SHELBY COUNTY RETIREMENT SYSTEM

Financial Statements
For the Years Ended June 30, 2010 and 2009

SHELBY COUNTY RETIREMENT SYSTEM

Contents

Independent Auditor's Report

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

We have audited the accompanying statements of plan net assets of Shelby County Retirement System as of June 30, 2010 and 2009, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the management of Shelby County Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of Shelby County Retirement System at June 30, 2010 and 2009, and its changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2010 on our consideration of the internal control of Shelby County Retirement System over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Thompson Dunavant PLC

Memphis, Tennessee
October 27, 2010

SHELBY COUNTY RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

This discussion and analysis of the Shelby County Retirement System ("SCRS") (the "Plan") financial performance provides a narrative overview and analysis of the Plan's financial activities and funding conditions for the fiscal year ending June 30, 2010. Please read it in conjunction with the Plan's financial statements, which follow this section.

Financial Highlights

- Total plan net assets held in trust for pension benefits at June 30, 2010 were $825.8 million, increasing over $89.9 million, or 12.2%, from the plan net assets at June 30, 2009.

- Cash and cash equivalents for fiscal year 2010 increased by $36.7 million, or 110.5% compared to fiscal year 2009.

- Contributions for fiscal year 2010 increased by $0.8 million or 2.7%, compared to fiscal year 2009.

- Net investment income for fiscal year 2010 totaled $114.1 million, an increase of $328.2 million, or 153.3% compared to fiscal year 2009.

- Benefits payments, member refunds and administrative expenses total $53.0 million for the fiscal year 2010 an increase of $1.8 million or 3.5% over fiscal year 2009.

Overview of the Financial Statements

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

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

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

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

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

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

Analysis of Plan Net Assets

At June 30, 2010, the Plan net assets were $825.8 million. The value of net assets increased by 89.9 million, or 12.2%, from $735.9 million at June 30, 2009. The increase was due primarily to increasing market value of the assets held for the fiscal year 2010.

As of June 30, 2010, cash and cash equivalents increased by $36.7 million, or 110.5%, from fiscal year 2009. The increase was due primarily to the liquidation of investments by several money managers during the 2009 market decline.

The Plan's assets consist primarily of investments in domestic and international equities, government securities, corporate bonds, collateralized mortgage obligations, mortgage-backed pooled securities, limited partnerships, hedge funds and private real estate and infrastructure funds. For fiscal year 2010 investments of $762.5 million, represented an increase of 9.0% from fiscal year 2009. The increase in the investment portfolio was due to gains in asset valuations as the market recovered from volatile market conditions in 2009.

Receivables decreased ($1.9) million from June 30, 2009 to $5.3 million at June 30, 2010. The decrease was due to the decline in accrued interest and dividends and money managers pending trade sales at year end.

Liabilities for securities purchased and other liabilities increased $32.1 million from $91.1 million at June 30, 2009 to $123.2 million at June 30, 2010. The increase was due primarily to an increase at year end in collateral subject to return to borrowers related to our securities lending program.

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

Table 1 Plan Net Assets (Dollars in Thousands)			
	June 30, 2010	June 30, 2009	FY10 - FY09 Percentage Change
ASSETS			
Cash and cash equivalents	$ 69,964,789	$ 33,235,396	110.5%
Investments at fair value	762,581,239	699,679,920	9.0%
Receivables	5,332,978	7,238,595	-26.3%
Collateral held for securities on loan	111,054,800	86,809,165	27.9%
TOTAL ASSETS	**948,933,806**	**826,963,076**	14.7%
LIABILITIES			
Liability for securities purchased	11,065,958	3,346,424	230.7%
Accts Payables & accrued expenses	1,048,756	934,983	12.2%
Collateral subject to return	111,054,800	86,809,165	27.9%
TOTAL LIABILITIES	**123,169,514**	**91,090,572**	35.2%
PLAN NET ASSETS	**$ 825,764,292**	**$ 735,872,504**	12.2%

Analysis of Changes of Plan Net Assets

Members and employer contributions for fiscal year 2010 were $28.8 million, an increase of $0.8 million, or 2.7%, from $28.0 million in 2009. The increase was due primarily to additional employer contributions. Members covered under the SCRS Pension Plan B are required to contribute 8.0% of pensionable earnings into the SCRS Pension Plan, while members covered under Plan C are required to contribute 6.0% and members covered under Plan A make no contribution. The Shelby County Government contribution is determined by actuarial valuation. Shelby County Government contributed 8.56% of pensionable earnings for the fiscal year 2010, which was in excess of the actuarial annual required contribution.

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

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

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

Table 2
Changes in Plan Net Assets
(Dollars in Thousands)

	June 30, 2010	June 30, 2009	FY10 - FY09 Percentage Change
PLAN NET ASSETS, BEGINNING OF YEAR	**$ 735,872,504**	**$ 972,502,164**	**-24.3%**
ADDITIONS			
Contributions	28,771,378	28,020,191	**2.7%**
Net investment income (loss)	114,112,172	(214,088,357)	**153.3%**
Net Securities lending activities income	5,523	645,747	**-99.1%**
TOTAL ADDITIONS (DEDUCTIONS)	**142,889,073**	**(185,422,419)**	**177.1%**
DEDUCTIONS			
Benefit payments	48,159,243	46,491,159	**3.6%**
Refunds	3,699,296	3,341,139	**10.7%**
Administrative expenses	1,138,746	1,374,943	**-17.2%**
TOTAL DEDUCTIONS	**52,997,285**	**51,207,241**	**3.5%**
NET INCREASE (DECREASE)	**89,891,788**	**(236,629,660)**	**138.0%**
PLAN NET ASSETS, END OF YEAR	**$ 825,764,292**	**$ 735,872,504**	**12.2%**

Funding Status

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

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

Retirement benefits are financed by employer and participant contributions and income earned on the Plan's investments. Over the long term, the investment portfolio returns have been a major component of additions to Plan assets. In fiscal year 2010, the Plan investment portfolio increased after a decline in fiscal year 2009 due to the economic recession. The pension fund continues to perform soundly; the County contributions have exceeded the Annual Required Contributions in recent years creating a Net Pension Asset, which provides some relief during turbulent economic times such as these. This in addition to the contributions from SCRS Plan participants continues to reinforce the current and continued financial stability of the Plan. As mentioned in the Analysis of Changes in Plan Net Assets section above, employees in Plan B are required to contribute 8% and Plan C employees are required to contribute 6% of pensionable earnings to the Pension Plan, and SCRS is required to contribute the remaining amounts necessary to fund the Plan in accordance with actuarially determined contribution requirements. For the year 2010 SCRS required annual contribution as determined by an actuarial valuation, was $16.7million, compared to the actual contribution of $19.4 million.

Request for Information

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

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

SHELBY COUNTY RETIREMENT SYSTEM

Statements of Plan Net Assets
June 30, 2010 and 2009

	2010	2009
Assets		
Cash and cash equivalents	$ 69,964,789	$ 33,235,396
Receivables		
Accrued interest and dividends	2,747,129	3,750,314
Investments sold	2,585,849	3,488,281
Total receivables	5,332,978	7,238,595
Investments		
Domestic equity	248,793,827	193,883,743
Fixed income	183,325,349	181,217,109
International equity	167,254,053	144,578,972
Hedge funds	115,307,325	138,357,467
Limited partnership interests	27,979,958	26,828,194
Private real estate and infrastructure	19,920,727	14,814,435
Total investments	762,581,239	699,679,920
Collateral held in trust for securities on loan	111,054,800	86,809,165
Total assets	948,933,806	826,963,076
Liabilities		
Investments purchased	11,065,958	3,346,424
Accounts payable and accrued expenses	1,048,756	934,983
Collateral subject to return to borrowers	111,054,800	86,809,165
Total liabilities	123,169,514	91,090,572
Net assets held in trust for pension benefits	$ 825,764,292	$ 735,872,504

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

SHELBY COUNTY RETIREMENT SYSTEM

Statements of Changes in Plan Net Assets
For the Years Ended June 30, 2010 and 2009

	2010	2009
Additions (reductions)		
Contributions		
Employer	$ 19,390,150	$ 18,733,064
Plan members	9,381,228	9,287,127
Total contributions	28,771,378	28,020,191
Investment activities		
Net appreciation (depreciation) in fair value of investments	103,697,182	(227,135,044)
Interest	9,641,622	10,148,320
Dividends	4,544,511	5,965,074
Other income	66,827	252,757
	117,950,142	(210,768,893)
Less investment expenses	3,837,970	3,319,464
Net investment activities income (loss)	114,112,172	(214,088,357)
Security lending activities		
Securities lending income	402,007	938,117
Securities lending expenses	396,484	292,370
Net securities lending activities income	5,523	645,747
Total net investment income (loss)	114,117,695	(213,442,610)
Total additions (reductions)	142,889,073	(185,422,419)
Deductions		
Benefit payments	48,159,243	46,491,159
Refund of member contributions	3,699,296	3,341,139
Administrative expenses	1,138,746	1,374,943
Total deductions	52,997,285	51,207,241
Net increase (decrease)	89,891,788	(236,629,660)
Net assets held in trust for pension benefits		
Beginning of year	735,872,504	972,502,164
End of year	$ 825,764,292	$ 735,872,504

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

Note 1 - Summary of significant accounting policies

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

Measurement focus and basis of accounting

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

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

Cash and cash equivalents

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

Investments sold and investments purchased

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

Investments

Investments are reported at fair value. Investments in equity securities, corporate bonds, and issues of U.S. Government and government-backed obligations are valued at the last reported sales price of the fiscal year end. International securities reflect current exchange rates in effect at June 30, 2010 and 2009. Certain fixed income securities are valued based on equivalent values of comparable securities with similar yield and risk.

Note 1 - Summary of significant accounting policies (continued)

Investments (continued)

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

Purchases and sales of securities are recorded on a trade-date basis. Consequently, investments have been increased for certain pending but unsettled purchases and investments have been reduced for certain pending but unsettled sales. There are no investments that represent five percent (5%) or more of net assets held in trust for pension benefits as of June 30, 2010 and 2009. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Use of estimates

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

Reclassifications

Certain reclassifications have been made to the fiscal year 2009 financial statements in order to conform with the fiscal year 2010 financial statement presentation.

Note 2 - Plan description and contribution information

General

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

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

Note 2 - Plan description and contribution information (continued)

General (continued)

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

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

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

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

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

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

Note 2 - Plan description and contribution information (continued)

General (continued)

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

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

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

Plan C became effective September 1, 2005. Participation is mandatory for eligible employees hired after February 28, 2005. Each Plan A active participant as of February 28, 2005 had the option to stay in Plan A or to move his participation to Plan C. Public Safety Employees in Plan A were required to move to Plan C to preserve their right to retire with unreduced benefits with 25 years of service; otherwise, they reverted to the original Plan A normal retirement provisions. All elections have now been made.

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

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

Plan C contains a transition period. If a Plan A participant who elects to become a participant in Plan C terminates employment within five years, pension benefits will be calculated under Plan A, not Plan C. For each Plan A Public Safety Employee, however, the number of years the

Note 2 - Plan description and contribution information (continued)

General (continued)

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

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

A Plan C participant will be entitled to an unreduced "normal retirement pension" benefit if the participant has at least 25 years of credited service upon termination, regardless of age. If a participant attains age 65, having completed at least seven and one-half years but less than 25 years of credited service, the participant is also entitled to retire with a "normal" retirement pension. The amount of the normal retirement pension is the higher of two calculated amounts. In the first calculation, three figures are multiplied together: (1) the participant's "final average earnings" (determined in the same way as in Plan A); (2) the participant's years of credited service (no more than 35); and (3) 2.35%; the result is then reduced actuarially by the amount of any optional cash distributions the participant has elected to receive. The second figure is calculated by actuarially converting the sum of the participant contributions account and matching account (after reduction for all optional cash distributions) into a monthly pension for life or, if the participant is married, into a 75% joint and survivor pension.

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

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

Note 2 - Plan description and contribution information (continued)

General (continued)

At June 30, 2010 (the date of the latest actuarial valuation), SCRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,849
Terminated employees entitled to, but not yet receiving benefits	338
Active members	6,197
Total	9,384

Contributions and funding policy

SCRS's funding policy for member contribution requirements is established by the Board. For fiscal years 2010 and 2009, the contribution requirements were based on the actuarially determined contribution rate.

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

The actuarial required employer contribution was $16,652,005 for the year ended June 30, 2010. During the year ended June 30, 2010, actual employer contributions were $19,390,150 and employee contributions were $9,381,228. Actual employer contributions were approximately 6.25% of the related covered payroll costs. The actuarial required employer contribution is significantly impacted by the amortization of the actuarial surplus created from the investment results in prior years. The employer has chosen to fund a level amount that is approximately the normal cost for benefits earned.

During the year ended June 30, 2009, the employer contributions were $18,733,064 which were 6.89% of the related covered payroll costs and the employee contributions were $9,287,127.

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

Trend information

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

Note 3 - Deposits and investments

The Administration and Trust Agreement of Shelby County Retirement System (the "Trust Agreement") vests the Shelby County Retirement System Board of Administration (the "Board") with exclusive control over SCRS's investment portfolio. The Trust Agreement provides for specific investment authority and limitations in accordance with applicable state laws and county regulations. The Board members exercise their authority and control over investments solely in the interest of plan participants and beneficiaries. Additionally, the Board executes its policies with the aid of external investment advisors. The Trust Agreement generally provides that the Board may invest in the following:

- Bonds, notes or treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies.
- Certificates of deposit and other evidences of deposit at Tennessee or federally chartered financial institutions. The institutions must be federally insured.
- Obligations of the United States or its agencies under a repurchase agreement.
- Prime commercial paper which is rated at least A2 and issued by a corporation having no record of default of obligations during the ten (10) years preceding the investment.
- Prime bankers acceptances which are eligible for purchase by the Federal Reserve System.
- Corporate bonds rated B3 or better by Moody's or B- or better by Standard and Poor's.
- Common or preferred shares of stock in any entity listed on the New York Stock Exchange, American Stock Exchange or NASDAQ Stock Exchange or in American Depository Receipts ("ADRs"). The total market value of ADRs and common or preferred shares of stock, calculated on a monthly basis, shall not exceed 70% of the total market value of the Trust Fund.
- Covered call and put options on individual stocks or indexes, with the prior approval of the Investment Committee.
- Financial futures contracts on a limited basis for bona fide hedging purposes and only with prior approval of the Investment Committee.
- Real estate including interests in real estate investment trusts, provided, however, that the total real estate investments of SCRS shall not exceed five percent (5%) of the total value of SCRS.

Note 3 - Deposits and investments (continued)

- International equities provided, however, that the total international investments of SCRS, excluding American Depository Receipts, shall not exceed thirty percent (30%) of the total value of SCRS.
- Co-mingled funds, including registered mutual funds and interests in collective trusts.
- Other investments, as approved individually by the Investment Committee, including securities offered through private placement memoranda.

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

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or deposit. Duration is the measure of the price sensitivity of a fixed income portfolio to changes in interest rates. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates. SCRS limits its exposure to interest rate risk by diversifying its investments by security type and institution.

The fair values of fixed income investments grouped by maturity at June 30, 2010 and 2009 are as follows:

	2010	2009
Current to one year	$ 9,754,579	$ 2,827,589
One to two years	7,217,408	14,039,357
Two to three years	10,556,679	8,355,537
Three to four years	9,005,793	5,860,512
Four to five years	8,080,896	7,561,047
Five or more years	105,998,848	92,196,640
	150,614,203	130,840,682
Funds with indeterminable maturities	32,711,146	50,376,427
	$ 183,325,349	$ 181,217,109

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To control credit risk, credit quality guidelines have been established. Investment parameters as established by the Trust Agreement and the Investment Committee are summarized on pages 17 and 18. There are no restrictions on U.S. Government or Agency issues.

Note 3 - Deposits and investments (continued)

The System's exposure to credit risk at June 30, 2010 and 2009 is presented below by investment category as rated by Standard and Poor's rating service.

Type of Investment	2010 Fair Value	2009 Fair Value	Ratings
Government bonds	$ 22,419,539	$ 12,637,228	AAA
	13,451,099	5,373,661	A
	-	3,266,883	BBB
	628,987	465,175	BB
	9,163,238	5,453,273	Non-rated
	-	8,868,372	U.S. Government Guaranteed
Non government backed CMOS	1,349,962	4,940,246	AAA
	659,572	-	AA
	364,057	-	A
	294,351	1,003,070	BBB
	1,233,804	568,112	BB
	769,846	155,828	B
	2,004,706	667,664	CCC
	359,780	49,563	CC
	5,517	-	D
	4,234,008	3,399,313	Non-rated
Asset backed securities	-	38,804	A
	248,281	74,881	BBB
	6,453	21,355	B
	17,776	10,925	CCC
	41,621	1,119	CC
	4	41	D
	6,650	141,996	Non-rated
Corporate convertible bonds	813,290	-	B
	-	656,200	BBB
	-	670,625	CCC
	4,517,551	2,558,136	Non-rated

Note 3 - Deposits and investments (continued)

Type of Investment	2010 Fair Value	2009 Fair Value	Ratings
Corporate bonds	$ -	$ 458,589	AAA
	5,178,214	8,028,873	AA
	18,279,687	17,037,325	A
	20,662,092	20,364,170	BBB
	4,537,322	3,918,440	BB
	12,182,486	5,984,652	B
	3,590,280	5,198,157	CCC
	20	360	C
	1,396,393	-	D
	596,616	1,192,496	Non-rated
Government agencies	10,956,904	10,587,742	AAA
	-	-	AA
	1,064,606	2,068,895	A
	1,062,490	995,000	BBB
	709,408	-	U.S Government Guaranteed
Municipal provincial bonds	842,155	-	AAA
	1,536,443	2,155,126	AA
	1,761,878	-	A
Government mortgage backed securities	1,300,758	1,828,387	U.S. Government Guaranteed
Other fixed income fund	35,077,505	50,376,427	Non-rated
Total fixed income	$ 183,325,349	$ 181,217,109	

Note 3 - Deposits and investments (continued)

Foreign currency risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the investment. The System's exposure to foreign currency risk in US Dollars as of June 30, 2010 is as follows:

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

Note 3 - Deposits and investments (continued)

The System's exposure to foreign currency risk in US Dollars as of June 30, 2009 is as follows:

Currency	Equities	Government Bonds and Agencies	Other Fixed Income	Hedge Funds	Total
Australian dollar	$ 2,055,774	$ 7,712,725	$ -	$ -	$ 9,768,499
Brazilian real	2,377,812	3,266,883	-	-	5,644,695
British pound sterling	15,041,977	5,090,648	-	-	20,132,625
Canadian dollar	6,273,764	2,190,048	-	-	8,463,812
Danish krone	4,865,135	-	-	-	4,865,135
Euro	25,171,229	515,954	-	-	25,687,183
Hong Kong dollar	11,340,681	-	-	-	11,340,681
Indonesian rupiah	-	1,836,924	-	-	1,836,924
Japanese yen	9,805,312	-	-	-	9,805,312
Malaysian ringgit	-	4,081,524	-	-	4,081,524
Mexican peso	2,010,536	3,205,731	-	-	5,216,267
New Zealand dollar	-	1,648,975	1,312,786	-	2,961,761
South African rand	-	2,167,930	-	-	2,167,930
Swedish krona	2,694,704	1,733,839	-	-	4,428,543
Swiss franc	8,933,786	-	-	-	8,933,786
Turkish lira	1,218,884	-	-	-	1,218,884
Total securities subject to foreign currency risk	91,789,594	33,451,181	1,312,786	-	126,553,561
International portfolio in U.S. dollars	52,789,378	1,623,943	34,572,827	90,866,649	179,852,797
Total international securities	$144,578,972	$ 35,075,124	$ 35,885,613	$90,866,649	$ 306,406,358

Custodial credit risk

Custodial credit risk for deposits and investments is the risk that in the event of a financial institution's failure, SCRS would not be able to recover the value of its deposits, investments, or collateralized securities that are in the possession of an outside party. Deposits and investments are exposed to custodial credit risk if they are not insured, unregistered or not in the name of SCRS, or not collateralized. As of June 30, 2010 and 2009, cash and cash equivalent deposits totaling $207,000 and $268,586, respectively, were exposed to custodial credit risk because they were uninsured or uncollateralized. The remaining cash and cash equivalent deposits were insured by the Federal Deposit Insurance Corporation (FDIC) or were collateralized by SCRS's participation in a multiple-financial institution collateral pool. As of June 30, 2010 and 2009, there were no investments exposed to custodial credit risk.

Note 3 - Deposits and investments (continued)

Securities lending transactions

SCRS has authorized its custodial agent to enter into, on behalf of SCRS, securities lending transactions comprised of loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Initial collateral, consisting of cash and securities must not be less than 102% of the market value of the borrowed securities or not less than 105% if the borrowed securities and collateral are denominated in different currencies. The borrower is required to deliver additional collateral when necessary so that the total collateral held by the custodial agent for all loans to the borrower will at least equal 102% of market value of all the borrowed securities. At June 30, 2010 and 2009, SCRS had no credit risk exposure to borrowers as amounts owed to the borrowers exceeded amounts the borrowers owed to SCRS. Collateral held in trust for securities on loan consists of an investment in the Core USA Collateral Pool. The fair value of investment securities loaned for collateral and held by broker-dealers at June 30, 2010 and 2009 and are summarized as follows:

	2010	2009
Domestic equity	$ 64,327,960	$ 48,868,078
International equity	18,076,810	10,879,579
Fixed income	25,078,808	24,315,495
	$ 107,483,578	$ 84,063,152

Note 4 - Risks and uncertainties

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

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

SUPPLEMENTAL INFORMATION

SHELBY COUNTY RETIREMENT SYSTEM

Required Supplementary Information
For the Year Ended June 30, 2010

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date of June 30	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability/ (Surplus)	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability/ (Surplus) as a Percentage of Covered Payroll
2002	$ 797,091,379	$ 720,839,196	$ (76,252,183)	110.6 %	$ 233,148,476	(32.7)%
2003	$ 794,201,990	$ 769,753,615	$ (24,448,375)	103.2 %	$ 237,197,193	(10.3)%
2004	$ 841,335,004	$ 737,329,388	$(104,005,616)	114.1 %	$ 246,685,081	(42.2)%
2005	$ 885,049,492	$ 780,800,809	$(104,248,683)	113.4 %	$ 253,031,826	(41.2)%
2006	$ 933,730,481	$ 860,178,582	$ (73,551,899)	108.6 %	$ 241,403,735	(30.5)%
2007	$ 992,143,395	$ 934,829,366	$ (57,314,029)	106.1 %	$ 251,059,875	(22.8)%
2008	$1,040,514,476	$1,000,475,305	$ (40,039,171)	104.0 %	$ 264,640,554	(15.1)%
2009	$1,052,640,000	$1,025,867,000	$ (26,773,000)	102.6 %	$ 271,888,000	(9.8)%
2010	$1,053,056,000	$1,084,353,000	$ 31,297,000	97.1 %	$ 266,559,000	11.7 %

SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

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

Valuation date	June 30, 2010
Actuarial cost method	Projected unit credit actuarial cost method
Amortization period	Level dollar open
Remaining amortization period *	16 years on June 30, 2010
Asset valuation method	10-year smoothed market value
Rate of investment return	8.25%
Projected salary increases	Graded salary scale (3.00% to 8.50%)
Cost-of-living adjustments	CPI-U up to 4.00% per year for Plan A and Plan C

* This is a weighted average of the amortization for Plan C (16 years) and the amortization of the unfunded accrued liability (30 years).

THOMPSON DUNAVANT

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the Shelby County Retirement System, as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated October 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Thompson Dunavant PLC

Memphis, Tennessee
October 27, 2010