

**SHELBY COUNTY OPEB TRUST**

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**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2013**

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



## INDEPENDENT AUDITORS' REPORT

To the Chairman and Members  
Shelby County Board of Commissioners and  
the Mayor of Shelby County, Tennessee  
Memphis, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Shelby County OPEB Trust of Shelby County, Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion

on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Shelby County OPEB Trust of Shelby County, Tennessee, as of June 30, 2013, and the changes in financial position thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Shelby County OPEB Trust and do not purport to, and do not, present fairly the financial position of Shelby County, Tennessee as of June 30, 2013, the changes of its financial position, or, where applicable, its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as shown in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Shelby County OPEB Trust's basic financial statements. The schedule of funding progress and the schedule of employer contributions are presented for purposes of additional analysis and are also not a required part of the financial statements. The schedule of funding progress and the schedule of employer contributions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of funding progress and the schedule of employer contributions are fairly stated in all material respects in relation to the financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013, on our consideration of the Shelby County OPEB Trust Fund's internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Shelby County OPEB Trust Fund's internal control over financial reporting and compliance.

*Wentham Liberman, PLLC*

*Banks, Finley, White & Co.*

Memphis, Tennessee  
November 22, 2013

## SHELBY COUNTY OPEB TRUST

### Management's Discussion and Analysis for the Year Ended June 30, 2013

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#### **Management's Discussion and Analysis**

The management of the Shelby County OPEB Trust (Trust) presents this narrative overview and analysis of the financial activities of the Trust for the fiscal year ended June 30, 2013. This information should be considered in conjunction with the information in the financial statements – including the Notes to financial statements – which follow this section. This is the sixth annual financial report for the Trust.

Accounting principles generally accepted in the United States of America for governmental entities are established by the Governmental Accounting Standards Board (GASB). This report uses the standards established by GASB's Statement No. 34 *Basic Financial Statement-and Management's Discussion and Analysis-for State and Local Governments* and GASB's Statement No.43 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as well as other authoritative literature known collectively within the accounting profession as "generally accepted accounting principles."

#### **The Shelby County OPEB Trust**

The Trust was established as of July 1, 2007 to receive contributions from plan participants and Shelby County Government for certain benefits provided to Shelby County Government employees after active employment ends (postemployment) and former employees receiving long-term disability benefits. Two types of benefits are provided by this Trust – health care insurance and life insurance. The Trust is managed by a five-member committee of Trustees, consisting of two designated members of the Shelby County Board of Commissioners and three designated administrators of Shelby County Government. Creation of the Trust was significantly influenced by GASB's Statement numbers 43 and 45 that required major changes to the reporting of employer obligations for other postemployment benefits. These statements required that employers' financial statements show more clearly the accumulated liability for such benefits that are already earned by employees.

Financial statements of the Trust show the amounts received (additions) from the County as employer of the plan participants, amounts received from the participants and the amounts expended (deductions) for benefits and administrative expense. The Trust itself has no obligation to provide funding for the benefits nor does it independently have the capacity to raise funds. Responsibility for determining the benefits and funding them rests with Shelby County Government and the County's Board of Commissioners.

#### **Financial Highlights**

The following financial highlights occurred during this fiscal year:

- Net position (fund balance) of the Trust increased by \$27.98 million during FY 2013 to a total of \$133.5 million, a 26.5% increase.
- The Trust had additions during the year of \$48.28 million and deductions for benefits and administrative expenses of \$20.30 million.
- Additional investments of \$16.9 million were made during the year in addition to the reinvestment of interest and dividends. Net changes in the fair value of investments (realized and unrealized) was a positive \$11.7 million. Total investments at year-end were \$130.1 million.
- The latest actuarial valuation for the Trust showed that the "funded ratio" (the percent of actuarial accrued liability covered by net assets) decreased from 27.52% to 25.67% as of June 30, 2012.
- The employer's annual required contribution (ARC) was \$33.2 million per the June 30, 2012 actuarial valuation. The ARC is the accrual for benefits earned by employees during the current year and amortization of the previously accumulated actuarial liability over a 30 year period. Employer contributions of \$29.2 million were made during the year equal to the ARC as 10.8% of payroll in the July 1, 2011 actuarial valuation.

More details on these highlights and other information are in the remainder of this discussion and analysis.

## Overview of the Financial Report

The Trust is classified as a "fiduciary fund" since the assets are held for the exclusive benefit of former County employees. Financial reports are prepared using the economic resources measurement focus and the accrual basis of accounting. Plan liabilities do not include actuarial accrued liabilities for benefits that are not due and payable at the reporting date. The basic statements included in the financial report are described below.

*Statement of Fiduciary Net Position.* This statement presents information on the assets, liabilities and net position of the Trust at a point in time (the end of the fiscal year). Over time the changes in net position may serve as a useful indicator of the status of funding other postemployment benefits that have been promised to employees. Net position is classified as "net position held in trust for other postemployment benefits."

*Statement of Changes in Fiduciary Net Position.* This statement presents information on the additions and deductions to the Trust during the year being reported. Additions include employer contributions to the Trust, employee contributions, net investment income and any other additions that are available to support benefits and expenses. Deductions include the cost of benefits provided during the year and administrative expenses associated with the benefits and Trust administration.

*Notes to Financial Statements.* The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

*Required Supplementary Information.* This section contains two supplementary schedules. The Schedule of Funding Progress shows information from the six most recent actuarial evaluations and permits a determination of the trend of the overall funding status of the Trust. The Schedule of Employer Contributions shows information on the extent to which the employer is providing funding relative to the actuarially determined "annual required contribution."

## Financial Analysis and Discussion

*Statement of Fiduciary Net Position.*

Following is a summary of the Statement of Fiduciary Net Position as of June 30, 2012 and June 30, 2013:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	Increase <u>(Decrease)</u>
Investments	\$130,092,142	\$ 99,667,514	30,424,628
Cash and other assets	<u>4,527,162</u>	<u>7,505,352</u>	<u>( 2,978,190)</u>
Total assets	134,619,304	107,172,866	27,446,438
Total liabilities	<u>1,165,222</u>	<u>1,701,108</u>	<u>( 535,886)</u>
Net position held in trust for other postemployment benefits	<u>\$133,454,082</u>	<u>\$105,471,758</u>	<u>\$27,982,324</u>

Assets include cash and cash equivalents of \$4,363,252; of this \$4,008,766 million was held in the Tennessee Local Government Investment Pool (LGIP), a short term investment fund managed by the State Treasurer.

Assets of \$130,092,142 were invested at year-end in various mutual funds and limited partnerships. An additional amount of \$16.9 million was invested in these funds during the year, in addition to the reinvestment of interest, dividends and net realized capital gains from the funds. There were small amounts receivable for employer contributions and interest and dividend income receivable.

Liabilities at year-end were \$1,165,222 and consist primarily of benefit claims and insurance premiums due to third party administrators or insurance companies for benefits payable as of the reporting date. The decrease in liabilities was mostly related to administrative payables and not claims payable. Plan liabilities do *not* include actuarial accrued liabilities for future benefits that are not due and payable at the reporting date.

Net position held in trust for other postemployment benefits is the net difference between assets and liabilities and is the amount of the assets available to pay future benefits and administrative expenses. Based on current year amounts, the net position of \$133.5 million would cover the actual benefits and expenses payable for approximately six years.

*Statement of Changes in Fiduciary Net Position.*

Following is a summary of the Statement of Changes in Fiduciary Net Position for fiscal years 2012 and 2013:

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Increase (Decrease)</u>
Employer contributions	\$29,232,920	\$31,914,110	\$( 2,681,190)
Employee/participant contributions	5,529,535	5,371,680	157,855
Other revenue	15,000	1,288,052	( 1,273,052)
Net investment income (loss)	<u>13,507,440</u>	<u>( 1,806,315)</u>	<u>15,313,755</u>
Total additions	<u>48,284,895</u>	<u>36,767,527</u>	<u>11,517,368</u>
Benefit expenses	19,794,121	19,020,132	773,989
Administrative expenses	<u>508,450</u>	<u>508,087</u>	<u>363</u>
Total expenses	<u>20,302,571</u>	<u>19,528,219</u>	<u>774,352</u>
Net increase in fiduciary net position	<u>\$27,982,324</u>	<u>\$17,239,308</u>	<u>\$10,743,016</u>

Additions were from four sources. Employer contributions were \$29.23 million, an 8.4% decrease. These contributions are from in the Shelby County Government fringe benefit charge to departments based on the salaries of active employees subject to retirement benefits. The rate decreased from 12% to 10.8% of salaries and with a small decrease in total salaries. Participant's contributed \$5.5 million as their share of health and life premiums, an increase of 2.9%; most of this increase was due to an employee premium increase. Other revenue decreased because of a nonrecurring reimbursement of \$1.29 million from the federal Early Retiree Reinsurance Program (ERRP) in FY 2012. Net investment income was a positive \$13.5 million, primarily due to an unrealized increase in the fair market value of investments. Interest income during the year, included in net investment income, was \$18,960 and dividend income was \$2,013,753. Net realized gains and losses during the year were a positive \$3,078,050. Investment management expenses of \$201,766 were incurred during the year.

Deductions included \$19.8 million for benefit expenses, a 4.1% increase. Deductions also included \$508,450 for administrative cost of third-party administrators and certain other administrative expenses, an increase of only \$363 from the previous year.

A significant factor for consideration and perhaps the major issue from GASB Statement Numbers 43 and 45 is the employer's annual contribution to the Trust compared to the actuarially calculated "annual required contribution" (ARC). The ARC has two components. One component is the estimated amount of benefits and administrative expenses accrued each year based on employee services that year. The second component is the amortization of the "unfunded actuarially accrued liability" (UAAL) for OPEB benefits earned in previous years. This UAAL is allocated to the ARC over a thirty year period (beginning in FY 2008), but actuarially adjusted for assumptions about increases in the health care rate, the earnings rate on investments, average age at which employees will retire, mortality rates, etc. From the June 30, 2012 actuarial valuation, the County's current year ARC was \$33.2 million; employer contributions in FY 2013 were \$29.2 million, or 88.0% of the ARC. Since the ARC calculation for a fiscal year is not completed until several months into the year to which it relates it is not practical to budget the exact ARC amount that late into the budget for a fiscal year. The County's goal and intent is to fully fund the ARC each year at the actuarially calculated percent of payroll for the last actuarial valuation available at the time the budget is prepared for an upcoming year, which resulted in funding at 10.8% of payroll during FY 2013.

**Requests for Information**

This financial report is designed to provide an overview of the Shelby County OPEB Trust. Questions concerning any of the information provided or requests for additional information should be addressed to Administrator of Finance, Shelby County Government, 160 North Main Street, Suite 800, Memphis, Tennessee 38103.

SHELBY COUNTY OPEB TRUST

Statement of Fiduciary Net Position  
As of June 30, 2013

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**Assets**

Cash and cash equivalents		\$ 4,363,252
Investments		
Domestic equity	\$48,205,123	
International equity	24,309,175	
Fixed income	34,082,897	
Private real assets	4,734,603	
Alternative investments	17,950,897	
Short-term investments	<u>809,447</u>	
Total Investments		130,092,142
Accrued interest and dividends receivable		114,292
Accounts receivable		<u>49,618</u>
Total assets		<u>134,619,304</u>

**Liabilities**

Accounts payable and accrued liabilities		<u>1,165,222</u>
Total liabilities		<u>1,165,222</u>

**Net position held in trust for other postemployment benefits** \$133,454,082

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

## SHELBY COUNTY OPEB TRUST

### Statement of Changes in Fiduciary Net Position For the Year Ended June 30, 2013

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#### Additions

Contributions	
Employer	\$29,232,920
Plan members	5,529,535
Other revenue	<u>15,000</u>
Total contributions	<u>34,777,455</u>
Investment income (expense)	
Interest income	18,960
Dividend income	2,013,753
Net change in fair value of investments	<u>11,676,493</u>
Total investment income	13,709,206
Less investment management expenses	<u>(201,766)</u>
Net investment income	<u>13,507,440</u>
Total additions	<u>48,284,895</u>

#### Deductions

Benefits	19,794,121
Administrative expense	<u>508,450</u>
Total deductions	<u>20,302,571</u>

**Net increase** 27,982,324

#### Net position held in trust for other postemployment benefits

Beginning of year	<u>105,471,758</u>
End of year	<u>\$133,454,082</u>

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

## SHELBY COUNTY OPEB TRUST

Notes to the Financial Statements  
for the Year Ended June 30, 2013

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### **Note 1 – Summary of significant accounting policies**

#### *Reporting entity*

The Shelby County OPEB Trust (Trust) is a single-employer defined benefits other postemployment benefit plan that covers retired and disabled employees of Shelby County Government. The Trust was established as of July 1, 2007. The Trust is included in the annual financial report of Shelby County Government as a fiduciary fund. The Trust is managed by a five-member committee of Trustees consisting of two members of the Shelby County Board of Commissioners and three Shelby County Government administrators.

#### *Basis of accounting*

The Trust's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

#### *Governmental accounting standards*

The financial statements of the Trust have been prepared in accordance with *generally accepted accounting principles* (GAAP) followed in the United States of America. In the U.S. the Governmental Accounting Standards Board (GASB) is the established and recognized standard-setting body for governmental accounting and financial reporting.

#### *Deposits and investments*

Cash and cash equivalents include cash on hand, demand deposits, savings accounts and short-term investments with maturities of three months or less at the time of purchase. The Trust uses amortized cost on all investments that mature within a year or less at the date of purchase.

Investments are reported at fair value. Investments in equity securities, corporate bonds and issues of U.S. Government and government-backed obligations are valued at the last reported sales price of the fiscal year end. International securities reflect current exchange rates in effect at fiscal year-end. Investments in private investment companies consisting of interests in limited partnerships, hedge funds and private real estate limited liability companies are valued at estimated fair value as provided by the investment manager of the investee company. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. All distributions from mutual funds are classified as dividends, whether generated within the fund from interest, dividends or capital gains/losses. Purchases and sales of securities are recorded on a trade-date basis.

The Trust is authorized to invest in the following:

- Bonds, notes or treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies.
- Certificates of deposit and other evidences of deposit at Tennessee or federally chartered financial institutions. The institutions must be federally insured.
- Obligations of the United States or its agencies under a repurchase agreement.
- Prime commercial paper which is rated at least A2 and issued by a corporation having no record of default of obligations during ten (10) years preceding the investment.
- Prime bankers acceptances which are eligible for purchase by the Federal Reserve System.
- Corporate bonds rated B3 or better by Moody's or B- or better by Standard and Poor's.
- Common or preferred shares of stock in any entity listed on the New York Stock Exchange, American Stock Exchange or NASDAQ Stock Exchange or in American Depositary Receipts ("ADRs"). The total market value of ADRs and common or preferred shares of stock, calculated on a monthly basis, shall not exceed 70% of the total market value of the Trust.
- Covered call and put options on individual stocks or indexes, with the prior approval of the Trustees.
- Financial futures contracts on a limited basis for bona fide hedging purposes only with prior approval of the Trustees.

- Real estate including interests in real estate investment trusts, provided, that the total real estate investments of the Trust shall not exceed five percent (5%) of the total value of the Trust.
- International equities, provided that the total international investments, excluding American Depository Receipts, shall not exceed thirty percent (30%) of the total value of the Trust.
- Co-mingled funds, including registered mutual funds and interests in collective trusts.
- Other investments, as approved individually by the Trustees, including securities offered through private placement memoranda.

*Receivables and payables*

Plan member contributions are recognized in the period the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan; liabilities for health claims are recognized in the period when the related services are provided. Plan liabilities do not include actuarial accrued liabilities for benefits that are not due and payable at the reporting date.

*Net assets*

The net position of the Trust is reported as "Net position held in trust for other postemployment benefits."

*Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and net position. Estimates also affect the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period.

**Note 2 – Plan description**

*Plan membership*

The Trust had the following membership as of June 30, 2012, the date of the latest actuarial valuation:

Active plan members	5,533
Retirees	2,240
Covered spouses of retirees	619
Surviving spouses	<u>263</u>
Total	<u>8,655</u>

A member must be currently receiving a retirement benefit from the Shelby County Retirement System to be eligible for OPEB benefits, except for recipients of long-term disability benefits.

*Other postemployment benefits provided by the Trust*

The Trust provides two kinds of postemployment benefits – health insurance and life insurance. Health insurance is available for an individual or a family; life insurance, when provided, is available only for the retired employee. Retirees under the age of 65 participate in the same health insurance program as active employees, which is self-insured by Shelby County Government; retirees continuously employed before April 1, 1986 until retirement and never covered by Medicare also participate in the self-insured plan. The self-insured health plan includes prescription drug coverage. Retirees age 65 and older and Medicare eligible must use Medicare as their primary health insurance. These retirees are provided supplemental health coverage and a Medicare Part D prescription drug plan through a traditional insurance policy. Life insurance is provided to retirees only (not to spouses or dependents) and is provided through a traditional term life insurance policy. Deferred retirees (no longer actively employed but not yet receiving a retirement benefit) who entered deferred status before July 1, 2007 are eligible for health and life insurance coverage only when they start receiving a retirement benefit. Employees who entered deferred status on July 1, 2007 or later are never eligible for health or life insurance. The amount of life insurance, when provided, is equal to the last annual salary before retirement or termination. Employees hired July 1, 2007 or later are provided retiree health insurance only at age 65 or older and are provided no life insurance in retirement. Benefit provisions may be established or amended by the Shelby County Board of Commissioners, the legislative body of Shelby County Government.

**Note 3 – Contributions and reserves**

Contributions by plan members and employer contributions by Shelby County Government are established or amended by the Shelby County Board of Commissioners, the legislative body of Shelby County Government. The Trust has no financial obligations beyond the funds made available through Shelby County Government.

Plan members receiving health insurance under the County’s self-insured plan pay a premium based on benefits experience of the retiree group. Members pay a premium based on their years of service structured in five tiers. Monthly member contributions range from \$278 to \$652 for single coverage and from \$556 to \$1,346 for family coverage. Member premiums for those 65 and older and eligible for Medicare are based on the traditional insurance plan. Members with less than 7.5 years of services are eligible for coverage only at age 65 and pay 100% of the premium. For all other ages the member premium represents from 30% (20+ years of service) to 60% (7.5+ years of service) of the total premium cost per member for the self-insured plan and from 30% to 50% for those age 65 and older who are provided the traditional supplemental insurance. Members contributed \$5.5 million during the year for both health and life insurance.

Plan members receiving life insurance under the Trust contribute an amount that is 30% of the composite (average) premium for both active and retired employees; an age-adjusted premium would be more than ten times higher. The Trust pays an age-adjusted premium for the retiree life insurance.

Shelby County Government provides the employer contributions to the Trust. The County contributes the annual required contribution (ARC) as a percent of payroll from the latest available actuarial valuation at the time the budget is approved for a fiscal year. The FY 2013 contribution was 10.8% of payroll, which was the ARC as a percent of payroll per the June 30, 2012 actuarial valuation. The County Commission has approved total funding from all sources that is over 150% of the annual disbursements for plan benefits at current levels.

The cost of third-party administrators, actuarial reports, audits and similar costs incurred exclusively for the Trust are paid from resources of the Trust. Routine daily administrative costs of administering the benefit plans, accounting services and similar costs are absorbed by Shelby County Government.

The Trust has no legally required reserves.

**Note 4 – Funded status and funding progress**

Actuarial valuations are prepared as of each fiscal year end. The funded status of the Trust as of these valuation dates is as follows (dollar amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL)- Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2007	\$ -0-	\$319,685	\$319,685	0%	\$218,583	146.3%
7/1/2008	36,770	310,527	273,757	11.8%	256,191	106.9%
7/1/2009	45,847	303,390	257,543	15.1%	248,298	103.7%
7/1/2010	61,592	322,954	261,362	19.1%	253,977	102.9%
7/1/2011	88,232	320,558	232,326	27.5%	252,878	91.9%
6/30/2012	105,472	410,938	305,466	25.7%	241,767	126.4%

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. Actuarially determined amounts 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, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the plan by employers in comparison to the annual required contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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 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 the calculations. Additional information as of the latest actuarial valuation follows:

Valuation date	6/30/2012
Actuarial cost method	Projected Unit Credit
Amortization method	Closed 30 year, level dollar period
Remaining amortization period	25 years as of June 30,, 2012
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.25%
Projected salary increases	4.00%
Healthcare cost trend rate	7.0% to 9.5% graded to 5.0% over 6 years

**Note 5 – Deposits and investments**

Cash and cash equivalent deposits at June 30, 2013, at fair value, consist of the following:

Demand deposits	\$ 354,486
Tennessee Local Government Investment Pool	<u>4,008,766</u>
Total cash and cash equivalents	<u>\$ 4,363,252</u>

All investments of \$130,092,142 are in various domestic mutual funds or limited partnerships, even though some may invest in foreign securities. On the statement of fiduciary net position investments are presented by asset class to provide a more meaningful representation of the underlying investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or deposit. Duration (period of time to maturity or redemption) is the primary measure of the sensitivity of investments to this risk; the longer the duration the greater its sensitivity to changes in interest rates. The Tennessee LGIP investment may be withdrawn on any day, resulting in little if any interest rate risk. The OPEB Trust limits its exposure to interest rate risk by investing in mutual funds that diversify their investments by security type and institution.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The short term nature of Tennessee LGIP investments results in little credit risk. The OPEB Trust controls risk by investing in mutual funds that diversify their credit risk by investing in bonds (corporate and otherwise) so that all bonds contained in the mutual funds approximates an A rating by Moody's or Standard & Poor.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the future fair market value of the investment. To manage this risk, no investment manager or mutual fund should have exposure to any one currency exceeding the following:

<u>Currency</u>	<u>Maximum Exposure</u>
Euro	70%
Japanese Yen	50%
British Sterling	40%
Other (excluding U.S. dollar)	25%

Custodial credit risk is the risk that the party holding the funds might not be able to pay those funds to the Trust upon maturity or demand. Bank deposits and certificates of deposit are covered by federal depository insurance (FDIC) or are collateralized by a multiple financial institution collateral pool administered by the State Treasurer. Funds on deposit with the Tennessee LGIP are uncollateralized.

SHELBY COUNTY OPEB TRUST

Required Supplementary Information  
for the Year Ended June 30, 2013  
(Dollar amounts in thousands)

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
7/1/2007	\$ -0-	\$319,685	\$319,685	0%	\$218,583	146.3%
7/1/2008	36,770	310,527	273,757	11.8%	256,191	106.9%
7/1/2009	45,847	303,390	257,543	15.1%	248,298	103.7%
7/1/2010	61,592	322,954	261,362	19.1%	253,977	102.9%
7/1/2011	88,232	320,558	232,326	27.5%	252,878	91.9%
6/30/2012	105,472	410,938	305,466	25.7%	241,767	126.4%

**Schedule of Employer Contributions**

Year Ended June 30	Annual Required Contribution	Percent of ARC Contributed	% of ARC One Year Delayed	ARC as % of Payroll 1-Year Delay
2008	\$ 34,227	123.4%		
2009	31,477	58.2%	53.6%	15.7%
2010	29,093	70.8%	65.5%	12.3%
2011	30,363	81.8%	85.4%	11.7%
2012	27,285	117.0%	105.1%	12.0%
2013	33,215	88.0%	107.3%	10.8%

**Notes to Required Supplementary Information**

Note 1: The Trust was established as of July 1, 2007; all actuarial valuations performed to date are shown.

Note 2: Actuarial valuations are performed as of the close of a fiscal year to determine the employer's "annual required contribution" (ARC) for the following fiscal year. The valuation as of the end of a particular fiscal year is usually not completed until several months into the fiscal year for which the ARC is intended. The valuation as of June 30, 2012 that produced the ARC of \$33,215,000 for FY 2013 was completed November 16, 2012, over four months after the fiscal year had started.

Note 3: Since budgets and appropriations by the County's legislative body must be completed before the beginning of the year for which the ARC relates, the County's annual OPEB contribution is budgeted at the ARC as a percent of payroll from the latest actuarial valuation available at the time the budget is prepared. In the schedule above, the FY 2013 employer contribution was set at 10.8% of payroll, which was the percent of payroll calculated in the valuation for FY 2012. Likewise, the "% of ARC One Year Delayed" as shown in the schedule above for FY 2013 is the FY 2013 actual contribution as a percent of the ARC amount calculated for FY 2012.



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



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

To the Chairman and Members  
Shelby County Board of Commissioners and  
the Mayor of Shelby County, Tennessee  
Memphis, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Shelby County OPEB Trust as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Shelby County OPEB Trust's basic financial statements, and have issued our report thereon dated November 22, 2012.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Shelby County OPEB Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Shelby County OPEB Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Shelby County OPEB Trust's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

Memphis, Tennessee  
November 22, 2013

Walter Uiberall, PLLC  
Banks, Finley, White & Co.