SHELBY COUNTY OPEB TRUST

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017

WATKINS UIBERALL
Certified Public Accountants
Independent Member of BKR International

SHELBY COUNTY OPEB TRUST
TABLE OF CONTENTS

Year Ended June 30, 2017

WATKINS UIBERALL
Certified Public Accountants
Independent Member of BKR International

BANKS, FINLEY, WHITE & CO.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Chairman and Members
Shelby County OPEB Trust Trustee Committee
Memphis, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Shelby County OPEB Trust as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Shelby County OPEB Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Shelby County OPEB Trust, as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

The Shelby County OPEB Trust has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Shelby County OPEB Trust and do not purport to, and do not, present fairly the financial position of Shelby County, Tennessee as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of changes in the net OPEB liability and related ratios, employer contributions, and annual money-weighted rate of return be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 15, 2017, on our consideration of the Shelby County OPEB Trust'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Shelby Count OPEB Trust's internal control over financial reporting and compliance.

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

Memphis, Tennessee
December 15, 2017

Management's Discussion and Analysis

The management of the Shelby County OPEB Trust (Trust) presents this narrative overview and analysis of the financial activities of the Trust for the fiscal year ended June 30, 2017. This information should be considered in conjunction with the information in the financial statements, the Notes to Financial Statements (Notes) and the Required Supplementary Information (RSI) which follow this section.

Accounting principles generally accepted in the United States of America for governmental entities are established by the Governmental Accounting Standards Board (GASB). This report uses the standards established by GASB's Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Effective with this year's report. Statement No. 74 superseded Statement No. 43 of the same title. Statement No. 74 did not change the reporting in the two primary financial statements but added requirements for additional and multi-year disclosures in the Notes and RSI. Readers are encouraged to review the Notes and RSI to better understand the financial and operational results of the OPEB Trust. This report also uses other authoritative literature known collectively within the accounting profession as "generally accepted accounting principles."

The Shelby County OPEB Trust

The Trust was established as of July 1, 2007 to receive contributions from plan participants and Shelby County Government for certain benefits provided to Shelby County Government employees after active employment ends (postemployment) and former employees receiving long-term disability benefits. Two types of benefits are provided by this Trust – health care coverage and life insurance. The Trust is managed by a five-member committee of Trustees, consisting of two designated members of the Shelby County Board of Commissioners and three designated administrators of Shelby County Government.

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

Financial Highlights

The following financial highlights occurred during this fiscal year:

- Net position (fund balance) of the Trust increased by $33,443,535 during FY 2017 to a total of $232,120,856, an increase of 16.8%.compared to the previous year's increase of less than 1%.
- The Trust had additions during the year of $48.8 million and deductions for benefits and administrative expenses of $15.4 million.
- Additional investments of $7.25 million were made during the year (excluding reinvestment of interest, dividends and capital gains). Considering the reinvestment of interest, dividends, realized capital gains and the net change in the fair value of investments during the year, investments increased $27.54 million. Total investments at yearend were $224.0 million.
- The latest actuarial valuation for the Trust showed that the "funded ratio" (the percent of actuarial accrued liability covered by net assets) increased from 65.6% to 83.3% as of June 30, 2017.
- The employer's annual required contribution (ARC) was 5.34% or $12.98 million per the June 30, 2015 actuarial valuation, which was the valuation used for FY 2017. The ARC is the accrual for benefits earned by employees during the current year and amortization of the previously accumulated actuarial liability over a 30 year period. The County actually contributed 6.34% (an extra 1%) for $15.87 million during the year.

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

Overview of the Financial Report

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

Statement of Fiduciary Net Position. This statement presents information on the assets, liabilities and net position of the Trust at a point in time (the end of the fiscal year). Over time the changes in net position may serve as a useful indicator of the status of funding other postemployment benefits based on current benefits provided or planned for retired employees. Net position is classified as "net position restricted for postemployment benefits other than pensions."

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

Notes to Financial Statements (Notes). The Notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The recently issued GASB Statement No. 74, as previously mentioned, has required more information in the Notes. These Notes provide meaningful information for those reviewing the OPEB Trust financial statements. Readers desiring a better understanding of the OPEB Trust are encouraged to review the Notes.

Required Supplementary Information (RSI). The recently issued GASB Statement No. 74 has also required more information in the RSI. This section contains several schedules that provides useful information, some with data for multiple years. The new information can help determine the funding status of the Trust compared to previous years.

Financial Analysis and Discussion

Statement of Fiduciary Net Position.
Following is a summary of the Statement of Fiduciary Net Position as of June 30, 2016 and June 30, 2017:

	June 30, 2016	June 30, 2017	Increase (Decrease)
Investments	$189,201,021	$ 223,992,311	$34,791,290
Cash and other assets	10,387,249	8,875,007	(1,512,242)
Total assets	199,588,270	232,867,318	33,279,048
Total liabilities	910,949	746,462	(164,487)
Net position restricted for postemployment benefits other than pensions	$198,677,321	$232,120,856	$33,443,535

Assets of $223,992,311 were invested at yearend in various mutual funds and limited partnerships. During the year an additional amount of $7.25 million was invested, in addition to the reinvestment of interest, dividends and net realized capital gains from the funds. Assets include cash and cash equivalents of $8,835,125. Small amounts of accounts receivable and accrued revenue totaling $39,882 existed at yearend.

Liabilities at yearend were $746,462 and consist primarily of benefit claims and insurance premiums due to third party administrators or insurance companies for benefits payable as of the reporting date. These liability balances vary only slightly from year to year. Plan liabilities do *not* include actuarial accrued liabilities for future benefits that are not due and payable at the reporting date.

Net position restricted for postemployment benefits other than pensions is the net difference between assets and liabilities and is the amount of the assets available to pay future benefits and administrative expenses. Based on current year amounts, the net position of $232.1 million would cover the actual benefits and expenses payable for approximately fifteen years.

Statement of Changes in Fiduciary Net Position.

Following is a summary of the Statement of Changes in Fiduciary Net Position for fiscal years 2016 and 2017:

	FY 2016	FY 2017	Increase (Decrease)
Employer contributions	$21,265,925	$15,873,291	$(5,392,634)
Employee/participant contributions	5,029,246	6,310,326	1,281,080
Other revenue	57,808	22,231	(35,577)
Net investment income (loss)	(7,926,742)	26,639,833	34,566,575
Total additions	18,426,237	48,845,681	30,419,444
Benefit expenses	16,948,963	14,865,282	(2,083,681)
Administrative expenses	657,080	536,864	(120,216)
Total expenses	17,606,043	15,402,146	(2,203,897)
Net increase in fiduciary net position	$ 820,194	$33,443,535	$32,623,341

Employer contributions decreased by $5.4 million, a 25.4% decrease. These contributions were from the fringe benefit charge based on salaries of active employees. The employer contribution rate was set at 6.34% of salary. This was 1% higher than the actuarial study results to offset the decreasing number of active employees, but still a decrease from the 7.59% rate the previous year. Participant's contributed $6.3 million as their share of health and life premiums, an increase of 25.5% or $1.3 million. The retirees' share of the cost was increased for FY 2017. Other revenue in FY 2017 was a one-time, nonrecurring item. Net investment income was a negative amount in FY 2016 but very significant increase in FY 2017, mostly the result of a significant increase in the market value of investments.

Deductions included $14.9 million for benefit expenses, a 12.3% decrease. These expenses vary from year to year primarily as the result of large dollar claims. Deductions also included $536,864 for administrative cost of third-party administrators and certain other administrative expenses, a decrease from the prior year when a one-time expense was incurred.

A significant factor for consideration and perhaps the major issue from GASB 74 (unchanged from GASB 43 and 45) is the employer's annual contribution to the Trust compared to the actuarially calculated "annual required contribution" (ARC). The ARC has two components. One component is the estimated amount of benefits and administrative expenses accrued each year based on employee services that year. The second component is the amortization of the "unfunded actuarially accrued liability" (UAAL) for OPEB benefits earned in previous years. This UAAL is allocated to the ARC over a thirty year period (beginning in FY 2008), but actuarially adjusted for assumptions about increases in the health care rate, the earnings rate on investments, average age at which employees will retire, mortality rates, etc. From the June 30, 2016 actuarial valuation, the County's current year ARC was $13.7 million; employer contributions in FY 2017 were $15.9 million, 13.7% more than the calculated ARC. Since the ARC calculation for a fiscal year is not completed until several months into the year to which it relates it is not practical to budget the exact ARC amount that late into the budget for a fiscal year. The County's goal and intent is to fully fund the ARC each year at the actuarially calculated percent of payroll for the last actuarial valuation available at the time the budget is prepared for an upcoming year, which resulted in funding at 6.34% of payroll during FY 2017.

Requests for Information

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

SHELBY COUNTY OPEB TRUST

Statement of Fiduciary Net Position
June 30, 2017

Assets		
Cash and cash equivalents		$ 8,835,125
Investments		
Domestic equity	$90,501,418	
International equity	32,933,817	
Fixed income	39,976,435	
Global low-volatility equity	14,717,627	
Private real assets	5,110,511	
Alternative investments	21,353,379	
Master limited partnerships	19,399,124	
Total Investments		223,992,311
Accounts receivable		18,304
Accrued revenue		21,578
Total assets		232,867,318
Liabilities		
Accounts payable and accrued liabilities		74,462
Claims payable		672,000
Total liabilities		746,462
Net position restricted for postemployment benefits other than pensions		$232,120,856

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

SHELBY COUNTY OPEB TRUST

Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2017

Additions	
Contributions	
Employer	$ 15,873,291
Plan members	6,310,326
Miscellaneous revenue	22,231
Total contributions	22,205,848
Investment income (expense)	
Interest income	72,897
Dividend income	4,500,525
Net realized gains & losses	10,021,939
Net change in fair value of investments	12,486,369
Total investment income	27,081,730
Less investment management expenses	(441,897)
Net investment income (expense)	26,639,833
Total additions	48,845,681
Deductions	
Benefits	14,865,282
Administrative expense	536,864
Total deductions	15,402,146
Net increase	33,443,535
Net position restricted for postemployment benefits other than pensions	
Beginning of year	198,677,321
End of year	$232,120,856

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

Note 1 – Summary of significant accounting policies

Reporting entity
The Shelby County OPEB Trust (Trust) is a single-employer, defined benefits plan that covers retired and disabled employees of Shelby County Government. The Trust was established as of July 1, 2007. The Trust is included in the annual financial report of Shelby County Government as a fiduciary fund. The Trust provides postemployment benefits other than retirement benefits. Benefits provided are health insurance (including drugs) and life insurance.

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

Governmental accounting standards
The financial statements of the Trust have been prepared in accordance with *generally accepted accounting principles* (GAAP) followed in the United States of America. In the U.S. the Governmental Accounting Standards Board (GASB) is the established and recognized standard-setting body for governmental accounting and financial reporting. GASB Statement No. 74 was implemented beginning with this fiscal year; this Statement did not change the two primary financial statements but made significant changes to the Notes to Financial Statements and the Required Supplementary Information.

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

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

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

Net position
The net position of the Trust is reported as "Net position restricted for postemployment benefits other than pensions."

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

Note 2 – Plan description

The Plan is named the "Shelby County OPEB Trust" and is a single-employer, defined benefit OPEB plan for Shelby County Government.

Governance and management of the OPEB Trust
The OPEB Trust was established by a Trust Agreement effective July 1, 2007. The Agreement established a "Trustee Committee" comprised of five designated officials of Shelby County Government:

- Chairman of the Board of County Commissioners or another Commissioner designated by the Chairman
- Chairman of the Budget Committee of the Board of County Commissioners
- Director of the Division of Administration & Finance
- Administrator of the Department of Finance
- Investment Manager of the Shelby County Retirement System

Routine investment activities are handled by the Investment Manager of the County Retirement System. Significant investment transactions, policies, policy changes and other significant matters are approved by the full Trustee Committee. The Trust's Investment Policy Statement includes policies on asset allocation, with a target percent of investments and minimum and maximum percent of investments in each category.

The health insurance and life insurance benefits are arranged by or coordinated through the Benefits Section of the Shelby County Human Resources Department and the Shelby County Retirement System staff. The sharing of the costs between the Trust and retirees is based on the similar sharing of costs by active employees.

Benefit eligibility provisions and rates are established or amended by the Shelby County Board of Commissioners as part of the approval of the County's annual budget, including OPEB Trust contribution rates. The Trust has no financial obligations beyond the funds made available through Shelby County Government. Trust financial records are maintained by the County's Finance Department. The Trust's Annual Financial Report is prepared by the Shelby County Finance Department with significant assistance from the Investment Manager.

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

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

Plan membership
The Trust had the following membership as of June 30, 2017, the date of the latest actuarial valuation:

Active plan members	5,011
Inactive plan members (with 457 covered spouses)	2,974
Surviving spouses of retirees	209
Total	8,194

Of the 2,974 retirees, 1,497 were receiving healthcare benefits and 2,682 had life insurance benefits. There were 666 spouses receiving health benefits (spouses are not eligible for life insurance).

Plan members receiving health insurance under the County's self-insured plan pay a monthly premium based on benefits experience of the retiree group. Members under age 65 pay a premium from $151 to $636 for single coverage and from $321 to $1,271 for family coverage. Member premiums for those 65 and older and eligible for Medicare or Medicare Part B are based on the Medicare Advantage insurance plan. Members with less than 7.5 years of services are eligible for coverage only at age 65 and pay 100% of the premium. For all other ages the member premium represents from 30% (20+ years of service) to 50% (7.5+ years of service) of the total premium cost per member. Premiums for single coverage range from $36 to $655 per month and from $72 to $1,310 for family coverage. For members hired prior to April 1, 1986 and not eligible for Medicare Part A, coverage is provided through the Medicare Advantage plan at a higher monthly premium for single and family members. Members contributed $6,310,326 during the year for both health and life insurance. In FY 2017 the total contributions from retirees was 28.45% of total contributions with the other 71.55% provided by the County contribution to the OPEB Trust.

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

Shelby County Government provides an employer contributions to the Trust. The County contributes the annual required contribution (ARC), or more, *as a percent of payroll* from active employees based on the latest available actuarial valuation at the time the budget is approved for a fiscal year. The FY 2017 contribution was 6.34% of payroll, which was 1% higher than the ARC as a percent of payroll per the June 30, 2015 actuarial valuation. Active employees are not required to make contributions to the OPEB Trust.

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

The Trust has no legally required reserves.

Note 3 – Net OPEB liability and related information.

OPEB Trust liability as of June 30, 2017	
Total liability of the OPEB Trust	$278,795,948
OPEB Trust's fiduciary net position	232,120,856
Net OPEB Trust unfunded liability	$ 46,675,092
OPEB Trust fiduciary net position as a percent of the total OPEB liability	83.26%

The unfunded accrued liability is being amortized by regular annual contributions as a level dollar amount over a 30 year period, with 20 years remaining, with the intent that the amortization period will decrease by one each subsequent year.

The OPEB Trust total liability as shown above was provided by the latest actuarial valuation as of June 30, 2017.

Significant assumptions and other inputs used to measure the total OPEB liability and the discount rate

a. No significant changes in the current pattern of practice for benefits provided or contributions to the Trust are anticipated.
b. Shelby County Government will continue to fund the actuarially calculated annual required contribution (ARC). Since the County's budget must be prepared and adopted before the actuarial calculations for a fiscal year can be performed, the actual funding rate is always two years delayed.
c. The ARC includes funding for the current year expenditures and amounts to increase the Trust's net position each year with the expectation that the OPEB Trust will be fully funded within the initial 30 years of its existence (with 20 years remaining).
d. Discount rate: 5.25% per annum, net of investment expenses, compounded annually. This discount rate has been applied since the creation of the OPEB Trust. This rate was set as a conservative one based on years of results for the Shelby County Retirement plan and has been unchanged intentionally. No changes to the discount rate are anticipated. The discount rate assumes that future cash flows will cover future benefit costs and provide funding so that the OPEB Trust will be fully funded be the end of the initial 30 year funding period.

e. Actuarial method: Entry-age normal actuarial method.
f. Asset valuation method: market value of assets. No significant change in asset allocation of the Trust's investments are anticipated.
g. Healthcare cost trend rates: (1) for retirees not covered by Medicare, costs are projected to increase to 7.75% in FY 2018 and decrease annually to 5% by FY 2023. (2) for retirees covered by Medicare, their supplemental plans are projected to increase to 5.75% in FY 2018 and decrease annually to 5% by FY 2020. (3) Employees hired before April 1, 1986 were not covered by Medicare; employees hired or re-hired on or after April 1, 1986 were required to be covered by Medicare. Over an extended time period OPEB Trust medical cost should decrease as more retirees' Medicare coverage provides more of the cost.
h. With regard to the healthcare cost trend rate, the unfunded OPEB Trust liability (in thousands) would change if the following trend rates were assumed:
   (1) A trend rate 1% higher than the assumed trend rate: liability $25,717 higher (to $72,392)
   (2) A trend rate 1% lower than the assumed trend rate: liability $21,184 lower (to $25,491)
i. With regard to the discount rate used, the unfunded OPEB Trust liability (in thousands) would change if the following discount rates were assumed:
   (3) A discount rate 1% higher (6.25%) than the assumed discount rate: liability $31,435 lower (to $15,240)
   (4) A discount rate 1% lower (4.25%) than the assumed discount rate: liability $38,221 higher (to $84,896)
j. OPEB Trust share of total cost of benefits provided: no change in the percent provided
k. Salary increase, including wage inflation: 2.75% to 5.75% range
l. Deaths after retirement: the actuarial study uses the RP-2000 Combined Mortality Table set forward 3 years for males and 1 year for females and using a Scale AA projection to 2025. For those with disability retirement the table is set forward 6 years for males and 9 years for females and using a Scale AA projection to 2015.
m. Long-term investment rate of return, net of OPEB plan investment expense, including inflation: 5.25%

The actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience concurrently with the June 30, 2017 valuation.

Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges should be combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant may cover a shorter investment horizon and may not be useful in setting the long-term rate of return for funding OPEB plans, which are likely to cover a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table

Asset Class	Target Asset Allocation	Expected Return	Expected Standard Deviation
Domestic Equity	14.1%	6.25%	17.00%
International Equity	10.4%	6.45%	18.70%
Low Volatility Equity	8.2%	6.45%	13.40%
Private Equity	6.6%	8.70%	27.50%
Core Fixed Income	6.7%	3.25%	5.00%
High Yield	1.0%	5.00%	10.00%
EMD Hard Currency	6.4%	5.50%	10.00%
Global Fixed Income	5.1%	2.35%	3.90%
Credit Opportunities	6.4%	6.20%	13.40%
Absolute Return	16.0%	5.85%	6.50%
Private Real Estate	1.0%	5.55%	14.00%
Private Real Asset	8.0%	6.80%	15.00%
MLPs	10.0%	9.00%	17.00%
Cash	0.0%	1.55%	1.25%

In preparing the actuarial report as of June 30, 2017 the actuary noted the following:
In accepting the long-term expected return for the Plan, the actuary performed a high-level review of the information provided by the Plan. Our review indicates the long-term expected rate of return assumption of 5.25% is reasonable.

Note 4 – Funded status and funding progress

Actuarial valuations are prepared as of each fiscal yearend. The funded status of the Trust is shown in the Required Supplementary Information. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The annual required contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 74. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The County's annual OPEB cost and net OPEB obligation for the current and prior two fiscal years are shown in the following table:

	Fiscal Year Ending		
	June 30, 2015	June 30, 2016	June 30, 2017
Annual required contribution (ARC)	$ 15,810,652	$ 12,984,462	$ 13,717,466
Net OPEB obligation at beginning of the year	9,912,490	(5,916,620)	(14,071,851)
Interest on the Net OPEB obligation	520,406	(310,623)	(738,772)
Adjustment to the ARC	(714,769)	436,855	1,065,872
Annual OPEB cost (AOC)	$ 15,616,289	$ 13,110,694	14,044,566
Contributions made	$ 31,445,399	$ 21,265,925	15,873,291
Increase in net OPEB obligation	$(15,829,110)	$ (8,155,231)	(1,828,725)
Net OPEB obligation at end of year	$ (5,916,620)	$(14,071,851)	(15,900,576)

The following table shows the level of funding provided by the County compared to the annual OPEB cost for the current and prior two fiscal years:

Three Year Trend Information				
Fiscal Year Ending	Annual OPEB Cost	Percent of Annual OPEB Cost Contributed	Net OBEB Obligation	Employer Contributions
June 30, 2017	$ 14,044,566	113.0%	$(15,900,576)	$15,873,291
June 30, 2016	13,110,694	162.2%	(14,071,851)	21,265,925
June 30, 2015	15,616,289	201.4%	(5,916,620)	31,445,399

Note 5 – Deposits and investments

Cash and cash equivalent
Deposits at June 30, 2017, at fair value, consist of $1,442,684 in demand deposits and $7,392,441 of 91-day Treasury Bills.

Investments
All investments of $223,992,211 are in various domestic and international mutual funds or limited partnerships, even though some may invest in foreign securities. On the statement of fiduciary net position investments are presented by asset class to provide a more meaningful representation of the underlying investments.

The Trust is authorized to invest in the following, with policies on asset allocations shown when they exist:

- Bonds, notes or treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies.
- Certificates of deposit and other evidences of deposit at Tennessee or federally chartered financial institutions. The institutions must be federally insured.
- Obligations of the United States or its agencies under a repurchase agreement.
- Prime commercial paper which is rated at least A2 and issued by a corporation having no record of default of obligations during ten (10) years preceding the investment.
- Prime bankers acceptances which are eligible for purchase by the Federal Reserve System.
- Corporate bonds rated B3 or better by Moody's or B- or better by Standard and Poor's.
- Common or preferred shares of stock in any entity listed on the New York Stock Exchange, American Stock Exchange or NASDAQ Stock Exchange or in American 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.
- Covered call and put options on individual stocks or indexes, with the prior approval of the Trustees.
- Financial futures contracts on a limited basis for bona fide hedging purposes only with prior approval of the Trustees.
- Real estate including interests in real estate investment trusts, provided that the total real estate investments of the Trust shall not exceed five percent (5%) of the total value of the Trust.
- International equities, provided that the total international investments, excluding American Depository Receipts, shall not exceed thirty percent (30%) of the total value of the Trust.
- Co-mingled funds, including registered mutual funds and interests in collective trusts.

- Other investments, as approved individually by the Trustees, including securities offered through private placement memoranda.

Investment policies may be revised by the OPEB Trustee Committee. There have been no changes to the investment policy since the creation of the Trust.

Following are the Individual investments as of June 30, 2017 for which each investment is equal to *5% or more of the Trust's net position:*

Amount	% of Net Position	Investment
$12,104,229	5.21%	Lazard Asset Management
12,772,022	5.50%	Vanguard Developed Markets
13,438,309	5.79%	Credit Suisse Floating Rate High Income
14,717,627	6.34%	Acadian Min Vol
17,917,447	7.72%	DFA US Small Cap
19,399,124	8.36%	Master Limited Partnership
20,559,897	8.86%	Eagle Asset SMID Growth
21,353,379	9.20%	Ironwood Partners
41,770,536	18.00%	Vanguard S&P 500 Index

Money-weighted rate of return
The annual money-weighted rate of return on the OPEB Trust investments in FY 2017 was 13.42%, net of the Trust's investment expenses. The average rate of return for the last nine years is 7.43%. These rates of return expresses investment performance, net of OPEB Trust investment expenses, adjusted for the changing amounts actually invested.

Investment Risks
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or deposit. Duration (period of time to maturity or redemption) is the primary measure of the sensitivity of investments to this risk; the longer the duration the greater its sensitivity to changes in interest rates. The OPEB Trust limits its exposure to interest rate risk by investing in mutual funds that diversify their investments by security type and institution.

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

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

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

Custodial credit risk is the risk that the party holding the funds might not be able to pay those funds to the Trust upon maturity or demand. Bank deposits of $1,442,684 are covered by federal depository insurance (FDIC) or are collateralized by a multiple financial institution collateral pool administered by the State Treasurer. Other funds totaling $7,392,441 are invested in 91-day Treasury Bills but are not collateralized or insured.

Note 6 – Fair Value Measurement

Generally accepted accounting principles establish a framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the current fiscal year..

For the Trust, level 1 securities are valued using prices quoted in active markets for those securities. Level 2 securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Level 3 securities are valued using unobservable inputs (i.e. extrapolated data, proprietary models, indicative quotes, and estimated net asset value) as provided by the investment manager of the investee company.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Trust believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Trust's assets at fair value as of June 30, 2017.

	Assets at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Equities				
Consumer discretionary	$ 1,738,552	$ -	$ -	$ 1,738,552
Consumer staples	1,541,100	-	-	1,541,100
Energy	881,837	-	-	881,837
Financials	2,199,287	-	-	2,199,287
Health Care	1,161,192	-	-	1,161,192
Industrial	2,427,020	-	-	2,427,020
Information technology	616,240	-	-	616,240
Materials	481,038	-	-	481,038
Real estate	383,408	-	-	383,408
Telecommunication services	552,214	-	-	552,214
Utilities	122,341	-	-	122,341
Miscellaneous	-	54,542,558	71,506,075	126,048,633
Total equities	12,104,229	54,542,558	71,506,075	138,152,862
Fixed Income				
Coporate bond	-	7,527,419	13,438,309	20,965,728
Government bond	-	-	10,819,241	10,819,241
Funds - other fixed income	-	-	8,191,466	8,191,466
Total investment funds	-	7,527,419	32,449,016	39,976,435
Alternative investments	-	-	21,353,379	21,353,379
Real estate	-	-	5,110,511	5,110,511
Master limited partnerships	-	19,399,124	-	19,399,124
Total investments measured at fair value	$ 12,104,229	$ 81,469,101	$ 130,418,981	$ 223,992,311

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

Last 5 Fiscal Years

	2017	2016	2015	2014	2013
Total OPEB liability					
Service cost	$ 5,409,000				
Interest on liability	15,541,000				
Differences between		Detailed data not available for 2013-2016			
expected & actual		Comparative data for earlier years not available			
experience	(10,467,000)				
Benefit payments	(14,865,000)				
Changes in assumptions					
and other inputs	(20,277,857)				
Net change in total					
OPEB liability	**(24,659,857)**	**3,758,713**	**(12,994,435)**	**(77,089,666)**	**(21,156,642)**
Total OPEB liability:					
Beginning	**303,455,805**	**299,697,092**	**312,691,527**	**389,781,193**	**410,937,835**
Ending (a)	**278,795,948**	**303,455,805**	**299,697,092**	**312,691,527**	**389,781,193**
Plan fiduciary					
net position					
Contributions-employer	15,873,291	21,265,925	31,445,399	36,731,249	29,232,920
Contributions-retirees	6,310,326	5,029,246	4,984,144	5,248,569	5,529,535
Net investment income	26,639,833	(7,926,742)	1,377,274	21,219,220	13,507,440
Miscellaneous revenue	22,231	57,808	-0-	59,500	15,000
Benefit payments	(14,865,282)	(16,948,963)	(17,094,301)	(18,630,198)	(19,794,121)
Administrative expense	(536,864)	(657,080)	(450,148)	(484,663)	(508,450)
Net change in plan					
fiduciary net position	33,443,535	820,194	20,262,368	44,140,677	27,982,324
Plan fiduciary net position:					
Beginning	198,677,321	197,857,127	177,594,759	133,454,082	105,471,758
Ending (b)	232,120,856	198,677,321	197,857,127	177,594,759	133,454,082
Net OPEB liability –					
ending (a) – (b)	46,675,092	104,778,484	101,739,965	135,096,768	256,327,111
Plan fiduciary net position					
as a % of total OPEB					
liability	**83.26%**	**65.47%**	**66.02%**	**56.80%**	**34.24%**
Covered payroll	**255,925,000**	**254,988,000**	**243,154,660**	**239,751,560**	**249,503,836**
County's net OPEB liability					
as a % of covered					
payroll	**18.24%**	**41.09%**	**41.88%**	**56.35%**	**102.73%**

Notes to this schedule:

1. Actuarial data was available for all data only for FY 2017 as shown above.
2. Actuarial data was available for FY 2013 through FY 2016 only for the Net Change in Total OPEB liability line and following data.
3. No actuarial data was available for FY 2015, FY 2014 and FY 2013. The above data was provided from prior years' financial report to provide more comparative data when such data was available.
4. There have been no changes to the benefit terms during the life of the OPEB Trust.
5. Changes were made in FY 2017 to the assumed initial per capita health care costs, rates of health care inflation used to project the per capita costs, and health care plan election rates based on recent experience and current expectations.

SCHEDULE OF SHELBY COUNTY CONTRIBUTIONS

Last 4 Fiscal Years

	2017	2016	2015	2014
Actuarially determined Contribution	**13,717,466**	**12,984,462**	**15,810,652**	**29,261,919**
Contributions in relation to the Actuarially determined contribution	**15,873,291**	**21,265,925**	**31,445,399**	**36,731,249**
Contribution deficiency (excess)	**(2,155,825)**	**(8,281,463)**	**(15,634,747)**	**(7,469,330)**
Covered payroll	**255,925,000**	**254,988,000**	**253,536,000**	**239,751,560**
Contributions as a % of covered payroll	**6.20%**	**8.34%**	**12.40%**	**15.32%**

Only four years of information is available from the actuarial valuations. Prior years are unavailable.

SCHEDULE OF ANNUAL MONEY-WEIGHTED RATE OF RETURN ON OPEB TRUST INVESTMENTS

Last 9 Fiscal Years (dollars in thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009
Annual money-weighted rate of return, net of investment expenses	13.42%	-4.11%	0.89%	15.44%	12.35%	-2.43%	23.68%	13.67%	-5.97%

Notes to Required Supplementary Information

Note 1: The following actuarial methods and assumptions were used to determine the most recent contributions reported in the schedule of contributions:

Valuation date	6/30/2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	20 years as of June 30, 2017
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	5.25%
Includes inflation at	2.75%
Projected salary increases	2.75% - 5.75%
Healthcare cost trend rate	
Pre-Medicare	7.75% to 5.0% to 2022
Medicare	5.75% to 5.0% to 2019

Note 2: The Trust was established as of July 1, 2007.

Note 3: Actuarial valuations are performed as of the close of a fiscal year to determine the employer's "annual required contribution" (ARC) for the following fiscal year. Since budgets and appropriations by the County's legislative body must be completed before the beginning of each fiscal year, the County's annual OPEB contribution is budgeted at the ARC as a percent of payroll from the latest actuarial valuation available at the time the budget is prepared. From fiscal year 2012 to date the county has contributed at least 100% of the ARC being used for the year; continuing this funding level is the most significant factor affecting the trends shown above.

WATKINS UIBERALL
Certified Public Accountants
Independent Member of BKR International

BANKS, FINLEY, WHITE & CO.
CERTIFIED PUBLIC ACCOUNTANTS

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
Shelby County OPEB Trust Trustee Committee
Memphis, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Shelby County OPEB Trust, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Shelby County OPEB Trust's basic financial statements, and have issued our report thereon dated December 15, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Memphis, Tennessee
December 15, 2017