SHELBY COUNTY, TENNESSEE

SHELBY COUNTY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

June 30, 2006 and 2005

TABLE OF CONTENTS

WATKINS UIBERALL

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

Sanford J. Blockman, CPA
David B. Jones, CPA, CFP
Steven H. Leib, CPA, PFS
David K. Palmer, CPA
Sherry S. Perry, CPA
Jeffrey L. Thomason, CPA
Michael D. Uiberall, CPA
B. Cobene Watkins, CPA, CMPA
William H. Watkins, Jr., CPA

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of plan net assets available for benefits of the Shelby County Retirement System as of June 30, 2006 and 2005, and the related statements of changes in plan net assets available for benefits for the years 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 audits

We conducted our audits 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 audits 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 available for benefits of the Shelby County Retirement System as of June 30, 2006 and 2005, and the changes in plan net assets available for benefits 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 September 26, 2006 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, 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 audits.

Our audits were performed for the purpose of forming an opinion on the financial statements 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 audit 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.

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.

Watkins Uiberall, PLLC

Memphis, Tennessee
September 26, 2006

SHELBY COUNTY, TENNESSEE
SHELBY COUNTY RETIREMENT SYSTEM

STATEMENTS OF PLAN NET ASSETS AVAILABLE FOR BENEFITS

June 30, 2006 and 2005

	2006	2005
Assets		
Cash and cash equivalents	$ 58,046,143	$ 63,344,218
Receivables		
Investment sales	2,865,995	2,055,270
Investment income	2,676,470	2,634,624
Total receivables	5,542,465	4,689,894
Investments, at Fair Value		
U.S. Government and government-backed obligations	46,798,559	78,263,209
Corporate bonds	119,423,999	132,773,514
Common stocks	520,106,040	467,555,989
Limited partnership interests	20,877,190	20,128,298
Hedge funds	136,790,406	76,303,270
Total investments	843,996,194	775,024,280
Total assets	907,584,802	843,058,392
Liabilities		
Accounts payable and accrued expenses	1,234,702	1,220,942
Investment purchases payable	7,906,051	6,496,159
Total liabilities	9,140,753	7,717,101
Plan net assets available for benefits	$ 898,444,049	$ 835,341,291

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

SHELBY COUNTY, TENNESSEE
SHELBY COUNTY RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN PLAN NET ASSETS AVAILABLE FOR BENEFITS

For the Years Ended June 30, 2006 and 2005

	2006	2005
Additions:		
Contributions:		
Employer contributions	$ 18,805,565	$ 18,800,000
Member contributions	6,510,510	2,024,119
Total contributions	25,316,075	20,824,119
Investment income:		
Net appreciation in fair value of investments	64,711,259	42,741,186
Interest income	13,078,678	12,210,886
Dividend income	7,569,577	7,042,041
Other income	649,597	507,031
	86,009,111	62,501,144
Less investment management expenses	4,552,047	3,940,122
Net investment income	81,457,064	58,561,022
Total additions	106,773,139	79,385,141
Deductions:		
Benefit payments	39,920,970	38,444,507
Refund of member contributions	2,119,810	2,415,264
Administrative expenses	1,629,601	1,778,279
Total deductions	43,670,381	42,638,050
Change in plan net assets	63,102,758	36,747,091
Plan net assets available for benefits, beginning of the year	835,341,291	798,594,200
Plan net assets available for benefits, end of the year	$ 898,444,049	$ 835,341,291

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

NOTE 1 – 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 with an original maturity date of three months or less to be cash equivalents.

Investments

U.S. Government and government-backed obligations, corporate bonds, and common and preferred stock are stated at fair value. Investments that do not have an established market are reported at estimated fair value. Included in investments is certain pending but unsettled trades. There are no investments in any one organization that represent 5% or more of net assets available for plan benefits as of June 30, 2006.

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 2 - ORGANIZATION

The Shelby County Retirement System (the System), a single employer public employee retirement system (PERS) established by Shelby County, Tennessee, is administered by a board, the majority of whose members are nominated by the Shelby County Mayor, subject to approval by the Shelby County Board of Commissioners. The Retirement System 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.

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 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 a Trust and Administration Agreement. The Plans and the Trust and Administration Agreement were established by various resolutions of the Shelby County Commission having the force and effect of legislation.

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, of the County Fire Department, and of the County Corrections Center.

The Trust and Administration Agreement contains all administrative provisions applicable to both plans 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 Trust are available for payment of benefits to participants of either plan.

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 Retirement System. Employees exempted from the requirement and, in fact, not permitted to participate are Shelby County Board of Education employees, employees who are covered by Social Security, and a few other classifications of employees.

At July 1, 2006 (the date of the latest actuarial valuation), the Retirement System membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,567
Terminated employees entitled to, but not yet receiving, benefits	454
Active employees:	
Fully vested	3,690
Non-vested	2,826
Total	9,537

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 he had completed 10 years of service before September 1, 1977, his 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 disable 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 normal retirement age, his monthly retirement benefit is a percentage of his 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 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.

A vested participant of Plan A may also elect early retirement to begin at any time after attaining age 55. An early retiree's 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 he attains age 55 (but no later than age 65), and his benefits are calculated under a third table. If, however, the present value of a vested participant's accrued benefit is under $20,000, the Plan is required to make a lump sum distribution to him, and if the present value of his accrued benefit is between $20,000 and $35,000, he has the right to 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.

Employee 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 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.

Each Plan C participant will be required to contribute 6% of his base compensation to the existing 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, his pension benefits will be calculated under Plan A, not Plan C. For each Plan A Public Safety Employee, however, the number of years he 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, his Plan C participant contributions account will be refunded to him, and (b) if he was a Public Safety Employee while under Plan A, the amount of the refund will be the difference between his Plan C participant contributions account and the employee contributions account he would have had, if the original 25-and-out plan had remained in effect and he had remained a participant in it.

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, he will have the right to withdraw from the Trust Fund an amount equal to the lesser of (1) the sum of his participant contributions account and (if vested) his matching account or (2) $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 he has at least 25 years of credited service upon termination, regardless of his 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, he 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) his "final average earnings" (determined in the same way as in Plan A); (2) his 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 he has elected to receive. The second figure is calculated by actuarially converting the sum of his participant contributions account and his matching account (after reduction for all optional cash distributions) into a monthly pension for life or, if he is married, into a 75% joint and survivor pension with his spouse.

If a Plan C participant terminates employment between age 55 and 65 with between seven and one-half and 25 years of credited service, he 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 cashed out if their actuarial value is $20,000 or less.

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

Contributions Required and Contributions Made

The System's funding policy for employee contribution requirements is established by the Board of Administration of the Shelby County, Tennessee Retirement System (the Board). For fiscal 2006, 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.

During the fiscal year ended June 30, 2006, the employer contributed $18,805,565 and employees contributed $6,510,510. The actuarial required employer contribution was $10,322,629, which was approximately 4.27% of the related covered payroll costs. The actuarial required employer contribution is significantly impacted by the amortization of the actuarial surplus that results 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 fiscal year ended June 30, 2005, the employer contribution of $18,800,000 (which was 7.97% of the related covered payroll costs) and the employee contributions of $2,024,119 were paid into the Plan.

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 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2006 and 2005 consist of the following:

	2006	2005
Demand deposits	$ 836,370	$ 489,243
Money market deposits, daily variable interest rates, and temporary investments	57,209,773	62,854,975
	$ 58,046,143	$ 63,344,218

The Retirement System'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 $100,000 of the Retirement System's deposits at each financial institution. Deposit balances over $100,000 are insured by the collateral pool for those participating financial institutions. At June 30, 2006, deposits of $58,347,061 were uncollateralized. At June 30, 2005, deposits of $63,512,407 were uncollateralized.

NOTE 5 - INVESTMENTS

The Retirement System's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the Retirement System or its agent in the Retirement System's name holds the securities. The investments in the collective trust, limited partnerships, and hedge funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

The investments are as follows:

	June 30, 2006	
	Category 1	Carrying Amount
U.S. Government and government-backed obligations	$ 46,798,559	$ 46,798,559
Corporate bonds	119,423,999	119,423,999
Common stocks	493,448,001	493,448,001
	$ 659,670,559	659,670,559
Common stocks held in a collective trust		26,658,039
Limited partnership interests		20,877,190
Hedge funds		136,790,406
		$ 843,996,194

	June 30, 2005	
	Category 1	Carrying Amount
U.S. Government and government-backed obligations	$ 78,263,209	$ 78,263,209
Corporate bonds	132,773,514	132,773,514
Common stocks	440,897,950	440,897,950
	$ 651,934,673	651,934,673
Common stocks held in a collective trust		26,658,039
Limited partnership interests		20,128,298
Hedge funds		76,303,270
		$ 775,024,280

Interest Rate Risk –The Retirement System limits its exposure to interest rate risk by diversifying its investments by security type and institution.

Credit Risk - Investment parameters require that no more than 70% of total investments of the Retirement System be in stock, that corporate bonds be rated B3 or better, and that no more than 5% of the portfolio be in real estate and 30% in international equities. (No restrictions exist on U.S. Government or Agency issues). The Board of Administration also authorized four investments in limited partnerships.

The fair values of fixed income investments grouped by maturity at June 30, 2006 are as follows:

Current to one year	$ 9,571,761
One to two years	11,084,173
Two to three years	10,990,821
Three to four years	10,002,879
Four to five years	6,221,550
Five years or more	118,351,374
	$ 166,222,558

The Retirement System invests in various fixed income debt securities such as government bonds, municipal bonds, corporate bonds, government backed mortgage securities, commercial mortgage backed securities and other asset backed securities. Credit quality distribution for investments in fixed income debt securities, with credit risk as a percentage of total investments (total investments include obligations of or guaranteed by the U.S. government, which are not presented in this table) are approximately as follows at June 30, 2006:

Investment Type	**S&P Rating**	**Percentage**	**Moody's Rating**	**Percentage**
Asset Backed Securities	AAA	0.1%	Aaa	0.1%
	AA	0.05%	Aa2	0.05%
	A	0.05%	A1	0.07%
	A-	0.30%	A2	0.10%
	BBB+	0.06%	A3	0.17%
	BBB	0.27%	Baa1	0.03%
	BBB-	0.22%	Baa2	0.29%
	CCC	0.00%	Ba3	0.04%
	Not rated	0.35%	B1	0.01%
			Ca	0.04%
			Not rated	0.49%
Commercial Mortgage-Backed	AAA	0.08%	A3	0.03%
	A+	0.05%	Aa2	0.03%
	BB+	0.06%	Baa3	0.05%
	Not Rated	0.20%	Not Rated	0.31%
Corporate Bonds	AAA	0.17%	Aaa	0.11%
	AA	0.03%	Aa1	0.07%
	AA-	0.32%	Aa2	0.32%
	A+	0.20%	Aa3	0.30%
	A	1.03%	A1	0.19%
	A-	0.33%	A2	0.78%
	BBB+	0.16%	A3	0.28%
	BBB	0.40%	Baa1	0.18%
	BBB-	0.06%	Baa2	0.24%
	BB+	0.05%	Baa3	0.11%
	B+	0.24%	Ba2	0.24%
	Not rated	0.19%	Not rated	0.38%

Investment Type	S&P Rating	Percentage	Moody's Rating	Percentage
Government Agencies	AAA	2.01%	Aaa	1.56%
	AA-	0.42%	Aa2	0.42%
	Not rated	0.20%	Not Rated	0.65%
Government Bonds	AAA	5.93%	Aaa	6.33%
	A+	0.03%	A2	0.03%
	A	0.43%	A3	0.19%
	BB	0.26%	Baa1	0.53%
	Not rated	1.00%	Ba3	0.26%
			B1	0.04%
			Not Rated	0.27%
Government Mortgage Backed Securities	Not Rated	0.36%	Not Rated	0.36%
Municipal Bonds	AAA	0.68%	Aa2	0.15%
	AA	0.15%	Not Rated	0.68%
Non Government Backed C.M.O.s	AAA	0.07%	Aaa	0.07%
	BBB	0.03%	Not rated	0.03%
Other Fixed Income	Not Rated	2.99%	Aa3	0.12%
			Not Rated	2.87%

The Retirement System's has investments with exposure to foreign currency risk at June 30, 2006 as follows:

	Common Stocks	Preferred Stock	Corporate Bonds	Commercial Mortgage Backed	Asset Backed Securities	Non Government Backed C.M.Os	Other Fixed Income	Hedge Funds	Government Bonds
Asia	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Austria	-	-	-	-	-	-	-	-	-
Brazil	-	1,960,627	-	-	-	-	-	-	-
British Virgin Islands	-	-	-	-	-	255,773	-	-	-
Canada	-	-	441,000	213,498	-	-	-	-	-
Cayman Islands	-	-	1,818,654	-	1,115,379	-	-	29,443,754	-
China	-	-	-	-	-	-	-	-	-
France	-	-	-	-	-	-	-	-	-
Germany	-	-	-	-	-	-	1,000,000	-	-
India	-	-	-	-	-	-	-	-	-
International Region	-	-	-	-	-	-	24,210,065	13,733,860	-
Israel	-	-	-	-	-	-	-	-	-
Japan	-	-	-	-	-	-	-	-	-
Luxemborg	-	-	-	-	-	-	-	-	-
Mexico	-	-	921,000	-	-	-	-	-	-
Netherlands	-	-	-	-	-	-	-	-	-
North American Region	2,059,668	-	-	-	-	-	-	-	-
Panama	-	-	-	-	-	-	-	-	-
Puerto Rico	557,467	-	-	-	-	-	-	-	-
Republic of Korea	-	-	-	-	-	-	-	-	-
Russian Federation	1,106,560	-	-	-	-	-	-	-	-
South Africa	-	-	-	-	-	-	-	-	287,219
Switzerland	1,627,629	-	-	-	-	-	-	-	-
United Kingdom	4,171,727	-	-	243,974	-	-	-	-	-
	$ 9,523,051	$ 1,960,627	$ 3,180,654	$ 457,472	$ 1,115,379	$ 255,773	$ 25,210,065	$ 43,177,614	$ 287,219

SHELBY COUNTY, TENNESSEE
SHELBY COUNTY RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

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
2001	$ 753,767,893	$ 679,275,060	$ (74,492,833)	111.0%	$ 218,198,745	(34.1%)
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%)

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution	Percentage
2001	$ 17,201,861	100.0%
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%

See independent auditor's report.

REQUIRED SUPPLEMENTARY INFORMATION (continued)

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	July 1, 2004 for contribution requirement June 30, 2006 for funding progress
Actuarial cost method	Projected unit credit service pro-rate cost method
Amortization method	19-year amortization as of July 1, 2004 of excess assets over 100% of actuarial accrued liability (20 year period beginning July 1, 2003)
Remaining amortization period	17 years on June 30, 2006
Asset valuation method	Funding Progress: 10 -year smoothing method. Contribution: 10 -year smoothing method.
Rate of investment return	Funding Progress: 8.25% Contribution: 8.25%
Projected salary increases	Funding Progress: 4.00% Contribution: 4.00%
Cost-of-living adjustments	Funding Progress: 2.5% for Plan A Contribution: 2.5% for Plan A

See independent auditor's report.

WATKINS UIBERALL

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

Sanford J. Blockman, CPA
David B. Jones, CPA, CFP
Steven H. Leib, CPA, PFS
David K. Palmer, CPA
Sherry S. Perry, CPA
Jeffrey L. Thomason, CPA
Michael D. Uiberall, CPA
B. Cobene Watkins, CPA, CMPA
William H. Watkins, Jr., CPA

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
Memphis, Tennessee

We have audited the financial statements of the Shelby County Retirement System of Shelby County, Tennessee, as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated September 26, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Shelby County Retirement System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 Uiberall, PLLC

Memphis, Tennessee
September 26, 2006