SHELBY COUNTY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

June 30, 2014 and 2013

WATKINS UIBERALL

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

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SHELBY COUNTY, TENNESSEE
SHELBY COUNTY RETIREMENT SYSTEM

June 30, 2014

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Mike Swift	Director of Administration & Finance
Patty Coker	Manager of Pension Administration
David Pontius	Manager of Pension Investments

ROSTER OF BOARD MEMBERS

Mark H. Luttrell, Jr., Mayor
Michael Harris
Marie Campbell
Bill Cash
Judge Larry Potter
Mary Peete
Harvey Kennedy
Heidi Shafer, Commissioner
Richard Swiggart
Ron Willis
Deke Iglehart
Homer L. Cody
Mike Swift
James Harvey, Commission Chair
Daniel Dent

WATKINS UIBERALL
Watkins Uiberall, PLLC
Certified Public Accountants
Independent Member of BKR International

1661 Aaron Brenner Drive • Suite 300
Memphis, Tennessee 38120
901.761.2720 • Fax: 901.683.1120

210 East Main Street • Suite 2C
Tupelo, Mississippi 38804
662.269.4014 • Fax: 662.269.4016

www.wucpas.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying statements of fiduciary net position of the Shelby County Retirement System as of June 30, 2014 and 2013, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Shelby County Retirement System's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Shelby County Retirement System as of June 30, 2014 and 2013, and the changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and schedules of changes in net pension liability and related ratios, employer contributions, and investment returns be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014, on our consideration of the Shelby County Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Shelby County Retirement System's internal control over financial reporting and compliance.

Watkins Uiberall, PLLC

Memphis, Tennessee
November 24, 2014

SHELBY COUNTY RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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, 2014. Please read it in conjunction with the Plan's financial statements, which follow this section.

Financial Highlights

- Total fiduciary net position at June 30, 2014 was $1,138 million, increasing over $130 million, or 12.9% from the fiduciary net position at June 30, 2013. Total fiduciary net position at June 30, 2013 was $1,008 million, increasing over $92 million, or 10.1%, from the fiduciary net position at June 30, 2012.

- Cash and cash equivalents for fiscal year 2014 decreased by $3.9 million, or 5.0% compared to fiscal year 2013. Cash and cash equivalents for fiscal year 2013 increased by $37.4 million, or 90.5% compared to fiscal year 2012.

- Contributions for fiscal year 2014 increased by $3.3 million or 7.7%, compared to fiscal year 2013. Contributions for fiscal year 2013 increased by $8.3 million or 24.3%, compared to fiscal year 2012.

- Net investment gain for fiscal year 2014 totaled $156.6 million, an increase of $40.4 million, or 34.8% compared to fiscal year 2013. Net investment gain for fiscal year 2013 totaled $115.7 million, an increase of $153 million, or 410% compared to fiscal year 2012.

- Benefit payments, member refunds and administrative expenses total $72.9 million for the fiscal year 2014 and increased $6.2 million or 9.3% over fiscal year 2013. Benefit payments, member refunds and administrative expenses total $66.7 million for the fiscal year 2013, an increase of $2.8 million or 4.5% over fiscal year 2012.

Overview of the Financial Statements

The basic financial statements of the Plan are the Statements of Fiduciary Net Position, the Statements of Changes in Fiduciary Net Position, 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. 67.

The Statements of Fiduciary Net Position are a measure of the Plan assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the close of the fiscal year. Total assets plus deferred outflows of resources less liabilities, less deferred inflows of resources equals fiduciary net position.

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

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 Changes in the Net Pension Liability and Related Ratios, a Schedule of Employer Contributions, a Schedule of Investment Returns, and related notes to the schedules concerning actuarial assumptions.

Analysis of Fiduciary Net Position

At June 30, 2014, the fiduciary net position was $1,138 million. The value of net position increased by $130 million, or 12.9%, from $1,008 million at June 30, 2013. The increase was due primarily to increasing market value of the assets held for the fiscal year 2013. At June 30, 2013, the fiduciary net position was $1,008 million. The value of net position increased by $92 million, or 10.1%, from $916 million at June 30, 2013.

As of June 30, 2014, cash and cash equivalents decreased by $3.9 million, or 5.0%, from fiscal year 2013. The decrease was due primarily to money managers holding slightly less cash and not being fully invested during 2014. As of June 30, 2013, cash and cash equivalents increased by $37.4 million, or 90.5%, from fiscal year 2012.

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 2014 investments of $1,138 million, represented an increase of 12.9% from fiscal year 2013. The increase in the investment portfolio was due to gains in asset valuations as the Fed continued with its accommodative monetary policies. For fiscal year 2013 investments of $1,008 million, represented an increase of 10.1% from fiscal year 2012.

Receivables decreased $0.1 million from June 30, 2013 to $6.0 million at June 30, 2014. The decrease was due to a slight decrease in accrued interest and dividends. Receivables decreased $5.1 million from June 30, 2012 to $6.1 million at June 30, 2013.

Total liabilities increased $6.9 million from $141.1 million at June 30, 2013 to $148.0 million at June 30, 2014. The increase was due primarily to an increase in collateral subject to return to borrowers.

Condensed financial information comparing SCRS'S fiduciary net position at June 30, 2014, June 30, 2013 and 2012 is presented below:

Table 1
Plan Fiduciary Net Position
(Dollars in Thousands)

	June 30, 2014	June 30, 2013	June 30, 2012	FY14-FY13 Percentage Change
ASSETS				
Cash and cash equivalents	$ 74,665,139	$ 78,602,141	$ 41,251,914	-5.0%
Investments at fair value	1,060,751,040	928,744,460	872,543,384	14.2%
Receivables	6,040,558	6,142,685	11,232,594	-1.7%
Collateral held for securities on loan	144,596,020	134,228,843	119,157,235	7.7%
TOTAL ASSETS	1,286,052,757	1,147,718,129	1,044,185,127	12.1%
DEFERRED OUTFLOWS OF RESOURCES				
Fair value of hedging derivatives	-	1,443,142	-	
LIABILITIES				
Liability for securities purchased	2,374,263	5,919,849	7,984,926	-59.9%
Accounts payable & accrued expenses	1,043,775	963,585	1,052,285	8.3%
Collateral subject to return	144,596,020	134,228,843	119,157,235	7.7%
TOTAL LIABILITIES	148,014,058	141,112,277	128,194,446	4.9%
DEFERRED INFLOWS OF RESOURCES				
Fair value of hedging derivatives	412,945	-	-	
NET POSITION RESTRICTED FOR PENSIONS	$ 1,137,625,754	$ 1,008,048,994	$ 915,990,681	12.9%

Analysis of Changes of Fiduciary Net Position

Members and employer contributions for fiscal year 2014 were $45.9 million, an increase of $3.3 million, or 7.7%, from $42.6 million in 2013. The increase was due to increases in both employer and employee contributions. Members and employer contributions for fiscal year 2013 were $42.6 million, an increase of $8.3 million, or 24.3%, from $34.3 million in 2012. Members covered under the SCRS Plan A were required to contribute 2.0% of pensionable earnings into the SCRS Pension Plan, while members covered under Pension Plan B, Plan C and Plan D were required to contribute 8.0%. The Shelby County Government contribution is determined by actuarial valuation. Shelby County Government contributed 12.75% of pensionable county employee earnings for the fiscal year 2014, which was equal to the actuarial annual required contribution rate. Shelby County Government contributed 12.1% of pensionable county employee earnings for the fiscal year 2013, which was equal to the actuarial annual required contribution.

Net investment income for the year ending June 30, 2014, increased by $40.4 million compared to fiscal year 2013. The increase in the investment portfolio was due to gains in asset valuations as the Fed continued with its accommodative monetary policies. Net investment income for the year ending June 30, 2013, increased by $153 million compared to fiscal year 2012.

Benefit payments were $64.6 million in 2014, an increase from 2013 of $3.3 million, or 5.3%. The 2014 increase in benefit payments is due to an increase in the number of new retirees and lump sum distributions. Benefit payments were $61.4 million in 2013, an increase from 2012 of $3.6 million, or 6.2%. Total refunds paid during fiscal year 2014 were $6.9 million, an increase of 74.4%, over fiscal year 2013. Total refunds paid during fiscal year 2013 were $4.0 million, a decrease of 21.6%, over fiscal year 2012. The decrease in refunds was due primarily to a decrease in the number of employees terminating or resigning before reaching normal retirement age.

Condensed financial information comparing SCRS's changes in fiduciary net position for the years ended June 30, 2014, June 30, 2013 and June 30, 2012 is presented below:

Table 2
Plan Fiduciary Net Position
(Dollars in Thousands)

	June 30, 2014	June 30, 2013	June 30, 2012	FY14-FY13 Percentage Change
NET POSITION RESTRICTED FOR PENSIONS, BEGINNING OF YEAR	$ 1,008,048,995	$ 915,990,681	$ 982,539,680	10.1%
ADDITIONS				
Contributions	45,893,474	42,628,993	34,303,004	7.7%
Net investment income (loss)	156,096,011	115,741,889	(37,332,486)	34.9%
Net securities lending activities income	501,823	409,821	353,177	22.4%
TOTAL ADDITIONS (DEDUCTIONS)	202,491,308	158,780,703	(2,676,305)	27.5%
DEDUCTIONS				
Benefit payments	64,635,627	61,364,164	57,799,148	5.3%
Refunds	6,941,385	3,980,440	4,705,806	74.4%
Administrative expenses	1,337,537	1,377,786	1,367,740	-2.9%
TOTAL DEDUCTIONS	72,914,549	66,722,390	63,872,694	9.3%
NET INCREASE (DECREASE)	129,576,759	92,058,313	(66,548,999)	40.8%
NET POSITION, END OF YEAR	$ 1,137,625,754	$ 1,008,048,994	$ 915,990,681	12.9%

Funding Status

The "entry age normal" method is used in determining the funding requirement. Under this method, a calculation is made for pension benefits to determine the uniform and constant percentage rate of employer contribution which, if applied to the compensation of the average new member during the entire period of his anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on his behalf.

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, 2014 and 2013, the actuarial values of assets were $1,155,350,000 which is a funding ratio of 82.6% and $1,118,965,000 which is a funding ratio of 87.4% respectively. At June 30, 2012 and 2011, the actuarial values of assets were $1,090,210,000 which is a funding ratio of 87.8% and $1,066,406,000, which is a funding ratio of 89.9% 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 2014, the Plan investment portfolio increased as our portfolio managers earned strong investment returns. The pension fund continues to perform soundly; the County contributions have equaled or exceeded the Annual Required Contributions in recent years creating a Net Pension Asset, which provides some relief during turbulent economic times. 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 Fiduciary Net Position section above, members covered under the SCRS Plan A were required to contribute 2.0% of pensionable earnings into the SCRS Pension Plan, while members covered under Pension Plan B, Plan C and Plan D were required to contribute 8.0% and SCRS is required to contribute the remaining amounts necessary to fund the Plan in accordance with actuarially determined contribution requirements. For the year 2014, SCRS required annual contribution as determined by an actuarial valuation equaled the actual rate of 12.75%. For the year 2013, SCRS required annual contribution as determined by an actuarial valuation equaled to the actual rate of 12.1%

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 701
Memphis, TN 38103

SHELBY COUNTY, TENNESSEE
SHELBY COUNTY RETIREMENT SYSTEM

STATEMENTS OF FIDUCIARY NET POSITION

For the Years Ended June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash and cash equivalents	$ 74,665,139	$ 78,602,141
Receivables		
Accrued interest and dividends	2,441,735	2,697,604
Investments sold	3,598,823	3,445,081
Total receivables	6,040,558	6,142,685
Investments, at Fair Value		
Domestic equity	405,223,771	333,531,131
Fixed income	202,625,631	216,463,635
Hedge funds	131,491,540	101,621,844
International equity	204,916,411	170,550,282
Limited partnership interests	91,932,259	82,796,494
Private real estate and infrastructure	24,561,428	23,781,074
Total investments	1,060,751,040	928,744,460
Collateral held in trust for securities on loan	144,596,020	134,228,843
Total assets	1,286,052,757	1,147,718,129
DEFERRED OUTFLOWS OF RESOURCES		
Fair value of hedging derivatives	-	1,443,142
LIABILITIES		
Accounts payable and accrued expenses	1,043,775	963,585
Investment purchases payable	2,374,263	5,919,849
Collateral subject to return to borrowers	144,596,020	134,228,843
Total liabilities	148,014,058	141,112,277
DEFERRED INFLOWS OF RESOURCES		
Fair value of hedging derivatives	412,945	-
Net position restricted for pensions	$ 1,137,625,754	$ 1,008,048,994

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

SHELBY COUNTY, TENNESSEE
SHELBY COUNTY RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

For the Years Ended June 30, 2014 and 2013

	2014	2013
Additions:		
Contributions		
Employer contributions	$ 31,976,458	$ 30,169,666
Member contributions	13,917,016	12,459,327
Total contributions	45,893,474	42,628,993
Investment Income		
Net change in market value of investments	141,027,193	96,941,244
Interest income	12,885,149	15,646,798
Dividend income	7,203,743	7,669,563
Other income	5,811	23,839
	161,121,896	120,281,444
Less investment management expenses	5,025,885	4,539,555
Net investment income (loss)	156,096,011	115,741,889
Security Lending Activities		
Securities lending income	721,793	630,316
Securities lending expenses	(219,969)	(220,495)
Net securities lending activities income	501,824	409,821
Total net investment income	156,597,835	116,151,710
Total additions (deductions)	202,491,309	158,780,703
Deductions:		
Benefit payments	64,635,627	61,364,164
Refund of member contributions	6,941,385	3,980,440
Administrative expenses	1,337,537	1,377,786
Total deductions	72,914,549	66,722,390
Net increase in net position	129,576,760	92,058,313
Net position restricted for pensions		
Beginning of year	1,008,048,994	915,990,681
End of year	$ 1,137,625,754	$ 1,008,048,994

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

NOTE 1 - ORGANIZATION

The Shelby County Retirement System ("SCRS" or "Retirement System"), 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 to be part of the Shelby County, Tennessee (the "County") financial reporting entity and is included in the County's financial reports as a pension trust fund.

The County provides office space and certain administrative services at no cost to the System. All other costs to administer the plan are paid from plan earnings.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Accounting</u>

The financial statements of the Retirement System are prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenue is recorded as earned and expenses are recorded as incurred.

<u>Cash and Cash Equivalents</u>

The Retirement System considers investments purchased with an original maturity date of three months or less to be cash equivalents.

<u>Investments Sold and Investments Purchased</u>

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.

<u>Investments</u>

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, 2014 and 2013. Certain fixed income securities are valued based on equivalent values of comparable securities with similar yield and risk.

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. As of June 30, 2014 and 2013, 5.72% and 5.46% respectively of the Plan's investments are in OFI Emerging Market Equity Funds. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Retirement System management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Deferred outflows of resources

In addition to assets, the statement of net position reports 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 Retirement System only has one item that qualifies for reporting in this category; the fair value of derivative instruments.

Deferred inflows of resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an increase to net position that applies to a future period and is not recognized as an inflow of resources (revenue) until that time. The Retirement System has one item that qualifies for reporting in this category; the fair value of derivative instruments.

NOTE 3 – RETIREMENT SYSTEM

Plan Description

The Shelby County Retirement System consists of four component plans, Plan A, Plan B, Plan C and Plan D 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 the SCRS. Employees exempted from the requirement and, in fact, not permitted to participate consist primarily of Shelby County Board of Education employees and employees who are covered by Social Security.

Plan B, the original Plan, is a contributory defined benefit pension plan for employees hired prior to December 1, 1978, and thereafter closed to new entrants. Until July 1, 2000, Plan A was a non-contributory defined benefit pension plan for those eligible employees hired on and after December 1, 1978, and for those employees who elected to transfer to Plan A from Plan B before January 1, 1981.

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

Prior to 1990, for financial reporting purposes, Plan A and Plan B were accounted for separately. Beginning in 1990, both plans have been accounted for as a single reporting entity, whereby all assets of the 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' compensation (or, if the participant had completed 10 years of service before September 1, 1977, the participant's highest 12-months' compensation) and 2.7% a year for up to 25 years of service and an additional 1% per year for up to 10 further years of service. Plan B provides disability benefits for disabled participants and survivor benefits for certain survivors of retirees and of participants who die while actively employed.

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

A vested participant of Plan A may also elect early retirement to begin at 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 under $30,000, 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 $30,000 and $50,000, 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.

Effective July 1, 2013, Plan A was amended to mandate employee contributions of 1.5% for all active employees participating in Plan A. 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). 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 March 1, 2005 for newly hired employees and September 1, 2005 for current employees. Plan A was closed to new entrants as of February 28, 2005. Participation is mandatory for eligible employees hired after March1, 2005. Each Plan A active participant as of September 1, 2005, had the option to stay in Plan A or to move his or her 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.

As of July 1, 2013, each Plan C participant is required to contribute 7.5% of his or her base compensation to the Trust Fund, which currently contains the assets of Plans A and B. These contributions will accrue "interest" at the rate of 2% annually, all of which will be reflected in a bookkeeping account. At the end of each calendar quarter, the County will match 3% of each participant's contributions, and a separate bookkeeping account will be maintained. Interest will be credited to this account in the same percentage and in the same way as interest is added to the participant contributions account.

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

Plan C contains a transition period. If a Plan A participant who elects to become a participant in Plan C terminates employment within five years, pension benefits will be calculated under Plan A, not Plan C. For each Plan A Public Safety Employee, however, the number of years the participant contributed to Plan A as a public safety employee will count toward the five year transition period. If the five year transition period is not satisfied before a participant's termination, then, (a) if the participant was <u>not</u> a Public Safety Employee while under Plan A, the Plan C participant contributions account will be refunded to the participant, and (b) if the participant <u>was</u> a Public Safety Employee while under Plan A, the amount of the refund will be the difference between 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 the Trust Fund 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 (7 ½) 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 $30,000 or less.

Plan C provides survivor benefits for certain survivors, but it does not provide any disability benefits. Plan C was closed to new entrants on June 30, 2011.

Plan D became effective July 1, 2011 for all newly hired employees. Each Plan D participant is required to contribute 8% of his or her base compensation to the Trust Fund, which currently contains the assets of Plans A, B, and C. These contributions will accrue “interest” at the rate of 2% annually, all of which will be reflected in a bookkeeping account. At the end of each calendar quarter, the County will match 3% of each participant’s contributions, and a separate bookkeeping account will be maintained. Interest will be credited to this account in the same percentage and in the same way as interest is added to the participant contributions account.

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

A Plan D participant will be entitled to an unreduced “normal retirement pension” benefit if the participant has at least seven and one-half (7 ½) years of credited service and has reached age 67. If the participant is a Public Safety employee who has earned at least seven and one-half (7 ½) years of credited services, is at least age 55 and either (i) his last 20 years of credited service before attaining age 55 are constituted Public Safety Service or (ii) if he has fewer than 20 years, all of his years are constituted Public Safety Service.

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) the percentage factor set forth in the Plan document which is based on the participant's age at his annuity starting date (or 2.175% for Public Safety employees). 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 D participant terminates employment between age 62 and 67 (50 and 55 for Public Safety employees) with seven and one-half years of credited service (20 for Public Safety employees), 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 but have fulfilled the seven- and one-half (7 ½) years of credited service are eligible for deferred benefits. Also, as in Plan C, deferred vested retirement pensions are required to be paid in the form of a lump sum if the actuarial value is $30,000 or less.

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

At June 30, 2014 (the date of the latest actuarial valuation), the SCRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	3,469
Terminated members entitled to, but not yet receiving, benefits	235
County to City transfers	177
Current active members	5,302
Total	9,183

Contributions and Funding Policy

The System's funding policy for employee contribution requirements is established by the Board. For fiscal years 2014 and 2013, the contribution requirements were based on the actuarially determined contribution rate and dollar amount, respectively.

The actuarially determined contribution rate was calculated using the entry age normal cost method for Plans A, B, C and D participants for 2014 and a projected unit credit actuarial cost method for 2013.

The actuarial required employer contribution rate was 13.3% for the year ended June 30, 2014. During the year ended June 30, 2014, actual employer contributions were made at a rate of 13.2% of pensionable county employee earnings, totaling $31,976,458 and employee contributions were

$13,917,016. Pensionable county employee earnings do not include County to City transfer employees. 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, 2013, the employer contributions of $30,169,666 which were 12.1% of the related covered payroll costs and the employee contributions were $12,459,327.

The components of the net pension liability of the Retirement System at June 30, 2014 were as follows ($ thousands):

Total pension liability	$	1,398,658
Fiduciary net position		1,137,626
Net pension liability	$	261,032
Ratio of fiduciary net position to total pension liability		81.34%

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.00 – 6.00percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation
Expenses:	None
Cost-of-Living Adjustments:	CPI-U up to 3% for Plan A and Plan C; CPI-U up to 1% for Plan B; CPI-U up to 2% for Plan D.

Percent Married: 65% of active members are assumed to be married with the male three years older than his spouse.
Assets: Market Value of Assets
Valuation Method: Entry Age Normal actuarial cost method

Mortality rates were based on the RP-2000 Combined Mortality Table set forward three years for males and set forward one year for females and using a Scale AA projection to 2025 for the period after service retirement and for dependent beneficiaries as well as for deaths in active service. The RP-2000 Disabled Mortality Table set forward six years for males and set forward nine years for females and using a Scale AA projection to 2015 is used for the period after disability retirement. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2007 – June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Large Cap Equity	24.0%	8.5%
US Small Cap Equity	6.0%	9.0%
International Equity	11.8%	8.3%
US Core Fixed Income	6.5%	1.2%
High Yield/Private Debt	10.3%	9.0%
International Fixed Developed	6.7%	1.7%
Emerging Markets Fixed Income	5.7%	5.3%
Hedge Funds	11.9%	7.3%
Commodities	0.0%	7.0%
Timber	1.5%	7.0%
Infrastructure	1.0%	8.0%
Private Equity	4.1%	15.0%
Emerging Markets Equity	5.5%	10.0%
Public Real Estate	0.0%	5.2%
Private Real Estate	5.0%	8.0%

The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that employer contributions will be made at the actuarially determined rates in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the net pension liability of the Retirement System, calculated using the discount rate of 8.00 percent, as well as what the Retirement System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate ($ thousands):

	1% Decrease (7.0%)	**Current Discount Rate (8.0%)**	**1% Increase (9.0%)**
Retirement System's net pension liability	$ 431,065	$ 261,032	$ 118,673

NOTE 4 – 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. SCRS's cash deposits may be covered by federal depository insurance ("FDIC") or by collateral held in a multiple financial institution collateral pool administered by the State. The FDIC insures the first $250,000 of the Retirement System's interest bearing deposits at each financial institution. Deposit balances over $250,000 are insured by the collateral pool for those participating financial institutions. At June 30, 2014, deposits of $71,574,216 were uncollateralized.

NOTE 5 - 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 eligible for purchases 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 the SCRS.

* International equities provided, however, that the total international investments of SCRS, excluding American Depository Receipts, shall not exceed thirty percent (30%) of the total value of the SCRS. Investments in international equities must be recommended by the Investment Committee and approved by a 2/3 vote of the Board of Trustees.

* Co-mingled funds, including registered mutual funds and interest in collective trusts as approved by the Investment Committee.

* 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.

Rate of Return

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 17.27 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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 is its price sensitivity to changes in interest rates. The 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, 2014 and June 30, 2013, are as follows:

	2014	2013
Current to one year	$ 6,227,779	$ 27,881,283
One to two years	7,220,372	12,061,227
Two to three years	16,262,690	16,634,916
Three to four years	9,795,681	9,427,202
Four to five years	16,765,617	9,663,603
Five years or more	146,353,492	140,795,404
	$ 202,625,631	$ 216,463,635

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 above. There are no restrictions on U.S. Government or Agency issues.

The Retirement System's exposure to credit risk at June 30, 2014 and 2013 is presented below by investment category as rated by Standard and Poor's rating service:

Investment Type	Ratings	2014 Fair Value	2013 Fair Value
Asset Backed Securities	BBB	$ 41,044	$ 48,460
	CCC	59,903	54,390
	CC	23,948	19,244
	D	4	593
	Not rated	15,631	15,026
Collateralized Bonds	CC	7	6
	Not rated	36,181	38,903
Corporate Bonds	AAA	3,950,706	1,981,744
	AA	12,933,405	4,506,445
	A	11,058,430	17,124,743
	BBB	3,531,563	13,443,899
	BB	8,084,613	2,041,910
	B	3,963,925	8,914,909
	CCC	617,870	6,869,915
	Not rated	20,359,678	42,343,779

Investment Type (Continued)	Ratings	2014 Fair Value	2013 Fair Value
Corporate Convertible Bonds	BBB	1,572,899	1,075,225
	Not rated	2,733,568	
Government Agencies	AAA	-	6,391,451
	AA	8,935,286	10,852,819
	A	1,332,452	840,000
	BBB	1,057,500	1,066,250
Government Bonds (1)	AA	5,221,263	6,358,497
	A	15,169,763	20,857,318
	BBB	3,827,380	1,634,532
	BB	2,985,648	6,792,814
	Not rated	22,030,703	21,890,419
	U.S Government Guaranteed	19,638,502	7,567,937
Government Mortgage Backed Securities	U.S. Government Guaranteed	319,484	456,249
Municipal Bonds	AAA	3,865,391	4,020,492
	AA	1,199,374	2,071,072
	A	926,859	949,912
	BBB	314,259	300,747
	Not rated	201,700	265,301
Non-Government Backed CMOs	B	324,845	59,157
	CCC	845,206	1,166,227
	CC	1,010,324	483,974
	D	443,538	-
	Not Rated	643,343	717,746
Other Fixed Income	Not Rated	43,349,436	15,320,577
	U.S. Government Guaranteed	-	7,920,954
Total Fixed Income		$ 202,625,631	$ 216,463,635

(1) At June 30, 2014, Moody’s ratings and amounts of Government Bonds were Aaa of $22,384,913, Aa of $7,841,491, A of $15,169,763, Baa of $15,237,214, Ba of $5,585,454, and Not rated of $2,654,425.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the investment. The Retirement System's exposure to foreign currency risk in U.S. Dollars as of June 30, 2014, is as follows:

Currency	Equities	Government Bonds and Agencies	Other Fixed Income	Hedge Funds	Total
Austrialian dollar	$ -	$ 2,846,495	$ 5,064,765	$ -	$ 7,911,260
Brazilian real	-	3,827,380	-	-	3,827,380
British sterling pound	22,613,556	4,415,055	-	-	27,028,611
Canadian dollar	1,915,757	-	-	-	1,915,757
Danish krone	3,395,057	-	-	-	3,395,057
Euro	34,489,996	9,772,571	-	-	44,262,567
Hong Kong dollar	12,792,962	-	-	-	12,792,962
Hungarian forint	-	2,985,648	-	-	2,985,648
Indonesian rupiah	-	2,755,949	-	-	2,755,949
Japanese yen	17,548,064	-	-	-	17,548,064
Korean won	-	3,426,435	-	-	3,426,435
Malaysian ringgit	-	1,576,018	-	-	1,576,018
Mexican peso	-	11,609,584	-	-	11,609,584
New Zealand dollar	-	2,746,411	-	-	2,746,411
Polish zloty	-	3,560,178	-	-	3,560,178
Swedish krona	2,908,441	-	-	-	2,908,441
Swiss franc	15,511,044	-	-	-	15,511,044
Turkish lira	-	1,078,406	-	-	1,078,406
Total securities subject to foreign currency risk	111,174,877	50,600,130	5,064,765	-	166,839,772
International portofolio in U.S. dollars	93,741,534	4,474,040	7,870,914	34,237,019	140,323,507
Total international securities	$ 204,916,411	$ 55,074,170	$ 12,935,679	$ 34,237,019	$ 307,163,279

The Retirement System's exposure to foreign currency risk in U.S. Dollars as of June 30, 2013, is as follows:

Currency	Equities	Government Bonds and Agencies	Other Fixed Income	Hedge Funds	Total
Austrialian dollar	$ -	$ 3,092,818	$ 6,091,564	$ -	$ 9,184,382
Brazilian real	960,564	2,688,545	-	-	3,649,109
British sterling pound	20,070,712	3,988,577	-	-	24,059,289
Canadian dollar	3,415,556	-	-	-	3,415,556
Danish krone	2,772,305	-	-	-	2,772,305
Euro	22,924,112	11,253,949	-	-	34,178,061
Hong Kong dollar	11,148,981	-	-	-	11,148,981
Hungarian forint	-	3,997,180	-	-	3,997,180
Japanese yen	18,124,817	-	-	-	18,124,817
Korean Won	1,884,828	4,437,406	-	-	6,322,234
Malaysian ringgit	-	4,236,994	-	-	4,236,994
Mexican peso	1,534,922	13,977,773	-	-	15,512,695
New Zealand dollar	-	3,001,103	522,735	-	3,523,838
Polish zloty	-	4,191,000	-	-	4,191,000
South African rand	-	3,085,341	-	-	3,085,341
Swedish krona	1,686,083	-	-	-	1,686,083
Swiss franc	9,643,161	-	-	-	9,643,161
Turkish lira	-	2,676,014	-	-	2,676,014
Total securities subject to foreign currency risk	94,166,041	60,626,700	6,614,299	-	161,407,040
International portofolio in U.S. dollars	76,384,241	10,847,305	4,674,977	31,454,088	123,360,611
Total international securities	$ 170,550,282	$ 71,474,005	$ 11,289,276	$ 31,454,088	$ 284,767,651

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, 2014 and 2013, 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, 2014 and 2013 are summarized as follows:

	2014	2013
Domestic equity	$ 113,973,413	$ 104,202,762
International equity	2,714,847	3,601,258
Fixed income	24,712,539	23,090,537
	$ 141,400,799	$ 130,894,557

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.

NOTE 6 – DERIVATIVE INSTRUMENTS – FORWARD CONTRACTS

The Plan may enter into foreign currency forward exchange contracts primarily to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities. When entering into a forward currency contract, the Plan agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. The Plan’s net equity therein, representing unrealized gain or loss on the contracts, as measured by the difference between the forward foreign exchange rates at the dates of entry in the contracts and the forward rates at the reporting date is included in the Plan’s statement of net assets. Realized and unrealized gains and losses are included in the Plan’s statement of changes in net assets. These instruments involve market risk, credit risk, or both kinds of risks in excess of the amount recognized in the statement of net assets. Risks arise from the possible inability of counterparties to meet the terms of their contracts and movement of currency and securities values and interest rates.

At June 30, 2014, the Plan has the following foreign currency forward exchange contracts:

	Settlement	Unrealized Gain/(Loss)
12,106,980 Japanese yen vs. $24,631,045	July 7, 2014	$ (412,940)
6,185,300 Euros vs. $8,541,250	October 28, 2014	67,636
885,710,300 Japanese yen vs. $8,752,511	October 2, 2014	2,028
81,000,000 Chilean peso vs. $143,289	July 11, 2014	2,822
858,000,000 Chilean peso vs. $1,532,171	July 28, 2014	12,515
9,430,000 Polish zloty vs. $3,091,246	July 25, 2014	(8,570)
4,080,000 Australian dollar vs. $3,782,854	August 12, 2014	(55,428)
6,905,000 Euros vs. $9,523,731	August 7, 2014	68,306
894,000,000 Chilean peso vs. $1,614,534	August 18, 2014	(8,499)
641,500,000 Chilean peso vs. $1,152,430	September 10, 2014	(2,809)
930,000,000 Polish zloty vs. $1,667,265	September 26, 2014	(3,569)
2,980,000 New Zealand dollar vs. $2,565,780	September 19, 2014	(23,165)
226,000,000 Indian rupee vs. $3,765,751	September 17, 2014	(51,272)
		$ (412,945)

At June 30, 2013, the Plan has the following foreign currency forward exchange contracts:

	Settlement	Unrealized Gain/(Loss)
1,646,202,400 Japanese yen vs. $33,727,544	July 8, 2013	$ 566,157
5,454,200 Euros vs. $7,060,242	October 29, 2013	(34,405)
1,216,490,300 Japanese yen vs. $12,267,583	January 6, 2014	854
2,282,000 Brazilian real vs. $1,122,866	August 30, 2013	(103,608)
1,690,000 Brazilian real vs. $838,127	September 18, 2013	(85,809)
8,420,000 Euro vs. $11,091,666	August 7, 2013	144,991
10,300,000 Australian dollar vs. $10,580,473	August 12, 2013	1,176,204
2,357,000,000 Korean wan vs. $2,168,453	August 13, 2013	109,494
467,280,000 Chilean peso vs. $974,718	September 13, 2013	(62,353)
127,600,000 Russian ruble vs. $3,975,540	September 16, 2013	(10,714)
1,141,500,000 Chilean peso vs. $2,227,534	November 8, 2013	(12,700)
5,850,000 British pound vs. $9,079,785	September 16, 2013	(211,849)
2,570,000,000 Korean wan vs. $2,256,762	October 18, 2013	17,359
4,430,000 New Zealand dollar vs. $3,464,260	September 20, 2013	63,657
277,000,000 Indian rupee vs. $4,709,283	September 18, 2013	(114,136)
		$ 1,443,142

NOTE 7 - COMMITMENTS

SCRS has capital commitments totaling $87 million to eight investment fund managers. As of June 30, 2014, approximately $35 million is unfunded and the remaining commitment will be funded within the next four years.

REQUIRED SUPPLEMENTARY INFORMATION

SHELBY COUNTY, TENNESSEE
SHELBY COUNTY RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Last Ten Fiscal Years ($ in Thousands)

	2014
Total Pension Liability	
Service cost	$ 23,641
Interest	104,504
Benefit changes	-
Difference between expected and actual experience	-
Changes in assumptions	-
Benefit payments	(71,577)
Refunds of contributions	-
Net change in total pension liability	56,568
Total pension liability - beginning	1,342,090
Total pension liability - ending (a)	$ 1,398,658
Fiduciary Net Position	
Contributions - employer	$ 31,976
Contributions - member	13,917
Net investment income	156,598
Benefit payments	(71,577)
Administrative expense	(1,337)
Refunds of contributions	-
Other	-
Net change in fiduciary net position	129,577
Fiduciary net position - beginning	1,008,049
Fiduciary net position - ending (b)	$ 1,137,626
Net pension liability - ending (a) - (b)	$ 261,032

	2014
Ratio of fiduciary net position to total pension liability	81.34%
Covered-employee payroll	$ 240,466
Net pension liability as a percentage of covered employee payroll	108.55%

Notes to Schedule:

Changes of Benefit Terms: None
Changes of Assumptions: In 2013, rates of withdrawal, disability, retirement and assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five year period ended June 30, 2012.

* Only one year of information was available from the actuarial valuation. Prior years are unavailable.

SHELBY COUNTY, TENNESSEE
SHELBY COUNTY RETIREMENT SYSTEM

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Ten Fiscal Years ($ in Thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined employer contribution*	$ 32,983	$ 31,826	$ 23,402	$ 18,571	$ 16,652	$ 15,261	$ 12,956	$ 11,038	$ 10,323	$ 9,646
Actual employer contributions	31,976	30,170	23,402	18,788	19,390	18,733	18,744	18,759	18,806	18,800
Annual contribution deficiency (excess)	$ 1,007	$ 1,656	$ -	$ (217)	$ (2,738)	$ (3,472)	$ (5,788)	$ (7,721)	$ (8,483)	$ (9,154)
Covered-employee payroll	$ 240,466	$ 250,367	$ 258,670	$ 265,137	$ 266,559	$ 271,888	$ 260,108	$ 249,839	$ 241,404	$ 241,509
Actual contributions as a percentage of covered-employee payroll	13.30%	12.05%	9.05%	7.09%	7.27%	6.89%	7.21%	7.51%	7.79%	7.78%

Notes to the Schedule:

The actuarially determined contributions in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contributions reported in that schedule:

Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar, closed
Single equivalent amortization period	23 years
Asset valuation method	10-year smoothed market
Inflation	3.00 percent
Salary Increase	3.00-8.50 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation

SHELBY COUNTY, TENNESSEE
SHELBY COUNTY RETIREMENT SYSTEM

SCHEDULE OF INVESTMENT RETURNS

Last Ten Fiscal Years ($ in Thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Annual money-weighted rate of return, net of investment expense	17.27%	14.05%	-4.03%	29.70%	19.66%	-20.69%	-3.64%	21.98%	18.36%	29.99%

WATKINS UIBERALL

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

1661 Aaron Brenner Drive • Suite 300
Memphis, Tennessee 38120
901.761.2720 • Fax: 901.683.1120

210 East Main Street • Suite 2C
Tupelo, Mississippi 38804
662.269.4014 • Fax: 662.269.4016

www.wucpas.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the 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, the financial statements of the Shelby County Retirement System as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Shelby County Retirement Systems' basic financial statements, and have issued our report thereon dated November 24, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Shelby County 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*.

Purpose of this Report

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

Watkins Uiberall, PLLC

Memphis, Tennessee
November 24, 2014