

NEW ISSUES – BOOK-ENTRY ONLY**RATINGS: See "RATINGS" herein.**

*In the opinion of Bond Counsel to the City, under existing statutes and court decisions and assuming compliance with certain tax covenants described herein, (i) interest on the Series 2012A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2012A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. **Interest on the Series 2012B Bonds will be included in gross income for Federal income tax purposes.** In the further opinion of Bond Counsel, under the existing laws of the State of Tennessee, the Series 2012 Bonds and the income therefrom are exempt from all state, county and municipal taxation in the State of Tennessee except for inheritance, transfer and estate taxes and except to the extent interest on the Series 2012 Bonds may be included within the measure of privilege taxes imposed pursuant to the laws of the State of Tennessee. See "TAX MATTERS" herein.*

\$93,595,000

**CITY OF MEMPHIS, TENNESSEE
GENERAL IMPROVEMENT AND
REFUNDING BONDS,
SERIES 2012A**

\$5,145,000

**CITY OF MEMPHIS, TENNESSEE
GENERAL IMPROVEMENT AND
REFUNDING BONDS,
SERIES 2012B
(FEDERALLY TAXABLE)**

Dated: Date of Delivery**Due: April 1, as shown on the inside front cover.**

The City of Memphis, Tennessee (the "City"), a municipal corporation of the State of Tennessee, is issuing its \$93,595,000 General Improvement and Refunding Bonds, Series 2012A (the "Series 2012A Bonds") and its \$5,145,000 General Improvement and Refunding Bonds, Series 2012B (Federally Taxable) (the "Series 2012B Bonds" and, collectively with the Series 2012A Bonds, the "Series 2012 Bonds"), for the purposes of (i) financing various public works projects of the City, (ii) refunding certain outstanding general obligation bonds of the City, and (iii) providing for the payment of the costs of issuance related to the Series 2012 Bonds. See "PLAN OF FINANCE" herein.

The Series 2012 Bonds will be issued in book-entry form registered in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2012 Bonds. Individual purchases may be made only in book-entry form through DTC participants in the principal amounts of \$5,000 or any integral multiple thereof. No physical delivery of the Series 2012 Bonds will be made to Beneficial Owners (as defined herein) of the Series 2012 Bonds. So long as Cede & Co. is the registered owner of the Series 2012 Bonds, payment of the principal of the Series 2012 Bonds, interest thereon and any premium applicable thereto will be made to Cede & Co. as nominee for DTC, which in turn will remit such principal and interest to the DTC participants for subsequent disbursement to the Beneficial Owners of the Series 2012 Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

The Series 2012 Bonds bear interest and mature as set forth on the inside front cover of this Official Statement. Interest on the Series 2012 Bonds is payable semiannually on April 1 and October 1 of each year, commencing October 1, 2012 by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as the paying agent and bond registrar. See "INTRODUCTION – Description of the Series 2012 Bonds" herein.

The Series 2012 Bonds are subject to optional and mandatory redemption prior to maturity as described herein. See "THE SERIES 2012 BONDS – Redemption Provisions" herein.

The Series 2012 Bonds are direct obligations of the City for which its full faith and credit are pledged and are payable from taxes levied, without limitation as to rate or amount, on all property subject to ad valorem taxation within the City. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS" herein and "APPENDIX A - SUPPLEMENTAL INFORMATION STATEMENT OF THE CITY OF MEMPHIS, TENNESSEE" attached hereto.

Contemporaneous with the issuance of the Series 2012 Bonds, the City expects to issue its Bond Anticipation Notes, 2012 in an amount not to exceed \$75,400,000 for the purpose of, among other things, providing for the refunding and payment, at maturity, of the principal of all of the City's Bond Anticipation Notes, 2010, currently outstanding in the principal amount of \$75,400,000 maturing on May 1, 2012.

This cover page contains limited information for quick reference only. It is not a summary of the matters relating to the Series 2012 Bonds. Potential investors must read the entire Official Statement (including the cover page and all Appendices attached hereto) to obtain information essential to the making of an informed investment decision.

The Series 2012 Bonds are being offered when, as and if issued by the City and received by the Underwriters subject to prior sale and to withdrawal or modification of the offer without notice, and subject to the approving opinion of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the City. Certain legal matters will be passed upon for the City by Herman Morris, Esquire, City Attorney. Certain legal matters will be passed upon for the City by Brittenum Bruce, PLLC, Memphis, Tennessee and Greenberg Traurig, LLP, Orlando, Florida Co-Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by Butler, Snow, O'Mara, Stevens & Cannada, PLLC, Memphis, Tennessee. First Southwest Company, Dallas, Texas and ComCap Advisors, a division of Community Capital, Memphis, Tennessee, are serving as Co-Financial Advisors to the City. The Series 2012 Bonds will be delivered through the book-entry system of DTC in New York, New York, on or about March 29, 2012.

**BofA Merrill Lynch
Duncan-Williams, Inc.**

**Morgan Keegan
Harvestons Securities, Inc.**

March 21, 2012

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,
PRICES OR YIELDS AND CUSIPS[†]**

\$93,595,000

**CITY OF MEMPHIS, TENNESSEE
GENERAL IMPROVEMENT AND REFUNDING BONDS
SERIES 2012A**

Maturity (April 1)	Principal Amount	Interest Rate	Yield	Initial CUSIP No.[†]
2017	\$ 1,500,000	3.000%	1.310%	586145YJ7
2017	1,805,000	5.000%	1.310%	586145ZB3
2018	3,610,000	4.000%	1.750%	586145YK4
2019	3,775,000	2.000%	2.030%	586145YL2
2019	600,000	5.000%	2.030%	586145ZC1
2020	250,000	2.500%	2.320%	586145YM0
2020	11,005,000	5.000%	2.320%	586145ZD9
2021	1,200,000	2.500%	2.550%	586145YN8
2021	26,570,000	5.000%	2.550%	586145ZE7
2022	1,275,000	3.000%	2.720%	586145YP3
2022	22,805,000	5.000%	2.720%	586145ZF4
2023	2,150,000	3.000%	2.890% ^(c)	586145YQ1
2023	6,875,000	5.000%	2.890% ^(c)	586145ZG2
2025	540,000	3.250%	3.270%	586145ZA5
2026	415,000	3.375%	3.420%	586145YR9
2027	430,000	3.500%	3.550%	586145YS7
2028	445,000	3.500%	3.620%	586145YT5
2029	460,000	3.625%	3.680%	586145YU2
2030	475,000	3.625%	3.740%	586145YV0
2031	495,000	3.750%	3.790%	586145YW8
2032	515,000	3.750%	3.850%	586145YX6

\$2,885,000 - 4.000% Term Bond, Due April 1, 2037,
Yield 4.070%, Initial CUSIP No. 586145YY4[†]

\$3,515,000 - 4.125% Term Bond, Due April 1, 2042,
Yield 4.180%, Initial CUSIP No. 586145YZ1[†]

[†] CUSIP numbers have been assigned by an organization not affiliated with the City and are included for the convenience of the holders of the Series 2012A Bonds. The City is not responsible for the selection or uses of CUSIP numbers, nor is a representation made as to their accuracy on the Series 2012A Bonds, or as indicated above.

^(c) Yield calculated to the first call date of April 1, 2022 at 100%.

\$5,145,000
CITY OF MEMPHIS, TENNESSEE
GENERAL IMPROVEMENT AND REFUNDING BONDS
SERIES 2012B
(FEDERALLY TAXABLE)

Maturity (April 1)	Principal Amount	Interest Rate	Price	Initial CUSIP No.[†]
2013	\$ 305,000	0.500%	100%	586145ZJ6
2014	310,000	0.650%	100%	586145ZK3
2015	315,000	1.000%	100%	586145ZL1
2016	1,210,000	1.400%	100%	586145ZM9
2017	540,000	1.650%	100%	586145ZN7
2018	325,000	2.125%	100%	586145ZP2
2019	335,000	2.375%	100%	586145ZQ0
2020	340,000	2.750%	100%	586145ZR8
2021	350,000	3.000%	100%	586145ZS6
2022	360,000	3.150%	100%	586145ZT4
2023	370,000	3.350%	100%	586145ZU1
2024	385,000	3.700%	100%	586145ZV9

[†] CUSIP numbers have been assigned by an organization not affiliated with the City and are included for the convenience of the holders of the Series 2012B Bonds. The City is not responsible for the selection or uses of CUSIP numbers, nor is a representation made as to their accuracy on the Series 2012B Bonds, or as indicated above.

CITY OF MEMPHIS, TENNESSEE

ELECTED OFFICIALS

Mayor

A C Wharton, Jr.

City Council

Bill Morrison, Chairman

William C. Boyd	Janis Fullilove
Joe Brown	Wanda Halbert
Harold Collins	Lee Harris
Kemp Conrad	Reid Hedgepeth
Shea Flinn, III	Myron Lowery
Edmund Ford, Jr.	Jim Strickland

ADMINISTRATIVE

George Little	Chief Administrative Officer
Robert Lipscomb	Director of Housing and Community Development
Roland McElrath	Director of Finance and Administration
Alvin Benson	Director of Fire Services
Martha Lott	Director of General Services
Cynthia Buchanan	Director of Park Services
Quinton Robinson	Director of Human Resources
Toney Armstrong	Director of Police Services
Dwan Gilliom	Director of Public Works
Richard Copeland	Director of Office of Planning and Development
Herman Morris	City Attorney
Janet Hooks	Director of Public Services and Neighborhoods
John Cameron	City Engineer
Johnie McKay	Director of Community Enhancement
Brenton Nair	Director of Information Services

CONSULTANTS TO THE CITY

Bond Counsel

Hawkins Delafield & Wood LLP
New York, New York

Co-Disclosure Counsel

Brittenum Bruce, PLLC
Memphis, Tennessee

Greenberg Traurig, LLP
Orlando, Florida

Co-Financial Advisors

First Southwest Company
Dallas, Texas

ComCap Advisors, a division of Community Capital
Memphis, Tennessee

External Auditors

Mayer Hoffman McCann P.C.
Memphis, Tennessee

Jones and Tuggle
Memphis, Tennessee

This Official Statement does not constitute a contract between the City or the Underwriters and any one or more owners of the Series 2012 Bonds, nor does it constitute an offer to sell or the solicitation of an offer to buy the Series 2012 Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction.

No dealer, salesman or any other person has been authorized by the City and the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Series 2012 Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by the City or any other person. The information and expressions of opinion in this Official Statement are subject to change without notice, and this Official Statement speaks only as of its date. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create the implication that there has been no change in the matters described herein since the date hereof. The information contained in this Official Statement, including in the appendices, has been obtained from representatives of the City, the Underwriters and from public documents, records and other sources considered to be reliable. No guaranty is made, however, as to the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2012 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2012 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPONSIBILITY TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

THE SERIES 2012 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE BOND RESOLUTION BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2012 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF THE SECURITIES LAWS OF THE STATES, IF ANY, IN WHICH THE SERIES 2012 BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN CERTAIN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE SERIES 2012 BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

In making an investment decision, investors must rely on their own examination of the City, and the terms of the offering, including the merits and risks involved. The Series 2012 Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, other than as expressly provided in certificates to be delivered to the Underwriters in connection with the closing, the City has not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary may be a criminal offense.

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OFFICIAL STATEMENT

relating to

\$93,595,000
CITY OF MEMPHIS, TENNESSEE
GENERAL IMPROVEMENT AND
REFUNDING BONDS,
SERIES 2012A

\$5,145,000
CITY OF MEMPHIS, TENNESSEE
GENERAL IMPROVEMENT AND
REFUNDING BONDS,
SERIES 2012B
(FEDERALLY TAXABLE)

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and the Appendices hereto, is to furnish certain information in connection with the issuance and sale by the City of Memphis, Tennessee (the "City") of its \$93,595,000 General Improvement and Refunding Bonds, Series 2012A (the "Series 2012A Bonds") and its \$5,145,000 General Improvement and Refunding Bonds, Series 2012B (Federally Taxable) (the "Series 2012B Bonds" and, collectively with the Series 2012A Bonds, the "Series 2012 Bonds"). See "INTRODUCTION - Authority for Issuance" herein.

This introduction is not a summary of this Official Statement and is intended only for quick reference. It is only a brief description of and guide to, and is qualified in its entirety by reference to, more complete and detailed information contained in the entire Official Statement, including the cover page and the Appendices attached hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement and of the documents summarized or described herein, if necessary. The offering of the Series 2012 Bonds to potential investors is made only by means of the entire Official Statement, including the Appendices attached hereto. No person is authorized to detach this Introduction from this Official Statement or to otherwise use it without the entire Official Statement, including the Appendices attached hereto.

The City

The City is a municipal corporation organized under the laws of the State of Tennessee (the "State"). The City is located on the east bank of the Mississippi River in the southwest corner of Tennessee. The City is the State's largest city and the county seat of Shelby County, Tennessee (the "County"). See "THE CITY" herein and "APPENDIX A - SUPPLEMENTAL INFORMATION STATEMENT OF THE CITY OF MEMPHIS, TENNESSEE" attached hereto.

Purpose of the Series 2012 Bonds

The Series 2012 Bonds are being issued for the purposes of (i) financing various public works projects of the City, (ii) refunding certain outstanding general obligation bonds of the City, and (iii) providing for the payment of the costs of issuance related to the Series 2012 Bonds. See "PLAN OF FINANCE" herein.

Contemporaneous with the issuance of the Series 2012 Bonds, the City expects to issue its Bond Anticipation Notes, 2012 in an amount not to exceed \$75,400,000 (the "2012 Notes") for the purpose of, among other things, providing for the refunding and payment, at maturity, of the principal of all of the City's Bond Anticipation Notes, 2010, currently outstanding in the principal amount of \$75,400,000 maturing on May 1, 2012 (the "2010 Notes").

Security and Sources of Payment for the Series 2012 Bonds

The Series 2012 Bonds are direct obligations of the City for which its full faith and credit are pledged and are payable from taxes levied, without limitation as to rate or amount, on all property subject to ad valorem taxation within the City. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS" herein. See also "APPENDIX A - SUPPLEMENTAL INFORMATION STATEMENT OF THE CITY OF MEMPHIS, TENNESSEE" attached hereto.

Description of the Series 2012 Bonds

The Series 2012 Bonds will be dated their date of delivery and will bear interest and mature as set forth on the inside front cover of this Official Statement. Interest on the Series 2012 Bonds is payable semiannually on April 1 and October 1 in each year beginning October 1, 2012. See "THE SERIES 2012 BONDS - General" herein.

The Series 2012 Bonds are subject to optional and mandatory redemption prior to maturity as described herein. See "THE SERIES 2012 BONDS – Redemption Provisions" herein.

The Series 2012 Bonds will be issued as fully registered bonds without coupons, in denominations of \$5,000 or any integral multiple thereof and when issued, shall, as described herein, be registered in the name of Cede & Co., as bondholder and securities depository nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of beneficial interests in the Series 2012 Bonds will be made in book-entry form only through Direct Participants and Indirect Participants (as herein described) and other nominees of the Beneficial Owners (as defined herein) of the Series 2012 Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

See "THE SERIES 2012 BONDS" herein for a more complete description of the Series 2012 Bonds.

Paying Agent and Registrar

The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, will act as paying agent and registrar for the Series 2012 Bonds (the "Paying Agent").

Authority for Issuance

The Series 2012 Bonds are being issued pursuant to the provisions of the Local Government Public Obligations Act of 1986, constituting Chapter 21 of Title 9, Tennessee Code Annotated, as amended (the "Act") and those certain resolutions adopted by the Council of the City on March 3, 2009, January 18, 2011 and March 6, 2012 (the "Bond Resolution").

Continuing Disclosure

In order to assist the Underwriters (as defined herein) in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission ("SEC") promulgated pursuant to the Securities Exchange Act of 1934, as in effect on the date hereof (the "Rule"), the City will execute a Continuing Disclosure Certificate dated the date of delivery of the Series 2012 Bonds (the "Disclosure Certificate") for the benefit of the Beneficial Owners of the Series 2012 Bonds. The annual report and notices of certain enumerated events (as described in the Disclosure Certificate) will be filed by the City with the centralized information repository developed and operated by the Municipal Securities Rulemaking Board (the "MSRB") through the Electronic Municipal Market Access system ("EMMA"), in an electronic format prescribed by the MSRB. See "CONTINUING DISCLOSURE" herein and "APPENDIX C - FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. All capitalized terms used in this Official Statement and not otherwise defined herein will have the same meanings ascribed to such terms in the Bond Resolution.

This Official Statement and the Appendices attached hereto contain brief descriptions of, among other matters, the City, the Series 2012 Bonds, and the security and sources of payment for the Series 2012 Bonds. Such descriptions and information do not purport to be comprehensive or definitive. The summaries of various constitutional provisions, statutes, the Bond Resolution, the Series 2012 Bonds, the Disclosure Certificate and other documents are intended as summaries only and are qualified in their entirety by reference to such documents. Copies of the Bond Resolution, the Disclosure Certificate and other relevant documents and information are available, upon written request and payment of a charge for copying, mailing and handling, from Mr. André D. Walker, Deputy Director of Finance, 125 North Main Street, Room 368, Memphis, Tennessee 38103, (901) 576-6324.

THE CITY

The City is located on the east bank of the Mississippi River in the southwest corner of Tennessee. The City is the State's largest city and the county seat of the County. The corporate limits contain 324.5 square miles, representing 40.9 percent of the total land area of the County. The City ranks as the 21st largest city in the nation. According to the U.S. Bureau of the Census, the 2010 population was 646,889.

The City was incorporated as a city in 1826. Memphis operated under a commission form of government from 1909 until January 1, 1968. At that time, a Mayor-Council form of government was established. The City Council is composed of thirteen representative citizens who are elected for four-year terms. Six council members are elected at large in multi-member districts, which territorial boundaries are determined by dividing the City in half with each multi-member district consisting of three council member numbered positions. Single member districts, numbered 1–7, elect the remaining seven council members. The City Council elects its own chairperson, exercises legislative powers, approves budgets and establishes the tax rate.

The Mayor is elected to a four-year term. The Mayor carries out the policies of the City and appoints City board members, officers and division directors, with City Council approval. The City's operating and service departments are organized under the Chief Administrative Officer who is appointed by and serves at the pleasure of the Mayor. The Mayor may veto action of the City Council, but a simple majority can override any veto.

The Chief Administrative Officer, under the direction of the Mayor, coordinates the activities of all administrative divisions of City Government. The Chief Administrative Officer acts as liaison officer between the Mayor and all divisions, bureaus, boards, commissions and authorities. The directors of all divisions, excluding the City Attorney, report to the Chief Administrative Officer on administrative procedures.

The major administrative divisions of the City include: Engineering, Executive, Finance, Fire Services, General Services, Housing and Community Development, Human Resources, Information Systems, Legal, Park Services, Office of Planning and Development, Police Services, Public Works/Sanitation, Community Enhancement and Public Services and Neighborhoods.

The Mayor is responsible for all City appointments to boards which serve the City. These include the boards of the Memphis Light, Gas and Water Division; Memphis Area Transit Authority; Memphis Housing Authority; the DMC; Memphis & Shelby County Convention Center Complex; Memphis Brooks Museum of Art; Mid-South Coliseum; Memphis & Shelby County Building Code Advisory Board; and Memphis & Shelby County Public Library Board. The Mayor appoints five of the seven members of the Board of the Memphis-Shelby County Airport Authority. Many of these boards also have members appointed by the Mayor of the County. Most of the members of these boards are private citizens giving their time to the City without compensation.

See "APPENDIX A - SUPPLEMENTAL INFORMATION STATEMENT OF THE CITY OF MEMPHIS, TENNESSEE" and "APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE CITY OF MEMPHIS, TENNESSEE FOR THE FISCAL YEAR ENDED JUNE 30, 2011" attached hereto.

PLAN OF FINANCE

The proceeds from the sale of the Series 2012 Bonds will be used to: (a) refund and redeem at par a portion of the City's outstanding (i) General Improvement Bonds, Series 2004 (the "Refunded Series 2004 Bonds") and (ii) General Improvement Bonds, Series 2006A (the "Refunded Series 2006A Bonds" and together with the Refunded Series 2004 Bonds, the "Refunded Bonds"), all as more particularly described in the table below, (b) finance various public works projects of the City and (c) provide for the payment of the costs of issuance related to the Series 2012 Bonds.

Refunded Series 2004 Bonds

Maturity Date (October 1)	Principal Amount	Interest Rate	Redemption Date	CUSIP[†]
2015	\$6,675,000	5.000%	October 1, 2014	586145ND2
2016	7,015,000	5.000	October 1, 2014	586145NE0
2017	7,375,000	5.000	October 1, 2014	586145NF7
2018	7,755,000	5.000	October 1, 2014	586145NG5
2019	8,155,000	5.000	October 1, 2014	586145NH3
2020	8,550,000	4.500	October 1, 2014	586145NJ9
2021	8,945,000	4.500	October 1, 2014	586145NK6
2022	9,380,000	5.000	October 1, 2014	586145NL4

Refunded Series 2006A Bonds

Maturity Date (November 1)	Principal Amount	Interest Rate	Redemption Date	CUSIP[†]
2020	\$16,000,000	5.000%	November 1, 2015	586145QV9
2021	6,110,000	5.000	November 1, 2015	586145QW7

Upon delivery of the Series 2012 Bonds, the City will enter into a Refunding Trust Agreement (the "Refunding Trust Agreement") with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Refunding Trustee"). Proceeds of the Series 2012 Bonds and other available monies, if required, will be deposited into a refunding trust fund (the "Refunding Trust Fund") created under the Refunding Trust Agreement and a portion thereof used to acquire direct general obligations of or obligations the payment of principal of and interest on which is unconditionally guaranteed by the United States of America (the "Government Obligations"). The Government Obligations and the interest earned thereon will be sufficient, and will be used, together with cash retained in the Refunding Trust Fund, to pay (i) the respective redemption prices of the Refunded Bonds on their respective redemption dates and (ii) the interest on the Refunded Bonds due on and prior to such redemption dates. The Government Obligations will be purchased from the Treasury Department of the United States of America or in the open market through a competitive bidding process. The City is required to deposit in the Refunding Trust Fund any additional amounts that may be necessary for any reason to enable the Refunding Trustee to pay the redemption prices of and interest on the Refunded Bonds on their respective redemption and interest payment dates.

The City will obtain verification of sufficiency of the amounts and Government Obligations deposited in the Refunding Trust Fund for the Refunded Bonds, and of certain yields, from The Arbitrage Group, Inc. (the "Verification Agent"). See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.

[†] CUSIP numbers have been assigned by an organization not affiliated with the City and are included for the convenience of the holders of the Refunded Bonds. The City is not responsible for the selection or uses of CUSIP numbers, nor is a representation made as to their accuracy on the Refunded Bonds, or as indicated above.

Upon issuance of the Series 2012 Bonds, the Refunded Bonds will be irrevocably designated for redemption as stated in the table above, plus accrued interest to their respective redemption dates, and provision will be made by the City in the Refunding Trust Agreement for the giving of notice of redemption of the Refunded Bonds. Written notice of any such redemption will be mailed to the registered owners of the Refunded Bonds to be redeemed not less than 30 days prior to their respective redemption dates. While DTC or its nominee is the registered owner of the Refunded Bonds, such notices will be sent to DTC or its nominee or successor, and the City shall not be responsible for mailing notices of redemption to DTC participants or to the Beneficial Owners of the Refunded Bonds.

THE SERIES 2012 BONDS

General

The Series 2012 Bonds will be dated their date of delivery, will mature on the dates and in the amounts, and will bear interest, all as set forth on the inside front cover of this Official Statement, with interest payable semiannually on April 1 and October 1 in each year beginning October 1, 2012 (each such date, an "Interest Payment Date"). The Series 2012 Bonds will be issued as fully registered bonds without coupons, in denominations of \$5,000 or any integral multiple thereof. Interest on the Series 2012 Bonds will be calculated on the basis of a 30-day month and a 360-day year. The Series 2012 Bonds are subject to redemption as set forth below.

Purchases of beneficial ownership interests in the Series 2012 Bonds will be made in book-entry form only and purchasers will not receive physical delivery of bond certificates representing the beneficial ownership interests in the Series 2012 Bonds so purchased. If the book-entry system is discontinued, the Series 2012 Bonds will be delivered as described in the Bond Resolution and Beneficial Owners will become the registered owners of the Series 2012 Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

Interest on the Series 2012 Bonds will be paid by wire transfer or by check or draft mailed by the Paying Agent on any Interest Payment Date to the person in whose name the Series 2012 Bond is registered in the bond registration books kept by the Paying Agent as of the close of business on the 15th day of the calendar month preceding any Interest Payment Date.

Optional Redemption

Series 2012A Bonds. The Series 2012A Bonds maturing on or before April 1, 2022 shall not be subject to redemption prior to maturity. The Series 2012A Bonds maturing on or after April 1, 2023 (or portions thereof in authorized denominations of \$5,000 and integral multiples thereof) are subject to optional redemption by the City on and after April 1, 2022, in whole or in part, at any time in such order as determined by the City, at a redemption price equal to the principal amount of the Series 2012A Bonds or portion thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption.

Series 2012B Bonds. The Series 2012B Bonds (or portions thereof in authorized denominations of \$5,000 and integral multiples thereof) are subject to optional redemption by the

City, in whole or in part, at any time in such order as determined by the City, at a redemption price equal to the Make-Whole Redemption Price (as defined below).

The "Make-Whole Redemption Price" of any Series 2012B Bonds to be redeemed is an amount equal to the greater of (i) 100% of the principal amount of such Series 2012B Bonds; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Series 2012B Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2012B Bonds are to be redeemed, discounted on a semiannual basis to the date on which such Series 2012B Bonds are to be redeemed, assuming a 360-day year consisting of twelve 30-day months, at a Treasury Rate (as defined below) plus 40 basis points; plus, in each case, accrued and unpaid interest on such Series 2012B Bonds on such redemption date.

The "Treasury Rate" is, as of the redemption date of any Series 2012B Bonds, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519)) that has become publicly available at least two business days prior to such redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from such redemption date to the maturity date of such Series 2012B Bonds; provided, however, that if the period from such redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

The Make-Whole Redemption Price will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the City to calculate such redemption price (the "Calculation Agent"). The determination by the Calculation Agent of the redemption price will be conclusive and binding on the City and the holders of the Series 2012B Bonds.

Mandatory Redemption of Series 2012A Bonds

The Series 2012A Bonds maturing on April 1, 2037 and April 1, 2042 are subject to scheduled mandatory redemption prior to maturity in authorized denominations of \$5,000 and integral multiples thereof in part on April 1 in each of the years and in the principal amounts set forth below, at a redemption price equal to the principal amount to be redeemed together with interest accrued thereon to the date fixed for redemption:

Series 2012A Bonds maturing April 1, 2037	
Redemption Dates	Principal Amount
(April 1)	
2033	\$530,000
2034	555,000
2035	575,000
2036	600,000
2037*	625,000

* Final Maturity.

Series 2012A Bonds maturing April 1, 2042

Redemption Dates

(April 1)

Principal Amount

(April 1)	Principal Amount
2038	\$650,000
2039	675,000
2040	700,000
2041	730,000
2042*	760,000

* Final Maturity.

Notice of Redemption

The City shall send notice of redemption of any Series 2012 Bonds to the holders of the Series 2012 Bonds to be redeemed at the address as shown on the books of registry, such notice to include the terms and conditions prescribed by the Bond Resolution and to be mailed by first class mail, postage prepaid, not less than 30 days prior to the date fixed for redemption. For so long as a book-entry only system is in effect with respect to the applicable Series 2012 Bonds, the Paying Agent will mail notice of redemption to DTC or its nominee or its successor. Any failure of DTC or its successor, or of a Direct DTC Participant or Indirect DTC Participant, to notify a Beneficial Owner of a Series 2012 Bond of any such redemption will not affect the sufficiency or the validity of the redemption of such Series 2012 Bond. See "BOOK-ENTRY ONLY SYSTEM" herein.

Selection of Series 2012 Bonds to be Redeemed

Selection of Series 2012A Bonds to be Redeemed. If fewer than all of the Series 2012A Bonds of like maturity are called for redemption, the particular Series 2012A Bonds or portions of Series 2012A Bonds to be redeemed will be selected by the Paying Agent by lot.

Selection of Series 2012B Bonds to be Redeemed. If less than all of the Series 2012B Bonds subject to redemption are called for redemption, the Paying Agent will select the Series 2012B Bonds to be redeemed pro rata as nearly as practicable in proportion to the numerical amounts of the Series 2012B Bonds owned by each registered owner from the outstanding Series 2012B Bonds subject to redemption and not previously called for redemption. For so long as a book-entry only system is in effect with respect to the Series 2012B Bonds, in the event of a redemption of fewer than all of the Series 2012B Bonds of a maturity. DTC or its successor and Direct DTC Participants and Indirect DTC Participants (all as defined in "BOOK-ENTRY ONLY SYSTEM" below) will determine the particular ownership interests of such Series 2012B Bonds of such maturity to be redeemed in accordance with their respective operating procedures. To the extent practicable, the City or the Paying Agent will request that DTC select the amount of such interests of Series 2012B Bonds on a pro rata pass-through distribution of principal basis in integral multiples of \$5,000 in accordance with DTC procedures then in effect. The City can provide no assurance that DTC, DTC's Direct and Indirect Participants or any other intermediary will allocate the redemption of Series 2012B Bonds on such basis. If the DTC operational arrangements do not allow for the redemption of the Series 2012B Bonds on a pro rata pass-through distribution of principal basis, then the Series 2012B Bonds of a maturity to be

redeemed will be selected, in accordance with DTC procedures, by lot. If, at the time of redemption of the Series 2012B Bonds on a pro rata pass-through distribution of principal basis, the City or the Paying Agent has failed to notify DTC that the Series 2012B Bonds to be redeemed are to be redeemed pursuant to DTC's pro rata pass-through distribution of principal procedures, or has failed to furnish to DTC the factor to be applied by it in determining the pro rata allocation of the principal to be redeemed, then the Series 2012B Bonds of a maturity to be redeemed may be selected, in accordance with DTC procedures, by lot.

So long as the Series 2012B Bonds are held in book-entry form, the Paying Agent and the City will have no responsibility or liability for the redemption of such Series 2012B Bonds, as applicable, including the calculation of the amount of any beneficial owner's redemption payment and ensuring that all owners own such Series 2012B Bonds in authorized denominations, other than delivery to DTC of notice of redemption and the funds necessary to accomplish the redemption.

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC and neither the City nor the Underwriters make any representation or warranty or take any responsibility for the accuracy or completeness of such information.

DTC will act as securities depository for the Series 2012 Bonds. The Series 2012 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2012 Bond certificate will be issued for each maturity of each issue of the Series 2012 Bonds as set forth on the inside cover of this Official Statement, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its

Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2012 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2012 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2012 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2012 Bonds, except in the event that use of the book-entry system for the Series 2012 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2012 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2012 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2012 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2012 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2012 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2012 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Series 2012 Bonds may wish to ascertain that the nominee holding the Series 2012 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2012 Bonds within a series or maturity of the Series 2012 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such series or maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2012 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting

or voting rights to those Direct Participants to whose accounts Series 2012 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Series 2012 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest on the Series 2012 Bonds, as applicable, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City and/or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2012 Bonds at any time by giving reasonable notice to City or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Series 2012 Bonds certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2012 Bonds certificates will be printed and delivered to DTC.

THE CITY AND THE UNDERWRITERS CANNOT AND DO NOT GIVE ANY ASSURANCES THAT THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 2012 BONDS (1) PAYMENTS OF PRINCIPAL OF OR INTEREST AND PREMIUM, IF ANY, ON THE SERIES 2012 BONDS; (2) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN SERIES 2012 BONDS; OR (3) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNERS OF THE SERIES 2012 BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC OR DIRECT OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH DTC PARTICIPANTS ARE ON FILE WITH DTC.

NEITHER THE CITY NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO SUCH DTC PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE SERIES 2012 BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (3) THE PAYMENT BY ANY DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST

OR PREMIUM, IF ANY, ON THE SERIES 2012 BONDS; (4) THE DELIVERY BY ANY DTC PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND RESOLUTION TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2012 BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

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ESTIMATED SOURCES AND USES

The sources and applications of funds in connection with the issuance of the Series 2012 Bonds are estimated below:

Sources of Funds:

	Series 2012A Bonds	Series 2012B Bonds	Total
Sources of Funds:			
Par Amount	\$ 93,595,000.00	\$ 5,145,000.00	\$ 98,740,000.00
Net Original Issue Premium	14,098,916.10	-	14,098,916.10
Total Sources of Funds	\$ 107,693,916.10	\$ 5,145,000.00	\$ 112,838,916.10
Uses of Funds:			
Deposit to Capital Projects Fund	\$ 10,000,000.00	\$ 4,000,000.00	\$ 14,000,000.00
Deposit to Refunding Trust Fund	96,991,582.47	1,105,215.26	98,096,797.73
Costs of Issuance ⁽¹⁾	702,333.63	39,784.74	742,118.37
Total Uses of Funds	\$ 107,693,916.10	\$ 5,145,000.00	\$ 112,838,916.10

⁽¹⁾ Includes Underwriters' discount, legal and accounting fees, Co-Financial Advisors fees, rating agency fees, initial Paying Agent fees, printing costs and other miscellaneous fees and costs.

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SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS

General

The Series 2012 Bonds are being issued pursuant to the provisions of the Act and the Bond Resolution.

The Series 2012 Bonds are direct obligations of the City for the payment of the principal of and interest on which the City has pledged its full faith, credit and unlimited taxing power as to all property subject to ad valorem taxation within the City. In the Bond Resolution, the City has agreed that a tax sufficient to pay, when due, the principal of and interest on the Series 2012 Bonds shall be levied annually and assessed, collected and paid, in like manner with the other taxes of the City and shall be in addition to all other taxes authorized or limited by law. Under the Act, it is the duty of the City Council to include in the annual levy a tax sufficient to pay the principal of and interest on the Series 2012 Bonds as the same become due. The Act further provides that when any part of the principal of or interest on the Series 2012 Bonds shall not be paid when due, there shall be levied and assessed by the City Council and collected by the proper collecting officers at the first assessment, levy and collection of taxes in the City, after such omission or failure, a tax sufficient to pay the same. See "CONDENSED CURRENT FINANCIAL RESULTS - Statement of Debt" herein and "APPENDIX A - SUPPLEMENTAL INFORMATION STATEMENT OF THE CITY OF MEMPHIS, TENNESSEE - FINANCIAL INFORMATION" attached hereto for a discussion of the City's outstanding debt and legal ability to incur future indebtedness and for a discussion of City ad valorem taxation.

Any holder or holders of the Series 2012 Bonds, including a trustee or trustees for holders of the Series 2012 Bonds, shall have the right, in addition to all other rights: (a) by mandamus or other suit, action, or proceeding in any court of competent jurisdiction to enforce his or their rights against the City and the City Council and any officer, agent or employee of the City, including, but not limited to, the right to require the City and the City Council and any proper officer, agent or employee of the City to assess, levy and collect taxes adequate to carry out any agreement as to, or pledge of, such taxes and to require the City and the City Council and any officer, agent or employee of the City to carry out any other covenants and agreements and to perform its and their duties under the provisions of the Act; and (b) by action or suit in equity, to enjoin any acts or things which may be unlawful or a violation of the rights of such holder or holders of the Series 2012 Bonds.

Covenant Regarding MLGW PILOT Payments

By resolution of the City Council adopted on March 6, 2012 (the "PILOT Payments Resolution"), the City has determined that in order to make its general obligation bonds, including the Series 2012 Bonds, more marketable, it is desirable to preserve, to the maximum extent allowable under the City's charter and applicable State law, as much of the payments that the City receives from the payments in lieu of taxes or tax equivalency payments ("PILOT Payments") required to be paid by the Electric and Gas Divisions of the City owned utility, Memphis Light, Gas and Water Division ("MLGW") for the benefit of the holders of all general obligation bonds of the City and making the same available for the payment of debt service on all such general obligation bonds. Although such PILOT Payments received by the City are currently being deposited into the City's general fund, the PILOT Payments Resolution will now

require that, in each fiscal year, beginning with the fiscal year ending June 30, 2012, the City will cause the Electric and Gas Divisions of MLGW, to:

(a) pay to the general fund of the City to be used for its general purposes, unless the City agrees in writing to distribute a portion of such payments to another municipality, from the total amount of PILOT Payments required to be paid by the Electric and Gas Divisions of MLGW, respectively, an amount at least equal to the amount of City taxes, as determined by the City Council, that would be payable on the respective properties comprising the Gas and Electric Systems located within the City as if such properties were privately owned, and

(b) pay to the general fund of the City to be used for its general purposes, a dividend in an amount determined by the City Council not exceeding six percent of the annual net earnings of the Gas and Electric Systems of MLGW, respectively, determined in accordance with generally accepted accounting principles applied on a consistent basis as reflected in the respective financial statements of the Gas and Electric Divisions of MLGW from time to time (or, if less, a sum not exceeding a cumulative return of six percent of the equity or investment of the City in the properties of the Gas and Electric System of MLGW, respectively), subject to paragraph (6) of Section 693 of the City Charter, as amended; provided, however, that the total amount payable by the Gas and Electric Divisions of MLGW, respectively, in any year under (a) and (b) above shall not exceed the maximum amount that may be paid by each division separately as limited by the City's agreement with the Tennessee Valley Authority for electric service, as the same may be amended from time to time, as if both divisions operated electric systems.

CONDENSED CURRENT FINANCIAL RESULTS

For the fiscal year ended June 30, 2011, the audited net operating results for the general fund revenues/transfers were \$668,766,000 and expenditures/transfers were \$662,275,000 resulting in a \$6,491,000 increase in General Fund total fund balance. The increase in fund balance is primarily attributable to execution of several cost saving measures and new funding strategies.

As of the second quarter of the fiscal year ending June 30, 2012, actual revenues received represented 65.5% of total revenues (including transfers) budgeted for the fiscal year ending June 30, 2012. Approximately 92.6% of budgeted current property taxes have been collected as of December 31, 2011. See "APPENDIX A - SUPPLEMENTAL INFORMATION STATEMENT OF THE CITY OF MEMPHIS, TENNESSEE" attached hereto.

The City adopted a \$661,401,000 General Fund operating budget for the fiscal year ending June 30, 2012 with a planned contribution to fund balance of \$27,182,000. The City has exceeded the established goal of maintaining at least 10% unassigned fund balance as a percent of General Fund expenditures.

SUMMARY OF GENERAL FUND
(Fiscal Years Ended June 30 and the Six Month Periods Ended December 31, 2010 and 2011)
(In Thousands of Dollars)

	<u>2007⁽¹⁾</u>	<u>2008⁽¹⁾</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Six Month Periods Ended December 31, 2010⁽²⁾</u>	<u>Six Month Periods Ended December 31, 2011⁽²⁾</u>
Beginning Fund Balance	\$ 38,737	\$ 78,840	\$ 98,558	\$106,603	\$ 84,570	\$ 84,570	\$ 91,061
Revenues and other sources	552,546	565,558	605,444	606,521	668,766	433,641 ⁽³⁾	453,646 ⁽³⁾
Expenditures and other uses	(507,965)	(545,840)	(597,399)	(628,554)	(662,275)	(330,019)	(327,739)
Ending Fund Balance	<u>\$ 83,318</u>	<u>\$ 98,558</u>	<u>\$106,603</u>	<u>\$ 84,570</u>	<u>\$ 91,061</u>	<u>\$ 188,192⁽⁴⁾</u>	<u>\$ 216,968⁽⁴⁾</u>
Ending Undesignated Fund Balance	<u>\$ 76,571</u>	<u>\$ 89,613</u>	<u>\$ 80,912</u>	<u>\$ 76,271</u>	<u>\$ 81,125</u>	<u>\$ 179,893⁽⁴⁾</u>	<u>\$ 207,032⁽⁴⁾</u>

⁽¹⁾ The difference in the 2007 ending fund balance and the 2008 beginning fund balance is a result of the reclassification of \$4.478 million from the Golf Fund to the General Fund.

⁽²⁾ The interim financial information for the six month periods ending December 31, 2010 and 2011, respectively, are unaudited midyear results.

⁽³⁾ Revenues for the six month period ended December 31, 2011 is substantially greater than the six month period ending December 31, 2010 due to a sale of delinquent property tax receivables executed during this period which resulted in \$15 million in revenue collections.

⁽⁴⁾ Revenue collections for the first six months of each fiscal year are consistently substantially greater than expenditures for the same period since approximately 90% of property tax receivables are collected during the period.

Source: Information for fiscal year 2007 through and including fiscal year 2011 obtained from Comprehensive Annual Financial Report for the Year Ended June 30, 2011 for the City of Memphis, Tennessee; interim financial information for the six month periods ended December 31, 2010 and 2011, respectively, obtained from City of Memphis Ledger Reports.

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STATEMENT OF DEBT⁽¹⁾
(Unaudited)

Total Direct Debt:	
General Obligation Bonds ⁽²⁾	\$1,158,085,000
Appropriation Obligations ⁽³⁾	31,828,884
Bond Anticipation Notes ⁽⁴⁾	75,400,000
Total Direct Debt:	<u>\$1,265,313,884</u>
Plus: City's Share of Shelby County Net Overlapping Debt ⁽⁵⁾	 <u>1,039,381,000</u>
Total Direct and Overlapping Debt:	<u><u>\$2,304,694,884</u></u>

DEBT RATIOS

	<u>Direct Debt</u>	<u>Direct and Overlapping Debt</u>
Debt Per Capita ⁽⁶⁾	\$1,956	\$3,563
Debt/Assessed Valuation ⁽⁷⁾	10.71%	19.50%
Debt/Appraised Valuation ⁽⁸⁾	3.32%	6.05%

⁽¹⁾ This Statement of Debt does not include the following outstanding revenue bonds as they are payable solely from net revenues derived from the respective systems or projects: the City's Sanitary System Revenue Bonds, the Memphis Light Gas and Water Electric System Revenue Bonds and Water Division Revenue Bonds, the Memphis-Shelby County Airport Authority Airport Revenue Bonds, the Memphis-Shelby County Airport Authority Special Facility Revenue Bonds and the Memphis Center City Revenue Finance Corporation Pyramid and Pinch District Revenue Bonds.

⁽²⁾ General Obligation Bonds include the aggregate par amount of the Series 2012 Bonds (\$98,740,000) and excludes the aggregate par amount of the Refunded Bonds (\$85,960,000).

⁽³⁾ Includes capital leases and an appropriation obligation entered into pursuant to an Interlocal Agreement among the City, the County, and the Memphis and Shelby County Port Commission. See "CONTINGENT LIABILITIES AND OTHER OBLIGATIONS - Port Commission Electrolux Bonds" herein.

⁽⁴⁾ The City is proposing to issue the 2012 Notes to refund and pay the principal of the 2010 Notes at maturity on May 1, 2012.

⁽⁵⁾ Comprehensive Annual Financial Report for the Year Ended June 30, 2011 for the City of Memphis, Tennessee.

⁽⁶⁾ The City's 2010 population was 646,889 according to the U.S. Bureau of the Census.

⁽⁷⁾ The City's assessed valuation was \$11,816,477,578 for the period ending June 30, 2011 according to the Comprehensive Annual Financial Report for the Year Ended June 30, 2011 for the City of Memphis, Tennessee.

⁽⁸⁾ The City's appraised valuation was \$38,069,898,505 for the period ending June 30, 2011 according to the Comprehensive Annual Financial Report for the Year Ended June 30, 2011 for the City of Memphis, Tennessee.

Source: City of Memphis, Tennessee, except as noted above.

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TOTAL FUND BALANCES/RETAINED EARNINGS TRENDS
(Fiscal Years Ended June 30)
(In Thousands of Dollars)

Fund Types	2007	2008	2009	2010	2011
General:					
Reserved	\$ 6,747	\$ 8,945	\$ 9,691	\$ 8,299	\$ 9,936
Unreserved	72,093	89,613	80,912	76,271	81,125
Unreserved, Designated for Contingencies	-	-	16,000	-	-
Special Revenue ⁽¹⁾	6,602	6,305	4,888	6,179	15,816
Debt Service	53,793	58,716	46,488	34,680	17,201
Capital Improvements ⁽¹⁾	(32,527)	12,673	67,239	74,030	47,182
Governmental Funds	<u>\$106,708</u>	<u>\$176,252</u>	<u>\$225,218</u>	<u>\$199,459</u>	<u>\$171,260</u>
Enterprise ⁽²⁾	232,536	231,804	225,416	232,237	274,089
Internal Services Funds	(274)	(4,744)	(7,185)	(15,122)	(13,707)
Proprietary Funds	<u>232,262</u>	<u>227,030</u>	<u>218,231</u>	<u>217,115</u>	<u>260,382</u>
Total	<u>\$338,970</u>	<u>\$403,282</u>	<u>\$443,449</u>	<u>\$416,574</u>	<u>\$431,642</u>

⁽¹⁾ Excludes the Board of Education Component Unit.

⁽²⁾ Excludes Memphis Light, Gas and Water Division, the Convention Center, the Mid-South Coliseum, Memphis Area Transit Authority and the Port Commission.

Source: APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE CITY OF MEMPHIS, TENNESSEE FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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CONTINGENT LIABILITIES AND OTHER OBLIGATIONS

Contingent Liabilities

Sports Authority. Pursuant to an interlocal agreement by and among The Memphis and Shelby County Sports Authority, Inc. (the "Sports Authority"), the County and the City, in the event the revenues pledged to the support of certain senior lien bonds issued by the Sports Authority (the "Senior Lien Bonds") prove to be insufficient to pay debt service on the Senior Lien Bonds in any bond year (ending on October 31), the County and the City have covenanted to timely appropriate from legally available non-ad valorem revenues, not later than October 31 of the fiscal year following the date of such deficit, sufficient moneys to replenish draws from the debt service reserve fund relating to the Senior Lien Bonds (the "Reserve Fund") used to make scheduled debt service on the Senior Lien Bonds in the prior year.

The proceeds of the Senior Lien Bonds were used to finance and refinance the acquisition, construction and equipping of a multi-purpose arena that is the home of the National Basketball Association's franchise known as the Memphis Grizzlies (the "FedExForum"). The Senior Lien Bonds are payable as to principal and interest from (i) seat rental fees derived from the FedExForum, (ii) certain sales tax rebate revenues to the City and to the County, (iii) City hotel/motel tax revenues derived from certain hotel/motel taxes imposed by the City, (iv) County hotel/motel tax revenues derived from certain hotel/motel taxes imposed by the County, (v) certain payments in lieu of taxes from the Water Division of Memphis Light, Gas and Water, and (vi) certain car rental taxes collected in the County (collectively, the "Project Revenue Stream").

As of December 31, 2011, the Senior Lien Bonds were outstanding in an aggregate principal amount of \$203,610,000. The obligation of the County and the City to replenish draws on the Reserve Fund is apportioned on the following basis: 50% from the County and 50% from the City but is not a joint obligation. The maximum amount of the County's or City's respective replenishment obligation relating to the Senior Lien Bonds is the debt service payments on not to exceed \$115,000,000 of the Senior Lien Bonds, which represents approximately one-half of the authorized Senior Lien Bonds. The obligation to replenish the Reserve Fund is not a general obligation of the County or the City.

As of the date of this Official Statement, the Project Revenue Stream has been sufficient to pay the debt service on the Senior Lien Bonds. **HOWEVER, THE CITY CAN OFFER NO ASSURANCE AS TO WHETHER THERE WILL BE FUTURE DEFICITS THAT IT WILL BE REQUIRED TO PAY.** No feasibility report with respect to the FedExForum was prepared.

Center City Revenue Finance Corporation. Pursuant to a Trust Indenture dated as of September 1, 2011 (the "Indenture"), the Memphis Center City Revenue Finance Corporation of Memphis, Tennessee (the "Corporation") issued its \$40,540,000 Federally Taxable Senior Revenue Bonds, Series 2011A (Pyramid and Pinch District Redevelopment Project) ("Series 2011A CCRFC Bonds"), its \$100,245,000 Tax Exempt Subordinate Revenue Bonds, Series 2011B (Pyramid and Pinch District Redevelopment Project), and its \$56,150,000 Federally Taxable Subordinate Revenue Bonds, Series 2011C (Pyramid and Pinch District Redevelopment Project) (collectively, the "Series 2011 CCRFC Subordinate Bonds," and together with the Series

2011A CCRFC Bonds, the "Series 2011 CCRFC Bonds"). The proceeds of the Series 2011 CCRFC Bonds were used by the Corporation to fund a loan to the City, the proceeds of which loan, together with certain other funds of the City, are currently being used to, among other things, finance a portion of the costs associated with the redevelopment of the Pyramid Arena, the acquisition and renovation of certain properties in the center city area of the City adjacent to the Pyramid Arena and the acquisition of the interest of the County in the Memphis Cook Convention Center. The Series 2011 CCRFC Bonds are payable principally from distributions of state and local sales and use taxes in a tourist development zone which includes the Pyramid Arena, the Pinch District of the City and the Memphis Cook Convention Center.

In order to further secure the Series 2011 CCRFC Subordinate Bonds and any other subordinate bonds subsequently issued under the Indenture (collectively, the "Subordinate Bonds"), the City and the Corporation entered into a Debt Service Reserve Replenishment Agreement (the "Replenishment Agreement") pursuant to which the City has agreed to appropriate and pay, from legally available non-ad valorem revenues, funds sufficient to restore the debt service reserve account with respect to the Series 2011 CCRFC Subordinate Bonds to the required reserve requirement under the Indenture for the Subordinate Bonds. The debt service reserve requirement for Series 2011 CCRFC Subordinate Bonds currently is maximum annual debt service. As of the date of this Official Statement, the City has not been called upon to make a payment under the Replenishment Agreement. **HOWEVER, THE CITY CAN OFFER NO ASSURANCE AS TO WHETHER THERE WILL BE FUTURE CALLS ON THE CITY TO MAKE A PAYMENT UNDER THE REPLENISHMENT AGREEMENT.** The obligations of the City under the Replenishment Agreement is not a general obligation of the City.

For more information regarding the City's contingent liabilities and commitments see Note V.C. to the Audited Financial Statements in APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE CITY OF MEMPHIS, TENNESSEE FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

Port Commission Electrolux Bonds

The Memphis and Shelby County Port Commission (the "Port Commission"), the State, the County, the City, and the Memphis and Shelby County Industrial Development Board have entered into a Site Location and Development Agreement dated December 15, 2010 (the "Development Agreement"), whereby each has committed to support the development of a new appliance manufacturing and assembly facility, warehouse and distribution facility, and regional headquarters facility for Electrolux Home Products, Inc. (the "Electrolux Development") to be located in the City and the County, within the Port Commission's boundaries and jurisdiction. The City and the County have agreed to match funds of the State to subsidize or assist in the Electrolux Development.

The Port Commission issued its \$40,795,000 Development Revenue Bonds, Series 2011 (the "Port Commission Electrolux Bonds") on September 7, 2011 pursuant to Chapters 500 and 529 of the Private Acts of 1947 of the State of Tennessee (collectively, the "1947 Act"). The Port Commission Electrolux Bonds are secured in part by all of the Port Commission's right, title and interest in an interlocal agreement by and among the Port Commission, the County and the City, under which the City and the County, pursuant to the provisions of the 1947 Act, have

covenanted to timely appropriate from legally available non-ad valorem revenues sufficient moneys to pay scheduled debt service on the Port Commission Electrolux Bonds.

The obligation of the City and the County to support the payment of debt service on the Port Commission Electrolux Bonds is apportioned on an equal basis (i.e., 50 percent by the City and 50 percent by the County). The maximum amount of the City's or the County's respective support obligation under the Development Agreement is the debt service payments on not to exceed \$22,000,000 of the principal amount of the Port Commission Electrolux Bonds. The obligation of the City and the County to support the payment of debt service on the Port Commission Electrolux Bonds is not a general obligation of the County or the City.

City of Memphis Retirement System

General. The City of Memphis Retirement System (the "City Retirement System") is a single employer public employee retirement system administered by a Board of Administration under the direction of the Mayor. The City Retirement System pension trust fund accounts for the activity of the City Retirement System. General City employees only are covered under the City Retirement System. In addition, separate retirement systems are operated by MLGW and the Memphis Library System. A small portion of the hourly rate employees are covered under the Social Security program instead of the retirement systems.

Substantially all permanent full-time salaried employees of the City (excluding component units) are required to participate in either of two contributory defined benefit pension plans which are the 1948 Plan for salaried employees hired prior to July 1, 1978 (the "1948 Plan"), and the 1978 Plan for salaried employees hired after June 30, 1978 (the "1978 Plan" and together with the "1948 Plan," the "Plans"). The Plans provide retirement benefits as well as death and disability benefits. Retirement benefits vest after ten years of service. Under the applicable ordinances of the City, trust assets are reported in one trust fund and not segregated between the Plans. Permanent, full-time employees in job classifications covered by contract with the Social Security Administration are not participants of the City Retirement System as they are covered under the Federal Insurance Contribution Act (Social Security). At June 30, 2011, there were 10,924 members in the City Retirement System, 4,651 of whom were retirees and beneficiaries who are currently receiving benefits and terminated employees entitled to benefits but not yet receiving same, 3,155 of whom were fully vested active employees and 3,118 of whom were non-vested active employees. As of the fiscal year ended June 30, 2011, the City Retirement System had net assets of \$1,986,445,000. For the fiscal year ended June 30, 2011, the City Retirement System reported total employer and plan member contributions of \$20,132,000 and \$23,992,000, respectively. Benefits paid to plan members totaled \$135,576,000 during the fiscal year. Cost of living increases are determined annually by the City Council as part of the budgeting process. As of December 31, 2011, the investment return on the assets of the City Retirement System was 9.63% since inception.

In December 2011, the City Council approved an ordinance to modify the pension benefits allowable under the City Retirement System in an effort to protect the actuarial soundness and to ensure the long-term financial viability of the City Retirement System. The changes to the City Retirement System primarily impacted employees hired on or after July 1, 2012 and the employee contribution amounts for Fire and Police officers with less than 10 years of service as of June 30, 2012.

Actuarial Methods and Assumptions. The City annually obtains an actuarial valuation of the City Retirement System for the purpose of calculating the necessary information for accounting and reporting requirements in accordance with Government Accounting Standards. The actuarial asset valuation method used in the July 1, 2011 actuarial valuation of the City Retirement System is the Entry Age Normal Actuarial Cost Method with level-dollar open amortization of the unfunded accrued liability which divides the cost of funding into two parts; normal cost and actuarial accrued liability. The amortization period is 30 years. Significant actuarial assumptions include: a rate of return on the investment of present and future assets of 7.5 percent per annum compounded annually; projected salary increases of five percent per annum compounded annually, attributable to inflation; no additional projected salary increases for seniority or merit; and no post-retirement benefit increases.

Funding Policy. General employees in the 1978 Plan must contribute 8% of compensation. General employees in the 1948 Plan must contribute 5% of compensation. Fire and Police employee contributions range from 5% to 8% of compensation depending on the plan and date of hire. The employer contribution is 6% of compensation as required by the City's pension ordinance. Any difference in the actual employer contribution and the actuarially determined annual required contribution affects the unfunded liability which is amortized over future years.

Schedule of Funding Progress. The schedule of funding progress for the six years ended June 30, 2011 is as follows (numbers in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded Actuarial Liability (UAAL) (c)=(b)-(a)	Funded Ratio	Covered Payroll (d)	UAAL as a Percentage of Covered Payroll (c)/(d)
7/1/2006	\$2,056,080	N/A	N/A	N/A	\$262,859	N/A
7/1/2007 ⁽¹⁾	2,121,919	\$2,063,051	-	102.9%	264,966	-
7/1/2008	2,184,255	2,090,088	-	104.5	281,040	-
7/1/2009	1,773,457	2,222,984	\$449,527	79.8	296,134	151.8%
7/1/2010	1,805,071	2,336,075	531,004	77.3	308,889	171.9
7/1/2011	1,838,424	2,447,974	609,550	75.1	316,434	192.6

⁽¹⁾ Starting with the July 1, 2007, valuation, the actuarial accrued liability is provided under the Entry Age Normal Cost Method in order to provide information that serves as a surrogate of the funding progress of the Plan.

Source: Note V.F. to the Audited Financial Statements in APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE CITY OF MEMPHIS, TENNESSEE FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

Schedule of Employer Contributions. The schedule of employer contributions for the six years ended June 30, 2011 is as follows (numbers in thousands):

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2006	\$11,893	117.6%
2007	22,674	61.9
2008	24,072	60.6
2009	21,208	76.3
2010	71,447	24.4
2011	80,021	25.2

Source: Note V.F. to the Audited Financial Statements in APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE CITY OF MEMPHIS, TENNESSEE FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

Annual Pension Cost and Net Pension Assets. The annual pension cost and net pension assets of the City Retirement System for the year ended June 30, 2011 were as follows (numbers in thousands):

Annual Required Contribution	\$ 80,021
Interest on Net Pension Obligation	1,064
Adjustment to Annual Required Contribution	(1,202)
Annual Pension Cost	79,883
Contribution made	(20,132)
Increase in Net Pension Obligation	59,751
Net Pension Obligation at beginning of year	14,191
Net Pension Obligation at end of year	<u>\$ 73,942</u>

Source: Note V.F. to the Audited Financial Statements in APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE CITY OF MEMPHIS, TENNESSEE FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

The following is three year trend information for the City Retirement System (numbers in thousands):

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2009	\$24,650	65.6%	\$(40,226)
2010	71,836	24.2	14,191
2011	79,883	25.2	73,942

Source: Note V.F. to the Audited Financial Statements in APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE CITY OF MEMPHIS, TENNESSEE FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

The following is a five year historical summary of principal valuation results for the City Retirement System:

HISTORICAL SUMMARY OF PRINCIPAL VALUATION RESULTS					
	<u>July 1, 2011</u>	<u>July 1, 2010</u>	<u>July 1, 2009</u>	<u>July 1, 2008</u>	<u>July 1, 2007</u>
Annual Funding:					
Suggested Contribution	\$ 89,006,000	\$ 80,021,000	\$ 71,447,000	\$ 21,208,000	\$ 24,072,000
Percent of Covered Payroll	28.1%	25.9%	24.1%	7.5%	9.1%
Government Accounting Standards Board Statement #27:					
Annual Pension Cost (APC)	\$ 88,291,000	\$ 79,883,000	\$ 71,836,000	\$ 24,648,000	\$ 28,497,000
Percent of APC contributed	-	25%	24%	66%	51%
End of Year Net Pension Obligation (Asset)	-	\$ 73,942,000	\$ 14,191,000	(\$ 40,226,000)	(\$ 48,704,000)
Assets at beginning of plan year:					
Market Value	\$2,001,504,000	\$1,727,794,000	\$1,612,234,000	\$2,111,225,000	\$2,357,688,000
Actuarial Value	1,838,424,000	1,805,071,000	1,773,457,000	2,184,255,000	2,121,919,000
Estimated ROI (on market value)	22.67%	13.08%	(18.57%)	(6.12%)	16.93%
Participation at beginning of plan year:					
Number of participants:					
Active:					
General	2,283	2,392	2,484	2,620	2,259
Police & Firemen	3,990	3,888	3,792	3,386	3,338
Terminated Vested	81	120	116	138	156
Retired and beneficiaries	3,648	3,557	3,462	3,406	3,333
Disabled	640	648	641	638	632
DROP TOTAL	282	200	151	200	248
	<u>10,924</u>	<u>10,805</u>	<u>10,646</u>	<u>10,388</u>	<u>9,966</u>
Covered payroll	\$316,434,000	\$308,889,000	\$296,134,000	\$281,040,000	\$264,966,000
Annual benefits in pay status	146,178,000	138,368,000	130,606,000	126,432,000	121,746,000
Average attained age for active participants	42.6	42.3	42.1	42.0	42.2

For more information regarding the City Retirement System, as well as the City's OPEB plan, the Library Retirement System plan and the MLGW Retirement System plan, see Notes V.E. and F. to the Audited Financial Statements in APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE CITY OF MEMPHIS, TENNESSEE FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

City of Memphis Other Post Employment Benefits (OPEB) Plan

General. The City's OPEB plan is a single employer plan and provides medical and life insurance benefits to eligible retired City of Memphis General, Police, Fire and Airport Authority employees and their dependents based on firmly-established past practices. The authority to conduct the general operation and administration of the OPEB plan is vested with the City. The primary benefit for eligible retirees is post-retirement medical coverage through either a Preferred Provider Organization (PPO/Basic) or a Point of Service Plan (POS/Premier). Of premiums paid for retiree health and medical benefits and life insurance, 70 percent is paid by the General Fund (with the remaining 30 percent paid by the retirees) and is recognized as an

expenditure, which totaled \$29,159,000 for the fiscal year ended June 30, 2011. The City also provides two life insurance benefits: the first is a self-insured death benefit and the second is a continuation of active life insurance. At June 30, 2011, the number of retirees eligible for health and medical benefits was 3,742. As of the fiscal year ended June 30, 2011, the City's OPEB plan had net assets of \$16,737,000. As of December 31, 2011, the investment return on the assets of the City's OPEB plan was 9.63% since inception.

Actuarial Methods and Assumptions. The City annually obtains an actuarial valuation of the City's OPEB plan for the purpose of calculating the necessary information for accounting and reporting requirements in accordance with Government Accounting Standards. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of the sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The Entry Age Normal Actuarial Cost Method was used in the July 1, 2011 actuarial valuation of the City's OPEB plan. The actuarial cost method is used to develop the Actuarial Accrued Liabilities and the Annual Required Contribution (ARC). The actuarial assumptions included a 5.2 percent investment rate of return (net of administrative expenses) and an annual pre-Medicare health care cost trend rate of 9.47% percent initially, reduced by decrements to an ultimate rate of 4.5 percent in fiscal year 2027 and thereafter. The actuarial annual post-Medicare health care cost trend rate is 9.86% and is to be reduced by decrements to an ultimate rate of 4.5% in fiscal year 2027 and thereafter. All rates assume a five percent salary scale. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 was 30 years.

The City's health benefits experience was used to develop medical per capita costs, future retiree and spouse participation assumptions, and the retirement assumption. The withdrawal, mortality and disability rates assumed are the same as those used for the valuation of the City Retirement System.

Funding Policy. The contribution requirements the City and the members of the City's OPEB plan are established and are subject to amendment by the City. Eligible members of the City's OPEB plan receiving benefits contribute \$66.30 to \$157.33 per month for retiree-only coverage and \$132.60 to \$312.02 per month for retiree and family coverage depending on the medical plan coverage selected. The City pays for medical costs in excess of required retiree premiums. In fiscal year 2009, the City adopted and established an OPEB trust for the exclusive purpose of pre-funding and providing for payment of OPEB benefits under the City's OPEB plan. For the fiscal year ended June 30, 2011, the City of Memphis contributed \$3,541,000 in excess of the total annual benefit payments to a GASB qualifying trust for the purpose of funding future OPEB benefits. The City intends to continue a steadily increasing rate of funding into the foreseeable future as necessary.

Funded Status and Funding Progress. The funded status of the City's OPEB plan as of July 1, 2011, the date of the latest actuarial report obtained by the City, was as follows (numbers in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (c)=(b)-(a)	Funded Ratio	Covered Payroll (d)	UAAL as a Percentage of Covered Payroll⁽¹⁾ (c)/(d)
7/1/2009	\$ 2,911	\$ 937,151	\$ 934,240	0.3%	\$315,682	295.9%
7/1/2010	2,566	1,167,930	1,165,364	0.2	313,285	372.0
7/1/2011	10,297	1,345,355	1,335,058	0.8	337,200	395.9

⁽¹⁾ Covered payroll includes all active plan participants.

Source: Note V.E. to the Audited Financial Statements in APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE CITY OF MEMPHIS, TENNESSEE FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

The unfunded actuarial accrued liability of the City's OPEB plan is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period as of June 30, 2011, was 30 years.

Schedule of Employer Contributions. The schedule of employer contributions to the City's OPEB plan for the four years ended June 30, 2011 is as follows (numbers in thousands):

Year Ended June 30	Annual Required Contributions	Actual Contributions	Percentage Contributed
2008	\$55,418	\$38,743 ⁽¹⁾	64.5%
2009	66,273	38,159 ⁽²⁾	57.6
2010	80,477	35,674 ⁽³⁾	44.3
2011	95,376	36,130 ⁽⁴⁾	37.9

⁽¹⁾ Includes a \$3,000,000 contribution in excess of the net employer benefit payments.

⁽²⁾ Includes a \$6,000,000 contribution in excess of the net employer benefit payments.

⁽³⁾ Includes a \$1,000,000 contribution in excess of the net employer benefit payments.

⁽⁴⁾ Includes a \$3,541,000 contribution in excess of the net employer benefit payments.

Source: Note V.E. to the Audited Financial Statements in APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE CITY OF MEMPHIS, TENNESSEE FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

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Annual OPEB Cost and Net OPEB Obligation. For the fiscal year ended June 30, 2011, the City contributed 37.3 percent or \$36,130,000 of its annual OPEB cost of \$96,870,000. The City's annual OPEB cost for the fiscal year ended June 30, 2011 and net OPEB obligation is as follows (numbers in thousands):

Annual Required Contribution (ARC)	\$ 95,376
Interest on beginning of year accrual	4,871
Amortization of beginning of year accrual	(3,210)
Interest on the amortization	(167)
Annual OPEB Cost (AOC)	<u>\$ 96,870</u>
Contributions made	(36,130)
Change in Net OPEB Obligation	60,740
Net OPEB Obligation - beginning of year	93,678
Net OPEB Obligation - end of year	<u>\$154,418</u>

Source: Note V.E. to the Audited Financial Statements in APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE CITY OF MEMPHIS, TENNESSEE FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

The following is three-year trend information for the City's OPEB obligations (numbers in thousands):

<u>Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$66,614	57.3%	\$ 48,130
2010	81,222	43.9	93,678
2011	96,870	37.3	154,418

Source: Note V.E. to the Audited Financial Statements in APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE CITY OF MEMPHIS, TENNESSEE FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

For more information regarding the City's OPEB plan as well as the City Retirement System, the Library Retirement System plan and the MLGW Retirement System plan, see Notes V.E. and F. to the Audited Financial Statements in APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE CITY OF MEMPHIS, TENNESSEE FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

Compensated Absence Liabilities

Governmental Accounting Standards require recognition of the liability for compensated absences which have been earned and is reasonably expected to be paid to existing employees. The City has recognized the non-current portion of this liability for City employees in its Statement of Net Assets in the amount of \$92,301,000 as of June 30, 2011.

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PRINCIPAL AND INTEREST REQUIREMENTS

Following are the principal and interest payment requirements with respect to the outstanding general obligation bonds of the City, less the principal and interest payment requirements with respect to the Refunded Bonds, plus the principal and interest payment requirements with respect to the Series 2012 Bonds:

CITY OF MEMPHIS, TENNESSEE LONG-TERM DEBT SERVICE SCHEDULE (In Thousands of Dollars)

Fiscal Year Ending June 30	Existing Debt Service ⁽¹⁾⁽²⁾			Less Refunded Bonds			Plus Series 2012 Bonds			Total Debt Service ⁽¹⁾⁽²⁾			% of Principal Retired
	Principal ⁽¹⁾	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	
2012	\$ 75,400	\$ 23,469	\$ 98,869		\$ 2,105	\$ 2,105				\$ 75,400	\$ 21,364	\$ 96,764	
2013	66,000	54,213	120,213		4,211	4,211	\$ 305	\$ 4,411	\$ 4,716	66,305	54,414	120,719	
2014	76,290	50,904	127,194		4,211	4,211	310	4,385	4,695	76,600	51,079	127,679	
2015	73,985	47,308	121,293		4,211	4,211	315	4,383	4,698	74,300	47,480	121,780	
2016	83,190	43,665	126,855	\$ 6,675	4,044	10,719	1,210	4,380	5,590	77,725	44,001	121,726	30.0%
2017	84,490	39,696	124,186	7,015	3,701	10,716	3,845	4,363	8,208	81,320	40,357	121,677	
2018	88,505	35,685	124,190	7,375	3,342	10,717	3,935	4,219	8,154	85,065	36,562	121,627	
2019	92,090	31,430	123,520	7,755	2,963	10,718	4,710	4,067	8,777	89,045	32,534	121,579	
2020	89,550	27,147	116,697	8,155	2,566	10,721	11,595	3,954	15,549	92,990	28,535	121,525	
2021	93,345	22,940	116,285	24,550	1,769	26,319	28,120	3,388	31,508	96,915	24,559	121,474	66.1%
2022	92,285	18,561	110,846	15,055	823	15,878	24,440	2,019	26,459	101,670	19,757	121,427	
2023	90,175	13,854	104,029	9,380	235	9,615	9,395	829	10,224	90,190	14,449	104,639	
2024	68,120	10,006	78,126				385	409	794	68,505	10,415	78,920	
2025	25,185	7,541	32,726				540	394	934	25,725	7,936	33,661	
2026	18,965	6,324	25,289				415	377	792	19,380	6,701	26,081	90.9%
2027	12,085	5,527	17,612				430	363	793	12,515	5,890	18,405	
2028	12,575	4,862	17,437				445	348	793	13,020	5,210	18,230	
2029	13,090	4,151	17,241				460	332	792	13,550	4,483	18,033	
2030	13,640	3,403	17,043				475	315	790	14,115	3,719	17,834	
2031	8,815	2,616	11,431				495	298	793	9,310	2,914	12,224	96.0%
2032	9,180	2,151	11,331				515	280	795	9,695	2,431	12,126	
2033	9,555	1,660	11,215				530	260	790	10,085	1,920	12,005	
2034	9,620	1,154	10,774				555	239	794	10,175	1,393	11,568	
2035	10,015	612	10,627				575	217	792	10,590	829	11,419	
2036	4,555	226	4,781				600	194	794	5,155	420	5,575	99.7%
2037							625	170	795	625	170	795	
2038							650	145	795	650	145	795	
2039							675	118	793	675	118	793	
2040							700	90	790	700	90	790	
2041							730	61	791	730	61	791	99.9%
2042							760	31	791	760	31	791	100.0%
	<u>\$1,220,705</u>	<u>\$459,106</u>	<u>\$1,679,811</u>	<u>\$85,960</u>	<u>\$34,180</u>	<u>\$120,140</u>	<u>\$98,740</u>	<u>\$45,041</u>	<u>\$143,781</u>	<u>\$1,233,485</u>	<u>\$469,967</u>	<u>\$1,703,452</u>	

⁽¹⁾ Includes the \$75,400,000 of outstanding principal amount of the 2010 Notes which the City is proposing to refund and redeem with the 2012 Notes.

⁽²⁾ Does not include subsidy payments for the City's General Improvement Bonds Series 2010C (Build America Bonds) or the City's General Improvement Bonds, Series 2010F (Recovery Zone Economic Development Bonds).

LITIGATION

At the time of delivery of the Series 2012 Bonds, the City will deliver, or cause to be delivered, a certificate of certain officers of the City stating that, other than as described in this Official Statement, there is no controversy or litigation of any nature then pending or, to their knowledge, threatened, (a) restraining or enjoining the issuance, sale, execution or delivery of the Series 2012 Bonds, or (b) in any way contesting or affecting the validity of the Series 2012 Bonds, any proceedings of the City taken with respect to the issuance or sale thereof or the pledge or application of any money or security provided for the payment of the Series 2012 Bonds or the corporate existence, boundaries or powers of the City, or the title of its officials to their respective offices or (c) which may materially affect the City's right to collect the tax revenues or the use thereof to pay debt service on obligations such as the Series 2012 Bonds or the pledge thereof for the benefit of the Holders of the Series 2012 Bonds. Such certificate may make reference to pending litigation involving the annexation by the City of certain territory adjacent to the City and to litigation involving the Memphis City School District and Shelby County School District, as well as litigation with the County related to the proper distribution of PILOT Payments from MLGW and litigation with BellSouth.

Annexation

There are two annexation ordinances being presently challenged. They are the Southwind-Wyndyke annexation and South Cordova annexation. A final resolution of the annexation cases in favor of the City will result in additional taxes and revenue for the City. A third annexation ordinance to annex Grays Creek was recently tabled by the City Council at its second reading. It is unlikely that the Grays Creek annexation will reach a third and final reading this year. It is the opinion of the City Attorney, however, that these matters are not material to the City's financial condition, based on information known at the date of this Official Statement.

Recent Developments Regarding Memphis City Schools District and Shelby County School District

For the City's fiscal year 2009 budget, the City altered the method by which it funded the Memphis City Schools ("MCS"), thereby reducing the funding provided by the City for that year. MCS filed suit against the City challenging the funding decrease. In the matter of Memphis City Schools v. City of Memphis, the Shelby County Chancery Court determined that the City was obligated to fund its share of MCS' 'local maintenance of effort' requirement. Under this formula all local governments (the City, the County and MCS) must provide the lower of (i) the same local funding as the prior year or (ii) the same funding on a per pupil basis based on MCS' average daily membership. The Court entered a judgment providing that the City's share of the local maintenance of effort requirement for fiscal year 2009 was \$57,460,947. Settlement discussions between the City and MCS to reduce the total amount the City will be required to pay and to establish payment terms are continuing.

The City's ongoing obligation to MCS for 'local maintenance of effort' for the years subsequent to fiscal year 2009 has been funded. The City's obligation in future years will

eventually be reduced based on the dissolution and surrender of the Charter of MCS, which was completed on February 11, 2011, by delivery of certified copies of dissolution resolutions to the Tennessee Secretary of State. On March 8, 2011, a special referendum election was held on the single question of whether the administration of MCS should be transferred to the Board of Education of Shelby County. The City populace approved the transfer of the schools by a vote of 47,819 in favor, versus 23,615 against – a margin of more than 2 to 1. Litigation ensued over the question of the effective date of the termination of the existence of MCS, the outcome of which will determine the date that the City's obligation to fund public education will be eliminated due to the County's legal obligation to take over and fund all public education in the County. A recent federal court order has confirmed the City's requirement to maintain its local maintenance of effort for MCS schools through the transition period until the beginning of the 2013 school year, when the transfer of administration from MCS to the County school system will be completed. Thereafter, the County will be responsible for providing the local funding for public schools in the merged County school system. *See The Board of Education of Shelby County, Tennessee v. The Memphis City Board of Education et al.*, No. 2:11-cv-02101-SHM-CGC (W.D. Tenn.).

The City filed a counterclaim in the lawsuit seeking to enforce agreements between the City and MCS that allows the City to withhold from any funding to MCS amounts loaned to MCS for capital projects. The amount of the City's counter-claim exceeds \$57,460,947. In addition, the City has also filed a counter-claim in a separate lawsuit between MCS and the City to enforce a settlement agreement, which resolved MCS's claim for \$57,460,947 in exchange for the City's release of a portion of the amounts loaned to MCS for capital projects. Neither of the City's counter-claims has been decided yet by the Chancery Court of Shelby County, Tennessee and if decided in the City's favor could reduce or eliminate the City's obligation to provide funds to MCS for the 2008-09 school year.

Notwithstanding the foregoing, the City's Statement of Net Assets, as presented in the audited financial statements of the City for the fiscal year ended June 30, 2011 appended hereto as APPENDIX B, reflects a total liability of approximately \$74,529,000 which includes, among other things, approximately \$55,061,000 of the \$57,460,947 referenced above offset by a mutually agreed upon reduction for an approximately \$2,400,000 grant provided by the City.

PILOT Payments Litigation

On November 4, 2011 the City filed an action in the Shelby County Chancery Court against the County seeking a declaration validating the method for distribution of PILOT Payments from the Electric and Gas Divisions of MLGW as contained in a 1972 written agreement between the City and the County (the "1972 Agreement") and followed by the parties since 1972. The City has agreements with all other incorporated towns in the County; none of those agreements are at issue in the lawsuit.

The County has filed a counter-claim against the City alleging that the 1972 Agreement between the parties was terminated in 1981 and that the distribution of PILOT Payments are governed by the 1987 Electric and Gas Equivalency laws. The County contends that it has been underpaid by \$7,882,877.83 from the 2010 and 2011 PILOT Payments from the Electric Division of MLGW. The County has also alleged that the City owes it in excess of \$60 million,

because the City has not paid any PILOT Payments from the Gas Division of MLGW since 2000.

The City has collected, pursuant to City's Charter, PILOT Payments from MLGW since 1940. All such payments have been paid to the City's general fund, except when the City has authorized MLGW by resolution to make payments directly to incorporated towns in the County. At no time has the City ever authorized MLGW to make any payments in lieu of taxes to the County. The maximum amount of PILOT Payments that MLGW may pay in the aggregate to the taxing jurisdictions in the County has been limited from time to time by the City's Charter, agreements with holders of MLGW bonds, agreements with the Tennessee Valley Authority, Tennessee Supreme Court decisions and/or Tennessee statutes. The calculation of the maximum PILOT Payments is not at issue in the lawsuit.

The dispute seeks a determination of the proper method of distributing the PILOT Payments from the Electric and Gas Divisions of MLGW between the City and County. The City contends the 1972 Agreement formula controls, which requires only the portion of the maximum PILOT Payments calculated on MLGW properties within the corporate limits of the City to be divided between the City and the County, leaving the balance after payment to the incorporated towns to be retained by the City in its general fund for its general purposes. The City has also alleged that it has made payments to the County pursuant to the 1972 Agreement continuously since 1972 and the County has accepted such payments without protest until sometime after 2000. The City has asserted that the City's Agreement with the Tennessee Valley Authority and the Electric and Gas Equivalency laws all expressly preserve pre-1987 agreements and/or established arrangements pursuant to which a municipality has distributed payments and a taxing jurisdiction has accepted such payments for the fiscal or calendar year preceding July 1, 1987. The City has asked the Court to award the City money damages in excess of \$86 million for overpayments made to the County since 1981 pursuant to a mutual mistake of fact as to the manner of calculating payments due under the 1972 Agreement.

The City has tendered the County \$6,335,656.20 for the PILOT Payments from the Electric and Gas Divisions of MLGW due under the 1972 Agreement for 2011 and the County has refused the payment. The County seeks damages of \$7,882,877.83 in PILOT Payments from the Electric Division of MLGW for 2010 and 2011 and \$60 million in PILOT Payments from the Gas Division of MLGW for 2000 through 2011. Although the outcome of this suit is not presently determinable, it is the opinion of the administration of the City and the City Attorney that the County's claim for \$60 million in PILOT Payments from the Gas Division of MLGW for 2000 through 2011 is not supported by the language of the 1972 Agreement nor by Tennessee's Gas Equivalency Law in the absence of a PILOT agreement between the parties. As a result, the County is presently seeking a legislative change to the Gas Equivalency Law to expressly provide it gas PILOTS even when there is no agreement between the parties. It is also the opinion of the administration of the City and the City Attorney that if the City is required to pay the difference between the amounts tendered by the City and demanded by the County for PILOT Payments from the Electric Division of MLGW, such amounts will not materially affect the financial condition of the City.

BellSouth Litigation

AT&T (formerly known as BellSouth Telecommunications, Inc.) sued the City after the expiration of its 20 year telecommunications franchise in 2000. Pursuant to the franchise, BellSouth was granted the right to occupy the City's streets and rights of way for a fee equal to five percent of its gross revenues within the City. BellSouth refused to enter into a new franchise agreement and contended the franchise ordinance adopted by the City Council was contrary to state law. The trial court ruled that the percentage of gross revenue fee in the City's ordinance was consistent with § 65-21-103 Tennessee Code Annotated and, therefore, valid. The trial court reserved ruling on all other issues, including the City's counter-claim for the reasonable value of BellSouth's use under an unjust enrichment theory. The trial court also reserved ruling on whether the gross revenue fee was reasonable.

BellSouth appealed. The Tennessee Court of Appeals reversed and held the gross revenue fee was inconsistent with state law to the extent it does not bear any reasonable relationship to the City's right-of-way costs. The case is back before the trial court to determine the reasonableness of the City's compensation scheme and to determine what compensation BellSouth owes the City since 2000 on the City's counter-claim.

The City and BellSouth entered into a status quo order under which BellSouth continued to pay franchise fees collected from its customers during the litigation under the terms of its prior Franchise Ordinance. BellSouth stopped paying these fees after the Court of Appeals decision; the last recorded payment was in January, 2005. BellSouth contends that status quo payments of approximately \$35,000,000 with simple interest at six percent per annum should be repaid to it.

The only remaining issue in the litigation is the amount owed by BellSouth since 2000 for use of the City's ROW ("ROW Compensation"). Any amount so determined will accrue pre-judgment interest at the rate of six percent per annum, which is the same rate any payments due BellSouth will accrue. These amounts will offset the amounts paid by BellSouth under the status quo order for the years 2000 through January, 2005. To the extent the ROW Compensation due from BellSouth is greater than BellSouth's status quo payments, BellSouth will pay the difference. To the extent the ROW Compensation is less than BellSouth's status quo payments, the City will refund the difference to BellSouth. The City's offset amounts continue to accrue from 2000 to the present date.

The City is presently performing a detailed and extensive cost allocation study to determine what portion of the City's annual \$600 million operating expenditures and annual \$100 million capital improvement program expenditures are dedicated to the City's rights-of-way. The City believes a significant portion of such costs can be allocated to right of way construction, maintenance, policing and supervision and that a significant portion of those allocated costs can be re-allocated to telecommunications providers on a per linear foot basis. Since BellSouth has the most intensive infrastructure in the City's ROW, the City believes the ROW Compensation from BellSouth will be significant. Based on recent litigation settlements with two other telecommunication providers, who occupy a fraction of the City's rights of way as compared to Bell South, the City believes that any amounts due Bell South will be not be material and will be largely offset by right of way compensation due the City from Bell South.

Other Litigation

The City is a defendant in various other lawsuits arising in the ordinary course of operations. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's Administration and City Attorney that the ultimate disposition of these matters will not materially affect the financial condition of the City. Under the Tennessee Governmental Tort Liability Act, §§ 29-20-101 through 29-20-408 of the Tennessee Code Annotated (the "Governmental Tort Act"), all governmental entities in Tennessee are immune from suit for any injury which may result from the activities of such governmental entities when engaged in the exercise and discharge of any function, except within the limits provided in the Governmental Tort Act. Pursuant to the Governmental Tort Act, there are limits for liability for governmental entities for bodily injury or death of any one person in any one accident, occurrence or act, unless and to the extent insurance is provided. The City is self-insured within these limits and all such claims are budgeted and paid from annual operating revenues of the City.

TAX MATTERS

Series 2012A Bonds

Opinions of Bond Counsel

In the opinion of Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2012A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2012A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City and others in connection with the Series 2012A Bonds, and Bond Counsel has assumed compliance by the City with certain ongoing covenants to assure the exclusion of interest on the Series 2012A Bonds from gross income under Section 103 of the Code.

In the opinion of Bond Counsel, under the existing laws of Tennessee, the Series 2012A Bonds and the income therefrom shall be free from all Tennessee state, county and municipal taxes except for inheritance, transfer and estate taxes and except to the extent interest on the Series 2012A Bonds may be included within the measure of privilege taxes imposed pursuant to the laws of the State of Tennessee.

Bond Counsel expresses no opinions regarding any other Federal or state tax consequences with respect to the Series 2012A Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinions on the effect of any action

hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2012A Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2012A Bonds in order that interest on the Series 2012A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2012A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2012A Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The City has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2012A Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2012A Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2012A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2012A Bonds.

Prospective owners of the Series 2012A Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. Interest on the Series 2012A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

Original issue discount ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Series 2012A Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Series 2012A Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In

general, the issue price for each maturity of Series 2012A Bonds is expected to be the initial public offering price corresponding to the yield set forth on the inside cover page of this Official Statement. Bond Counsel further is of the opinion that, for any Series 2012A Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2012A Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of OID for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Series 2012A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2012A Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Series 2012A Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles. (In certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, and the sale, exchange, or other disposition of, Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest (including OID) paid on tax-exempt obligations, including the Series 2012A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2012A Bond through a brokerage account has an executed Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2012A Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, and court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2012A Bonds under Federal or state law or otherwise prevent beneficial owners of the Series 2012A Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Series 2012A Bonds.

Prospective purchasers should consult their own tax advisors regarding the foregoing matters.

Series 2012B Bonds

Opinions of Bond Counsel

In the opinion of Bond Counsel, interest on the Series 2012B Bonds is included in gross income for Federal income tax purposes pursuant to the Code.

In the opinion of Bond Counsel, under the existing laws of Tennessee, the Series 2012B Bonds and the income therefrom shall be free from all Tennessee state, county and municipal taxes except for inheritance, transfer and estate taxes and except to the extent interest on the Series 2012B Bonds may be included within the measure of privilege taxes imposed pursuant to the laws of the State of Tennessee.

The following discussion is a brief summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of Series 2012B Bonds by original purchasers of the Series 2012B Bonds who are "U.S. Holders", as defined herein. This summary (i) is based on the Code, Treasury Regulations, revenue rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect; (ii) assumes that the Series 2012B Bonds will be held as "capital assets"; and (iii) does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Series 2012B Bonds as a position in a "hedge" or "straddle", holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, holders who acquire Series 2012B Bonds in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code.

Holders of Series 2012B Bonds should consult with their own tax advisors concerning the United States Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Series 2012B Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

Disposition and Defeasance

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Series 2012B Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder's adjusted tax basis in the Series 2012B Bond.

The City may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Series 2012B Bonds to be deemed to be no longer outstanding under the Resolution (a "defeasance"). For Federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Series 2012B Bonds subsequent to any such defeasance could also be affected.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to non-corporate holders of the Bonds with respect to payments of principal, payments of interest, and the accrual of OID on a Series 2012B Bond and the proceeds of the sale of a Series 2012B Bond before maturity within the United States. Backup withholding may apply to holders of Series 2012B Bonds under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner's United States Federal income tax provided the required information is furnished to the Internal Revenue Service.

U.S. Holders

The term "U.S. Holder" means a beneficial owner of a Series 2012B Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

IRS Circular 230 Disclosure

The advice under the caption "Series 2012B Bonds," concerning certain income tax consequences of the acquisition, ownership and disposition of the Series 2012B Bonds, was written to support the marketing of the Series 2012B Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, each prospective purchaser of the Series 2012B Bonds is advised that (i) any Federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel to the City is not intended to be used, and cannot be used by any bondholder, for the purpose of avoiding penalties that may be imposed on the bondholder under the Code, and (ii) the bondholder should seek advice based on the bondholder's particular circumstances from an independent tax advisor.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2012B Bonds under state law or otherwise prevent beneficial owners of the Series 2012B Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Series 2012B Bonds.

Prospective purchasers of the Series 2012B Bonds should consult their own tax advisors regarding the foregoing matters.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the Rule, the City will execute the Disclosure Certificate for the benefit of the Beneficial Owners of the Series 2012 Bonds, the form of which is attached hereto as "APPENDIX C - FORM OF CONTINUING DISCLOSURE CERTIFICATE." Under the Disclosure Certificate, the City, as an "obligated person" under the Rule, will provide certain financial information and operating data (the "Annual Filing") relating to the City annually and notices of the occurrence of certain enumerated events with respect to the Series 2012 Bonds.

The Annual Filing, and notices of the occurrence of certain enumerated events, will be filed, by or on behalf of the City, with EMMA, in an electronic format prescribed by the MSRB. The nature of the information to be provided in the Annual Filing and the notices of such enumerated events is set forth in "APPENDIX C - FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto. Such undertaking shall only apply so long as the Series 2012

Bonds remain outstanding; provided, however, that the undertaking shall terminate upon the termination of the continuing disclosure requirements of the Rule by legislative, judicial or administrative action and may be amended as provided in the Disclosure Certificate. The Disclosure Certificate further provides that a default under the Disclosure Certificate shall not constitute an event of default under the Bond Resolution.

Due to an administrative oversight, the City failed to timely file its 2008 annual disclosure report with respect to its Sanitary Sewer Bonds; with the exception of this filing, the City has made all of its required filings set forth in the related undertakings. In addition, the City has begun a process of implementing procedures which it believes will minimize any further instances of late filings, including the hiring of nationally recognized disclosure counsel.

LEGAL MATTERS

Certain legal matters incident to the authorization, issuance, validity, sale and delivery of the Series 2012 Bonds are subject to the approving opinion of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the City, whose approving opinion (in substantially the form attached hereto as APPENDIX D) will be delivered concurrently with the issuance of the Series 2012 Bonds. No representation is made to the holders of the Series 2012 Bonds that Bond Counsel has verified the accuracy, completeness or fairness of the statements in this Official Statement and Bond Counsel assumes no responsibility to the holders of the Series 2012 Bonds except for the matters that will be set forth in its approving opinion.

Certain legal matters will be passed upon for the City by Herman Morris, Esquire, City Attorney. Brittenum Bruce, PLLC, Memphis, Tennessee and Greenberg Traurig, LLP, Orlando, Florida, are serving as Co-Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by Butler, Snow, O'Mara, Stevens & Cannada, PLLC, Memphis, Tennessee.

The legal opinions to be delivered concurrently with the delivery of the Series 2012 Bonds express the professional judgment of the attorneys rendering the opinions regarding the legal issues expressly addressed therein. By rendering a legal opinion, the attorneys providing such opinion do not become insurers or guarantors of the result indicated by that expression of professional judgment, of the transaction on which the opinion is rendered, or of the future performance of parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

FINANCIAL STATEMENTS

The basic financial statements of the City as of June 30, 2011 and for the year then ended have been audited by Mayer Hoffman McCann P.C. and Jones and Tuggle, independent auditors (collectively, the "Auditors"). The auditor's report, together with the basic financial statements, management discussion and analysis and the required supplemental information for year ended June 30, 2011 are attached hereto as "APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY OF MEMPHIS, TENNESSEE FOR THE FISCAL YEAR ENDED JUNE 30, 2011." The Auditors have not been engaged to perform and have not performed any procedures relating to this Official Statement.

FINANCIAL ADVISORS

First Southwest Company, Dallas, Texas and ComCap Advisors, a division of Community Capital, Memphis, Tennessee are serving as Co-Financial Advisors to the City. The Co-Financial Advisors assisted in matters related to the planning, structuring and issuance of the Series 2012 Bonds and provided other advice. The Co-Financial Advisors did not engage in any underwriting activities with regard to the issuance and sale of the Series 2012 Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by First Southwest Company, on behalf of the City, relating to (a) the forecasted receipts of principal and interest on the Government Obligations deposited in the Refunding Trust Fund created under the Refunding Trust Agreement and the sufficiency of the forecasted receipts to pay the redemption prices of the Refunded Bonds on their respective redemption dates and pay interest on the Refunded Bonds on and prior to such dates, and (b) the yields on the Refunding Bonds and the Government Obligations deposited in the Refunding Trust Fund created under the Refunding Trust Agreement was examined by the Verification Agent. Such computations were based solely upon assumptions and information supplied by First Southwest Company, on behalf of the City. The Verification Agent has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Financial Services LLC, a division of The McGraw-Hill Companies, Inc. ("S&P" and together with Moody's, the "Rating Agencies") have assigned ratings of "Aa2" (stable outlook) and "AA" (stable outlook), respectively, to the Series 2012 Bonds.

Such ratings express only the views of the Rating Agencies. An explanation of the significance of such ratings may be obtained from the Rating Agencies furnishing the same. There is no assurance that either or all of such ratings will be maintained for any given period of time or that it will not be revised downward or withdrawn entirely by the Rating Agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings or other actions by the Rating Agencies or any of them, may have an adverse effect on the liquidity and/or market price of the affected Series 2012 Bonds. The City does not undertake any responsibility to oppose any such revision or withdrawal.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated has entered into a Bond Purchase Agreement with the City (the "Bond Purchase Agreement"), on behalf of itself and the other

underwriters listed in the front cover page of this Official Statement (collectively, the "Underwriters"), pursuant to which the Underwriters have agreed to jointly and severally purchase (a) all (but not less than all) of the Series 2012A Bonds at an aggregate price of \$107,355,403.03 which represents the par amount of the Series 2012A Bonds of \$93,595,000.00, plus a net original issue premium in the amount of \$14,098,916.10 and less an underwriting discount of \$338,513.07; and (b) all (but not less than all) of the Series 2012B Bonds at an aggregate price of \$5,126,391.65 which represents the par amount of the Series 2012B Bonds of \$5,145,000.00 less an underwriting discount of \$18,608.35. The Bond Purchase Agreement provides that the obligations of the Underwriters to accept delivery of the Series 2012 Bonds are subject to various conditions of the Bond Purchase Agreement, but the Underwriters will be obligated to purchase all of the Series 2012 Bonds, if any are purchased. The Underwriters reserve the right to join with dealers and other underwriters in offering the Series 2012 Bonds to the public.

The prices and other terms with respect to the offering and sale of the Series 2012 Bonds may be changed from time to time by the Underwriters after such Series 2012 Bonds are released for sale, and the Series 2012 Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers whom may sell the Series 2012 Bonds into investment accounts.

On January 11, 2012, Regions Financial Corporation, the parent company of Morgan Keegan & Co., Inc. ("Morgan Keegan"), entered into a definitive agreement to sell Morgan Keegan to Raymond James Financial. The transaction is expected to close on or before April 2, 2012.

FORWARD LOOKING STATEMENTS

Any statements made in this Official Statement, including in the appendices, involving estimates or matters of opinion, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or matters of opinion will be realized.

The statements contained in this Official Statement, including in the appendices, that are not purely historical, are forward-looking statements. Readers should not place undue reliance on forward-looking statements. All forward looking statements included in this Official Statement are based on information available on the date hereof and the City assumes no obligation to update any such forward-looking statements. It is important to note that the actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict

accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement, including in the appendices, would prove to be accurate.

MISCELLANEOUS

The references, excerpts and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents and reference is directed to all such documents for full and complete statements of all matters of fact relating to the Series 2012 Bonds, the security for and sources for repayment for the Series 2012 Bonds and the rights and obligations of the bondholders. Copies of such documents may be obtained as specified under the caption "INTRODUCTION - Other Information" herein.

The information in this Official Statement has been compiled from official and other sources deemed by the City to be reliable, and, while not guaranteed as to completeness or accuracy, is believed by the City to be correct as of the date of this Official Statement.

Use of the words "shall" or "will" in this Official Statement or in summaries of documents to describe future events or continuing obligations is not intended as a representation that such event or obligation will occur but only that the document contemplates or requires such event to occur or obligation to be fulfilled.

Any statements made in this Official Statement involving estimates or matters of opinion, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or matters of opinion will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of the Series 2012 Bonds.

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CERTIFICATION

The execution and delivery of this Official Statement, and its distribution and use by the Underwriters, have been duly authorized and approved by the City.

CITY OF MEMPHIS, TENNESSEE

By: /s/ A C Wharton, Jr.
A C Wharton, Jr., Mayor

APPENDIX A

**SUPPLEMENTAL INFORMATION STATEMENT
OF THE CITY OF MEMPHIS, TENNESSEE**

CITY OF MEMPHIS, TENNESSEE

In addition to providing audited financial information as of and for the year ended June 30, 2011, the City of Memphis, Tennessee (the "City"), intends that this Supplemental Information Statement will be used, together with information specifically provided by the City for that purpose, in connection with the offering and issuance by the City of its General Obligation Improvement and Refunding Bonds, Series 2012 (the "Series 2012 Bonds") and its Bond Anticipation Notes, 2012 (the "2012 Notes"). The City has prepared a comprehensive annual financial report for its fiscal year ended June 30, 2011 (the "Annual Financial Report"), containing additional financial statements and other information for the periods covered by this Supplemental Information Statement. The Annual Financial Report is on file in the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) system.

Please contact Mr. André D. Walker, Deputy Director of Finance, 125 North Main Street, Room 368, Memphis, Tennessee 38103 (901/576-6324) for questions regarding information in this Supplemental Information Statement, copies of the Annual Financial Report.

No person has been authorized by the City to give any information or to make any representations not contained in this Supplemental Information Statement or any supplement which may be issued hereto, and if given or made, such other information or representations must not be relied upon as having been authorized. The information, estimates, and expressions of opinion in this Supplemental Information Statement are subject to change without notice. The delivery of this Supplemental Information Statement shall not, under any circumstances, create any implication that there has been no material change in the affairs of the City since the date of this Supplemental Information Statement.

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THE CITY OF MEMPHIS, TENNESSEE

Administration

Following are brief personal resumes of relevant administration officials of the City.

A C Wharton, Jr., Mayor of the City of Memphis. A C Wharton, Jr., is the Mayor of the City of Memphis, having received approximately 65 percent of the vote in the most recent election held on October 6, 2011. Mayor Wharton was originally elected Mayor of the City in 2009, to complete a term following the resignation of the prior Mayor. Mayor Wharton was formerly Mayor of Shelby County, Tennessee, elected in both August 2002 and August 2006.

Born and raised in Lebanon, Tennessee, Mayor Wharton attended Tennessee State University where he received a Bachelor's degree in political science in 1966. He later earned a law degree from the University of Mississippi in 1971. His long and storied career includes his time as the Chief Public Defender of Shelby County, as an investigator for the Equal Employment Opportunity Commission in Washington, D.C., as an attorney for the Lawyer's Committee for Civil Rights Under Law, and as a partner in his family's firm, Wharton & Wharton & Associates. In addition, Mayor Wharton has also maintained a position as Adjunct Professor of Law at the University of Mississippi for over twenty-five years.

George Little, Chief Administrative Officer. Mr. Little was appointed as Chief Administrative Officer on December 15, 2009. On September 8, 2005, Mr. Little received an appointment to serve as Commissioner of Correction, and earlier served as Director, of the Shelby County Division of Corrections, providing oversight to the administrative function of the division, which included the preparation of the division's day-to-day operations. From 1999-2002, Mr. Little served as the Assistant to the Executive Director of the Tennessee Board of Probation and Parole, and from 1991-1999, he served as the Regional Director of the Delta Probation Region for the State's Department of Correction. Mr. Little served as the Assistant Commissioner for Tennessee Department of Correction under Governor Ned McWherter, and Assistant to the Governor in the Office of State Planning under Governor Lamar Alexander. Mr. Little serves on the Board of Governors of the American Correctional Association, the oldest and largest international correctional association in the world, and as the Co-Chairman of the recently formed Criminal Justice Coordinating Council that examines issues related to recidivism and successful re-entry for offenders in Tennessee. Mr. Little holds a Bachelor's degree in Economic and Business Administration from Morehouse College, Atlanta, Georgia, and graduate studies in Economics at the University of Texas at Austin.

Roland McElrath, Director of Finance and Administration. Roland McElrath was appointed Director of Finance and Administration on September 7, 2005. Mr. McElrath previously served as Director from 1996 to 2001. As the Director, Mr. McElrath is responsible for managing all aspects of the City's major financial operations, including compiling the City's annual operating and capital improvements budgets; investing surplus operating and retirement system funds; disbursing all City funds, and handling all administrative matters affecting the Finance Division. He served two years as Associate Superintendent of Business Operations for the Memphis City School System. He holds a BBA in Accounting from the University of

Tennessee and a MBA in Finance from the University of Memphis (formerly Memphis State University). Mr. McElrath is a certified public accountant. He also serves as the Chief Financial Officer for the Memphis Housing Authority.

André D. Walker, Deputy Director of Finance. André Walker was appointed Deputy Director of Finance on July 12, 2010. He is responsible for the oversight of the City's Debt and Investment Service Center. Mr. Walker has twelve years prior experience with a leading financial advisory firm where he advised and assisted state and local governmental entities with the issuance and management of debt. Mr. Walker is a fellow of the Woodrow Wilson Institute of Public Policy at the University of Michigan and has a Bachelor of Science in Business Administration with an Economics major and a Finance concentration from the University of Tennessee.

Herman Morris, City Attorney. Herman Morris, Jr., is the City Attorney for Memphis, Tennessee. In this capacity, he represents the City, prosecutes and defends all lawsuits brought by or against the City, collects taxes, supervises the review and adjustment of claims by or against the City, drafts and reviews contracts, provides legal advice and counsel to City officials, issues opinions and drafts ordinances. He was admitted to practice by the Tennessee Supreme Court in 1977 and The United States Supreme Court in 1981. He is the former General Counsel for MLGW. He has also served as Vice President and General Counsel to Pinnacle Airlines. He is a former President, Chief Executive Officer of MLGW, and a former shareholder in the Baker Donelson law firm. Mr. Morris is a graduate of Rhodes College and Vanderbilt University School of Law.

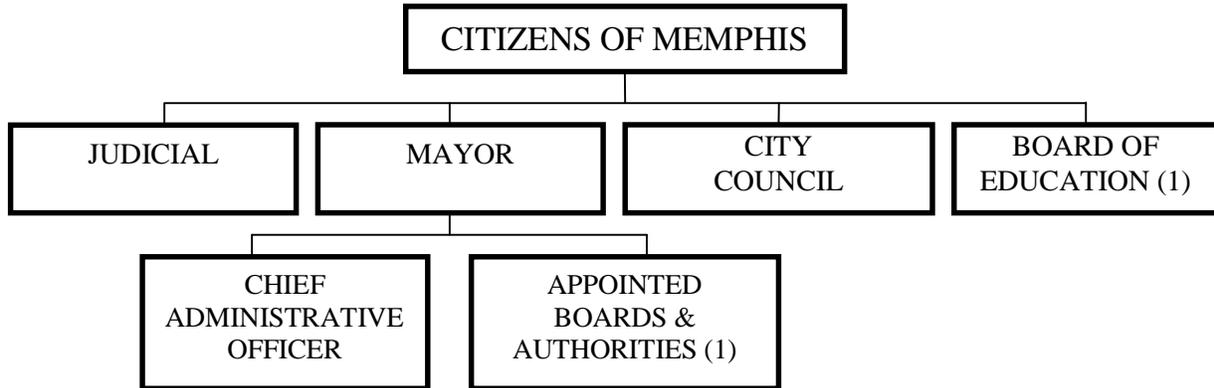
Patrice W. Thomas, City Comptroller. Ms. Thomas was appointed City Comptroller in September 2004. As defined by the City Charter, she is responsible for management of the accounting and financial reporting activities of the City. This responsibility includes the preparation of financial reports, the processing of all disbursement activities, and the retention and retrieval of all records including the preparation and retention of the agendas and minutes of the City Council Meetings. As Comptroller, Ms. Thomas also serves as a member of the Healthcare, Pension Board and Pension Investment Committees. She received a dual degree from Christian Brothers University in Accounting and Telecommunications/Information Systems Management and is currently pursuing a Masters in Finance, Insurance and Real Estate at the University of Memphis. Ms. Thomas has over nine years of public and private accounting experience and is recognized by the State of Tennessee as a Certified Public Accountant.

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Organization Chart

CITY OF MEMPHIS, TENNESSEE

ORGANIZATION CHART



Divisions

- City Attorney
- Community Enhancement
- Engineering
- Executive
- Finance and Administration
- Fire Services
- General Services
- Housing and Community Development
- Human Resources
- Information Services
- Planning and Development
- Park Services
- Police Services
- Public Services and Neighborhoods
- Public Works

Boards (a Sampling)

- Memphis Area Transit Authority⁽¹⁾
- Memphis Light, Gas and Water Commission⁽¹⁾
- Memphis Housing Authority
- Memphis Public Library and Information Center
- Memphis and Shelby County Center City Commission
- Memphis-Shelby County Airport Authority⁽¹⁾
- Memphis and Shelby County Convention Center Commission
- Memphis and Shelby County Building Code Advisory Board
- Memphis and Shelby County Building Code Advisory Board
- And Others

⁽¹⁾ MATA, MLGW, Memphis-Shelby County Airport Authority and Memphis Light, Gas and Water Retirement and Pension System are legally separate from the primary government.

FINANCIAL MANAGEMENT

Division of Finance and Administration

The Division of Finance and Administration is responsible for all fiscal affairs, information systems, financial management and related systems of the City. The Director is charged with overall City financial policy and reports directly to the Chief Administrative Officer. He is primarily responsible for the accounting, financial reporting, debt and investment policy, risk management, financial support systems and tax collection functions for the City. The activities of the Division are currently organized into six service centers. The Office of the Comptroller, Purchasing and Budget service centers report directly to the Deputy Director of Finance/Financial Management. The Office of the Treasury and Debt and Investment service centers report directly to the Deputy Director of Finance. The Mayor appoints all of these positions.

Fiscal Year

The City currently operates on a fiscal year that commences July 1 and ends June 30.

Financial Reporting

The City maintains a financial reporting system, which provides timely and accurate reports on the City's financial position and the results of its operation. Independent auditors, as required by law, have audited the City's financial statements annually for more than 40 years. The Governmental Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its annual financial reports for the fiscal years ended June 30, 1977, through 2011. The certificate evidences conformance with the high financial reporting standards promulgated by the Government Accounting Standards Board ("GASB").

Accounting System

The City's accounting system is maintained by the Comptroller's Office. Each of the independent boards and commissions maintains separate accounting systems. In addition, the City retains an independent certified public accounting firm to provide annual audits of all City funds.

Basis of Accounting

The City follows accounting principles set forth in Audits of State and Local Governments, published by the American Institute of Certified Public Accountants, and in statements and interpretations issued by the GASB. Accounting records for general governmental operations are maintained on a modified accrual basis. Under this system, revenues are recorded when susceptible to accrual, that is, both measurable and available. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred, if measurable, and if the liability will be paid from expendable available financial resources.

Budgetary control is maintained in each of the appropriate funds by a formal appropriation and encumbrance system. Salary expenditures and commitments such as purchase orders and contracts are recorded when the liability is incurred.

Fund Structure

The City utilizes the fund types and account groups recommended by GASB Statement 1. They are:

- Governmental Funds to account for most general governmental functions;
- Proprietary Funds to account for ongoing activities and organizations that are similar to private enterprises;
- Fiduciary Funds to account for assets held by the City in a trust capacity;
- Internal Service Funds to account for the financing of goods or services provided by one department to other departments or agencies of the City on a cost reimbursement basis.

GASB 34

GASB imposed significant new accounting standards on state and local governments pursuant to Statement No. 34 ("GASB 34"). GASB 34 requires state and local governments to report all financial transactions, including value of infrastructure assets, in annual financial reports on an accrual basis. GASB 34 was effective commencing in fiscal year 2001-02 for state and local governments with over \$100 million in revenues. The City is in compliance with GASB 34.

Other Post Employee Benefits

GASB is the body responsible for promulgating accounting and financial reporting standards that are followed by state and local governments desiring to present financial statements in accordance with generally accepted accounting principles ("GAAP"). State and local governments generally adhere to GASB rules and issue financial statements to meet expectations of the debt community—audited financial statements in conformity with GAAP. Two GASB Statements (Nos. 43 and 45) that provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post Employee Benefits ("OPEB"), have effective dates of fiscal year ended June 30, 2007, for the plan and June 30, 2008, for the employer. The City implemented GASB statement No. 45 prospectively beginning July 1, 2007. As a result, the City adopted and established an OPEB trust for the exclusive purpose of pre-funding and providing for payment of OPEB benefits under the plan. For more information regarding the City's OPEB plan, see "CONTINGENT LIABILITIES AND OTHER OBLIGATIONS - City of Memphis Other Post Employment Benefits (OPEB) Plan" in the Official Statement to which this Appendix A is attached (the "Official Statement") and Note V(E) to the City's audited financial statements included as Appendix B to the Official Statement.

Cash Management System

Cash management is maintained in the City's Investment Management Department of the Division of Finance and Administration. The objectives of cash management are preservation of principal, maintenance of liquidity and maximization of return on investments.

The City's banking relationship is designed to capture the gains possible through external float management and utilizes techniques such as controlled disbursement accounts and lockbox services. The City selects its depository bank after issuing a request for proposals and evaluating the adequacy of capital or net worth of the financial institutions as well as pricing for individual services. Currently, First Tennessee Bank, N.A., Memphis, Tennessee, serves as the depository for all City funds.

The concept of cash management has been expanded from the traditional functions of maximizing collection efficiency and the investing of idle funds to include working capital functions such as payables, receivables and other types of receipts and disbursements, including payroll.

Cash flow planning is continuously updated to provide timely forecasting of cash requirements. This not only enhances investment opportunities but also provides for long-range debt planning. It should be noted that the City's major funds traditionally have a favorable cash flow due to the timing of receipts and disbursements. Property taxes ("Property Taxes"), the largest revenue source in the General and Debt Service Funds are due and substantially collected in the first quarter of the fiscal year. The short-term investment of this positive cash flow is an additional source of revenue, earning more than \$1.2 million in fiscal year 2011.

The City's deposit collateralization practices are indicative of the highest levels of financial prudence and responsibility. The collateralization coverage was computed using the monthly valuation and adjustment procedures in accordance with the stringent standards of State law governing State funds.

Risk Management

The Risk Management service center is responsible for all property and casualty insurance procurement for the City. Risk Management identifies risks and exposures, determines the best technique to manage the risk, implements the risk technique and monitors the program to detect exposure and risk changes. The Health and Safety Office is responsible for administering the On-the-Job Injury ("OJI") program for the City. OJI receives and investigates all claims for accidents of City employees and processes these claims, if necessary. OJI also provides resources for job safety training and education in order to comply with OSHA standards and regulations.

Labor Relations

The City currently has approximately 7,115 permanent full-time employees; approximately 5,447 are represented by employee labor organizations. The effective agreements with these organizations will expire on June 30, 2013. The American Federation of State, County and Municipal Employees, Local 1733, represents approximately 1,036 employees; the

Memphis Police Association represents approximately 2,177 police officers; and the International Association of Fire Fighters, Local 1784, represents approximately 1,630 employees. The International Union of Operating Engineers represents 262 employees; the International Association of Machinists and Aerospace Workers represents 107 employees; the International Brotherhood of Electrical Workers and Crafts Union represent 129 employees; and Communication Workers of America represents 106.

In June of 1978 the City acknowledged the labor relations function. All labor related activities are now coordinated through the Labor Relations Service Center of the Division of Human Resources. In addition to the general administration of labor agreements, the Service Center provides extensive management and non-management training and coordinates all labor negotiations.

On November 7, 1978, the voters of the City approved an amendment to the City Charter, which prohibits strikes by City employees, provides for the automatic dismissal of any striking employee and allows for their reinstatement only as "new probationary employees." In addition, an impasse procedure was passed to address economic issues between the City and its employees. This procedure provides for a three-person fact-finding committee made up of Council members. Council members of any impasse committee are chosen by lot. The committee evaluates the economic positions at impasse and recommends the last best offer total package of either union or the City. The full Council may accept the committee's recommendation or deny it and accept the position of the other party.

In addition to the 1978 changes, labor negotiations in accordance with State law are conducted in open meetings.

Budgeting and Appropriations Procedures

The financial plans of the City are included in the annual capital and operating budgets. These budgets project all receipts and disbursements and present the level of governmental services and the method of distributing costs to the various segments of the community through the collection of taxes and fees.

The Council has final responsibility for approving certain program and fiscal policies, approving the annual Operating Budget and the Capital Improvement Program, and setting the tax rate and fees for services. The Administration is responsible for proposing programs and recommending funding levels to the Council and for implementing service programs in accordance with established goals and objectives.

Operating Budget. The Annual Operating Budget is submitted to the Council approximately 90 days prior to the end of the fiscal year. At least 30 days prior to the end of the fiscal year, the City Council is expected to approve the Operating Budget. No later than the passage of the Operating Budget Ordinance, the Council must enact such revenue measures required to balance the budget. The GFOA has consistently recognized the City with the Certificate of Recognition for Budget Preparation and Presentation for its operating budget. This award has been received 13 consecutive years since 1998.

Capital Budget. The Capital Budget and Capital Improvement Program are prepared annually to detail the capital expenditures planned for each of the next five fiscal years. The total costs of each project and the sources of funding (local, state, federal and private) required to finance each project are estimated. The Capital Improvement Program is prepared and recommended by the Mayor and presented to the Council for adoption. The Capital Improvement Program authorizes in detail the capital expenditures to be made or incurred in the next five fiscal years and is adopted by the Council concurrently with the Capital Budget.

Additional authorizations for each capital project in the Capital Budget must precede the expenditures of construction funds. The Capital Budget must be in full conformity with that part of the Capital Improvement Program applicable to the fiscal year that it covers. The timetable for approval of the Capital Budget and Capital Improvement Program closely parallels that of the Operating Budget.

Retirement System

The City maintains a retirement system which, as of June 30, 2011, covered 10,924 members, 4,651 of whom were retirees and beneficiaries who are currently receiving benefits and terminated employees entitled to benefits but not yet receiving same, 3,155 of whom were fully vested active employees and 3,118 of whom were non-vested active employees. General City employees only are covered under this system. In addition, separate retirement systems are operated by the Memphis Board of Education, MLGW and the Memphis Libraries. A small portion of the hourly rate employees are covered under the Social Security program instead of the retirement systems.

For prudent management of the total assets of the retirement funds, the services of several professional investment managers are utilized. In addition, a small part of each fund is invested in short-term obligations by the City for the payment of benefits to the retirees. Semi-annual meetings are held with each of the managers to review and assess investment objectives and performance with the overall assistance of a fund advisor who compiles the data on each manager's activities.

City management and the Pension Board closely observe the future costs of both benefit improvements and changes in retirement trends of employees. Recommendations of actuaries are carefully considered and appropriate measures are taken to insure that the pension plans are actuarially sound. The City has recognized its responsibility to employees and future administrations by adequately funding the benefit costs. For more information regarding the City's retirement system, see "CONTINGENT LIABILITIES AND OTHER OBLIGATIONS - City of Memphis Retirement System" in the Official Statement and Note V(F) to the City's audited financial statements included as Appendix B to the Official Statement.

FINANCIAL INFORMATION

Condensed Current Financial Results

For the fiscal year ended June 30, 2011, the audited net operating results for the General Fund revenues/transfers were approximately \$668,766,000 and expenditures/transfers were

approximately \$662,275,000 resulting in a \$6,491,000 increase in General Fund total fund balance. The increase in fund balance is primarily attributable to execution of several cost saving measures and new funding strategies.

As of the second quarter of the fiscal year ending June 30, 2012, actual revenues received represented 65.5% of total revenues (including transfers) budgeted for the fiscal year ending June 30, 2012. Approximately 92.6% of budgeted current property taxes have been collected as of December 31, 2011. For a more detailed discussion of the City's property taxes, see "FINANCIAL INFORMATION - Property Tax" herein.

The City adopted a \$661,401,000 General Fund operating budget for the fiscal year ending June 30, 2012 with a planned contribution to fund balance of approximately \$27,182,000. The City has exceeded the established goal of maintaining at least 10% unassigned fund balance as a percent of General Fund expenditures.

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A historical summary of the General Fund is set forth in the tables below.

SUMMARY OF GENERAL FUND
(Fiscal Years Ended June 30 and the Six Month Periods Ended December 31, 2010 and 2011)
(In Thousands of Dollars)

	<u>2007⁽¹⁾</u>	<u>2008⁽¹⁾</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Six Month Periods Ended December 31, 2010⁽²⁾</u>	<u>Six Month Periods Ended December 31, 2011⁽²⁾</u>
Beginning Fund Balance	\$ 38,737	\$ 78,840	\$ 98,558	\$106,603	\$ 84,570	\$ 84,570	\$ 91,061
Revenues and other sources	552,546	565,558	605,444	606,521	668,766	433,641 ⁽³⁾	453,646 ⁽³⁾
Expenditures and other uses	<u>(507,965)</u>	<u>(545,840)</u>	<u>(597,399)</u>	<u>(628,554)</u>	<u>(662,275)</u>	<u>(330,019)</u>	<u>(327,739)⁽⁴⁾</u>
Ending Fund Balance	<u>\$ 83,318</u>	<u>\$ 98,558</u>	<u>\$106,603</u>	<u>\$ 84,570</u>	<u>\$ 91,061</u>	<u>\$ 188,192</u>	<u>\$ 216,968⁽⁴⁾</u>
Ending Undesignated Fund Balance	<u>\$ 76,571</u>	<u>\$ 89,613</u>	<u>\$ 80,912</u>	<u>\$ 76,271</u>	<u>\$ 81,125</u>	<u>\$ 179,893</u>	<u>\$ 207,032</u>

⁽¹⁾ The difference in the 2007 ending fund balance and the 2008 beginning fund balance is a result of the reclassification of \$4.478 million from the Golf Fund to the General Fund.

⁽²⁾ The interim financial information for the six month periods ending December 31, 2010 and 2011, respectively, are unaudited midyear results.

⁽³⁾ Revenues for the six month period ended December 31, 2011, is substantially greater than the six month period ended December 2010 due to a sale of delinquent property tax receivables executed during this period which resulted in \$15 million in revenue collections.

⁽⁴⁾ Revenue collections for the first six months of each fiscal year are consistently substantially greater than expenditures for the same period since approximately 90% of property tax receivables are collected during the period.

Source: Information for fiscal year 2007 through and including fiscal year 2011 obtained from Comprehensive Annual Financial Report of the City of Memphis for the Years Ended June 30, 2007, 2008, 2009, 2010 and 2011; interim financial information for the six month periods ended December 31, 2010 and 2011, respectively, obtained from City of Memphis Ledger Reports.

Property Tax

The property tax (real estate and personal property) provides the City with a major source of revenue for a variety of functions. The property tax levy is without legal limit.

The Council reserves and allocates a portion of the property tax rate among general government, public education and the payment of the debt service on obligations which are not paid from various enterprise funds.

The Shelby County Assessor of Property assesses all real estate and personal property, including some utilities not under the jurisdiction of the Tennessee Regulatory Authority (the "TRA"). The TRA assesses some intangible personal property related to banks.

The Shelby County Assessor of Property completed a full reappraisal of all properties in the City for the 2009 tax year (collections in fiscal year 2010). The appraised values approximate market value. This ratio of assessment, authorized by the Property Assessment and Classification Act of 1993, provides for assessing farm and residential real property at 25% of the current market value, commercial and industrial real property at 40% of the current market value, personal property at 30% of the current market value and real and personal property of public utilities at 55% of the current value with corresponding reductions in tax rates.

New appraisal changes in real estate will occur only when improvements are made to existing structures or demolition of existing structures occur or when improvements are made on vacant property. Reappraisal does not occur based on property sales. Personal property assessments are made annually based upon returns submitted by the taxpayers and are, therefore, maintained at current market value. The Shelby County Assessor of Property plans to reappraise all real estate property and revise all assessments every four years in the future based on current market values.

Public utilities are assessed by the TRA and are automatically reviewed by the State Board of Equalization; these assessments include real estate and personal property on the basis of location and usage. Currently, under a ruling by the State Board of Equalization, the appraised value of public utilities is being reduced by multiplying it by a factor computed by dividing the appraised valuation for tax purposes of all real property within the City by the current market value. The assessed value is based on this reduced appraised value.

Other Sources of Revenue

General Sales Tax. The general (local) sales tax is currently levied at a rate of 2.25% on the first \$1,600 of a sale of any single item.

Beer Sales Tax. The sales tax for beer is 17% on the wholesale price of beer containing not more than 5% alcohol. It is collected by the wholesaler and remitted monthly, less collection fees to the City Treasurer.

Alcoholic Beverage Tax. The alcoholic beverage tax is a 5% inspection fee charged to retailers on the sale of alcoholic beverages. The fee is based on the wholesale price, collected by the wholesaler, and is remitted monthly, less collection fees to the City Treasurer.

Telephone Franchise Taxes. The telephone franchise tax, which is paid by Bell South Telecommunications, is a 5% tax on local service and intrastate long distance calls. Currently, a dispute exists between the City and Bell South Telecommunications and the matter is in litigation. Pending resolution of the litigation, the City has ceased collection of the 5% tax.

Hotel/Motel Occupancy Tax. This tax is 1.7% of gross occupancy revenues, not including revenues from residents of 30 or more continuous days. There is a 2% credit if payment is made on or before the 20th of each month and 10% per year interest and a 1% month penalty if delinquent.

State Tax Revenues (Local Share). The City receives funds from the State of Tennessee which are briefly described below:

(1) State Income Tax – This is a 6% tax on income from dividends on stocks or interest on certain bonds. Three-eighths (3/8) of the revenue is distributed to the local government by situs.

(2) State Sales Tax – A 7% sales tax is imposed on the gross proceeds from retail sale or use of tangible personal property and some services. Over 60% of total state shared revenues that the City receives is derived from this source.

(3) State Gasoline Taxes – The City receives a pro rata share of the State gasoline tax of \$.20 per gallon and the State Motor Vehicle Tax (Diesel) of \$.17 per gallon that is earmarked for Tennessee municipalities. Allocation among Tennessee cities is determined on a per capita basis. These funds are used for street maintenance and for debt service on bond proceeds used for street capital improvement projects.

(4) Other State Taxes – The City also receives State revenues derived from the beer tax, alcoholic beverage tax, liquor by the drink tax, Tennessee Valley Authority in-lieu-of-tax payments and bank excise tax.

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Ten Largest Taxpayers of the City

The ten largest taxpayers in the City are listed in the table below.

LARGEST TAXPAYERS OF THE CITY 2011

	2011	
	Taxable Assessed Value	Percentage of Total Taxable Assessed Value
Federal Express	\$ 491,829,776	4.16%
Bell South Telecommunications	96,813,531	0.82
Wolfchase Galleria, LTD	60,006,960	0.51
AMISUB (St. Francis Hospital)	36,154,640	0.31
BNSF Railway Company	30,094,886	0.25
Delta Airlines, Inc.	27,028,019	0.23
Pinnacle Airlines, Inc.	25,538,351	0.22
Shopping Center Associates	21,303,520	0.18
AT & T Mobility LLC	21,174,474	0.18
Highwoods Realty LP	20,572,000	0.17
Total Assessed Valuation of Top 10 Taxpayers	830,516,157	7.03
Balance of Assessed Valuation	10,985,961,421	92.97
	<u>\$11,816,477,578</u>	<u>100.00%</u>

Source: Comprehensive Annual Financial Report for the Year Ended June 30, 2011 of the City of Memphis.

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Property Tax Levies and Collections

A summary of property tax rates, levies and collections of the City is set forth in the tables below.

Property Tax Rates

	Fiscal Year Ended June 30				
	2007	2008	2009	2010	2011
General Government	\$1.9088	\$1.9088	\$2.3427	\$2.2917	\$2.2917
Schools	0.8271	0.8271	0.1900	0.1868	0.1868
Capital Improvement Program	0.0032	0.0032	0.0032	0.0031	0.0031
Debt Service Fund	0.6941	0.6941	0.7141	0.7141	0.7141
Total Tax Rate	\$3.4332	\$3.4332	\$3.2500	\$3.1957	\$3.1957

Source: Comprehensive Annual Financial Reports of the City of Memphis for the Years Ended June 30, 2007, 2008, 2009, 2010 and 2011.

Property Tax Levies and Collections (In Thousands of Dollars)

Fiscal Year	Total Tax Levy	Current Collections	Percent Collected	Delinquent Collections	Total Collections	Collections as Percent of Levy	Outstanding Delinquent	Delinquent as Percent of Levy
2002	\$314,191	\$293,022	93.26%	\$11,780	\$304,802	97.01%	\$26,273	8.36%
2003	309,293	286,509	92.63	14,156	300,666	97.21	26,940	8.71
2004	325,696	296,247	90.96	16,495	312,742	96.02	29,109	8.94
2005	324,341	300,717	92.72	15,067	315,784	97.36	30,283	9.34
2006	380,947	356,887	93.68	15,836	372,723	97.84	30,367	7.97
2007	384,877	361,359	93.89	16,264	377,623	98.12	30,620	7.96
2008	392,477	368,298	93.84	15,853	384,151	97.88	32,281	8.23
2009	375,804	352,497	93.80	14,751	367,248	97.72	34,539	9.19
2010	389,347	363,574	93.38	13,567	377,141	96.86	38,682	9.94
2011	380,186	351,201	92.38	13,969	365,170	96.05	37,328	9.82

Source: Comprehensive Annual Financial Reports of the City of Memphis for the Years Ended June 30, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010 and 2011.

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Values of Taxable Property

A summary of the values of taxable property in the City is set forth in the table below.

Values of Taxable Property (In Millions of Dollars)

Fiscal Year	Real Property				Personal Property		Real & Personal		Total	
	Farm & Residential		Commercial & Industrial		Commercial & Industrial		Utilities & Carriers		Assessed Value	Actual Value
	Assessed Value	Actual Value	Assessed Value	Actual Value	Assessed Value	Actual Value	Assessed Value	Actual Value		
2002	\$3,825	\$15,301	\$3,980	\$10,112	\$1,055	\$3,512	\$904	\$1,644	\$ 9,765	\$30,570
2003	4,197	16,787	4,106	10,437	1,052	3,502	847	1,540	10,201	32,265
2004	4,240	16,958	3,972	10,097	998	3,322	784	1,425	9,993	31,802
2005	4,870	19,479	4,372	11,119	1,030	3,430	837	1,522	11,109	35,550
2006	4,912	19,648	4,279	10,884	1,043	3,475	922	1,676	11,156	35,683
2007	5,135	20,541	4,291	10,921	1,032	3,435	912	1,658	11,370	36,555
2008	5,199	20,797	4,321	11,006	1,038	3,456	835	1,518	11,393	36,777
2009	5,476	21,904	4,894	12,451	1,197	3,986	775	1,409	12,342	39,751
2010	5,360	21,439	4,744	12,090	1,133	3,775	816	1,484	12,053	38,788
2011	5,302	21,207	4,508	11,506	1,129	3,760	878	1,596	11,816	38,070

Source: Comprehensive Annual Financial Reports of the City of Memphis for the Years Ended June 30, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010 and 2011.

Compensated Absence Liabilities

Governmental Accounting Standards require recognition of the liability for compensated absences which has been earned and is reasonably expected to be paid to existing employees. The City has recognized the non-current portion of this liability for City employees in its Statement of Net Assets in the amount of \$92,301,000 as of June 30, 2011.

Bond Authorization

Bonds are authorized on behalf of the City by an initial resolution of the Council that requires a simple majority vote (subject to the Mayor's veto power). The initial resolution must be published one time in a newspaper of general circulation in the City. Unless 10% of the registered voters of the City protest the issuance of the bonds within twenty days of publication, the bonds may be issued as authorized. Refunding bonds are authorized to be issued pursuant to a resolution of the Council, subject to prior approval by the State Director of State and Local Finance.

Short Term Borrowing

Under the provisions of the Tennessee Code Annotated, municipalities in the State are authorized through their respective governing bodies, upon approval by the State Director of Local Finance, to issue interest bearing notes and capital notes for all municipal purposes for which general obligation bonds can be legally authorized and issued.

The City may issue other short-term obligations, which may include tax or revenue anticipation notes in amounts not to exceed 60 percent of the amount appropriated for which such notes are being issued.

Debt Limit

Tennessee Code Annotated provides that bonds may be issued by a municipality without regard to any limit on indebtedness.

Principal of Outstanding General Obligation Debt (Fiscal Years Ended June 30) (In Thousands of Dollars)

	2007	2008	2009	2010	2011
General Obligation Bonds					
General Purpose	\$ 941,732	\$1,004,262	\$1,023,662	\$1,123,443	\$1,166,241
School	13,350	12,475	12,475	12,475	12,475
Airport	10,855	7,435	5,725	3,920	2,015
Convention Center	1,684	1,387	1,071	737	737
Port Commission	5,124	4,743	4,341	3,918	-
Total General Obligation Bonds	<u>972,745</u>	<u>1,030,302</u>	<u>1,047,274</u>	<u>1,144,493</u>	<u>1,181,468</u>
Capital Lease Obligations	-	7,510	6,058	4,628	5,182
Bond Anticipation Notes	70,000	90,000	148,470	75,400	75,400
Total General Obligation Indebtedness	<u>\$1,042,745</u>	<u>\$1,127,812</u>	<u>\$1,201,802</u>	<u>\$1,224,521</u>	<u>\$1,262,050</u>

Source: Comprehensive Annual Financial Reports of the City of Memphis for the Years Ended June 30, 2007, 2008, 2009, 2010 and 2011.

General Obligation Debt Service as a Percentage of General Fund Expenditures (Fiscal Years Ended June 30) (In Thousands of Dollars)

	2007	2008	2009	2010	2011
Total General Fund Expenditures ⁽¹⁾	\$507,965	\$545,840	\$597,399	\$628,554	\$662,275
Total G. O. Debt Service	82,481	\$91,940	\$111,016	\$115,669	\$76,403
Net Debt Service ⁽²⁾	77,545	\$86,984	\$107,900	\$112,553	\$71,655
Total G. O. Debt Service to Expenditures	16.24%	16.84%	18.58%	18.40%	11.54%
Net Debt Service to Expenditures	15.27%	15.94%	18.06%	17.91%	10.82%

⁽¹⁾ Includes other uses.

⁽²⁾ Net debt service is calculated by deducting all debt service on self-supporting debt from the total general obligation debt service.

Source: Comprehensive Annual Financial Reports of the City of Memphis for the Years Ended June 30, 2007, 2008, 2009, 2010 and 2011.

Debt Ratio Trends

Net General Obligation Bonded Debt To Appraised and Assessed Values and Bonded Debt Per Capita (Fiscal Years Ended June 30)

	2007	2008	2009	2010	2011
Estimated population ⁽¹⁾	674,028	674,028	669,651	676,640	646,889
Appraised Value of Property ⁽²⁾	\$36,554,763	\$36,776,628	\$39,750,993	\$38,788,129	\$38,069,899
Assessed Value of Property ⁽²⁾	11,369,792	11,392,569	12,341,761	12,053,354	11,816,478
Total GO Debt ⁽²⁾	1,042,745	1,127,812	1,201,802	1,224,521	1,262,050
Self-supporting Debt ⁽²⁾	17,663	13,565	11,137	8,575	4,657
Net GO Debt ⁽²⁾	\$1,025,081	\$ 1,114,247	\$ 1,190,665	\$ 1,215,946	\$ 1,257,393
GO Debt per Capita					
Total Debt	\$ 1,547	\$ 1,673	\$ 1,795	\$ 1,810	\$ 1,951
Net Debt	\$ 1,521	\$ 1,653	\$ 1,778	\$ 1,797	\$ 1,944
GO Debt to Appraised Value					
Total Debt	2.85%	3.07%	3.02%	3.16%	3.32%
Net Debt	2.80%	3.03%	3.00%	3.13%	3.30%
GO Debt to Assessed Value					
Total Debt	9.17%	9.90%	9.74%	10.16%	10.68%
Net Debt	9.02%	9.78%	9.65%	10.09%	10.64%

⁽¹⁾ Sources: U.S. Census Bureau Annual Estimates of the Population for Incorporated Places over 100,000; Comprehensive Annual Financial Reports of the City of Memphis for the Years Ended June 30, 2007, 2008, 2009, 2010 and 2011.

⁽²⁾ In Thousands.

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MAJOR FUNDS SUMMARIES

General Fund

Revenues, Expenditures and Changes in Fund Balance (Fiscal Years Ended June 30) (In Thousands of Dollars)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenues and Other Sources					
Local Taxes	\$366,383	\$368,754	\$415,924	\$420,879	\$434,648
State Taxes	64,545	67,384	59,036	54,714	57,043
Licenses and permits	11,918	11,934	11,427	11,119	10,878
Fines and Forfeitures	8,838	10,040	10,237	12,162	13,324
Charges for Services	23,644	28,395	27,280	31,815	29,946
Investment Income	5,149	4,638	3,395	980	519
Federal and State Grants	1,709	2,361	4,756	2,575	2,602
Other Revenues and Other Sources	14,292	17,287	11,766	13,740	14,431
Operating Transfers In	<u>56,068</u>	<u>54,765</u>	<u>61,623</u>	<u>58,537</u>	<u>105,375</u>
Total Revenue and Other Sources	<u>\$552,546</u>	<u>\$565,558</u>	<u>\$605,444</u>	<u>\$606,521</u>	<u>\$668,766</u>
Expenditures and Other Uses					
General Government	115,356	132,874	153,646	142,693	141,853
Public Safety	319,906	342,771	363,098	369,555	384,240
Community Services	53,757	60,071	63,812	64,186	63,139
Transportation & Environment	5,769	6,676	8,460	6,458	6,321
Operating Transfers Out	<u>13,177</u>	<u>3,448</u>	<u>8,383</u>	<u>45,662</u>	<u>66,722</u>
Total Expenditures and Other Sources	<u>507,965</u>	<u>545,840</u>	<u>597,399</u>	<u>628,554</u>	<u>662,275</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	44,581	19,718	8,045	(22,033)	6,491
Fund Balance - Beginning of Period	<u>38,737</u>	<u>78,840</u>	<u>98,558</u>	<u>106,603</u>	<u>84,570</u>
Fund balance - End of Period	<u>\$ 83,318</u>	<u>\$ 98,558</u>	<u>\$106,603</u>	<u>\$ 84,570</u>	<u>\$ 91,061</u>

Source: Comprehensive Annual Financial Reports of the City of Memphis for the Years Ended June 30, 2007, 2008, 2009, 2010 and 2011.

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Special Revenue Fund

Revenues, Expenditures and Changes in Fund Balances (Fiscal Years Ended June 30) (In Thousands of Dollars)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenues and Other Sources					
State Taxes (Local Share)	\$28,009	\$28,809	\$29,167	\$33,037	\$30,480
Local Taxes	3,381	3,186	4,686	6,149	4,411
Local Taxes - Education	93,108	98,209	23,919	22,825	22,400
Hotel/Motel	4,210	4,342	3,846	3,617	3,537
Licenses and permits	-	-	-	-	515
Fines and Forfeitures	4,584	5,203	6,420	4,230	3,637
Charges for Services	48,663	48,393	51,059	51,036	59,442
Investment Income	421	347	224	67	54
Federal Grants	39,964	36,598	37,357	57,309	56,926
State Grants	3,602	6,308	10,518	4,168	4,687
Other Revenues and Other Sources	141,579	197,427	295,517	239,870	68,532
Operating Transfers In	9,099	5,642	6,778	46,472	67,901
Total Revenue and Other Sources	<u>376,620</u>	<u>434,464</u>	<u>469,491</u>	<u>468,780</u>	<u>322,522</u>
Expenditures and Other Uses					
General Government	26,185	34,341	32,095	34,356	37,439
Public Safety	3,785	4,595	4,268	4,627	3,831
Education	91,952	92,438	23,919	62,825	82,400
Community Services	37,647	31,874	33,888	44,906	38,221
Transportation	62,430	67,580	68,265	67,229	67,721
Other Expenditures and other Uses	143,204	151,000	243,184	236,857	101,159
Operating Transfers Out	8,641	7,733	10,760	9,898	8,962
Total Expenditures and Other Sources	<u>373,844</u>	<u>389,561</u>	<u>416,379</u>	<u>460,698</u>	<u>339,733</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	2,776	44,903	53,112	8,082	(17,211)
Fund Balance - Beginning of Period	<u>(27,977)</u>	<u>(25,925)</u>	<u>19,015</u>	<u>72,127</u>	<u>80,209</u>
Fund balance - End of Period	<u><u>\$(25,201)</u></u>	<u><u>\$18,978</u></u>	<u><u>\$72,127</u></u>	<u><u>\$80,209</u></u>	<u><u>\$62,998</u></u>

Source: Comprehensive Annual Financial Reports of the City of Memphis for the Years Ended June 30, 2007, 2008, 2009, 2010 and 2011.

Debt Service Fund

Revenues, Expenditures and Changes in Fund Balance (Fiscal Years Ended June 30) (In Thousands of Dollars)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenues and Other Sources					
Property Taxes	\$ 77,410	\$ 77,946	\$ 80,939	\$ 84,288	\$ 84,987
Hotel-Motel Tax	397	398	398	400	-
Investment Income	1,841	2,382	1,564	254	225
Intergovernmental:					
Memphis-Shelby County Airport Authority	3,860	3,883	\$ 2,076	\$ 2,074	\$ 2,072
Memphis-Shelby County Port Commission	363	381	401	274	-
Memphis Area Transit Authority	-	-	-	-	-
Board of Education	6,348	1,494	-	-	-
Other Enterprise Funds	-	-	-	-	-
Other Revenues and Other Sources	18,091	10,997	19,948	191,836	2,639
Proceeds of Refunding Bonds	96,151	-	-	-	-
Total Revenues and Other Sources	<u>204,461</u>	<u>97,481</u>	<u>105,326</u>	<u>279,126</u>	<u>89,923</u>
Expenditures and Other Uses					
Redemption of Serial Bonds & Notes	36,528	42,925	58,565	61,803	24,100
Interest	46,738	49,015	52,451	53,866	52,303
Payment of Refunded Bonds	95,172	-	-	-	-
Other	2,648	618	6,538	175,265	597
Total Expenditures and Other Uses	<u>181,086</u>	<u>92,558</u>	<u>117,554</u>	<u>290,934</u>	<u>77,000</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	23,375	4,923	(12,228)	(11,808)	12,921
Total Other Financing Sources and Uses	-	-	-	-	(30,400)
Fund Balance – Beginning of Period	<u>30,418</u>	<u>53,793</u>	<u>58,716</u>	<u>46,488</u>	<u>34,680</u>
Fund Balance – End of Period	<u>\$ 53,793</u>	<u>\$ 58,716</u>	<u>\$ 46,488</u>	<u>\$ 34,680</u>	<u>\$ 17,201</u>

Source: Comprehensive Annual Financial Reports of the City of Memphis for the Years Ended June 30, 2007, 2008, 2009, 2010 and 2011.

Capital Projects Fund

Summary of Revenues, Expenditures, and Changes in Fund Balances (Fiscal Years Ended June 30) (In Thousands of Dollars)

	<u>2007⁽¹⁾</u>	<u>2008⁽¹⁾</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenues and Other Sources					
Property Taxes	\$ 355	\$ 361	\$ 363	\$ 363	\$ 769
Federal and State Grants	667	1,640	5,784	6,780	6,311
Investment Income	-	-	-	-	-
Intergov. & Other Revenues	534	2,244	166	-	1,607
Operating Transfers In	-	16	250	-	-
Financing Proceeds	137,416	191,939	291,398	236,505	65,624
Total Revenues and Other Sources	<u>138,972</u>	<u>196,200</u>	<u>297,961</u>	<u>243,648</u>	<u>74,311</u>
Expenditures and Other Uses					
Projects and Issuance costs	63,204	81,000	93,395	88,387	101,159
Retirement of refunded debt obligation	80,000	70,000	150,000	148,470	-
Operating Transfer Out	-	-	-	-	-
Total Expenditures and Other Uses	<u>143,204</u>	<u>151,000</u>	<u>243,395</u>	<u>236,857</u>	<u>101,159</u>
Revenue and Other Sources Over (Under) Expenditures and Other Uses	(4,232)	45,200	54,566	6,791	(26,848)
Fund Balance – Beginning of Period	<u>(27,577)</u>	<u>(32,527)</u>	<u>12,673</u>	<u>67,239</u>	<u>74,030</u>
Fund Balance – End of Period	<u>\$ (31,809)</u>	<u>\$ 12,763</u>	<u>\$ 67,239</u>	<u>\$ 74,030</u>	<u>\$47,182</u>

⁽¹⁾ The difference in the 2007 ending fund balance and the 2008 beginning fund balance results from a reclassification of deferred revenue item from equity of \$752 and prior year miscellaneous adjustment (\$34).
Source: Comprehensive Annual Financial Reports of the City of Memphis for the Years Ended June 30, 2007, 2008, 2009, 2010 and 2011.

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Sewer Fund

Summary of Revenues, Expenses, and Changes in Fund Equity/Net Assets (Fiscal Years Ended June 30) (In Thousands of Dollars)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating Revenues					
Sewer Service Fees	\$ 52,543	\$ 52,510	\$ 53,778	\$ 56,152	\$ 98,559
Operating Expenses -					
Other Than Depreciation and Amortization	30,907	32,775	38,646	35,972	39,919
Depreciation on Assets -					
Acquired with Own Funds	12,571	12,692	12,716	12,928	13,078
	<u>43,478</u>	<u>45,467</u>	<u>51,362</u>	<u>48,900</u>	<u>52,997</u>
Operating Income (Loss)	9,065	7,043	2,416	7,252	45,562
Non-Operating Revenues					
Interest on Investments	1,570	1,510	660	176	446
Other	3,286	1,869	529	1,077	1,926
	<u>4,856</u>	<u>3,379</u>	<u>1,189</u>	<u>1,253</u>	<u>2,372</u>
Non-Operating Expenses					
Interest on State Loan	-	-	-	74	109
Interest on Bonded Debt	6,052	6,441	6,614	6,658	8,160
Transfer to Other Funds	5,909	5,376	5,887	5,839	4,911
	<u>11,961</u>	<u>11,817</u>	<u>12,501</u>	<u>12,571</u>	<u>13,180</u>
Net Income (Loss)	1,960	(1,395)	(8,896)	(4,066)	34,754
Fund Equity / Net Assets					
- Beginning of Period	<u>211,360</u>	<u>213,320</u>	<u>211,925</u>	<u>203,345⁽²⁾</u>	<u>199,954</u>
Fund Equity / Net Assets					
- End of Period	<u>\$ 213,320</u>	<u>\$ 211,925</u>	<u>\$203,029</u>	<u>\$199,279</u>	<u>\$234,708</u>

Source: Comprehensive Annual Financial Reports of the City of Memphis for the Years Ended June 30, 2007, 2008, 2009, 2010 and 2011.

Notes to Summary Statements

Reference is made to the notes to the City's audited financial statements included as Appendix B to the Official Statement for a summary of accounting policies of the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund. For a complete definition of the reporting entity, see Note I(A) to the City's audited financial statements in Appendix B to the Official Statement.

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ECONOMIC AND DEMOGRAPHIC INFORMATION

Population Trends

POPULATION CITY, COUNTY, STATE AND UNITED STATES (In Thousands)

	2006	2007	2008	2009	2010
Memphis	677	673	670	670	647
Shelby County	919	920	919	920	928
Tennessee	6,089	6,173	6,240	6,296	6,346
United States	298,593	301,580	304,375	307,007	308,746

Source: U.S. Census Bureau, March 2011.

Income

PER CAPITA PERSONAL INCOME SHELBY COUNTY, TENNESSEE, SOUTHEAST REGION AND UNITED STATES

	2006	2007	2008	2009	2010
Shelby County	\$39,224	\$40,950	\$41,598	\$40,547	N/A
Tennessee	32,885	34,221	35,126	33,802	\$34,955
Southeast Region ⁽¹⁾	34,426	35,695	36,196	35,458	36,851
United States	37,725	39,506	40,947	38,846	39,945

⁽¹⁾ Southeast Region includes Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia.

Source: U.S. Bureau of Economic Analysis, September 2011.

NUMBER OF FAMILIES BY INCOME RANGE IN MEMPHIS⁽¹⁾

	Number of Families			Percentage of Families		
	1980	1990	2000	1980	1990	2000
Under \$10,000	47,446	26,982	18,278	28.86%	17.42%	11.42%
\$10,000 - \$14,999	24,919	14,745	10,808	15.16	9.52	6.75
\$15,000 - \$24,999	44,843	29,417	22,440	27.28	18.99	14.02
\$25,000 - \$49,999	39,570	52,407	49,943	24.07	33.84	31.20
\$50,000 and over	7,623	31,330	58,580	4.64	20.23	36.60
Total	164,401	154,881	160,049	100.00%	100.00%	100.00%

⁽¹⁾ Due to rounding, numbers may not add precisely.

Source: U.S. Census Bureau, January 2010.

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Employment

According to the U.S. Bureau of Labor Statistics, as of December 31, 2011, the unemployment rate for Shelby County was 8.8%. The City comprises approximately 75% of the population of the County. Annual employment and unemployment trends in the County from 2000 to 2010 are presented below.

LABOR FORCE TRENDS

Calendar Year	Shelby County ⁽¹⁾		Unemployment Percentages		
	Employed	Unemployed	Shelby County	Tennessee	USA
Dec. 2011	407.9	39.4	8.8%	8.7%	8.5%
Dec. 2010	390.6	40.7	9.4%	9.4%	9.4%
2010	389.1	43.3	10.0%	9.7%	9.6%
2009	390.1	44.1	10.1%	10.5%	9.3%
2008	408.5	30.9	7.0%	6.7%	5.8%
2007	417.4	23.4	5.3%	4.9%	4.6%
2006	415.4	25.3	5.7%	5.2%	4.6%
2005	407.4	27.1	6.2%	5.6%	5.1%
2004	404.5	26.3	6.1%	5.4%	5.5%
2003	410.0	26.2	6.0%	5.7%	6.0%
2002	410.8	23.4	5.4%	5.3%	5.8%
2001	419.2	19.6	4.5%	4.7%	4.7%
2000	425.0	17.4	3.9%	4.0%	4.0%

⁽¹⁾ In thousands.

Source: U.S. Bureau of Labor Statistics, February 2012.

The major areas of employment in the Memphis metropolitan area are services, governmental services and retail trade. Comparatively, both the State and the United States show a heavier concentration in manufacturing than does the County, but they also display higher employment in services and governmental services.

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**PERCENTAGE OF PERSONS EMPLOYED BY MAJOR INDUSTRY
MEMPHIS MSA**

	Memphis MSA				
	2006	2007	2008	2009	2010
Total, All Industries ⁽¹⁾	637.4	640.8	632.5	600.8	587.7
In Percentages					
Construction and Mining	4.3%	4.1%	3.9%	3.6%	3.3%
Manufacturing	8.6%	8.2%	8.0%	7.7%	7.5%
Transportation & Public Utilities ⁽²⁾	10.1%	10.2%	10.3%	10.4%	26.8%
Trade (Wholesale & Retail) ⁽²⁾	17.3%	17.2%	16.7%	16.4%	-
Information	1.2%	1.2%	1.2%	1.1%	1.1%
Financial Activities	5.2%	5.2%	5.1%	5.1%	5.0%
Services	39.6%	40.2%	40.7%	41.0%	41.5%
Government	13.8%	13.8%	14.1%	14.6%	14.7%

⁽¹⁾ Total employment in thousands of persons.

⁽²⁾ The Bureau of Labor Statistics now includes trade in transportation and public utilities.

Source: U.S. Bureau of Labor Statistics Data, April 2011.

**PERCENTAGE OF PERSONS EMPLOYED BY MAJOR INDUSTRY
STATE OF TENNESSEE**

	Tennessee				
	2006	2007	2008	2009	2010
Total, All Industries ⁽¹⁾	2,783.1	2,797.4	2,774.8	2,618.9	2,612.5
In Percentages					
Construction and Mining	5.3%	4.9%	4.8%	4.2%	4.0%
Manufacturing	17.3%	13.6%	13.0%	11.8%	11.4%
Transportation & Public Utilities ⁽²⁾	6.1%	5.3%	5.2%	5.0%	21.2%
Trade (Wholesale & Retail) ⁽²⁾	19.2%	16.6%	16.5%	16.3%	-
Information	19.2%	1.8%	1.8%	1.8%	1.7%
Financial Activities	6.1%	5.2%	5.2%	5.4%	5.3%
Services	28.6%	37.6%	38.1%	39.2%	39.8%
Government	17.5%	15.1%	15.4%	16.3%	16.5%

⁽¹⁾ Total employment in thousands of persons.

⁽²⁾ The Bureau of Labor Statistics now includes trade in transportation and public utilities.

Source: U.S. Bureau of Labor Statistics Data, April 2011.

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**PERCENTAGE OF PERSONS EMPLOYED BY MAJOR INDUSTRY
UNITED STATES**

	United States				
	2006	2007	2008	2009	2010
Total, All Industries ⁽¹⁾	136,174.0	137,598.0	136,790.0	130,920.0	130,260.0
In Percentages					
Construction and Mining	6.1%	6.0%	5.8%	5.1%	4.8%
Manufacturing	10.4%	10.1%	9.8%	9.1%	8.9%
Transportation & Public Utilities ⁽²⁾	3.7%	3.7%	3.7%	3.7%	19.0%
Trade (Wholesale & Retail) ⁽²⁾	15.6%	15.7%	15.5%	15.4%	-
Information	2.2%	2.2%	2.2%	2.1%	2.1%
Financial Activities	6.1%	6.0%	6.0%	5.9%	5.8%
Services	39.6%	40.1%	40.6%	41.4%	42.3%
Government	16.1%	16.1%	16.5%	17.2%	17.1%

⁽¹⁾ Total employment in thousands of persons.

⁽²⁾ The Bureau of Labor Statistics now includes trade in transportation and public utilities.

Source: U.S. Bureau of Labor Statistics Data, April 2011.

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Employers

A table listing the largest employers in the Memphis area is set forth below, followed by a table listing the largest manufacturing firms, based on number of employees, in the Memphis area.

MEMPHIS AREA 25 LARGEST EMPLOYERS

Company Name	Local Employees
Federal Express Corporation	31,000
Memphis City Schools	16,119
United States Government	15,375
Methodist LeBonheur Healthcare	8,889
Tennessee State Government	8,600
Memphis City Government	7,274
Baptist Memorial Health Care Corp.	6,661
Wal-Mart Stores, Inc.	6,000
Shelby County Government	5,971
Shelby County Schools	5,200
Naval Support Activity Mid-South	4,076
The Kroger Co.	3,568
University of Tenn. Health Science Center	3,546
Desoto County School District	3,539
Caesars Entertainment, Inc.	3,500
St. Jude Children's Research Hospital	3,451
Technicolor Video Services, Inc.	3,000
First Horizon National Corp.	2,895
Memphis Light, Gas & Water	2,631
The University of Memphis	2,522
Century Management Inc.	2,500
The ServiceMaster Co.	2,261
Saint Francis Healthcare	2,228
International Paper Co.	2,204
Regions Financial Corp.	2,200

Source: Book of Lists 2012, *Memphis Business Journal*.

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MEMPHIS AREA MANUFACTURING COMPANIES

Company	Local Employees	Products
1 Smith & Nephew	2,000	Orthopedic medical devices
2 UTC-Carrier Corp.	1,500	Split system condensing units
3 Thomas & Betts	1,019	Electrical connectors & components
4 Wright Medical Technology Inc.	950	Orthopedic implants
5 Sharp Manufacturing	600	Solar, health & environment
6 SFI of Tennessee	500	Steel fabrication
7 Merck	450	Pharmaceuticals
8 Cargill Corn Milling	400	Corn sweeteners, starches & oils
9 The Hershey Co.	400	Candy, mints & gum
10 Buckman	350	Specialty chemicals
11 Hino Motors Manufacturing USA	325	Rear axle for trucks
12 Kellogg USA	320	Cereal
13 Solae LLC	315	Soy protein
14 K.T.G.	310	Paper products & toiletries
15 Bryce Corp.	300	Packaging
16 Cummins Inc.	300	Diesel components & engines
17 Mueller Industries Inc.	300	Alloy rods & fabricated tubular products
18 Nucor Steel of Memphis	300	Steel
19 ThyssenKrupp Elevator Manufacturing	300	Industrial lifting equipment
20 Valero Memphis Refinery	300	Petrochemicals
21 Hunter Fan Co.	280	Ceiling fans & accessories
22 Buckeye Technologies	266	Specialty cellulose & absorbent products
23 Interstate Brands, Wonder-Hostess	254	Fresh bakery products
24 W.M. Barr & Co.	252	Liquid & aerosol chemical products

Source: Memphis Business Journal's 2012 Book of Lists.

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Housing and Construction

The table below provides annual data on the number of building permits granted and the value of related construction between 2006-2010 for both the County and the City.

Fiscal Year	Shelby County ⁽¹⁾		Memphis		City, % of County
	Total Number Issued	Valuation ⁽²⁾	Total Number Issued	Valuation ⁽²⁾	
	2006	10,859	1,576,236	6,634	
2007	9,755	1,594,406	6,102	937,450	58.8%
2008	7,092	1,298,270	4,785	899,475	69.3%
2009	5,684	1,164,911	4,181	850,743	73.0%
2010	6,781	791,839	5,112	624,762	78.9%

⁽¹⁾ Includes all incorporated and unincorporated areas of the County.

⁽²⁾ In Thousands.

Source: Shelby County Building Department, January 2012.

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Financial Institutions

The following table provides a listing of the larger banks, based on total local deposits, operating in the Memphis area.

MEMPHIS AREA BANKS (in thousands of dollars)

Bank Name	Number of Local Offices	Total Local Deposits	Market Share
First Tennessee Bank, N.A.	48	7,335,819	32.32%
Regions Bank	54	3,799,020	16.74%
SunTrust Bank	41	1,838,130	8.10%
Bancorpsouth Bank	23	979,915	4.32%
Independent Bank	9	722,088	3.18%
Bank of America, N.A.	17	627,953	2.77%
Trustmark National Bank	19	462,871	2.04%
Renasant Bank	7	461,973	2.04%
Wells Fargo N.A.	8	385,361	1.70%
Magna Bank	5	323,201	1.42%
Bank of Bartlett	8	321,992	1.42%
Metropolitan Bank	2	314,992	1.39%
First Citizens National Bank	8	277,247	1.22%
Fidelity National Bank	4	266,981	1.18%
Triumph Bank	4	257,477	1.13%
Paragon National Bank	4	222,840	0.98%
Synovus Bank	7	219,696	0.97%
Landmark Community Bank	4	202,403	0.89%
Bank of Fayette County	7	202,002	0.89%
Patriot Bank	5	199,028	0.88%
Financial FSB	1	194,608	0.86%
Insouth Bank	4	193,322	0.85%
Bank Tennessee	5	190,773	0.84%
Somerville Bank & Trust Co.	5	167,444	0.74%
Sycamore Bank	5	158,489	0.70%
Others	92	2,370,374	10.43%
TOTALS	396	22,695,999	100.00%

Source: Federal Deposit Insurance Corporation, as of June 30, 2011.

The Economy

In recent years, the economy of the City has experienced notable success in attracting new businesses along with the continued growth of existing businesses. This success is due in large part to the City's location near the geographic center of the nation combined with excellent transportation facilities. Also, the City benefits from serving as the trade center for the surrounding area.

Trade Area

Trade and retail facilities in the City are extensive and serve a trade area of 76 counties, with a radius of roughly 200 miles east and west and a longer radius paralleling the Mississippi River 300 miles north and south. This trade territory includes 13 counties in Arkansas, one county in Kentucky, 41 counties in Mississippi, two counties in Missouri, and 19 counties in the State.

Agribusiness

The Mid-South area, encompassing the Mississippi River Delta, is one of the richest agricultural areas in the nation. Farming is a major occupation of the region and has developed into major agribusiness activities. The 200-day growing season and favorable climate encourage the production of a variety of products. The major emphasis is on soybeans, cotton, and cattle, with additional interest in rice, corn, peaches, apples, and a variety of vegetables.

The Memphis area is the world's largest spot cotton market, with more than 40 percent of the nation's entire cotton crop traded here annually. In addition to being the leading cotton market, the City is the nation's second largest processor of soybeans, third largest meat processor, and third largest total food processor. Also agricultural processors, packers, shippers, distributors, and merchants are becoming increasingly visible contributors to the growth of the City and its economy. Nearly every supplier of machines, equipment, chemicals, and technology to the farm and the industry levels of agribusiness utilize the City as a major sales and distribution center.

An international agricultural market center, Agricenter International, was established in 1985. The 140,000 square-foot exhibition center provides a forum for manufacturers, researchers and agribusiness organizations and producers from across the country. Facilities at Agricenter include a 1,000-acre demonstration farm, both indoor and outdoor exhibition space, and an auditorium with seating capacity of 500. Agricenter is located in the eastern section of the City about 30 minutes from downtown Memphis. It is a nonprofit entity that operates on a management contract with the Shelby County Agricenter Commission.

Tourism

The City's tourism industry has shown considerable growth since 1990. Among the principal reasons for the growth have been the investment of public funds into tourism development projects, the area's music culture and industry, and the development of casino gaming in nearby Northern Mississippi.

The City's two single largest tourist attractions draw on the area's rich music heritage. The Beale Street Historic District is located in downtown Memphis and on an annual basis attracts approximately 3 million patrons, both tourists and residents. The District was redeveloped through both government and private efforts beginning in 1983 and is on the National Register as an official historic district. Entertainment in the District focuses on the Blues, which developed on Beale Street throughout the early and middle part of the 20th century. The other large music-related attraction is Graceland, the home of the late Elvis Presley. The mansion and related area are set up as a museum honoring the early rock and roll pioneer. It

attracts more than 750,000 people every year, many who make Graceland the primary reason for their visit to the City.

Much of the area's tourism activity is focused on downtown Memphis. Mud Island, a park and museum devoted to the history, environment and culture of the Mississippi River, is located in Memphis' harbor. The Convention Center is downtown and hosts business and other gatherings. In 2003, a \$92 million expansion to the convention center was completed, which included the construction of the Cannon Center for the Performing Arts, home to the Memphis Symphony. The National Civil Rights Museum is located at the Lorraine Motel; it offers a comprehensive overview of the American Civil Rights Movement in exhibit form. A trolley system operates on the Main Street Mall with the principal purpose of shuttling visitors between various tourist and business locations located downtown. The trolley system recently completed a \$40 million extension east into the Medical District. In 2000, Memphis became the home of the Memphis Redbirds, a minor league baseball team, and constructed a new stadium, AutoZone Park, in the heart of downtown. In 2001, the NBA Vancouver Grizzlies were refranchised and relocated to Memphis. A new arena, the FedEx Forum, was constructed just south of Beale for the Grizzlies' use. It opened for the 2004-2005 NBA season.

Many other features of the City enhance its ability to attract visitors. These include Shelby Farms its 4,500-acre park system which is one of the largest urban park systems in the United States, the Memphis Zoo and Aquarium, a number of fine art galleries, Overton Square entertainment district, the 62,000-seat Liberty Bowl Memorial stadium and the Memphis International Raceway.

There are more than 15,000 hotel rooms available to serve the City area, including the historic Peabody Hotel, the Memphis Marriott Downtown Hotel, the recently built Westin Hotel, and other facilities downtown along with a number of large hotels in the eastern part of the City and the County. The Memphis Marriott Downtown Hotel, a 400-room hotel adjacent to the Cook Convention Center, recently added 200 rooms, making it the largest hotel in Shelby County.

ECONOMIC DEVELOPMENT

One of the City's primary attractions for economic development opportunities is the combination of its central location in the United States and its excellent transportation facilities, including air, rail and water (See "Transportation and Distribution" below). Another attractive feature for certain companies is the relatively low cost of living compared with other urban areas, including real estate prices.

The County and the City have combined their development efforts into one unit under the Memphis-Shelby County Division of Planning and Development. In addition, two industrial development corporations have been established staffed by the Center City Commission, which was formed in 1977. The Commission has since been renamed the Downtown Memphis Commission. The first corporation, Center City Revenue Finance Corporation, issues mortgage revenue bonds for qualified projects and also administers a payment-in-lieu-of-taxes ("PILOT") program for the center city area. The latter, the Center City Development Corporation, promotes

comprehensive redevelopment of the central business district. The Downtown Memphis Commission is currently engaged in mobilizing resources and support for a number of other downtown projects including the renovation of the Pyramid Arena and of several older commercial buildings. The Commission is also involved in efforts to develop residential housing, improved public transportation access, and a range of financial incentives to developers seeking to restore, redevelop, or construct other projects that relate to the overall planning objectives for the area.

The Memphis and Shelby County Industrial Development Board, which has since been replaced by the Economic Development Growth Engine ("EDGE"), promotes industrial or labor intensive development throughout Shelby County. It administers a separate PILOT program that promotes business expansion and industrial development throughout the County as well as the City. Applicants are encouraged to make a significant long-term commitment to the community in terms of capital investment, job creation and strength of wages.

Other economic development efforts in the area are led by the Memphis Area Chamber of Commerce, a private organization that receives financial support from its members. The Tennessee Department of Economic and Community Development is active in working to attract industrial and business prospects to the areas as a part of its state-wide recruiting efforts. Also, several local governments have combined their efforts to form the Millington Base Reuse Committee to find alternative industrial and economic uses for certain facilities vacated by the Navy Memphis Complex.

The City competes with other centrally located areas of the country and other parts of the State for economic development. Certain surrounding states offer more attractive financing and tax incentive plans than the State to new or relocating businesses.

Central Business Improvement District

The Central Business Improvement District has undergone major redevelopment with a combination of private and public investment during the past decade; currently, more than \$3 billion of investment has been completed or is underway. The County and the City continue to develop plans for the revitalization of the area through the Downtown Memphis Commission.

The Downtown Memphis Commission (formerly known as the Center City Commission), formed in 1977, serves as the official partnership for downtown revitalization among local governments and the private sector. Much of the recent commercial development within the District has been at the southern end of downtown. The construction of AutoZone's headquarters and the Peabody Place office tower has added significant commercial office space to the downtown market. Overall, on the south end of downtown, new shops, restaurants, and night clubs have opened and had moderate success.

The NBA franchise Grizzlies moved to the County in the summer of 2001, and in 2004 moved to a new arena, the FedEx Forum, which serves as their home court. Foot traffic in the area has increased business for surrounding restaurants and shops.

Residential Development

At present, there are more than 10,000 residential units, and 23,500 residents, in the Central Business District. The occupancy rate in downtown is consistently in excess of 90% for both rental and sale housing. In 2005, the Uptown Project, a \$142 million renovation of public housing and construction of infill housing, was completed through a public/private partnership. As a part of the project, 1,148 homes in a variety of initiatives – historic, rehabilitated units; low income housing tax credit apartments; and neighborhood infill of single family homes – were completed on the north end of the Central Business District, turning 125 blocks of distressed residential into a mixed-income community.

Office Space

The market for office space in downtown has an occupancy rate of approximately 82%. Major renovations are being made to downtown buildings that will enhance the downtown office market by providing additional Class A space in the core as well as in adjacent districts.

Memphis Redbirds & Autozone Park

The Memphis Redbirds (the AAA farm club of the St. Louis Cardinals) play at the AutoZone Park, a baseball stadium in downtown Memphis containing 14,500 seats and two upper decks consisting of 1,500 club seats and 44 luxury suites. AutoZone Park provides seating beyond left field, and a children's playground beyond the centerfield fence.

Memphis Grizzlies' Basketball Arena

The construction of the FedExForum (the "Arena"), an 18,200 seat multipurpose sports, entertainment and public assembly facility with suites, loge boxes and other premium seating, was completed in September 2004. The cost of the construction of the Arena was financed by bonds issued by the County and the City.

The County and City have also entered into a Memphis Arena Use and Operating Agreement with Hoops, LP, ("Hoops") owners of the Memphis Grizzlies team of the National Basketball Association, dated June 29, 2001, as amended (the "Use and Operating Agreement"), which governs the grant of rights, term of agreement, use and limitations, operating covenants, fees paid by Hoops, operating revenues and expenses and other matters relating to the operation of the Arena. Under the Use and Operating Agreement, all income and revenue received from the use, occupancy and possession of the Arena shall be the property of Hoops, and Hoops shall be responsible for all costs and expenses of occupancy, possession and operations of the Arena, including operating losses. Also, the revenues received by Hoops for naming rights shall be the property of Hoops. In addition, Hoops is required to pay rent during the term of the Use and Operating agreement in the form of a per seat rental fee on all public-paid Arena events.

Hoops or any successor collections agent will collect the Seat Rental Fees from all events at the Arena ("Seat Rental Fees"). Under the terms of the Use and Operating Agreement, Hoops is obligated to pay to the County and City, a Seat Rental Fee in the amount of \$1.14 per seat sold to be collected by Hoops on all sporting, entertainment, exhibition, performance and other events (including NBA pre-season, regular season and playoff games, collectively, the Home Basketball

Games") at the Arena for which an admission price must be paid in order to attend such event ("Paid Arena Events"). Hoops is also obligated to pay \$1.15 on all paid Home Basketball Games collected by Hoops, exhibition games involving the Memphis Grizzlies and other sporting, entertainment, exhibition and performance events related to and intended to promote the Memphis Grizzlies at the Pyramid ("Paid Franchise Events"). Under the terms of the Interlocal Agreement, as amended and restated, entered into among the County, the City and the Memphis-Shelby Sports Authority (the "Interlocal Agreement"), the County and City have pledged all Seat Rental Fees to the payment of the Bonds until the Bonds are fully paid.

Pursuant to the Interlocal Agreement, in the event the Revenues pledged to the support of the Bonds shall prove to be insufficient to pay debt service on such Bonds in any bond year (ending on October 31), the County and the City, pursuant to the provisions of Section 7-67-116 of the Tennessee Code Annotated, have covenanted to timely appropriate from legally available non-ad valorem revenues, not later than October 31 of the fiscal year ending June 30 following the date of such deficit, sufficient moneys to replenish draws ("Debt Service Reserve Fund Replenishment Obligations") from the Debt Service Reserve Fund used to make scheduled debt service on the Bonds in the prior year.

The obligation of the County and the City to replenish draws on the Debt Service Reserve Fund relating to the Bonds shall be apportioned on the following basis: 50% County, and 50% City, and shall not be joint. The maximum amount of the County's or City's Debt Service Reserve Fund Replenishment Obligation, respectively, under the Interlocal Agreement is the debt service payments on not to exceed \$115,000,000 of the Authority's Bonds, which is approximately one-half (1/2) of the authorized Bonds. The obligation to restore the Debt Service Reserve Fund is not a general obligation of the County or the City.

Cook Convention Center Expansion

The Memphis Cook Convention Center includes two exhibit halls; the largest is column-free at 125,000 square feet, a 28,000 square foot ballroom and 31 meeting rooms totaling over 74,000 square feet. The 2,100 seat, theater-style Cannon Center for the Performing Arts is also located in the convention center.

Transportation and Distribution

Because much of the economy of the County and the City of Memphis depends on transportation and distribution, local leaders formed an organization known as "Uniport" to unify the four modes of transportation: air, rail, highway and water. More recently, these efforts have been incorporated into the City's plan for the City becoming "America's Aerotropolis". An aerotropolis is a city which has centered its economy on, and is generally dependent upon, its airport.

Air. Memphis International Airport (the "Airport") is located on a 4,640 acre site in the County and includes a terminal complex containing approximately one million square feet and four other buildings containing approximately 100,000 square feet. The Airport is served by five major passenger carriers: AirTran, American, Continental, Delta and US Airways. Several commuter and regional airlines also serve the Airport.

The Airport is operated by the Memphis Shelby County Airport Authority ("Airport Authority") created in 1969 by official action of the City and County. The Airport Authority is governed by a seven member Board of Commissioners, appointed by the Mayor of the City with one nominated by the Mayor of the County and all confirmed by the Memphis City Council for seven-year terms.

More than 35,000 individuals work at the Airport, including airline, Airport Authority, FAA, concessionaires and tenant employees. Passenger enplanements exceeded 4.3 million for 2011 and aircraft movements totaled more than 283,000. All of the major air-freight carriers offer service through the International Airport to Shelby County.

Construction is currently underway to build a \$121 million Ground Transportation Center at the Airport which will consist of a seven level parking garage containing approximately 5,700 spaces and support facilities including a parking office within the new garage and two toll plazas, rental car facilities inside the garage (occupying the first two levels); a quick turn around surface lot and renovations and rehabilitation to the existing garage. The Airport Authority estimates the project will be placed in service July 2012.

Terminal improvements are also underway to expand and reconfigure the existing Terminal B checkpoint to accommodate enhanced security scanning equipment as required by the Transportation Security Administration as well as various projects to extend the useful life of the Terminal complex. The terminal improvements are estimated to cost \$10.4 million and are scheduled to be complete by March 2012.

The apron area around the passenger terminals is scheduled to be replaced in stages, starting in March 2012. The project is expected to replace apron concrete surrounding the three passenger terminals as well as existing fueling piping and control stations with new equipment. The project is scheduled to take three years to complete at an estimated cost of approximately \$120 million.

On March 22, 2011, Delta announced certain reductions to be made in its flight schedule on a system-wide basis - including their Memphis hub - to address cost increases associated with higher fuel prices. Delta projected that its departures from the Memphis airport would decrease by 25 percent. The cuts began in the fall of 2011 and primarily focused on smaller planes that fly to smaller cities.

Federal Express is headquartered in Shelby County. The main sorting facility is located just off of the Memphis International Airport runways. FedEx has completed several major expansion and improvement projects at its airport hub operations in recent years, and employment has increased. The company also has two major facilities in the County outside its airport operations. There is a 500,000 square foot technology complex in Collierville, in the southeastern part of the County, where about 3,000 employees are located, including programmers, software developers, and support staff. The Company also has a new headquarters office complex in a nearby area of the County to accommodate and consolidate recent growth.

The following table summarizes Airport activity for calendar years 2007 - 2011.

MEMPHIS INTERNATIONAL AIRPORT AVIATION ACTIVITIES

	2007	2008	2009	2010	2011	% Change 2010-11
Enplaned Passengers by Airline Type						
Major/National ⁽¹⁾	3,230,417	2,703,381	2,208,442	2,027,876	1,777,672	(12.34%)
Regional/Commuter	2,312,629	2,686,239	2,867,313	2,901,857	2,567,356	(11.53)
Non-Scheduled	5,187	3,031	1,402	6,443	8,143	26.39
Total	5,548,233	5,392,651	5,077,157	4,936,176	4,353,171	(11.81%)
Aircraft Total Movements ⁽²⁾	331,328	328,218	310,926	310,222	283,138	(8.73%)
Aircraft Landed Weight (in thousand pound units)	26,807,294	26,511,588	25,537,194	25,878,652	25,685,445	(0.75%)
Per Thousand Pounds of Cargo Enplaned						
2011:	Domestic	International	Air Mail	Total		
Major Airlines	1,424.0	2,074.5	236.9	3,735.4		
Regional/Commuter	190.1	-	8.6	198.8		
Cargo Airlines	4,143,159.4	270,303.4	9.8	4,413,472.6		
Other	-	-	-	-		
2011 Total	4,144,773.5	272,377.9	255.3	4,417,406.8		
2010 Total	4,161,571.4	237,964.5	586.2	4,400,122.1		
Increase (Decrease)	(16,797.9)	34,413.5	(330.9)	17,284.7		
Percent Increase (Decrease)	(0.40%)	14.46%	(56.45%)	0.39%		

(1) Fiscal years 2007-2008 were restated to reflect revised enplanement data as of October 1, 2010.

(2) Excludes Military and General Aviation activity.

Source: Memphis-Shelby County Airport Authority, Calendar Year Statistics.

<http://www.mscaa.com>

Water. The Mississippi River ranks third in length, fourth in drainage area and fifth in volume in the world. Among the world's ten largest rivers, reaching from the Gulf of Mexico deep into the heartlands of the United States, the Mississippi River system encompasses about 8,900 miles of navigable inland waterways. This system has also helped make Memphis a close neighbor of the agricultural Midwest and the industrial East and West Coasts. The waterways allow for barge service to New Orleans and other Gulf Ports along the Gulf Intercoastal Waterway. This intracoastal waterways system of approximately 1,173 miles connects Florida and Texas and has offered Memphis' industry unprecedented growth opportunities. In addition, regular service is available to Europe and Asia via the waterway system.

There is an abundance of usable industrially zoned land in the City, much of which is located where industry may utilize the water and the low-cost transportation of the Mississippi River. The Mississippi River provides extraordinary opportunities for the attraction of industries. Lying just off of the river, McKellar Lake, President's Island, Frank Pidgeon, and Rivergate Industrial Parks are excellent industrial locations. All of them front or are near a stillwater harbor that has a minimum depth of nine feet.

In terms of freight handled, the City is the fourth largest shallow draft river port in the U.S. and second largest inland shallow draft river port on the Mississippi River. The Port of Memphis provides favorable transportation rates for waterborne movements and excellent port facilities that interconnect with other modes of transportation. The port handles more than 13 million tons of barge driven cargo each year. The navigation channel is maintained by the U.S. Army Corps of Engineers. Favorable climatic conditions permit year-round availability of water

transportation to the present 161 tenants of the Port of Memphis and other users of the waterways. The value of the annual flow of goods and services is approximately \$680 million.

Of the original 960 flood-free acres located on President's Island (the "Island"), the City's major river port and an industrial park, only 2.4 percent of the land remains undeveloped, consisting of sixteen acres of waterfront land and seven acres of back land. The Island already has two river-rail-truck terminals, which provide excellent overland facilities for foreign and domestic water shipments. All necessary utilities and services, including U.S. Customs inspections, and a Foreign Trade Zone are available.

Total tonnage shipped through the Port of Memphis between 2000-2009 is presented in the table below.

**TOTAL TONNAGE
PORT OF MEMPHIS (2000-2009)**

Calendar Year	Total Tonnage
2009	13,980,433
2008	16,361,042
2007	18,825,124
2006	19,100,259
2005	17,094,876
2004	17,520,436
2003	18,191,319
2002	16,400,555
2001	16,907,072
2000	18,269,265

Source: Waterborne Commerce Statistics of the United States;
<http://www.iwr.usace.army.mil/ndc/index.htm>.

Two still-water harbors in the Memphis area provide shelter from the river current. Wolf River Harbor is the original harbor, located in north Memphis; and McKellar Lake is a \$50 million, man-made harbor just south of the Central Business District. Public facilities include three public terminals; LASH service; roll-on, roll-off service; bulk loading facilities to barges; bulk sacking facilities; chemical fertilizer storage tanks; heavy lifts up to 100 tons (CBI Nuclear heavy lift to 1200T); two boat/barge repair facilities; and six grain elevators.

Most major common carrier barge lines provide service to the Memphis Port including American Commercial Barge Lines, Federal Barge Lines, Ohio Barge Lines, Sioux City and New Orleans Barge Lines, DRAVO-Mechling Corporation, Riverway Barge Corporation, and Valley Barge Lines.

Rail. Six Class One railroads operate out of the Memphis area with competitive freight service to all principal cities in the U.S. and direct, on-line service to 35 states. Serving the County area are the Norfolk Southern Railroad, Burlington Northern, Seaboard System,

St. Louis-Southwestern Railway Lines, and the Union Pacific System. Eighteen other rail carriers maintain off-duty offices in the City for the development and coordination of traffic over their lines. The rail lines offer a variety of modern, specialized equipment and services, including piggy-back and containerized freight.

Highway. The City is connected to the rest of the nation by eight federal, three interstate, and seven state highway systems. These highways combined with a circumferential expressway and two highway bridges crossing the Mississippi River make all parts of Memphis readily accessible to its surrounding communities.

Public Transit. The Memphis Area Transit Authority ("MATA") provides public mass transportation in the City, with limited service furnished in Bartlett, Germantown, Collierville, Millington, and Raleigh. According to MATA officials, the fleet of 232 buses serves 53,000 passengers daily. Of the 33 total bus routes, 5 are Blazer (express) routes, 7 are cross-town routes, and 21 are local routes. MATA also operates a shuttle service known as the "Hustle Bus" between downtown Memphis and the Medical Center, a service initially funded by a Federal Demonstration Grant. MATA is presently operating 10 privately sponsored "showboat" buses. These theme buses operate on routes combining tourist attractions, restaurants, and shopping facilities. MATA's Main Street Trolley service operates along 2.5 miles of track in downtown Memphis. The line serves numerous restaurants, retail stores and attractions throughout downtown, such as The Pyramid, Convention Center, Beale Street, The Orpheum and the National Civil Rights Museum. The line has recently been extended to serve the Medical Center.

MATA, as with most metropolitan transit systems, has been faced with decreasing federal subsidies and rising costs. The MATA Board has responded to these pressures by a combination of increased fares and service reductions, as well as a current effort to lease excess buses to other transit authorities across the nation.

Interstate Bus Lines. Continental Trailways/Greyhound Bus Lines is the major interstate bus line serving the County, offering bus service from its Memphis terminals to the continental United States and Canada and supported by three smaller lines: Bridge Transit Corp., Great Southern Coaches, and Gulf Transport Co.

Utilities

The Memphis Light, Gas and Water Division ("MLGW") (www.mlgw.com) is a municipally owned utility which distributes electric power and natural gas throughout the City and the County, as well as, water within the City of Memphis and certain adjacent areas. MLGW was created by an amendment to the Charter of the City by Chapter 381 of the Private Acts of the General Assembly, adopted March 9, 1939. MLGW is managed by its board, which consists of five members nominated by the Mayor and approved by the City Council. Board members serve for three-year terms. MLGW has control over the administration of its activities in connection with MLGW's business affairs. It operates as three separate divisions (Electric, Gas, and Water), for accounting and financial purposes. MLGW's fiscal year is the calendar year.

MLGW is committed to purchase almost all of its power from Tennessee Valley Authority ("TVA") under a contract, subject to termination by either MLGW or TVA, on not less than ten years' prior written notice.

MLGW contracts with Texas Gas Transmission Corporation to receive gas from Texas and Louisiana fields. MLGW also purchases gas from various suppliers on the "spot market".

Water to the City is provided through an excellent artesian water supply. The water is soft bicarbonate, low in sulphate and chlorides, and contains no organic matter or harmful bacteria. It is aerated, filtered, chlorinated and fluoridated. There are nine pumping stations in the City, each adjacent to its well field. These stations are interconnected by a network of mains and have an installed service pumping capacity average of 133 million gallons per day.

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MEMPHIS LIGHT, GAS AND WATER DIVISION
Use and Customer Trends
(Years ended December 31)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
ELECTRIC DIVISION					
Power Use - Millions of Kilowatt Hours:					
Residential	5,652	5,873	5,521	5,184	5,876
Commercial	9,128	9,379	9,195	8,536	8,875
Total	<u>14,780</u>	<u>15,252</u>	<u>14,716</u>	<u>13,720</u>	<u>14,751</u>
System Demand - Maximum Hourly Use - Kilowatts:					
	<u>3,436</u>	<u>3,533</u>	<u>3,336</u>	<u>3,253</u>	<u>3,422</u>
Number of Customers - Thousands:					
Residential	366	368	366	363	362
Commercial	61	61	62	60	61
Total	<u>427</u>	<u>429</u>	<u>428</u>	<u>423</u>	<u>423</u>
GAS DIVISION					
Gas Use - Millions of Cubic Feet:					
Residential	17,909	17,538	20,587	19,112	21,647
Commercial	19,056	19,645	20,277	18,520	17,078
Total	<u>36,965</u>	<u>37,183</u>	<u>40,864</u>	<u>37,632</u>	<u>38,725</u>
System Demand - Maximum Daily Use - Billions of CF					
	<u>460</u>	<u>411</u>	<u>451</u>	<u>482</u>	<u>515</u>
Number of Customers - Thousands:					
Residential	296	297	296	293	292
Commercial	23	23	23	22	23
Total	<u>319</u>	<u>320</u>	<u>319</u>	<u>315</u>	<u>315</u>
WATER DIVISION					
Water Use - Millions of cubic Feet:					
Residential	2,920	2,995	2,744	2,548	2,804
Commercial	3,086	3,268	3,321	2,948	3,147
Total	<u>6,006</u>	<u>6,263</u>	<u>6,065</u>	<u>5,496</u>	<u>5,951</u>
System Demand - Maximum Hourly Rate - MGD					
	<u>299</u>	<u>310</u>	<u>250</u>	<u>228</u>	<u>241</u>
Number of Customers - Thousands:					
Residential	231	232	231	230	229
Commercial	25	26	26	26	26
Total	<u>256</u>	<u>258</u>	<u>257</u>	<u>256</u>	<u>255</u>

Source: Memphis Light, Gas and Water Division.
Note: 2010 Unaudited.

Education

The Shelby County school system has 51 schools and employs 3,065 teachers. The City of Memphis school system is one of the largest in the nation with over 16,000 employees and 209 schools staffed by more than 7,500 teachers. All schools are approved by the Tennessee State Department of Education. The Southern Association of Schools and Colleges accredits the secondary and elementary schools, and some junior high schools are in the process of accreditation by SACS. There are also approximately 60 private schools in the City and the County.

MEMBERSHIP AND ATTENDANCE School Systems

School Year	Memphis City Schools		Shelby County Schools	
	Daily Membership	Average Daily Attendance	Average Daily Membership	Average Daily Attendance
2010-2011	104,903	97,662	46,790	44,563
2009-2010	105,816	98,412	47,892	45,510
2008-2009	104,829	99,588	46,284	44,248
2007-2008	107,314	101,304	46,537	44,443
2006-2007	110,753	104,440	45,897	43,786
2005-2006	117,948	110,937	46,523	45,923
2004-2005 ⁽¹⁾	117,740	108,809	44,868	42,661
2003-2004	115,702	106,323	46,267	43,966
2002-2003	117,753	108,655	46,469	44,081
2001-2002	116,974	107,504	44,807	42,039
2000-2001	115,878	107,328	45,105	42,416

⁽¹⁾ Getwell East Annexation occurred.

Source: Tennessee Department of Education, 2011 Annual Statistical Report.

On February 11, 2011, the Council surrendered the charter of the Board of Education of the Memphis City Schools ("MCS") to the County. Consequently, pending litigation, the City's funding obligation to MCS will be reduced. Issues regarding the transition to a county-wide public education system, the effective date thereof and the funding thereof are currently being litigated in the U.S. District Court.

Colleges and Universities. The City is home to about 45,000 students enrolled in more than 20 local colleges, universities, and technical institutions. The following is a partial list.

Baptist Memorial College of Health Sciences	Mid-America Baptist Theological Seminary
Hospital of X-ray Technology	Mid-South Christian College
School of Medical Records Library	Mid-South Community College
School of Nursing	Northwest Mississippi Junior College
Christian Brothers University	Rhodes College
Concorde Career College	Southern College of Optometry
Crichton College	Southwest Tennessee Community College
Harding University Graduate School of Religion	Tennessee Technology Center at Memphis
ITT Technical Institute	University of Memphis
LeMoyné-Owen College	University of Mississippi, DeSoto Center
Memphis College of Art	University of Tennessee Health Science Center – Memphis, of Medicine, Dentistry and Pharmacy
Memphis School of Preaching	William R. Moore College of Technology
Memphis Theological Seminary	
Methodist Hospital	
School of Medical Sciences	
School of Nursing	

The University of Memphis, a co-educational institution founded in 1912, is a state-supported institution with schools in Arts and Sciences, Business Administration, Education and Law, with approximately 21,400 students enrolled. The University offers graduate schools of Arts and Sciences, Business, Education, Engineering and Industrial Technology. Research services provided by MSU include the Bureau of Business and Economic Research, the Bureau of Social Research, and the Bureau of Educational Services and Research. The University also has a Center for Regional Development to provide counseling in industrial expansion efforts.

The University of Tennessee Medical Units is the largest medical education center in Tennessee. The University of Tennessee College of Medicine graduates approximately 200 physicians each year. Included in the Medical Units are the College of Dentistry, College of Pharmacy, College of Basic Medical Sciences and a Graduate School of Medical Sciences.

Medical Facilities

The County, which includes the City and surrounding areas, contains one of the most comprehensive collections of health care centers in the nation, has 19 hospitals providing 4,262 beds and numerous other health care facilities. The health care industry contributes over \$10.4 billion to the economy annually. Over 13 percent of jobs are generated by health care in Shelby County. There are also 32 nursing homes (with a total of approximately 4,235 beds), 23 homes for the aged offering 320 beds and 14 assisted care living facilities offering 1,213 beds. The City is also home to over 100 specialty clinics, including nationally recognized Campbell Clinic, Semmes-Murphy Clinic and Shea Clinic.

The Regional Medical Center at Memphis (The MED) is a private hospital owned by a not-for-profit corporation, which receives substantial annual appropriations from the County. Much of its debt funding also is provided through the County. With more than 14,000 admissions and 140,000 outpatient visits per year, the hospital trains approximately 750 medical students, residents, and fellows annually in connection with the University of Tennessee Medical Units. The hospital has the only accredited skin bank in the State, the only HIV/AIDS center in the Mid-South, and the Diggs-Kraus Sickle Cell Research Center.

The MED's Centers of Excellence include the Elvis Presley Memorial Trauma Center, which is the only Level 1 trauma center in the region and the third busiest in the nation; the firefighters Regional Burn Center, the only full-service center in a 150-mile radius; the Newborn Center (an intensive care unit for premature and distressed newborns), the only Level IV center in West Tennessee; the Wound Care Center, which specializes in the treatment of chronic non-healing wounds; and High Risk Obstetrics, where more babies are born each year than in any other Memphis hospital.

Baptist Memorial HealthCare Corp. ("Baptist") is the world's largest private hospital, based on the number of admissions. At its various facilities, it provides a broad array line of medical and surgical treatments. Its parent organization, headquartered in the County, owns and manages hospitals located throughout the Mid-South. Baptist has recently completed a \$172.5 million expansion to its Baptist East facility, including a new heart hospital and a freestanding women's hospital, the first of its kind in the Mid-South.

Methodist Health Systems ("Methodist") is the second largest private, not-for-profit hospital in the United States. Methodist has six hospitals in the region, as well as LeBonheur Children's Medical Center. Methodist also operates rural health clinics and home health agencies. In total in the region, Methodist has 10,249 Associates and 1,805 licensed beds. Methodist provides strategic medical care through the development of specialized Centers of Excellence in the regional hospitals that focus resources on major disease areas. LeBonheur recently completed construction on a \$327 million pediatric facility to replace its existing building. LeBonheur has a dominant market share in the pediatric healthcare market and operates clinics and outpatient facilities in various locations. Methodist Germantown recently completed a \$50 million, 89-bed expansion project, which includes specialized facilities designed to provide comprehensive cardiac services. The expansion added 152,000 square feet to the hospital and brought the total number of beds to 209. The hospital has also expanded its emergency department and added a Women's and Children's Pavilion, which houses expanded maternity, neonatal, intensive care, and surgery services.

St. Jude Children's Research Hospital ("St. Jude") was founded by the late actor, Danny Thomas. Located in Downtown Memphis, St. Jude is the world's leading childhood cancer research center and one of the only institutions devoted solely to the study of catastrophic childhood illnesses, with its primary focus on leukemia and solid tumors. The hospital has approximately 3,000 patients. It treats patients from across the country and throughout the Western Hemisphere, all with no charge.

St. Jude is in the midst of a five-year, \$1 billion expansion program that includes the construction of five new buildings and renovation of existing buildings, which will double the

facility's size and greatly expand research capacity for genetic and infectious diseases. In 2003, its \$36 million Good Manufacturing Practices facility was completed and manufactures vaccines and gene therapy components for treating patients. This combination of new facilities, new equipment and expanded research has increased employment from 2,000 to near 3,700 and pushed annual operating costs to over \$400 million. The adjacent UPTOWN neighborhood has been redeveloped to provide mixed income housing for a portion of these new workers. In 2011, St. Jude received approval to begin construction on its new \$190 million Medical Tower.

Government

Navy Memphis Complex at Millington - The Bureau of Naval Personnel and related commands have relocated from the Washington, D.C. area to Millington, located in north Shelby County, including the Naval Manpower Analysis Center with 200 personnel. The Defense Department located a satellite office of the Defense Finance and Accounting Service at Navy Memphis and the U.S. Army Corps of Engineers has located its Finance and Accounting Office there as well. The Department of Defense also recommended that three additional commands be relocated to Navy Memphis. These include the Naval Recruiting Command from Arlington, Virginia, the Naval Health Research Center and the Navy Personnel Research and Development Center from San Diego, California. Prior to 1995, the U.S. Navy operated a large technical training school and airfield at Millington. Those commands and personnel were relocated to several other bases outside the region following nationwide consolidations in the early and mid 1990s. During those same consolidations, the Defense Department also closed its large depot warehouse complex in Memphis.

Libraries

The City enjoys a Memphis Public Library system with 19 branches throughout the area and an annual circulation of more than 4 million books. The Memphis Public Library system houses 1.7 million volumes. Colleges, universities, businesses, industries, and organizations maintain numerous other libraries. The Benjamin L. Hooks Library serves as the information hub of the Mid-South and the flagship for the 19 branches. Situated in the middle of the City, this 330,000 square-foot facility is larger and more accessible to all residents. The Memphis Public Library is the only library in the United States with both its own radio and television stations.

Communications

One major daily newspaper, which is circulated throughout the 76-county area, a financial daily, and many weekly publications serve the City and the County. There are six television stations in Shelby County: ABC, CBS, NBC, PBS, FOX, and two independent stations. In addition, Time Warner cable television is available. There are 16 AM, 4 noncommercial, and 16 commercial FM radio stations.

BellSouth Communications and numerous other providers of long distance service operate within the City. The network provides a vast range of services and communication techniques to over 302,000 main line telephones in the area, including service to more than 295,000 households.

The City serves as one of the regional post office and bulk mail distribution centers for the eleven-state Southern Postal Region. This is the headquarters for the administration of more than 7,500 post offices.

Recreation

Shelby County is famous for its duck hunting and the surrounding areas provide deer hunting, upland game hunting for squirrel, rabbit, quail, and doves, and year-round fishing for bass, crappie and pan fish.

There are two state parks in Shelby County: the 12,512-acre Meeman-Shelby Forest State Park, and T.O. Fuller State Park. Chickasaw State Park with 11,000 acres and Natchez Trace State Park with 42,000 acres are nearby in West Tennessee. Audubon (373 acres), Overton (357 acres), King Riverside (340 acres), and Edmund Orgill Park (443 acres plus 160 acres undeveloped) are the County's largest and most popular parks. The Park Commission supervises 63 playgrounds during the summer, providing 20,000 children with lunches. There are also baseball fields throughout the County, 10 publicly owned and 17 privately owned golf courses and numerous swimming, tennis, bowling and skating facilities. Shelby County is also the home of the prestigious Southwind Tournament Players Club Golf Course, home of the Federal Express St. Jude Hospital Memphis Classic Golf Tournament. There are 25 community centers in Memphis as well as a children's theater and a hobby center, a center for the handicapped, and four senior citizens centers. Boating and water-skiing are popular activities, while facilities for other individual sports such as handball, horseback riding, or archery are also provided throughout the Shelby County area.

Athletics of the spectator sportsmen include the Memphis Grizzlies NBA basketball team, the FedEx St. Jude Hospital Memphis Classic Golf tournament, the U.S. Kroger/St. Jude Tennis Championship national indoor tennis championship, the Liberty Bowl Football Classic, the Southern Heritage Football Classic, Memphis Redbirds AAA baseball, University of Memphis Tigers collegiate basketball, professional exhibition games, and high school tournaments, in addition to musical events and trade expositions. The Memphis Gun Club, the Germantown Charity Horse Show, and the National Bird Dog Championship provide other opportunities for the sports-minded.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY OF MEMPHIS, TENNESSEE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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Mayer Hoffman McCann P.C.
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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Memphis, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Memphis, Tennessee (the "City") as of and for the year ended June 30, 2011, and the budgetary comparison for the general fund for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Board of Education of the Memphis City Schools, the Memphis-Shelby County Airport Authority and the Memphis Zoological Society, which represent 94%, 91% and 94%, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. We did not audit the financial statements of Memphis Light, Gas and Water Division Retirement and Pension System and Memphis Light, Gas and Water Division Other Post Employment Benefits Trust Fund, which represent 40%, 38% and 37%, respectively, of the assets, net assets, and total deductions of the fiduciary funds. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned entities, is based on the reports of the other auditors. We did not audit the financial statements of the Electric, Gas and Water Divisions of Memphis Light, Gas and Water Division, a major proprietary fund. The Electric, Gas and Water Divisions of Memphis Light, Gas and Water Division represent 87%, 87% and 92%, respectively, of the assets, net assets, and revenues of the business-type activities of the primary government. The financial statements of the Electric, Gas and Water Divisions of Memphis Light, Gas and Water Division as of December 31, 2010 were audited by other auditors, Thompson Dunavant PLC, whose members became shareholders of Mayer Hoffman McCann P.C. as of August 1, 2011, and whose report dated May 19, 2011, expressed an unqualified opinion on those statements.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2011, and the respective changes in financial position and, where applicable cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and the schedule of funding progress for other post employment benefits as listed in the table of contents are not a required part of the financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual non-major fund financial statements and schedules, supplementary schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying supplemental schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements of the City. The combining and individual non-major fund financial statements and schedules, supplementary schedules, and the supplemental schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Mayer Hoffman McCann P.C.
Jones and Fugere

Memphis, Tennessee
December 29, 2011

Management's Discussion and Analysis

As management of the City of Memphis, Tennessee (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal and notes to the financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The primary government's total assets exceeded its liabilities at June 30, 2011 by \$1,847,740 (net assets). Total government-wide net assets decreased by \$69,495 in fiscal year 2011.
- At June 30, 2011, the City's governmental activities reported ending net assets of a negative \$256,400, a decrease of \$170,339 or 197.9% from the prior year. The decrease resulted primarily due to increases in liabilities related to pension, other post-employment benefits (OPEB), increased capital project spending and providing funding to Memphis City Schools.
- The City's business-type activities reported ending net assets of \$2,104,140, an increase of \$100,844 or 5.0% from prior year. Prior year adjustment was made to the MLGW division's fiscal year 2009 beginning net assets balance as a result of an employee benefits liability correction and accumulated depreciation on intangible assets as a result of implementing GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets. Prior year adjustments were also made for prior period revenue and/or expense adjustments in the Sewer, Storm Water and Health Insurance Funds.
- At June 30, 2011, the fund balance for the general fund was \$91,061, an increase of \$6,491 or 7.7% from prior year's balance. The unassigned portion of the fund balance was \$81,125.
- The City's total general obligation and revenue bond debt decreased by \$76,906 or 3.2% during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis document is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information to provide greater detail of data presented in the basic financial statements.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the year ended June 30, 2011. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported

by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, community services, transportation and environment, and education. The business-type activities of the City include the operations of the regional sewer collection and treatment facilities, the distribution of electricity, gas and water, and the operation of the storm water system.

The government-wide financial statements include not only the City itself (the primary government), but also the Board of Education of the Memphis City Schools, Memphis Area Transit Authority, the Memphis-Shelby County Airport Authority, and the Memphis Zoological Society each of which is a legally separate entity for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements are presented as Exhibits A-1 and A-2; component unit financial statements are presented as Exhibits A-14 and A-15.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for its major funds. Data from the other sixteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements.

The City adopts an annual appropriated budget for its general, special revenue (except Workforce Investment Act Fund, Community Service Fund, Community Development, Central Business Improvement District Fund, Community Redevelopment Agency Fund, Midtown Corridor Fund and Education Fund), and debt service funds. Budgetary comparison statements are provided to demonstrate compliance with this budget.

The basic governmental fund financial statements, including reconciliation to the government-wide Statements of Net Assets and Activities, are presented as Exhibits A-3 through A-8.

Proprietary Funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer collection and treatment facilities, the distribution of electricity, gas and water, and operation of the storm water system. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its printing and supply services, self insurance for health benefits, self insurance for unemployment benefits, and operations and maintenance of City vehicles. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer collection and treatment facilities and the distribution of electricity, gas and water, both of which are considered to be major funds of the City; and operations of the storm water system, a nonmajor fund. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements.

The basic proprietary fund financial statements are presented as Exhibits A-9 through A-11.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The actuarially determined net pension obligation and net other post employment benefit (OPEB) liability are reported in the government-wide statement of net assets as governmental activities.

The basic fiduciary fund financial statements are presented as Exhibits A-12 and A-13.

Notes to the Financial Statements. The notes which follow Exhibits A-1 through A-15, provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Information concerning the City's progress in funding its obligation to provide pension benefits and other post employment benefits to its employees is included in the notes to the financial statements.

Combining and Individual Fund Statements and Schedules. Combining schedules provide detail in connection with nonmajor governmental funds and internal service funds referred to earlier. Individual fund statements provide greater detail, presented on the basis of budgeting (encumbrances included with expenditures), nonmajor special revenue and capital projects funds, and debt service fund. Capital Asset schedules present information concerning the categories of assets, function and service provided, source of funding and additions and deductions during the year. Combining and individual fund statements and schedules are presented as Exhibits B through F.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. The City’s assets exceeded liabilities by \$1,847,740 at June 30, 2011.

Condensed Statement of Net Assets

	Governmental activities		Business-type activities		Total	
	2010	2011	2010	2011	2010	2011
Current and other assets	\$ 906,105	883,847	1,731,181	1,725,763	2,637,286	2,609,610
Capital assets	1,154,754	1,179,072	1,821,925	1,862,290	2,976,679	3,041,362
Total assets	<u>2,060,859</u>	<u>2,062,919</u>	<u>3,553,106</u>	<u>3,588,053</u>	<u>5,613,965</u>	<u>5,650,972</u>
Long-term liabilities outstanding	1,395,485	1,353,490	1,056,091	954,849	2,451,576	2,308,339
Other liabilities	751,426	965,829	503,100	529,064	1,254,526	1,494,893
Total liabilities	<u>2,146,911</u>	<u>2,319,319</u>	<u>1,559,191</u>	<u>1,483,913</u>	<u>3,706,102</u>	<u>3,803,232</u>
Net assets:						
Invested in capital assets, net of related debt	24,027	6,912	1,664,684	1,705,138	1,688,711	1,712,050
Restricted	-	14,783	75,615	64,909	75,615	79,692
Unrestricted	(110,079)	(278,095)	253,616	334,093	143,537	55,998
Total net assets	<u>\$ (86,052)</u>	<u>(256,400)</u>	<u>1,993,915</u>	<u>2,104,140</u>	<u>1,907,863</u>	<u>1,847,740</u>

By far the largest portion of the City’s net assets (92.7%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided for by other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City’s net assets (4.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (3.0%) is available for payment of debt service and capital projects, while funding current operations with current revenue sources.

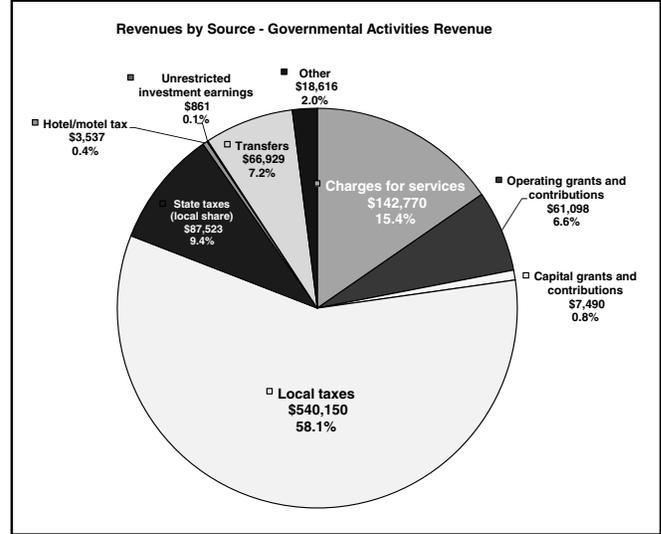
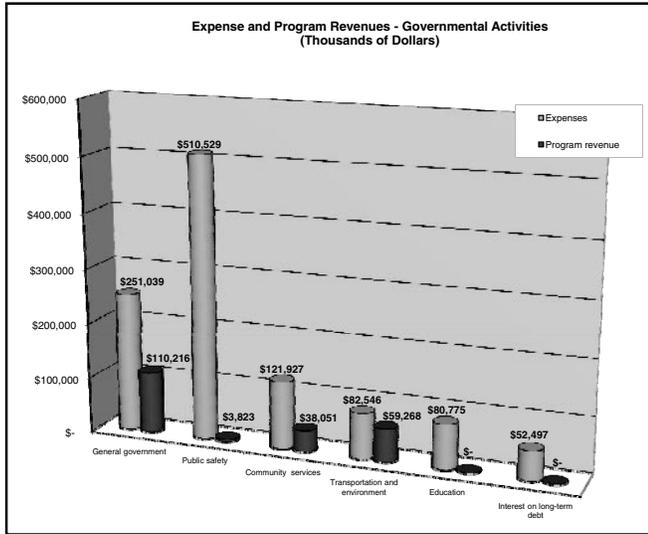
Condensed Statement of Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2010	2011	2010	2011	2010	2011
Revenues:						
Program Revenues:						
Charges for services	\$ 128,573	142,770	1,726,243	1,827,733	1,854,816	1,970,503
Operating grants and contributions	69,135	61,098	28,377	30,321	97,512	91,419
Capital grants and contributions	3,217	7,490	800	1,398	4,017	8,888
General revenues:						
Local taxes	540,970	540,150	-	-	540,970	540,150
State taxes (local share)	87,751	87,523	-	-	87,751	87,523
Hotel/motel tax	4,017	3,537	-	-	4,017	3,537
Unrestricted investment earnings	1,402	861	50,516	41,520	51,918	42,381
Other	13,541	18,616	-	-	13,541	18,616
Total revenues	848,606	862,045	1,805,936	1,900,972	2,654,542	2,763,017
Expenses:						
General government	223,773	251,039	-	-	223,773	251,039
Public safety	482,281	510,529	-	-	482,281	510,529
Community services	129,722	121,927	-	-	129,722	121,927
Transportation and environment	81,539	82,546	-	-	81,539	82,546
Education	117,118	80,775	-	-	117,118	80,775
Interest on long-term debt	58,472	52,497	-	-	58,472	52,497
Sewer collection and treatment	-	-	55,584	61,401	55,584	61,401
Memphis Light, Gas and Water	-	-	1,621,840	1,658,638	1,621,840	1,658,638
Storm Water	-	-	12,571	13,160	12,571	13,160
Total expenses	1,092,905	1,099,313	1,689,995	1,733,199	2,782,900	2,832,512
Increase (decrease) in net assets before transfers	(244,299)	(237,268)	115,941	167,773	(128,358)	(69,495)
Transfers	64,997	66,929	(64,997)	(66,929)	-	-
Increase (decrease) in net assets	(179,302)	(170,339)	50,944	100,844	(128,358)	(69,495)
Net assets - July 1, as restated	93,250	(86,061)	1,942,971	2,003,296	2,036,221	1,917,235
Net assets - June 30	\$ (86,052)	(256,400)	1,993,915	2,104,140	1,907,863	1,847,740

Governmental activities. Governmental activities decreased the City's net assets by \$170,339 and Business-Type activities increased net assets by \$100,844, thereby resulting in a net decrease of \$69,495 or 3.6% in total primary government's beginning net assets. Key elements of the governmental activities are discussed below:

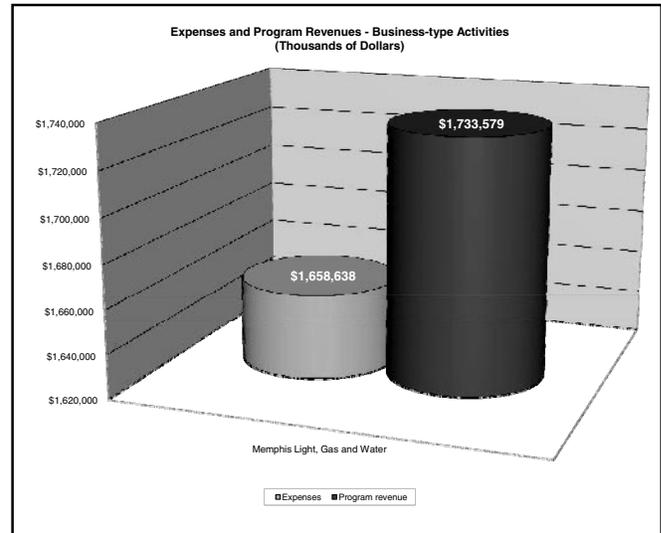
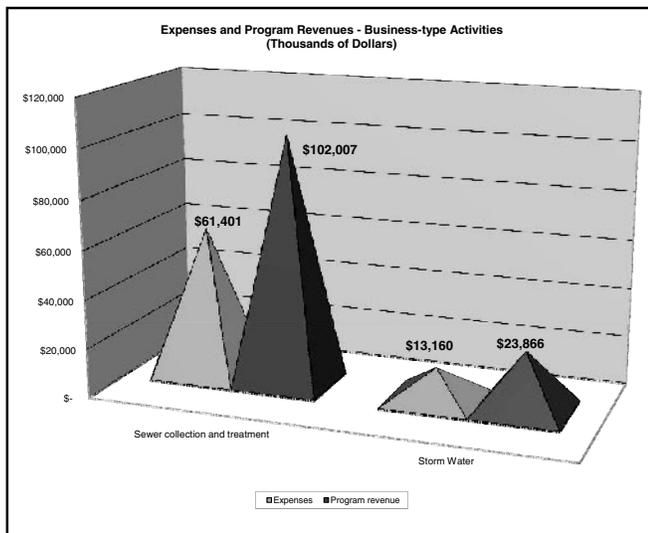
- Total expenses increased by \$6,408 or .6% from last year. Total revenues increased by \$13,439 or 1.6% over last year.
- The most significant increase in expenses from prior year was realized in public safety and general government, whose expenses increased by \$28,248 or 5.9% and \$27,266 or 12.2%, respectively. These increases were the result of increases in the pension and other post employment benefit obligations, increased healthcare premium expense and increased staffing levels.
- The education program expenses decreased by \$36,343 or 31.0% due to the absence of a significant accrual that was made in fiscal year 2010 resulting from a lawsuit filed by Memphis City Schools to reinstate the fiscal year 2009 funding. City Council made a decision to reduce funding to Memphis City Schools in fiscal year 2009. However, funding was provided in fiscal year 2010. In addition, the accrual for the fiscal year 2009 liability was made in fiscal year 2010.
- During fiscal year 2011, revenues increased by \$13,439 or 1.6%, primarily related to an increase in charges for

services of \$14,197 or 11.0%. Charges for services increased due to a solid waste management rate increase.



Business-type activities. Business-type activities increased the City’s net assets by \$100,844, accounting for 5% growth in the government’s beginning net assets. Key elements of the increase are as follows:

- MLGW’s Electric Division, Gas Division and Water Division account for \$39.3 million, \$20.9 million and a negative \$0.7 million of the net asset increase, respectively. The Electric division’s net change in net assets was up year over year mainly due to an increase in operating margin (operating revenues less purchased power cost) created by increased sales. The Gas division change in net assets was up year over year as a result of increased in sales. Finally, the Water division’s change in net assets decreased year over year as a result of a increased operation and maintenance cost, partially offset by an increase in operating revenue.
- The Sewer and Storm Water funds also contributed \$34.8 million and \$6.3 million, respectively, towards the business-type total net asset increase. The increases were driven by increased charges for services resulting from rate increases.



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2011, the City's governmental funds reported combined ending fund balance of \$171,260, a decrease of \$28,199 in comparison with the prior year. Approximately 44.4% or \$76,039 of the fund balance constitutes unassigned fund balance, which is available for spending at the government's discretion. Approximately 8.6% or \$14,783 of the fund balance is considered restricted to indicate the amount is subject to external enforceable legal restrictions. Another \$72,186 or 42.2% of the fund balance is reported as committed indicating amounts whose use is constrained by limitations that the City Council imposed. The remainder of fund balance \$8,252 has been assigned by the administration to indicate that it is not available for new spending primarily because it has already been committed to liquidate contracts and purchase orders of the prior period.

The general fund is the chief operating fund of the City. At June 30, 2011, unassigned fund balance of the general fund was \$81,125, while total fund balance was \$91,061. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 13.6% of total general fund expenditures, while total general fund balance represents 15.3% of the fund expenditures.

The fund balance of the City's general fund increased by \$6,491 during the fiscal year ended June 30, 2011. Key factors resulting in this increase are as follows:

- Total General Fund Revenues increased by \$15,407 or 2.8% over prior year.
- Total expenditures increased by \$12,661 or 2.2% over prior year. Expenses of the general government and community services decreased slightly by \$.84 or .58% and \$1,047 or 1.6%, respectively. However, Public Safety increased by \$14,685 or 4.0%.
- The Public Safety increase was due to increases in healthcare premiums, an increase in funding to the City's other post employment benefit (OPEB) trust fund and increased staffing levels. The healthcare and (OPEB) increased expenses were offset for all programs by other personnel cost saving measures such as salary reductions for high income employees.
- The general fund's operating transfers out increased by \$21,060 or 46.2% primarily as a result of a transfer out to the Education Fund of \$60 million as a result of a decision to fund Memphis City Schools in fiscal year 2011 over and above the property tax rate allocated to the schools.
- The general fund's operating transfer in increased by \$46,838 or 80.0% due to increased transfers from the debt service offsetting the transfer out to the Education Fund.

The fund balance of the City's Debt Service fund decreased by \$17,479 to \$17,201 during the fiscal year ended June 30, 2011. Key factors resulting in this decrease are as follows:

- Total revenues were up slightly by \$1,554 or 1.8%. However, total expenditures decreased by \$39,917 or

34.1% due to decreased principal and interest payments.

- Transfers outs were up from \$0 to \$45,000 due to a transfer out to the General Fund to offset a transfer out of the General Fund to the Education Fund.

Detail for other governmental funds, including special revenue funds and the capital project fund are presented in Exhibits B-1 and B-2. Significant financial activity is summarized as follows:

- The Capital Projects Fund's fund balance decreased from last year from \$74,030 to \$47,182. The change resulted primarily from an increase in capital outlay expenditures.
- The New Memphis Arena Fund (FedEx Forum) activity remained relatively constant year over year. As a result, the fund deficit decreased from \$6,052 to \$5,086. The MLGW Water Division, through an agreement with the City, transfers a payment in the amount of \$2,500 per year. The agreement is effective through the year 2028. This fund also reports the collection and disbursement of certain revenues related to the bonds issued by the Sports Authority for construction of the arena.
- Solid Waste Management Fund's fund balance increased from a negative \$2,152 to a positive \$4,963 due to a rate increase.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of \$329,889 is comprised primarily of \$312,720 for Memphis Light, Gas and Water, which can be used for on-going operations of the public utility system and \$29,603 unrestricted net asset for the Sewer Collection and Treatment Fund. Both the Sewer Fund and MLGW are assessed an in-lieu-of tax payment with all proceeds allocated to the General Fund, except for the Water Division payment, which is part of the financing arrangement for the New Memphis Arena. The remaining negative \$12,434 represents unrestricted net assets of the non-major fund, Storm Water

General Fund Budgetary Highlights

The original operating budget for FY 2011 anticipated a contribution to fund balance of \$4,256. Differences between the original budget and the final amended budget can be briefly summarized as follows:

General Fund actual revenues were slightly over budget by \$11,781. Total expenditures were under budget by \$8,526. All divisions within the City contributed to the budget surplus. Net Transfer Ins/Outs were under budget by \$5,103 million dollars of the revised budget due to the actual transfer In from Debt Service being less than budget.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2011 amounts to \$3,041,362 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, roads, highways, and other infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was \$64,683 or 2.2% . The governmental activities and business-type activities shared equally in the increase.

Condensed Statement Capital Assets
(net of depreciation)

	Governmental activities		Business-type activities		Total	
	2010	2011	2010	2011	2010	2011
Land and buildings	\$ 381,785	369,347	42,405	39,945	424,190	409,292
Improvements other than buildings	560,969	550,442	280,853	275,635	841,822	826,077
Equipment	27,789	19,654	6,836	10,748	34,625	30,402
Construction in progress	184,211	239,629	43,863	52,545	228,074	292,174
Memphis Light, Gas and Water	-	-	1,447,968	1,483,417	1,447,968	1,483,417
Total	\$ 1,154,754	1,179,072	1,821,925	1,862,290	2,976,679	3,041,362

Major capital asset events during the current fiscal year included the following:

- Completed Tigerlane a greenspace project at the Fairgrounds.
- Repaired Fire Stations.
- Executed anti-blight initiatives.
- Additional information on the City’s capital assets can be found in Note IV (D).

Long-term debt. At June 30, 2011, the City had total bonded debt outstanding of \$2,354,639. Of this amount, \$1,299,026 comprises debt backed by the full faith and credit of the government, inclusive of self-supporting debt of the Board of Education and Airport Authority. The remaining balance of \$1,055,613 consists of bonds secured solely by specified revenue sources (i.e., revenue bonds).

Condensed Statement of Outstanding Debt
General Obligation and Revenue Bonds

	Governmental activities		Business-type activities		Total	
	2010	2011	2010	2011	2010	2011
General obligation bonds	1,181,278	1,218,444	-	-	1,181,278	1,218,444
Bond anticipation notes	75,400	75,400	15,000	-	90,400	75,400
Capital lease obligations	4,628	5,182	-	-	4,628	5,182
Revenue bonds	-	-	1,155,239	1,055,613	1,155,239	1,055,613
Total	\$ 1,261,306	1,299,026	1,170,239	1,055,613	2,431,545	2,354,639

The City’s total debt decreased by \$76,906 (3.2% percent) during FY 2011. Total debt includes state loans, general obligation bonds, bond anticipation notes, capital lease obligations, and revenue bonds. Governmental activities’ total debt increased by 3.0%, while business-type activities’ debt decreased by 9.8%.

The City has long held a high grade bond rating on indebtedness from the major credit rating services. As of June 30, 2011, the City held ratings of A1 from Moody’s, AA from Standard and Poor’s and A+ Fitch, Inc. Among the factors most commonly cited by these firms in support of the credit rating assigned to the City’s general obligation bonds include a stable and expanding economic climate, broad revenue base, and well-managed finances. In

addition, the City has maintained good relations with the rating services and the major investment institutions through comprehensive disclosure of financial data and direct meetings with rating agency officials. The City continues to follow prudent fiscal policies and practices while expanding its financial base.

The City's full faith and credit and unlimited taxing power has been pledged to the payment of general obligation debt principal and interest. There is no legal limit on the indebtedness which may be incurred.

In June 2011, the City issued General Improvement Bonds of \$59,590 and \$26,600 of General Improvement Refunding Bonds. During fiscal year 2011, the City entered into lease agreements as a lessee for financing the acquisition of equipment for the Solid Waste and City Court Clerk divisions.

In March 2010, MLGW refunded the entire portion of the callable 2003A Electric System Revenue bonds. During this process, MLGW received credit upgrades from Fitch Ratings ("Fitch"). Fitch raised its credit ratings on all MLGW outstanding debt which includes the 2002, 2003A and the 2008 series bonds from AA to AA+. Subsequently in April 2010, MLGW was recalibrated to an AAA rating by Fitch. Moody's Investor Service ("Moody's") and Standard & Poor's ("S&P") reaffirmed their respective ratings on all outstanding Electric System Revenue bonds. The Water Division continues to hold the highest possible bond ratings which are Aaa from Moody's Investor Service and AAA from S&P. The Gas Division currently has no debt that is credit rated. More information is available in MLGW's separately issued financial statements. Separate financial statements for MLGW are issued as of and for its year-end December 31, and can be obtained by writing to MLGW Financial Statements, P.O. Box 430, Memphis, Tennessee 38101-0430.

Additional information on the City's long-term debt can be found in Note IV (G).

Economic Factors and Next Year's Budgets and Rates

Factors considered in preparing the City's budget for the 2012 fiscal year are discussed more fully in the Budget document and include:

- Although the recession that impacted the US and local economy has officially ended, the budget preparation was predicated on the continuing assumption that the Memphis MSA will have slow to moderate growth during FY2012.
- The Operating Budget Revenue for FY2012 of \$688,584 which represents a revenue increase of \$53.8 million or 8.5% from the FY2011 Adopted Budget. This increase is primarily attributable to a one-time \$0.18 cents property tax increase to support Memphis City Schools and a planned sale of delinquent property tax receivables.
- For the third year, the general fund expenditure budget included over \$55.00 million to "maintenance of effort" to Memphis City Schools. In support of funding the schools, the fiscal 2012 budget includes a 4.6% salary reduction to all employees, including public safety and layoffs.

At June 30, 2011, unassigned fund balance in the general fund was \$81,125. The original approved operating budget of \$661,401 in total expenditures (net of program revenue) for FY 2012 had a planned contribution of \$27,183 to unassigned fund balance. The City's tax rate for FY 2012 has been set at \$3.1889 per \$100 of assessed value. The tax rate is allocated to General Fund, Debt Service, and Capital Projects. The City continues to explore cost cutting measures and additional revenue sources.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information may be addressed to the Office of the Director of Finance, Room 368, City of Memphis, 125 North Main, Memphis, Tennessee 38103. The Comprehensive Annual Financial Report, the 2012 Operating Budget and 5 Year Capital Improvement Program, and other general information about the City may be found on the City's website, www.memphistn.gov.

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CITY OF MEMPHIS

T E N N E S S E E

BASIC FINANCIAL STATEMENTS

**BASIC FINANCIAL
STATEMENTS**

STATEMENT OF NET ASSETS
(Thousands of Dollars)
June 30, 2011

CITY OF MEMPHIS, TENNESSEE
Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 8,828	166,119	174,947	200,572
Investments	60,732	163,244	223,976	46,970
Equity in cash and investment pool	95,482	24,832	120,314	-
Restricted funds	-	39,956	39,956	-
Receivables (net of allowance for uncollectibles):				
Property taxes	422,600	-	422,600	-
Sales and income taxes	37,574	-	37,574	-
Federal and state grants	51,192	20	51,212	4,785
Interest and dividends on investments	865	52	917	201
Notes and accounts receivable	36	199,089	199,125	8,986
Housing rehabilitation loans	66,317	-	66,317	-
Other	51,597	-	51,597	11,224
Internal Balances	698	(698)	-	-
Due from other agencies and governments	85,940	-	85,940	233,915
Inventories	582	37,393	37,975	15,815
Unbilled Revenues	-	84,677	84,677	-
Deferred purchased power and gas costs	-	885,747	885,747	-
Collateral held in trust for securities on loan	-	64,470	64,470	-
Prepaid expenses	-	-	-	2,470
Restricted assets:				
Cash and cash equivalents	-	-	-	4,832
Investments	-	42,392	42,392	201,643
Receivables				
Federal and state grants	-	-	-	7,161
Accrued interest	-	-	-	1,298
Special facilities	-	-	-	39,262
Other	-	-	-	-
Non-depreciable capital assets	301,973	206,975	508,948	406,730
Depreciable capital assets (net of accumulated depreciation)	877,099	1,655,315	2,532,414	1,675,410
Bond issue costs	-	-	-	4,648
Net Pension asset	1,404	-	1,404	-
Other assets	-	18,470	18,470	1,567
Total assets	\$ 2,062,919	3,588,053	5,650,972	2,867,489

(Continued)

STATEMENT OF NET ASSETS
(Thousands of Dollars)
June 30, 2011

CITY OF MEMPHIS, TENNESSEE
Exhibit A-1
(Continued)

	<u>Primary Government</u>			Component Units
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Accounts payable and accrued liabilities	\$ 76,784	300,126	376,910	130,442
Accrued interest payable	16,059	-	16,059	-
Contract retainage	36	181	217	-
Insurance claims payable	8,247	-	8,247	17,739
Due to other agencies and governments	11,456	-	11,456	547
Refundable bonds and deposits	940	-	940	-
Unearned revenue	519,777	-	519,777	61,564
Collateral subject to return to borrowers	-	64,470	64,470	-
Customer common deposits	-	22,344	22,344	-
Other post employment benefits	146,222	8,037	154,259	-
Net Pension Obligations	73,942	-	73,942	-
Other liabilities	-	33,141	33,141	-
Noncurrent liabilities:				
Due within one year	112,366	100,765	213,131	24,075
Due in more than one year	1,353,490	954,849	2,308,339	936,528
Total liabilities	2,319,319	1,483,913	3,803,232	1,170,895
NET ASSETS				
Invested in capital assets, net of related debt	6,912	1,705,138	1,712,050	1,638,945
Restricted for:				
Debt service and construction	-	64,909	64,909	-
Capital acquisition	-	-	-	168,456
Contracted grant programs	-	-	-	10,611
Food service	-	-	-	21,451
Self insurance	-	-	-	500
Other	14,783	-	14,783	5,807
Unrestricted:				
Other	(278,095)	334,093	55,998	(149,176)
Total net assets	\$ (256,400)	2,104,140	1,847,740	1,696,594

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
Exhibit A-2

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Functions/Programs								
Primary government:								
Governmental Activities:								
General government	\$ 251,039	79,691	23,035	7,490	(140,823)	-	(140,823)	-
Public safety	510,529	3,637	186	-	(506,706)	-	(506,706)	-
Community services	121,927	174	37,877	-	(83,876)	-	(83,876)	-
Transportation and environment	82,546	59,268	-	-	(23,278)	-	(23,278)	-
Education	80,775	-	-	-	(80,775)	-	(80,775)	-
Interest on long-term debt	52,497	-	-	-	(52,497)	-	(52,497)	-
Total governmental activities	1,099,313	142,770	61,098	7,490	(887,955)	-	(887,955)	-
Business-type activities:								
Sewer collection and treatment	61,401	98,559	2,255	1,193	-	40,606	40,606	-
Memphis Light, Gas and Water	1,658,638	1,705,513	28,066	-	-	74,941	74,941	-
Storm water	13,160	23,661	-	205	-	10,706	10,706	-
Total business-type activities	1,733,199	1,827,733	30,321	1,398	-	126,253	126,253	-
Total primary government	\$ 2,832,512	1,970,503	91,419	8,888	(887,955)	126,253	(761,702)	-
Component units:								
Board of Education	\$ 1,230,086	12,843	690,101	32,521	-	-	-	(494,621)
Memphis Area Transit Authority	68,333	10,420	-	25,158	-	-	-	(32,755)
Memphis Zoological Society	14,523	14,442	449	855	-	-	-	1,223
Airport Authority	140,508	111,760	-	42,578	-	-	-	13,830
Total component units	\$ 1,453,450	149,465	690,550	101,112	-	-	-	(512,323)

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STATEMENT OF ACTIVITIES
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
Exhibit A-2
(Continued)

Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
				Governmental Activities	Business-Type Activities	Total	
General revenues:							
Local taxes:							
Property taxes - levied for education				20,775	-	20,775	-
Property taxes - levied for debt service				83,635	-	83,635	-
Property taxes - levied for capital projects				365	-	365	-
Property taxes - levied for general government				262,392	-	262,392	-
Interest, penalties and commission - property taxes				9,495	-	9,495	-
Sales tax, general				104,976	-	104,976	-
Sales tax, beer				15,070	-	15,070	-
Gross receipts tax				10,594	-	10,594	-
Franchise tax				5,970	-	5,970	-
Other local taxes				26,878	-	26,878	-
State taxes:							
Sales tax				45,512	-	45,512	-
Income tax				7,901	-	7,901	-
Beer tax				359	-	359	-
Alcoholic beverage tax				288	-	288	-
Gasoline inspection tax				1,467	-	1,467	-
State professional privilege tax				1,516	-	1,516	-
State gas motor fuel tax				12,730	-	12,730	-
Three-cent tax				3,830	-	3,830	-
One-cent tax				2,064	-	2,064	-
Tourism development				11,856	-	11,856	-
Hotel/motel tax				3,537	-	3,537	-
Grants and contributions not restricted to specific programs				-	-	-	436,486
City of Memphis subsidy				-	-	-	22,114
Investment income				861	41,520	42,381	4,148
Intergovernmental Revenues				6,492	-	6,492	-
Federal grants and entitlements				-	-	-	14,210
State grants				-	-	-	8,451
Other				12,124	-	12,124	5,135
Transfers				66,929	(66,929)	-	-
Total general revenues and transfers				717,616	(25,409)	692,207	490,544
Change in net assets				(170,339)	100,844	(69,495)	(21,779)
Net assets - beginning, as restated				(86,061)	2,003,296	1,917,235	1,718,373
Net assets - ending				\$ (256,400)	2,104,140	1,847,740	1,696,594

The notes to the financial statements are an integral part of this statement.

**BALANCE SHEET
GOVERNMENTAL FUNDS
(Thousands of Dollars)
June 30, 2011**

**CITY OF MEMPHIS, TENNESSEE
Exhibit A-3**

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 41	-	8,786	8,827
Investments	-	-	60,732	60,732
Equity in cash and investment pool	52,408	9,816	24,884	87,108
Receivables (net of allowance for uncollectibles):				
Property taxes:				
Current property taxes	295,200	85,287	3,198	383,685
Delinquent property taxes	24,921	8,375	5,619	38,915
Sales and income taxes	37,574	-	-	37,574
Federal and state grants	2,592	-	48,600	51,192
Interest and dividends on investments	36	5	824	865
Housing rehabilitation loans	-	-	66,317	66,317
Other	41,080	-	10,516	51,596
Due from other funds	32,710	7,672	1,125	41,507
Due from other agencies and governments	806	28,086	13,862	42,754
Total assets	\$ 487,368	139,241	244,463	871,072
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 50,351	159	20,528	71,038
Contract retainage	-	-	36	36
Due to other funds	-	-	38,376	38,376
Due to other agencies and governments	2,139	-	3,996	6,135
Refundable bonds and deposits	940	-	-	940
Deferred revenue	342,877	121,881	118,529	583,287
Total liabilities	396,307	122,040	181,465	699,812
Fund balances:				
Restricted	1,684	-	13,099	14,783
Committed	-	17,201	54,985	72,186
Assigned	8,252	-	-	8,252
Unassigned	81,125	-	(5,086)	76,039
Total fund balances	91,061	17,201	62,998	171,260
Total liabilities and fund balances	\$ 487,368	139,241	244,463	871,072

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS
(Thousands of Dollars)
June 30, 2011**

**CITY OF MEMPHIS, TENNESSEE
Exhibit A-4**

Amounts reported for governmental activities in the statement of net assets are different because:

Total governmental fund balances:	\$ 171,260
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,178,564
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	106,170
Net pension assets should be reported as an asset in the government-wide statement of net assets. This is the cumulative amount by which the Library's Pension system has overfunded its pension obligations.	1,404
Net pension obligations should be reported as a liability in the government-wide statement of net assets. This is the cumulative amount by which the City has underfunded its pension obligations.	(73,942)
Other post employment benefits (OPEB) liabilities should be reported as a liability in the government-wide statement of net assets. This is the cumulative amount by which the City has underfunded its OPEB obligations.	(142,401)
Internal service funds are used by management to charge the costs of printing & mail, information systems, health insurance, unemployment compensation, and fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	(17,911)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,479,544)</u>
Net assets of governmental activities	<u>\$ (256,400)</u>

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES / GOVERNMENTAL FUNDS
(Thousands of Dollars)
For the fiscal year ended June 30, 2011**

**CITY OF MEMPHIS, TENNESSEE
Exhibit A-5**

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local taxes	\$ 434,648	84,987	26,811	546,446
State taxes (local share)	57,043	-	30,480	87,523
Hotel/motel tax	-	-	3,537	3,537
Licenses and permits	10,878	-	515	11,393
Fines and forfeitures	13,324	-	3,637	16,961
Charges for services	29,946	-	59,442	89,388
Investment income	519	225	54	798
Federal grants and entitlements	930	1,542	56,926	59,398
State grants	1,672	-	4,687	6,359
Intergovernmental revenues	4,420	2,072	-	6,492
Other	10,011	1,097	2,908	14,016
Total revenues	563,391	89,923	188,997	842,311
EXPENDITURES				
Current:				
General government	141,853	-	37,439	179,292
Public safety	384,240	-	3,831	388,071
Community services	63,139	-	38,221	101,360
Transportation and environment	6,321	-	67,721	74,042
Education	-	-	82,400	82,400
Capital outlay	-	-	100,550	100,550
Debt service:				
Redemption of serial bonds and notes	-	24,100	-	24,100
Interest	-	52,303	-	52,303
Bond issuance cost	-	407	605	1,012
Service charges	-	190	4	194
Total expenditures	595,553	77,000	330,771	1,003,324
Revenues over (under) expenditures	(32,162)	12,923	(141,774)	(161,013)
OTHER FINANCING SOURCES (USES)				
Transfers in	105,375	14,337	67,901	187,613
Transfers out	(66,722)	(45,000)	(8,962)	(120,684)
Issuance of debt	-	-	60,824	60,824
Issuance of refunding debt	-	25,366	-	25,366
Retirement of refunded debt obligation	-	(27,108)	-	(27,108)
Premium on debt issue	-	2,003	4,800	6,803
Total other financing sources (uses)	38,653	(30,402)	124,563	132,814
Net change in fund balances	6,491	(17,479)	(17,211)	(28,199)
Fund balances - beginning of year	84,570	34,680	80,209	199,459
Fund balances - end of year	\$ 91,061	17,201	62,998	171,260

See accompanying notes to financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
Exhibit A-6

Amounts reported for governmental activities in the statement of net activities are different because:

Net change in fund balances - total governmental funds	\$ (28,199)
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. This is the amount by which capital outlays exceeded depreciation in the current period.	24,464
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	785
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(50,253)
Changes in general liabilities reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental	(1,319)
Changes in pension and Other post employment benefits (OPEB) liabilities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(116,903)
Internal service funds are used by management to charge the costs of printing & mail, information systems, health insurance, unemployment compensation, and fleet management to individual funds. The net expenditure of certain activities of internal service funds is reported with governmental activities.	<u>1,086</u>
Change in net assets of governmental activities	<u><u>\$ (170,339)</u></u>

GENERAL FUND
STATEMENT OF REVENUES AND OTHER SOURCES -
BUDGET AND ACTUAL ON BASIS OF BUDGETING
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
Exhibit A-7

	Budgeted Amounts		Actual Amounts	Variance with Final Budget-Positive (Negative)
	Original	Final		
REVENUES				
Local taxes:				
Property taxes	\$ 271,041	271,041	266,335	(4,706)
Interest, penalties and commission - property taxes	6,313	6,313	9,495	3,182
Receipts in lieu of taxes contractual	12,921	12,921	12,864	(57)
Sales tax general	95,000	95,000	104,010	9,010
Sales tax beer	14,673	14,673	15,070	397
Alcoholic beverage tax	4,000	4,000	4,322	322
Liquor by the drink tax	2,424	2,424	2,618	194
Gross receipts tax	8,287	8,287	10,594	2,307
Excise tax	793	793	144	(649)
Franchise tax	5,493	5,493	5,970	477
Other local taxes	2,538	2,538	3,226	688
Total local taxes	<u>423,483</u>	<u>423,483</u>	<u>434,648</u>	<u>11,165</u>
State taxes (local share):				
Sales tax	41,062	41,062	45,512	4,450
Income taxes	8,900	8,900	7,901	(999)
Beer taxes	345	345	359	14
Alcoholic beverage tax	265	265	288	23
State professional privilege tax	-	1,545	1,516	(29)
Gasoline inspection fees	1,474	1,474	1,467	(7)
Total state taxes (local share)	<u>52,046</u>	<u>53,591</u>	<u>57,043</u>	<u>3,452</u>
Licenses and permits:				
Auto licenses	10,700	10,700	9,888	(812)
Dog licenses	359	359	436	77
Liquor by the drink licenses	270	270	206	(64)
Other	405	405	348	(57)
Total licenses and permits	<u>11,734</u>	<u>11,734</u>	<u>10,878</u>	<u>(856)</u>
Fines and forfeitures:				
City courts	12,176	12,176	12,651	475
Library	850	850	673	(177)
Total fines and forfeitures	<u>\$ 13,026</u>	<u>13,026</u>	<u>13,324</u>	<u>298</u>

(Continued)

GENERAL FUND
STATEMENT OF REVENUES AND OTHER SOURCES -
BUDGET AND ACTUAL ON BASIS OF BUDGETING
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
Exhibit A-7
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Charges for services:				
Building and other inspection fees	\$ 848	848	393	(455)
Park commission revenues	4,418	4,418	3,699	(719)
Parking meter revenues	580	580	454	(126)
Ambulance service fees	16,220	16,220	19,067	2,847
Rents	663	663	767	104
Tax sale attorney fees	600	600	871	271
Wrecker and storage fees	2,128	2,128	1,794	(334)
Police special events	1,917	1,917	541	(1,376)
Other	2,109	2,109	2,360	251
Total charges for services	29,483	29,483	29,946	463
Investment income:				
Interest on investments	1,963	1,963	361	(1,602)
Other	73	73	158	85
Total investment income	2,036	2,036	519	(1,517)
Federal grants	364	364	930	566
State grants	1,443	1,443	1,672	229
Intergovernmental revenues	3,802	3,802	4,420	618
Other:				
Auctions and sale of assets	1,825	1,825	2,580	755
Property damage reimbursement	200	200	283	83
Property insurance recoveries	-	120	2,178	2,058
Local shared revenue	3,655	3,665	2,336	(1,329)
Miscellaneous	6,558	6,838	2,634	(4,204)
Total other	12,238	12,648	10,011	(2,637)
Total revenues	\$ 549,655	551,610	563,391	11,781
Other source:				
Transfers in:				
Solid waste management fund	\$ 1,031	1,031	-	(1,031)
Debt service fund	51,000	51,000	45,000	(6,000)
Sewer collection and treatment fund	5,175	5,175	5,969	794
MLG&W fund	53,750	53,750	54,048	298
Community services fund	-	-	358	358
Total other source	\$ 110,956	110,956	105,375	(5,581)

**GENERAL FUND
STATEMENT OF EXPENDITURES AND OTHER USES -
BUDGET AND ACTUAL ON BASIS OF BUDGETING
(Thousands of Dollars)
For the fiscal year ended June 30, 2011**

**CITY OF MEMPHIS, TENNESSEE
Exhibit A-8**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
EXPENDITURES				
General government:				
Legislative:				
Personal services	\$ 1,306	1,306	1,310	(4)
Materials and supplies	389	389	240	149
Total legislative	1,695	1,695	1,550	145
Judicial:				
Personal services	570	570	551	19
Materials and supplies	74	74	30	44
Total judicial	644	644	581	63
Court clerk:				
Personal services	3,142	3,142	3,082	60
Materials and supplies	1,982	1,632	1,629	3
Capital outlay	9	9	-	9
Total court clerk	5,133	4,783	4,711	72
Executive:				
Personal services	3,277	3,277	3,205	72
Materials and supplies	1,916	1,761	1,185	576
Capital outlay	54	-	-	-
Grants and subsidies	2,958	1,994	1,963	31
Expense reimbursement	-	-	(30)	30
Total executive	8,205	7,032	6,323	709
Finance and administration:				
Personal services	5,543	5,449	5,135	314
Materials and supplies	1,258	1,353	1,018	335
Capital outlay	2	-	-	-
Expense reimbursement	(903)	(903)	(892)	(11)
Total finance and administration	\$ 5,900	5,899	5,261	638

(Continued)

GENERAL FUND
STATEMENT OF EXPENDITURES AND OTHER USES -
BUDGET AND ACTUAL ON BASIS OF BUDGETING
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
Exhibit A-8
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
City attorney:				
Personal services	\$ 5,227	5,227	4,953	274
Materials and supplies	13,376	13,996	13,361	635
Expense reimbursement	(4,098)	(4,098)	(3,366)	(732)
Total city attorney	14,505	15,125	14,948	177
City engineer:				
Personal services	8,906	9,522	8,828	694
Materials and supplies	1,905	2,367	1,866	501
Capital outlay	8	8	-	8
Expense reimbursement	(5,701)	(5,801)	(4,598)	(1,203)
Total city engineer	5,118	6,096	6,096	-
Information systems:				
Personal services	2,603	2,603	2,298	305
Materials and supplies	18,539	18,421	18,269	152
Capital outlay	255	242	182	60
Expense reimbursement	(1,658)	(1,658)	(1,645)	(13)
Total information systems	19,739	19,608	19,104	504
Human resources:				
Personal services	4,547	4,752	4,075	677
Materials and supplies	3,955	1,619	1,559	60
Expense reimbursement	(513)	(498)	(371)	(127)
Total human resources	7,989	5,873	5,263	610
General services:				
Personal services	9,932	9,932	9,825	107
Materials and supplies	5,984	6,102	5,728	374
Capital outlay	-	13	13	-
Expense reimbursement	(3,043)	(3,043)	(2,562)	(481)
Total general services	12,873	13,004	13,004	-
Special appropriations:				
Personal services	173	173	146	27
Materials and supplies	30	30	25	5
Grants and subsidies	57,531	68,893	68,892	1
Expense reimbursement	(3,984)	(3,984)	(3,984)	-
Total special appropriations	53,750	65,112	65,079	33
Total general government	\$ 135,551	144,871	141,920	2,951

(Continued)

GENERAL FUND
STATEMENT OF EXPENDITURES AND OTHER USES -
BUDGET AND ACTUAL ON BASIS OF BUDGETING
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
Exhibit A-8
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget-Positive (Negative)
	Original	Final		
Public safety:				
Police:				
Personal services	\$ 207,508	206,492	205,926	566
Materials and supplies	18,824	18,908	18,907	1
Capital outlay	83	-	-	-
Expense reimbursement	(49)	(49)	(125)	76
Total police	226,366	225,351	224,708	643
Fire:				
Personal services	144,647	144,874	144,873	1
Materials and supplies	15,379	15,346	15,232	114
Capital outlay	844	161	161	-
Expense reimbursement	(200)	(200)	(235)	35
Total fire	160,670	160,181	160,031	150
Total public safety	387,036	385,532	384,739	793
Community services:				
Parks and recreation:				
Personal services	15,940	15,935	15,802	133
Materials and supplies	12,285	12,807	12,774	33
Capital outlay	113	43	42	1
Inventory	75	55	10	45
Expense reimbursement	(129)	(129)	(100)	(29)
Total parks and recreation	28,284	28,711	28,528	183
Public Service:				
Personal services	18,015	17,748	16,923	825
Materials and supplies	5,910	6,256	5,810	446
Capital outlay	3	-	-	-
Grants & subsidies	-	10	10	-
Total public service	\$ 23,928	24,014	22,743	1,271

(Continued)

GENERAL FUND
STATEMENT OF EXPENDITURES AND OTHER USES -
BUDGET AND ACTUAL ON BASIS OF BUDGETING
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
Exhibit A-8
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget-Positive (Negative)
	Original	Final		
Community development:				
Personal services	\$ 275	330	329	1
Materials and supplies	146	146	144	2
Grants and subsidies	4,514	4,524	4,523	1
Total community development	4,935	5,000	4,996	4
Community enhancement:				
Personal services	6,487	6,632	6,178	454
Materials and supplies	2,500	2,492	2,390	102
Capital outlay	43	41	-	41
Expense reimbursement	(602)	(602)	(619)	17
Total community enhancement	8,428	8,563	7,949	614
Total community services	65,575	66,288	64,216	2,072
Transportation and environment:				
Public works:				
Personal services	7,427	7,377	7,192	185
Materials and supplies	18,398	17,756	16,107	1,649
Capital outlay	3	3	-	3
Expense reimbursement	(16,009)	(16,009)	(16,882)	873
Total public works	9,819	9,127	6,417	2,710
Total transportation and environment	9,819	9,127	6,417	2,710
Total expenditures	\$ 597,981	605,818	597,292	8,526
Other use - transfers out (primary):				
Debt service fund	\$ 2,934	3,253	3,253	-
Storm water fund	452	452	-	452
Miscellaneous grants fund	310	310	284	26
Community redevelopment fund	1,300	3,185	3,185	-
Education fund	60,000	60,000	60,000	-
Total transfers out	64,996	67,200	66,722	478
Total other uses	\$ 64,996	67,200	66,722	478

**STATEMENT OF NET ASSETS
PRORIETARY FUNDS
(Thousands of Dollars)
June 30, 2011**

**CITY OF MEMPHIS, TENNESSEE
Exhibit A-9**

	Business Type Activities - Enterprise Funds						Governmental Activities- Internal Service Funds
	Major Funds				Non - Major Fund	Total	
	Sewer Col- lection and Treatment	MLGW Electric Division	MLGW Gas Division	MLGW Water Division			
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 251	84,374	71,621	9,872	1	166,119	1
Investments	42,610	63,112	50,083	7,439	-	163,244	-
Equity in cash and investment pool	24,832	-	-	-	-	24,832	8,374
Restricted funds - current	-	28,301	7,318	4,337	-	39,956	-
Receivables:							
Notes and accounts	10,184	110,083	53,731	15,748	2,004	191,750	36
Interest on investments	52	-	-	-	-	52	-
Federal and state grants	-	-	-	-	20	20	-
Due from other funds	8,915	-	-	-	-	8,915	5,204
Unbilled revenues	-	62,806	19,426	2,445	-	84,677	-
Prepaid power cost	-	100,504	-	-	-	100,504	-
Unrecovered purchased gas cost	-	-	432	-	-	432	-
Inventories of materials and supplies	-	18,313	17,170	1,910	-	37,393	582
Collateral held in trust for securities on loan	-	36,890	22,152	5,428	-	64,470	-
Other current assets	-	1,930	7,278	224	-	9,432	-
Total current assets	86,844	506,313	249,211	47,403	2,025	891,796	14,197
Non-current assets:							
Restricted assets:							
Investments, less current portion	-	25,577	7,483	9,332	-	42,392	-
Total restricted assets	-	25,577	7,483	9,332	-	42,392	-
Capital assets:							
Land	13,616	-	-	-	37	13,653	-
Buildings	106,090	-	-	-	-	106,090	-
Utility plant	-	1,501,609	554,010	440,254	-	2,495,873	-
Improvements other than buildings	505,234	-	-	-	32,816	538,050	-
Machinery and equipment	27,222	-	-	-	10,421	37,643	4,063
Less accumulated depreciation and amortization	(354,461)	(572,208)	(254,323)	(185,925)	(14,647)	(1,381,564)	(3,555)
Total capital assets	297,701	929,401	299,687	254,329	28,627	1,809,745	508
Construction in progress	29,357	-	-	-	23,188	52,545	-
Net capital assets	327,058	929,401	299,687	254,329	51,815	1,862,290	508
Other noncurrent assets:							
Notes receivable	-	-	5,887	1,452	-	7,339	-
Prepaid power cost - long term	-	785,243	-	-	-	785,243	-
Prepayments In Lieu of Taxes	-	1,904	44	-	-	1,948	-
Unamortized debt expense	-	4,333	-	-	-	4,333	-
Other assets	-	1,329	599	397	-	2,325	-
Total other noncurrent assets	-	792,809	6,530	1,849	-	801,188	-
Total noncurrent assets	327,058	1,747,787	313,700	265,510	51,815	2,705,870	508
Total assets	\$ 413,902	2,254,100	562,911	312,913	53,840	3,597,666	14,705

**STATEMENT OF NET ASSETS
PRORIETARY FUNDS
(Thousands of Dollars)
June 30, 2011**

**CITY OF MEMPHIS, TENNESSEE
Exhibit A-9
(Continued)**

	Business Type Activities - Enterprise Funds							
	Major Funds					Non - Major Fund	Total	Governmental Activities- Internal Service Funds
	Sewer Collection and Treatment	MLGW Electric Division	MLGW Gas Division	MLGW Water Division				
LIABILITIES								
Current liabilities:								
Accounts payable	\$ 2,698	121,946	37,900	-	1,037	163,581	4,496	
Bonds and notes payable	-	82,883	-	-	-	82,883	-	
Accrued liabilities	2,953	46,795	35,137	13,614	344	98,843	-	
Derivative financial instruments	-	-	1,983	-	-	1,983	-	
Payables due from restricted assets	-	28,301	5,989	3,412	-	37,702	-	
Insurance claims payable	-	-	-	-	-	-	8,247	
Contract retainage	166	-	-	-	15	181	-	
Due to other funds	4,612	-	-	-	9,205	13,817	3,432	
Deferred revenue	-	-	-	-	-	-	6,045	
Current installment of revenue bonds payable	9,965	-	-	-	-	9,965	-	
Collateral subject to return to borrowers	-	36,890	22,152	5,428	-	64,470	-	
Other post employment benefits	5,298	-	-	-	2,739	8,037	3,821	
Vacation, sick and other leave benefits	3,292	-	-	-	1,119	4,411	2,371	
Total current liabilities paid from current assets	28,984	316,815	103,161	22,454	14,459	485,873	28,412	
Long-term (net of current maturities):								
Revenue bonds payable	145,575	807,287	-	1,612	-	954,474	-	
State loans payable	3,881	-	-	-	-	3,881	-	
Customer common deposits	-	17,846	3,865	633	-	22,344	-	
Other	754	18,448	4,702	7,254	-	31,158	-	
Total long-term liabilities	150,210	843,581	8,567	9,499	-	1,011,857	-	
Total liabilities	179,194	1,160,396	111,728	31,953	14,459	1,497,730	28,412	
NET ASSETS (DEFICIT)								
Invested in capital assets, net of related debt	171,518	929,401	299,687	252,717	51,815	1,705,138	508	
Restricted for debt service and construction	33,587	15,748	5,950	9,624	-	64,909	-	
Unrestricted (deficit)	29,603	148,555	145,546	18,619	(12,434)	329,889	(14,215)	
TOTAL NET ASSETS (DEFICIT)	\$ 234,708	1,093,704	451,183	280,960	39,381	2,099,936	(13,707)	
Adjustment to reflect the consolidation of internal service funds related to enterprise funds						4,204		
Net assets of business-type activities						\$ 2,104,140		

See accompanying notes to financial statements.

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS / PROPRIETARY FUNDS
(Thousands of Dollars)
For the fiscal year ended June 30, 2011**

**CITY OF MEMPHIS, TENNESSEE
Exhibit A-10**

	Business Type Activities - Enterprise Funds						Governmental Activities- Internal Service Funds
	Major Funds					Total	
	Sewer Col- lection and Treatment	MLGW Electric Division	MLGW Gas Division	MLGW Water Division	Non - Major Fund		
Charges for services	\$ 98,559	1,281,485	339,435	84,593	23,661	1,827,733	104,586
Operating revenues	98,559	1,281,485	339,435	84,593	23,661	1,827,733	104,586
Operating expenses other than depreciation and amortization:							
Personnel services	19,327	-	-	-	8,500	27,827	11,946
Materials, supplies, services, and other	20,486	-	-	-	3,099	23,585	7,373
Capital outlay	106	-	-	-	29	135	55
Purchased power and gas for resale	-	1,032,960	213,538	-	-	1,246,498	-
Production	-	-	-	17,050	-	17,050	-
Operation	-	115,243	70,103	44,821	-	230,167	-
Maintenance	-	44,830	8,764	10,037	-	63,631	-
In Lieu of Taxes	-	584	76	-	-	660	-
Inventories	-	-	-	-	-	-	18,329
Claims incurred	-	-	-	-	-	-	61,992
Total operating expenses other than depreciation and amortization	39,919	1,193,617	292,481	71,908	11,628	1,609,553	99,695
Operating income before depreciation and amortization	58,640	87,868	46,954	12,685	12,033	218,180	4,891
Depreciation and amortization: On assets acquired with own funds	13,078	42,100	12,266	11,079	1,532	80,055	146
Operating income	45,562	45,768	34,688	1,606	10,501	138,125	4,745
Non-operating revenues:							
Transmission credits	-	28,066	-	-	-	28,066	-
Investment income	446	38,795	1,915	364	-	41,520	63
Federal grant	248	-	-	-	-	248	-
Other	1,678	-	-	-	-	1,678	-
Total non-operating revenues	2,372	66,861	1,915	364	-	71,512	63
Non-operating expenses:							
Interest on bonded indebtedness	8,160	34,948	48	191	-	43,347	-
Interest on state loan	109	-	-	-	-	109	-
Other	135	-	-	-	-	135	-
Total non-operating expenses	8,404	34,948	48	191	-	43,591	-
Income (loss) before capital contributions and transfers	39,530	77,681	36,555	1,779	10,501	166,046	4,808
Transfers in	-	-	-	-	-	-	-
Transfers out	(5,969)	(38,408)	(15,640)	(2,500)	(4,412)	(66,929)	(3,393)
Capital contributions	1,193	-	-	-	205	1,398	-
Change in net assets (deficit)	34,754	39,273	20,915	(721)	6,294	100,515	1,415
Total net assets (deficit) - beginning of year, as restated	199,954	1,054,431	430,268	281,681	33,087		(15,122)
Total net assets (deficit) - end of year	\$ 234,708	1,093,704	451,183	280,960	39,381		(13,707)
Adjustment to reflect the consolidation of internal service funds related to enterprise funds						329	
Change in net assets of business-type activities						\$ 100,844	

See accompanying notes to financial statements.

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 (Thousands of Dollars)
 For the fiscal year ended June 30, 2011**

**CITY OF MEMPHIS, TENNESSEE
 Exhibit A-11**

	Sewer Col- lection and Treatment	MLGW Electric Division	MLGW Gas Division	MLGW Water Division	Non-Major Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from customers and users	\$ 93,501	1,267,061	339,463	79,861	23,508	1,803,394	355
Receipts from other division funds	-	-	-	-	-	-	32,552
Employee contributions	-	-	-	-	-	-	19,249
Employer contributions	-	-	-	-	-	-	52,973
Payments to suppliers	(19,066)	(919,070)	(234,485)	(27,662)	(2,875)	(1,203,158)	(5,713)
Payments to employees	(17,636)	(115,460)	(56,168)	(42,742)	(7,534)	(239,540)	(10,869)
Payments to other division funds	(8,915)	(519)	(1,430)	1,606	-	(9,258)	10
Payments for taxes	-	(426)	897	-	-	471	-
Payments for inventory	-	-	-	-	-	-	(18,307)
Payments for claims incurred	-	-	-	-	-	-	(61,758)
Net cash provided by operating activities	47,884	231,586	48,277	11,063	13,099	351,909	8,492
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Transfers to City	-	(38,408)	(15,640)	(2,500)	-	(56,548)	-
Debt issuance expense	(16)	-	-	-	-	(16)	-
Receipt of miscellaneous revenue	1,678	-	-	-	-	1,678	-
Principal payments on long-term debt	-	(558,055)	-	-	-	(558,055)	-
Interest expense on bonds	-	(45,019)	-	-	-	(45,019)	-
Proceeds from issuance of long-term debt	-	471,305	-	-	-	471,305	-
Principal payments on notes payable	-	-	(15,000)	-	-	(15,000)	-
Interest expense on notes payable	-	-	(126)	-	-	(126)	-
Advances from other funds	-	-	-	-	(1,135)	(1,135)	-
Transfers from other funds	-	-	-	-	(4,412)	(4,412)	-
Transfers to other funds	(5,969)	-	-	-	-	(5,969)	(3,393)
Net cash used by noncapital and related financing	(4,307)	(170,177)	(30,766)	(2,500)	(5,547)	(213,297)	(3,393)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Proceeds from sale of revenue refunding bonds	31,680	-	-	-	-	31,680	-
Bond issue costs	938	-	-	-	-	938	-
Acquisition and construction of capital assets	(11,639)	(70,511)	(18,988)	(12,740)	(7,757)	(121,635)	-
Contributions in aid of construction	-	7,827	16	720	-	8,563	-
Receipts from state grants	-	-	-	-	205	205	-
Receipts from federal grants	248	-	-	-	-	248	-
Principal payments on capital debt	(24,345)	(7,354)	-	(1,540)	-	(33,239)	-
Interest payments on capital debt	(8,269)	(350)	-	(166)	-	(8,785)	-
Capital contributions	1,193	-	-	-	-	1,193	-
Net cash provided used by capital and related financing activities	(10,194)	(70,388)	(18,972)	(13,726)	(7,552)	(120,832)	-
CASH FLOWS FROM INVESTING ACTIVITIES:							
Sales and maturities of investments	10,254	25,661	21,825	5,883	-	63,623	-
Purchase of investments	(19,942)	(46,648)	(39,601)	(10,687)	-	(116,878)	-
Payments received on notes receivable	-	1,139	1,712	-	-	2,851	-
Issuance of notes receivable	-	-	-	772	-	772	-
Investment income earned on investments	429	1,509	374	180	-	2,492	63
Net cash provided (used) by investing activities	(9,259)	(18,339)	(15,690)	(3,852)	-	(47,140)	63
Net increase (decrease) in cash and cash equivalents	24,124	(27,318)	(17,151)	(9,015)	-	(29,360)	5,162
Cash and cash equivalents, beginning of year	959	155,911	100,508	28,537	1	285,916	3,213
Cash and cash equivalents, end of year	\$ 25,083	128,593	83,357	19,522	1	256,556	8,375
Reconciliation of operating income to net cash provided (used) by operating activities							
Operating income	45,562	45,768	34,688	1,606	10,501	138,125	4,745
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation expense	13,078	42,259	14,780	11,433	1,532	83,082	146
Transmission credits	-	28,066	-	-	-	28,066	-
Prepay power credits	-	34,609	-	-	-	34,609	-
Other income	-	2,645	568	184	-	3,397	-
(Increase) decrease in assets:							
Accounts receivable	(13,973)	(29,779)	(6,841)	(4,201)	(153)	(54,947)	(117)
Unbilled revenues	-	4,756	7,437	(70)	-	12,123	-
Prepaid power cost	-	96,803	-	-	-	96,803	-
Prepayments - in lieu of taxes	-	(479)	370	-	-	(109)	-
Deferred purchased power and gas cost	-	-	1,154	-	-	1,154	-
Inventories	-	3,877	(2,644)	232	-	1,465	22
Other assets	-	485	(2,897)	1,475	-	(937)	-
(Increase) decrease in liabilities:							
Accounts payable	808	8,617	(3,073)	-	-	6,352	-
Other accounts payable and accrued expenses	2,409	(4,228)	3,206	489	1,219	3,095	3,696
Customer deposits	-	304	(1,911)	26	-	(1,581)	-
Insurance reserves	-	566	196	(290)	-	472	-
Medical benefit accrual	-	(395)	(175)	(117)	-	(687)	-
Other	-	(2,288)	3,419	296	-	1,427	-
Total adjustments	2,322	185,818	13,589	9,457	2,598	213,784	3,747
Net cash provided by operating activities	\$ 47,884	231,586	48,277	11,063	13,099	351,909	8,492
Reconciliation of cash and cash equivalents per statements of cash flows to the balance sheets:							
Restricted funds	\$ -	53,878	14,801	13,669	-	82,348	-
Less investments included in restricted funds	-	(9,659)	(3,065)	(4,019)	-	(16,743)	-
Cash and cash equivalents included in restricted funds	-	44,219	11,736	9,650	-	65,605	-
Current assets - cash and cash equivalents	251	84,374	71,621	9,872	1	166,119	1
Current assets - equity in cash and investment pool	24,832	-	-	-	-	24,832	8,374
Total cash and cash equivalents	\$ 25,083	128,593	83,357	19,522	1	256,556	8,375

During the year, the Sewer Fund received \$1,193 in sewer lines and pipe contributed from developers.
 See accompanying notes to financial statements.

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
(Thousands of Dollars)
June 30, 2011

CITY OF MEMPHIS, TENNESSEE
Exhibit A-12

	Pension and OPEB Trust Funds	Sold Property Tax Receivable Agency Fund
ASSETS		
Cash and cash equivalents	\$ 158,354	-
Investments, at fair value:		
Short-term investments	14,209	-
U.S. government securities - long-term	109,902	-
Common stock - domestic	1,063,851	-
Common stock - foreign	303,118	-
Preferred stock - domestic	145	-
Preferred stock - foreign	1,710	-
Corporate bonds - domestic	420,158	-
Corporate bonds - foreign	76,458	-
Mutual funds and money market funds	53,616	-
Investment in corporate bond mutual funds	36,827	-
Collateralized mortgage obligations	49,468	-
Asset-backed pooled securities	107	-
Mortgage-backed pooled securities	237,184	-
Equity exchange index fund - domestic	3,526	-
Investments in index funds	353,765	-
Investment in real estate	185,959	-
Investment in high yield bond fund	7,116	-
Investment in international equity fund	275,495	-
Investment in international bond fund	33,195	-
Distressed debt funds - domestic	1,903	-
Distressed debt funds - foreign	1,597	-
Total investments	<u>3,229,309</u>	-
Equity in cash and investment pool	14,042	2,262
Interest and dividend receivables	12,116	-
Receivable for securities sold	63,395	-
Property tax receivable - delinquent	-	10,357
Miscellaneous receivables	4	-
Due from other agencies and governments	367	-
Employer and employee contributions receivable	924	-
Collateral held in trust for securities on loan	<u>175,490</u>	-
Total assets	<u><u>3,654,001</u></u>	<u><u>12,619</u></u>
LIABILITIES		
Accounts payable and other liabilities	333,484	2,262
Due to other agencies and governments	367	-
Deferred revenue	<u>-</u>	<u>10,357</u>
Total liabilities	<u><u>333,851</u></u>	<u><u>12,619</u></u>
NET ASSETS		
Held in trust for pension benefits, pool participants, and OPEB	<u><u>\$ 3,320,150</u></u>	

See accompanying notes to financial statements.

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
(Thousands of Dollars)
For the fiscal year ended June 30, 2011**

**CITY OF MEMPHIS, TENNESSEE
Exhibit A-13**

	Pension and OPEB Trust Funds
ADDITIONS	
Contributions:	
Employer	\$ 123,904
Plan members	53,375
Total contributions	<u>177,279</u>
Transfer from other fund	3,393
Investment income:	
Interest and dividend income	82,249
Securities lending income	465
Other investment income	1,240
Gain on real estate investments	2,548
Net appreciation/(depreciation) in the fair value of investments	<u>464,115</u>
Total investment income	<u>550,617</u>
Total Additions	<u>731,289</u>
DEDUCTIONS	
Benefits	286,931
OPEB expense paid on behalf of OPEB trust	1,727
Administrative expenses	18,502
Refunds of contributions	<u>12,629</u>
Total Deductions	<u>319,789</u>
Net increase	411,500
Net assets - beginning of year	<u>2,908,650</u>
Net assets - end of year	<u>\$ 3,320,150</u>

See accompanying notes to financial statements.

**COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
(Thousands of Dollars)
June 30, 2011**

**CITY OF MEMPHIS, TENNESSEE
Exhibit A-14**

	Board of Education	Memphis Area Transit Authority	Airport Authority	Memphis Zoological Society	Total
ASSETS					
Current unrestricted assets:					
Cash and cash equivalents	\$ 175,446	4,362	15,611	5,153	200,572
Investments	30,120		10,271	6,579	46,970
Receivables:					
Federal and state grants	-	4,772	13	-	4,785
Accrued interest	-	-	201	-	201
Accounts	-	-	8,986	-	8,986
Other	6,904	180	-	4,140	11,224
Due from other agencies and governments	233,893	-	-	22	233,915
Inventories of materials and supplies	11,138	2,249	1,910	518	15,815
Prepaid expenses	-	316	2,154	-	2,470
Total current unrestricted assets	457,501	11,879	39,146	16,412	524,938
Current restricted assets:					
Cash and cash equivalents	-	-	4,832	-	4,832
Investments	-	500	131,556	-	132,056
Receivables:					
Federal and state grants	-	-	7,161	-	7,161
Accrued interest	-	-	1,298	-	1,298
Total current restricted assets	-	500	144,847	-	145,347
Total current assets	457,501	12,379	183,993	16,412	670,285
Non-current restricted assets:					
Investments	-	-	69,587	-	69,587
Receivables:					
Special facilities rent	-	-	39,262	-	39,262
Total non-current restricted assets	-	-	108,849	-	108,849
Capital Assets:					
Land	34,700	2,731	160,772	-	198,203
Buildings	1,307,213	152,751	347,454	-	1,807,418
Improvements other than buildings	-	-	902,069	-	902,069
Machinery, buses and equipment	173,506	103,407	94,461	99	371,473
Less accumulated depreciation and amortization	(583,075)	(129,773)	(648,971)	(28)	(1,361,847)
Total capital assets, net	932,344	129,116	855,785	71	1,917,316
Construction in progress	64,002	22,054	78,768	-	164,824
Net capital assets	996,346	151,170	934,553	71	2,082,140
Bond issue costs	-	-	4,648	-	4,648
Other assets	-	711	-	856	1,567
Total assets	\$ 1,453,847	164,260	1,232,043	17,339	2,867,489

(Continued)

**COMBINING STATEMENT OF NET ASSETS
 COMPONENT UNITS
 (Thousands of Dollars)
 June 30, 2011**

**CITY OF MEMPHIS, TENNESSEE
 Exhibit A-14
 (Continued)**

	Board of Education	Memphis Area Transit Authority	Airport Authority	Memphis Zoological Society	Total
LIABILITIES					
Current:					
Notes and accounts payable	\$ 94,142	3,720	12,980	711	111,553
Due to other agencies and governments	547	-	-	-	547
Accrued liabilities	2,846	4,121	11,264	658	18,889
Insurance claims payable	16,014	1,725	-	-	17,739
Deferred revenue	59,751	268	-	1,545	61,564
Current installment of revenue bonds payable	-	-	24,075	-	24,075
Total current liabilities	173,300	9,834	48,319	2,914	234,367
Long-term (net of current maturities):					
Other post employment benefits	371,972	8,624	-	-	380,596
General obligation bonds payable	-	-	2,015	-	2,015
Revenue bonds payable	-	-	468,932	-	468,932
Due to other agencies and governments	2,407	800	-	-	3,207
Deferred lease revenue	-	-	73,287	-	73,287
Other long term obligations	6,656	-	1,835	-	8,491
Total long-term liabilities	381,035	9,424	546,069	-	936,528
Total liabilities	554,335	19,258	594,388	2,914	1,170,895
NET ASSETS					
Invested in capital assets, net of related debt	993,393	151,170	494,311	71	1,638,945
Restricted for:					
Capital acquisition	44,944	-	118,699	4,813	168,456
Contracted grant programs	10,611	-	-	-	10,611
Food service	21,451	-	-	-	21,451
Self insurance	-	500	-	-	500
Other	-	-	-	5,807	5,807
Unrestricted	(170,887)	(6,668)	24,645	3,734	(149,176)
TOTAL NET ASSETS	\$ 899,512	145,002	637,655	14,425	1,696,594

See accompanying notes to financial statements.

**COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
(Thousands of Dollars)
For the fiscal year ended June 30, 2011**

**CITY OF MEMPHIS, TENNESSEE
Exhibit A-15**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Board of Education	Memphis Area Transit Authority	Airport Authority	Memphis Zoological Society	Total
Component units:									
Board of Education	\$ 1,230,086	12,843	690,101	32,521	(494,621)	-	-	-	(494,621)
Memphis Area Transit Authority	68,333	10,420	-	25,158	-	(32,755)	-	-	(32,755)
Memphis Zoological Society	14,523	14,442	449	855	-	-	-	1,223	1,223
Airport Authority	140,508	111,760	-	42,578	-	-	13,830	-	13,830
Total component units	<u>\$ 1,453,450</u>	<u>149,465</u>	<u>690,550</u>	<u>101,112</u>	<u>(494,621)</u>	<u>(32,755)</u>	<u>13,830</u>	<u>1,223</u>	<u>(512,323)</u>
General revenues:									
Grants and contributions not restricted to specific programs					436,363	-	123	-	436,486
City of Memphis subsidy					-	22,114	-	-	22,114
Investment income (loss)					443	-	2,697	1,008	4,148
Federal grants and entitlements					-	14,210	-	-	14,210
State grants					-	8,451	-	-	8,451
Other					-	137	4,911	87	5,135
Total general revenues and special items					<u>436,806</u>	<u>44,912</u>	<u>7,731</u>	<u>1,095</u>	<u>490,544</u>
Changes in net assets					(57,815)	12,157	21,561	2,318	(21,779)
Net assets - beginning					<u>957,327</u>	<u>132,845</u>	<u>616,094</u>	<u>12,107</u>	<u>1,718,373</u>
Net assets - ending					<u>\$ 899,512</u>	<u>145,002</u>	<u>637,655</u>	<u>14,425</u>	<u>1,696,594</u>

See accompanying notes to financial statements.

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of Memphis, Tennessee (the City), incorporated in 1826, operates under an elected Mayor-Council form of government and is organized into the following divisions: Executive, Finance and Administration, Fire, Police, Parks, Public Works, Human Resources, Public Services, Community Enhancement, General Services, Housing and Community Development, Office of Planning and Development, City Attorney, City Engineer, Information Systems, and Memphis Light, Gas and Water (MLGW). The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the combining statement of major component units within the basic financial statements (see note below for description) to emphasize that it is legally separate from the City.

Fiscal Year-End

Memphis Light, Gas and Water (MLGW), a division of the primary government, has a fiscal year-end of December 31. Thus, the amounts and disclosures for the MLGW Enterprise Fund, the MLGW Other Post Employment Benefits Trust Fund and the MLGW Retirement System Fund are as of December 31, 2010. The disclosures for other divisions, component units, and joint ventures are as of their June 30 fiscal year-end.

Blended Component Units

The City does not have any component units that are considered blended.

Discretely Presented Component Units

The component unit column in the government-wide financial statements includes the financial data of the City's component units. They are reported in separate columns in a combining statement in the basic statements after the fund financial statements to emphasize that they are legally separate from the City.

Board of Education of the Memphis City Schools (BOE) - BOE was created by City Charter as authorized by various Private Acts of the General Assembly of Tennessee. BOE consists of nine members elected by the citizens of the City representing seven districts and two at-large positions. BOE is a body politic and corporate responsible for the management and control of the Memphis City Schools. The annual general operating budget of the BOE requires the approval of the City Council. The BOE's fiscal year-end is June 30. In February 2011 the City Council passed a resolution accepting the BOE's surrender of the Memphis City Schools Charter. Furthermore, in March 2011, the citizens of Memphis voted to surrender the Memphis City Schools charter. These actions transferred administrative control of the city schools to Shelby County Government. However, in accordance with State of Tennessee Statue the merger will not be completed until fiscal year 2013. Until the merger is completed the City remains responsible for partial funding of Memphis City Schools.

Memphis Area Transit Authority (MATA) - MATA was created by City ordinance on May 13, 1975, replacing the Memphis Transit Authority. The MATA Board consists of seven members nominated by the City Mayor and approved by the City Council for terms of three years. MATA has the authority to supervise the operations of the City's transit system. The system is managed by a private management firm hired by MATA. MATA is funded by

a combination of user fees, federal and state grants, and a subsidy from the City. MATA's annual budget, rates and fares are approved by the City Council. MATA must also obtain the approval of the City Council before incurring certain obligations. MATA's fiscal year-end is June 30.

Memphis-Shelby County Airport Authority (MSCAA) - MSCAA was established by City resolution on September 30, 1969. The City Mayor has the right to appoint six of seven Board members (seven year terms) of MSCAA. MSCAA's Board selects management staff, sets user charges, establishes budgets and controls all aspects of general aviation, airport management and development. However, the City has issued general obligation bonds on behalf of MSCAA and is contingently liable for such. The debt service for City bonds issued on behalf of MSCAA is funded by MSCAA's revenues. MSCAA's fiscal year-end is June 30.

Memphis Zoological Society (MZS) – MZS was created as a not-for-profit in April 1951 by Charter to manage and support the Memphis Zoo and Aquarium in its efforts to preserve wildlife through education, conservation and research. All land, buildings, exhibits and other physical assets used by the society are the property of the City of Memphis. MZS operates on a 52-53 week fiscal year ending on the last Sunday in the month of June. The year ended June 26, 2011, contained 52 weeks.

Complete financial statements for each of the individual component units may be obtained at the entity's administrative offices.

BOE	MATA	MSCAA	MZS
2597 Avery Avenue	1370 Levee Road	2491 Winchester Rd., Ste. 113	2000 Prentiss Place
Memphis, TN 38112	Memphis, TN 38108	Memphis, TN 38116	Memphis, TN 38112
(901) 325-5461	(901) 722-7162	(901) 922-8000	(901) 333-6500

Related Organization

The City Mayor has the right to appoint members of the Memphis Housing Authority (MHA) Board, but the City is not able to impose its will as such members can only be removed with cause. Additionally, the potential for MHA to provide financial benefit to or impose financial burden on the City does not exist.

Joint Ventures

Joint ventures represent organizations owned, operated or governed by two or more participants where no single participant has the ability to unilaterally control the joint venture. The City is a participant in several joint ventures in which it retains an ongoing financial interest or an ongoing financial responsibility. The City participates in the following joint ventures (see Note V (D)):

- Memphis and Shelby County Convention Center Complex
- Memphis and Shelby County Port Commission
- New Memphis Arena Public Building Authority of Memphis and Shelby County, Tennessee
- Memphis and Shelby County Community Redevelopment Agency
- Sports Authority of Memphis and Shelby County Incorporated

Jointly Governed Organizations

The City, in conjunction with Shelby County, Tennessee (the County) created the following organizations that are not considered joint ventures as the City and the County do not retain an ongoing financial interest or responsibility.

Memphis and Shelby County Center City Commission (the Commission) – The Commission is an organization responsible for promotion and redevelopment of the Memphis Center City area. Board members (seven) are appointed by the City and the County Mayors, with approval by the City Council and the County Commission, for three year terms. The City collects special assessment taxes for the promotion and maintenance of the Memphis Center City area which are remitted annually to the Commission for such activities.

Memphis and Shelby County Parking Authority (the Parking Authority) – The Parking Authority is a nonprofit corporation established jointly by the City and the County in fiscal year 1998 under the laws of the State of Tennessee. The Parking Authority provides uniform parking policies, coordinated management including the relation of parking to public and private transportation patterns, and strategic planning for existing and future parking facilities. The City and County Mayors appoint the Board members (seven), for terms that range from two to six years.

Memphis Center City Revenue Finance Corporation (the Finance Corporation) – The 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 and the County Mayors appoint the Board members (nine), with approval by the City Council and the County Commission, for six year terms.

Economic Growth Development Engine Industrial Development Board (EDGE) - In January 2011, Shelby County Commissioners and the Memphis City Council approved a resolution establishing the authorization and formation of the Economic Growth Development Engine Industrial Development Board of the City of Memphis and County of Shelby, TN (“EDGE”). The resolution approved and directed the Industrial Development Board (IDB), the Depot Redevelopment Corporation of Memphis and Shelby County and the Memphis and Shelby County Port Commission to take all actions appropriate to effectuate coordination and consolidate operations where possible within EDGE. EDGE operates as a nonprofit corporation for the purpose of acting as the leading and coordinating entity of Memphis and Shelby County, Tennessee, for all economic, developmental, and growth initiatives among other development organizations.

Industrial Development Board (IDB) – The IDB operates as a nonprofit corporation for the purpose of promoting industrial development in the City and the County. Board members (nine) are appointed by the City and the County Mayors, with approval by City Council and the County Commission, for six year terms. A resolution approving and directing the IDB to consolidate within the Economic Growth Development Industrial Development Board (EDGE) was passed in January 2011 by the Memphis City Council and Shelby County Commission.

Depot Redevelopment Corporation of Memphis and Shelby County (the Corporation) – The Depot Redevelopment Corporation is a nonprofit corporation established jointly by the City and County under the laws of the State of Tennessee. The primary purpose of the Corporation is to secure from the United States the land, building, and equipment of the Memphis Defense Depot (closed as a military base in 1997); enter into agreements to acquire, construct, improve, lease, operate and dispose of property; and to promote the redevelopment of the

Memphis Depot for the citizens of the City and County. Board members (nine) are appointed by the City and County Mayors, with approval by the City Council and County Commission, for six year terms. A resolution approving and directing the Depot Redevelopment Corporation to consolidate within the Economic Growth Development Industrial Development Board (EDGE) was passed in January 2011 by the Memphis City Council and Shelby County Commission.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statements of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of 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. Likewise, 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 a given function or segment are offset by program revenues. Direct 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 and agency funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. 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. 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. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered

to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues (except for investment earnings) are recorded as revenues when received in cash because they are generally not measurable until actually received.

The City reports the following major governmental funds:

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

Debt Service Fund - The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The City reports the following major proprietary funds:

Sewer Collection and Treatment Enterprise Fund - The Sewer Collection and Treatment Fund accounts for the operations of the regional sewer collection and treatment facilities operated by the City.

Memphis Light, Gas and Water Division (MLGW) Enterprise Fund - The MLGW Fund accounts for the provision of electricity, gas and water to customers in Shelby County, Tennessee, which includes the City.

Additionally, the City reports the following fund types:

Internal Service Funds - The City's Internal Service Funds account for the financing of goods or services provided by one department to other departments or agencies of the City on a cost reimbursement basis. The City reports the following Internal Service Funds:

Printing and Mail Internal Service Fund

Health Insurance Internal Service Fund

Unemployment Compensation Internal Service Fund

Fleet Management Internal Service Fund

Fiduciary Funds - The City's Fiduciary Funds account for the activities of the following pension and other post-employment benefit plans, which accumulate resources for payments to qualified participants and investments held for external organizations. Fiduciary funds include the City's Agency Fund which accounts for the assets and the related liability held by the City for purchasers of the City's delinquent property tax receivables. The City reports the following fiduciary funds:

City Retirement System Fund

Library Retirement System Fund

City Other Postemployment Benefits Trust Fund

Memphis Light, Gas and Water Retirement System Fund

Memphis Light Gas and Water Other Postemployment Benefits Trust Fund

Sold Property Tax Receivable Fund

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City, MSCAA and MATA have elected not to follow subsequent private-sector guidance. MLGW and MZS have elected to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between MLGW and the Sewer Collection and Treatment Fund and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 Sewer Collection and Treatment Fund, the MLGW Fund, and the City's internal service funds are charges to customers for sales and services. 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 non-operating revenues and expenses.

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

D. Assets, liabilities, and net assets or equity

Cash and cash equivalents and investments

The City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Investments are stated at their related fair value (see Note IV (A)). 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 City uses amortized cost on all investments that mature within a year or less of the date of purchase.

Property taxes receivable

Property taxes are recorded as receivables when levied, net of estimated uncollectibles. The receivables collected during the current fiscal year and those collected by August 31, 2011, related to tax levies for fiscal year 2011 and prior, are recorded as revenue. Amounts received related to the property tax levy of the next fiscal year and the net receivables estimated to be collectible subsequent to August 31, 2011, are recorded as deferred revenue at June 30, 2011.

Interfund receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at June 30 are referred to as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Direct expenses (charges based on actual use) are not eliminated, whereas indirect expense allocations made in the funds are reversed in the statement of activities.

Transactions that constitute reimbursements of a fund for expenditures or expenses initially made from it that are properly applicable to another fund, such as insurance claims, are recorded as expenditures or expenses (as appropriate) in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed.

All interfund transactions except quasi-external transactions and reimbursements are accounted for as transfers. Nonrecurring or nonroutine transfers of equity between funds are considered equity transfers. All other interfund transactions are treated as transfers.

Under the Charter of the City of Memphis, the City is entitled to dividends from Memphis Light, Gas and Water Division (MLGW) based upon equity. These dividends are recorded as a transfer.

Inventories and prepaid expenses

Inventories in the Proprietary Funds are stated at cost determined principally by the first-in/first-out (FIFO) method. General Fund inventories are recorded as expenditures when purchased, and there were no significant inventories on hand at June 30, 2011. All other inventories are recorded as expenditures when consumed rather than when purchased (Consumption 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.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., streets, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 (amount not in thousands) and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated fair market value at the date received. The capital assets reported include

infrastructure that was acquired in fiscal years ending after June 30, 1980.

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. The total interest expense incurred by the Sewer Fund during the current fiscal year was \$8,269. Of this amount, none was included as part of the cost of capital assets constructed with bond proceeds.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

Buildings	25-50 years
Improvements	10-60 years
Infrastructure	50 years
Machinery and Equipment	3-15 years

Compensated absences

City employees are granted vacation, sick and other leave benefits in varying amounts in accordance with administrative policy and union contracts. Vacation days earned are required to be utilized annually, but may be carried forward upon written request. In the event of termination, an employee is reimbursed for accumulated vacation days. Employees are required to take their vacation in their last year of employment prior to retirement. Employees are generally reimbursed for accumulated unused sick leave, not to exceed 75 days, only upon retirement, and only for those employees with 25 years or more service with the City. Certain exceptions to this policy occur in accordance with the terms of various union contracts.

The liability for vacation, sick and other leave benefits related to and intended to be paid from Governmental Funds is accrued for and reported only if they have matured, for example, unused reimbursable leave still outstanding following an employee's resignation or retirement. The liability for vacation, sick and other leave benefits related to and intended to be paid from Proprietary Funds is included in the fund financial statements. Additionally, the long-term portion of the liability for these benefits to be paid by Governmental Funds is reported in the government-wide financial statements.

Deferred Compensation Plan

The City and MLGW offer their employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plans permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The City and MLGW's amended plans meet the requirements of Internal Revenue Code Section 457. The amended plans provide that assets or income of the plans shall be used for the exclusive purpose of providing benefits for participants and their beneficiaries or defraying reasonable expenses of the administration of the plans. Since the assets of the amended plans are held in custodial and annuity accounts for the exclusive benefit of plan participants, the related assets of the plans are not reflected on the balance sheet.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, general obligation bonds, revenue bonds 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.

Use of estimates

Estimates used in the preparation of financial statements require management to make assumptions that affect the recorded amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Fund equity - Net Assets

Fund equity is generally the difference between assets and liabilities. Government-wide and proprietary fund statements report fund equity as net assets. Fund equity for governmental fund statements are reported as fund balance (see Note IV (I)).

Government-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 creditors, grantors, or contributors external to the City. "Unrestricted" net assets are remaining net assets that do not meet the definition of the other two categories.

The City of Memphis implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* during fiscal year 2011. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The Statement provides that fund balance be reported and classified in the following manner based on the relative strength of the constraints that control how specific amounts can be spent:

Non-spendable Fund balance includes amounts that cannot be spent because they are either (a) not in spendable form (e.g. inventories, prepaids) or (b) legally or contractually required to remain intact (e.g. endowments).

Restricted Fund balance includes amounts constrained for a specific purpose by external parties, constitutional provision, or enabling legislation. (e.g. State and Federal Grant Funds). Effectively, restrictions may only be changed or lifted with the consent of the resource provider.

Committed Fund balance includes amounts formally constrained for a specific purpose by a government using its highest level of decision making authority. The commitment of these funds can only be changed by the government taking the same formal action that imposed the constraint originally.

Assigned Fund balance includes amounts a government intends to use for a particular purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. With the exception of the General Fund, this is the residual fund balance of the classification of all government funds with positive balances.

Unassigned Fund balance represents general fund amounts not classified elsewhere.

City Council, the City's highest level of decision making authority, passed a resolution establishing fund balance policies as required by GASB 54. The policies stipulate that (1) when it is appropriate for fund balance to be assigned, the authority to do so has been delegated to the Director of Finance upon approval of the Mayor, (2) in circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follow: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance and (3) the city shall strive to maintain a yearly fund balance in the general operating fund in which the unassigned fund balance is ten (10) percent of the total operating expenditures.

Reclassification of Funds and Restatement of Fund Balance/Net Assets

Prior year fund balance for the following proprietary funds have been adjusted as stated below:

MLGW Electric Division

Net assets at December 31, 2009	\$ 1,044,186
GASB Statement No. 51, accumulated depreciation on intangible assets	<u>10,245</u>
Restated net assets at December 31, 2009	<u>\$ 1,054,431</u>

MLGW Water Division

Net assets at December 31, 2009	\$ 283,350
Adjustment to employee benefit accruals	<u>(1,669)</u>
Restated net assets at December 31, 2009	<u>\$ 281,681</u>

Sewer Collection and Treatment

Net assets at June 30, 2010	\$ 199,278
Reduction of prior period expense	65
Recognition of prior period revenue	<u>611</u>
Restated net assets at June 30, 2010	<u>\$ 199,954</u>

Storm Water Fund

Net assets at June 30, 2010	\$ 32,958
Reduction of prior period expense	<u>129</u>
Restated net assets at June 30, 2010	<u>\$ 33,087</u>

Health Insurance Fund

Net assets (deficit) at June 30, 2010	\$ (6,384)
Recognition of prior period expense	<u>(9)</u>
Restated net assets (deficit) at June 30, 2010	<u>\$ (6,393)</u>

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

NOTES TO FINANCIAL STATEMENTS
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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.” The details of the \$1,479,544 difference are as follows:

Bonds payable	\$ 1,179,469
Bond anticipation notes payable	75,400
Accreted Interest	1,999
Unamortized loan costs	36,976
Capital lease obligations	5,182
Accrued interest payable	16,059
Claims and judgments liability	74,529
Compensated absences	<u>89,930</u>
Net adjustment to reduce-fund balance-total governmental funds to arrive at net assets-governmental activities	<u>\$ 1,479,544</u>

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 the \$24,464 difference are as follows:

Capital outlay	\$ 100,550
Depreciation expense	<u>(76,086)</u>
Net adjustment to increase net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 24,464</u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g. bond, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this (\$50,253) difference are as follows:

Debt issued or incurred:	
Issuance of general obligation bonds	\$ (86,190)
Capital lease	(2,250)

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CITY OF MEMPHIS, TENNESSEE
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Bond issue costs	1,012
Capital lease payment	1,907
Premium on bond issue	(6,803)
Principal repayments:	
General obligation debt	22,404
Payment to escrow agent for refunding	27,108
Amortization of premium on general obligation bonds	5,092
Accrued interest payable	(5,834)
Vacation, sick, and other leave benefits	<u>(6,699)</u>

Net adjustment to decrease net changes in fund balances-
total governmental funds to arrive at changes in net assets
of governmental activities \$ (50,253)

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this (\$118,222) difference are as follows:

Liability Changes:

Claims and judgments liability	(1,319)
City Net Pension Obligation	(59,751)
Library Net Pension Asset	(1,139)
Other Post Employment Benefit Obligation	<u>(56,013)</u>

Net adjustment to decrease net changes in fund
balances - total governmental funds to arrive at
changes in net assets of governmental activities \$(118,222)

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The City Council annually approves the budget ordinance for the General, Enterprise Funds, Internal Service Funds, Debt Service, and Special Revenue Funds (except Community Service Fund, Central Business Improvement District Fund, Midtown Corridor Fund, and Education Fund) of the City. The Midtown Corridor Fund has a “carryover” budget. The prior years’ budget remains open until the revenue is completely expended, which generally exceeds one fiscal year.

During the fiscal year, budgetary control is maintained at a program level. The City Mayor has the authority to approve transfers between line items within the total amounts of each program category (Personal Services, Materials and Supplies, Capital Outlay, Grants and Subsidies, Inventory and Expense Reimbursements). The City Mayor also has the authority to approve transfers between program categories within the total amounts of each program; however, each transfer shall have a maximum limit of \$50 and each program shall have an annual

cumulative limit of \$100 for transfers between categories within the total amounts of each program. During the fiscal year, any transfer of appropriations between programs can be made only upon the authorization by ordinance or resolution of the City Council. At year-end, the Comptroller is authorized to transfer appropriations between programs to cover any resulting unfavorable variances as long as the total expenditure appropriation is not exceeded. The reported budgetary data has been revised for amendments authorized during the year and at year-end. Such data reflects expenditures by program categories at a division level to avoid excessively detailed program classifications.

For Workforce Investment Act Special Revenue Fund, budgets are approved annually upon the availability of the grants from the federal government. The lives of the grants range from 2 to 3 years.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. The basis of accounting applied to budgetary data presented is not consistent with generally accepted accounting principles for governmental funds, as actual expenditures are increased by current year encumbrances in order to be consistent with the basis of budgeting used.

B. Excess of expenditures over appropriations

In demonstrating compliance with the City's legally prescribed budgetary requirements, expenditures at June 30, 2011, did not exceed appropriations at the program level. The comparison of actual expenditures to the budget for the General Fund reflect no unfavorable variances from budget at the program level because the revisions to budget were recorded after year end to offset the legal level deficits for several functions. These revisions were made in accordance with the authorization allowed in the adopted budget ordinances for 2011.

C. Deficit fund equity

The New Memphis Arena Special Revenue Fund has a deficit fund balance of \$5,086 as of June 30, 2011. The City of Memphis, Shelby County, and The Memphis and Shelby County Sports Authority, Inc. are parties to an interlocal agreement relating to the financing of the new sports arena that was completed in August 2004. Of the \$250,000 budget, the City paid \$12,000 for acquisition and construction of the Arena site and infrastructure improvements. The City's commitment was funded through legally available non-ad valorem revenues. The interfund payable to the Healthcare Fund will be repaid from future hotel motel taxes. The City anticipates the New Memphis Arena Special Revenue Fund negative fund balance will be eliminated over the next 5 years by using proceeds from the hotel/motel funding source. This fund also reports the pass-through of certain revenues related to Sports Authority bonds issued for the construction of the Arena.

The Unemployment Compensation Internal Service Fund deficit fund balance of \$1,693 as of June 30, 2011, decreased by \$105 from prior year. The Health Insurance Fund's prior year deficit fund balance was reduced from \$6,393 to \$3,039 as a result of a premium increase. Reduced unemployment costs and healthcare administration costs are expected to eliminate the deficits over time. The Fleet Management Internal Service Fund deficit fund balance of \$9,058 increased from prior year by \$2,038. Management is continuing a review of these funds' operations and charges to ensure the funds' cost and charge structure are in alignment. As a result, a strategy will be developed to eliminate the current fund deficits over time.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Statutes authorize the City to invest in bonds, notes or treasury bills of the United States or its agencies, certificates of deposit, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, local government investment pool, money market funds and prime commercial paper. Statutes require that (1) deposits have securities as collateral whose market value is equal to 105 percent of the value of the deposits, less so much of such amount as is insured by federal deposit insurance and (2) securities underlying repurchase agreements must have a market value at least 102% of the amount of funds invested in the repurchase agreements. Tennessee Code Annotated Sections 9-4-105 and 9-4-404 state that collateralization coverage for cash deposits may be computed based on average daily balances of the preceding month.

City ordinances, as interpreted by opinions of the City Attorney, authorize the City to enter into stock and bonds borrowed/cash or bond pledged securities lending agreements that are a transfer of securities with a simultaneous receipt of securities. The securities received in the transfer are the type which the City is legally authorized to hold. The market value of the securities received in the agreement is 102 percent of the value of the securities transferred in the case of the securities of United States issuers and 105 percent in the case of securities of non-United States issuers. The securities transferred are a part of the total investments reported below. The securities being held are not reported as a part of the total investments. The City retains the interest income on the securities being transferred and earned \$274 during the year ended June 30, 2011, which was applied to a collateral insufficiency liability. On June 30, 2011, the market value of the securities transferred was \$94,403 and the market value of the securities the City was holding was \$97,527. The monitoring procedures in the securities lending programs are the same as those requirements in regard to the repurchase agreements. At year end, the City has no credit risk exposure to borrowers because the amounts the City owes the borrowers exceed the amounts the borrowers owe the City.

Cash and Investment Pool

The City uses a central cash and investment pool (the "Pool") for all funds other than the Pension Trust Funds, MLGW funds, and certain investments of the Capital Projects Fund and Sewer Collection and Treatment Fund. The Memphis and Shelby County Port Commission also participates in the Pool. As discussed in Note 1, the Port Commission operates as a joint venture and is therefore not included in the reporting entity. The Port Commission's equity position in the Pool is reported as an investment trust fund. The equity of the other funds within the reporting entity is recorded as an asset in those funds. The City's component units do not participate in the Pool. The individual fund pool balances are based upon actual cash receipts and disbursements with investment income, including any unrealized gains from changes in the fair value of investments, allocated monthly to each fund on a pro-rata basis. The fair value of the Pool is the same as the value of the Pool shares. The City's investment policy with respect to the Pool is to maximize investment earnings while maintaining an acceptable level of risk. Since investments in the Pool must provide for the future cash needs of the City, flexibility and liquidity of investments are generally maintained at all times. The City does not provide guarantees to the Pool participants to support the values of their equity positions.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In

accordance with its investment policy, the City manages its exposure to fair value losses arising from increasing interest rates by limiting the duration of the portfolio, excluding bond proceeds, to less than one (1) year. Furthermore, no investment is allowed to have a maturity of greater than two (2) years from date of purchase unless such maturity is approved by the State Director of Local Finance.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. It is the City's policy to limit its investments to prime commercial paper which shall be rated at least A1 or equivalent by at least two (2) nationally recognized rating services. Proceeds of bonds, notes and other obligations issued by the city, reserves held in connection therewith and the investment income there from, may be invested in obligations which (a) are rated in either of the two highest rated categories by a nationally recognized rating agency; (b) are direct general obligations of a state of the United States, or a political subdivision or instrumentally thereof, having general taxing powers; and (c) have a final maturity on the date of investment not to exceed twenty-four (24) months or which may be tendered by the holder to the issuer thereof, or an agent of the issuer, at not less than twenty-four (24) month intervals unless approved by the State Director of Local Finance. As of June 30, 2011, the government's investments in general obligation bonds were rated Aa2 by Moody's Investor Service, AA by S & P, and AA- by Fitch Ratings.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of the government's investment in a single issuer. The City's investment policy requires portfolio diversification by security type and institution.

The maximum percentage of the portfolio permitted in each eligible security is as follows:

U.S. Treasury	100% maximum
Federal Agency (Fixed Rate)	100% maximum
Federal Agency (Variable Rate)	10% maximum
Repurchase Agreement	50% maximum
Commercial Paper	15% maximum
Banker's Acceptances	15% maximum
Insured/Collateralized Certificates of Deposit	20% maximum
Municipal Obligations	20% maximum
Tennessee LGIP	25% maximum

The City's investment policy is further diversified and limits the exposure to any other issuer. No more than 5% of the City's Portfolio is allowed to be invested in the securities of any single issuer with the following exceptions:

Each Federal Agency	35% maximum
Each Repurchase Agreement Counterparty	20% maximum

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure the government's deposits may not be returned.

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CITY OF MEMPHIS, TENNESSEE
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At June 30, 2011 all deposits were insured or collateralized as required by policy. The City's investment policy provides that all securities purchased by the City or held as collateral on either deposits or investments shall be held in third-party safekeeping at a financial institution.

Deposits held by the pool at June 30, 2011, were as follows:

Description	Carrying Amount	Bank Balance
Cash deposits	\$ <u>(6,048)</u>	<u>7,859</u>

The investments held by the pool consist of the following at June 30, 2011:

Description	Maturity Dates	Interest Rates	Fair Value	Duration
U.S. Government agencies	Jul 2011-Sept 2014	.49-6.79	\$ 102,958	.12-.36
Commercial paper	Jul 2011		17,967	.01-.18
Certificate of Deposit	Aug 2011-Dec 2011	.75-1.20	5,000	.12
U.S. Treasury Obligations	Jun 2012-Apr 2015	.375-4.00	13,676	.24-.36
Corporate and foreign bonds	Dec 2011-Jun 2015	1.25-3.00	<u>3,788</u>	.24-.48
Total			143,389	
Investments not subject to Categorization - Money market funds			<u>209</u>	
Total investments			<u>\$ 143,598</u>	

The Pool does not issue separate financial statements. Condensed financial information as of June 30, 2011 is as follows (dollar amounts and share amounts are the same):

Condensed Statement of Net Assets	
Investments	\$ 143,598
Bank overdraft	<u>(6,048)</u>
Net assets	<u>\$ 137,550</u>

Net assets held in trust for pool participants:	
Internal participants	<u>137,550</u>
Total net assets held in trust for pool participants	<u>\$ 137,550</u>

Condensed Statement of Changes in Net Assets	
Additions:	
Investment income	\$ 761
Purchase of units	<u>2,229,332</u>
Total Additions	2,230,093
Deduction:	
Redemption of units	<u>2,188,643</u>

NOTES TO FINANCIAL STATEMENTS
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CITY OF MEMPHIS, TENNESSEE
(Continued)

Net decrease	41,450
Net assets held in trust for pool participants:	
Beginning of Year	<u>96,100</u>
End of Year	<u>\$ 137,550</u>

Investments Outside of the Pool

In addition to the cash and investment pool, several funds in the primary government own investments outside of the Pool. The Capital Project Fund's investments were purchased from the unexpended portion of general obligation bond issues which require the City to maintain separate investments for arbitrage purposes. The Sewer Collection and Treatment Fund's investments were purchased to set aside funds to satisfy certain revenue bond covenants. Investments in these funds are generally of the same type as in the Pool with the addition of collateralized certificates of deposit. These funds also are required to hold funds relating to certain construction projects in the State of Tennessee Treasurer's Local Government Investment Pool ("LGIP"). Deposits with the 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. Although the LGIP itself is unrated, its types of investments and maturities provide a level of credit risk similar to that detailed in the aforementioned credit risk section. All of MLGW Fund's investments are outside of the City's investment pool. MLGW's investments are invested under a cash management program which provides for the investment of excess cash balances in short-term investments and the investment of debt service funds in instruments maturing as the related debt matures. These investments are similar to those described above with the addition of commercial paper and mutual funds. Investments in the City Retirement Fund, the Library Retirement Fund, and the MLGW Retirement and Pension System include stocks, corporate and government bonds, mortgage-backed securities, mutual funds, limited partnerships, real estate investments and commercial paper in addition to the money market securities mentioned above. As of June 30, 2011, the City's investments in general obligation bonds were rated Aa2 by Moody's Investor Service, AA by Standard & Poor's, and AA- by Fitch Ratings.

MLGW's general investment policy is to apply the prudent investor rule: Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. Repurchase agreements have a term to maturity of no greater than ninety (90) days and, commercial paper maturity is no greater than two hundred-seventy (270) days. If the corporation has senior long term debt it must have a minimum rating of AA or equivalent and a short term debt minimum rating of A or equivalent as provided by a majority of the rating services that rate the issuer. Municipal obligations are rated in either of the two highest rating categories by a nationally recognized statistical rating organization. Asset-backed securities are defined as debt securities that have specifically pledged collateral. Each holding shall be rated Aaa by Moody's Investors Service or AAA by Standard & Poor's.

Deposits held by the primary government outside of the Pool at June 30, 2011, were as follows:

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CITY OF MEMPHIS, TENNESSEE
(Continued)

Description	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash deposits	\$ 19,388	<u>\$ 9,636</u>
Cash on hand	415	
Total Deposits and cash on hand	<u>\$ 19,803</u>	

The investments held by the primary government outside the Pool consist of the following at June 30, 2011:

Description	<u>Fair Value</u>
Short-term investments	\$244,232
U.S. Government securities	167,156
Corporate bonds – domestic	15,983
Asset-backed pool securities	<u>28,785</u>
Total	456,156
Investments not subject to categorization:	
State of Tennessee LGIP	5,306
Purchased interest	<u>5</u>
Total	<u>5,311</u>
Total Investments	<u>\$ 461,467</u>

A reconciliation of cash and investments as shown on the governmental and proprietary funds for the governmental entity-wide is as follows:

Pool deposits	\$ (6,048)
Pool investments	143,598
Other deposits and cash on hand	19,803
Other investments	<u>461,467</u>
Total	618,820
Equity in cash and investment pool – Port Commission	(932)
Equity in cash and investment pool – Sold Tax receivable agency fund	(2,262)
Equity in cash and investment pool – City OPEB Trust	<u>(14,042)</u>
Total	<u>\$ 601,584</u>
Cash and cash equivalents	\$ 174,946
Investments	223,976
Equity in cash and investment pool	120,314
Restricted special fund-customer deposits	39,956
Restricted investments	<u>42,392</u>
Total	<u>\$ 601,584</u>

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CITY OF MEMPHIS, TENNESSEE
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Deposits and investments relating to discretely presented component units are as shown below. Investment policy and risk discussion may be found in each of the component units audited financial statements.

BOE Deposits - Deposits by type at June 30, 2011, were as follows:

Description	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash deposits	\$ 22,719	<u>\$41,061</u>
State of Tennessee local government investment pool	<u>152,727</u>	
Total Deposits	<u>\$175,446</u>	

BOE Investments - Investments by type at June 30, 2011, were as follows:

Description	<u>Fair Value</u>
Government backed securities	\$ 13,459
Short-term investments	<u>16,662</u>
Total Investments	<u>\$ 30,120</u>

MATA Deposits - Deposits by type at June 30, 2011, were as follows:

Description	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash deposits	\$ 4,361	<u>\$ 4,475</u>
Cash on hand	<u>1</u>	
Total Deposits and cash on hand	<u>\$ 4,362</u>	

MATA Investments - Investments by type at June 30, 2011, were as follows:

Description	<u>Fair Value</u>
Federal Home Loan Mortgage Debt security	\$ 500
Total Investments	<u>\$ 500</u>

MSCAA Deposits - Deposits by type at June 30, 2011, were as follows:

NOTES TO FINANCIAL STATEMENTS
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CITY OF MEMPHIS, TENNESSEE
(Continued)

Description	<u>Carrying Amount</u>
Cash deposits	\$ 20,429
Cash on hand	<u>14</u>
Total Deposits, cash equivalents and cash on hand	<u>\$ 20,443</u>

MSCAA Investments - Investments by type at June 30, 2011, were as follows:

Description	<u>Fair Value</u>
U.S. Government agencies	\$ 185,950
Investments not subject to categorization:	
Mutual Funds	951
Forward Purchase Agreement	<u>24,513</u>
Total Investments	<u>\$ 211,414</u>

MZS Deposits – Deposits by type at June 30, 2011 were as follows:

Description	<u>Carrying Amount</u>
Cash deposits	\$5,153
Cash on hand	<u>-</u>
Total deposits	<u>\$5,153</u>

MZS Investments – Investments by type at June 30, 2011, were as follows:

Description	Fair Value
Money market mutual funds	\$ 2,410
CFGM funds	4,149
Common stocks	<u>20</u>
Total Investments	<u>\$6,579</u>

A reconciliation of cash and investments for the discretely presented component units as shown on the Combining Balance Sheet for the discretely presented component units is as follows:

Total component unit cash and deposits	\$ 205,404
Total component unit investments	<u>248,613</u>
Total	<u>\$ 454,017</u>
Cash and cash equivalents	\$ 200,572
Investments	46,970
Restricted cash and cash equivalents	4,832
Restricted Investments	132,056
Non current restricted investment	<u>69,587</u>
Total	<u>\$ 454,017</u>

City of Memphis Retirement System – Deposits and Investments

The City of Memphis Retirement System (the “City Plan”) is administered by the Board of Administration of the City of Memphis Retirement System (the “Board”). The Board has established and given authority to the Pension Investment Committee (the “Investment Committee”) to exercise authority and control of investments solely in the interest of participants of the City Plan and their beneficiaries. Additionally, the Board executes its policies with the aid of external investment advisors.

Investment allocation is subject to the restrictions set forth in applicable City of Memphis Ordinances which limit the percentage of investments that may be allocated to equity investments and real estate investments. To achieve its risk/return objectives and to be in compliance with applicable ordinances, the Investment Committee endeavors to invest funds in the following ranges:

	<u>Minimum</u>	<u>Maximum</u>
Cash equivalents	0%	2%
Real estate	0%	5%
Domestic equities	30%	40%
International equities	18%	22%
Fixed income	36%	44%

In exceptional circumstances, deviations from these may occur on a limited basis.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or deposit. Duration is the measure of the price sensitivity of a fixed income portfolio to changes in interest rates. The longer the duration of a portfolio, the greater is its price sensitivity to changes in interest rates. The City Plan limits its exposure to interest rate risk by diversifying its investments by security type and institution. The fair values of fixed-income investments, grouped by maturity at June 30, 2011, are as follows:

Current to one year	\$	32,465
One to two years		62,342
Two to three years		51,602
Three to four years		38,007
Four to five years		41,554
Five or more years		465,589
		<u>691,559</u>
Funds with indeterminable maturities		1,388
		<u><u>692,947</u></u>
	\$	692,947

NOTES TO FINANCIAL STATEMENTS
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CITY OF MEMPHIS, TENNESSEE
(Continued)

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To control credit risk, credit quality guidelines have been established. Investment parameters are established by the Board and the Investment Committee.

The City Plan's exposure to credit risk at June 30, 2011, is presented below by investment category as rated by Standard and Poor's rating service.

Type of Investment	Percentage of Fair Value	Ratings	Fixed Income
Government bonds	\$24,478	AAA	3.53%
	14,284	AA+	2.06%
	6,799	BBB	0.98%
	4,755	NR	0.69%
Non-government-backed CMOs	6,112	AAA	0.88%
	211	AA	0.03%
	146	A+	0.02%
	237	NR	0.03%
Asset-backed securities	107	AAA	0.02%
Corporate bonds and index funds	110,047	AAA	15.88%
	14,413	AA+	2.08%
	13,973	AA	2.02%
	14,481	AA-	2.09%
	14,546	A+	2.10%
	35,003	A	5.05%
	37,845	A-	5.46%
	16,746	BBB+	2.42%
	16,972	BBB	2.45%
	15,595	BBB-	2.25%
	14,607	BB+	2.11%
	31,493	BB	4.54%
	31,623	BB-	4.56%
	28,088	B+	4.05%
	34,272	B	4.95%
	22,669	B-	3.27%
	9,256	CCC+	1.34%
	1,357	CCC	0.20%
	54	CC	0.01%
	65,228	NR	9.41%
Government mortgage-backed securities	106,124	AAA	15.32%
	1,411	BBB+	0.20%
	<u>15</u>	NR	<u>0.00%</u>
Total Fixed Income	<u>\$692,947</u>		<u>100%</u>

Foreign currency risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the investment.

The City Plan's exposure to foreign currency risk – in U.S. Dollars – as of June 30, 2011, is as follows:

<u>Currency</u>	<u>Equities</u>	<u>Corporate Bonds</u>	<u>Total</u>
Arab Emirate Dirham (Dubai)	\$ -	\$ 385	\$ 385
Australian dollar	12,023	1,809	13,832
Barbadian dollar	-	114	114
Bermudian dollar	-	1,500	1,500
Brazilian real	-	4,337	4,337
British pound sterling	111,222	16,350	127,572
Canadian dollar	10,014	18,463	28,477
Cayman Islands dollar	-	1,906	1,906
Chinese yuan (renminbi)	-	315	315
Danish krone	1,166	3,872	5,038
Euro	22,201	16,361	38,562
Hong Kong dollar	1,493	-	1,493
Indian rupee	-	499	499
Israeli shekel	1,480	56	1,536
Japanese yen	16,457	3	16,460
Mexican peso	-	1,962	1,962
Norwegian krone	2,375	-	2,375
Qatari riyal	-	1,267	1,267
Russian ruble	-	1,229	1,229
Singapore dollar	826	309	1,135
South Korean won	-	616	616
Swedish krona	4,346	-	4,346
Swiss franc	4,821	5,105	9,926
Total securities subject to foreign credit risk	\$ 188,424	\$ 76,458	\$ 264,882
International portfolio in U.S. dollars	252,777	-	252,777
	<u>\$ 441,201</u>	<u>\$ 76,458</u>	<u>\$ 517,659</u>

City OPEB Trust-Deposits and Investments

City OPEB Trust Investments at June 30, 2011, were as follows:

<u>Description</u>	<u>Fair Value</u>
Mutual Funds	\$12,512

B. Receivables

Receivables as of year end for the City’s individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for the uncollectible accounts, are as follows:

	General	Debt Service	Sewer Col- lection and Treatment	Memphis Light, Gas and Water	Nonmajor and Other Funds	Total
Receivables:						
Property taxes	\$ 330,690	97,104	-	-	10,704	438,498
Sales and income taxes	37,574	-	-	-	-	37,574
Federal and state grants	2,592	-	-	-	48,600	51,192
Interest and dividends on investments	36	5	52	-	824	917
Notes and accounts receivable	-	-	10,296	189,554	-	199,850
Housing and rehabilitation loans	-	-	-	-	82,896	82,896
Other	180,736	-	-	-	10,519	191,255
Gross receivables	551,628	97,109	10,348	189,554	153,543	1,002,182
Less allowance for uncollectibles	(150,225)	(3,442)	(112)	(9,992)	(18,466)	(182,237)
Net total receivables	\$ 401,403	93,667	10,236	179,562	135,077	819,945

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2011, deferred revenue principally represents: (1) amounts received for various capital projects upon which revenues will not be recognized until such projects have started; (2) amounts relating to property taxes as described above; (3) operating subsidies received in advance; (4) uncollected principal on Housing Rehabilitation Loans; and (5) long-term receivables due from agencies.

C. Property taxes

The City levies property taxes for the calendar year annually based upon assessed valuations. The various types of property are assessed at a percentage of market value on January 1 of each year as follows:

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

The assessed value upon which the fiscal 2011 levy was based was approximately \$11.8 billion. The market value was approximately \$38.1 billion making the overall assessed value 31.04 percent of the market value. Taxes attach as an enforceable lien on property on June 1, the day taxes are levied, and are due by September 1. Current tax collections for the year ended June 30, 2011, were 92.38 percent of the tax levy.

NOTES TO FINANCIAL STATEMENTS
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CITY OF MEMPHIS, TENNESSEE
(Continued)

At June 30, 2011 the allowance for uncollectibles by fund was as follows:

General Fund	\$ 10,569
Education Special Revenue Fund	1,774
Debt Service Fund	3,443
Capital Projects Fund	<u>15</u>
Total	<u>\$ 15,801</u>

The property tax levy is without legal limit. The rate, as permitted by Tennessee State Law and City Charter, is set annually by the City Council and collected by the City Treasurer. The City allocated the property tax per \$100 of assessed value for the year ended June 30, 2011, as follows:

General Fund	\$2.2917
Education Special Revenue Fund	.1868
Debt Service Fund	.7141
Capital Projects Fund	<u>.0031</u>
Total	<u>\$3.1957</u>

The Sewer Fund and MLGW are assessed an in-lieu-of-tax payment with all proceeds from this source allocated to the General Fund. The City contributed a portion of the MLGW electric payments to Shelby County. The amount was calculated based on City Council resolutions and City Charter provisions governing the PILOT sharing arrangement with Shelby County.

NOTES TO FINANCIAL STATEMENTS
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
(Continued)

D. Capital assets

Capital asset activity for the year ended June 30, 2011, was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 62,344	\$ -	\$ -	\$ -	\$ 62,344
Construction in progress	184,211	65,751	(10,333)	-	239,629
Total capital assets not being depreciated	<u>246,555</u>	<u>65,751</u>	<u>(10,333)</u>	<u>-</u>	<u>301,973</u>
Capital assets being depreciated:					
Buildings	534,087	135	-	-	534,222
Improvements other than buildings	774,584	9,038	-	-	783,622
Machinery and equipment	351,049	2,049	-	-	353,098
Total capital assets being depreciated	<u>1,659,720</u>	<u>11,222</u>	<u>-</u>	<u>-</u>	<u>1,670,942</u>
Less accumulated depreciation for:					
Buildings	(214,646)	(12,573)	-	-	(227,219)
Improvements other than buildings	(213,615)	(19,565)	-	-	(233,180)
Machinery and equipment	(323,260)	(10,184)	-	-	(333,444)
Total accumulated depreciation	<u>(751,521)</u>	<u>(42,322)</u>	<u>-</u>	<u>-</u>	<u>(793,843)</u>
Total capital assets being depreciated, net	<u>908,199</u>	<u>(31,100)</u>	<u>-</u>	<u>-</u>	<u>877,099</u>
Governmental activities capital assets, net	<u>\$ 1,154,754</u>	<u>\$ 34,651</u>	<u>\$ (10,333)</u>	<u>\$ -</u>	<u>\$ 1,179,072</u>
Business-type Activities:					
Capital assets not being depreciated:					
Land	\$ 13,726	\$ 3	\$ (75)	\$ -	\$ 13,654
Construction in progress	43,863	16,801	(8,119)	-	52,545
Memphis Light, Gas and Water assets	137,699	93,571	(90,494)	-	140,776
Total capital assets not being depreciated	<u>195,288</u>	<u>110,375</u>	<u>(98,688)</u>	<u>-</u>	<u>206,975</u>
Capital assets being depreciated:					
Buildings	106,090	-	-	-	106,090
Improvements other than buildings	533,083	6,810	(1,843)	-	538,050
Machinery and equipment	31,781	5,862	-	-	37,643
Memphis Light, Gas and Water assets	2,286,052	90,136	(21,091)	-	2,355,097
Total capital assets being depreciated	<u>2,957,006</u>	<u>102,808</u>	<u>(22,934)</u>	<u>-</u>	<u>3,036,880</u>
Less accumulated depreciation for:					
Buildings	(77,411)	(2,388)	-	-	(79,799)
Improvements other than buildings	(252,230)	(10,309)	124	-	(262,415)
Machinery and equipment	(24,945)	(1,950)	-	-	(26,895)
Memphis Light, Gas and Water depreciation	(965,538)	(73,914)	26,996	-	(1,012,456)
Total accumulated depreciation	<u>(1,320,124)</u>	<u>(88,561)</u>	<u>27,120</u>	<u>-</u>	<u>(1,381,565)</u>
Total capital assets being depreciated, net	<u>1,636,882</u>	<u>14,247</u>	<u>4,186</u>	<u>-</u>	<u>1,655,315</u>
Business-type activities capital assets, net	<u>\$ 1,832,170</u>	<u>\$ 124,622</u>	<u>\$ (94,502)</u>	<u>\$ -</u>	<u>\$ 1,862,290</u>

NOTES TO FINANCIAL STATEMENTS
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CITY OF MEMPHIS, TENNESSEE
(Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Executive	\$ 155
Finance	3,820
General services	837
Information services	1,277
Fire services	2,819
Police services	6,477
Park services	7,565
Public services	4,957
Housing and Community Development	323
Public works	13,380
Engineering	530
Community enhancement	35
City Court Clerk	1
Capital assets held by the government's internal service funds that are charged to the various functions based on their usage of the assets	<u>146</u>
 Total depreciation expense - Governmental activities	 <u>\$ 42,322</u>
 Business-type activities:	
Sewer	\$ 13,115
Storm Water	1,532
Memphis Light, Gas and Water	<u>73,914</u>
Total depreciation expense - Business-type activities	<u>\$ 88,561</u>

	MLGW Electric Division	MLGW Gas Division	MLGW Water Division	Total
Statement of Revenues, Expenses and Changes in Net Assets:				
Depreciation expense	\$ 42,100	\$ 12,266	\$ 11,079	\$ 65,445
Transportation costs	373	2,513	351	3,237
Salvage returns	1,843	238	101	2,182
Retirements	(2,057)	(237)	(98)	(2,392)
Statement of Cash Flows, Depreciation Expense:	<u>\$ 42,259</u>	<u>\$ 14,780</u>	<u>\$ 11,433</u>	<u>\$ 68,472</u>
Retirements	2,057	237	98	2,392
Salvage	1,783	235	68	2,086
Transfer	-	-	-	-
Shelby County Board of Public Utilities				
Acquisition - annual amortization	-	-	964	964
	<u>\$ 46,099</u>	<u>\$ 15,252</u>	<u>\$ 12,563</u>	<u>\$ 73,914</u>

The reported MLGW numbers show a small difference between depreciation expense in the Statement of Revenues, Expenses and Changes in Fund Net Assets / Proprietary Funds and the depreciation expense noted in the Statement of Cash Flows - Proprietary Funds. This difference is attributed to a small amount of depreciation expense being recorded in their maintenance expense category on the Statement of Revenues, Expenses and Changes in Fund Net Assets / assets, the cost of removal and the proceeds from salvage are to be charged against the accumulated depreciation accounts when they are incurred. As a result, gains or losses generally are not recorded in the retirement of the utility's assets.

Construction Commitments

The government had active construction projects as of June 30, 2011. At year-end the government's commitments with contractors were as follows:

<u>Function/Activity</u>	<u>Commitment</u>
Executive	\$ 7,784
Fire services	2,164
Police services	2,460
Park services	9,134
Public works	21,157
Port Commission	87
Public services	2,687
General services	4,973
Housing and Community Development	31,033
Engineering	11,964
Information systems	5,245
Library services	17
Sewer	20,948
Community Enhancement	1,280
	<u>\$ 120,933</u>

Discretely Presented Component Units

Activity for the Board of Education for the year ended June 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 34,700	\$ -	\$ -	\$ -	\$ 34,700
Construction in progress	84,563	58,102	-	(78,663)	64,002
Total capital assets not being depreciated	<u>119,263</u>	<u>58,102</u>	<u>-</u>	<u>(78,663)</u>	<u>98,702</u>
Capital assets being depreciated:					
Buildings and improvements	1,250,979	-	(22,429)	78,663	1,307,213
Equipment and furniture	161,563	19,446	(7,503)	-	173,506
Total capital assets being depreciated	<u>1,412,542</u>	<u>19,446</u>	<u>(29,932)</u>	<u>78,663</u>	<u>1,480,719</u>
Less accumulated depreciation for:					
Buildings and improvements	(448,148)	(36,858)	18,476	-	(466,530)
Equipment and furniture	(106,867)	(16,816)	7,138	-	(116,545)
Total accumulated depreciation	<u>(555,015)</u>	<u>(53,674)</u>	<u>25,614</u>	<u>-</u>	<u>(583,075)</u>
Total capital assets being depreciated, net	<u>857,527</u>	<u>(34,228)</u>	<u>(4,318)</u>	<u>78,663</u>	<u>897,644</u>
Capital assets, net	<u>\$ 976,790</u>	<u>\$ 23,874</u>	<u>\$ (4,318)</u>	<u>\$ -</u>	<u>\$ 996,346</u>

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CITY OF MEMPHIS, TENNESSEE
(Continued)

Activity for the Memphis Area Transit Authority for the year ended June 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,731	\$ -	\$ -	\$ 2,731
Construction in progress	7,546	14,606	(98)	22,054
Total capital assets not being depreciated	<u>10,277</u>	<u>14,606</u>	<u>(98)</u>	<u>24,785</u>
Capital assets being depreciated:				
Buildings and improvements	152,433	318	-	152,751
Buses and other revenue vehicles	77,256	9,855	(5,172)	81,939
Machinery and equipment	20,949	534	(15)	21,468
Total capital assets being depreciated	<u>250,638</u>	<u>10,707</u>	<u>(5,187)</u>	<u>256,158</u>
Less accumulated depreciation for:				
Buildings and improvements	(56,081)	(4,841)	-	(60,922)
Buses and other revenue vehicles	(51,491)	(4,876)	4,841	(51,526)
Machinery and equipment	(16,358)	(1,080)	113	(17,325)
Total accumulated depreciation	<u>(123,930)</u>	<u>(10,797)</u>	<u>4,954</u>	<u>(129,773)</u>
Total capital assets being depreciated, net	<u>126,708</u>	<u>(90)</u>	<u>(233)</u>	<u>126,385</u>
Capital assets, net	<u>\$ 136,985</u>	<u>\$ 14,516</u>	<u>\$ (331)</u>	<u>\$ 151,170</u>

NOTES TO FINANCIAL STATEMENTS
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CITY OF MEMPHIS, TENNESSEE
(Continued)

Activity for the Memphis-Shelby County Airport Authority for the year ended June 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 162,150	\$ (1,378)	\$ -	\$ 160,772
Avigation easements	42,324	1,379	-	43,703
Construction in progress	30,246	69,294	(20,772)	78,768
Total capital assets not being depreciated	234,720	69,295	(20,772)	283,243
Capital assets being depreciated:				
Runways, taxiways, aprons and airfield lighting	693,600	11,347	(10,887)	694,060
Buildings	345,586	1,868	-	347,454
Facilities constructed for tenants	104,077	-	-	104,077
Roads, bridges and fences	59,782	447	-	60,229
Equipment and utility systems	88,270	7,564	(1,373)	94,461
Total capital assets being depreciated	1,291,315	21,226	(12,260)	1,300,281
Less accumulated depreciation for:				
Runways, taxiways, aprons and airfield lighting	(275,158)	(31,080)	8,146	(298,092)
Buildings	(208,716)	(14,293)	-	(223,009)
Facilities constructed for tenants	(31,060)	(2,800)	-	(33,860)
Roads, bridges and fences	(21,736)	(3,110)	-	(24,846)
Equipment and utility systems	(65,425)	(5,071)	1,332	(69,164)
Total accumulated depreciation	(602,095)	(56,354)	9,478	(648,971)
Total capital assets being depreciated, net	689,220	(35,128)	(2,782)	651,310
Capital assets, net	\$ 923,940	\$ 34,167	\$ (23,554)	\$ 934,553

NOTES TO FINANCIAL STATEMENTS
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CITY OF MEMPHIS, TENNESSEE
(Continued)

E. Interfund receivables, payables, and transfers.

	Transfers in:									Totals
	General Fund	Debt Service	Miscellaneous Grants	Hotel/Motel Tax	New Memphis Arena	Nonmajor Special Revenue Community Redevelopment	Education Fund	Total Nonmajor Special Revenue	OPEB Trust Fund	
Transfers out:										
General fund	\$ -	3,253	284	-	-	3,185	60,000	63,469	-	66,722
Debt service	45,000	-	-	-	-	-	-	-	-	45,000
Nonmajor special revenue:										
State Street Aid	-	1,768	-	-	-	-	-	-	-	1,768
Miscellaneous grants	-	192	-	-	-	-	-	-	-	192
Solid waste	-	1,662	-	-	-	-	-	-	-	1,662
Hotel/Motel tax	-	1,333	-	-	966	-	-	966	-	2,299
New Memphis arena	-	1,404	-	966	-	-	-	966	-	2,370
Community services	358	-	-	-	-	-	-	-	-	358
Community Redevelopment	-	313	-	-	-	-	-	-	-	313
Total nonmajor special revenue	358	6,672	-	966	966	-	-	1,932	-	8,962
Enterprise fund:										
Sewer	5,969	-	-	-	-	-	-	-	-	5,969
Memphis light, gas and water	54,048	-	-	-	2,500	-	-	2,500	-	56,548
Storm water	-	4,412	-	-	-	-	-	-	-	4,412
Internal Service:										
Health insurance	-	-	-	-	-	-	-	-	3,393	3,393
	\$ 105,375	14,337	284	966	3,466	3,185	60,000	67,901	3,393	191,006

NOTES TO FINANCIAL STATEMENTS
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CITY OF MEMPHIS, TENNESSEE
(Continued)

The composition of interfund balances as of June 30, 2011 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
GOVERNMENTAL FUND TYPES		
General	Community Development	\$ 21,813
	State Street Aid	2,853
	Sewer	4,612
	Unemployment Compensation	1,605
	Fleet Management	1,827
		<u>32,710</u>
Debt Service	State Street Aid	295
	Capital Projects	6,377
	Storm Water	1,000
		<u>7,672</u>
Special Revenue:		
Drug Enforcement	Workforce Investment Act	121
Drug Enforcement	Miscellaneous Grants	1,003
Drug Enforcement	JOBS	1
		<u>1,125</u>
PROPRIETARY FUND TYPES		
Internal Service:		
Printing and Mail	Community Development	71
Health Insurance	New Memphis Arena	5,086
Fleet Management	Community Development	47
		<u>5,204</u>
ENTERPRISE FUND TYPES		
Sewer	Storm Water	8,915
Storm Water	Community Development	710
		<u>9,625</u>
FIDUCIARY FUND TYPES		
Pension Trust:		
City OPEB Trust	Library Retirement	290
City OPEB Trust	City Retirement	77
		<u>367</u>
Total		<u>\$ 56,703</u>

Interfund Balances:

These balances resulted from timing differences between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, and (2) payments between funds occur. Also, there are some interfund balances resulting from working capital loans made between the funds. The majority of these balances are scheduled to be collected in the subsequent year.

Transfers:

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.

F. Leases

Operating Leases

The City occupies certain storage and office facilities principally under operating lease arrangements. The minimum annual rentals under such leases are not significant.

Capital Leases

The City has entered into lease agreements as a lessee for financing the acquisition of equipment for the Solid Waste and City Court Clerk Divisions. The lease agreements qualified as capital leases for accounting purposes and, therefore, were recorded at the present value of future minimum lease payments as of the inception dates.

The assets acquired through capital leases are as follows:

Assets:

Equipment	\$ 9,760
Accumulated Depreciation	<u>(4,578)</u>
Total	<u>\$ 5,182</u>

The remaining debt service requirement for capital lease obligations for the City at June 30, 2011, is as follows:

Fiscal Year	
2012	2,144
2013	2,144
2014	483
2015	483
2016	241
Less Interest	<u>(313)</u>
Present Value of Payments	<u>\$ 5,182</u>

G. Long-term debt

General Obligation Bonds

The City's full faith and credit and unlimited taxing power has been pledged to the payment of general obligation debt principal and interest. There is no legal limit on the indebtedness which may be incurred.

In June 2011, the City issued \$59,590 of General Improvement Bonds, Series 2011. The proceeds and issue cost of these debt instruments were recorded in the City's Capital Projects Fund as other sources and debt issue cost.

In June 2011, the City issued \$26,600 of General Improvement Refunding Bonds, Series 2011 to refund \$26,600 in General Improvement Bonds, Series 2003 Ref. The net proceeds of \$27,369 (after the payment of \$129 in underwriter's discount and \$132 cost of issuance) were used to purchase U.S. Government, State, and Local Series Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the above-mentioned bonds. As a result, this Series' bonds are considered defeased. The proceeds and extinguishment of debt as well as the issue costs paid by the City were recorded in the Debt Service Fund for the refunding issue.

Commercial Paper Program

The City issued \$75,400 in bond anticipation notes in May 2010. The issue resulted in net proceeds of \$79,618 (after the net issue premium of \$4,219, payment of \$242 in underwriter's discount, and \$192 cost of issuance). The purpose of the bond anticipation notes is to provide interim financing of various capital projects. The debt is classified as long-term debt and is reflected in the City's Statement of Net Assets. The proceeds and issue cost of these debt instruments were recorded in the City's Capital Projects Fund as other source and debt issue cost.

MLGW buys and stores natural gas during the off-season (summer) to use in the upcoming winter months. In July 2009, the Gas Division issued a revenue anticipation note in the amount of \$15,000 with a yield rate of 1.25% to provide funds for the purchase of gas and related storage. The note was repaid in full on March 31, 2010.

Revenue Bonds

During 2010, the Electric Division issued \$460,050 of Series 2010 bonds to advance refund a portion of the outstanding Electric System Subordinate Revenue Bonds, Series 2003A, and to pay certain costs of issuance of the Series 2010 Bonds. The refunding was undertaken to reduce total future debt service payments. The 2010 Series Bonds have a net present value benefit of \$16,541, with a cash savings of \$18,809 over the life of the bonds. The first principal payment is to be made December 1, 2014 and thereafter annually with a final maturity date of December 1, 2018. The Series 2010 Bonds bear interest at annual fixed rates ranging from 2.50% to 5.00%. The Series 2010 Bonds are not subject to optional redemption, but will be subject to extraordinary redemption prior to maturity.

In December 2010, the City issued \$16,450 in Sanitary Sewerage System Revenue Bonds, Series 2010B (Recovery Zone Economic Development bonds) to finance improvements, additions and extension to the Sanitary Sewerage System of the City. The issue resulted in net proceeds of \$16,208 (after the underwriter's discount of \$112 and issuance costs of \$130). The proceeds and the issue cost of these debt instruments were recorded in the City's

Sewer Collection and Treatment Fund. Interest on the Series 2010 Bonds is payable semiannually on each April 1 and October 1, commencing April 1, 2011. The interest rate varies from 1.148% to 4.137%.

In June 2011, the City issued \$15,165 of Sanitary Sewerage System Revenue Refunding Bonds, Series 2011 to refund a portion of certain Series 2002 of the Sanitary Sewerage System's outstanding Revenue Bonds. The aggregate difference in debt service between the refunding debt and the refunded debt was \$1,364. The issue resulted in net proceeds of \$16,327 (after the original issue premium of \$1,402, the underwriter's discount of \$103 and the issuance costs of \$137). The proceeds and issue cost of these debt instruments were recorded in the City's Sewer Collection and Treatment Fund.

Defeased debt

In prior years, the City defeased other general obligation and revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and the liability of the defeased bonds are not included in the City's financial statements. On June 30, 2011, a total of approximately \$153,190 bonds outstanding are considered defeased.

Changes in long-term liabilities

Various bond indentures contain significant limitations and/or restrictions for annual debt service requirements, maintenance of and flow of monies through various restricted accounts and minimum amounts to be maintained in various sinking funds. The City is in compliance with these limitations and restrictions.

The following is a summary of long-term debt by fund at June 30, 2011:

	General Obligation Bonds	Bond Anticipation Notes	Capital Lease Obligations	Revenue Bonds	Total
Governmental Funds	\$ 1,218,444	75,400	5,182	-	1,299,026
Enterprise Funds	-	-	-	1,055,613	1,055,613
Total long-term debt	\$ 1,218,444	75,400	5,182	1,055,613	2,354,639

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(Continued)

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
Governmental activities:					
General obligation bonds payable	\$ 1,142,494	86,190	(49,215)	1,179,469	34,164
Premium on general obligation bonds	36,785	5,918	(5,727)	36,976	-
Bond anticipation notes payable	75,400	-	-	75,400	75,400
Capital lease agreements	4,628	2,250	(1,696)	5,182	1,973
Accreted value on bonds	1,999	-	-	1,999	-
Legal Claims and Judgments	73,210	1,319	-	74,529	-
Vacation, sick and other leave benefits	85,967	6,707	(373)	92,301	829
	<u>\$ 1,420,483</u>	<u>102,384</u>	<u>(57,011)</u>	<u>1,465,856</u>	<u>112,366</u>
Business-type activities:					
Revenue bonds	\$ 148,270	31,615	(24,345)	155,540	9,965
Net premium/discount on revenue bonds	304	1,162	(712)	754	-
MLGW revenue bonds	955,330	460,050	(565,450)	849,930	90,420
Premium on MLGW revenue bonds	49,937	69,740	(48,714)	70,963	-
Less deferred amounts:					
For issuance discounts and on refunding	(101)	(24,573)	3,100	(21,574)	-
MLGW notes payable	1,499	-	(1,499)	-	-
MLGW anticipation note payable	15,000	-	(15,000)	-	-
Vacation, sick and other leave benefits	4,508	120	(217)	4,411	380
	<u>\$ 1,174,747</u>	<u>538,114</u>	<u>(652,837)</u>	<u>1,060,024</u>	<u>100,765</u>

The accreted value of bonds represents accrued interest on the \$1,339 principal portion of compound interest bonds of the 1993A Refunding Bonds. The cumulative accreted interest of the 1993A Refunding Bonds is \$1,999 at June 30, 2011. The compounded accreted value (principal plus accreted interest) of this portion of the 1993A Refunding Bonds at maturity (August 1, 2011) is \$3,545.

The compound interest bonds are subject to optional redemption by the City prior to their maturities at stated redemption prices which are calculated based upon the compounded accreted value at the date of redemption. A summary of General Obligation Debt and Revenue Bonds at June 30, 2011 follows:

NOTES TO FINANCIAL STATEMENTS
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
(Continued)

Description	Interest Rates(%)	Original Issue	Balance Outstanding at Year End
General Obligation Debt:			
General City Government Serial Bonds (1)	2.00 - 6.15	\$ 2,071,951	\$ 1,181,468
Bond Anticipation Notes	4.00	75,400	75,400
Net Premium/(Discount) on General Obligation Debt			36,976
Capital Lease Obligations	3.75-4.32	9,760	5,182
Total General Obligation Debt		<u><u>\$ 2,157,111</u></u>	<u>1,299,026</u>
Revenue Bonds:			
Sanitary Sewerage System	2.00-6.30	\$ 222,435	155,540
Electric Division, MLG&W (2)	2.50-5.00	1,902,585	848,305
Water Division, MLG&W (2)	4.15-5.25	12,575	1,625
Net Premium/(Discount) on revenue bonds	4.15		71,717
Unamortized deferred amount on bond refundings			(21,574)
Bond Anticipation Notes:			
Gas Division, MLGW (2)	1.25	15,000	-
Total Revenue Bonds		<u><u>\$ 2,152,595</u></u>	<u>1,055,613</u>
Total			<u><u>\$ 2,354,639</u></u>

(1) Includes accreted value of \$1,999 as of June 30, 2011.

(2) All MLG&W bonds reflect amounts outstanding at December 31, 2010

NOTES TO FINANCIAL STATEMENTS
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
(Continued)

Debt service requirements to maturity for general obligation and revenue bond long-term indebtedness at June 30, 2011 are as follows:

Total Long-term Indebtedness											
Fiscal Year	General Obligation				Revenue				Total Requirements		
	City		Capital Lease		Sewer System		MLG&W(2)				
	Principal	Interest(1)	Principal	Interest	Principal	Interest(1)	Principal	Interest	Principal	Interest	Total
2011							90,420	41,505	90,420	41,505	131,925
2012	109,564	61,205	1,973	171	9,965	6,836	96,815	37,071	218,317	105,283	323,600
2013	66,000	54,213	2,044	100	10,480	6,569	99,700	32,291	178,224	93,173	271,397
2014	76,290	50,904	456	27	10,895	6,143	102,765	27,431	190,406	84,505	274,911
2015	73,985	47,308	470	13	11,155	5,707	107,775	22,417	193,385	75,445	268,830
2016	83,190	43,665	239	2	10,940	5,254	112,935	17,151	207,304	66,072	273,376
2017	84,490	39,696	-	-	11,435	4,834	117,195	11,554	213,120	56,084	269,204
2018	88,505	35,685	-	-	11,305	4,331	122,325	5,777	222,135	45,793	267,928
2019	92,090	31,430	-	-	9,030	3,822	-	-	101,120	35,252	136,372
2020	89,550	27,147	-	-	10,010	3,404	-	-	99,560	30,551	130,111
2021	93,345	22,940	-	-	8,890	2,926	-	-	102,235	25,866	128,101
2022	92,285	18,561	-	-	9,305	2,475	-	-	101,590	21,036	122,626
2023	90,175	13,854	-	-	7,245	2,056	-	-	97,420	15,910	113,330
2024	68,120	10,006	-	-	7,575	1,681	-	-	75,695	11,687	87,382
2025	25,185	7,541	-	-	7,910	1,289	-	-	33,095	8,830	41,925
2026	18,965	6,324	-	-	5,900	938	-	-	24,865	7,262	32,127
2027	12,085	5,527	-	-	3,655	687	-	-	15,740	6,214	21,954
2028	12,575	4,862	-	-	3,805	480	-	-	16,380	5,342	21,722
2029	13,090	4,151	-	-	2,430	298	-	-	15,520	4,449	19,969
2030	13,640	3,403	-	-	2,525	144	-	-	16,165	3,547	19,712
2031	8,815	2,616	-	-	1,085	33	-	-	9,900	2,649	12,549
2032	9,180	2,151	-	-	-	-	-	-	9,180	2,151	11,331
2033	9,555	1,660	-	-	-	-	-	-	9,555	1,660	11,215
2034	9,620	1,154	-	-	-	-	-	-	9,620	1,154	10,774
2035	10,015	612	-	-	-	-	-	-	10,015	612	10,627
2036	4,555	226	-	-	-	-	-	-	4,555	226	4,781
TOTAL	\$ 1,254,869	496,841	5,182	313	155,540	59,907	849,930	195,197	2,265,521	752,258	3,017,779

(1) Interest on variable general obligation bonds is estimated.
(2) At 12-31-10

H. Restricted assets

The balances of the restricted asset accounts in the enterprise funds are as follows:

Futures margin deposits	\$ 1,329
Construction	1,100
Insurance reserves – injuries and damages	10,800
Insurance reserves – casualties and general	27,071
Medical benefit	7,484
Customer deposits	21,575
Bond reserve and debt service	<u>12,999</u>
Total	<u>\$82,348</u>

I. Fund Balance by Purpose

Following is more detailed information on the governmental fund balances.

	General	Debt Service	Non-major		Total Governmental Funds
			Capital Projects	Other Non-major	
Equity - Fund Balances:					
Restricted					
Parks Special Services	1,684	-	-	-	1,684
Solid Waste Management	-	-	-	4,963	4,963
Miscellaneous Grants	-	-	-	251	251
Drug Enforcement	-	-	-	7,877	7,877
Community Development	-	-	-	8	8
Committed					
Debt Service Requirements	-	17,201	-	-	17,201
Midtown Corridor	-	-	-	1,788	1,788
MLK Park Improvements	-	-	-	171	171
Community Redevelopment	-	-	-	3,867	3,867
Metro Alarms	-	-	-	1,971	1,971
Casino Gaming Commission	-	-	-	6	6
Capital Projects	-	-	47,182	-	47,182
Assigned					
Encumbrances	8,252	-	-	-	8,252
Unassigned	81,125	-	-	(5,086)	76,039
Total Fund Balances	<u>91,061</u>	<u>17,201</u>	<u>47,182</u>	<u>15,816</u>	<u>171,260</u>

V. OTHER INFORMATION

A. Risk management

The City is self-insured for health and medical benefits as well as on the job injury claims. The Health Insurance - Internal Service Fund charges premiums to other funds (primarily to the General Fund) which are used to pay claims and to fund the accrual for "incurred but not reported" (i.e. IBNR) claims and administrative costs of its health and medical benefits program. Additionally, on the job injury claims payable of \$8,359 were recorded in the Governmental Funds.

There were no significant incremental claim adjustment expenditures/expenses other than the expected cost of administering the claims paid by third party administrators. These liabilities, including IBNR (incurred but not reported claims), are based on the estimated ultimate cost of settling the claims using past experience adjusted for current trends, and any other factors that would modify past experience.

The changes in the insurance claims payable for the years ended June 30, 2010 and 2011 are as follows:

NOTES TO FINANCIAL STATEMENTS
(Thousands of Dollars)
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CITY OF MEMPHIS, TENNESSEE
(Continued)

	On the Job Injury					
	Health	OPEB	Sewer Collection and Treatment Fund	Fleet Management Fund	Storm Water Fund	Governmental Funds
Balance - June 30, 2009	\$ 7,194	5,106	46	58	30	4,002
Current year provision	58,765	43,998	90	59	2	3,147
Payments	(58,006)	(43,105)	(95)	(65)	(16)	(3,979)
Balance - June 30, 2010	7,953	5,999	41	52	16	3,170
Current year provision	61,075	41,215	499	126	149	9,535
Payments	(60,780)	(40,992)	(351)	(89)	(96)	(4,346)
Balance - June 30, 2011	\$ 8,248	6,222	189	89	69	8,359

The City received insurance recoveries during the year in compensation for damage during a 2010 storm to the zoo in the amount of \$123,201, the sign shop in the amount of \$400,000, the Art Academy in the amount of 69,789, and city hall in the amount of \$28,370. The City also received insurance recoveries during the year in compensation for damage to the WYPL Radio tower in the amount of \$75,833, damage to a helicopter in a crash for \$400,942, and damage to a swimming pool during a 2009 storm for \$119,671.

B. Subsequent events

In July 2011, the City entered into an interlocal agreement related to the financing of the Electrolux Home Products, Inc. Project. The project supports the development of a new appliance manufacturing and assembly facility, warehouse and distribution facility, and regional headquarters facility in Frank Pidgeon Industrial Park. The agreement executed by the City of Memphis, Shelby County and the Memphis and Shelby County Port Commission provided consent by the City and County to allow the Port Commission to issue revenue debt on behalf of the County and City. In the event the Port Commission lacks sufficient funds to pay such debt, the debt will be payable from the County's and City's legally available non-ad valorem revenues. The outstanding debt shall not be joint, but will be apportioned 50% to the City and 50% to the County. In September 2011, the Port Commission issued \$40,795 of Development Revenue Bonds in accordance with the provisions of the agreement. The State of Tennessee provided \$92,000 towards the project.

In September 2011, the City entered into a loan agreement with the Memphis Center City Revenue Finance Corporation (MCCRF). In accordance with the agreement, the MCCRF issued \$40,540 of federally taxable senior revenue bonds, \$100,245 of tax exempt subordinate revenue bonds and \$56,150 of federally taxable subordinate revenue bonds in support of the Pyramid and Pinch District Redevelopment Project. The bonds are limited obligations of the MCCRF secured by an assignment and pledge of a Trust Estate, which consists primarily of the payments and prepayments required to be made by the City under and pursuant to the Loan Agreement and which are to be provided from the City's Memphis Cook Convention Center Tourism Development Zone (TDZ) revenues. The project supports the redevelopment of a public arena and related properties located in the center city area of the City. Upon completion, the project will be a retail tourism destination featuring a proposed 300,000 square foot "Bass Pro Shops Outdoor World" facility which will include retail space, exhibit/entertainment space, restaurant and hotel.

In September 2011, as a part of the Pyramid and Pinch District Redevelopment Project mentioned above, the City purchased the County's share of the Memphis Cook Convention Center for \$75 million. The purchase agreement gave the City total control of the state sales tax revenue generated by the Memphis Cook Convention Center Tourism Development Zone (TDZ) revenues.

In December 2011, the City Council approved an ordinance to modify the pension benefits allowable under the City's Pension and Retirement Plan in an effort to protect the actuarial soundness and to ensure the long-term financial viability of the Plan. The Plan changes primarily impacted employees hired on or after July 1, 2012 and the employee contribution amounts for Fire and Police officers with less than 10 years of service as of June 30, 2012.

The City entered into agreements with a vendor to sell a portion the City's 2008 to 2010 delinquent property tax receivables in late June 2011 and a portion of the City's 2011 delinquent property tax receivables in November 2011. The total proceeds were \$14,467 and \$19,074 for the June 2011 and November 2011 sales, respectively.

C. Contingent liabilities and commitments

The City is a defendant in a number of various lawsuits filed in the ordinary course of its operations. The City believes that \$19,468 is a reasonable measure of the ultimate settlement of these matters. However, the City's Statement of Net Assets reflects a total liability of \$74,529 which includes the \$19,468 plus \$55,061 related to an extraordinary lawsuit discussed in more detail below. The \$55,061 consisted of the \$57,461 referenced below offset by a mutually agreed upon reduction for a \$2,400 grant provided by the City.

The City was a party to a lawsuit with the Board of Education of the Memphis City Schools (BOE), in which the BOE sought to compel the City to provide funding in the amount of \$57,461 for BOE's 2008-09 school year. The BOE's claim for \$57,461 has been finally adjudicated by Tennessee Courts. The City filed a counterclaim in the lawsuit seeking to enforce agreements between the City and the BOE that allows the City to withhold from any funding to the BOE amounts loaned to the BOE for capital projects. The amount of the City's counter-claim exceeds \$57,461.

In addition, the City has also filed a counter-claim in a separate lawsuit between the BOE and the City to enforce a settlement agreement, which resolved BOE's claim for \$57,461 in exchange for the City's release of a portion of the amounts loaned to the BOE for capital projects. Neither of the City's counter-claims has been decided yet by the Chancery Court of Shelby County, Tennessee and if decided in the City's favor could reduce or eliminate the City's obligation to provide funds to BOE for the 2008-09 school year.

Amounts received or receivable from grantors, principally the Federal and State governments, are subject to regulatory requirements and adjustments by the agencies. Any disallowed claims, including amounts previously recognized by the City as revenue, would constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time although City officials expect such amounts, if any, to be immaterial.

Pursuant to an interlocal agreement by and among The Memphis and Shelby County Sports Authority, Inc. (the "Sports Authority"), Shelby County (the "County") and the City, in the event the revenues pledged to the support of certain senior lien bonds issued by the Sports Authority (the "Senior Lien Bonds") prove to be insufficient to

pay debt service on the Senior Lien Bonds in any bond year (ending on October 31), the City and the County, pursuant to the provisions of Section 7-67-116 of the Tennessee Code Annotated, have covenanted to timely appropriate from legally available non-ad valorem revenues, not later than October 31 of the fiscal year ending June 30 following the date of such deficit, sufficient moneys to replenish draws from the debt service reserve fund used to make scheduled debt service on the Senior Lien Bonds in the prior year.

As of June 30, 2011, the Senior Lien Bonds were outstanding in an aggregate principal amount of \$207,260,000. The obligation of the City and the County to replenish draws on the debt service reserve fund relating to the Senior Lien Bonds is apportioned on the following basis: 50% from the City, and 50% from the County but is not a joint obligation. The obligation to replenish the debt service reserve fund relating to the Senior Lien Bonds is not a general obligation of the City.

The City has commitments at June 30, 2011, for outstanding purchase orders and outstanding contracts reported as assigned fund balance for encumbrances in the General Fund of \$8,252. The City had additional commitments totaling \$120,933 for certain infrastructure and sewer construction projects.

D. Joint ventures

Memphis and Shelby County Convention Center Complex

The Memphis and Shelby County Convention Center Complex (the Convention Center) is a joint operation between the City and the County. It is managed by an eight member board consisting of four members appointed by the City and four members appointed by the County. The board is responsible for reporting the results of operations of the Convention Center semi-annually to both the City and the County. Each participant shares equally in the profits of the Convention Center and is responsible for funding any deficit from operations in the same proportion. As of and for its year ended June 30, 2011, the Convention Center reported the following derived from its audited financial statements:

Assets	\$10,211
Liabilities	1,585
Net assets	8,626
Operating revenues	3,734
Operating expenses	7,069
Other income	3,047
Change in net assets	\$ (288)

Financial statements for the Convention Center may be obtained from Memphis Cook Convention Center, 255 N. Main Street, Memphis, TN 38103-1623.

Memphis and Shelby County Port Commission

The Memphis and Shelby County Port Commission (the Port Commission), a joint operation between the City and the County, is managed by a seven member board. Three of the board members are appointed by the City and two are appointed by the County. In addition, the director of public works for the City and for the County serves

as ex officio members of the board with the right to vote. Capital expenditures over \$5 must be approved by both the City and the County. Excess revenues of the Port Commission are distributed to the City and the County in a sum equal to what would be the City and the County taxes on the property owned by the City and the County, managed and controlled by the Port Commission. Any deficits of the Port Commission are funded equally by the City and the County.

The Port commission shared in the proceeds of two general obligation bonds issued by the City. The bonds are direct obligations of the City which has pledged full faith and credit and taxing power to the punctual payment of principal and interest. The Port Commission is required to repay its proportionate share of principal and interest for each bond at the time such obligations become due. The interest rates for the two bonds range from 5.0% to 6.0%.

During the year, a joint resolution was passed to waive all existing debt owed by the Port Commission due to Shelby County and the City. As of June 30, 2011, the Port Commission has no outstanding debt to the City or Shelby County. The write off of the debt owed to the City resulted in a \$5,605,471 capital contribution.

As of and for its year ended June 30, 2011, the Port Commission reported the following derived from its audited financial statements:

Assets	\$27,008
Liabilities	899
Net assets	26,109
Operating revenues	2,735
Other expense	701
Operating expenses	1,724
Capital contribution	5,605
Change in net assets	\$ 5,915

Financial statements for the Port Commission may be obtained from the Memphis and Shelby County Port Commission, 1115 Riverside Blvd., Memphis, TN 38106-2504.

Memphis and Shelby County Community Redevelopment Agency

Memphis and Shelby County Community Redevelopment Agency (CRA) is a joint operation of the City and County and is managed by a seven member board. Three members are appointed by the City Mayor with approval by the City /Council and three members are appointed by the County Mayor with the approval of the County Commission. One member is jointly approved by the City and County. The CRA's purpose is to ameliorate the slum and blight conditions within the City of Memphis and unincorporated areas of Shelby County. Efforts thus far have been to utilize tax increment financing to redevelop the Uptown and Highland Row areas of Memphis. As of and for its year ended June 30, 2009 (its most recent financial statements), the CRA reported the following from its audited financial statements:

Assets	\$12,160
Liabilities	14,066
Net assets	(1,906)
Operating revenues	4,899
Operating expenses	598
Other expense	218
Change in net assets	\$ 4,083

Financial Statements for the CRA may be obtained from the City of Memphis Division of Planning and Development, 125 N. Main, suite 468, Memphis, TN 38103.

New Memphis Arena Public Building Authority of Memphis and Shelby County, Tennessee

In August 2001, the City and the County entered into a joint operation creating a nonprofit corporation, The New Memphis Arena Public Building Authority of Memphis and Shelby County, Tennessee (The New Arena PBA). The New Arena PBA is a non-profit corporation established under the Statutes of the State of Tennessee and is governed by a Board of Directors whose members are jointly appointed by the Mayors of Memphis and Shelby County and approved by the Memphis City Council and the Shelby County Commission. The New Arena PBA was responsible for the construction of a multipurpose sports and entertainment facility (FedEx Forum). The total construction cost of \$250,000 was funded from \$186,000 from Senior Lien Revenue Bonds, \$20,000 from Subordinate Lien Revenue Bonds, \$12,000 each by the City and the County from non-ad valorem revenues, and \$20,000 from the State of Tennessee for a parking structure.

The New Arena PBA did not have any financial activity for the current fiscal year and only has ownership rights to the FedEx Forum as assets. The Tennessee Comptroller of the Treasury has granted an exemption from an annual audit. As such, no audited financial statements are presented.

Sports Authority of Memphis and Shelby County Incorporated

The Sports Authority of Memphis and Shelby County Incorporated (the Authority) is a nonprofit corporation established jointly by the City and County under the provisions of the Sports Authority Act of 1993 (State of Tennessee). The purpose of the Authority is to review and/or act upon issues dealing with sports entities, teams, stadiums, arenas, and other matters related to the improvement of sports related activities. Board members (eleven) are appointed by the City and the County Mayors, with approval by the City Council and County Commission, for six year terms. The Authority has issued bonds in connection with the financing of a multipurpose sports and

entertainment facility (FedEx Forum). The bonds are payable from city and county hotel/motel taxes, MLGW in lieu of tax payments, seat license fees, car rental taxes, and certain taxes generated by the Memphis Grizzlies.

E. Other postemployment benefits

The City accounts for other postemployment benefits in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expenses/expenditures and related liabilities (assets), note disclosures, and required supplementary information. This Statement requires recognition of the cost of other postemployment benefits during the periods when employees render their services and disclosure about actuarially accrued liabilities related to past services and the status and progress of funding the benefits. The requirements of GASB statement No. 45 were implemented prospectively beginning July 1, 2007.

As a result of the adoption of GASB Statement No. 45, the City established a new OPEB trust fund for the exclusive benefit of the City’s eligible retired employees and their dependents to fund the postemployment benefits provided through the health and welfare benefit plan. Amounts contributed to the OPEB Trust by the City are held in trust and are irrevocable and are for the sole and exclusive purpose of funding for health and welfare benefits of the eligible participants, and the cost of operating and administering the Trust.

ASSETS

Investments, at fair value:	
Mutual funds and money market funds	\$ 12,512
Total investments	<u>12,512</u>
Equity in cash and investment pool	14,042
Interest and dividend receivables	13
Due from other funds	<u>367</u>
Total assets	<u>26,934</u>

LIABILITIES

Accounts payable and other	<u>10,197</u>
Total liabilities	<u>10,197</u>

NET ASSETS

Held in trust for OPEB	<u><u>\$ 16,737</u></u>
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ADDITIONS

Contributions:

Employer	\$ 32,699
Plan members	12,673
Total contributions	<u>45,372</u>

Transfer from other fund	3,393
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Investment income:

Interest and dividend income	284
Net appreciation/(depreciation) in the fair value of investments	<u>1,944</u>
Total investment income	<u>2,228</u>

Total Additions	<u>50,993</u>
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DEDUCTIONS

Benefits	41,043
Administrative expenses	<u>3,124</u>

Total Deductions	<u>44,167</u>
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Net increase	6,826
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Net assets - beginning of year	<u>9,911</u>
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Net assets - end of year	<u><u>\$ 16,737</u></u>
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City of Memphis Other Post Employment Benefits (OPEB) Plan

Plan Description. The City's OPEB plan provides medical and life insurance benefits to eligible retired City of Memphis General, Police, Fire and Airport Authority employees and their dependents based on firmly-established past practices. The primary benefit for eligible retirees is postretirement medical coverage through either a Preferred Provider Organization (PPO/Basic) or a Point of Service Plan (POS/Premier). Of premiums paid for retiree health and medical benefits and life insurance, 70 percent is paid by the General Fund (with the remaining 30 percent paid by the retirees) and is recognized as an expenditure, which totaled \$29,159 for 2011. At June 30, 2011, the number of retirees eligible for health and medical benefits is 3,742. The City also provides two life insurance benefits: the first is a self-insured death benefit and the second is a continuation of active life insurance.

The authority to conduct the general operation and administration of the single employer plan is vested with the City. Separate financial statements for the plan are not issued.

Summary of Accounting Policies – The financial statements of the OPEB plan are prepared using the accrual basis of accounting.

Funding Policy – The contribution requirements of the plan members and the City are established and may be amended by the City. OPEB eligible members receiving benefits contribute \$66.30 to \$157.33 per month for retiree-only coverage and \$132.60 to \$312.02 per month for retiree and family coverage depending on the medical plan coverage selected. The City pays for medical costs in excess of required retiree premiums and may elect through adoption of the City’s annual budget ordinance to contribute an amount in excess of the total annual benefit payments to a qualified trust for the purpose of funding future OPEB benefits. In fiscal year 2009, the City adopted and established an OPEB Trust for the exclusive purpose of pre-funding and providing for payment of OPEB benefits under the plan. The City’s receipt of Medicare Part D prescription drug subsidies is included in operating income.

Funded Status and Funding Progress – The funded status of the plan as of July 1, 2011, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (c) = (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (d)	UAAL as a Percentage of Covered Payroll * (c) / (d)
7/1/2009	\$2,911	\$937,151	\$934,240	0.3%	\$315,682	295.9%
7/1/2010	\$2,566	\$1,167,930	\$1,165,364	0.2%	\$313,285	372.0%
7/1/2011	\$10,297	\$1,345,355	\$1,335,058	0.8%	\$337,200	395.9%

* Covered payroll includes all active plan participants.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the Notes to the Financial Statements (Exhibit F-10), presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of the sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010 actuarial valuation, the Entry Age Normal Actuarial Cost Method was used. The actuarial

NOTES TO FINANCIAL STATEMENTS
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assumptions included a 5.2 percent investment rate of return (net of administrative expenses) and an annual pre-Medicare health care cost trend rate of 9.47% percent initially, reduced by decrements to an ultimate rate of 4.5 percent in fiscal year 2027 and after. The actuarial annual post-Medicare health care cost trend rate is 9.86% and is to be reduced by decrements to an ultimate rate of 4.5% in fiscal year 2027 and after. All rates assume a 5.0 percent salary scale. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011, was 30 years.

Schedule of Employer Contributions – The schedule of employer contributions for the four years ended June 30, 2011 is as follows:

Year Ended June 30	Annual Required Contributions	Actual Contributions	Percentage Contributed
2008	\$ 55,418	\$ 35,743 ¹	64.5%
2009	\$ 66,273	\$ 38,159 ²	57.6%
2010	\$ 80,477	\$ 35,674 ³	44.3%
2011	\$ 95,376	\$ 36,130 ⁴	37.9%

¹ Includes a \$3,000 contribution in excess of the net employer benefit payments

² Includes a \$6,000 contribution in excess of the net employer benefit payments

³ Includes a \$1,000 contribution in excess of the net employer benefit payments

⁴ Includes a \$3,541 contribution in excess of the net employer benefit payments

Annual OPEB Cost and Net OPEB Obligation – For fiscal year 2011, the City contributed 37.3 percent or \$36,130 of its annual OPEB cost of \$96,870. The annual OPEB cost consisted of the following:

Annual Required Contribution (ARC)	\$ 95,376
Interest on beginning of year accrual	4,871
Amortization of beginning of year accrual	(3,210)
Interest on the amortization	(167)
Annual OPEB cost (AOC)	\$ 96,870
Contributions made	(36,130)
Change in net OPEB Obligation	60,740
Net OPEB Obligation – beginning of year	93,678
Net OPEB Obligation – end of year	<u>\$154,418</u>

Three-year trend information is as follows:

Year Ended June 30	Annual OPEB Cost	Percentage of AOC Contributed	Net OPEB Obligation
2009	\$66,614	57.3%	\$48,130
2010	81,222	43.9	93,678
2011	96,870	37.3	154,418

Memphis Light, Gas and Water Division Other Post Employment Benefits Trust Fund

Memphis Light, Gas and Water, by resolution of its Board of Commissioners, has established, adopted, and maintains a medical benefits (health and welfare) plan for its retired employees and their eligible dependents. The MLGW Plan is a single-employer defined benefit healthcare plan administered by MLGW. MLGW issues a separate audited financial report for the OPEB Trust that includes financial statements and required supplementary information. That report may be obtained by writing to: Manager, General Accounting, P.O. Box 430, Memphis, Tennessee 38101-0430.

The Plan provides post-employment health care, prescription drugs, life insurance and accident/death and dismemberment (AD&D) to retirees. Eligible dependents are provided life insurance, health care and prescription drugs. Benefits are payable to a retiree and his/her spouse for their lifetime. Qualified dependents will continue to receive benefits as long as they are qualified under the MLGW Plan. Dental, dependent life insurance, cancer, accident and long-term care benefits are available but are 100 percent paid by the retiree.

Employees retired under the MLGW Retirement and Pension Plan, or disabled with five years of service at any age, or disabled in the line of duty at any age with no years of service restriction, are eligible for OPEB benefits. Health care benefits are also offered to qualifying survivors of deceased retired members and deceased active employees who were eligible to retire at the time of death. Currently, 4,068 retirees and beneficiaries are receiving post-employment benefits.

NOTES TO FINANCIAL STATEMENTS
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
(Continued)

ASSETS

Cash and cash equivalents	\$	6,875
Investments, at fair value:		
Common stock - domestic		44,860
Common stock - foreign		16,745
Preferred stock - foreign		221
Equity exchange index fund - domestic		3,526
Investment in international equity fund		14,739
Investment in corporate bond mutual funds		36,827
Investment in international bond fund		33,195
Distressed debt funds - domestic		1,903
Distressed debt funds - foreign		1,597
Total investments		<u>153,613</u>
Employer receivable		10
Interest and dividend receivables		134
Receivable for securities sold		10
Collateral held in trust for securities on loan		<u>12,963</u>
Total assets		<u>173,605</u>

LIABILITIES

Accounts payable and other		<u>13,236</u>
Total liabilities		<u>13,236</u>

NET ASSETS

Held in trust for OPEB	\$	<u><u>160,369</u></u>
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NOTES TO FINANCIAL STATEMENTS
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
(Continued)

ADDITIONS

Contributions:

Employer	\$ 43,476
Plan members	4,763
Total contributions	<u>48,239</u>

Investment income:

Interest and dividend income	2,963
Securities lending income	27
Other investment income	3
Net appreciation in the fair value of investments	<u>13,051</u>
Total investment income	<u>16,044</u>

Total Additions 64,283

DEDUCTIONS

Benefits	26,683
OPEB expense paid on behalf of OPEB trust	1,727
Administrative expenses	<u>1,725</u>

Total Deductions 30,135

Net increase 34,148

Net assets - beginning of year 126,221

Net assets - end of year \$ 160,369

Funding Policy

The contribution requirements of plan members and MLGW are established and may be amended by the MLGW Board of Commissioners. Contribution rates for retired plan members and beneficiaries currently receiving benefits are periodically reset at 25 percent of costs for medical and drug benefits. For life insurance and AD&D, retirees contribute 40 percent of the cost.

The Board of Commissioners has set the employer contribution rate based on the annual required contribution (“ARC”), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize and unfunded actuarial liabilities of the plan over a period not to exceed thirty years. For fiscal year 2010, employer contributions were \$43,476 to the Plan. Plan members receiving benefits contributed \$4,763 through their required contribution of \$43.77 to \$431.29 (dollars) per month depending on the coverage (employee only, employee and spouse, or family) and the health plan selected.

MLGW’s receipt of Medicare Part D prescription drug subsidies is included in non–operating income. Subsidies in future years cannot be recognized as a reduction in the actuarial accrued liability.

Annual OPEB Cost and Net OPEB Obligation

An actuarial valuation of MLGW’s post-employment welfare benefit program was performed for the Plan as of December 31, 2009. During 2011, an updated actuarial valuation was performed. The actuarial valuation of MLGW’s post-employment welfare benefit program as of December 31, 2009, was updated based on the revised valuation. MLGW’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC). The following table presents the OPEB cost for the year, the amount contribute to the Plan, and changes in the net OPEB obligations for fiscal year 2010:

Annual Required Contribution (ARC)	\$ 43,693
Interest on net OPEB asset	(188)
Adjustment to ARC	<u>146</u>
Annual OPEB cost	43,651
Contributions made	<u>(43,476)</u>
Change in net OPEB asset	175
Net OPEB asset – beginning of fiscal year	<u>(2,500)</u>
Net OPEB asset – end of fiscal year	<u>\$ (2,325)</u>

MLGW’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal years 2010, 2009 and 2008 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
December 31, 2010	\$ 43,651	\$ 43,476	99.6%	\$ (2,325)
December 31, 2009	55,340	55,688	100.6%	(2,500)
December 31, 2008	57,991	66,881	115.3%	(2,152)

Funded Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (c) = (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (d)	UAAL as a Percentage of Covered Payroll (c) / (d)
December 31, 2006 *	\$ 0	\$ 743,484	\$ 743,484	0.0%	\$ 148,219 **	501.6%
December 31, 2007 ***	\$ 15,097	\$ 674,002	\$ 658,905	2.2%	\$ 144,756	455.2%
December 31, 2009	\$ 125,234	\$ 591,528	\$ 466,294	21.2%	\$ 153,117	304.5%

* Projected from 12/31/05 valuation

** Projected from 2006 payroll

*** Revised actuarial assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarially determined amounts regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The above schedule of funding progress, as presented as “required supplementary information” following the notes to the MLGW’s OPEB Trust’s financial statements, provides additional multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of the sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations. Actuarial methods and significant assumptions were as follows:

Valuation Date	December 31, 2009
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay, 30 years
Remaining Amortization Period	27 years as of December 31, 2009
Asset Valuation Method	Market Value
Accrual Assumption:	
Investment Rate of Return (discount rate)	7.50%
Inflation Rate	3.25%
Projected Salary Increases	Ultimately 7.60% at age 24 graded to 3.25% at age 60 and older
Medical Cost Trend Rate for PPO, POS and HMO (starting 1/1/2010)	9.25% graded to 5.00% over 9 years
Medical Cost Trend Rate for POS and HMO	9.00% graded to 5.00% over 8 years
Drug Cost Trend Rate	8.50% graded to 5.00% over 7 years

F. Pension and retirement plans

City of Memphis Retirement System

General - The City of Memphis Retirement System is established under Chapter 25, Code of Ordinances, City of Memphis, Tennessee, and is administered by a Board of Administration under the direction of the Mayor. Separate financial statements for the plan are not issued.

As of and for its year ended June 30, 2011, the City Retirement System reported the following net assets:

ASSETS

Cash and cash equivalents	\$ 95,690
Investments, at fair value:	
U.S. Government securities - long-term	50,316
Common stock - domestic	690,802
Common stock - foreign	188,424
Corporate bonds - domestic	298,533
Corporate bonds - foreign	76,458
Mutual funds and money market funds	27,474
Collateralized mortgage obligations	6,706
Asset-backed pooled securities	107
Mortgage-backed pooled securities	107,550
Investment in index fund	153,278
Investment in real estate	87,639
Investment in international equity fund	252,777
Total investments	<u>1,940,064</u>
Interest and dividend receivables	7,303
Receivable for securities sold	<u>62,993</u>
Total assets	<u><u>2,106,050</u></u>

LIABILITIES

Accounts payable and other	119,528
Due to other funds	<u>77</u>
Total liabilities	<u><u>119,605</u></u>

NET ASSETS

Held in trust for pension benefits	<u><u>\$ 1,986,445</u></u>
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NOTES TO FINANCIAL STATEMENTS
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
(Continued)

As of and for its year ended June 30, 2011, the City Retirement System reported the following changes in net assets:

ADDITIONS

Contributions:

Employer	\$ 20,132
Plan members	23,992
Total contributions	<u>44,124</u>

Investment income:

Interest and dividend income	51,611
Other investment income	975
Gain/(loss) on real estate investments	2,548
Net appreciation/(depreciation) in the fair value of investments	<u>330,097</u>
Total investment income	<u>385,231</u>

Total Additions 429,355

DEDUCTIONS

Benefits	135,576
Administrative expenses	8,924
Refunds of contributions	<u>10,326</u>

Total Deductions 154,826

Net increase 274,529

Net assets - beginning of year 1,711,916

Net assets - end of year \$ 1,986,445

Plan Description - The City Retirement System pension trust fund accounts for the activity of the City of Memphis Retirement System and is a single employer public employee retirement system. Substantially all permanent full-time salaried employees of the City (excluding component units) are required to participate in either of two contributory defined benefit pension plans (the Plans) which are as follows: 1948 Plan - for salaried employees hired prior to July 1, 1978, and 1978 Plan - for salaried employees hired after June 30, 1978. Under City Ordinances, trust assets are reported in one trust fund and not segregated between the two benefit plans. Permanent, full-time employees in job classifications covered by contract with the Social Security Administration are not participants of the Retirement System as they are covered under the Federal Insurance Contribution Act (Social Security).

NOTES TO FINANCIAL STATEMENTS
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
(Continued)

At June 30, 2011, the Retirement System membership consisted of:

Retirees and beneficiaries currently receiving benefits and Terminated employees entitled to benefits but not yet receiving them	4,651
Active employees:	
Fully vested	3,155
Nonvested	<u>3,118</u>
Total	<u>10,924</u>

The Plans provide retirement benefits as well as death and disability benefits. Retirement benefits vest after ten years of service. General employees, under the 1948 Plan, may retire after completion of 25 years of service or, if earlier, after age 60 and completion of 10 years of service. Under the 1978 Plan, general employees may retire after completion of 25 years of service or, if earlier, after meeting any of the following:

- 1) after age 65 and the completion of 5 years of service,
- 2) after age 60 and the completion of 10 years of service.

Police officers and firefighters under the 1948 Plan and the 1978 Plan may retire after completion of 25 years of service or, if earlier, after age 55 and completion of 10 years of service. Elected and Appointed participants hired prior to November 1, 2004 may retire after 12 years of service.

Benefits amounting to 2.25 percent (for credited service prior to January 1, 1989) and 2.50 percent (for credited service January 1, 1989 and after) of the earnings base for the first 25 years of credited service plus 1 percent of the earnings base for the next 10 years of credited service are payable semi-monthly for life.

Summary of Accounting Policies - The financial statements of the Plans are prepared using the accrual basis of accounting. Contributions, benefits, and refunds are recognized when due and payable in accordance with the terms of the plans.

Method Used to Value Investments - All investments of the City of Memphis Retirement System are reported at fair value. Short-term investments are reported at cost, which approximates fair value. All other investments are valued based upon quoted market prices except for real estate investments, which are appraised by independent appraisals. The City of Memphis Retirement System had no individual investments in excess of 5 percent of plan net assets.

Contributions - The Plans' funding policy provided for actuarially determined periodic contributions at rates of 5 percent per annum for general city employees and up to 7 percent for police and fire employees. The City is required to contribute the remaining amounts necessary to fund the Plans, using the actuarial basis specified by statute. The City is also required to appropriate funds for the trust fund as necessary to pay all costs and expenses of the Plans.

Actuarial Methods and Assumptions - The actuarial asset valuation method is the Entry Age Normal Actuarial Cost Method with level-dollar open amortization of the unfunded accrued liability. The amortization period is 30 years. The method divides the cost of funding into two parts; normal cost and actuarial accrued liability.

NOTES TO FINANCIAL STATEMENTS
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
(Continued)

Significant actuarial assumptions include: (a) a rate of return on the investment of present and future assets of 7.5 percent a year compounded annually; (b) projected salary increases of 5 percent a year compounded annually, attributable to inflation; (c) no additional projected salary increases for seniority or merit; and (d) post-retirement benefit increases of 1 percent to 3 percent depending on the calendar year of retirement.

Schedule of Funding Progress - The normal cost method is the level annual payment that would be required to fund the pension if paid from the date each employee was hired to the date of his retirement. Actuarial accrued liability is the amount of assets that would have been accumulated had the plan been established on the date the employee with the longest period of service was hired. If the actuarial accrued liability were fully funded, the total annual cost would be the normal cost. The schedule of funding progress for the six years ended June 30, 2011 is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) -- Entry Age (b)</u>	<u>Unfunded Actuarial Liability (UAAL) (c) = (b) - (a)</u>	<u>Funded Ratio (a) / (b)</u>	<u>Covered Payroll (d)</u>	<u>UAAL as a Percentage of Covered Payroll (c) / (d)</u>
7/1/2006	\$2,056,080	N/A	N/A	N/A	\$262,859	N/A
7/1/2007 *	\$2,121,919	\$2,063,051	\$0	102.9%	\$264,966	0.0%
7/1/2008	\$2,184,255	\$2,090,088	\$0	104.5%	\$281,040	0.0%
7/1/2009	\$1,773,457	\$2,222,984	\$449,527	79.8%	\$296,134	151.8%
7/1/2010	\$1,805,071	\$2,336,075	\$531,004	77.3%	\$308,889	171.9%
7/1/2011	\$1,838,424	\$2,447,974	\$609,550	75.1%	\$316,434	192.6%

* Starting with the July 1, 2007, valuation, the actuarial accrued liability is provided under the Entry Age Normal Cost Method in order to provide information that serves as a surrogate of the funding progress of the Plan.

Schedule of Employer Contributions - The schedule of employer contributions for the six years ended June 30, 2011 is as follows:

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2006	\$11,893	117.6%
2007	22,674	61.9
2008	24,072	60.6
2009	21,208	76.3
2010	71,447	24.4
2011	80,021	25.2

NOTES TO FINANCIAL STATEMENTS
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
(Continued)

Annual Pension Cost and Net Pension Asset – The City Retirement System’s annual pension cost and net pension asset for the year ended June 30, 2011 were as follows:

Annual required contribution	\$ 80,021
Interest on net pension obligation	1,064
Adjustment to annual required contribution	<u>(1,202)</u>
Annual pension cost	79,883
Contribution made	<u>(20,132)</u>
Increase in net pension obligation	59,751
Net pension obligation at beginning of year	<u>14,191</u>
Net pension obligation at end of year	<u>\$ 73,942</u>

Three-year trend information is as follows:

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2009	\$24,650	65.6%	\$(40,226)
2010	71,836	24.2	14,191
2011	79,883	25.2	73,942

Library Retirement System

General - The Retirement System of the Memphis and Shelby County Public Library and Information System is established under Chapter 18, Code of Ordinances, City of Memphis, Tennessee and is administered by a Board of Administration under the direction of the Library Board of Trustees and City Council. Separate financial statements for the plan are not issued.

As of and for its year ended June 30, 2011, the Library Retirement System reported the following net assets:

ASSETS

Investments, at fair value:

Common stock - domestic	\$ 29,312
Mutual funds and money market funds	287
Investment in index funds	20,690
Investment in international equity fund	<u>7,979</u>
Total investments	58,268

Interest and dividend receivables	5
Receivable for securities sold	<u>156</u>

Total assets 58,429

LIABILITIES

Due to other funds	<u>290</u>
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Total liabilities 290

NET ASSETS

Held in trust for pension benefits	<u><u>\$ 58,139</u></u>
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NOTES TO FINANCIAL STATEMENTS
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
(Continued)

As of and for its year ended June 30, 2011, the Library Retirement System reported the following changes in net assets:

ADDITIONS

Contributions:	
Employer	\$ 212
Plan members	212
Total contributions	<u>424</u>
Investment income:	
Interest and dividend income	158
Other investment income	2
Net appreciation in the fair value of investments	<u>9,733</u>
Total investment income	<u>9,893</u>
Total Additions	<u>10,317</u>

DEDUCTIONS

Benefits	3,103
Administrative expenses	<u>534</u>
Total Deductions	<u>3,637</u>
Net increase	6,680
Net assets - beginning of year	<u>51,459</u>
Net assets - end of year	<u>\$ 58,139</u>

Plan Description - The Library Retirement System pension trust fund accounts for the activity of the Library Retirement System, a single employer public employee retirement system. Substantially all regular full-time and permanent part-time employees of the Library are required to participate in either of two contributory defined benefit pension plans. All assets of the Library Retirement System are available for the payment of Pension benefits to either Plan I or Plan II. The Plans are described as follows:

- Plan I - for all employees hired prior to April 1, 1975, and employees hired after March 31, 1975, who do not join Plan II, and
- Plan II - for employees hired after March 31, 1975, who applied for membership in Plan II as a condition of employment.

Hourly-rate employees are not eligible for coverage under the above Library Plans since they are covered under the Federal Insurance Contribution Act (Social Security).

At January 1, 2011, the Library Retirement System membership consisted of:

Retirees and beneficiaries currently receiving benefits and Terminated employees entitled to benefits but not yet receiving them	149
Active employees:	
Vested	143
Nonvested	<u>53</u>
Total	<u>345</u>

The Library Plans provide retirement benefits as well as death and disability benefits. Retirement benefits, under Plan I, vest after 15 years of service, with partial vesting occurring after 5 years of service. Under Plan II, retirement benefits vest after 10 years of service. Under Plan I, employees may retire under any of the following:

- (a) Completion of 30 years of service;
- (b) Completion of 25 years of service and attainment of age 55; or,
- (c) Completion of 10 years of service and attainment of age 60.

Under Plan II, employees may retire under any of the following:

- (a) Completion of 30 years of service and attainment of age 60;
- (b) Completion of 25 years of service and attainment of age 62; or,
- (c) Completion of 5 years of service and attainment of age 65.

Also under Plan II, employees may retire with reduced benefits after completion of 25 years of service and attainment of age 55. Upon retirement, the normal payment form for retirees is a monthly benefit for life for non-married participants or a monthly benefit for life with 75 percent of the benefit payable to the surviving spouse following the death of a married participant. Optionally, participants may elect to receive their benefits in any other form available under the Plan(s).

Under both Library Plans effective for retirements after June 30, 1992, monthly benefits are calculated as 2.5 percent of the average compensation multiplied by years of credited service not in excess of 25, plus 1 percent of average compensation for the next 10 years. Average compensation, as defined by Plan I, is the greater of the average monthly compensation for the three consecutive years of service during which compensation was the highest or average monthly compensation for the twelve months preceding the date of retirement. Average compensation, as defined by Plan II, is the average monthly compensation for the three consecutive years of service during which compensation was the highest.

Summary of Accounting Policies - The financial statements of the Library Plans are prepared using the accrual basis of accounting. Contributions and benefits are recognized when due and payable in accordance with the terms of the Library Plans.

Method Used to Value Investments - All investments of the Library Retirement System are reported at fair value.

NOTES TO FINANCIAL STATEMENTS
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
(Continued)

Short-term investments are reported at cost, which approximates fair value. All other investments are valued based upon quoted market prices. The Library Retirement System has no investments in any one organization, which represent more than 5 percent of plan net assets.

Contributions - The Library Plans' funding policy provides for periodic contributions at rates of 3 percent per annum for employees.

Actuarial Methods and Assumptions - The actuarial asset valuation method is the Aggregate Entry Age Actuarial Cost Method with a closed amortization period of 28 years (based on 30 years as of June 30, 2006). The method divides the cost of funding into two parts – normal cost and actuarial accrued liability. Significant actuarial assumptions include: (a) a rate of return on the investment of present and future assets of 7.5 percent a year compounded annually; (b) projected salary increases of 3.5 percent a year compounded annually, attributable to inflation; and (c) post-retirement benefit increases of 3 percent a year.

Schedule of Funding Progress – The normal cost method is the level annual payment that would be required to fund the pension if paid from the date each employee was hired to the date of his retirement. Actuarial accrued liability is the amount of assets that would have been accumulated had the plan been established on the date the employee with the longest period of service was hired. If the actuarial accrued liability were fully funded, the total annual cost would be the normal cost. The schedule of funding progress for the six years ended January 1, 2011 is as follows:

(in thousands of dollars)

Actuarial Valuation Date *	Actuarial Value of Assets	Actuarial Liability (AAL)-- Entry Age	Assets in Excess of the Actual Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2005	59,129	52,814	6,315	0	112.0%	11,074	0.0%
1/1/2006	61,017	54,855	6,162	0	111.0%	10,190	0.0%
1/1/2007	66,572	59,007	7,565	0	113.0%	9,230	0.0%
1/1/2008	69,025	62,704	6,321	0	110.0%	8,768	0.0%
1/1/2009	49,765	61,049	(11,284)	11,284	82.0%	7,648	148.0%
1/1/2011	57,907	64,638	(6,731)	6,731	89.6%	6,832	98.5%

* January 1, 2010, participant counts are not available.

Schedule of Employer Contributions - The schedule of employer contributions for the six years ended June 30, 2011, is as follows:

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2006	0	N/A
2007	0	N/A
2008	0	N/A
2009	0	N/A
2010	0	N/A
2011	1,332	17.1

Annual Pension Cost and Net Pension Asset – The Library Retirement System’s annual pension cost and net pension asset for the year ended June 30, 2011, were as follows:

Annual required contribution	\$ 1,332
Interest on net pension asset	(191)
Adjustment to annual required contribution	<u>225</u>
Annual pension cost	1,366
Contribution made	<u>(227)</u>
Increase in net pension obligation	1,139
Net pension asset at beginning of year	<u>(2,543)</u>
Net pension asset at end of year	<u>\$ (1,404)</u>

Three-year trend information is as follows:

Year Ended <u>June 30</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Asset</u>
2009	\$18	1,295.6%	\$(2,334)
2010	18	1,261.1	(2,543)
2011	1,366	16.6	(1,404)

MLGW Retirement System

General - The MLGW Retirement System is established under a resolution by the Board of Commissioners of MLGW and is administered by the MLGW Pension Board under the direction of the Board of Commissioners. Separate financial statements for the MLGW Retirement System and the MLGW Retiree Medical and Life Insurance Benefits are issued as of and for its year-end December 31, and can be obtained by writing to the MLGW Manager of Risk Management & Employee Benefits, P.O. Box 430, Memphis, Tennessee 38101-9969.

Plan Description - The MLGW Retirement System pension trust fund accounts for the activity of the MLGW Retirement System, a single-employer public employee retirement system. Prior to 1988, the retirement system included two contributory defined benefit plans (the “1948 Plan” and the “1978 Plan”). The 1948 Plan and the 1978 Plan were amended and superseded as of July 1, 1988. All employees who were members of the 1948 Plan and the 1978 Plan automatically became members of the amended, restated and consolidated MLGW Retirement System. The MLGW Pension Plan was amended and restated effective January 1, 2009. Participants in the 1948 Plan (which includes those employees hired before July 1, 1978) are entitled to the greater of their retirement benefit determined under the 1948 Plan or their retirement benefit under the MLGW Pension Plan.

At December 31, 2010, the MLGW Retirement System membership consisted of:

Retirees and beneficiaries currently receiving benefits and Terminated employees entitled to benefits but not yet receiving them	2,536
Active employees	<u>2,600</u>
Total	<u>5,136</u>

The MLGW Pension Plan provides retirement, disability and death benefits to participants and their beneficiaries. The MLGW Pension Plan also provides for cost of living adjustments beginning at the age of 56 for retired members and surviving spouses, and at any age for disabled members on a graded scale up to 5 percent per annum based on the National Consumer Price Index.

Summary of Accounting Policies - The financial statements of the MLGW Retirement System are prepared using the accrual basis of accounting. Contributions and benefits are recognized when due and payable in accordance with the terms of the MLGW Retirement System.

Method Used to Value Investments - All investments of the MLGW Retirement System are reported at fair value. Short term investments are reported at cost, which approximates fair value. All other investments are valued based upon quoted market values except for real estate investments, which are appraised by independent appraisals, and certain limited partnership investments. The MLGW Retirement System has no investments in any one organization, which represent more than 5 percent of Plan net assets.

Contributions - All members under the MLGW Retirement System are required to contribute 8.0 percent of the benefit compensation to the MLGW Retirement System. As of December 31, 2010, MLGW's current required contribution is 17.1 percent of pensionable earnings of all active participants. Investment costs of the MLGW Retirement System are financed through investment earnings. Other administrative costs are included in the annual required contribution amount.

Actuarial Methods and Assumptions - The annual required contribution for the current year was determined as part of the January 1, 2011 actuarial valuation using the Entry Age Normal Cost Method. The information about funded status and funding progress has also been prepared using the Entry Age Normal Actuarial Cost Method.

Effective plan year 2009, the asset valuation method was changed from a five-year weighted index method with a 30 percent corridor around market value to the IRS-approved method described as Approval 15 in Revenue Procedure 2000-40. The Actuarial Value of Assets under the new method smoothes all investment gains and losses since the January 1, 2004 valuation. The 30 percent corridor around market value has not been changed. The aggregate actuarial cost method is used in determining the funding requirements. Significant changes to the actuarial assumptions include (a) the assumed investment return net of investment expenses was reduced from 8 percent to 7.5 percent, (b) the salary scale assumption was changed from the prior age-based table to a select-and-ultimate table with projected salary increases of 7 percent to 11 percent per year compounded annually, and (c) the mortality assumption for healthy participants was changed from the 1994 Group Annuity Mortality Table to the RP-2000 Combined Healthy Mortality table with Blue Collar Adjustment for males and the RP-2000 Combined Mortality Table with White Collar Adjustment for females.

Schedule of Funding Progress - As of January 1, 2011, the most recent actuarial valuation date, the MLGW Pension Plan was 88.5 percent funded. The actuarial accrued liability ("AAL") for benefits was \$1,324,410, and the actuarial value of assets was \$1,171,383, resulting in an unfunded actuarial accrued liability ("UAAL") of \$153,027. The covered payroll (annual payroll of active employees covered by the pension plan) was \$153,509, and the ratio of the UAAL to the covered payroll was 99.7 percent.

NOTES TO FINANCIAL STATEMENTS
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
(Continued)

(in thousands of dollars)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) * (b)	Unfunded Actuarial Liability (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c)
1/1/2009	\$1,176,590	\$1,243,630	\$67,040	94.6%	\$150,253	44.6%
1/1/2010	\$1,191,027	\$1,292,791	\$101,764	92.1%	\$154,057	66.1%
1/1/2011	\$1,171,383	\$1,324,410	\$153,027	88.5%	\$153,509	99.7%

* The aggregate actuarial cost method is used to determine the annual required contribution of the Plan. Because the method does not identify or separately amortize unfunded actuarial liabilities, information about the funded status and funding progress is prepared using the Entry Age Normal Cost Method and is intended to serve as a surrogate for the funding progress of the Plan.

Schedule of Employer Contributions - The schedule of employer contributions for the past six years is as follows:

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2005	\$18,683	102.8%
2006	19,512	100.6
2007	17,217	100.1
2008	10,541	175.2
2009	22,401	95.5
2010	27,381	100.0

Annual Pension Cost and Net Pension Asset – The MLGW Retirement System’s annual pension cost and net pension asset for the year ended December 31, 2010, were as follows:

Annual required contribution	\$ 27,381
Interest on net pension asset	(1,248)
Adjustment to annual required contribution	<u>1,814</u>
Annual pension cost	27,947
Contribution made	<u>(27,385)</u>
Increase in net pension obligation	562
Net pension asset at beginning of year	<u>(16,641)</u>
Net pension asset at end of year	<u><u>\$ (16,079)</u></u>

NOTES TO FINANCIAL STATEMENTS
(Thousands of Dollars)
For the fiscal year ended June 30, 2011

CITY OF MEMPHIS, TENNESSEE
(Continued)

Three-year trend information is as follows:

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2008	\$ 10,913	169.2%	\$ (18,237)
2009	22,984	93.1%	(16,641)
2010	27,947	98.0%	(16,079)

G. Component units

As discussed in Note 1, BOE, MATA, and MSCAA are included as discretely presented component units of the City's financial statements. Essential disclosures related to the above discretely presented component units are included in the complete financial statements of each of the individual component units. See Note 1(A). Condensed financial statement information for these discretely presented component units is shown below:

	GOVERNMENTAL TYPE		PROPRIETARY TYPE			ZOO	COMPONENT UNITS TOTAL
	BOE	MATA	MSCAA	TOTAL			
Current Assets	\$ 457,501	12,379	183,993	196,372	16,412	670,285	
Property, plant and equipment (net of accumulated depreciation)	996,346	151,170	934,553	1,085,723	71	2,082,140	
Other assets	-	711	113,497	114,208	856	115,064	
Total assets	<u>\$ 1,453,847</u>	<u>164,260</u>	<u>1,232,043</u>	<u>1,396,303</u>	<u>17,339</u>	<u>2,867,489</u>	
Current liabilities	\$ 173,300	9,834	48,319	58,153	2,914	234,367	
Long-term liabilities	381,035	9,424	546,069	555,493	-	936,528	
Net assets	899,512	145,002	637,655	782,657	14,425	1,696,594	
Total liabilities and net assets	<u>\$ 1,453,847</u>	<u>164,260</u>	<u>1,232,043</u>	<u>1,396,303</u>	<u>17,339</u>	<u>2,867,489</u>	
Operating revenues	\$ 735,465	35,578	111,760	147,338	14,442	897,245	
Operating expenses	1,230,086	58,004	54,938	112,942	14,484	1,357,512	
Operating income (loss) before depreciation and amortization	<u>\$ (494,621)</u>	<u>(22,426)</u>	<u>56,822</u>	<u>34,396</u>	<u>(42)</u>	<u>(460,267)</u>	
Depreciation and amortization	\$ -	(10,329)	(57,067)	(67,396)	(3)	(67,399)	
Grants and contributions not restricted	436,363	-	42,578	42,578	106	479,047	
City of Memphis subsidy	-	22,114	-	22,114	-	22,114	
Federal and State grant revenues	-	22,661	-	22,661	343	23,004	
Interest and investment income (loss)	443	-	2,697	2,697	1,008	4,148	
Interest expense	-	-	(25,772)	(25,772)	-	(25,772)	
Other revenue (expense)	-	137	2,303	2,440	906	3,346	
Change in net assets	(57,815)	12,157	21,561	33,718	2,318	(21,779)	
Net assets - beginning of year, as restated	957,327	132,845	616,094	748,939	12,107	1,718,373	
Net assets - end of year	<u>\$ 899,512</u>	<u>145,002</u>	<u>637,655</u>	<u>782,657</u>	<u>14,425</u>	<u>1,696,594</u>	

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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CONTINUING DISCLOSURE CERTIFICATE

This **CONTINUING DISCLOSURE CERTIFICATE** (this "Disclosure Certificate"), dated as of March 29, 2012, is executed and delivered by **CITY OF MEMPHIS, TENNESSEE** (the "City") in connection with the issuance by the City of \$93,595,000 in aggregate principal amount of its General Improvement and Refunding Bonds, Series 2012A (the "Series 2012A Bonds") and \$5,145,000 in aggregate principal amount of its General Improvement and Refunding Bonds, Series 2012B (Federally Taxable) (the "Series 2012B Bonds" and, collectively with the Series 2012A Bonds the "Series 2012 Bonds") pursuant to those certain resolutions adopted by the City Council of the City on March 3, 2009, January 18, 2011 and March 6, 2012 (collectively, the "Bond Resolution"). In consideration of the purchase of the Series 2012 Bonds by the Participating Underwriter (herein defined) the City undertakes, covenants and agrees as follows:

RECITALS:

A. Unless otherwise specified herein, capitalized terms used in this Disclosure Certificate shall have the respective meanings set forth in Section 3 hereof.

B. Contemporaneously with the execution and delivery of this Disclosure Certificate, the City is issuing the Series 2012 Bonds pursuant to the Bond Resolution for the purposes of (i) financing various public works projects of the City, (ii) refunding certain outstanding general obligation bonds of the City, and (iii) providing for the payment of the costs of issuance related to the Series 2012 Bonds.

C. The City has authorized the preparation and distribution of the Preliminary Official Statement dated March 13, 2012 with respect to the Series 2012 Bonds (the "Preliminary Official Statement") and, on or before the date of the Preliminary Official Statement, the City deemed the Preliminary Official Statement final within the meaning of the Rule.

D. Upon the initial sale of the Series 2012 Bonds to the Participating Underwriter, the City authorized the preparation and distribution of the Official Statement dated March 21, 2012 with respect to the Series 2012 Bonds (the "Official Statement").

E. As a condition precedent to the initial purchase of the Series 2012 Bonds by the Participating Underwriter in accordance with the Bond Purchase Agreement dated March 21, 2012 by and among the Participating Underwriter and the City (the "Bond Purchase Agreement"), the City has agreed to provide for the public disclosure of certain operating data and financial information and notices of certain events on an ongoing basis for so long as the Series 2012 Bonds remain outstanding as set forth herein.

Section 1. Incorporation of Recitals. The above recitals are true and correct and are incorporated into and made a part hereof.

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Beneficial Owners of the Series 2012 Bonds and in order to assist the Participating Underwriter in complying with the Rule.

Section 3. Definitions. In addition to the definitions set forth in the Bond Resolution, which apply to any capitalized term used in this Disclosure Certificate not otherwise defined herein, the following capitalized terms used in this Disclosure Certificate have the following meanings:

"Annual Filing" shall mean the information with respect to the City described in Section 5 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2012 Bonds (including persons holding Series 2012 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2012 Bonds for federal income tax purposes.

"Business Day" means any day (a) on which the City is not closed for business and (b) on which the New York Stock Exchange is not closed.

"Dissemination Agent" shall mean the City or any successor dissemination agent designated by the City pursuant to Section 8 hereof.

"EMMA" shall mean the MSRB's Electronic Municipal Market Access system or any successor thereto.

"Event of Bankruptcy" shall be considered to have occurred when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

"Fiscal Year" shall mean the fiscal year of the City, which currently is the twelve month period beginning July 1 and ending on June 30 of the next succeeding calendar year or any such other twelve month period designated by the City, from time to time, to be its fiscal year.

"Listed Event" shall mean any of the events listed in Section 6(a) hereof.

"MSRB" shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

"Obligated Person" shall mean any person who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of

all, or part of the obligations on the Series 2012 Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities). As of the date of this Disclosure Certificate, the City is the only Obligated Person.

"Participating Underwriter" shall collectively mean the original purchasers of the Series 2012 Bonds pursuant to the Bond Purchase Agreement required to comply with the Rule in connection with the offering of the Series 2012 Bonds.

"Repository" shall mean each entity authorized and approved by the SEC from time to time to act as a repository for purposes of complying with the Rule. The Repositories currently approved by the SEC may be found by visiting the SEC's website at <http://www.sec.gov/info/municipal/nrmsir.htm>. As of the date hereof, the only Repository recognized by the SEC for such purpose is the Municipal Securities Rulemaking Board, which currently accepts continuing disclosure submissions through its EMMA web portal at "<http://emma.msrb.org>."

"Rule" shall mean Rule 15c2-12(b)(5) promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as such rule may be amended from time to time and any successor provisions thereto.

"SEC" shall mean the Securities and Exchange Commission.

"State" shall mean the State of Tennessee.

Section 4. Provision of Annual Filing.

(a) The City shall, or shall cause the Dissemination Agent to, not later than each January 31st, commencing January 31, 2013 with respect to the Fiscal Year ended June 30, 2012, provide to the Repository in electronic format as prescribed by such Repository, with an Annual Filing which is consistent with the requirements of Section 5 hereof. The Annual Filing may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 5 hereof; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Filing and later than the date required above for the filing of the Annual Filing if they are not available by that date; provided, further, in such event unaudited financial statements are required to be delivered as part of the Annual Filing in accordance with Section 5(b) hereof. If the City's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 6(a) hereof.

(b) Not later than two Business Days prior to the date set forth in (a) above, the City shall provide the Annual Filing to the Dissemination Agent (if other than the City). If the City is unable to provide to any Repository an Annual Filing as required in subsection (a), the City shall send, in a timely manner, a notice to any Repository, in electronic format as prescribed by such Repository, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(1) determine each year prior to the date for providing the Annual Filing the name and address of any Repository; and

(2) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Filing has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing any Repository to which it was provided.

Section 5. Content of Annual Filing. The Annual Filing shall consist of the following:

(a) Operating data and financial information with respect to the City, consisting of, to the extent not included in the City's Comprehensive Annual Financial Report:

(1) updates of information contained in the Official Statement relating to:

(A) the table entitled "STATEMENT OF DEBT," under the caption "CONDENSED CURRENT FINANCIAL RESULTS;"

(B) the table entitled "TOTAL FUND BALANCES/RETAINED EARNINGS TRENDS" under the caption "CONDENSED CURRENT FINANCIAL RESULTS."

(2) updates of information contained in Appendix A to the Official Statement relating to:

(A) the table entitled "TEN LARGEST TAXPAYERS OF THE CITY" under the caption "FINANCIAL INFORMATION - Ten Largest Taxpayers of the City;"

(B) the table entitled "Property Tax Levies and Collections" under the caption "FINANCIAL INFORMATION - Property Tax Levies and Collections;"

(C) the table entitled "Values of Taxable Property" under the caption "FINANCIAL INFORMATION - Values of Taxable Property;"

(D) the table entitled "Net General Obligation Bonded Debt To Appraised and Assessed Values and Bonded Debt Per Capita" under the caption "FINANCIAL INFORMATION - Debt Ratio Trends;"

(E) the table entitled "Revenues, Expenditures and Changes in Fund Balance" under the caption "MAJOR FUNDS SUMMARIES - General Fund;"

(F) the table entitled "Revenues, Expenditures and Changes in Fund Balance" under the caption "MAJOR FUNDS SUMMARIES - Special Revenue Fund;" and

(G) the table entitled "Revenues, Expenditures and Changes in Fund

Balance" under the caption "MAJOR FUNDS SUMMARIES - Debt Service Fund."

(3) a description of any material litigation which would have been disclosed in the Official Statement if such litigation were pending at the time the Official Statement was prepared.

(b) If available at the time of such filing, the annual audited financial statements of the City for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles, as in effect from time to time, and which shall be accompanied by an audit report, if available at the time of submission of the Annual Filing to the Repository, pursuant to Section 4 hereof, resulting from an audit conducted by an independent certified public accountant or firm of independent certified public accountants in conformity with generally accepted auditing standards; further provided that, if generally accepted accounting principles have changed since the last Annual Filing was submitted pursuant to Section 4 hereof and if such changes are material to the City, a narrative explanation describing the impact of such changes on the City.

Notwithstanding the foregoing, if the annual audited financial statements of the City are not available by the time the Annual Filing is required to be filed pursuant to Section 4 hereof, the Annual Filing shall contain unaudited financial statements of the City prepared in accordance with generally accepted accounting principles, as in effect from time to time, and the annual audited financial statements of the City shall be filed in the same manner as the Annual Filing when they become available.

(c) The City's Comprehensive Annual Financial Report for the immediately preceding Fiscal Year, to the extent available.

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the City is an Obligated Person, which have been previously filed with the Repository or the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The City will clearly identify each such document so incorporated by reference.

Section 6. Reporting of Listed Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2012 Bonds (each such event a "Listed Event"), to the Repository in an electronic format as prescribed by such Repository, which notice shall be given in a timely manner not in excess of ten Business Days after the occurrence of the event, with the exception of the event described in (15) below, which notice shall be given in a timely manner:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on any debt service reserves reflecting financial difficulties;

- (4) Unscheduled draws on any credit enhancements reflecting financial difficulties;
- (5) Substitutions of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Series 2012 Bonds, or other material events affecting the tax status of the Series 2012 Bonds;
- (7) Modifications to rights of holders of the Series 2012 Bonds, if material;
- (8) Bond calls (excluding calls for mandatory sinking fund redemptions), if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution or sale of property securing repayment of the Series 2012 Bonds), if material;
- (11) Rating changes;
- (12) An Event of Bankruptcy or similar event of an Obligated Person;
- (13) The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material; and
- (15) Failure of the City to provide the Annual Filing as required by Section 4 hereof in substantially the form attached as Exhibit A.

(b) The notice required to be given in Section 6(a) above shall be filed with the Repository, in an electronic format prescribed by such Repository.

Section 7. Termination of Reporting Obligation. The obligations under this Disclosure Certificate will be in effect from and after the issuance and delivery of the Series 2012 Bonds and shall terminate on the earlier of (a) the date all principal, premium, if any, and interest on the Series 2012 Bonds have been paid or legally defeased pursuant to the terms of the Bond Resolution, or (b) the date on which those portions of the Rule which required this written undertaking are held to be invalid by a court of competent jurisdiction in a non-appealable action or have been repealed

retroactively, or (c) receipt by the City of an opinion of counsel expert in federal securities laws retained by the City to the effect that continuing disclosure is no longer required under the Rule or otherwise do not apply to the Series 2012 Bonds. If such termination occurs prior to the final maturity of the Series 2012 Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 6 hereof.

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if:

(a) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City, or type of business conducted by the City;

(b) such amendment or waiver does not materially impair the interests of the Beneficial Owners of the Series 2012 Bonds, as determined either by an unqualified opinion of nationally recognized bond counsel filed with the City or by the approving vote of the Beneficial Owners of the Series 2012 Bonds owning more than two-thirds in aggregate principal amount of the Series 2012 Bonds outstanding at the time of such amendment or waiver; and

(c) such amendment or waiver is supported by an opinion of counsel expert in federal securities laws, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule, as well as any change in circumstances.

If any provision of Section 5 hereof is amended or waived, the first Annual Filing containing any amended, or omitting any waived, operating data or financial information shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of operating data or financial information being provided.

If the provisions of Section 5 hereof specifying the accounting principles to be followed in preparing the City's financial statements are amended or waived, the Annual Filing for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to the Beneficial Owners of the Series 2012 Bonds to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. The City shall file a notice of the

change in the accounting principles with the Repository on or before the effective date of any such amendment or waiver.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth herein or any other means of communication, or including any other information in any Annual Filing or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Filing or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation hereunder to update such information or include it in any future Annual Filing or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, the sole remedy available to any holder, owner or Beneficial Owner of Series 2012 Bonds shall be to seek specific performance by court order to cause the City to comply with its obligations under this Disclosure Certificate, it being the City's position that money damages would be inadequate recompense and/or difficult to ascertain. A default under this Disclosure Certificate shall not be deemed an event of default under the Bond Resolution and any rights and remedies provided in the Bond Resolution in the event of default thereunder are not applicable to a breach of the undertakings herein. The cost to the City of performing its obligations under the provisions of this Disclosure Certificate shall be paid solely from funds lawfully available for such purpose.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, if any, and all holders, owners and Beneficial Owners from time to time of the Series 2012 Bonds and shall create no rights in any other person or entity.

Section 13. Obligated Persons. Any change in Obligated Persons shall be reported by the City in connection with the Annual Filing. If any person, other than the City, becomes an Obligated Person relating to the Series 2012 Bonds, the City shall use its reasonable best efforts to require such Obligated Person to comply with all provisions of the Rule applicable to such Obligated Person; provided, however, the City takes no responsibility for the accuracy or completeness of any financial information or operating data or other filings by any future Obligated Person.

Section 14. Governing Law. This Disclosure Certificate shall be governed by and construed in accordance with the internal laws of the State (without regard to conflict of law principles thereof), provided that, to the extent this Disclosure Certificate addresses matters of federal securities laws, including the Rule, this Disclosure Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

Section 15. Identifying Information. In accordance with the Rule, all disclosure filings submitted pursuant to this Disclosure Certificate to the Repository must be accompanied by identifying information as prescribed by such Repository.

Section 16. Severability. In case any part of this Disclosure Certificate is held to be illegal or invalid, such illegality or invalidity shall not affect the remainder or any other section of this Disclosure Certificate. This Disclosure Certificate shall be construed or enforced as if such illegal or invalid portion were not contained therein, nor shall such illegality or invalidity of any application of this Disclosure Certificate affect any legal and valid application.

**SIGNATURE PAGE FOR
CONTINUING DISCLOSURE CERTIFICATE**

IN WITNESS WHEREOF, the City has caused this Disclosure Certificate to be executed on its behalf by its authorized representative on the date first above written.

CITY OF MEMPHIS, TENNESSEE

By: _____
Name: _____
Title: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL FILING

Name of Issuer: City of Memphis, Tennessee

Name of Bond Issue: General Improvement and Refunding Bonds, Series 2012A and General Improvement and Refunding Bonds, Series 2012B (Federally Taxable)

Date of Issuance: March 29, 2012

NOTICE IS HEREBY GIVEN that the City of Memphis, Tennessee (the "City") has not provided an Annual Filing with respect to the above-named bonds as required by Sections 4 and 5 of the Continuing Disclosure Certificate dated as of March 21, 2012. The City anticipates that the Annual Filing will be filed by _____.

Dated: _____

CITY/DISSEMINATION AGENT

By: _____
Name: _____
Title: _____

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

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**FORM OF PROPOSED OPINION OF BOND COUNSEL
RELATING TO THE 2012 BONDS**

March 29, 2012

City Council
City of Memphis
City Hall
Memphis, Tennessee

**CITY OF MEMPHIS, TENNESSEE
\$93,595,000
GENERAL IMPROVEMENT AND
REFUNDING BONDS, SERIES 2012A
\$5,145,000
GENERAL IMPROVEMENT AND
REFUNDING BONDS, SERIES 2012B (FEDERALLY TAXABLE)**

Ladies and Gentlemen:

At your request, as bond counsel to the City of Memphis, Tennessee (the “City”), we have examined into the validity of an issue of \$93,595,000 principal amount of General Improvement and Refunding Bonds, Series 2012A (the “2012A Bonds”) and \$5,145,000 principal amount of General Improvement and Refunding Bonds, Series 2012B (Federally Taxable) (the “2012 B Bonds” and together with the 2012A Bonds, the “2012 Bonds”) of the City. The 2012 Bonds are dated the date hereof and mature, bear interest and are subject to redemption prior to maturity as provided in the Resolution hereinafter mentioned.

The 2012 Bonds recite that they are issued under the Constitution and statutes of the State of Tennessee, including Title 9, Chapter 21 of the Tennessee Code Annotated, being the Local Government Public Obligations Act of 1986, as amended (the “Act”), and pursuant to resolutions adopted by the Council of the City on March 3, 2009, January 18, 2011, and March 6, 2012 (collectively, the “Resolution”), for the purposes of (i) financing various public works projects of the City, (ii) refunding certain outstanding general obligation bonds of the City, and (iii) providing for the payment of costs of issuance of the 2012 Bonds.

We have examined (i) the Constitution and statutes of the State of Tennessee, including the Act; (ii) certified copies of the Resolution and other proceedings authorizing the issuance, sale and delivery of the 2012 Bonds; (iii) the Charter of the City; (iv) such other papers, instruments, documents and proceedings as we have deemed necessary or advisable; and (v) a specimen 2012 Bond.

In our opinion, the 2012 Bonds have been authorized and issued in accordance with the Constitution and statutes of the State of Tennessee, and the Charter of the City, and constitute valid and legally binding obligations of the City, and the City has power and is obligated to levy and provide for the collection of taxes, in addition to all other taxes authorized or limited by law, upon all property subject to *ad valorem* taxation within the City, sufficient to provide for the payment of the principal of and interest on the 2012 Bonds as the same respectively become due and payable. It is to be understood that the rights of the holders of the

2012 Bonds and the enforceability thereof may be subject to judicial discretion, the exercise of the sovereign police powers of the State of Tennessee and valid bankruptcy, insolvency, reorganization, moratorium or other laws affecting the relief of debtors.

It is also our opinion that, under existing statutes and court decisions and assuming compliance with certain tax covenants described herein, interest on the 2012A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. It is also our opinion that the original issue discount on the 2012A Bonds, if any, that has accrued and is properly allocable to any owner thereof is excluded from gross income for Federal income tax purposes to the same extent as interest on the 2012A Bonds. In rendering the opinions in this paragraph, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City and others in connection with the 2012A Bonds, and have assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2012A Bonds from gross income under Section 103 of the Code. Under the Code, noncompliance with such requirements may cause the interest on the 2012A Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issuance thereof, irrespective of the date on which such noncompliance occurs or is discovered.

Interest on the 2012B Bonds is included in gross income for Federal income tax purposes pursuant to the Code. The opinion in this paragraph is not intended or provided by us to be used and cannot be used by an owner of the 2012B Bonds for the purpose of avoiding Federal taxpayer penalties that may be imposed on such owner. The opinion in this paragraph is provided to support the promotion or marketing of the 2012B Bonds. Each owner of the 2012B Bonds should seek advice based on its particular circumstances from an independent tax advisor.

It is also our opinion that under the existing laws of the State of Tennessee, the 2012 Bonds and the interest thereon are exempt from all state, county and municipal taxation in the State of Tennessee except for inheritance, transfer and estate taxes and except to the extent interest on the 2012 Bonds may be included within the measure of corporate privilege taxes imposed pursuant to the laws of the State of Tennessee.

We express no opinion regarding Federal, state or local income tax consequences arising with respect to the 2012 Bonds, or the ownership or disposition thereof, except as stated above, or as to the effect of any action taken or not taken in reliance upon an opinion of counsel, other than ourselves, on the exclusion from gross income for Federal income tax purposes of interest on the 2012A Bonds, or under state and local tax laws.

We undertake no responsibility for the accuracy, completeness or fairness of any Official Statement or other offering materials relating to the 2012 Bonds and express herein no opinion relating thereto.

This opinion letter is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreements, representations or other

material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretations thereof, that may hereafter occur, or for any other reason whatsoever.

Very truly yours,

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