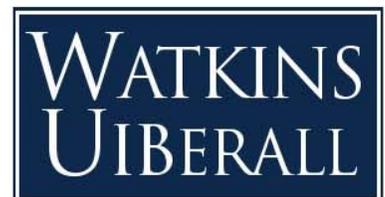


SHELBY COUNTY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

June 30, 2011 and 2010



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

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**SHELBY COUNTY, TENNESSEE
SHELBY COUNTY RETIREMENT SYSTEM**

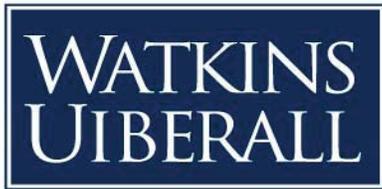
June 30, 2011

ROSTER OF MANAGEMENT OFFICIALS

Mike Swift	Director of Administration & Finance
Waverly Seward	Director of Administration & Finance
David Pontius	Manager of Pension Investments

ROSTER OF BOARD MEMBERS

Mark H. Luttrell, Jr., Mayor	Richard Swiggart
Ulysses Truitt	Ron Willis
Marie Campbell	Deke Iglehart
Bill Cash	Home L. Cody
Judge Larry Potter	Michael Ritz, Commissioner
Mike Swift	Walter Bailey, Commissioner
Harvey Kennedy	Jerry Sklar



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INDEPENDENT AUDITOR'S REPORT

To the Chairman and Members of the Shelby County
Retirement System Board of Administration
Shelby County Retirement System
Memphis, Tennessee

We have audited the accompanying statements of plan net assets of the Shelby County Retirement System as of June 30, 2011, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the management of the Shelby County Retirement System. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Shelby County Retirement System as of June 30, 2010, were audited by other auditors whose report dated October 27, 2010, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Shelby County Retirement System as of June 30, 2011, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2011, on our consideration of the Shelby County Retirement System'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 *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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 standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. The required supplementary information is presented for purposes of additional analysis as required by Governmental Accounting Standards Board Statement No. 25, and is also not a required part of the financial statements. The required supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Watkins Kilgusall, PLLC

Memphis, Tennessee
October 21, 2011

SHELBY COUNTY RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

This discussion and analysis of the Shelby County Retirement System ("SCRS") (the "Plan") financial performance provides a narrative overview and analysis of the Plan's financial activities and funding conditions for the fiscal year ending June 30, 2011. Please read it in conjunction with the Plan's financial statements, which follow this section.

Financial Highlights

- Total plan net assets held in trust for pension benefits at June 30, 2011 were \$982.5 million, increasing over \$156.8 million, or 18.9%, from the plan net assets at June 30, 2010. Total plan net assets held in trust for pension benefits at June 30, 2010 were \$825.8 million, increasing over \$89.9 million, or 12.2%, from the plan net assets at June 30, 2009.
- Cash and cash equivalents for fiscal year 2011 decreased by \$39.2 million, or 56.0% compared to fiscal year 2010. Cash and cash equivalents for fiscal year 2010 increased by \$36.7 million, or 110.5% compared to fiscal year 2009.
- Contributions for fiscal year 2011 decreased by \$0.3 million or 1.0%, compared to fiscal year 2010. Contributions for fiscal year 2010 increased by \$0.8 million or 2.7%, compared to fiscal year 2009.
- Net investment income for fiscal year 2011 totaled \$188.1 million, an increase of \$74.0 million, or 64.8% compared to fiscal year 2010. Net investment income for fiscal year 2010 totaled \$114.1 million, an increase of \$328.2 million, or 153.3% compared to fiscal year 2009.
- Benefits payments, member refunds and administrative expenses total \$60.1 million for the fiscal year 2011 and increased \$7.2 million or 13.6% over fiscal year 2010. Benefits payments, member refunds and administrative expenses total \$53.0 million for the fiscal year 2010 an increase of \$1.8 million or 3.5% over fiscal year 2009.

Overview of the Financial Statements

The basic financial statements of the Plan are the Statements of Plan Net Assets, the Statements of Changes in Plan Net Assets, and notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements. Statements are shown for the most recent and previous fiscal years for comparison and analysis to changes in individual line items. The statements are presented using the accrual basis of accounting in the accordance with the Government Accounting Standards Board ("GASB") Statement No. 25.

The Statements of Plan Net Assets are a measure of the Plan assets and liabilities at the close of the fiscal year. Total assets less liabilities equal net assets held in the trust for pension benefits.

The Statement of Changes in Plan Net Assets presents how the Plan's net assets changed during the fiscal year as a result of contributions, investment income (loss), operating expenses, and changes in net assets.

The Plan pays retirement benefits using a defined formula based on the years of service, salary and age. The Plan also provides for disability and survivor benefits.

The Notes to the Financial Statements are a fundamental part of the financial statements and provide important information to support the amounts in the financial statements. The notes describe accounting policies along with plan description and benefits.

The Required Supplementary information consists of a Schedule of Funding Progress, Schedule of Employer Contributions from all sources and related notes concerning the funded status and actuarial assumptions and methods of the Plan.

Analysis of Plan Net Assets

At June 30, 2011, the Plan net assets were \$982.5 million. The value of net assets increased by 156.8 million, or 18.9%, from \$825.7 million at June 30, 2010. The increase was due primarily to increasing market value of the assets held for the fiscal year 2011. At June 30, 2010, the Plan net assets were \$825.7 million. The value of net assets increased by 89.9 million, or 12.2%, from \$735.9 million at June 30, 2009.

As of June 30, 2011, cash and cash equivalents decreased by \$39.2 million, or 56.0%, from fiscal year 2010. The decrease was due primarily to money managers holding less cash and being fully invested during 2011. As of June 30, 2010, cash and cash equivalents increased by \$36.7 million, or 110.5%, from fiscal year 2009.

The Plan's assets consist primarily of investments in domestic and international equities, government securities, corporate bonds, collateralized mortgage obligations, mortgage-backed pooled securities, limited partnerships, hedge funds and private real estate and infrastructure funds. For fiscal year 2011 investments of \$951.3 million, represented an increase of 24.7% from fiscal year 2010. The increase in the investment portfolio was due to gains in asset valuations as fed policy makers provided economic stimulus to the economy in the form of quantitative easing lowering interest rates to historic levels. For fiscal year 2010 investments of \$762.5 million, represented an increase of 9.0% from fiscal year 2009.

Receivables increased \$0.8 million from June 30, 2010 to \$6.1 million at June 30, 2011. The increase was due to an increase in accrued interest and dividends and money managers pending trade sales at year end. Receivables decreased (\$1.9) million from June 30, 2009 to \$5.3 million at June 30, 2010.

Liabilities for securities purchased and other liabilities increased \$5.0 million from \$123.1 million at June 30, 2010 to \$128.1 million at June 30, 2010. The increase was due primarily to an increase at year end in collateral subject to return to borrowers related to our securities lending program.

Liabilities for securities purchased and other liabilities increased \$32.1 million from \$91.1 million at June 30, 2009 to \$123.2 million at June 30, 2010.

Condensed financial information comparing SCRS'S plan net assets at June 30, 2011, June 30, 2010 and 2009 is presented below:

Table 1 Plan Net Assets (Dollars in Thousands)				
	June 30, 2011	June 30, 2010	June 30, 2009	FY11 - FY10 Percentage Change
ASSETS				
Cash and cash equivalents	\$ 30,726,414	\$ 69,964,789	\$ 33,235,396	-56.1%
Investments at fair value	951,366,543	762,581,239	699,679,920	24.8%
Receivables	6,156,704	5,332,978	7,238,595	15.4%
Collateral held for securities on loan	122,430,273	111,054,800	86,809,165	10.2%
TOTAL ASSETS	<u>1,110,679,934</u>	<u>948,933,806</u>	<u>826,963,076</u>	17.0%
LIABILITIES				
Liability for securities purchased	4,576,973	11,065,958	3,346,424	-58.6%
Accts Payables & accrued expenses	1,133,008	1,048,756	934,983	8.0%
Collateral subject to return	122,430,273	111,054,800	86,809,165	10.2%
TOTAL LIABILITIES	<u>128,140,254</u>	<u>123,169,514</u>	<u>91,090,572</u>	4.0%
 PLAN NET ASSETS	 <u>\$ 982,539,680</u>	 <u>\$ 825,764,292</u>	 <u>\$ 735,872,504</u>	 19.0%

Analysis of Changes of Plan Net Assets

Members and employer contributions for fiscal year 2011 were \$28.4 million, a decrease of \$0.3 million, or 1.0%, from \$28.7 million in 2010. The decrease was due primarily to less employer contributions. Members and employer contributions for fiscal year 2010 were \$28.8 million, an increase of \$0.8 million, or 2.7%, from \$28.0 million in 2009. Members covered under the SCRS Pension Plan B were required to contribute 8.0% of pensionable earnings into the SCRS Pension Plan, while members covered under Plan C were required to contribute 6.0% and members covered under Plan A make no contribution. The Shelby County Government contribution is determined by actuarial valuation. Shelby County Government contributed 7.0% of pensionable earnings for the fiscal year 2011, which was in excess of the actuarial annual required

contribution. Shelby County Government contributed 8.56% of pensionable earnings for the fiscal year 2010, which was in excess of the actuarial annual required contribution.

Net investment income for the year ending June 30, 2011, increased by \$74.0 million compared to fiscal year 2010. The changes resulted primarily from appreciation in investment values across most asset classes. Net investment income for the year ending June 30, 2010, increased by \$328.2 million compared to fiscal year 2009.

Benefit payments were \$52.8 million in 2011, an increase from 2010 of \$4.7 million, or 9.7%. The 2011 increase in benefit payments is due to an increase in the number of new retirees and lump sum distributions. Benefit payments were \$48.2 million in 2010, an increase from 2009 of \$1.7 million, or 3.6%. Total refunds paid during fiscal year 2011 were \$6.0 million, an increase of 62.3%, over fiscal year 2010. Total refunds paid during fiscal year 2010 were \$3.7 million, an increase of 10.7%, over fiscal year 2009. The increase in refunds was due primarily to an increase in the number of employees terminating or resigning before reaching normal retirement age.

Condensed financial information comparing SCRS's changes in plan net assets for the years ended June 30, 2011, June 30, 2010 and 2009 is presented below:

Table 2				
Changes in Plan Net Assets				
(Dollars in Thousands)				
	June 30, 2011	June 30, 2010	June 30, 2009	FY11 - FY10 Percentage Change
PLAN NET ASSETS, BEGINNING OF YEAR	\$ 825,764,292	\$ 735,872,504	\$ 972,502,164	12.2%
ADDITIONS				
Contributions	28,439,479	28,771,378	28,020,191	-1.2%
Net investment income (loss)	188,180,152	114,112,172	(214,088,357)	64.9%
Net Securities lending activities income	292,737	5,523	645,747	5200.3%
TOTAL ADDITIONS (DEDUCTIONS)	216,912,368	142,889,073	(185,422,419)	51.8%
DEDUCTIONS				
Benefit payments	52,883,454	48,159,243	46,491,159	9.8%
Refunds	6,005,144	3,699,296	3,341,139	62.3%
Administrative expenses	1,248,382	1,138,746	1,374,943	9.6%
TOTAL DEDUCTIONS	60,136,980	52,997,285	51,207,241	13.5%
NET INCREASE (DECREASE)	156,775,388	89,891,788	(236,629,660)	74.4%
PLAN NET ASSETS, END OF YEAR	\$ 982,539,680	\$ 825,764,292	\$ 735,872,504	19.0%

Funding Status

The projected unit credit actuarial cost method is used in determining the funding requirements. The objective under this method is to fund each participant's benefits under the Plan as they would accrue, taking into consideration future salary increases. Thus, the total pension, to which each participant is expected to become entitled, is broken down into units, each associated with a year of past or future credited service. When this method is introduced, there will be an initial liability for benefits credited for service prior to that date, and to the extent that the liability is not covered by assets of the Plan, there is an unfunded liability to be funded over a chosen period in accordance with an amortization schedule.

The valuation method for the County is based on a funded status target of 100%. If the funded status is more than or less than 100%, the surplus or deficit is amortized over a period of thirty years beginning with the valuation date coincident or following the plan change. At June 30, 2011 and 2010, the actuarial values of assets were \$1,066,406,000 which is a funding ratio of 89.9% and \$1,053,055,938 which is a funding ratio of 97.1% respectively. At June 30, 2010 and 2009, the actuarial values of assets were \$1,053,055,938, which is a funding ratio of 97.1% and \$1,052,639,514, which is a funding ratio of 102.6% respectively.

Retirement benefits are financed by employer and participant contributions and income earned on the Plan's investments. Over the long term, the investment portfolio returns have been a major component of additions to Plan assets. In fiscal year 2011, the Plan investment portfolio increased as the economy began to recover from the economic recession. The pension fund continues to perform soundly; the County contributions have exceeded the Annual Required Contributions in recent years creating a Net Pension Asset, which provides some relief during turbulent economic times. This in addition to the contributions from SCRS Plan participants continues to reinforce the current and continued financial stability of the Plan. As mentioned in the Analysis of Changes in Plan Net Assets section above, employees in Plan B are required to contribute 8% and Plan C employees are required to contribute 6% of pensionable earnings to the Pension Plan, and SCRS is required to contribute the remaining amounts necessary to fund the Plan in accordance with actuarially determined contribution requirements. For the year 2011 SCRS required annual contribution as determined by an actuarial valuation, was \$18,570,339 million, compared to the actual contribution of \$18,787,784 million. For the year 2010 SCRS required annual contribution as determined by an actuarial valuation, was \$16,652,005, compared to the actual contribution of \$19,390,150.

Request for Information

Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Shelby County Tennessee Retirement System
160 N. Main Street, Suite 950
Memphis, TN 38103

**SHELBY COUNTY, TENNESSEE
SHELBY COUNTY RETIREMENT SYSTEM**

STATEMENTS OF PLAN NET ASSETS

June 30, 2011 and 2010

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 30,726,414	\$ 69,964,789
Receivables		
Accrued interest and dividends	2,989,199	2,747,129
Investments sold	3,167,505	2,585,849
Total receivables	<u>6,156,704</u>	<u>5,332,978</u>
Investments, at Fair Value		
Domestic equity	344,492,084	248,793,827
Fixed income	213,191,481	183,325,349
Hedge funds	121,820,692	115,307,325
International equity	213,509,177	167,254,053
Limited partnership interests	33,602,921	27,979,958
Private real estate and infrastructure	24,750,188	19,920,727
Total investments	<u>951,366,543</u>	<u>762,581,239</u>
Collateral held in trust for securities on loan	<u>122,430,273</u>	<u>111,054,800</u>
Total assets	1,110,679,934	948,933,806
<u>Liabilities</u>		
Accounts payable and accrued expenses	1,133,008	1,048,756
Investment purchases payable	4,576,973	11,065,958
Collateral subject to return to borrowers	122,430,273	111,054,800
Total liabilities	<u>128,140,254</u>	<u>123,169,514</u>
Net assets held in trust for pension benefits	<u>\$ 982,539,680</u>	<u>\$ 825,764,292</u>

The accompanying notes are an integral part of these financial statements.

**SHELBY COUNTY, TENNESSEE
SHELBY COUNTY RETIREMENT SYSTEM**

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Years Ended June 30, 2011 and 2010

	2011	2010
Additions:		
Contributions		
Employer contributions	\$ 18,787,784	\$ 19,390,150
Member contributions	9,651,695	9,381,228
Total contributions	28,439,479	28,771,378
Investment Income		
Net appreciation in fair value of investments	175,623,638	103,697,182
Interest income	10,174,015	9,641,622
Dividend income	6,247,242	4,544,511
Other income	489,554	66,827
	192,534,449	117,950,142
Less investment management expenses	4,354,297	3,837,970
Net investment income	188,180,152	114,112,172
Security Lending Activities		
Securities lending income	441,569	402,007
Securities lending expenses	(148,832)	(396,484)
Net securities lending activities income	292,737	5,523
Total net investment income	188,472,889	114,117,695
Total additions	216,912,368	142,889,073
Deductions:		
Benefit payments	52,883,454	48,159,243
Refund of member contributions	6,005,144	3,699,296
Administrative expenses	1,248,382	1,138,746
Total deductions	60,136,980	52,997,285
Change in plan net assets	156,775,388	89,891,788
Net assets held in trust for pension benefits, beginning of year	825,764,292	735,872,504
Net assets held in trust for pension benefits, end of year	\$ 982,539,680	\$ 825,764,292

The accompanying notes are an integral part of these financial statements.

**SHELBY COUNTY, TENNESSEE
SHELBY COUNTY RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 1 - ORGANIZATION

The Shelby County Retirement System (“SCRS”), is a single employer public employee retirement system (PERS) established by Shelby County, Tennessee, for the employees of Shelby County, Tennessee. SCRS is administered by the Shelby County Retirement System Board of Administration (the “Board”), the majority of whose members are nominated by the Shelby County Mayor, subject to approval by the Shelby County Board of Commissioners. SCRS is considered to be part of the Shelby County, Tennessee (the “County”) financial reporting entity and is included in the County's financial reports as a pension trust fund.

The County provides office space and certain administrative services at no cost to the System. All other costs to administer the plan are paid from plan earnings.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the System are prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenue is recorded as earned and expenses are recorded as incurred.

Cash and Cash Equivalents

The Retirement System considers investments purchased with an original maturity date of three months or less to be cash equivalents.

Investments Sold and Investments Purchased

Receivables for investments sold represent amounts due from brokers for unsettled security sales transactions at year end. Liabilities for investments purchased represent amounts due to brokers for unsettled security purchases at year end.

Investments

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 June 30, 2011 and 2010. Certain fixed income securities are valued based on equivalent values of comparable securities with similar yield and risk.

Investments in private investment companies consisting of interests in limited partnerships, hedge funds, and private real estate and infrastructure limited liability companies and funds are valued at estimated fair value as provided by the investment manager of the investee company. The estimated fair values are based upon the fair values of the underlying assets in the investee company.

Purchases and sales of securities are recorded on a trade-date basis. Consequently, investments have been increased for certain pending but unsettled purchases and investments have been reduced for certain pending but unsettled sales. There are no investments that represent five percent (5%) or more of net assets held in trust for pension benefits as of June 30, 2011 and 2010. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Retirement System management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 3 – RETIREMENT SYSTEM

Plan Description

The Shelby County Retirement System consists of three component plans, Plan A, Plan B, and Plan C each governed by a separate plan document, and the Administration and Trust Agreement of the Shelby County Retirement System (the “Trust Agreement”). The Plans and the Trust Agreement were established by various resolutions of the Shelby County Commission having the force and effect of legislation.

Substantially all full-time and permanent part-time employees of the County (including its component units) are required as a condition of employment to participate in one of the plans of the SCRS. Employees exempted from the requirement and, in fact, not permitted to participate consist primarily of Shelby County Board of Education employees and employees who are covered by Social Security.

Plan B, the original Plan, is a contributory defined benefit pension plan for employees hired prior to December 1, 1978, and thereafter closed to new entrants. Until July 1, 2000, Plan A was a non-contributory defined benefit pension plan for those eligible employees hired on and after December 1, 1978, and for those employees who elected to transfer to Plan A from Plan B before January 1, 1981. Effective July 1, 2000, Plan A was amended to mandate employee contributions for certain employees defined as “Public Safety Employees,” including but not limited to certain employees of the County Sheriff’s Office, the County Fire Department, and the County Corrections Center.

The Trust Agreement contains all administrative provisions applicable to Plans A, B and C, and further establishes a formal common trust to hold all of the assets of the plans.

Prior to 1990, for financial reporting purposes, Plan A and Plan B were accounted for separately. Beginning in 1990, both plans have been accounted for as a single reporting entity, whereby all assets of the SCRS are available for payment of benefits to participants of either plan.

All participants in Plan B are fully vested, and all active participants have now completed more than 25 years of service. Participants may retire after completing 25 years of service at any age or after completing 10 years of service upon attaining age 60 (age 55 for deputy sheriffs). The annual retirement benefit is the product of the average of the participant's highest three consecutive years' compensation (or, if the participant had completed 10 years of service before September 1, 1977, the participant's highest 12-months' compensation) and 2.7% a year for up to 25 years of service and an additional 1% per year for up to 10 further years of service.

Plan B provides disability benefits for disabled participants and survivor benefits for certain survivors of retirees and of participants who die while actively employed.

Participants in Plan A accrue non-forfeitable benefits after having completed seven and one-half years of service (or attainment of age 65 regardless of years of service), although the benefits of participants who terminated before January 1, 1998, were vested only after completion of 10 years of service. A participant's normal retirement age is age 65. If a participant retires at or after his or her normal retirement age, his or her monthly retirement benefit is a percentage of his or her highest 36 consecutive months' earnings, with the percentage based upon a mathematical table in the Plan document that takes into account the participant's years of service and his or her age. Public Safety Employees are entitled to retire before age 65 with unreduced benefits if they have completed 25 years of service as Public Safety Employees and under certain other circumstances as defined by the Plan Agreement.

A vested participant of Plan A may also elect early retirement to begin at any time after attaining age 55. The early retirement monthly benefit is calculated using a different table that takes into account the same factors. A vested participant who terminates before age 55 may elect to begin receiving monthly benefits at any time after the participant attains age 55 (but no later than age 65), and his or her benefits are calculated under a third table. If, however, the present value of a vested participant's accrued benefit is under \$20,000, the distribution is required to be made in the form of a lump sum payment. If the present value of the accrued benefit is between \$20,000 and \$35,000, the participant may elect to receive a lump sum distribution.

Plan A also provides disability benefits for participants who became disabled before January 1, 2002, and it provides survivor benefits for certain survivors of retirees and of participants who die while actively employed.

Member contributions are made by Plan B participants in the amount of 8% of their earnings (or 8% of a lesser amount of their earnings in the case of participants with more than 35 years of service) and by Public Safety Employees in the amount of 2.65% of their earnings. Employer contributions to the Trust are funded currently in an amount determined by the System's actuary to fund the benefits of both Plan A and Plan B participants.

Plan C became effective March 1, 2005 for newly hired employees and September 1, 2005 for current employees. Plan A was closed to new entrants as of February 28, 2005. Participation is

mandatory for eligible employees hired after March 1, 2005. Each Plan A active participant as of September 1, 2005, had the option to stay in Plan A or to move his or her participation to Plan C. Public Safety Employees in Plan A were required to move to Plan C to preserve their right to retire with unreduced benefits with 25 years of service; otherwise, they reverted to the original Plan A normal retirement provisions. All elections have now been made.

Each Plan C participant is required to contribute 6% of his or her base compensation to the Trust Fund, which currently contains the assets of Plans A and B. These contributions will accrue "interest" at the rate of 5% annually, all of which will be reflected in a bookkeeping account. At the end of each calendar quarter, the County will contribute 50% of each participant's contributions, and a separate bookkeeping account will be maintained. Interest will be credited to this account in the same percentage and in the same way as interest is added to the participant contributions account.

The participant's own contributions account is fully vested at all times. The County's matching account is vested only after the participant has completed seven and one-half years of service. Credited service will be calculated in exactly the same way as it is calculated in Plan A.

Plan C contains a transition period. If a Plan A participant who elects to become a participant in Plan C terminates employment within five years, pension benefits will be calculated under Plan A, not Plan C. For each Plan A Public Safety Employee, however, the number of years the participant contributed to Plan A as a public safety employee will count toward the five year transition period. If the five year transition period is not satisfied before a participant's termination, then, (a) if the participant was not a Public Safety Employee while under Plan A, the Plan C participant contributions account will be refunded to the participant, and (b) if the participant was a Public Safety Employee while under Plan A, the amount of the refund will be the difference between the Plan C participant contributions account and the employee contributions account the participant would have had, if the original 25-and-out plan had remained in effect and the participant had remained an active participant.

If the transitional period is satisfied, a Plan C participant will be entitled to the following benefits. Upon termination but before beginning to receive a monthly pension, the participant will have the right to withdraw from the Trust Fund an amount equal to the lesser of (1) the sum of his or her participant contributions account and (if vested) his or her matching account or (2) up to \$50,000. This withdrawal is called an "optional cash distribution." No optional cash distributions may be made before termination of employment or after beginning to receive a monthly pension.

A Plan C participant will be entitled to an unreduced "normal retirement pension" benefit if the participant has at least 25 years of credited service upon termination, regardless of age. If a participant attains age 65, having completed at least seven and one-half (7 ½) years but less than 25 years of credited service, the participant is also entitled to retire with a "normal" retirement pension. The amount of the normal retirement pension is the higher of two calculated amounts. In the first calculation, three figures are multiplied together: (1) the participant's "final average earnings" (determined in the same way as in Plan A); (2) the participant's years of credited service (no more than 35); and (3) 2.35%; the result is then reduced actuarially by the amount of any optional cash distributions the participant has elected to receive. The second figure is calculated by actuarially converting the sum of the participant contributions account and matching account (after

reduction for all optional cash distributions) into a monthly pension for life or, if the participant is married, into a 75% joint and survivor pension.

If a Plan C participant terminates employment between age 55 and 65 with between seven and one-half and 25 years of credited service, the participant is entitled to a monthly "early" retirement pension for life. Again, the amount of the early retirement pension is the higher of two calculated amounts similar to those used for calculating the normal retirement pension. Participants who terminate employment before age 55 are also entitled to future benefits. Also, as in Plan A, deferred vested retirement pensions are required to be paid in the form of a lump sum if the actuarial value is \$20,000 or less.

Plan C provides survivor benefits for certain survivors, but it does not provide any disability benefits.

At June 30, 2011 (the date of the latest actuarial valuation), the SCRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	3,056
Terminated members entitled to, but not yet receiving, benefits	294
Current active members	<u>6,049</u>
Total	<u><u>9,399</u></u>

Contributions and Funding Policy

The System's funding policy for employee contribution requirements is established by the Board. For fiscal years 2011 and 2010, the contribution requirements were based on the actuarially determined contribution rate.

The actuarially determined contribution rate was calculated using a projected unit credit actuarial cost method for both Plan A and Plan B participants.

The actuarial required employer contribution was \$18,570,739 for the year ended June 30, 2011. During the year ended June 30, 2011, actual employer contributions were \$18,787,784 and employee contributions were \$9,651,695. Actual employer contributions were approximately 7.00% of the related covered payroll costs. The actuarial required employer contribution is significantly impacted by the amortization of the actuarial surplus created from the investment results in prior years. The employer has chosen to fund a level amount that is approximately the normal cost for benefits earned.

During the year ended June 30, 2010, the employer contribution of \$19,390,150 which were 6.25% of the related covered payroll costs and the employee contributions were \$9,381,228.

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

Trend Information

Six-year historical trend information designed to provide information about the Retirement System's progress made in accumulating sufficient assets to pay benefits when due is presented in the accompanying supplemental information.

NOTE 4 – CUSTODIAL CREDIT RISK

Custodial credit risk for deposits and investments is the risk that in the event of a financial institution's failure, SCRS would not be able to recover the value of its deposits, investments, or collateralized securities that are in the possession of an outside party. Deposits and investments are exposed to custodial credit risk if they are not insured, unregistered or not in the name of SCRS, or not collateralized. SCRS's cash deposits may be covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the State. The FDIC insures the first \$250,000 of the Retirement System's interest bearing deposits at each financial institution. Deposit balances over \$250,000 are insured by the collateral pool for those participating financial institutions. At June 30, 2011, deposits of \$29,644,010 were uncollateralized.

NOTE 5 - INVESTMENTS

The Administration and Trust Agreement of Shelby County Retirement System (the "Trust Agreement") vests the Shelby County Retirement System Board of Administration (the "Board") with exclusive control over SCRS's investment portfolio. The Trust Agreement provides for specific investment authority and limitations in accordance with applicable state laws and county regulations. The Board members exercise their authority and control over investments solely in the interest of plan participants and beneficiaries. Additionally, the Board executes its policies with the aid of external investment advisors. The Trust Agreement generally provides that the Board may 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 the ten (10) years preceding the investment.
- 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 Depository 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 Fund.
- Covered call and put options on individual stocks or indexes, with the prior approval of the Investment Committee.
- Financial futures contracts on a limited basis for bona fide hedging purposes and only with prior approval of the Investment Committee.
- Real estate including interests in real estate investment trusts, provided, however, that the total real estate investments of SCRS shall not exceed five percent (5%) of the total value of the SCRS.
- International equities provided, however, that the total international investments of SCRS, excluding American Depository Receipts, shall not exceed thirty percent (30%) of the total value of the SCRS.
- Co-mingled funds, including registered mutual funds and interest in collective trusts.
- Other investments, as approved individually by the Investment Committee, including securities offered through private placement memoranda.

Please refer to the Trust Agreement for a complete description of investment policies.

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 its price sensitivity to changes in interest rates. The SCRS 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 and June 30, 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Current to one year	\$ 5,132,712	\$ 9,754,579
One to two years	11,106,563	7,217,408
Two to three years	20,467,990	10,556,679
Three to four years	8,406,125	9,005,793
Four to five years	15,972,527	8,080,896
Five years or more	147,963,665	105,998,848
	<u>209,049,582</u>	<u>150,614,203</u>
Funds with indeterminable maturities	<u>4,141,899</u>	<u>32,711,146</u>
	<u>\$ 213,191,481</u>	<u>\$ 183,325,349</u>

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 as established by the Trust Agreement and the Investment Committee are summarized above. There are no restrictions on U.S. Government or Agency issues.

The System's exposure to credit risk at June 30, 2011 is presented below by investment category as rated by Standard and Poor's rating service:

<u>Investment Type</u>	<u>Ratings</u>	<u>2011 Fair Value</u>	<u>2010 Fair Value</u>
Asset Backed Securities	BBB	\$ 66,683	\$ 248,281
	B	-	6,453
	CCC	58,025	17,776
	CC	85,114	41,621
	D	15,004	4
	Not rated	6	6,650
Collateralized Bonds	CC	6	-
Corporate Bonds	AA	6,154,569	5,178,214
	A	16,861,334	18,279,687
	BBB	17,954,613	20,662,092
	BB	2,669,968	4,537,322
	B	13,330,169	12,182,486
	CCC	6,432,661	3,590,280
	C	-	20
	D	-	1,396,393
Not rated	15,699,378	596,616	

<u>Investment Type (Continued)</u>	<u>Ratings</u>	<u>2011 Fair Value</u>	<u>2010 Fair Value</u>
Corporate Convertible Bonds	B	-	813,290
	Not rated	4,141,899	4,517,551
Government Agencies	AAA	2,854,668	10,956,904
	AA	459,532	-
	A	1,436,415	1,064,606
	BBB	1,114,990	1,062,490
	U.S. Government Guaranteed	-	709,408
Government Bonds (1)	AAA	9,447,388	22,419,539
	A	16,345,262	13,451,099
	BBB	2,604,050	-
	BB	683,193	628,987
	Not rated	41,877,212	9,163,238
Government Mortgage Backed Securities	U.S. Government Guaranteed	1,008,849	1,300,758
Municipal Bonds	AAA	4,493,772	842,155
	AA	4,148,778	1,536,443
	A	1,875,656	1,761,878
Non-Government Backed CMOs	AAA	216,571	1,349,962
	AA	-	659,572
	A	-	364,057
	BBB	306,267	294,351
	BB	43,661	1,233,804
	B	703,874	769,846
	CCC	1,251,041	2,004,706
	C	-	359,780
	D	941	5,517
	Not Rated	955,343	4,234,008
Other Fixed Income	Not Rated	<u>37,894,589</u>	<u>35,077,505</u>
Total Fixed Income		<u>\$ 213,191,481</u>	<u>\$ 183,325,349</u>

(1) At June 30, 2011, Moody's ratings and amounts of Government Bonds were AAA of \$29,868,296, A of \$18,169,304, BAA of \$10,789,024, BA of \$3,267,040, not rated of \$8,549,683, and U.S. Government guaranteed of \$313,758.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the investment. The Retirement System'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>Government Bonds and Agencies</u>	<u>Other Fixed Income</u>	<u>Hedge Funds</u>	<u>Total</u>
Australian dollar	\$ 3,008,984	\$ 3,314,200	\$ 6,770,548	\$ -	\$ 13,093,732
Brazilian real	3,562,191	3,498,708	-	-	7,060,899
British sterling pound	26,027,472	8,549,683	-	-	34,577,155
Canadian dollar	6,160,687	3,983,096	-	-	10,143,783
Danish krone	3,728,131	-	-	-	3,728,131
Euro	40,732,387	-	3,988,000	-	44,720,387
Hong Kong dollar	15,057,926	-	-	-	15,057,926
Hungarian forint	-	2,604,050	-	-	2,604,050
Indonesian rupiah	-	3,267,040	-	-	3,267,040
Japanese yen	17,071,303	-	-	-	17,071,303
Malaysian ringgit	-	4,629,292	-	-	4,629,292
Mexican peso	2,117,661	4,686,266	-	-	6,803,927
New Zealand dollar	-	1,288,840	2,443,214	-	3,732,054
Norwegian krone	1,567,880	4,175,452	-	-	5,743,332
Polish zloty	-	6,081,385	-	-	6,081,385
South African rand	-	2,980,564	-	-	2,980,564
South Korean won	3,410,323	4,478,064	-	-	7,888,387
Swedish krona	2,829,333	-	-	-	2,829,333
Swiss franc	10,684,454	-	-	-	10,684,454
Taiwan dollar	3,022,653	-	-	-	3,022,653
Turkish lira	1,614,305	-	-	-	1,614,305
Total securities subject to foreign currency risk	140,595,690	53,536,640	13,201,762	-	207,334,092
International portfolio in U.S. dollars	72,913,487	1,114,990	2,315,178	57,585,217	133,928,872
Total international securities	<u>\$ 213,509,177</u>	<u>\$ 54,651,630</u>	<u>\$ 15,516,940</u>	<u>\$ 57,585,217</u>	<u>\$ 341,262,964</u>

The Retirement System's exposure to foreign currency risk in U.S. Dollars as of June 30, 2010, is as follows:

<u>Currency</u>	<u>Equities</u>	<u>Government Bonds and Agencies</u>	<u>Other Fixed Income</u>	<u>Hedge Funds</u>	<u>Total</u>
Australian dollar	\$ 2,380,883	\$ 7,729,837	\$ -	\$ -	\$ 10,110,720
Brazilian real	3,404,804	2,860,912	-	-	6,265,716
British sterling pound	23,570,250	4,317,192	-	-	27,887,442
Canadian dollar	5,800,558	2,695,343	-	-	8,495,901
Danish krone	4,506,004	-	-	-	4,506,004
Euro	22,462,051	-	-	-	22,462,051
Hong Kong dollar	13,044,254	-	-	-	13,044,254
Indonesian rupiah	-	2,932,358	-	-	2,932,358
Japanese yen	10,934,908	-	-	-	10,934,908
Malaysian ringgit	-	4,322,914	-	-	4,322,914
Mexican peso	2,184,866	3,413,807	-	-	5,598,673
New Zealand dollar	-	1,922,345	1,128,407	-	3,050,752
Polish zloty	-	4,859,526	-	-	4,859,526
South African rand	-	1,060,992	-	-	1,060,992
South Korean won	1,816,708	3,792,815	-	-	5,609,523
Swedish krona	2,450,725	1,666,248	-	-	4,116,973
Swiss franc	9,305,742	-	-	-	9,305,742
Turkish lira	1,293,441	-	-	-	1,293,441
Total securities subject to foreign currency risk	103,155,194	41,574,289	1,128,407	-	145,857,890
International portofolio in U.S. dollars	64,098,859	1,062,490	5,648,413	61,508,509	132,318,271
Total international securities	<u>\$ 167,254,053</u>	<u>\$ 42,636,779</u>	<u>\$ 6,776,820</u>	<u>\$ 61,508,509</u>	<u>\$ 278,176,161</u>

Securities Lending Transactions

SCRS has authorized its custodial agent to enter into, on behalf of SCRS, securities lending transactions comprised of loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Initial collateral, consisting of cash and securities must not be less than 102% of the market value of the borrowed securities or not less than 105% if the borrowed securities and collateral are denominated in different currencies. The borrower is required to deliver additional collateral when necessary so that the total collateral held by the custodial agent for all loans to the borrower will at least equal 102% of market value of all the borrowed securities. At June 30, 2011 and 2010, SCRS had no credit risk exposure to borrowers as amounts owed to the borrowers exceeded amounts the borrowers owed to SCRS. Collateral held in trust for securities on loan consists of an investment in the Core USA Collateral Pool.

The fair value of investment securities loaned for collateral and held by broker-dealers at June 30, 2011 and 2010, are summarized as follows:

	2011	2010
Domestic equity	\$ 70,444,188	\$ 64,327,960
International equity	14,950,147	18,076,810
Fixed income	34,149,581	25,078,808
	<u>\$ 119,543,916</u>	<u>\$ 107,483,578</u>

Risks and Uncertainties

SCRS invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of plan assets.

SCRS contributions are made based upon certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption processes, it is at least reasonably possible that changes in these estimates and assumptions in the near term could materially affect the amounts reported and disclosed in the financial statements.

NOTE 6 - COMMITMENTS

SCRS has capital commitments totaling \$25 million to three investment fund managers. As of June 30, 2011, approximately \$18 million is unfunded and the remaining commitment will be funded within the next four years.

**SHELBY COUNTY, TENNESSEE
SHELBY COUNTY RETIREMENT SYSTEM**

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date of June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability/ (Surplus)	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability/ (Surplus) as a Percentage of Covered Payroll
2006	\$ 933,730,481	\$ 860,178,582	\$ (73,551,899)	108.6%	\$ 241,403,735	-30.5%
2007	\$ 992,143,395	\$ 934,829,366	\$ (57,314,029)	106.1%	\$ 251,059,875	-22.8%
2008	\$ 1,040,514,476	\$ 1,000,475,305	\$ (40,039,171)	104.0%	\$ 264,640,554	-15.1%
2009	\$ 1,052,640,000	\$ 1,025,867,000	\$ (26,773,000)	102.6%	\$ 271,888,000	-9.8%
2010	\$ 1,053,056,000	\$ 1,084,353,000	\$ 31,297,000	97.1%	\$ 266,559,000	11.7%
2011	\$ 1,066,406,000	\$ 1,186,788,000	\$ 120,382,000	89.9%	\$ 265,137,000	45.4%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2002	\$ 12,313,480	100.0%
2003	\$ 12,313,480	100.0%
2004	\$ 17,836,157	100.0%
2005	\$ 9,645,830	194.9%
2006	\$ 10,322,629	182.2%
2007	\$ 11,037,956	169.9%
2008	\$ 12,956,023	145.0%
2009	\$ 15,261,041	123.0%
2010	\$ 16,652,005	116.0%
2011	\$ 18,570,739	101.0%

**SHELBY COUNTY, TENNESSEE
SHELBY COUNTY RETIREMENT SYSTEM**

REQUIRED SUPPLEMENTARY INFORMATION (Continued)

June 30, 2011

The information presented in the required supplementary schedules was determined as part of the actuarial valuations (or updates) at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2011
Actuarial cost method	Projected unit credit actuarial cost method
Amortization method	Level dollar closed
Remaining amortization period*	15 years on June 30, 2011
Asset valuation method	10 -year smoothed market value
Rate of investment return	8.00%
Projected salary increases	Graded salary scale (3.0% to 8.5%)
Cost-of-living adjustments	CPI-U up to 4.0% for Plan A and Plan C; CPI-U up to 1% for Plan B

* This is the weighted average of the amortization for Plan C (15 years) and the amortization of the unfunded accrued liability (29 years).



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

To the Chairman and Members of the Shelby County
Retirement System Board of Administration
Shelby County Retirement System
Memphis, Tennessee

We have audited the financial statements of the Shelby County Retirement System as of and for the year ended June 30, 2011, and have issued our report thereon dated October 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Shelby County Retirement System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Shelby County Retirement System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Shelby County Retirement System's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Shelby County Retirement System'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*.

This report is intended solely for the information and use of the members of the Shelby County Retirement System Board of Administration, management, others within the organization, Shelby County Government, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Watkins Mikusall, PLLC

Memphis, Tennessee
October 21, 2011