SHELBY COUNTY RETIREMENT SYSTEM

Financial Statements
For the Years Ended June 30, 2008 and 2007

SHELBY COUNTY RETIREMENT SYSTEM

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THOMPSON DUNAVANT
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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 Shelby County Retirement System as of June 30, 2008 and 2007, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the management of Shelby County Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and 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 audits provide 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 Shelby County Retirement System at June 30, 2008 and 2007, and its changes in plan net assets for the years 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 29, 2008 on our consideration of the internal control of Shelby County Retirement System over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Our audits were performed for the purpose of forming an opinion on the financial satements taken as a whole. The required supplementary information disclosures under Governmental Accounting Standards Board Statement No. 25 are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

5100 Poplar Avenue • Clark Tower 30th Floor • Memphis, TN 38137 • Ph. 901.685.5575 • fax. 901.685.5583 • www.thompsondunavant.com
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The Shelby County Retirement System has not presented the management's discussion and analysis as required by GASB 34, "*Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*," that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Thompson Dunavant PLC

Memphis, Tennessee
October 29, 2008

SHELBY COUNTY RETIREMENT SYSTEM

Statements of Plan Net Assets
June 30, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents	$ 25,894,195	$ 30,514,253
Receivables		
Accrued interest and dividends	2,562,810	3,903,457
Investments sold	8,112,187	1,841,103
Total receivables	10,674,997	5,744,560
Investments		
Domestic equity	415,698,225	478,012,718
Fixed income	167,715,980	177,101,515
International equity	159,350,730	165,132,475
Hedge funds	158,897,578	158,378,070
Limited partnership interests	25,936,287	28,570,511
Private real estate and infrastructure	11,297,944	6,709,410
Total investments	938,896,744	1,013,904,699
Total assets	975,465,936	1,050,163,512
Liabilities		
Accounts payable and accrued expenses	1,110,671	1,524,539
Investments purchased	1,853,101	3,422,012
Total liabilities	2,963,772	4,946,551
Net assets held in trust for pension benefits	$ 972,502,164	$ 1,045,216,961

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

SHELBY COUNTY RETIREMENT SYSTEM

Statements of Changes in Plan Net Assets
For the Years Ended June 30, 2008 and 2007

	2008	2007
Additions (reductions)		
Contributions		
Employer	$ 18,744,136	$ 18,758,647
Plan members	8,930,175	8,191,400
Total contributions	27,674,311	26,950,047
Investment income (loss)		
Net appreciation (depreciation) on investments	(65,259,020)	151,197,809
Interest	10,533,164	11,854,438
Dividends	6,319,769	5,899,856
Other income	1,230,156	550,633
	(47,175,931)	169,502,736
Less investment expenses	4,941,914	4,970,832
Net investment income (loss)	(52,117,845)	164,531,904
Total additions (reductions)	(24,443,534)	191,481,951
Deductions		
Benefit payments	43,676,102	41,541,506
Refund of member contributions	3,109,929	1,878,662
Administrative expenses	1,485,232	1,288,871
Total deductions	48,271,263	44,709,039
Net increase (decrease)	(72,714,797)	146,772,912
Net assets held in trust for pension benefits		
Beginning of year	1,045,216,961	898,444,049
End of year	$ 972,502,164	$ 1,045,216,961

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

Note 1 - Summary of significant accounting policies

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 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.

Measurement focus and basis of accounting

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Plan member contributions are recognized in the period of time for which the contributions are assessed. Plan employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits, U.S. Treasury bills, short-term investment funds, and other temporary investments with an original maturity date of three months or less from the date of acquisition.

Investments sold and investments purchased

Receivables for investments sold represent amonts due from brokers for unsettled security sales transactions at year end. Liabilities for investments purchased represent amonts 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, 2008 and 2007.

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.

Note 1 - Summary of significant accounting policies (continued)

Investments (continued)

Purchases and sales of securities are recorded on a trade-date basis. Consequently, investments include 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, 2008 and 2007. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires SCRS's management to make estimates and assumptions which affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Note 2 - Plan description and contribution information

General

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 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 established 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 SCRS are available for payment of benefits to participants of either plan.

Note 2 - Plan description and contribution information (continued)

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' eligible compensation (or, if he had completed 10 years of service before September 1, 1977, his highest 12 months' eligible 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 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 less than $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 2.65% of earnings for Public Safety Employees. 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 September 1, 2005. Participation is mandatory for eligible employees hired after February 28, 2005. Each Plan A active participant as of February 28, 2005 had the option to stay in Plan A or to move his 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.

Note 2 - Plan description and contribution information (continued)

Each Plan C participant will be required to contribute 6% of his or her base compensation to SCRS, which also 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, his 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 <u>not</u> a Public Safety Employee while under Plan A, his or her Plan C participant contributions account will be refunded to him or her, and (b) if the participant <u>was</u> a Public Safety Employee while under Plan A, the amount of the refund will be the difference between his or her 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 SCRS 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 his or her age. If a participant attains age 65, having completed at least seven and one-half 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 his or her participant contributions account and his or her 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.

Note 2 - Plan description and contribution information (continued)

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 benefits ultimately. 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 disability benefits.

At July 1, 2008 (the date of the latest actuarial valuation), SCRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,796
Terminated employees entitled to, but not yet receiving benefits	260
Active members	
Vested	3,773
Non-vested	2,743
Total	9,572

Contributions and funding policy

SCRS's funding policy for member contribution requirements is established by the Board. For fiscal years 2008 and 2007, the contribution requirements were based on the actuarially determined contribution rate.

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

The actuarial required employer contribution was $12,956,023 for the year ended June 30, 2008. During the year ended June 30, 2008, actual employer contributions were $18,744,136 and employee contributions were $8,930,175. Actual employer contributions were approximately 7.08% 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, 2007, the employer contributions were $18,758,647 which were 7.47% of the related covered payroll costs and the employee contributions were $8,191,400.

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

Note 2 - Plan description and contribution information (continued)

Trend information

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

Note 3 - Deposits and investments

The Administration and Trust Agreement of The Shelby County Retirement System (the "Trust Agreement") vests the Shelby County Retirement System Board of Adminstration (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.
- Prime bankers acceptances which are eligible for purchase by the Federal Reverve 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 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.

Note 3 - Deposits and investments (continued)

- 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 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 SCRS.
- Co-mingled funds, including registered mutual funds and interests 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. 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, 2008 and 2007 are as follows:

	2008	2007
Current to one year	$ 7,969,193	$ 13,094,934
One to two years	6,510,674	5,040,097
Two to three years	10,186,124	8,519,437
Three to four years	8,302,821	14,900,852
Four to five years	4,576,440	10,771,089
Five or more years	100,066,466	96,685,414
	137,611,718	149,011,823
Funds with indeterminable maturities	30,104,262	28,089,692
	$ 167,715,980	$ 177,101,515

Note 3 - Deposits and investments (continued)

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To control credit risk, credit quality guidelines have been established. Investment parameters as established by the Trust Agreement and the Investment Committee are summarized on pages 11 and 12. There are no restrictions on U.S. Government or Agency issues.

The System's exposure to credit risk at June 30, 2008 and 2007 is presented below by investment category as rated by Standard and Poor's rating service.

Type of Investment	2008 Fair Value	2007 Fair Value	Ratings
Government bonds	$ 26,846,989	$ 51,199,227	AAA
	7,026,666	6,715,106	A
	3,591,221	-	BBB
	450,835	4,971,989	BB
	6,807,723	7,479,053	Non-rated
Non government backed CMOS	9,392,837	1,911,797	AAA
	430,001	-	AA
	185,790	-	A
	5,262,669	778,192	Non-rated
Asset backed securities	182,727	382,000	AA
	762,825	3,582,240	A
	1,504,380	3,680,386	BBB
	319,285	51,993	BB
	1,138,584	-	B
	318,588	-	CCC
	33,345	-	CC
	4,113	-	D
	427,888	1,393,612	Non-rated
Commercial mortgage backed securities	-	262,249	A
	-	243,247	Non-rated
Corporate bonds	2,242,617	2,520,342	AAA
	7,945,305	3,092,407	AA
	13,887,588	12,057,092	A
	13,528,877	9,827,967	BBB
	1,904,937	2,023,643	BB
	10,000	-	D
	5,155,993	3,439,665	Non-rated

Note 3 - Deposits and investments (continued)

Type of Investment	2008 Fair Value	2007 Fair Value	Ratings
Government agencies	$ 18,413,397	$ 17,830,370	AAA
	2,312,126	4,037,393	AA
	1,013,000	-	BBB
	795,328	-	Non-rated
	-	274,626	U.S. Government Guaranteed
Municipal provincial bonds	873,369	3,323,950	AAA
	1,531,341	1,513,945	AA
Government mortgage backed securities	3,311,374	3,293,284	U.S. Government Guaranteed
Commercial paper	-	2,846,006	Non-rated
Other fixed income fund	30,104,262	28,369,734	Non-rated
Total fixed income	$ 167,715,980	$ 177,101,515	

Foreign currency risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the investment. The System's exposure to foreign currency risk in US Dollars as of June 30, 2008 is as follows:

Currency	Equities	Government Bonds and Agencies	Other Fixed Income	Hedge Funds	Total
Austrailian dollar	$ 1,048,040	$ 7,890,367	$ 873,369	$ -	$ 9,811,776
Brazilian real	-	3,591,221	-	-	3,591,221
British pound sterling	11,086,636	5,455,984	-	-	16,542,620
Canadian dollar	10,709,104	2,466,168	-	-	13,175,272
Danish krone	6,596,744	-	-	-	6,596,744
Euro	39,957,701	-	-	-	39,957,701
Hong Kong dollar	8,603,746	-	-	-	8,603,746
Iceland krona	-	1,653,125	-	-	1,653,125
Indonesian rupiah	-	1,784,107	-	-	1,784,107
Japanese yen	11,191,086	-	-	-	11,191,086
Malaysian ringgit	-	5,538,116	-	-	5,538,116

Note 3 - Deposits and investments (continued)

Currency	Equities	Government Bonds and Agencies	Other Fixed Income	Hedge Funds	Total
Mexican peso	$ 2,279,266	$ 3,900,591	$ -	$ -	$ 6,179,857
New Zealand dollar	-	310,057	3,055,898	-	3,365,955
Norwegian krone	-	1,063,528	-	-	1,063,528
Singapore dollar	-	5,269,574	-	-	5,269,574
South African rand	-	3,062,410	-	-	3,062,410
Swedish krona	1,896,412	3,035,583	-	-	4,931,995
Swiss franc	14,260,512	-	-	-	14,260,512
Total securities subject to foreign currency risk	107,629,247	45,020,831	3,929,267	-	156,579,345
International portfolio in U.S. dollars	51,721,483	1,013,000	35,697,224	81,674,173	170,105,880
Total international securities	$159,350,730	$ 46,033,831	$ 39,626,491	$81,674,173	$ 326,685,225

The System's exposure to foreign currency risk in US Dollars as of June 30, 2007 is as follows:

Currency	Equities	Government Bonds and Agencies	Other Fixed Income	Hedge Funds	Total
Austrailian dollar	$ -	$ 6,158,510	$ 3,323,950	$ -	$ 9,482,460
Brazilian real	-	4,101,506	-	-	4,101,506
British pound sterling	19,729,651	5,980,152	-	-	25,709,803
Canadian dollar	6,573,494	4,010,129	975,628	-	11,559,251
Danish krone	3,563,718	-	-	-	3,563,718
Euro	31,453,183	9,934,397	-	-	41,387,580
Hong Kong dollar	16,132,552	-	-	-	16,132,552
Indonesian rupiah	-	2,694,712	-	-	2,694,712
Japanese yen	13,963,922	-	-	-	13,963,922
Malaysian ringgit	-	4,227,254	-	-	4,227,254
Mexican peso	4,603,040	4,056,371	-	-	8,659,411
New Zealand dollar	-	-	3,055,638	-	3,055,638
Singapore dollar	-	6,110,496	-	-	6,110,496
South African rand	-	4,086,305	-	-	4,086,305
South Korean won	2,945,345	-	-	-	2,945,345
Swedish krona	-	3,366,501	-	-	3,366,501
Swiss franc	12,376,312	-	-	-	12,376,312
Total securities subject to foreign currency risk	111,341,217	54,726,333	7,355,216	-	173,422,766
International portfolio in U.S. dollars	53,791,258	-	33,680,369	77,511,281	164,982,908
Total international securities	$165,132,475	$ 54,726,333	$ 41,035,585	$77,511,281	$ 338,405,674

Note 3 - Deposits and investments (continued)

Custodial credit risk - deposits

Custodial credit risk for deposits is the risk that in the event of a financial institution's failure, SCRS would not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. As of June 30, 2008 and 2007, cash and cash equivalent deposits totaling $910,090 and $2,880,992, respectively, were exposed to custodial credit risk because they were uninsured or uncollateralized. The remaining cash and cash equivalent deposits were insured by the Federal Deposit Insurance Corporation (FDIC) or were collateralized by SCRS's participation in a multiple-financial institution collateral pool.

Custodial credit risk, securities lending - investments

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 the market value of all the borrowed securities. Investment securities loaned for collateral totaled $165,903,498 at June 30, 2008. At June 30, 2008, investment securities were registered in the name of SCRS, loaned for collateral received, or not subject to custodial risk classification.

SUPPLEMENTAL INFORMATION

SHELBY COUNTY RETIREMENT SYSTEM

Required Supplementary Information
For the Year Ended June 30, 2008

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date of June 30	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability/ (Surplus)	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability/ (Surplus) as a Percentage of Covered Payroll
2002	$ 797,091,379	$ 720,839,196	$ (76,252,183)	110.6 %	$233,148,476	(32.7)%
2003	$ 794,201,990	$ 769,753,615	$ (24,448,375)	103.2 %	$237,197,193	(10.3)%
2004	$ 841,335,004	$ 737,329,388	$(104,005,616)	114.1 %	$246,685,081	(42.2)%
2005	$ 885,049,492	$ 780,800,809	$(104,248,683)	113.4 %	$253,031,826	(41.2)%
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)%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Percentage
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 %

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

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

THOMPSON DUNAVANT
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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
Memphis, Tennessee

We have audited the financial statements of the Shelby County Retirement System, as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated October 29, 2008. 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 Shelby County Retirement System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Shelby County Retirement System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Shelby County Retirement System's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Shelby County Retirement System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Shelby County Retirement System's financial statements that is more than inconsequential will not be prevented or detected by Shelby County Retirement System's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Shelby County Retirement System's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

5100 Poplar Avenue • Clark Tower 30th Floor • Memphis, TN 38137 • Ph. 901.685.5575 • fax. 901.685.5583 • www.thompsondunavant.com
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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 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 used by anyone other than these specified parties.

Thompson Dunavant PLC

Memphis, Tennessee
October 29, 2008