I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Reporting Entity

Shelby County, Tennessee (the County) is governed by an elected mayor and a thirteen member Board of Commissioners. As required by generally accepted accounting principles, these financial statements present the County (the primary government) and its component units, entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of a government's operations. The County has no blended component units. Each discreetly presented component unit (see notes below for descriptions) is reported in a separate column in government-wide financial statements to emphasize that they are legally separate from the government. Each discretely presented component unit has a June 30 year-end and their separate financial statements are available as indicated below. The significant accounting policies followed by component units are generally the same as those followed by the primary government.

Discretely Presented Component Units:

Shelby County Board of Education (the Board of Education) – The Board of Education is a legally separate organization that includes all the public schools in Shelby County, serving over 179,000 students. The City of Memphis Board of Education merged with the Shelby County Board of Education effective July 1, 2013. The Board of Education has a separately elected governing board but is fiscally dependent on the County. The County levies taxes for the Board's operation, approves its operating budget and issues debt for its capital projects. The operations of the Shelby County Board of Education are reported as a governmental component unit. Financial statements for the Board can be obtained from Shelby County Board of Education, 160 South Hollywood, Memphis, Tennessee 38112, (901) 321-2500.

Shelby County Health Care Corporation, d/b/a Regional One Health – Regional One Health (previously The Med) provides both inpatient and outpatient hospital services to residents of Shelby County and the surrounding area. The Regional One Health Board of Directors is appointed by the County Mayor and confirmed by the County Board of Commissioners. Substantial funding is provided by the County. Regional One Health is reported as a proprietary component unit. Financial statements for Regional One Health can be obtained from Shelby County Health Care Corporation, C/O Regional One Health at Memphis, 877 Jefferson Avenue, Memphis, Tennessee 38103, (901) 545-7100.

Agricenter International, Inc. (the Agricenter) – Agricenter International is a component unit of the Agricenter Commission. The Agricenter Commission has no separate assets, liabilities, revenues or expenditures; therefore, the summary information provided only relates to Agricenter International. The purpose of the Agricenter is to promote educational and applied research endeavors intended for the improvement of agriculture by the establishment of one convenient location for exhibition, demonstration, research, education and meetings by agribusiness industry, related organizations, and government agencies. The five Agricenter Commission members are appointed by the County Mayor and confirmed by the County Board of Commissioners. There are also two ex-officio voting members. Some funding is provided by the County and the land and buildings used by the Agricenter are property of the County. Agricenter International, Inc. is reported as a proprietary component unit. Financial statements for the Agricenter can be obtained from Agricenter International, Inc., Suite 9, 7777 Walnut Grove Road, Memphis, Tennessee 38120, (901) 757-7777.

Emergency Communications District of Shelby County, Tennessee, d/b/a Shelby County 9-1-1 District (the District) – The District was established in 1984, pursuant to provisions of T.C.A. Title 7, Chapter 86 of the State of Tennessee. The District is responsible for establishing local emergency telephone service and a primary emergency telephone number for the residents of Shelby County. The District is governed by a nine-member board of directors, appointed by the County Mayor and approved by the County Board of Commissioners. The District's board has the authority to levy an emergency telephone service charge to be used to fund the operation of the District. The District must obtain County Commission approval before the issuance of most debt and the County Commission has the ability to adjust the District's service charges. The District is reported as a proprietary component unit. Financial statements for the District can be obtained from Shelby County 9-1-1 District, 3150 Lenox Park #108, Memphis, Tennessee 38115, (901) 380-3911.

(B) Governmental Accounting Standards

The financial statements of the County have been prepared in accordance with *generally accepted accounting principles* (GAAP) followed in the United States of America. In the United States the Governmental Accounting Standards Board (GASB) is the established and recognized standard-setting body for governmental accounting and financial reporting. The GASB periodically issues new or revised standards that are implemented by the County.

(C) Government-wide and Fund Financial Statements

The government-wide financial statements - the *Statement of Net Position* and the *Statement of Activities* - report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Similarly, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The *Statement of Activities* demonstrates the degree to which the direct expenses of the given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

(D) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except that agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, long-term debt service expenditures and expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

In determining availability, the government considers property taxes associated with the current fiscal year to be available if they are collected within one month of the end of the current fiscal year. The government considers sales taxes, hotel taxes, car rental taxes, and Hall income taxes to be available if collected within two months of the end of the current fiscal year. The government considers grant and reimbursement revenues from other governments associated with the current fiscal year to be available if collected within one year of the end of the current fiscal year. Revenues from fines, fees, permits and other imposed non-exchange transactions are considered available when collected; revenues are either not measurable until collected or they are not collected soon enough after the current period to pay liabilities of the current period.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. In consolidating internal activities in the government-wide financial statements, direct expenses are not eliminated from the various functional categories, whereas indirect expenses are eliminated. The net effect of the interfund services provided by internal service funds is reported as an adjustment to the expenses of the functional categories using those services.

The County reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required or elected to be accounted for in another fund.

The *Debt Service Fund* accounts for the accumulation of resources for and the payment of principal, interest and related costs on long-term general obligation debt of governmental funds.

The *Capital Projects Fund* accounts for the acquisition and construction of major capital facilities and equipment. The primary funding source is bond proceeds.

The *Education Fund* accounts for tax collections allocated for school operations. Taxes are collected and allocated to the Shelby County Board of Education.

On February 10, 2011 the Memphis City Council passed a resolution accepting the surrender of the Memphis City Schools' charter. The residents of the City of Memphis later cosigned the decision by voting "Yes" to the referendum to abolish the Memphis City Schools and surrender its charter to the Shelby County Schools. The merger was effective July 1, 2013. Shelby County Government is now solely responsible for local funding of all public schools in Shelby County.

After the merger of Memphis City Schools and Shelby County Schools, referendums regarding the creation of suburban school districts were held July 16, 2013 for the residents of the six municipalities outside of Memphis (Arlington, Bartlett, Collierville, Germantown, Lakeland, and Millington). Each municipality voted in favor of creating their own municipal school system. Effective July 1, 2014, there will be six municipal school districts in addition to Shelby County Schools. Shelby County Government will allocate the taxes collected to the seven school districts based on average daily attendance.

The *Grants Fund* accounts for the receipt and expenditure of federal, state and local government grants and designated contributions to be used for approved programs.

The *Nonmajor Governmental Funds* are other funds with revenue raised for a specific purpose. The County reports the following funds as Special Revenue Funds:

- Roads and Bridges Fund accounts for the proceeds received from the County's share of State Gasoline taxes and State Gas Inspection taxes. These revenues are used for the maintenance of public roads and bridges in the unincorporated areas of the County.
- Hotel Motel Taxes Fund accounts for the proceeds received from the hotel/motel tax levied by the County on hotel/motel occupancy within the County. Hotel/Motel tax is used to first provide debt service requirements for the Sports Authority on the FedEx Forum and then funding for the Convention and Visitors Bureau as provided in State law.
- Sheriff Forfeitures Fund accounts for the proceeds from seizure and forfeiture of properties related to certain drug cases and property acquired and accumulated as a result of other criminal offenses. These funds are used to support law enforcement efforts, drug investigation enforcement and certain non-recurring purposes.
- Data Processing Fund accounts for a separate computerization fee charged by the Courts and the County Register restricted by State statute. The funds are to be used for the purchase of computer equipment, upgrades, imaging systems and other related supplies and maintenance to support their data processing needs.
- Car Rental Tax Fund accounts for the tax proceeds on car rentals levied by the County. The proceeds are used only to help retire debt on bonds issued by the Memphis and Shelby County Sports Authority, Inc. for construction of the FedExForum.
- Health Services Restricted Fees Fund accounts for proceeds received from pollution control permits and fees for specific industries. There are also fees received for vector control services as a component of the fees collected through the City and County's utility services. These proceeds are used, respectively, to control pollution and control rodents, mosquitoes and other pests in the County.
- Storm Water Fees Fund accounts for fees collected from unincorporated portions of the County for storm water expenses as specified in the Shelby County Code of Ordinances.
- Economic Development Fund accounts for resources received that can be used only for economic development activities supported by the County.
- Restricted Court Fees Fund accounts for separate fees collected in DUI and drug related cases that are restricted by State statute for use in funding offender rehabilitation programs.

Additionally, the County reports the following fund types:

Proprietary Funds/Enterprise Funds are funds that report an activity for which a fee is charged to external users for goods or services. The County reports the following funds:

Major funds:
- Corrections Center Fund accounts for the operation of the Shelby County Corrections Center. The center incarcerates individuals serving sentences for both misdemeanors and felonies, with typical sentences between two and three years.

Nonmajor funds:
- Consolidated Codes Enforcement Fund accounts for activities of the Consolidated Codes Enforcement Office and Division of Planning and Development.
- Fire Services Fund accounts for the activities of the Shelby County Fire Department. Fire protection services are provided to the unincorporated areas of the County and to the City of Lakeland. Ambulance services are provided to unincorporated areas of the County, City of Lakeland, City of Millington, and the Town of Arlington.

Proprietary Funds/Internal Service Funds are a separate category of proprietary funds (all are nonmajor). These funds account for fleet services, telecommunications, mail services, printing, group health insurance, other employer insurance, and tort liability insurance provided to other departments and agencies of the County, or to other governments on a cost reimbursement basis.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service funds are charges to customers for sales, services, and insurance. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds include the Other Postemployment Benefits (OPEB) Trust and the Shelby County Retirement System. The Shelby County Retirement System accounts for the activities of the County’s retirement plan, which accumulates resources for pension payments to employees. The OPEB Trust accounts for the fund used to accumulate and provide health and life insurance to retirees. Agency Funds account for assets held by the County’s charter officers and other elected officials in an agent capacity for governments, litigants, heirs and others. Agency funds are custodial in nature and do not involve measurement of results of operations.

(E) Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balances

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 County pools substantially all of its cash and cash equivalents. Each fund participating owns a pro rata share in the pool. Investment earnings of the pool are allocated monthly to each fund based upon the average balance.

Deposits with the State Treasurer’s Local Government Investment Pool (LGIP) that may be withdrawn with a maximum of one day’s notice are classified as cash equivalents and are valued at cost. The LGIP is not registered with the SEC as an investment company. However the LGIP has a policy that it will – and does – operate in a manner consistent with the SEC’s Rule 2a-7 of the Investment Company Act of 1940. Rule 2a-7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. State statutes require the State Treasurer to administer the LGIP under the same terms and conditions, including collateral requirements, as required for other funds invested by the Treasurer. The reported value of the pool is the same as the fair value of the pool shares.

Investments of the government as well as its component units are generally stated at fair value. Fair value is based on quoted market prices, if available, or estimated using quoted market prices for similar securities. The County uses amortized cost on all investments that mature within a year or less of the date of purchase. State statutes authorize the County to make direct investments in obligations of the U.S. Treasury, obligations issued or guaranteed by any U.S. Government agency, LGIP, bonds of any state or political subdivision, repurchase agreements, prime banker’s acceptances and prime commercial paper. The maximum maturity is two years. By policy investments in commercial paper must be rated A1/P1 by at least two rating services.

The OPEB Trust and the Shelby County Retirement System are authorized to invest in common and preferred stocks, corporate bonds rated B3 or better, commercial paper rated A2/P2 or better, real estate, venture capital investments, co-mingled investment funds, and call option writing programs. Investment parameters require that no more than 70% of total investments be in stock, no more than 5% in real estate, and no more than 12% in international equities. The Shelby County Retirement System is also authorized to invest in limited partnerships.

Receivables and Payables
Property taxes are recorded as revenues in the fiscal year for which levied. Property taxes based on property values during the current fiscal year but levied for the next fiscal year are recorded as receivables and deferred inflows of resources. Allowances for doubtful accounts are maintained for receivables which historically experience uncollectible accounts.

Inventories and Prepaid Items
Inventories are valued at cost on a first-in/first-out (FIFO) method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and proprietary fund financial statements. In governmental funds, prepaid items are accounted for using the purchases method. As of June 30, 2014, the County had net overpayments for the net pension obligation. These overpayments are reported in the assets section.

Capital Assets
Capital assets, which include land, land improvements, buildings, building improvements, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure includes roads, bridges, sidewalks, and similar items. Equipment includes software and communications systems. Capital assets are defined by the government as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of two years. Land is included regardless of cost. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Land improvements, buildings, building improvements, equipment and infrastructure of the primary government, as well as the component units, are depreciated using the straight line method. The following estimated useful lives are used:

Assets	Years
Land improvement	10-30
Building	30-40
Building improvements	10-30
Equipment	3-20
Infrastructure	10-50

Deferred Outflows of Resources
In addition to assets, the *Statement of Net Position* includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so is not recognized as an outflow of resources (expense/expenditure) until then. The County only has one item that qualifies for reporting in this category; the fair value of derivative instruments

Claims and Judgments
Claims and judgments which can be reasonably estimated and could result in probable material losses to the County have been given proper recognition under U.S. generally accepted accounting principles. For governmental funds and similar fund types, the liability is recognized within the applicable fund if it is expected to be liquidated with expendable, available financial resources. All other material unpaid claims and judgments are recorded as a liability in the governmental activities of the primary government. In proprietary and similar fund types, probable and measurable loss contingencies are recorded as incurred within the applicable fund.

Landfill Postclosure Care Costs
State and federal laws and regulations require the County to perform certain maintenance and monitoring functions for thirty years after closure of its landfill sites. The amount reported as postclosure care liability at year-end represents the estimated postclosure care costs that have not been paid for the Walnut Grove and Shake Rag Road landfills. The estimate is based on what it would cost to perform all postclosure care as of the year-end. Actual future costs may differ due to inflation, changes in technology, or changes in regulations. The landfills have been closed and the County has no landfills currently in operation. No County assets are restricted for landfill postclosure costs. However, the County has entered into a surety contract in lieu of a performance bond as a commitment to comply with the terms set forth in its 30 year postclosure maintenance plan for the Shake Rag Road landfill. This surety contract is with the State of Tennessee under the State's cooperative agreement with the Environmental Protection Agency (EPA). There is no surety contract pertaining to the Walnut Grove landfill.

Compensated Absences
County employees are granted sick and annual leave in varying amounts in accordance with administrative policies and union memorandums of understanding. Accumulated vacation days are required to be used annually, with a maximum accumulation of one and one-half times the amount of leave an employee can earn in a year. In the event of termination or retirement, the employees are paid for accumulated vacation days. Generally, employees are paid for accumulated sick leave, not to exceed the lesser of 75 days or $5,772, only upon retirement. Certain exceptions to this policy occur in accordance with the terms of various union agreements.

All sick and annual pay is accrued when earned in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations
In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources
In addition to liabilities, the *Statement of Net Position* and the *Governmental Funds Balance Sheet* report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an increase to net position or fund balance that applies to a future period and is not recognized as an inflow of resources (revenue) until that time. The County has two types of items that qualify for reporting in this category. One item is the increase in fair value of derivative instruments reported only on the *Statement of Net*

Positon. The other is amounts in the governmental funds that were receivable and measurable at year-end but were not available to finance expenditures for the current year. These primarily include unavailable revenues from property taxes, accounts receivable and notes receivable and are reported on the *Governmental Funds Balance Sheet*.

Net Position and Fund Balance
Government-wide and proprietary fund net position is classified into three components. "Net investment in capital assets" consists of capital assets net of accumulated depreciation and reduced by outstanding debt used to finance purchase or construction of those assets. "Restricted" net position is noncapital net assets that must be used for a particular purpose as specified by creditors, grantors, or contributors external to the County. "Unrestricted" net position is remaining net assets that do not meet the definition of the other two categories.

In the governmental fund financial statements, fund balance is reported as either Nonspendable, Restricted, Committed, Assigned and/or Unassigned fund balances.

- Nonspendable fund balance reflects amounts not in spendable form or amounts that legally or contractually must be maintained intact.
- Restricted fund balance reflects amounts subject to external enforceable legal restrictions that are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance reflects amounts whose use is constrained by limitations that the County imposes upon itself by the Shelby County Commission through resolution and shall remain binding unless removed in the same manner. The County Commission is the County's highest level of decision-making authority.
- Assigned fund balance reflects the County's intended use of resources. It allows decision making authority to be delegated to some other body or official, such as division directors or department administrators. This authority is delegated by approved County Commission resolution. No formal action is required to remove this authority.
- Unassigned fund balance is the residual net resources.

Use of Fund Balance
When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available, it shall be the policy of the County to generally consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the County that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts. In both instances when a proposed expenditure is made with specific balances identified as the source of the funding, that specific fund balance will be used.

Minimum Fund Balance Policy
The County Board of Commissioners, the County's legislative body, has by resolution adopted a formal fund balance policy. The policy specifies a minimum fund balance of between 15-25% of revenues for the General Fund and 20-30% of revenues for the Debt Service Fund.

Interest Rate Swaps
Shelby County has entered into several interest rate swap agreements to modify interest rates on outstanding debt. Amounts received to enter swap agreements are recorded as revenue in the Debt Service Fund. In the government-wide financial statements, such amounts are amortized over the life of the swap agreement. These agreements provide for net interest payments to or from the County which are also recorded in the Debt Service Fund.

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 or fund balances. Estimates also affect the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

(A) Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund Balance Sheet includes reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide Statement of Net Position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." Internal service funds include $(5,469,804) of long-term liabilities and are not part of this reconciling amount. The details of this $(1,377,580,121) are as follows:

Bonds and loans payable	$	(1,269,191,065)
Accreted value on bonds		(15,865,391)
Net premium on bonds issued		(57,410,515)
Compensated absences		(18,527,911)
Landfill postclosure		(2,725,976)
Claims and judgments		(305,286)
Capital lease obligation		(6,505,735)
Net post employment benefit obligation		(7,048,242)
Net adjustment to reduce *fund balance – total governmental funds* to arrive at *net position – governmental activities*	$	(1,377,580,121)

(B) Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between *net change in fund balance – total governmental funds* and *change in net position of governmental activities* as reported in the government-wide Statement of Activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense."

The details of this ($1,807,756) difference are as follows:

Capital outlay	$	25,146,269
Loss on asset disposals		(608,171)
Depreciation expense		(26,345,854)
Net adjustment to decrease *net change in fund balance – total governmental funds to* arrive at *change in net position of governmental activities*	$	(1,807,756)

Another element of that reconciliation states that "the issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities."

The details of this $115,330,773 difference are as follows:

Amortization of bond premiums	$	11,916,180
Accretion of zero coupon bonds		5,075,276
Principal repayments on debt		98,339,317
Net adjustment to increase *net change in fund balance – total governmental funds* to arrive at *change in net position of governmental activities*	$	115,330,773

Another element of that reconciliation is "changes in other long-term liabilities other than in internal service funds."

The details of this $6,489,516 difference are as follows:

Landfill post closure costs	$	157,268
Claims and judgements		13,603
Sick and annual leave		(193,370)
Net postemployment benefit obligations		6,512,015
Net adjustment to increase *net change in fund balance – total governmental funds* to arrive at *change in net position of governmental activities*	$	6,489,516

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(A) Budgetary Information

The revenues and expenditures accounted for in each of the General Fund, Special Revenue Funds, Debt Service Fund and Enterprise Funds have legally adopted budgets and are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements that govern County operations. The County Board of Commissioners approves and appropriates the budgets for these funds annually.

Expenditures may not exceed appropriations by line item at the department level. The County Mayor is authorized to transfer budgeted amounts between line items of the same category (i.e. revenue, personnel related expenditures or other expenditures) of the same division (group of departments). Any adjustments that increase the total budget, or require transfers between divisions, categories or funds must be approved by the County Board of Commissioners. The reported budgetary data has been revised for amendments authorized during the year.

All funds requiring legally adopted budgets have budgets which are adopted on a basis consistent with U.S. generally accepted accounting principles. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all Capital Projects Funds. Encumbrances represent significant commitments related to unperformed purchase orders, contracts, or other commitments for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for future expenditures of funds are recorded in order to reserve that portion of the applicable appropriation - is utilized in the governmental funds during the year to facilitate effective budgetary control. Encumbrances outstanding at year-end do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

IV. DETAILED NOTES ON ALL FUNDS

(A) Deposits and Investments

Shelby County Government, except for the Retirement System and OPEB Trust:
The County, including agency funds but excluding the Retirement System and the OPEB Trust, had the following investments at June 30, 2014; of the total investments per financial reports, $85,970,317 is reported on the Statement of Net Position and $6,300,000 is reported on the Combined Schedule of Changes in Assets and Liabilities for the county charter officers' agency funds.

Not included in the investments amounts are the funds on deposit with the State Treasurer's Local Government Investment Pool (LGIP). The County's pro rata share of LGIP as of June 30, 2014 was $20,886,517 which is included in the cash and cash equivalents on the Statement of Net Position. All other investments are valued at cost, amortized cost, or fair value as disclosed in Note I(E) above.

Custodial credit risk Bank deposits and certificates of deposit of the County, consistent with State statutes, are covered by federal depository insurance (FDIC) or are collateralized by a multiple financial institution collateral pool administered by the Treasurer of the State of Tennessee. On limited occasions the County may have deposits with financial institutions that do not participate in the State collateral pool; in these instances separate collateral equal to at least 105% of the uninsured deposit is collateralized and held in the County's name by a third party. These provisions covered all County deposits at year-end.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Both State statutes and the County's investment policy limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All investments mature in two years or less.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Both State statutes and the County's investment policy limit permissible investments or impose collateral and custody provisions as specified above or in Note I(E) to significantly limit credit risk. By policy, investments in commercial paper must be rated A1/P1 by at least two rating services. Although the LGIP itself is unrated, its types of investments and maturities provide a similar level of credit risk.

The County Trustee handles Shelby County Board of Education's investments with the LGIP. Those investments are not included above but are reported in the component units' figures within this report and are disclosed in the separately issued financial report of the Shelby County Board of Education.

Shelby County Retirement System (Fiduciary Fund):
At June 30, 2014 the Retirement System had deposits of $71,574,216 in money-market mutual funds that were not insured and were uncollateralized. At June 30, 2014 the Retirement System reported the following investments with carrying amounts as shown:

Domestic equity	$	405,223,771
Fixed income		202,625,631
International equity		204,916,411
Hedge funds		131,491,540
Limited partnership interest		91,932,259
Private real estate and infrastructure		24,561,428
Total investments	$	1,060,751,040

The fair values of fixed income investments grouped by maturity at June 30, 2014 are as follows:

Current to one year	$	6,227,779
One to two years		7,220,372
Two to three years		16,262,690
Three to four years		9,795,681
Four to five years		16,765,617
Five years or more		146,353,492
Total	$	202,625,631

At June 30, 2014 the Retirement System had $166,839,772 of investments with exposure to foreign currency risk.

The above information was taken from the publicly available financial report of the Retirement System for the year ended June 30, 2014. The report includes more information on the credit quality of investments in fixed income debt securities and the investments with foreign currency risk. The report may be obtained from the Shelby County Retirement System, Suite 701, 160 N. Main Street, Memphis, Tennessee 38103.

Shelby County OPEB Trust (Fiduciary Fund):
At June 30, 2014 the OPEB Trust had deposits of $444,435 that were not insured and were uncollateralized. All of this was held in the Tennessee LGIP short term investment fund. At June 30, 2014 the OPEB Trust reported the following investments with carrying amounts as shown:

Domestic equity	$	61,661,553
Fixed income		37,475,934
International equity		27,441,664
Private real estate		5,077,785
Alternative investments		19,941,915
Short-term investments		21,662,532
Total investments	$	173,261,383

(B) Property Taxes Receivable

Property taxes attach an enforceable lien on property on January 1 of each year. The various types of property are assessed at a percentage of market value as follows:

Farm and residential real property	25%
Commercial/industrial real property	40%
Commercial/industrial tangible personal property	30%
Commercial/industrial intangible personal property	40%
Public utilities real/personal property	55%

The assessed value on which the fiscal 2014 tax bills were based was $18,165,887,331. The estimated market value was $60,586,935,365, making the overall assessed value 29.98% of the estimated market value. Taxes are due October 1 and delinquent March 1 of the following year. Current tax collections for the year were 92.94% of the original tax levy and 95.65% of the adjusted tax levy. The property tax levy has no legal limit. The rate, as permitted by Tennessee state law and County charter, is set annually on or after July 1 by the County Board of Commissioners and collected by the County Trustee.

The County allocated the property tax per $100 of the assessed value as follows:

General Fund	$ 1.45
Debt Service Funds	.79
Boards of Education	2.14
Countywide tax rate	$ 4.38
Debt Service - Rural School Bonds	$ .04

The $0.04 for debt service on Rural School Bonds only applies to properties outside the City of Memphis.

Property taxes receivable as of year-end, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund	Education Fund	Total
Property taxes receivable	$ 296,639,962	$ 150,875,206	$ 413,086,023	$ 860,601,191
Less allowance for uncollectibles	(18,211,755)	(9,575,536)	(25,979,906)	(53,767,197)
	$ 278,428,207	$ 141,299,670	$ 387,106,117	$ 806,833,994

Note IV(G) includes detail of deferred inflows of resources relating to property taxes.

(C) Notes Receivable

Notes receivable consist of the following:

	Amount	Collateral
General Fund		
Property loans receivable due in various installments at 6.5% interest	$ 334,396	Land & Building
Debt Service Fund		
Mortgage loans receivable due in various monthly installments at interest rates ranging from 3.125% to 8.125% through 2020	$ 2,939,014	Land & Building
Grants Fund		
Mortgage loans receivable due in various installments at 0% to 5% interest through 2021	$ 2,861,794	Land & Building

Note IV(G) includes details of deferred inflows of resources relating to notes receivable.

(D) Leases Receivable

The County leases certain real property described as Butcher Shop, LLC for the sum of $225,750 annually. The term of the lease commenced on May 1, 2013. There are two additional option terms of five years each available. The option term currently in effect will expire in 2018. The rental income is recognized as revenue in the Debt Service Fund.

The County leases certain real property described as 150 Washington Avenue to the Shelby County Federal Credit Union for the sum of $24,000 annually over a period of five years. The term of the lease commenced on October 1, 2009 and will end September 30, 2014. There is one additional option term of five years. The rental income is recognized as revenue in the General Fund.

The County leases certain real property with improvements described as Fire Station #65 to the City of Memphis, Tennessee through June 30, 2016. There are no lease fees or charges. All charges for gas, water, sewer, electricity, light, heat, power, telephone, and other utilities and services used, rendered or supplied to or in connection with the leased premises will be paid for by the City of Memphis.

The Tennessee Department of Health maintains office space as a regional office at the Memphis and Shelby County Health Department, described as 814 Jefferson, to carry out various State activities. The County agrees to lease the space for a sum of $112,716 annually for five years; commencing on January 1, 2012, and ending December 31, 2016. This lease may be cancelled by the leasee at any time prior to the termination date. The rental income is recognized as revenue in the General Fund.

The County leases certain real property located at 4921 Hickory Hill Road to Yardworks, a privately owned business. The term of the lease commenced on September 22, 2011 for an annual rental amount of $14,400. This is for a five year term ending September 21, 2016 with an option to renew for one additional five year term. The rental income is recognized as revenue in the Grants Fund.

The following is a schedule by years of future minimum rentals required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2014:

Fiscal Year	Minimun Rental
2015	$ 246,150
2016	240,150
2017	229,350
2018	188,125
Total	$ 903,775

(E) Capital Assets

Capital asset activity of the primary government for the year ended June 30, 2014 is detailed below.

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets not being depreciated:					
Land	$ 26,506,039	$ 100,493	$ (45,000)	$ ---	$ 26,561,532
Construction in progress	20,582,771	17,301,675	---	(1,971,235)	35,913,211
Total not being depreciated	47,088,810	17,402,168	(45,000)	(1,971,235)	62,474,743
Capital assets being depreciated:					
Land improvements	18,111,772	69,342	---	369,092	18,550,206
Buildings	264,625,213	555,193	(2,465,278)	750,105	263,465,233
Equipment	107,136,527	4,288,501	(3,256,400)	189,345	108,357,973
Infrastructure	525,843,736	3,038,903	---	852,038	529,734,677
Total being depreciated	915,717,248	7,951,939	(5,721,678)	2,160,580	920,108,089
Less accumulated depreciation:					
Land improvements	6,834,898	511,006	---	---	7,345,904
Buildings	130,480,334	7,703,637	(2,123,127)	---	136,060,844
Equipment	63,513,022	6,804,622	(2,984,217)	189,345	67,522,772
Infrastructure	219,982,715	11,494,427	---	---	231,477,142
Total accumulated depreciation	420,810,969	26,513,692	(5,107,344)	189,345	442,406,662
Total capital assets being depreciated, net	494,906,279	(18,561,753)	(614,334)	1,971,235	477,701,427
Governmental activities capital assets, net	$ 541,995,089	$ (1,159,585)	$ (659,334)	$ ---	$ 540,176,170

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities:					
Capital assets being depreciated:					
Land improvements	$ 100,611	$ ---	$ ---	$ ---	$ 100,611
Buildings	49,561,759	120,720	---	---	49,682,479
Equipment	10,800,190	625,916	(366,456)	(189,345)	10,870,305
Total being depreciated	60,462,560	746,636	(366,456)	(189,345)	60,653,395
Less accumulated depreciation:					
Land improvements	2,876	9,322	---	---	12,198
Buildings	28,464,902	1,157,708	---	---	29,622,610
Equipment	6,871,386	398,567	(366,456)	(189,345)	6,714,152
Total accumulated depreciation	35,339,164	1,565,597	(366,456)	(189,345)	36,348,960
Total capital assets being depreciated, net	25,123,396	(818,961)	---	---	24,304,435
Business-type activities capital assets, net	$ 25,123,396	$ (818,961)	$ ---	$ ---	$ 24,304,435

Depreciable land improvements consist of renovations to public park lands and parking lots.

A summary of governmental capital assets, net and depreciation expense by function follows:

	Capital Assets Net	Depreciation Expense
Depreciable assets:		
General Government	$ 13,825,912	$ 2,718,818
Planning and Development	14,024	27,691
Public Works	364,031,509	13,663,162
Corrections	1,248,631	86,032
Health Services	16,370,903	739,085
Community Services	4,373,191	378,321
Law Enforcement	60,156,384	5,731,091
Judicial	16,259,956	2,301,167
Other Elected Officials	1,420,917	868,325
Depreciable assets total	477,701,427	26,513,692
Non-depreciable assets:		
Land	26,561,532	---
Construction in progress	35,913,211	---
Non-depreciable assets total	62,474,743	---
Governmental activities total	$ 540,176,170	$ 26,513,692

(F) Lease Obligations

Operating Leases
The County leases office space and other equipment under operating leases expiring during the next five years. Rent expense for the year ended June 30, 2014 was $3,014,160 for the primary government.

Capital Leases
The County has a capital lease related to the acquisition of a Ferrara Inferno Aerial Ladder truck for the Fire Services Fund, a business-type activity. The Ferrara truck was purchased for a total cost of $584,925. The net book value of the Ferrara Inferno Aerial Ladder truck is $375,327. The amortization of this leased asset is included as part of depreciation expense. The total remaining balance on the capital lease is $135,206.

The County has entered into a capital lease agreement with the State of Tennessee for a new Regional Forensic Center. The State issued bonds in March 2013 for the long term funding of construction costs. The lease agreement provides that the County's lease payments will be the amount required to fund debt service requirements for $8 million of the bonds issued by the State. The remaining amount owed for this lease is included with long term debts. The estimated annual capital lease cost, including interest, will be approximately $400,000 to $515,000 per year. The remaining balance on this lease is $6,505,735.

The following is a schedule by years of future minimum rental payments required under operating leases and capital leases that have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2014:

Fiscal Year	Operating Leases	Capital Leases
2015	$ 1,395,819	$ 591,688
2016	648,098	575,832
2017	312,029	487,580
2018	60,426	471,724
2019	---	455,868
2020-2024	---	2,076,378
2025-2029	---	1,877,779
2030-2033	---	1,344,612
Total mimimum lease payments	2,416,372	7,881,461
Less: amount representing interest	---	(1,240,520)
Present value of mimimum lease payments	$ 2,416,372	$ 6,640,941

(G) Deferred Inflows of Resources

Deferred inflows of resources consist of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Education Fund	Grants Fund	Nonmajor Governmental Fund	Totals
Fiscal year 2015 property tax assessment	$ 260,485,738	$ 132,004,308	$ ---	$ 362,165,666	$ ---	$ ---	$ 754,655,712
Current and prior years' property taxes receivable	16,767,775	8,640,143	---	23,211,433	---	---	48,619,351
Due from State	1,097,824	---	305,761	---	---	---	1,403,585
Due from City of Memphis	345,743	---	---	---	---	---	345,743
Due from other local governments	10,320	---	---	---	---	---	10,320
Notes receivable	334,396	2,939,014	---	---	2,824,633	---	6,098,043
Other receivables	312,936	---	---	---	---	32,460	345,396
	$ 279,354,732	$ 143,583,465	$ 305,761	$ 385,377,099	$ 2,824,633	$ 32,460	$ 811,478,150

Refer to Note I(D) regarding revenue recognition policy on deferred inflows of resources.

(H) Debt and Long-term Liabilities

Changes in long-term liabilities:
Changes in long-term liabilities during the year were:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Due Within One Year
Governmental activities:					
Bonds and loans payable	$ 1,388,093,168	$ ---	$ (103,036,712)	$ 1,285,056,456	$ 93,691,014
Capital lease obligations	6,883,614	---	(377,879)	6,505,735	373,873
Net premium of bonds issued	69,326,695	---	(11,916,180)	57,410,515	10,792,502
Claims and judgments	5,421,396	1,378,060	(1,318,294)	5,481,162	732,150
Landfill postclosure care costs	2,883,244	---	(157,268)	2,725,976	174,462
Sick and annual leave	18,471,668	16,054,283	(15,833,964)	18,691,987	12,742,454
Net postemployment benefit obligations	13,729,867	22,168,088	(28,719,861)	7,178,094	---
Total governmental activities	$ 1,504,809,652	$ 39,600,431	$ (161,360,158)	$ 1,383,049,925	$ 118,506,455
Business-type activities:					
Capitalized lease obligations	$ 304,156	$ ---	$ (168,950)	$ 135,206	$ 66,054
Sick and annual leave	5,152,184	14,777,354	(15,239,088)	4,690,450	3,258,414
Net postemployment benefit obligations	3,971,283	3,795,072	(5,031,959)	2,734,396	---
Total business-type activities	$ 9,427,623	$ 18,572,426	$ (20,439,997)	$ 7,560,052	$ 3,324,468

Bonds and loans payable reductions include $5,075,276 accretion of zero bonds.

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, $164,076 of sick and annual leave payable, $5,175,876 of claims and judgments payable, which includes the current portion in the Tort Liability Fund and $142,102 of current claims payable in the Employer Insurance Fund, and $129,852 of post-employment benefits obligations from the internal service funds are included in the above amounts. All other long-term liabilities of governmental activities other than debt are liquidated by the general fund.

Bonds and other long-term debt:
These are all obligations of the County, and those noted below as direct general obligations are backed by its full faith and credit and the unlimited taxing power of the County. QSCB debt and the Regional Forensic Facility loan were bonds issued by the State of Tennessee whereas the Port Commission bonds were issued by the Memphis and Shelby County Port Commission at the request of the County. In each of these cases the County has agreed to provide funds for the payment of principal and interest. The following bonds issued and loans payable were outstanding:

Description	Date Issued	Interest Rates	Principal Balance	Last Maturity Date
1996B Refunding Issue (b)	11/01/1996	5.00 - 6.00	$ 5,213,353	12/01/2016
1997B Refunding Issue (b)	11/01/1997	4.50 - 5.75	5,152,216	08/01/2016
2004B Public Imp/Schools (a), (b)	04/15/2004	Variable	118,885,000	04/01/2030
2005A Refunding Issue (b)	03/10/2005	3.0 - 5.0	224,145,000	04/01/2025
2006A Public Imp/Schools (b)	02/22/2006	5.00	12,335,000	03/01/2016
2006B Public Imp/Schools (a), (b)	02/22/2006	Variable	159,590,000	03/01/2031
2006C Refunding Issue (a), (b)	11/30/2006	Variable	59,970,000	12/01/2031
2009A Refunding Issue (b)	04/02/2009	2.75 - 5.0	119,140,000	04/01/2022
2009B Public Imp/Schools (b)	09/30/2009	2.25-5.0	45,665,000	04/01/2024
2009C Public Imp/Schools (b)	09/30/2009	5.625 - 5.75	60,000,000	04/01/2034
2009 Qualified School Construction Loans	12/01/2009	1.515	41,649,009	09/01/2026
2010 Qualified School Construction Loans	10/01/2010	1.515	55,018,987	09/15/2027
2011A Refunding Bonds (b)	03/30/2011	4.00-5.00	73,795,000	03/01/2025
2011 Port Commission Loan	09/07/2011	2.00 - 5.00	19,082,500	04/01/2036
2012A Refunding Bonds (b)	03/01/2012	3.00-5.00	259,060,000	03/01/2028
2012B GO Refunding (Rural Schools) (b)	03/01/2012	2.00-4.00	10,490,000	03/01/2019
			1,269,191,065	
	Accreted value of bonds		15,865,391	
	Total bonds and loans payable		$ 1,285,056,456	

(a) Interest rate swap agreements are in place related to these bond issues, as explained below in this note.
(b) Direct general obligation bonds of the County

This debt represents borrowings for the following:

General Government	$ 251,559,124
Education	1,017,631,941
	1,269,191,065
Accreted value of bonds	15,865,391
	$ 1,285,056,456

Interest expense in the Debt Service Fund during the fiscal year ended June 30, 2014 was $67,163,626 (current financial resources measurement focus and modified accrual basis of accounting). Entity wide interest was $66,185,593 (economic resources measurement focus and accrual basis of accounting) which includes interest paid for the Debt Service Fund and interest paid on the loans.

The County is indebted for serial bonds and capital appreciation bonds and notes and variable bonds with interest rates varying from 1.515% to 6.00%. In the Debt Service Fund the County accrued interest on the variable rate bonds only; all fixed rate unmatured interest is recognized as an expenditure when due.

All unmatured interest which is due in future years is disclosed in the table below. The County has no legal debt limit. Debt service requirements for principal and interest in future years, using the actual rate on fixed rate bonds and variable rate bond notes are 4.66% for the 2004 Series B General Obligation Variable Rate Demand Public

Improvement and School Bonds, 3.503% for the 2006 Series B General Obligation Weekly Adjustable/Fixed Rate Bonds to 3/1/2016 and a rate of 4.430% from 3/1/2016 to 3/1/2031, and 3.830% on the notional amount of $59,970,000 for the 2006 Series C Variable Rate Demand Refunding Bonds are as follows:

Years Ended June 30	Principal	Interest	Total
2015	$ 93,691,014	$ 63,778,052	$ 157,469,066
2016	95,314,440	56,630,314	151,944,754
2017	88,029,078	58,033,816	146,062,894
2018	92,191,321	46,788,158	138,979,479
2019	88,281,321	42,801,369	131,082,690
2020-2024	406,144,105	159,311,695	565,455,800
2025-2029	294,244,786	70,469,532	364,714,318
2030-2034	108,677,500	11,223,517	119,901,017
2035-2036	2,617,500	181,125	2,798,625
	1,269,191,065	509,217,578	1,778,408,643
Accreted value of bonds	15,865,391	(15,865,391)	---
Total long-term debt	$ 1,285,056,456	$ 493,352,187	$ 1,778,408,643

Interest rate swap agreements:
As of June 30, 2014 Shelby County has four (4) interest rate swap agreements shown below. Interest rate swap agreements are accounted for at fair value in accordance with GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments.*

	Changes in Fair Value		Fair Value at June 30, 2014		
	Classification	Amount	Classification	Amount	Notional Amount
Governmental activities					
Investment derivatives:					
Pay-fixed interest rate swap	Deferred outflow	$ 3,189,586	Derivative instruments	$ (14,595,088)	$ 98,750,000
Pay-fixed interest rate swap	Deferred outflow	(480,301)	Derivative instruments	(9,198,432)	59,970,000
Cash flow hedges:					
Pay-fixed interest rate swap	Deferred outflow	121,464	Derivative instruments	(8,228,744)	40,000,000
Pay-fixed interest rate swap	Deferred outflow	362,979	Derivative instruments	(24,602,057)	119,590,000
		$ 3,193,728		$ (56,624,321)	$ 318,310,000

Swap One: In April 2009, the 2008 Series A General Obligation Refunding Bonds and the 2008 Series B General Obligation Variable Rate Demand Refunding Bonds were refunded and the related swaps were transferred to the 2004B General Obligation Bonds and a swap related to the 2004B General Obligation Bonds was cancelled. One transferred swap was executed with Goldman Sachs Mitsui Marines Derivative Products (Goldman) on 1/15/1999 in connection with the 1999 Series A General Obligation Variable Rate Demand and subsequently kept in place for the 2008 Series B Bonds (which refunded the 1999 issue) and the second transferred swap was executed with Loop Financial Products (LFP) on 6/23/2005 in connection with the 2008 Series A General Obligation Refunding Bonds (which refunded a portion of the 1998 issue). The Goldman Sachs Mitsui Marines swap in the amount of $68,050,000 was terminated in March 2012.

Swap Objective: This swap was issued to (i) lower borrowing costs by entering into a swap in connection with its 1998 Series A General Obligation Variable Rate Demand Refunding Bonds and (ii) to take advantage of 40 year lows in interest rates to refund high coupon debt and to receive an upfront cash payment for capital expenditures to reduce debt issuance in the future.

Swap Terms:

Trade Date	Swap Effective Date	Swap Maturity Date	Notional Amount	Fixed Payer Rate	Underlying Index	Upfront Cash Payment
6/23/2005	03/01/2008	03/01/2022	$ 98,750,000	4.66%	SIFMA	$ 8,571,000

On 3/1/2008 the County received a payment of $8,571,000 from the Counterparty, Loop Financial Products (LFP), for granting LFP the right to enter into a swap on 6/23/2005. The swap was exercised and the County refunded a portion of its 1998 Series A General Obligation Refunding Bonds with variable rate bonds and entered into a fixed payer swap in which the County will pay a fixed rate of 4.66% and receive SIFMA. The swap has the same amortization and maturity as the underlying bond issue. The fixed swap rate of 4.66% was set at a rate that, when added to the assumed ongoing expenses for the variable rate bonds and the costs of issuance for the underlying variable rate bonds, would equal the average coupon on the outstanding 1998 Series A General Obligation Refunding Bonds.

Fair Value of Swap and Option: The swap as of 6/30/2014 has a net value of ($13,104,064). The total mark-to-market was ($14,595,088) and ($1,491,024) is accrued interest from 6/01/2014 to the valuation date, 6/30/2014. This fair value was measured by a swap pricing system in which the future net swap settlement payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dates implied from the current yield curve.

Associated Debt and Swap Payments: This swap is in conjunction with the 2004B General Obligation Bonds which have a principal balance at 6/30/2014 of $118,885,000. The swap has a current notional amount of $98,750,000 and has a more rapid maturity than the Bonds. The cash flows below assume that for the LFP swap SIFMA equals its current level, as of 6/30/2014 of 0.06%. Interest and net swap payments will fluctuate as SIFMA and LIBOR change.

Fiscal Year Ended June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Net Swap Payments	Total
2015	$ ---	$ 71,331	$ 4,463,931	$ 4,535,262
2016	---	71,331	3,893,547	3,964,878
2017	---	71,331	3,267,068	3,338,399
2018	---	71,331	2,644,783	2,716,114
2019	---	71,331	2,016,382	2,087,713
2020	---	71,331	1,356,002	1,427,333
2021	---	71,331	688,865	760,196
2022	---	71,331	175,100	246,431
2023	---	71,331	---	71,331
2024	13,295,000	71,331	---	13,366,331
2025	21,500,000	63,354	---	21,563,354
2026	13,775,000	50,454	---	13,825,454
2027	15,150,000	42,189	---	15,192,189
2028	16,665,000	33,099	---	16,698,099
2029	18,335,000	23,100	---	18,358,100
2030	20,165,000	12,099	---	20,177,099
Total	$ 118,885,000	$ 937,605	$ 18,505,678	$ 138,328,283

Credit Risk: The County has credit exposure to LFP equivalent to the fair value of the swaps. If LFP fails to perform under the terms of the swap contract, the County could have a loss equal to that mark-to-market value. The current ratings of LFP are AA-/Aa1/A+ by Fitch, Moody's and Standard & Poor's, respectively. The County could also be exposed to credit risk depending on the fair value of the swap at any given time. To mitigate credit risk, if Standard & Poor's and Moody's rates the credit worthiness of LFP's (or the Credit Support Provider's) senior, unsecured, unenhanced debt below a rating of "A2" in the case Moody's or "A" in the case of Standard & Poor's, treasuries or cash will be pledged.

Termination Risk: If the swap has an unanticipated termination or the County exercises its option to terminate, the County may owe a termination payment to LFP equal to the fair value of the swap at that time, if the fair value is negative to the County. As of 6/30/2014, LFP has a credit guarantee from Deutsche Bank AG, rated Aa1/AA by Moody's and Standard & Poor's, respectively.

Interest Rate Risk: Currently, the County does not have interest rate risk because it is paying a fixed rate on the swap. However, if for some unforeseen reason the swap is terminated prior to maturity, the County will have interest rate risk associated with the outstanding variable rate bonds until maturity in 2022.

Basis Risk: As long as there is not a direct relationship between the floating rate received from LFP and the rate at which the variable rate bonds remarket, the County is exposed to basis risk. The basis risk will arise from the difference between the actual interest rate paid on the variable rate bonds and the receipt from LFP of SIFMA. This basis differential could cause the expected savings to not be achieved.

Tax Risk: Changes or proposed changes to the tax laws relating to the tax-exempt status of municipal bonds will have no tax risk on the LFP swap.

Swap Two: Executed with Goldman Sachs Mitsui Marines Derivative Products (Goldman) on 11/2/2006 in connection with 2006 Series C General Obligation Variable Rate Demand Refunding Bonds:

Swap Objective: This swap was issued to take advantage of low interest rates and to refund high coupon debt.

Swap Terms:

Open Notification Date	Swap Effective Date	Swap Maturity Date	Notional Amount	Fixed Payer Rate	Underlying Index	Upfront Cash Payment
N/A	11/30/2006	12/1/2031	$ 59,970,000	3.83%	SIFMA	None

The County entered into this swap on 11/2/2006 with Goldman Sachs Mitsui Marines Derivative Products (Goldman) with an effective date of 11/30/2006 for the 2006C Refunding Bonds. There was no upfront payment with Goldman. The County refunded a portion of its 1999 Series A Public Improvement Bonds, a portion of its 1999 Series B Public Improvement and School Bonds and a portion of its 2001 Series A Public Improvement and School Bonds. The bonds were refunded with variable rate bonds and the County entered into a fixed payer swap in which the County will pay a fixed rate of 3.83% to Goldman and receive SIFMA. The original notional amount on the swap with Goldman was $234,160,000. At 6/30/2014 the Goldman swap had a notional amount of $59,970,000. The Swap has a termination date of 12/1/2031.

Fair Value of Swap and Option: The swap as of 6/30/2014 has a net value of ($9,022,548). The total mark-to-market was ($9,198,432) of which approximately ($175,884) is accrued interest from 6/01/2014 to the valuation date, 6/30/2014. This fair value was measured by a swap pricing system in which the future net settlement swap payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dates implied from the current yield curve.

Associated Debt and Swap Payments: This swap is in conjunction with 2006 Series C General Obligation Variable Rate Demand Refunding Bonds. This analysis assumes the Goldman swap stays in place until maturity in 2031. The cash flows below assume that for the Goldman swap SIFMA equals its current level, as of 6/30/2014 of 0.06%. Interest and net swap payments will fluctuate as SIFMA changes.

Fiscal Year	Variable Rate Bonds		Net Swap	
Ended June 30	Principal	Interest	Payment	Total
2015	$ ---	$ 871,947	$ 2,292,770	$ 3,164,717
2016	---	871,947	2,299,150	3,171,097
2017	---	871,947	2,292,770	3,164,717
2018	---	871,947	2,292,770	3,164,717
2019	---	871,947	2,292,770	3,164,717
2020	---	871,947	2,299,150	3,171,097
2021	---	871,947	2,292,770	3,164,717
2022	---	871,947	2,292,770	3,164,717
2023	---	871,947	2,292,770	3,164,717
2024	---	871,947	2,299,150	3,171,097
2025	6,530,000	824,475	2,168,290	9,522,765
2026	6,785,000	727,677	1,913,774	9,426,451
2027	7,050,000	627,098	1,649,319	9,326,417
2028	7,325,000	522,594	1,377,976	9,225,570
2029	7,610,000	414,019	1,089,059	9,113,078
2030	7,910,000	301,190	792,395	9,003,585
2031	8,220,000	183,928	484,071	8,887,999
2032	8,540,000	62,085	163,705	8,765,790
Total	$ 59,970,000	$ 12,382,536	$ 32,585,429	$ 104,937,965

Credit Risk: Because the swap has a negative value on 6/30/2014, the County does not have credit risk. However, if the fair value of the swaps moves in favor of the County, credit risk would be present. To mitigate credit risk, if Standard & Poor's and Moody's rates the creditworthiness of Goldman's (or the Credit Support Provider's) senior, unsecured, unenhanced debt below a rating of "A" in the case of Standard & Poor's or "A2" in the case of Moody's, treasuries or cash will be pledged. The current ratings of Goldman are AAA/Aa1 by Standard & Poor's and Moody's, respectively.

Termination Risk: An out-of-the-ordinary event may occur that causes the contract to be terminated. At the time of termination, if the swap has a negative fair value, the County would be liable to Goldman for a payment equal to the fair value. If either Standard & Poor's or Moody's rates the creditworthiness of either party's long-term, unsecured, unenhanced debt rating below A- by Standard & Poor's or A3 by Moody's, an additional termination event has occurred.

Interest Rate Risk: Currently, the County does not have interest rate risk because it is paying a fixed rate on the swap. However, if for some unforeseen reason the swap is terminated prior to maturity, the County will have interest rate risk associated with the outstanding variable rate bonds until maturity in 2031.

Basis Risk: As long as there is not a direct relationship between the floating rate received from Goldman and the rate at which the variable rate bonds remarket, the County is exposed to basis risk. Basis risk exists if the County's bonds remarket higher than SIFMA, which is the rate received from the Goldman. Thus, the expected cost savings may not be achieved.

Swap Three and Four: Executed with Goldman Sachs Mitsui Marines Derivative Products (Goldman) and Morgan Keegan Financial Products, Inc. (MKFP) on 2/14/06 in connection with 2006 Series B General Obligation Variable Rate Demand Public Improvement and School Bonds:

Swap Objective: The County entered into this fixed payer swap in order to hedge variable rate exposure on the underlying bonds.

<u>*Swap Terms:*</u>

Executed Date	Swap Effective Date	Swap Maturity Date	Notional Amount	Fixed Payer Rate	Floating Rate Index
2/14/2006	2/22/2006	3/1/2031	$159,590,000	3.503% until 3/1/2016 4.43% thereafter	SIFMA

On 2/14/2006, the County entered into a fixed payer swap with an effective date of 2/22/2006. Under the terms of the swap, the County pays a fixed rate of 3.503% until 3/1/2016 and 4.43% thereafter to the Counterparties, Goldman and MKFP. In return, the County receives the SIFMA index. Goldman's portion of the swap is $119,590,000 and MKFP's portion is $40,000,000. As of 6/30/2014 the notional amounts of the 2006B Goldnan swap and the 2006B MKFP swap are $119,590,000 and $40,000,000 respectively.

Fair Value of Swap: The swaps, as of 6/30/2014 have a net value of ($31,020,992). The total mark-to-market was ($32,830,801) of which approximately ($1,809,809) is accrued interest from 6/01/2014 to the valuation date, 6/30/2014. This fair value was measured by a swap pricing system in which the future net settlement swap payments were calculated and discounted to the valuation date using future spot interest rates.

Associated Debt and Swap Payments: This swap is in conjunction with 2006 Series B General Obligation Variable Rate Demand Public Improvement and School Bonds. This analysis assumes both swaps stay in place until maturity in 2031. The cash flows below assume that for both swaps SIFMA equals its current level, as of 6/30/2014 of 0.06%. Interest and net swap payments will fluctuate as SIFMA changes.

Fiscal Year Ended June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Net Swap Payments	Total
2015	$ ---	$ 427,600	$ 5,494,684	$ 5,922,284
2016	---	427,600	5,494,421	5,922,021
2017	7,425,000	427,600	6,974,083	14,826,683
2018	2,020,000	407,717	6,649,611	9,077,328
2019	---	402,308	6,561,337	6,963,645
2020	2,705,000	402,308	6,561,090	9,668,398
2021	8,505,000	395,024	6,443,128	15,343,152
2022	9,575,000	372,250	6,071,460	16,018,710
2023	7,130,000	346,610	5,653,032	13,129,642
2024	7,450,000	327,517	5,341,250	13,118,767
2025	23,900,000	307,457	5,015,886	29,223,343
2026	26,130,000	243,457	3,971,456	30,344,913
2027	20,110,000	173,486	2,829,575	23,113,061
2028	6,625,000	119,635	1,950,695	8,695,330
2029	12,680,000	101,797	1,661,256	14,443,053
2030	6,055,000	67,842	1,107,140	7,229,982
2031	19,280,000	51,628	842,536	20,174,164
Total	$ 159,590,000	$ 5,001,836	$ 78,622,640	$ 243,214,476

Credit Risk: Because the swap has a negative value on 6/30/2014, the County does not have credit risk. However, if swap rates increase and the fair value of the swap moves in favor of the County, credit risk would be present.

Termination Risk: Goldman and MKFP have the right to terminate the swap on 3/1/2016. If the swap is terminated on the optional termination date, neither party is liable for a termination payment. Also, if the swap is terminated, the County will be exposed to interest rate risk because the variable rate bonds will no longer carry a synthetic fixed rate.

Interest Rate Risk: Currently, the County does not have interest rate risk because it is paying a fixed rate on the swap. However, if the swap is terminated prior to maturity, the County will have interest rate risk associated with the outstanding variable rate bonds until maturity in 2031.

Basis Risk: As long as there is not a direct relationship between the floating rate received from the counterparties, Goldman or MKFP, and the rate at which the variable rate bonds remarket, the County is exposed to basis risk. Basis risk exists if the County's bonds remarket higher than SIFMA, which is the rate received from the counterparties. Thus, the expected cost savings may not be achieved.

Claims and Judgments

The County has recognized long-term liabilities for claims and judgments of $5,481,162 in accordance with its accounting policy explained in Note I(E). The liabilities are based on property damage and personal injury lawsuits arising in the course of operations. The County believes this is a reasonable measure of the ultimate settlement of these matters.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

(I) Fund Balances by Purpose

Following is more detailed information on the governmental fund balances**:**

	General Fund	Debt Service Fund	Capital Projects Fund	Grants Fund	Nonmajor Governmental Funds	Total
Fund balances:						
Restricted for:						
Grants and sponsored projects	$ ---	$ ---	$ ---	$ 16,459,728	$ ---	$ 16,459,728
Special revenue activities	23,247	---	---	---	16,167,849	16,191,096
Educational projects and funding	---	7,605,692	1,000	---	---	7,606,692
Conservation projects	---	---	83,515	---	---	83,515
Committed to:						
Approved carryforward appropriations	---	---	34,098,546	---	---	34,098,546
Special revenue activities	---	---	---	---	5,674,041	5,674,041
Public improvement and educational projects	81,307	79,665,910	---	---	---	79,747,217
Assigned to:						
Purchase order encumbrances	813,270	---	---	---	---	813,270
Unassigned	102,469,929	---	---	---	---	102,469,929
Total fund balances	$103,387,753	$ 87,271,602	$ 34,183,061	$ 16,459,728	$ 21,841,890	$ 263,144,034

For flow assumption policy regarding use of fund balance types refer to Note I(E).

(J) Interfund Receivables, Payables and Transfers

Interfund receivables and payables consist of the following:

Receivable Fund	Payable Fund		Amount
Debt Service Fund	General Fund	$	1,210,619
Education Fund	General Fund		1,465,217
Nonmajor Governmental Funds	General Fund		1,687,145
Nonmajor Enterprise Funds	Grants Fund		239
Total		$	4,363,220

Due to/From Component Units consists of the following:

Receivable Entity	Payable Entity		Amount
Board of Education (component unit)	Education Fund	$	12,817,529
	Grants Fund		44,799
Debt Service Fund	Board of Education (component unit)		108,928
Total		$	12,971,256

The interfund amounts payable by the General Fund result from collection of fees and taxes by a designated elected official that are revenue of the receivable funds; however the custody of the funds at year-end was with the collecting official and funds were not yet available to the receiving funds.

The amount payable to the Board of Education (component unit) from the Education Fund represents property and wheel taxes accrued at year-end but not yet paid to the Shelby County Board of Education.

The total due to component units disclosed here, $12,862,328, is less than the amount disclosed on the Statement of Net Position due to $23,211,433 of deferred inflows of resources in the funds that are earned but unavailable and are payable to the component unit when they become available.

Transfers during the year were as follows:

Transfers Out:	Transfers In:	Amounts
General Fund	Grants Fund	$ 8,612,339
	Enterprise Funds	7,682,717
	Internal Service	4,250,000
Debt Service Fund	Capital Projects Fund	6,280,000
Grants Fund	General Fund	1,486,676
	Grants Fund	2,518,607
Nonmajor Governmental Funds	Grants Fund	555,422
Total transfers out of govermental fund types		31,385,761
Enterprise Funds	Grants Fund	408,932
Internal Service Funds	General Fund	183,374
Total transfers out of proprietary fund types		592,306
Total all fund types		$ 31,978,067

Transfers are used to (1) move revenue from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

(K) Other Revenue

The other revenue classification is used in the combined, combining and individual fund financial statements and in the supplemental schedules and statistical section of the comprehensive annual financial report. This category is one of the revenue line items included in the legally adopted budget approved annually by the Board of Commissioners. Certain revenue accounts which are not accurately described by any of the other revenue classifications included in the budget (property taxes, other local taxes, state revenue, federal and local revenue, charges for services, fines, fees and permits, investment income) are classified as other revenue.

Other revenue for the year ended June 30, 2013 is detailed below:

	General Fund	Debt Service Fund	Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
Private donor grants	$ 40,226	$ ---	$ 523,224	$ 19,898	$ 583,348
In-kind services	---	---	6,503,354	---	6,503,354
Miscelleanous income	232,434	---	175,964	10,188	418,586
Forfeitures and seizures	---	---	---	1,303,822	1,303,822
Housing principal & interest	---	717,739	49,306	---	767,045
Total other revenue	$ 272,660	$ 717,739	$ 7,251,848	$ 1,333,908	$ 9,576,155

Miscellaneous income includes refunds and recoveries of prior year expenditures, unclaimed property, and various other small payments received for which there is no other suitable category.

(L) Risk Financing and Related Insurance Issues

Shelby County maintains a self-insured Group Health Insurance Fund for its active employees and their dependents, funded by participation of both the County and its employees. Claims liabilities for the Group Health Insurance Fund were estimated based on prior years' claims expense and the current year's actual claims incurred. The schedule below presents the changes in claims liabilities for the past two years for the Group Health Insurance Fund:

	2014	2013
Insurance claims liabilities at the beginning of the fiscal year	$ 4,764,839	$ 4,221,239
Incurred claims and claim adjustment expenses	50,192,942	48,164,484
Payment of claims and claim adjustment expenses	(50,677,807)	(47,620,884)
Claims and claim adjustment liabilities at the end of the fiscal year	$ 4,279,974	$ 4,764,839

The County maintains a self-insured Tort Liability Fund funded by premiums paid by departments using County vehicles and by transfers from the General Fund. Claims liabilities of the Tort Liability Fund were estimated based on prior years' claims expense, current year's actual claims, and a review of pending litigation through the County Attorney. The schedule below presents the changes in claims liabilities for the past two years for the Tort Liability Fund:

	2014	2013
Claims and claim adjustment liabilities at the beginning of the fiscal year	$ 1,997,077	$ 4,093,889
Incurred claims and claim adjustment expenses	1,052,423	(1,684,957)
Payment of claims and claim adjustment expenses	(798,752)	(411,855)
Claims and claim adjustment liabilities at the end of the fiscal year	$ 2,250,748	$ 1,997,077

The County maintains a self-insured Employer Insurance Fund for on-the-job injuries and unemployment compensation, funded by premiums paid by County departments based on a percentage of salary costs. Claims liabilities of the Employer Insurance Fund were estimated based on prior year's claims expense and current year's actual claims incurred. The schedule below presents the changes in claims liabilities for the past two years for the Employer Insurance Fund:

	2014	2013
Claims and claim adjustment liabilities at the beginning of the fiscal year	$ 5,104,549	$ 5,692,034
Incurred claims and claim adjustment expenses	1,146,902	1,451,994
Payment of claims and claim adjustment expenses	(1,756,324)	(2,039,479)
Claims and claim adjustment liabilities at the end of the fiscal year	$ 4,495,127	$ 5,104,549

The total of claims liability disclosed here, $11,025,849, differs from the sum of claims reported on the Statement of Net Position and the long-term claims disclosed in Note IV(H) due to claims that are solely short term in nature and a $305,286 long term liability to be paid by the General Fund.

(M) Contingencies and Commitments

The County's governmental funds have obligations at fiscal year-end, contingent upon contractors' and vendors' performance, for outstanding purchase orders and outstanding contracts. These obligations are included in the restricted, committed, or assigned fund balances in the governmental funds.

The amounts of these encumbrances are as follows:

General Fund	Capital Projects Fund	Grants Fund	Nonmajor Governmental Funds	Total
$ 813,270	$ 32,509,754	$ 11,852,431	$ 1,923,737	$ 47,099,192

The Capital Projects Fund had additional commitments specific to capital projects of $64,929,097 as of June 30, 2014.

The Memphis and Shelby County Sports Authority, Inc. is a joint venture organization that has issued revenue bonds for construction of a sports and entertainment facility. Although the City of Memphis and Shelby County are not legally liable for the debt, they have agreed to share equally in the payment of the debt if the Authority is unable to pay. See further explanations in Note IV(N).

(N) Joint Ventures, Jointly Governed Organizations and Related Organizations

Joint Ventures:

Joint ventures are defined in generally accepted accounting principles as organizations owned, operated or governed by two or more participants where no single participant has the ability to unilaterally control the financial or operating policies of the joint venture. Participants must maintain an ongoing financial responsibility for, or financial interest in, the joint venture. The following organizations qualify as joint ventures of Shelby County. References to the appointment of members of boards or commissions include both those appointed and those serving ex officio. Appointment usually includes confirmation by the appropriate legislative body.

Memphis and Shelby County Sports Authority, Inc. (the Authority)

The Authority was chartered in 1997 under a State statute that permits sports authorities to receive certain sales taxes generated by major league sports franchises. In 2001 the City of Memphis and Shelby County entered into the

"Memphis Arena Project Agreement" to bring a NBA professional team to Memphis. A major part of that agreement required the construction of a new multipurpose sports and entertainment facility. Financing for construction of this facility (now known as FedExForum) has been done through the Authority. The Authority has issued long-term debt with principal of $199,179,321, net of discounted bond issuance, owed as of December 31, 2013, plus $2,006,523 accrued swap liabilities. Title to the facility is held by the New Memphis Arena Public Building Authority of Memphis and Shelby County, a joint venture; see below for more information on that entity. The Authority's revenue bonds are payable from seat rental fees, certain state sales taxes generated by the professional basketball team, car rental taxes, City and County-wide hotel/motel taxes, and in lieu of tax payments by the Memphis Light Gas and Water Division.

The Authority is a joint venture between the City of Memphis and the County and has a board whose members are jointly appointed by the City and the County. Although the bond indentures state that the City and County are not legally liable for the indebtedness of the Authority, under agreement the City and County have agreed to pay, in equal amounts, the debt if the Authority is unable to pay. During the year ended June 30, 2014 the County transferred to the Sports Authority for debt service purposes the amount of $1,934,329 from car rental taxes and $7,541,220 from hotel/motel taxes. Financial statements for the Memphis and Shelby County Sports Authority, Inc. may be obtained from the Administrator of Finance, Shelby County Government, 160 N. Main Street, Suite 800, Memphis, Tennessee 38103.

The following is a summary of the financial information of the Authority as of the most recent financial statements available:

	Memphis and Shelby County Sports Authority, Inc. (December 31,2013)
Assets	$ 58,011,103
Liabilities	208,170,235
Net position	(150,159,132)
Operating expenses	12,122,290
General revenues	17,582,938
Change in net position	5,460,648

New Memphis Arena Public Building Authority of Memphis and Shelby County (New PBA)
The New PBA was created in August 2001 by Shelby County and the City of Memphis. It is a nonprofit corporation established under statutes of the State of Tennessee. In June 2001 the City of Memphis, Shelby County, and HOOPS, L.P. (the NBA franchise ownership entity) entered into the "Memphis Arena Project Agreement." Under this agreement a new arena would be constructed and leased to HOOPS, L.P. as part of the agreement to bring a professional basketball (NBA) team to Memphis. The primary purpose of the New PBA was to construct and hold title to this new multi-purpose sports and entertainment facility (now known as FedExForum). Construction of the facility is complete and the facility has been leased to and is being operated by HOOPS, L.P. as noted above.

Funding for construction of the facility was provided primarily through the Memphis and Shelby County Sports Authority, Inc., a separate joint venture as explained above. However, the New PBA holds title to the building.

The New PBA is a joint venture between the City of Memphis and the County. It is governed by a Board of Directors whose members are jointly appointed by the City of Memphis and Shelby County. The City and County maintain an ongoing financial responsibility for subsidies to finance the New PBA's capital expenditures and operations. The County also paid $145,712 for insurance on the facility. Since the PBA's only assets are the ownership rights to the FedExForum Arena, and since there has been no financial activity for the fiscal year, the Tennessee Comptroller of the Treasury has granted approval for an exemption from the annual audit requirement. As of December 31, 2007 - the most recent financial statements available - the PBA reported assets of $209,123,653 and net assets of $209,123,653.

Jointly Governed Organizations:

The County in conjunction with the City of Memphis has joint control of the following organizations through the appointment of their boards. They are not considered joint ventures because the County and the City retain no ongoing financial responsibility or financial interest.

Memphis and Shelby County Community Redevelopment Agency (CRA) is jointly governed by the City of Memphis and the County. The CRA is empowered to do all things necessary to plan, finance and implement development and redevelopment activities in blighted areas of Memphis and Shelby County. The CRA monitors trusts established to fund debt issued with repayment to be provided by tax increment financing for the Uptown Redevelopment project and the Highland Row project. Three board members are appointed by the City mayor with approval of the City Council, three members are appointed by the County mayor with approval of the County Commission and one member is jointly appointed by the City and County mayors with joint approval by the City Council and County Commission. All board member terms are for four years. Financial Statements for the Community Redevelopment Agency may be obtained from the City of Memphis Division of Planning and Development, 125 N. Main, Suite 468, Memphis, Tennessee 38103.

Economic Development Growth Engine Industrial Development Board of the City of Memphis and County of Shelby, Tennessee (EDGE) was created in 2011 by joint resolutions of the City of Memphis and Shelby County Government to have a single entity perform economic development activities on behalf of the governments. EDGE has its own nine-member Board of Directors and Certificate of Incorporation; board members are jointly appointed by the City and the County. EDGE replaced the Industrial Development Board of Memphis and Shelby County, the Depot Redevelopment Corporation of Memphis and Shelby County, Foreign Trade Zone 77, the Memphis and Shelby County Port Commission and the Office of Economic Development of Memphis and Shelby County; inasmuch as all these entities could not immediately be terminated for various reasons, all the entities now have a common governing board so they all essentially operate as one entity. Memphis and Shelby County have no ongoing financial responsibility for EDGE or the related entities now operated under the EDGE umbrella, but may voluntarily agree to such. During FY 2012, at the request of Shelby County, EDGE agreed to issue through the Port Commission their bonds in the amount of $20,397,500; these funds were loaned to the County to partially finance a new manufacturing facility for a newly recruited business. The County agreed to provide to EDGE/Port Commission the funds necessary to repay the debt. This obligation is reported as long-term debt in the County's Statement of Net Position (see also Note IV(H)).

The *Memphis and Shelby County Center City Commission* is responsible for promotion and redevelopment of the Memphis Center City area. The mayors of the City and County appoint the twenty board members for three-year terms, with approval by the City Council and the County Commission.

The *Memphis and Shelby County Center City Downtown Parking Authority* manages five downtown parking garages and establishes and coordinates uniform parking policies and parking management in the downtown Memphis area. The mayors of the City and County appoint the seven-member board.

The *Memphis Center City Revenue Finance Corporation (Finance Corporation)* is a nonprofit corporation established jointly by the City and the County under the laws of the State of Tennessee. The Finance Corporation provides various forms of financial assistance to development projects. The City appoints four board members, the

County appoints four members and one is jointly appointed by the City and County for six-year terms, with approval by the City Council and the County Commission.

The *Memphis and Shelby County Music Commission* was jointly established by the City of Memphis and Shelby County Government with the responsibility of promoting and preserving all phases of our musical heritage, economy and industry. The City and County each appoint ten (10) members of the board and each government has one *ex officio* board member.

The *Memphis and Shelby County Film and Television Commission* was jointly established by the City of Memphis and Shelby County Government to initiate, recommend and/or support policies, programs, projects and events that support the film and television production industry. The City and the County each appoint eleven (11) members of the Commission board.

Related Organizations:

The County appoints a voting majority of the *Health, Housing and Education Facilities Board* but is not financially accountable for the organization.

The *Memphis and Shelby County Airport Authority* owns and operates Memphis International Airport and two general aviation airports. Six of the seven board members are appointed by the City of Memphis mayor and one by the County mayor, all for seven-year terms, subject to confirmation by the Memphis City Council. The Airport Authority is a component unit of the City of Memphis.

(O) Other Postemployment Benefits

Retired employees of the County and former employees receiving long-term disability benefits through the County's program may participate in postemployment benefits (health and life insurance) through the Shelby County OPEB Trust (Trust). The Trust is a single-employer defined benefit plan. The benefits provided are health insurance and life insurance. Audited GAAP financial statements for the Trust can be obtained from Administrator of Finance, Shelby County Government, 160 N. Main Street, Suite 800, Memphis, Tennessee 38103.

Annual OPEB Cost and Net OPEB Obligations
The County's OPEB cost and net OPEB obligations to the Trust for the current year were as follows:

Annual Required Contribution (ARC)	$	29,261,919
Interest on Net OPEB Obligation		929,310
Adjustment to ARC		(1,248,640)
Annual OPEB Cost		28,942,589
Contributions made		(36,731,249)
Decrease in net OPEB Obligation		(7,788,660)
Net OPEB Obligation beginning of year		17,701,150
Net OPEB Obligation end of year	$	9,912,490

The OPEB Trust has been in existence for only seven years. Limited trend information may be seen from the table that follows. Note that a special, one-time employer contribution of $23,892,191 was made in FY 2008.

Fiscal Year Ended	Annual OPEB Costs (AOC)	Actual Contributions	Percentage of AOC Contributed	Net OPEB Obligation
June 30, 2014	$ 28,942,589	$ 36,731,249	126.9%	$ 9,912,490
June 30, 2013	32,983,377	29,232,920	88.6%	17,701,150
June 30, 2012	26,928,000	31,914,109	118.5%	13,950,693
June 30, 2011	30,122,000	24,850,458	82.5%	18,936,802
June 30, 2010	29,007,000	20,611,575	71.1%	13,665,260
June 30, 2009	31,600,000	18,329,123	58.0%	5,269,835
June 30, 2008	34,227,000	42,228,042	123.4%	(8,001,042)

For government-wide and proprietary funds, the County reports OPEB expenses and net OPEB obligation using the economic resources measurement focus and the accrual basis of accounting. In governmental funds, expenses are reported at amounts paid or payable to the Trust in the current year.

Funded Status and Funding Progress:
As of June 30, 2014, the most recent actuarial valuation date, the plan was 56.8% funded. The actuarial accrued liability for benefits was $313 million, and the actuarial value of assets was $178 million, resulting in an unfunded actuarial accrued liability; (UAAL) of $135 million. The covered payroll (annual payroll of active employees covered by the plan) was $239 million and the ratio of the UAAL to the covered payroll was 56.4%.

Actuarial calculations of the OPEB plan reflect a long-term perspective. These calculations are based on the OPEB benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation, Method and Assumptions

Valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	23 years
Asset valuation method	Market value
Rate of inflation	4.00%
Rate of investment return	5.25%
Projected salary increases	4.00%
Healthcare cost trend rate	7.75% to 5.75% graded to 5.0% over 5 years

(P) Pensions

Shelby County Retirement System

Plan Description
The Shelby County Retirement System (the System) is a single employer defined benefit public employee retirement system (PERS) established by Shelby County, Tennessee. The System 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 System issues a publicly available financial report that includes financial statements and required supplementary information. Audited GAAP financial statements may be obtained by writing to the Shelby County Retirement System, Suite 701, 160 N. Main, Memphis, Tennessee 38103 or calling (901) 222-1950.

Substantially all full-time and permanent part-time employees of the County are required, as a condition of employment, to participate in the System. The Shelby County Board of Commissioners establishes the System's benefits and contribution provisions. Once becoming a participant, a person will continue to participate as long as he or she is an employee of the County. The System provides retirement as well as survivor and disability defined benefits.

The System consists of four plans (Plans A, B, C and D) which are legally one reporting entity. Plan B is a contributory defined benefit pension plan for employees hired prior to December 1, 1978. Plan A is a contributory defined benefit pension plan for employees hired between December 1, 1978 and February 28, 2005, and those employees that elected to transfer to Plan A from Plan B before January 1, 1981. Plan C is a contributory defined benefit pension plan that became effective September 1, 2005 and includes all employees hired after February 28, 2005, all former Plan A "public safety employees" who were required to move to Plan C to preserve their right to retire with unreduced benefits with 25 years of service, and other former Plan A participants who elected to move to Plan C. Plan D is a contributory defined benefit pension plan that includes all employees hired on or after July 1, 2011.

Funding Policy
The Board of Administration of the Shelby County, Tennessee Retirement System (the Board) establishes the System's funding policy for employee contribution requirements. The Shelby County Board of Commissioners establishes the System's funding policy for employer contribution requirements. The County does not receive the actuarial report until several months into the fiscal year to which the report relates. Due to budgetary procedures the County makes contributions based on the latest actuarial report received at the date a new fiscal year's budget is being prepared. Contributions for fiscal year 2014 were based on the actuarial report as of June 30, 2012.

In accordance with the actuarial valuation as of June 30, 2012 the employer contribution rate required was 12.75% of covered payroll of participants. Plan B, Plan C, and Plan D participants contribute 8.0% of their earnings, with some exceptions for employees of Plan B with more than 35 years of service. Plan A participants contribute 2.0%. This resulted in total contributions of $45,893,474 ($31,976,458 employer contributions and $13,917,016 employee contributions). The actuarial required employer contribution of $32,982,757 is significantly impacted by the amortization of the actuarial surplus that results from investment results in prior years. The County funds at least the Annual Required Contribution as a percent of payroll from the most recent actuarial report at the time the budget is prepared. For fiscal year 2014, the most recent actuarial report available was as of June 30, 2012.

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

Annual Pension Cost and Net Pension Obligation
The county's annual pension cost and net pension obligation to the System for the current year were as follows:

Annual Required Contribution (ARC)	$	32,982,757
Interest on net pension obligation		(2,072,708)
Adjustment to ARC		3,360,386
Annual pension cost		34,270,435
Contributions made (per actuarial report)		(31,968,172)
Increase in net pension obligation		2,302,263
Net pension obligation beginning of year		(25,908,853)
Net pension obligation end of year	$	(23,606,590)

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	$ 34,270,435	93.3%	$ (23,606,590)
June 30, 2013	33,060,236	91.3%	(25,908,853)
June 30, 2012	27,291,451	85.7%	(28,799,423)

Funded Status and Funding Progress:
As of June 30, 2014 the most recent actuarial valuation date, the plan was 82.6% funded. The actuarial accrued liability for benefits was $1,398 million, and the actuarial value of assets was $1,155 million, resulting in an unfunded actuarial liability (UAAL) of $243 million. The covered payroll (annual payroll of active employees covered by the plan) was $240 million and the ratio of the UAAL to the covered payroll was 101.2%.

The actuarial calculations of the pension plan reflect a long-term perspective. The calculations are based on the pension benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The actuarial valuations for pension plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation, Method and Assumptions

Valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	22 years on June 30, 2014
Asset valuation method	10-year smoothed market value
Rate of inflation	0.00%
Rate of investment return	8.00%
Projected salary increases	Graded salary scale (3.00% to 8.50%)
Cost-of-living adjustments	CPI-U up to 4.00% for Plan A and Plan C; CPI-U up to 1.00% for Plan B CPI-U up to 2.00% for Plan D

Pension plans of the component units:

The primary government does not act in a trustee capacity for the assets of the pension plans of the component units.

Shelby County Board of Education (the Board of Education)
On behalf of its teachers, the Board of Education contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0203 or can be accessed at www.treasury.state.tn.us.

All non-teachers employed by the Board of Education are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by TCRS. The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.

Shelby County Health Care Corporation (Regional One Health)
Effective July 1, 1985 Regional One Health established the Regional Medical Center at Memphis Retirement Investment Plan, a defined contribution pension plan. In a defined contribution plan benefits depend solely on amounts contributed to the plan plus investment earnings. Financial statements of the Regional Medical Center at Memphis Retirement Investment Plan are available from Shelby County Health Care Corporation, 877 Jefferson Avenue, Memphis, Tennessee 38103.

More details about all plans of component units are available in the separately issued financial reports of the component units and in the separately issued financial reports of the retirement plans as noted above.