance of certain general obligation bonds and general obligation school bonds in the aggregate principal amount not exceeding $120,000,000 for the purpose of funding various public works and school projects. The general obligation bonds are expected to retire the Notes within two years of the initial issuance of the Notes. The original maturity date will range from 1 to 90 days from the original issue date of each Note. As of June 30, 2008, Shelby County has issued $37,300,000 in EMCP Notes under this program.

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

All unmatured interest which is due in future years is disclosed in the table below. The County has no legal debt limit. Debt service requirements for principal and interest in future years, using the actual rate on fixed rate bonds and notes and 5.345% for the 2001 Series A General Obligation Weekly Adjustable/Fixed Rate Bonds, 3.041% for the 2004 Series B General Obligation Variable Rated Demand Public Improvement and School Bonds, 3.503% for the 2006 Series B General Obligation Weekly Adjustable/Fixed Rate Bonds from 2/22/2006 to 3/1/2016 and a rate of 4.430%. from 3/1/2016 to 3/1/2031, and 3.83% on the notional amount of $234,160,000 and 4.26% notional amount of $52,615,000 for the 2006 Series C Variable Demand Refunding Bonds, 4.61% for the 2007 Series A

Variable Rate Demand Refunding Bonds, 4.66% for the 2008 Series A Variable Rate Demand Refunding Bonds, and 4.115% for the 2008 Series B Variable Rate Demand Refunding Bonds are as follows:

Years Ended June 30	Principal	Interest	Total
2009	$ 92,193,150	$ 72,127,892	$ 164,321,042
2010	100,455,000	64,263,910	164,718,910
2011	105,630,000	59,560,676	165,190,676
2012	89,086,807	70,364,742	159,451,549
2013	81,089,649	72,092,589	153,182,238
2014-2018	441,284,025	230,475,824	671,759,849
2019-2023	391,195,000	117,379,592	508,574,592
2024-2028	283,770,000	48,578,559	332,348,559
2029-2032	110,705,000	7,286,109	117,991,109
	1,695,408,631	742,129,893	2,437,538,524
Accreted value of Bonds	39,616,529	(39,616,529)	---
	$ 1,735,025,160	$ 702,513,364	$ 2,437,538,524

Interest rate swap agreements:
As of June 30, 2008 Shelby County has eight interest rate swap agreements, described as follows:

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

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

Swap Terms:

Trade Date	Option Notification Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Underlying Index	Upfront Cash Payment
12/18/1998	11/29/1999	12/1/2000	3/1/2011	$21,800,000	5.35%	SIFMA	$1,025,000

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

Fair Value of Swap and Option: The swap, as of 6/30/2008 has a net value of ($734,567). The total mark-to-market was ($863,336) of which approximately ($128,769) is accrued interest from 3/1/2008 to the valuation date, 6/30/2008. This fair value was measured by a swap pricing system in which the future net settlement swap payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dates implied from the current yield curve.

Associated Debt and Swap Payments: This swap is in conjunction with the General Obligation Weekly Adjustable / Fixed Rate Refunding Bonds, 2001 Series A which refunded a portion of the 1992 Series B and 1993 Series A Bonds. As of 6/30/2008, below are the principal and interest requirements of the debt and the net swap payments (assuming SIFMA equals its current level of 1.55% for the term of the swap). Interest and net swap payments will fluctuate as SIFMA changes.

Fiscal Year Ended June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Net Swap Payments	Total
2009	$ 1,200,000	$ 187,546	$ 462,990	$ 1,850,536
2010	1,200,000	169,099	417,450	1,786,549
2011	9,800,000	150,652	371,910	10,322,562
Total	$ 12,200,000	$ 507,296	$ 1,252,350	$ 13,959,646

Credit Risk: Because the swap has a negative value on 6/30/2008, the County does not have credit risk to Morgan. However, if swap rates increase and the fair value of the swap moves in favor of the County, credit risk would be present.

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

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

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

Swap Two: Executed with Goldman Sachs Mitsui Marines Derivative Products on 1/15/1999 in connection with the 1999 Series A General Obligation Variable Rate Demand and Refunding Bonds, and subsequently kept in place for the 2008 Series B General Obligation Variable Rate Demand Refunding Bonds (which refunded the 1999 issue):

Swap Objective: In order to lower its borrowing costs, the County entered into a swap in connection with its 2008 Series B General Obligation Variable Rate Demand Refunding Bonds. The variable rate bonds were issued to advance refund a portion of various outstanding G.O. bond issues. At the time, the synthetic fixed rate swap was favorable when compared to savings that could be achieved with a traditional fixed rate refunding bond issue. Additionally, the County entered into this tax language swap to effectively lower the fixed rate it would pay on the swap.

Swap Terms:

Trade Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Underlying Index
1/15/1999	1/28/1999	4/1/2020	$96,150,000	4.12%	Actual Bond Rate or Alternative Index until 1/1/2007; 76.6% 1-month LIBOR thereafter

On 1/28/1999, the swap became effective at the same time the 1999 Series A General Obligation Variable Rate Demand Refunding Bonds were issued. On May 1, 2008, the 2008 Series B General Obligation Variable Rate Demand Refunding Bonds refunded the 1999 Series A General Obligation Variable Rate Demand Refunding Bonds. The 2008 Series B bonds kept the swap in place but changed the type of the underlying variable rate bonds from auction rate securities to variable rate demand bonds. Under the terms of the swap, the County pays 4.115% to the Counterparty, Goldman Sachs Mitsui Marines Derivative Products, L.P. ("Goldman"), and in return receives 76.6% of 1-month LIBOR. The swap and refunding bonds have the same original notional amount of $96,150,000 and have the same principal amortization and maturity.

Fair Value of Swap and Option: The swap, as of 6/30/2008 has a net value of ($3,231,287). The total mark-to-market was ($3,373,303) of which approximately ($142,016) is accrued interest from 6/1/2008 to the valuation date, 6/30/2008. This fair value was measured by a swap pricing system in which the future net swap settlement payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dates implied from the current yield curve.

Associated Debt and Swap Payments: This swap is in conjunction with the 2008 Series B General Obligation Variable Rate Demand Refunding Bonds that refunded the 1999 Series A General Obligation Variable Rate Demand Refunding Bonds. As of 6/30/2008, below are the principal and interest requirements of the debt and the net swap payments. The cash flows below assume that SIFMA equals its current level, as of 6/30/2008, of 1.55% and 1-month LIBOR equals its current level of 2.48% for the term of the swap, and Goldman pays the County 76.6% of 1-month LIBOR thereafter until maturity. Interest and net swap payments will fluctuate as SIFMA and LIBOR change.

Fiscal Year	Variable Rate Bonds		Net Swap	
Ended June 30	Principal	Interest	Payments	Total
2009	$ 625,000	$ 1,222,670	$ 1,748,965	$ 3,596,635
2010	675,000	1,213,009	1,735,128	3,623,137
2011	9,650,000	1,202,575	1,720,185	12,572,760
2012	13,325,000	1,053,410	1,503,001	15,881,411
2013	9,300,000	846,306	1,211,546	11,357,852
2014	14,625,000	702,551	1,005,655	16,333,206
2015	12,750,000	476,485	681,875	13,908,360
2016	4,100,000	279,401	398,665	4,778,066
2017	4,250,000	215,401	308,836	4,774,513
2018	4,500,000	149,983	214,746	4,864,729
2019	4,675,000	80,424	115,122	4,870,546
2020	525,000	8,160	11,596	544,755
Total	$ 79,000,000	$ 7,450,650	$ 10,655,320	$ 97,105,970

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

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

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

Basis Risk: As long as there is not a direct relationship between the floating rate received from the Counterparty and the rate at which the variable rate bonds remarket, the County is exposed to basis risk. The basis risk will arise from the difference between the actual interest rate paid on the variable rate bonds and the receipt from Goldman of 76.6% of 1-month LIBOR. This basis differential could cause the expected savings to not be achieved.

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

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

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

Swap Terms:

Executed Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Floating Rate Index
3/18/2004	4/22/2004	4/1/2014	$235,000,000	2.96%	70% of 1-month LIBOR thereafter

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

Fair Value of Swap: The swap, as of 6/30/2008 has a net value of $1,649,307. The total mark-to-market was $1,465,984 of which approximately ($183,324) is accrued interest from 6/1/2008 to the valuation date, 6/30/2008. This fair value was measured by a swap pricing system in which the future net settlement swap payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dates implied from the current yield curve.

Associated Debt and Swap Payments: This swap is in conjunction with the 2004 G.O. Variable Rate Public Improvement and School Bonds. As of 6/30/2008, below are the principal and interest requirements of the debt and the net swap payments. The cash flows below assume that SIFMA equals it current level of 1.55% for the term of the swap, and Morgan Stanley pays 70% of 1 Month LIBOR to the County which as of 6/30/2008 equals 1.738% (2.48% x 70%). Interest and net swap payments will fluctuate as SIFMA and LIBOR changes.

Fiscal Year	Variable Rate Bonds		Net Swap	
Ended June 30	Principal	Interest	Payments	Total
2009	$ ---	$ 3,730,419	$ 2,195,169	$ 5,925,588
2010	---	3,730,419	1,261,055	4,991,473
2011	---	3,730,419	1,261,055	4,991,473
2012	---	3,730,419	1,254,538	4,984,957
2013	---	3,730,419	1,261,055	4,991,473
2014	---	3,730,419	1,261,055	4,991,473
2015	8,290,000	3,730,419	---	12,020,419
2016	9,120,000	3,600,496	---	12,720,496
2017	10,030,000	3,456,780	---	13,486,780
2018	11,030,000	3,299,587	---	14,329,587
2019	12,140,000	3,126,723	---	15,266,723
2020	13,350,000	2,936,462	---	16,286,462
2021	14,685,000	2,726,088	---	17,411,088
2022	16,155,000	2,495,942	---	18,650,942
2023	17,770,000	2,242,757	---	20,012,757
2024	19,545,000	1,964,262	---	21,509,262
2025	21,500,000	1,656,265	---	23,156,265
2026	13,775,000	1,319,312	---	15,094,312
2027	15,150,000	1,103,427	---	16,253,427
2028	16,665,000	865,993	---	17,530,993
2029	18,335,000	603,381	---	18,938,381
2030	20,165,000	316,030	---	20,481,030
Total	$ 237,705,000	$ 57,826,436	$ 8,493,926	$ 304,025,362

Credit Risk: The County has credit exposure to Morgan Stanley equivalent to the fair value of $1,465,984. If Morgan Stanley fails to perform under the terms of the swap contract, the County could have a loss equal to that mark-to-market value. As of 6/30/2008, the ratings of Morgan Stanley are Aa3/AA- by Moody’s and Standard & Poor’s, respectively. To mitigate credit risk, if Standard & Poor's and Moody's rates the creditworthiness of Morgan Stanley’s senior, unsecured, unenhanced debt below a rating of “A” in the case of Standard & Poor’s or “A2” in the case of Moody’s, treasuries or cash will be pledged.

Termination Risk: If the swap has an unanticipated termination, the County may owe a termination payment to Morgan Stanley equal to the fair value of the swap at that time, if swap rates have fallen and the fair value is negative to the County. If either Standard & Poor’s or Moody's rates the creditworthiness of either party’s long-term, unsecured, and unsubordinated debt, deposit or letter of credit obligations below Baa1 by Moody’s or BBB+ by Standard & Poor’s, an Additional Termination Event has occurred. As of 6/30/2008, Morgan Stanley has a rating of Aa3/AA- by Moody’s and Standard & Poor’s, respectively.

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

Basis Risk: As long as there is not a direct relationship between the floating rate received from the Counterparty and the rate at which the variable rate bonds remarket, the County is exposed to basis risk. The basis risk will arise from the difference between the actual interest rate paid on the variable rate bonds and the receipt from Morgan Stanley of 70% of 1-month LIBOR. This basis differential could cause the expected cost of funds to increase.

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

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

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

Swap Terms

Trade Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Underlying Index
10/25/2004	10/27/2004	6/1/2019	$75,000,000	4.16%	4.9% - Adjustment Factor

:

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

Fair Value of Swap: The swap, as of 6/30/2008, has a net value of ($43,319) and accrued interest of $62,905 from 6/1/2008. This fair value was measured by a swap pricing system in which the future net swap settlement payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dates implied from the current yield curve.

Associated Debt and Swap Payments: This swap was executed in conjunction with the 1999 Series B General Obligation Public Improvement and School Bonds of which has been refunded. As of 6/30/2008, below are the net swap payments (assuming SIFMA equals its current level of 1.55% and 6 month LIBOR equals 2.9106% for the term of the swap). The net swap payments will fluctuate as SIFMA and 6 month LIBOR change.

Fiscal Year Ended June 30	Fixed Rate Bonds Principal	Fixed Rate Bonds Interest	Swap Principal	Net Swap (Payment)/Receipt
2009	$ 4,718,317	$ 2,409,704	$ 2,690,000	$ 165,815
2010	3,828,634	2,193,709	2,690,000	158,910
2011	4,164,313	2,112,039	2,690,000	152,006
2012	3,495,248	1,988,024	2,690,000	144,275
2013	3,132,259	1,836,052	3,135,000	138,196
2014	4,925,317	1,696,596	3,585,000	130,149
2015	5,061,920	1,472,617	3,765,000	120,947
2016	4,829,929	1,237,501	3,900,000	110,650
2017	3,660,906	1,013,296	4,030,000	101,273
2018	4,299,379	846,828	4,300,000	90,929
2019	3,896,979	647,048	31,125,000	245,433
2020	3,798,622	487,557	---	---
2021	2,735,810	325,299	---	---
2022	2,827,255	263,022	---	---
2023	2,816,174	199,303	---	---
2024	2,901,190	138,919	---	---
2025	1,072,705	91,674	---	---
2026	579,662	62,168	---	---
2027	602,301	53,575	---	---
2028	625,795	44,647	---	---
2029	650,144	35,371	---	---
2030	675,774	25,732	---	---
2031	702,258	15,713	---	---
2032	729,596	5,304	---	---
Total	$ 66,730,487	$ 19,201,696	$ 64,600,000	$ 1,558,584

Credit Risk: The County has credit exposure to RFP equivalent to the fair value of $19,586. If RFP fails to perform under the terms of the swap contract, the County could have a loss equal to that mark-to-market value. The obligations of RFP under the swap agreement are guaranteed by a surety bond that was issued by Aa3 rated Ambac Assurance Corporation (“Ambac”).

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

Interest Rate Risk: Currently, the County does not have interest rate risk because it is paying a fixed rate on the swap.

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

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

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

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

Swap Terms :

Option Notification Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Underlying Index	Upfront Cash Payment
11/29/2006	12/1/2006	12/1/2011	$ 52,615,000	4.27%	SIFMA	$ 1,503,000
N/A	11/30/2006	12/1/2031	$ 234,160,000	3.83%	SIFMA	None

The County received a payment of $1,503,000 on 12/1/2006 from the Morgan Keegan Financial Products, Inc. for entering into a swaption on the trade date of 6/23/2005. This swaption gave the Counterparty the option to cause the County to enter into a swap on August 1, 2007. The swap was exercised and the County refunded a portion of its 1996 Series B General Obligation Refunding Bonds with variable rate bonds and entered into a fixed payer swap in which the County will pay a fixed rate of 4.26% and receive SIFMA. The notional amount on the swap is originally $52,615,000. The termination date of this swap with Morgan is 12/1/2011. The County also entered into a swap on 11/2/2006 with Goldman Sachs Mitsui Marines Derivative Products with an effective date of 11/30/2006 for the 2006C Refunding Bonds. There was no upfront payment with Goldman. The County refunded a portion of its 1999 Series A Public Improvement Bonds, a portion of its 1999 Series B Public Improvement and School Bonds and a portion of its 2001 Series A Public Improvement and School Bonds. The bonds were refunded with variable rate bonds and entered into a fixed payer swap in which the County will pay a fixed rate of 3.83% to Goldman and receive SIFMA. The notional amount on the swap with Goldman is originally $234,160,000. The Goldman swap has a termination date of 12/1/2031.

Fair Value of Swap and Option: The swaps, as of 6/30/2008 have a net value of ($4,481,422). The total mark-to-market was ($4,991,516) of which approximately ($510,094) is accrued interest from 6/2/2008 to the valuation date, 6/30/2008. This fair value was measured by a swap pricing system in which the future net settlement swap payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dates implied from the current yield curve.

Associated Debt and Swap Payments: This swap is in conjunction with 2006 Series C General Obligation Variable Rate Demand Refunding Bonds. This analysis assumes the Morgan swap stays in place until 12/1/2011 and the Goldman swap stays in place until maturity in 2031. Below are the principal and interest requirements of the debt and the net swap payments as of 6/30/2008 (assuming SIFMA equals its current level of 1.55% for the term of the Swap). Interest and net swap payments will fluctuate as SIFMA changes.

Fiscal Year Ended June 30	Fixed Rate Bonds Principal	Fixed Rate Bonds Interest	Net Swap Payment	Total
2009	$ 7,080,000	$ 4,019,362	$ 6,660,471	$ 17,759,832
2010	31,025,000	3,742,344	6,152,307	40,919,651
2011	22,825,000	3,350,862	5,424,937	31,600,799
2012	5,980,000	3,141,453	5,067,223	14,188,676
2013	4,725,000	3,063,629	4,916,467	12,705,096
2014	4,910,000	2,993,584	4,804,075	12,707,659
2015	5,105,000	2,920,777	4,687,251	12,713,027
2016	5,300,000	2,845,134	4,586,413	12,731,547
2017	5,515,000	2,766,510	4,439,721	12,721,231
2018	5,725,000	2,684,797	4,308,606	12,718,403
2019	9,195,000	2,576,330	4,134,735	15,906,065
2020	9,640,000	2,439,403	3,932,366	16,011,769
2021	24,080,000	2,194,263	3,522,421	29,796,684
2022	25,285,000	1,835,386	2,946,595	30,066,981
2023	26,290,000	1,460,443	2,344,976	30,095,418
2024	27,330,000	1,070,633	1,725,882	30,126,514
2025	6,530,000	824,475	1,323,385	8,677,860
2026	6,785,000	727,677	1,168,066	8,680,743
2027	7,050,000	627,098	1,006,682	8,683,780
2028	7,325,000	522,594	842,432	8,690,026
2029	7,610,000	414,019	664,782	8,688,801
2030	7,910,000	301,190	483,742	8,694,932
2031	8,220,000	183,928	295,586	8,699,514
2032	8,540,000	62,085	100,082	8,702,166
Total	$ 279,980,000	$ 46,767,970	$ 75,539,204	$ 402,287,177

Credit Risk: Because the Morgan swap has a negative value on 6/30/2008, the County does not have credit risk to MKFP. However, if the fair value of the swap moves in favor of the County, credit risk would be present. There is credit risk with the Goldman swap. To mitigate credit risk, if Standard & Poor's and Moody's rates the creditworthiness of either MKFP’s or Goldman’s (or the Credit Support Provider’s) senior, unsecured, unenhanced debt below a rating of “A” in the case of Standard & Poor’s or “A2” in the case of Moody’s, treasuries or cash will be pledged.

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

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

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

Swap Six: Executed with Morgan Keegan Financial Products on 6/23/2005 in connection with the 1997 Series B Bonds and subsequently kept in place for the 2007 Series A General Obligation Refunding Bonds (which refunded a portion of the 1997 issue):

Swap Objective: This swaption gave the Counterparty the option to cause the County to enter into a swap in which the County would pay a fixed rate and receive a floating rate. Upon the Counterparty's exercise of the option, the County would currently refund a portion of its 1997 Series B General Obligation Refunding Bonds with variable rate bonds and enter into a fixed payer swap in which the County will pay a fixed rate and receive a floating rate. The County entered into this swaption to take advantage of 40 year lows in interest rates to refund high coupon debt and to receive an upfront cash payment to pay for capital expenditures to reduce debt issuance in the future.

Swap Terms:

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

On 8/1/2007 the County received a payment of $2,070,000 from the Counterparty for granting the Counterparty, Morgan Keegan Financial Products ("MKFP"), the right to enter into a swap on 6/23/2005. The swap was exercised and the County refunded a portion of its 1997 Series B General Obligation Refunding Bonds with variable rate bonds and entered into a fixed payer swap in which the County will pay a fixed rate of 4.61% and receive SIFMA. The swap will have the same amortization and maturity as the underlying bond issue. The fixed swap rate of 4.61% was set at a rate that, when added to the assumed ongoing expenses for the variable rate bonds and the costs of issuance for the underlying variable rate bonds, would equal the average coupon on the outstanding 1997 Series B General Obligation Refunding Bonds.

Fair Value of Swap and Option: As of 6/30/2008, there is no fair value for the option because it has been exercised. The swap, as of 6/30/2008 has a net value of ($2,426,232). The total mark-to-market was ($2,986,659) of which approximately ($560,427) is accrued interest from 2/1/2008 to the valuation date, 6/30/2008. This fair value was measured by a swap pricing system in which the future net settlement swap payments were calculated and discounted to the valuation date using future spot interest rates.

Associated Debt and Swap Payments: This swap is in conjunction with the General Obligation Weekly Adjustable / Fixed Rate Refunding Bonds, 2007 Series A which refunded a portion of the 1997 Series B Bonds. As of 6/30/2008, below are the principal and interest requirements of the debt and the net swap payments (assuming SIFMA equals its current level of 1.55% for the term of the swap). Interest and net swap payments will fluctuate as SIFMA changes.

Fiscal Year Ended June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Net Swap Payments	Total
2009	$ 65,000	$ 482,982	$ 960,044	$ 1,508,026
2010	65,000	481,980	959,391	1,506,370
2011	70,000	480,942	957,325	1,508,268
2012	6,290,000	432,057	860,414	7,582,471
2013	65,000	383,208	761,726	1,209,934
2014	70,000	382,168	760,720	1,212,888
2015	70,000	381,091	758,578	1,209,670
2016	6,735,000	328,786	654,887	7,718,673
2017	55,000	276,594	517,422	849,016
2018	7,145,000	221,250	414,959	7,781,209
2019	7,545,000	108,338	203,449	7,856,787
2020	3,275,000	25,173	47,369	3,347,541
Total	$ 31,450,000	$ 3,984,569	$ 7,856,284	$ 43,290,853

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

Termination Risk: An out-of-the-ordinary event may occur that causes the contract to be terminated. At the time of termination, if the swap has a negative fair value, the County would be liable to MKFP for a payment equal to the fair value. If either Standard & Poor's or Moody's rates the creditworthiness of either party's (or the Credit Support Provider's) long-term, unsecured, unenhanced debt rating below Baa3 by Moody's or BBB- by Standard & Poor's, an Additional Termination Event has occurred. As of 6/30/2008, MKFP has a credit guarantee from Deutsche Bank AG, rated Aa1/AA by Moody's and Standard & Poor's, respectively

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

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

Swap Seven: Executed with Loop Financial Products on 6/23/2005 in connection with the 1998 Series A Bonds and subsequently kept in place for the 2008 Series A General Obligation Refunding Bonds (which refunded a portion of the 1998 issue):

Swap Objective: This swaption gave the Counterparty the option to cause the County to enter into a swap in which the County would pay a fixed rate and receive a floating rate. Upon the Counterparty's exercise of the option, the County would currently refund a portion of its 1998 Series A General Obligation Refunding Bonds with variable rate bonds and enter into a fixed payer swap in which the County will pay a fixed rate and receive a floating rate. The County entered into this swaption to take advantage of 40 year lows in interest rates to refund high coupon debt and to receive an upfront cash payment for capital expenditures to reduce debt issuance in the future.

Swap Terms:

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

On 3/1/2008 the County received a payment of $8,571,000 from the Counterparty for granting the Counterparty, Loop Financial Products ("LFP"), the right to enter into a swap on 6/23/2005. The swap was exercised and the County refunded a portion of its 1998 Series A General Obligation Refunding Bonds with variable rate bonds and entered into a fixed payer swap in which the County will pay a fixed rate of 4.66% and receive SIFMA. The swap has the same amortization and maturity as the underlying bond issue. The fixed swap rate of 4.66% was set at a rate that, when added to the assumed ongoing expenses for the variable rate bonds and the costs of issuance for the underlying variable rate bonds, would equal the average coupon on the outstanding 1998 Series A General Obligation Refunding Bonds.

Fair Value of Swap and Option: As of 6/30/2008, there is no fair value for the option because it has been exercised. The swap, as of 6/30/2008 has a net value of ($10,435,549). The total mark-to-market was ($12,159,117) of which approximately ($1,723,568) is accrued interest from 3/1/2008 to the valuation date, 6/30/2008. This fair value was measured by a swap pricing system in which the future net settlement swap payments were calculated and discounted to the valuation date using future spot interest rates.

Associated Debt and Swap Payments: This swap is in conjunction with the General Obligation Weekly Adjustable / Fixed Rate Refunding Bonds, 2008 Series A which refunded a portion of the 1998 Series A Bonds. As of 6/30/2008, below are the principal and interest requirements of the debt and the net swap payments (assuming SIFMA equals its current level of 1.55% for the term of the swap). Interest and net swap payments will fluctuate as SIFMA changes.

Fiscal Year	Variable Rate Bonds		Net Swap	
Ended June 30	Principal	Interest	Payments	Total
2009	$ 240,000	$ 1,809,683	$ 3,778,184	$ 5,827,867
2010	760,000	1,806,113	3,770,720	6,336,833
2011	785,000	1,794,807	3,747,084	6,326,890
2012	815,000	1,783,128	3,717,587	6,315,715
2013	8,770,000	1,770,937	3,697,324	14,238,260
2014	11,365,000	1,640,468	3,424,577	16,430,045
2015	11,830,000	1,471,394	3,071,125	16,372,519
2016	13,470,000	1,295,403	2,699,521	17,464,924
2017	13,365,000	1,093,906	2,115,360	16,574,266
2018	13,320,000	895,079	1,730,448	15,945,527
2019	13,980,000	696,921	1,346,832	16,023,753
2020	14,745,000	488,945	942,816	16,176,761
2021	13,030,000	268,376	519,552	13,817,928
2022	5,010,000	74,532	144,288	5,228,820
Total	$ 121,485,000	$ 16,889,694	$ 34,705,415	$ 173,080,109

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

Termination Risk: An out-of-the-ordinary event may occur that causes the contract to be terminated. At the time of termination, if the swap has a negative fair value, the County would be liable to LFP for a payment equal to the fair value. If either Standard & Poor's or Moody's rates the creditworthiness of either party's (or the Credit Support Provider's) long-term, unsecured, unenhanced debt rating below Baa3 by Moody's or BBB- by Standard & Poor's, an Additional Termination Event has occurred. As of 6/30/2008, LFP has a credit guarantee from Deutsche Bank AG, rated Aa1/AA by Moody's and Standard & Poor's, respectively.

Interest Rate Risk: Currently, the County does not have interest rate risk because it is paying a fixed rate on the swap. However, if for some unforeseen reason the swap is terminated prior to maturity, the County will have interest rate risk associated with the outstanding variable rate bonds until maturity in 2022.

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

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

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

Swap Terms:

Executed Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Floating Rate Index
2/14/2006	2/22/2006	3/1/2031	$159,590,000	3.503% until 3/1/2016 4.43% thereafter	SIFMA

On 2/14/2006, the County entered into a fixed payer swap with an effective date of 2/22/2006. Under the terms of the swap, the County pays a fixed rate of 3.503% until 3/1/2016 and 4.43% thereafter to the Counterparties, MKFP and Goldman. In return, the County receives the SIFMA index. Goldman's portion of the swap is $119,590,000 and MKFP's portion is $40,000,000.

Fair Value of Swap and Option: As of 6/30/2008, there is no fair value for the option because it has been exercised. The swap, as of 6/30/2008 has a net value of ($7,936,203). The total mark-to-market was ($9,566,035) of which approximately ($1,629,832) is accrued interest from 3/1/2008 to the valuation date, 6/30/2008. This fair value was measured by a swap pricing system in which the future net settlement swap payments were calculated and discounted to the valuation date using future spot interest rates.

Associated Debt and Swap Payments: This swap is in conjunction with 2006 Series B General Obligation Variable Rate Demand Public Improvement and School Bonds. This analysis assumes both swaps stay in place until maturity in 2031. Below are the principal and interest requirements of the debt and the net swap payments as of 6/30/2008 (assuming SIFMA equals its current level of 1.55% for the term of the Swap). Interest and net swap payments will fluctuate as SIFMA changes.

Fiscal Year Ended June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Net Swap Payments	Total
2009	$ ---	$ 2,296,369	$ 3,116,793	$ 5,413,162
2010	---	2,296,369	3,116,793	5,413,162
2011	---	2,296,369	3,116,793	5,413,162
2012	---	2,296,369	3,110,016	5,406,385
2013	---	2,296,369	3,116,793	5,413,162
2014	---	2,296,369	3,116,793	5,413,162
2015	---	2,296,369	3,116,793	5,413,162
2016	---	2,296,369	3,110,016	5,406,385
2017	7,425,000	2,296,369	4,596,192	14,317,561
2018	2,020,000	2,189,591	4,382,352	8,591,943
2019	---	2,160,542	4,324,176	6,484,718
2020	2,705,000	2,160,542	4,317,800	9,183,342
2021	8,505,000	2,121,427	4,246,272	14,872,699
2022	9,575,000	1,999,118	4,001,328	15,575,446
2023	7,130,000	1,861,421	3,725,568	12,716,989
2024	7,450,000	1,758,886	3,515,033	12,723,919
2025	23,900,000	1,651,157	3,305,664	28,856,821
2026	26,130,000	1,307,455	2,617,344	30,054,799
2027	20,110,000	931,685	1,864,800	22,906,485
2028	6,625,000	642,486	1,283,736	8,551,222
2029	12,680,000	546,687	1,094,832	14,321,519
2030	6,055,000	364,338	729,648	7,148,986
2031	19,280,000	277,262	555,264	20,112,526
Total	$ 159,590,000	$ 40,639,918	$ 69,480,799	$ 269,710,717

Credit Risk: Because the swap has a negative value on 6/30/2008, the County does not have credit risk. However, if swap rates increase and the fair value of the swap moves in favor of the County, credit risk would be present.

Termination Risk: Goldman and MKFP have the right to terminate the swap on 3/1/2016. If the swap is terminated on the optional termination date, neither party is liable for a termination payment. Also, if the swap is terminated, the County will be exposed to interest rate risk because the variable rate bonds will no longer carry a synthetic fixed rate.

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

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

Claims and Judgments

The County has recognized long-term debt liabilities for claims and judgments of $7,202,220 in accordance with its accounting policy explained in Note I (E). The liabilities are based on property damage and personal injury lawsuits arising in the course of operations. The County believes this is a reasonable measure of the ultimate settlement of these matters.

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

(I) Interfund Receivables, Payables and Transfers

Interfund receivables and payables consist of the following:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 1,919
	Grants Fund	5,144,338
	Central Service Funds	264,674
Debt Service Fund	General Fund	1,353,651
Education Fund	General Fund	1,353,651
Nonmajor Governmental Funds	General Fund	1,477,823
Total		$ 9,596,056

Due To/From Component Units

Receivable Entity	Payable Entity	Amount
Debt Service Fund	The Med Component Unit	$ 2,188,565
Capital Projects Fund	The Med Component Unit	2,254,455
Board of Education (Component Unit)	Capital Projects Fund	12,766,000
Board of Education (Component Unit)	Education Fund	3,621,307
Total		$ 20,830,327

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

Transfers during the year were as follows:

Transfers Out:	Transfers In:	Amounts:
General Fund	Enterprise Funds	$ 10,700,000
	Debt Service Fund	337,965
	Grants Fund	2,817,431
	Nonmajor Governmental Funds	1,123,124
	Internal Service Funds	1,000,000
Debt Service Fund	Capital Projects Fund	17,045,000
Capital Projects Fund	Debt Service Fund	1,072,266
Grants Fund	General Fund	4,720,031
	Grants Fund	527,202
	Enterprise Funds	71,948
	Nonmajor Governmental Funds	1,500,000
Nonmajor Governmental Funds	General Fund	2,660,205
	Debt Service Funds	6,079,542
	Grants Fund	55,917
Total transfers out by governmental fund types		49,710,631
Enterprise Funds	General Fund	3,614,046
	Grants Fund	265,543
Internal Service Funds	General Fund	356,962
Total transfers out by proprietary fund types		4,236,551
Total all fund types		$ 53,947,182

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

(J) Other Revenue

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

Other revenue for the year ended June 30, 2008 is detailed below:

	General Fund	Debt Service Fund	Capital Projects Fund	Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
Investment income	$ 5,047,381	$ 2,863,791	$ 4,136,418	$ 214,906	$ 1,143,069	$ 13,405,565
Miscellaneous income	258,850	11,991,000	13,000	313,731	704,102	13,280,683
Total other revenue	$ 5,306,231	$ 14,854,791	$ 4,149,418	$ 528,637	$ 1,847,171	$ 26,686,248

The miscellaneous income in the debt service fund consists of revenues from interest rate swaps. The miscellaneous income in nonmajor governmental funds includes a settlement of $700,000 received from an industrial company for violation of air emissions standards.

(K) Risk Financing and Related Insurance Issues

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

	2008	2007
Insurance claims liabilities at the beginning of the fiscal year	$ 6,027,752	$ 5,933,578
Incurred claims and claim adjustment expenses:	47,857,621	54,005,957
Payment of claims and claim adjustment expenses	(48,920,910)	(53,911,783)
Claims and claim adjustment liabilities at the end of the fiscal year	$ 4,964,463	$ 6,027,752

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

	2008	2007
Claims and claim adjustment liabilities at the beginning of the fiscal year	$ 3,425,220	$ 3,201,353
Incurred claims and claim adjustment expenses	1,464,779	1,531,522
Payment of claims and claim adjustments expense	(1,153,506)	(1,307,655)
Claims and claim adjustment liabilities at the end of the fiscal year	$ 3,736,493	$ 3,425,220

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

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

	2008	2007
Claims and claim adjustment liabilities at the beginning of the fiscal year	$ 6,756,536	$ 5,769,615
Incurred claims and claim adjustment expenses	2,977,525	3,422,126
Payment of claims and claim adjustments expenses	(2,590,574)	(2,435,205)
Claims and claim adjustments liabilities at the end of the fiscal year	$ 7,143,487	$ 6,756,536

(L) Contingencies and Commitments

The County has commitments at fiscal year-end for outstanding purchase orders and outstanding contracts reported as reserves for encumbrances of the governmental funds. In addition, commitments for capital projects total $13,348,195 as of June 30, 2008.

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

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

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

Memphis and Shelby County Convention Center Commission (the Convention Center)
The Convention Center operates the 300,000 square foot multi-use Memphis Cook Convention Center and the 2,100 seat Cannon Center for the Performing Arts. The Convention Center is a joint venture between the City of Memphis (City) and the County and is overseen by an eight-member board. The City and County each appoint four board members. The board is responsible for reporting the results of operations semi-annually to both the City and the County. The City and County share equally in the profits of the Convention Center and are responsible for funding any deficit from operations in the same proportion. During the year ended June 30, 2008 the County contributed $2,209,892 to the operations of the Convention Center from the general fund; the City contributed a like amount. The County also contributed $244,168 from capital improvement funds. The County does not hold an equity interest in this entity. A third party under contract handles day-to-day promotion, operation, and management of the Convention Center. Financial statements for the Convention Center may be obtained from Memphis Cook Convention Center, 255 N. Main Street, Memphis, Tennessee 38103.

Memphis and Shelby County Port Commission (the Port Commission)
The Port Commission manages and develops industrial properties and has the authority for the direct development of the riverfront within Shelby County, except from the mouth of the Wolf River south to the I-55 bridge. The Port Commission is a joint venture between the City and the County and is overseen by a seven-member board. The City appoints four of the board members and the County appoints three members. Any deficits of the Port Commission are funded equally by the City and the County and excess revenues are distributed equally to the City and the County. The City and the County must approve the issuance of debt by or for the Port Commission. The County does not hold an equity interest in this entity. During the year ended June 30, 2008, prior years deferred revenue was recognized and total payments of $1,449,812 were received. A parcel of land was sold and the County recognized a 50% gain on sale of the land for $579,295. Financial statements for the Port Commission may be obtained from the Memphis and Shelby County Port Commission, P.O. Box 13142, Memphis, Tennessee 38113.

Memphis and Shelby County Sports Authority, Inc. (the Authority)
The Authority was chartered in 1997 under a State statute that permits sports authorities to receive certain sales taxes generated by major league sports franchises. In 2001 the City of Memphis and Shelby County entered into the "Memphis Arena Project Agreement" to bring a NBA professional team to Memphis. A major part of that agreement required the construction of a new multipurpose sports and entertainment facility. Financing for construction of this facility (now known as FedExForum) has been done through the Authority. The Authority has issued long-term debt with principal of $212,076,020, net of discounted bond issuance, owed as of December 31, 2007, plus $6,738,448 accrued interest and swap liabilities. Title to the facility is held by the New Memphis Arena Public Building Authority of Memphis and Shelby County, a joint venture; see below for more information on that entity. The Authority's revenue bonds are payable from seat rental fees, certain state sales taxes generated by the professional basketball team, car rental taxes, City and County-wide hotel/motel taxes, and in lieu of tax payments by the Memphis Light Gas and Water Division.

The Sports Authority is a joint venture between the City of Memphis and the County and has a board whose members are jointly appointed by the City and the County. Although the bond indentures state that the City and County are not legally liable for the indebtedness of the Authority, under agreement the City and County have agreed to pay, in equal amounts, the debt if the Authority is unable to pay. During the year ended June 30, 2008 the County transferred to the Sports Authority for debt service purposes the amount of $2,000,000 from car rental taxes and $5,062,261 from hotel/motel taxes. Financial statements for the Memphis and Shelby County Sports Authority, Inc. may be obtained from the Memphis Convention & Visitor's Bureau, 47 Union Avenue, Memphis, Tennessee 38103.

Mid-South Coliseum (the Coliseum)
The Coliseum is a multi-purpose sports and entertainment facility with a seating capacity of approximately 11,500. The Coliseum is a joint venture between the City of Memphis and the County and is overseen by a five-member board. The City appoints two board members, the County appoints two members and one is jointly appointed by the City and County. The City and County share in profits or fund any deficits from operations in a ratio of 60% and 40%, respectively. The County does not hold an equity interest in this entity. As a result of a non-compete clause in the agreement with the National Basketball Association Franchise Owners for the operation of the new arena (FedExForum), the future financial viability of this facility is questionable. The building has been closed for the past year and the County paid no expenses of the building. Due to the lack of activity no separate audit was performed for fiscal year 2008 and no current figures are available for inclusion in the summary financial information at the end of this section of this note. At June 30, 2007 the last financial report available reported assets of $1,104,820, liabilities of $1,372,279 and negative (deficit) net assets of $267,459. The County has advised the City of Memphis that it will participate in no further operating costs of the Coliseum. The City of Memphis is exploring alternative uses of the entire Fairgrounds complex and those plans could include demolition of the Coliseum or a use other than as a revenue-producing facility. At June 30, 2008 the County is owed $159,889, plus accrued interest of $40,044 by the Coliseum evidenced by a note with installments due through FY 2014; no

payments have been made since FY 2004. The County has established an allowance for uncollectible accounts for the amount due from the Coliseum.

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

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

The New PBA is a joint venture between the City of Memphis and the County. It is governed by a Board of Directors whose members are jointly appointed by the City of Memphis and Shelby County. The City and County maintain an ongoing financial responsibility for subsidies to finance the New PBA's capital expenditures and operations. The County also paid $133,831 for insurance on the facility. Financial statements for the New PBA may be obtained from the New Memphis Arena PBA, 195 Linden Avenue, Memphis, Tennessee 38103.

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

The City and County will each appropriate one-half of the necessary funds to sustain operations based upon each government's approval of an operating budget. During the year ended June 30, 2008 the County contributed $230,000 to the operating budget of the Pyramid and paid directly $106,460 as its 50% share of the cost of property insurance. Excess operating revenue net of management fees and operating expenses, as defined under the management agreement, will be paid to the City and the County upon demand. As provided for in the management agreement, cash in excess of $500,000 will also be paid to the City and the County upon demand. No excess cash was returned in fiscal year 2008. As a result of a non-compete clause in the agreement with the National Basketball Association Franchise Owners for the operation of the new arena (FedExForum), the future financial viability of this facility is questionable. The building was closed in the fall of 2007 and no events are booked for future dates. The City and County have been involved in negotiations for the sale or lease of the building for several years, with completion of current negotiations expected to extend until at least December 31, 2009. There will be ongoing maintenance costs even if the facility is closed. Financial statements for the Pyramid Arena Operations may be obtained from the Pyramid Arena, One Auction Street, Memphis, Tennessee 38105.

The following is a summary of the financial information of the joint ventures, as of and for the year ended June 30, 2008 (not covered by the report of independent accountants)

	Convention Center	Port Commission	Sports Authority (a)	New Arena PBA (a)	Pyramid Arena
Assets	$ 12,555,108	$ 27,905,022	$ 46,089,422	$ 209,123,653	$ 64,851
Liabilities	2,080,906	7,313,224	218,821,968	---	78,901
Net Assets	10,474,202	20,591,798	(172,732,545)	209,123,653	(14,051)
Operating Revenues	4,049,383	1,987,883	---	---	12,800
Operating Expenses	7,511,911	1,491,166	7,920	7,222,996	673,188
Other Revenue	2,524,087	1,326,453	16,402,398	23	460,000
Other Expenses	46,953	1,444,625	11,242,392	---	---
Change in Net Assets	(985,394)	378,545	5,152,086	(7,222,973)	(200,388)

(a) Fiscal year-end December 31, 2007.

Jointly Governed Organizations:

The County in conjunction with the City of Memphis has joint control of the following organizations through the appointment of their boards. They are not considered joint ventures because the County and the City do not retain an ongoing financial responsibility or financial interest. There were no financial transactions between the County and the organizations in the fiscal year ending June 30, 2008 unless noted below.

The *Depot Redevelopment Corporation of Memphis and Shelby County (Depot)* was established by the City and County to determine and establish a reuse plan and management strategy for the Memphis Depot, a former military supply depot. The mayors of the City and County appoint the nine board members for six-year terms with approval of the City Council and the County Commission. The County has a note receivable from the Depot with a principal balance of $2,915,000 as of June 30, 2008. During the year ended June 30, 2008 the Depot repaid $175,000 of principal on this note plus $79,272 of interest.

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

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

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

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

Related Organizations:

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

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

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

The Shelby County Health Care Corporation (The Med) is a component unit of the County. The Med has an investment in *Memphis Managed Care Corporation* (MMCC), a TennCare MCO, that pays The Med a fixed per diem for inpatient services and pays for outpatient services on a fee for service basis**.** The investment was valued at $3,940,000 at June 30, 2008.

(N) Other Post–Employment Benefits

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

The Shelby County Board of Commissioners establishes the benefit provisions and approves funding of the Trust. In the current fiscal year the County made normal contributions of $18,335,851 and a one-time contribution of $23,892,191. The actuarially determined employer's "annual required contribution" to the Trust for the year was $34,227,000; total employer contributions were $42,228,042 or 123.4% of the annual required contributions. At June 30, 2008 the County reported a net OPEB obligation (over funded amount) of $8,001,042.

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

(O) Pensions

Shelby County Retirement System

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

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

The System consists of three plans (Plans A, B and C) which are legally one reporting entity. Plan B is a contributory defined benefit pension plan for employees hired prior to December 1, 1978. Plan A is a non-contributory defined benefit pension plan for employees hired between December 1, 1978 and February 28, 2005, and those employees that elected to transfer to Plan A from Plan B before January 1, 1981. Plan C is a contributory defined benefit pension plan that became effective September 1, 2005 and includes all employees hired after February 28, 2005, all former Plan A "public safety employees" who were required to move to Plan C to preserve their right to retire with unreduced benefits with 25 years of service, and other former Plan A participants who elected to move to Plan C.

Funding Policy
The Board of Administration of the Shelby County, Tennessee Retirement System (the Board) establishes the System's funding policy for employee contribution requirements. The Shelby County Board of Commissioners establishes the System's funding policy for employer contribution requirements. The County does not receive the actuarial report until several months into the fiscal year to which the report relates. Due to budgetary procedures the County makes contributions based on the latest actuarial report received at the date a new fiscal year's budget is being prepared. Contributions for fiscal year 2008 were based on the actuarial report as of July 1, 2006.

In accordance with the actuarial valuation as of July 1, 2006 the employer contribution rate required was 5.30% of covered payroll of participants. Plan B participants contribute an additional 8.0% of their earnings, with some exceptions for employees of Plan B with more than 35 years of service. Plan C participants contribute 6.0% of their earnings. In addition, certain public safety employees remaining in Plan A contribute 2.65% of their compensation. This resulted in total contributions of $27,674,311 ($18,744,136 employer contributions and $8,930,175 employee contributions). The actuarial required employer contribution of $12,956,023 is significantly impacted by the amortization of the actuarial surplus that results from investment results in prior years. The County has chosen to fund a level amount that is approximately the normal cost for benefits earned.

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

Annual Pension Cost and Net Pension Obligation

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

Annual Required Contribution (ARC)	$ 12,956,023
Interest on Net Pension Obligation	(2,036,809)
Adjustment to ARC	2,751,894
Annual Pension Cost	13,671,108
Contributions made	(18,744,136)
Increase in Net Pension Obligation	(5,073,028)
Net Pension Obligation beginning of year	(24,688,599)
Net Pension Obligation end of year	$ (29,761,627)

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2008	$ 13,671,108	137.1%	$ (29,761,627)
June 30, 2007	$ 11,491,961	163.2%	$ (24,688,599)
June 30, 2006	$ 10,538,821	178.5%	$ (17,421,913)

Funded Status and Funding Progress:

As of July 1, 2006, the most recent actuarial valuation date, the plan was 106 percent funded. The actuarial accrued liability for benefits was $935 million, and the actuarial value of assets was $992 million, resulting in an unfunded actuarial accrued surplus (UAAS) of $57 million. The covered payroll (Annual payroll of active employees covered by the plan) was $265 million and the ratio of the UAAS to the covered payroll was 104.0%.

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

Actuarial Valuation, Method and Assumptions

Valuation date	July 1, 2006 for contribution requirement July 1, 2007 rolled forward to June 30, 2008 for funding progress
Actuarial cost method	Projected unit credit service pro-rate cost method
Amortization method	20-year amortization as of July 1, 2006 of increase in obligation due to Plan C and 17-year amortization as of July 1, 2006 of remaining surplus (20 year period beginning July 1, 2003). Amortizations as based on level dollar method and the periods are closed. The equivalent single amortization period is 15 years.
Remaining amortization period	15 years on June 30, 2008
Asset valuation method	10-year smoothing method
Rate of investment return	Funding Progress: 8.25% Contribution: 8.25%
Projected salary increases	Graded salary scale (3.00% to 8.50%) Contribution: 4.00%
Cost-of-living adjustments	Funding Progress: 2.50% Contribution: 2.50%

Pension plans of the component units:

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

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

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

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

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

(P) Subsequent Events

Starting in September 2008, the economy and the markets have sharply declined. As of October 31, 2008, the value of investments in the Shelby County Retirement System has decreased from $939 million at June 30, 2008 to $700 million. In addition, the net value of the debt swaps including accrued interest has decreased from ($32,454,397) at June 30, 2008 to ($89,084,782) at November 30, 2008.

(Q) Restatement of Fund Balance/Net Assets

Countywide
A Net Pension Obligation (NPO) occurred when the actual contributions did not equal the Actuarial Required Contribution (ARC) as calculated by the actuary for fiscal years 2005 – 2007. This excess amount was not recorded as an asset in accordance with GASB 27. The adjustment below restates the excess as Prepaid NPO.

Net assets as of July 1, 2007 have been restated as follows:

	Governmental Activities	Business-type Activities
Net assets at June 30, 2007	$ (998,696,386)	$ 34,733,475
Prepaid NPO	20,977,902	3,710,696
June 30, 2007 restated	$ (977,718,484)	$ 38,444,171

Proprietary Funds
Propriety Funds beginning net assets for enterprise funds and internal service funds was restated by $3,710,696 and $83,941 respectively, due to the above mentioned adjustment.

	Business-type Activities - Enterprise Funds	Governmental Activities - Internal Service Funds
June 30, 2007 reported	$ 34,733,475	$ 30,332,845
Prepaid NPO	3,710,696	83,941
June 30, 2007 restated	$ 38,444,171	$ 30,416,786