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## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (A) Reporting Entity

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

#### ***Discretely Presented Component Units:***

##### *Major Component Units*

*Shelby County Board of Education (the Board of Education)* – The Board of Education is fiscally dependent on the County which levies taxes for the Board's operation and issues debt for its capital projects. The operations of the Shelby County Board of Education are reported as a governmental component unit. The financial statements for the Shelby County Board of Education can be obtained from Shelby County Board of Education, 160 South Hollywood, Memphis, Tennessee 38112, (901) 321-2500.

*Shelby County Health Care Corporation (the Med)* -- The County Mayor appoints the Med Board of Directors and substantial funding is provided by the County. The Med is reported as a proprietary component unit. The financial statements for the Med can be obtained from Shelby County Health Care Corporation, C/O Regional Medical Center at Memphis, 877 Jefferson Avenue, Memphis, Tennessee 38103, (901) 545-8234.

##### *Other Component Units*

*Agricenter International, Inc.* – The County Mayor appoints the members of the Agricenter Commission and substantial funding is provided by the County. Agricenter International, Inc. is reported as a proprietary component unit. The financial statements for Agricenter International, Inc. can be obtained from Agricenter International, Inc., 7777 Walnut Grove Road, Memphis, Tennessee 38120, (901) 757-7777.

*Emergency Communications District of Shelby County, Tennessee (the District)* – The District was established in 1984, pursuant to the provisions of Chapter 867 of the Public Acts of 1984 of the State of Tennessee. The District is responsible for establishing local emergency telephone service and a primary emergency telephone number for the residents of Shelby County. The District is governed by a nine-member board of directors, appointed by the County Mayor and approved by the County Board of Commissioners. The District's board has the authority to levy an emergency telephone service charge to be used to fund the operation of the District. The District must obtain County Commission approval before the issuance of most debt and the County Commission has the ability to adjust the District's service charges. The Emergency Communications District is reported as a proprietary component unit. The financial statements for the District can be obtained from Emergency Communications District of Shelby County, Tennessee, 1835 Union Ave. Suite 104, Memphis, Tennessee 38104, (901) 276-4911.

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**(B) Governmental Accounting Standards Board Statement No. 34 (GASBS No. 34)**

GASB No. 34 *Basic Financial Statements-and Management Discussion and Analysis-for State and Local Governments* was implemented for the year ended June 30, 2002. The statement substantially changed the financial reporting of state and local governments, including the requirement of government-wide financial statements. This statement also requires the reporting of infrastructure (roads, bridges, etc.) as an asset beginning July 1, 2001. Retroactive reporting of infrastructure assets is required by the County's fiscal year ending June 30, 2006. Infrastructure assets acquired since July 1, 2001 are included in this report but, infrastructure assets acquired prior to July 1, 2001 are not included.

**(C) Government-wide and Fund Financial Statements**

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

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are

recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, gross receipt taxes, sales taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

***The County reports the following major governmental funds:***

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

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

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

The *Education Fund* accounts for tax collections allocated for school operations.

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

***The County reports the following major proprietary funds:***

The *Consolidated Codes Enforcement Fund* accounts for the operations of the Memphis and Shelby County Office of Construction Codes Enforcement. Revenues are generated through permit and inspection fees charged by the office.

The *Oakville Health Care Center Fund* accounts for the operations of in-patient nursing facilities. Revenues are generated from patient charges and reimbursement providers.

The *Fire Services Fund* accounts for operations of the Shelby County Fire Department. The Fire Department services the areas of Shelby County not within any municipality. Revenues are generated through fees charged to residents in the service area.

The *Corrections Center Fund* accounts for the operations of the Shelby County Corrections Center. Approximately 75-80% of the population at this facility are State prisoners. For State prisoners, the State reimburses the County's actual cost per prisoner day, including depreciation expense and indirect costs.

Private-sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board (FASB) prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent FASB guidance for their business-type activities and enterprise funds, subject to the same limitation. The County has elected not to follow subsequent FASB guidance.

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***Additionally, the County reports the following fund types:***

*Internal Service Funds* account for telecommunications, mail services, printing, fleet services, group health and life insurance, other employer insurance, and tort liability insurance provided to other departments and agencies of the County, or to other governments on a cost reimbursement basis.

The *Pension Trust Fund* accounts for the activities of the County's retirement plan, which accumulates resources for pension payments to employees.

*Agency Funds* account for assets held by the County in an agent capacity.

The effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Similarly, general revenues include all taxes.

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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources, as they are needed.

## **(E) Assets, Liabilities, and Equity**

### *Deposits and Investments*

Cash and cash equivalents include cash on hand, amounts on deposit with the Shelby County Trustee, demand deposits, savings accounts and temporary investments. The County considers repurchase agreements and temporary investments purchased with an original maturity of three months or less at the time of purchase to be cash equivalents. The County pools substantially all of its cash and cash equivalents. Each fund participating in the cash and cash equivalents pool owns a pro rata share in the pool. Investment earnings of the pool are allocated monthly to each fund based upon average balances.

Investments of the government, as well as its component units are stated at fair value. Fair value is based on quoted market prices, if available, or estimated using quoted market prices for similar securities. The State Local Government Investment Pool operates in accordance with state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

### *Receivables and Payables*

Property taxes are recorded as revenues in the fiscal year of the levy. Property taxes based on property values during the current fiscal year but levied for the next fiscal year are recorded as receivables and deferred revenue.

Property tax refunds payable are shown separately as a liability. Allowances for doubtful accounts are maintained for receivables which historically experience uncollectible accounts.

*Inventories and Prepaid Items*

Inventories are valued at cost on a first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

*Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost greater than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation. Infrastructure assets do not include such assets acquired prior to July 1, 2001.

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

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	10
Buildings	40
Equipment	3-10
Infrastructure	50

*Deferred Revenue*

Deferred revenue represent amounts that were receivable and measurable at June 30, 2004 but were not available to finance expenditures for the year ended June 30, 2004. Deferred revenues primarily include unearned or unavailable revenues from property taxes, operating subsidies received in advance, and notes receivable.

*Claims and Judgments*

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

*Landfill Postclosure Care Costs*

State and Federal laws and regulations require the County to perform certain maintenance and monitoring functions for thirty years after closure of its landfill sites. The \$3.68 million reported as postclosure care liability at June 30, 2004 represents the estimated postclosure care costs that have not been paid for the Walnut Grove and Shake Rag Road Landfills. The estimate is based on what it would cost to perform all postclosure care as of the end of FY04. Actual future costs may differ due to inflation, changes in technology, or changes in regulations. The landfills have been closed and the County has no landfills currently in operation. No County assets are restricted for landfill closure costs. However, the County has entered into a surety contract in lieu of a performance bond as a commitment to comply with the terms set forth in its 30 year post-closure maintenance plan for the Shake Rag Road Landfill. This surety contract is with the State of Tennessee under the State's cooperative agreement with the Environmental Protection Agency (EPA). There is no surety contract pertaining to Walnut Grove Landfill.

*Compensated Absences*

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

All sick and annual pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is not reported in governmental funds.

*Long-term Obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

*Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

*Interest Rate Swaps*

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

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$1,676,119,861 are as follows:

Bonds payable	\$ 1,580,998,223
Accreted value on bonds	38,510,450
Net premium and issuance cost on bonds issued	11,544,931
Bond swap liability	1,799,182
Accrued interest payable	16,028,460
Claims and judgements	6,000,000
Compensated absences	17,555,471
Landfill post-closure	<u>3,683,144</u>
 Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at net assets – governmental activities	 <u>\$ 1,676,119,861</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$18,641,258 difference are as follows:

Capital Outlay	\$ 20,845,836
Developer Contributions	7,718,000
 Depreciation expense	 <u>(9,922,578)</u>
 Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	 <u>\$ 18,641,258</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while repayments of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$271,061,430 difference are as follows:

Debt issued or incurred:	
Issuance of general obligation bonds	\$ 317,555,000
Premium on debt issued, net of issuance costs and amortization	4,719,918
Accretion of zero coupon bonds	1,348,704
Change in accrued interest expense	1,091,946
Principal repayments:	
General obligation debt	<u>(53,654,138)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 271,061,430</u>

**III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**(A) Budgetary Information**

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

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

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

**(B) Deficit Fund Equity**

The deficit in the Capital Projects Fund of \$24,919,442 results from the use of short-term debt (notes payable of \$39,500,000 as of June 30, 2004) to fund capital projects, pending the issuance of long-term debt.

The Employer Insurance Fund, an Internal Service Fund, has deficit net assets at June 30, 2004 of \$3,894,774. The Fund incurs long-term claims that are recognized as liabilities, however, they will be funded on a current basis. The long-term portion of these claims was \$4,084,323 at June 30, 2004. Also, premiums have been increased and other

steps have been taken which reduced the deficit net assets by \$2,474,876 in 2004 and are expected to continue to reduce this deficit.

**IV. DETAILED NOTES ON ALL FUNDS**

**(A) Deposits and Investments**

The County utilizes a cash pool and an investment pool that is available for use by all funds, except the Pension Trust Fund. Additionally, separate bank accounts and/or investments are maintained by the County's Constitutional Officers.

*Cash and Cash Equivalents:*

At June 30, 2004, the carrying amount of the County's deposits with financial institutions required to be collateralized or insured by state law, was \$5,774,037 and the bank balance was \$7,551,873, all of which was insured by the Federal Depository Insurance Corporation or the State Treasurer's Collateral Pool (Category 1). Statutes require that the securities pledged have a face value of 105% of the deposits being secured. Cash and cash equivalents with a carrying amount of \$86,198,520 and a bank balance of \$86,681,229 are maintained by the Shelby County Retirement System Pension Trust Fund, included in the primary government Fiduciary Funds. Of the bank balance, \$929,567 was collateralized by securities held by the County or the County's agent in the County's name (Category 1) and \$85,751,662 was uncollateralized (Category 3). These funds are not required by State law to be collateralized or insured.

Cash and cash equivalents of the primary government at June 30, 2004 consisted of:

Governmental and business-type activities:	
County deposits	\$ 5,774,037
State Treasurer's Pool	119,898,550
Fiduciary activities:	
Pension Trust Fund	86,198,520
Constitutional Officers Agency Fund	<u>25,482,951</u>
Total Primary Government	<u>\$ 237,354,058</u>

The County has a multiyear agreement with a financial institution that provides for monthly charges for the various services rendered which is offset by a monthly earnings credit for funds on deposit. The County has an overnight overdraft privilege with this financial institution of up to \$60,000,000. As of June 30, 2004 the County had no borrowings against this overdraft privilege.

At June 30, 2004 the Shelby County Health Care Corporation (a major component unit) had deposits and investments that were uninsured and uncollateralized (Category 3) of \$2,373,897. Also at June 30, 2004 the Agricenter International (a nonmajor component unit) had deposits of \$446,648 that were uninsured and uncollateralized (Category 3).

*Investments:*

Investments of the County are accounted for at fair value. Statutes authorize the County to invest in obligations of the U.S. Treasury, obligations guaranteed as to principal and interest by the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federal chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its

agencies as the underlying securities, commercial paper, and the State of Tennessee's Local Government Investment Pool. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transactions.

The Pension Trust Fund is also authorized to invest in common and preferred stocks, corporate bonds, commercial paper rated A-2 or better by Standard & Poors and/or P-2 or better by Moody's, real estate, venture capital investments, co-mingled investment funds, and call option writing programs. Investment parameters for the Pension Trust Fund require that no more than 60% of total investments of the fund be in stock, that corporate bonds be rated B3 or better, and that no more than 5% of the portfolio be in real estate and 12% in international equities. No restrictions exist on U.S. Government or Agency issues. The Board of Administration also authorized two investments in a limited partnership.

Investments are categorized below to give an indication of the level of risk assumed by the County at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the County or component units or its agent in the County's or component unit's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the County's or component unit's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the County's or component unit's name.

At June 30, 2004 the Primary Government's investments were as follows:

<u>Investment Type</u>	<u>Category 1</u>	<u>Carrying Amount</u>
<b><i>Pension Trust Fund (Fiduciary Fund)</i></b>		
U.S. government & agency securities	\$ 112,920,158	\$ 112,920,158
Corporate bonds	121,540,886	121,540,886
Common stock	436,133,666	436,133,666
Preferred stock	817,155	817,155
Total	<u>\$ 671,411,865</u>	<u>671,411,865</u>
Investments not subject to categorization:		
Collective Trust		33,134,241
Limited partnership interest		<u>12,829,192</u>
Total Pension Trust Fund investments		<u>\$ 717,375,298</u>
		<u>Category 1 Carrying Amount</u>
<b><i>Constitutional Officers Agency Fund (Fiduciary Fund)</i></b>		
Certificates of deposit		\$ 29,688,000
U. S. government securities		2,000,000
Commercial paper		<u>9,990,655</u>
Total Constitutional Officers Agency Fund investments		<u>\$ 41,678,655</u>
Total primary government investments		<u>\$ 759,053,953</u>

**(B) Property Taxes Receivable**

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

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

The assessed value on which the fiscal 2004 tax bills were based was \$15,156,208,029. The estimated market value was \$51,388,472,610, making the overall assessed value 29.5% of the estimated market value. Taxes are due October 1 and delinquent March 1 of the following year. Current tax collections for the year were 98.16% of the tax levy. The property tax levy has no legal limit. The rate, as permitted by Tennessee State law and County charter, is set annually on or after July 1, by the County Board of Commissioners and collected by the County Trustee. The County allocated the property tax per \$100 of the assessed value as follows:

General Fund	\$ 1.43
Debt Service Funds	.58
Boards of Education	<u>2.03</u>
Countywide Tax Rate	<u>\$ 4.04</u>
Debt Service—Rural School Bonds	<u>\$ .05</u>

The \$0.05 for debt service on rural school bonds only applies to properties outside the city of Memphis.

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

	General Fund	Education Fund	Debt Service Funds	Total
Property taxes receivable	\$ 204,825,195	\$ 314,488,998	\$ 111,704,570	\$ 631,018,763
Less allowance for uncollectibles	<u>(7,822,626)</u>	<u>(11,104,847)</u>	<u>(3,172,813)</u>	<u>(22,100,286)</u>
	<u>\$ 197,002,569</u>	<u>\$ 303,384,151</u>	<u>\$ 108,531,757</u>	<u>\$ 608,918,477</u>

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

**(C) Notes Receivable**

Notes receivable consist of the following:

	<u>Amount</u>	<u>Collateral</u>
<i>General Fund</i>		
Property loans receivable due in various installments at 6.5% interest through 2005	<u>\$ 427,518</u>	Land & Building
<i>Grants Fund</i>		
Mortgage loans receivable due in various installments at 0% to 5.0% interest through 2019	<u>\$ 608,042</u>	Land & Building
<i>Capital Projects Fund</i>		
Mid South Coliseum note due in annual installments of \$21,993 including interest at 6.26% through 2014	\$ 159,889	None
Depot Redevelopment note due in annual payments plus semi-annual interest payments through August 1, 2022	3,570,000	None
Peabody Place Parking Garage note due in annual payments plus semi-annual interest payments through June 30, 2024	8,831,842	None
Rock-N-Soul Museum note due in 10 annual installments of \$100,000 plus interest at 5.00% through August 31, 2010	1,000,000	None
Less: Allowance for doubtful accounts	<u>(1,000,000)</u>	
Total Capital Projects Fund	<u>\$ 12,561,731</u>	
<i>Debt Service Fund</i>		
Mortgage loans receivable due in various monthly installments at interest rates ranging from 3.125% to 8.375% through 2020	<u>\$ 10,552,570</u>	Land & Building

In fiscal 2002 an allowance for doubtful accounts was established in the amount of \$1,000,000 for the Rock-N-Soul Museum.

Note IV(G) includes detail of deferred revenue relating to notes receivable. The Debt Service Fund and the Capital Projects Fund have notes receivable from Shelby County Health Care Corporation in the amounts of \$4,350,984 and 3,685,674 respectively, which are classified as Due from Component Units for financial statement purposes. The General Fund and Capital Projects Fund have notes receivable in the amounts of \$290,075 and \$42,534 respectively from the Agricenter Component Unit, which are classified as Due from Component Units for financial statement purposes.

**(D) Leases Receivable**

The County leases certain real property described as Shelby Place Restaurant (“Butcher Shop of Cordova and Executive Chef”), for the sum of \$192,500 annually, additional rent of 5% of gross sales less taxes after recoupment of base rent and in lieu of tax payments. The term of the lease commenced on March 1, 1993. The first option term of five years is currently in effect and will expire in 2008. There are three additional option terms of five years each available. The rental income is recognized as revenue in the Debt Service Fund. Executive Chef

has entered bankruptcy. At June 30, 2004 they owed \$25,625 for which an allowance for doubtful accounts has been provided.

**(E) Capital Assets**

Capital asset activity for the year ended June 30, 2004 is detailed below.

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 10,704,527	\$ ---	\$ ---	\$ 10,704,527
Construction in progress	30,235,656	14,606,763	(1,861,472)	42,980,947
Total not being depreciated	<u>40,940,183</u>	<u>14,606,763</u>	<u>(1,861,472)</u>	<u>53,685,474</u>
Capital assets being depreciated:				
Land Improvements	1,150,683	26,000	---	1,176,683
Buildings	187,730,952	1,347,561	---	189,078,513
Equipment	59,767,629	5,262,753	(745,186)	64,285,196
Infrastructure	13,796,554	9,262,410	---	23,058,964
Total being depreciated	<u>262,445,818</u>	<u>15,898,724</u>	<u>(745,186)</u>	<u>277,599,356</u>
Less accumulated depreciation:				
Land improvements	436,649	86,989	---	523,638
Buildings	61,688,363	4,673,488	---	66,361,851
Equipment	48,882,725	3,563,393	(738,389)	51,707,729
Infrastructure	1,152,581	1,763,055	---	2,915,636
Total accumulated depreciation	<u>112,160,318</u>	<u>10,086,925</u>	<u>(738,389)</u>	<u>121,508,854</u>
Total capital assets being depreciated, net	<u>150,285,500</u>	<u>5,811,799</u>	<u>(6,797)</u>	<u>156,090,502</u>
Governmental activities capital assets, net	<u>\$ 191,225,683</u>	<u>\$ 20,418,562</u>	<u>\$ (1,868,269)</u>	<u>\$ 209,775,976</u>
Business type activities:				
Capital assets not being depreciated:				
Land	\$ 299,343	\$ ---	\$ (299,343)	\$ ---
Capital assets being depreciated:				
Buildings	52,707,684	1,112,072	(7,366,284)	46,453,472
Equipment	10,992,795	993,116	(2,963,494)	9,022,417
Total being depreciated	<u>63,700,479</u>	<u>2,105,188</u>	<u>(10,329,778)</u>	<u>55,475,889</u>
Less accumulated depreciation:				
Buildings	20,591,037	1,982,135	(3,760,925)	18,812,247
Equipment	9,524,895	727,772	(3,499,718)	6,752,949
Total accumulated depreciation	<u>30,115,932</u>	<u>2,709,907</u>	<u>(7,260,643)</u>	<u>25,565,196</u>
Business-type activities capital assets, net	<u>\$ 33,584,547</u>	<u>\$ (604,719)</u>	<u>\$ (3,069,135)</u>	<u>\$ 29,910,693</u>

Depreciable land improvements consist of parking lots attached to the Sheriff Department Training Center and the Juvenile Court building.

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

	<u>Capital Assets, Net</u>	<u>Depreciation Expense</u>
Governmental activities:		
General Government	\$ 98,222,951	\$ 5,510,694
Planning & Development	61,865	40,011
Public Works	20,773,410	1,067,654
Corrections	432,336	34,840
Health Services	4,528,441	432,259
Community Services	132,099	49,008
Law Enforcement	34,515,949	1,792,897
Judicial	7,149,443	582,026
Other Elected Officials	978,535	413,189
	<u>166,795,029</u>	<u>9,922,578</u>
Construction in progress	42,980,947	---
Total governmental activities	<u>\$ 209,775,976</u>	<u>\$ 9,922,578</u>

Substantially all general fixed assets purchased are funded from general governmental revenues, exclusive of any grants or other special revenues.

**(F) Lease Obligations**

*Operating Leases*

The county leases office space and transportation equipment under operating leases expiring during the next seven years. The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2004:

<u>Fiscal Year</u>	<u>Primary Government</u>
2005	\$ 1,847,276
2006	1,245,358
2007	804,616
2008	690,599
2009	631,834
2010	608,285
2011	359,629
	<u>\$ 6,187,597</u>

Rent expense for the year ended June 30, 2004 was \$1,557,720 for the primary government.

**(G) Deferred Revenue**

Deferred revenues consist of the following:

	General Fund	Debt Service Fund	Education Fund	Grants Fund	Capital Projects Fund	Totals
Unearned:						
Property Taxes receivable	\$ 182,000,000	\$ 100,000,000	\$ 282,000,000	\$ ---	\$ ---	\$ 564,000,000
Grant revenue	---	---	---	4,984,861	---	4,984,861
Not Available:						
Property Taxes receivable	12,585,846	7,457,861	17,756,829	---	---	37,800,536
Notes receivable	427,518	10,552,570	---	603,949	12,561,731	24,145,768
Due from Shelby County						
Health Care Corporation	---	4,350,984	---	---	3,685,674	8,036,658
Due from Agricenter	40,075	---	---	---	42,534	82,609
Other	72,181	---	---	---	52,000	124,181
	<u>\$ 195,125,620</u>	<u>\$ 122,361,415</u>	<u>\$ 299,756,829</u>	<u>\$ 5,588,810</u>	<u>\$ 16,341,939</u>	<u>\$ 639,174,613</u>

Internal Service Funds have deferred revenue of \$3,465,361 for unearned premiums. The proprietary Consolidated Codes Enforcement Fund has deferred revenue of \$50,446 for building permits and licensing fees paid in advance.

**(H) Long-term Liabilities**

*Changes in long-term liabilities:*

Changes in long-term liabilities during the year were:

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
<b>Governmental activities:</b>					
Bonds payable	\$ 1,354,259,107	\$ 318,903,704	\$ (53,654,138)	\$ 1,619,508,673	\$ 57,733,037
Net premium and issuance cost of bonds issued	6,825,013	5,403,555	(683,637)	11,544,931	1,566,802
Deferred swap proceeds	4,615,483	---	(2,816,301)	1,799,182	1,799,182
Claims and judgements	11,408,305	---	(1,323,982)	10,084,323	61,291
Landfill postclosure care costs	3,718,559	---	(35,415)	3,683,144	44,198
Sick and annual leave	18,149,866	353,167	(723,019)	17,780,013	10,905,138
Total governmental activities	<u>\$ 1,398,976,333</u>	<u>\$ 324,660,426</u>	<u>\$ (59,236,492)</u>	<u>\$ 1,664,400,266</u>	<u>\$ 72,109,648</u>
<b>Business-type activities:</b>					
Claims and judgements	700,000	---	(700,000)	---	---
Capitalized lease obligations	510,915	863,307	(510,915)	863,307	110,989
Sick and annual leave	4,710,665	---	(171,550)	4,539,115	2,816,512
Total business-type activities	<u>\$ 5,921,580</u>	<u>\$ 863,307</u>	<u>\$ (1,382,465)</u>	<u>\$ 5,402,422</u>	<u>\$ 2,927,501</u>

Bonds payable additions include \$1,348,704 accretion of zero coupon bonds.

*General Obligations Bonds:*

These obligations are direct general obligations of the County and are backed by its full faith and credit, and unlimited taxing power of the County and represent borrowings for the following:

General Government	\$ 667,904,373
Education	<u>913,093,850</u>
	1,580,998,223
Accreted value of bonds	<u>38,510,450</u>
	<u>\$ 1,619,508,673</u>

Interest expensed in Debt Service Funds during the fiscal year ended June 30, 2004 was \$62,404,048. Interest expense at the government-wide level was \$65,885,498.

In addition to the General Obligation bonds reported in Long-term Debt there is \$39,500,000 reported in the Capital Projects Funds for the Extendible Municipal Commercial Paper Notes (EMCP) 2004A program sold and outstanding as of June 30, 2004.

The County defeased certain bonds by placing the proceeds of the new bonds in irrevocable trusts to provide for all future debt service requirements on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. Of the original principal, \$204,195,542 of outstanding bonds that were advance refunded prior to Fiscal Year 2004 are considered defeased at June 30, 2004. Specific defeased maturities are shown on the Supplemental Schedules of General Obligations Bonds.

In December 2003, \$32,110,000 in General Obligation Special School Bonds, 2003 Series A, were issued to finance the cost of construction and equipping a public high school. The bonds are limited tax obligations of the

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County upon all taxable property in the County located outside the boundaries of the Board of Education of the City of Memphis, Tennessee, which constitutes the area of the County outside of the boundaries of the City of Memphis, Tennessee. The Bonds bear interest at rates ranging from 2.5 percent to 5.0 percent.

In March, 2004, \$47,740,000 in General Obligation Public Improvement and School Bonds, 2004 Series A were issued to refinance the costs of public works projects, including schools, previously financed with a portion of the County's outstanding Capital Outlay Extendible Municipal Commercial Paper (EMCP) Notes of 2001 Series A and 2003 Series A which were retired with the proceeds of the Bonds. The 2004 Series A Bonds bear interest at rates ranging from 3.0 percent to 5.0 percent.

In April, 2004, \$237,705,000 in General Obligation Variable Rate Demand Public Improvement and School Bonds, 2004 Series B were issued to refinance the costs of public works projects, including schools, previously financed with a portion of the County's outstanding Capital Outlay Extendible Municipal Commercial Paper (EMCP) Notes of 2001 Series A and 2003 Series A, which were retired with the proceeds of the Bonds. The 2004 Series B Variable Rate Demand Bonds have an initial rate period from April 15, 2004 to January 10, 2005. Interest earned during this period will be paid at the end of the Initial Interest Rate Period. Thereafter the Bonds will be issued in a Weekly Rate Period mode. Subject to the conditions set forth in the Resolution adopted on March 8, 2004 by the Board of County Commissioners of Shelby County, Tennessee, each bond may operate at any time in one of six Rate Periods: a Daily Rate Period, a Weekly Rate Period, a Monthly Rate Period, a Commercial Paper Period, a Medium Term Rate Period and a Fixed Rate Period. Contemporaneously with the issuance of the 2004 Series B General Obligation Variable Rate Demand Public Improvement and School Bonds, Shelby County Government entered into a Interest Rate Swap Agreement with Morgan Stanley Capital Services, Inc. In general, the payment obligations of the County under the Swap Agreement consist of the obligation to pay a fixed interest rate of 2.696% on a beginning notional amount of \$235,000,000.00. The notional amount drops to \$135,000,000.00 on April 1, 2009 where it stays at this amount until the maturity date of April 1, 2014. The fixed interest rate will be offset by amounts received by the County from Morgan Stanley Capital Services, Inc., which will pay the County a floating rate index of 70% of USD-LIBOR-BBA.

In May 2004, the Shelby County Board of Commissioners authorized the issuance of up to \$115,000,000.00 in Capital Outlay Extendible Municipal Commercial Paper (EMCP) Notes, 2004 Series A Program. The aggregate outstanding principal amount may not exceed \$115,000,000.00 at any time. The Notes will be issued in anticipation of the County's issuance of certain general obligation bonds and general obligation school bonds in aggregate principal amount not exceeding \$115,000,000.00 for the purpose of funding various public works and school projects. The general obligation bonds are expected to retire the Notes within two years of the initial issuance of the Notes. The original maturity date will range from 1 to 90 days from the original issue date of each Note. On the original maturity date of a note, the County has the option to extend the maturity date to the date that is 270 days after the date of original issuance of such note. As of June 30, 2004, Shelby County has issued \$39,500,000 in EMCP Notes under this program.

The County is indebted for serial bonds and capital appreciation bonds and notes and variable bonds with interest rates varying from 2.50% to 6.75%. The County does not accrue interest on bonds payable therefore unmatured interest is recognized as an expenditure when due.

All unmatured interest which is due in future years is disclosed in the table below. The County has no legal debt limit. Debt service requirements for principal and interest in future years, using the actual rate on fixed rate bonds and notes and 4.115% for the 1999 Series A Variable Demand Refunding Bonds, 6.035% for the 2000 Series A General Obligation Weekly Adjustable/Fixed Rate Bonds Refunding, and 5.345% for the 2001 Series A General

Obligation Weekly Adjustable/Fixed Rate Bonds and 3.041% for the 2004 Series B General Obligation Variable Rate Demand Public Improvement and school bonds.

Years Ending June 30	Principal	Interest	Total
2005	57,560,007	78,234,022	135,794,028
2006	64,105,753	72,674,212	136,779,964
2007	61,273,182	75,587,286	136,860,468
2008	71,575,650	65,421,250	136,996,900
2009	75,528,150	61,753,033	137,281,183
2010	82,490,000	54,502,001	136,992,001
2011	88,080,000	50,485,261	138,565,261
2012	77,526,807	61,880,511	139,407,318
2013	75,204,649	64,040,956	139,245,604
2014	89,362,657	47,232,503	136,595,159
2015	85,777,794	43,225,160	129,002,955
2016	70,353,077	35,575,249	105,928,326
2017	67,980,497	36,950,102	104,930,599
2018	73,605,000	25,910,137	99,515,137
2019	76,665,000	22,499,169	99,164,169
2020	69,625,000	19,059,959	88,684,959
2021	65,410,000	15,915,804	81,325,804
2022	61,090,000	12,940,310	74,030,310
2023	58,935,000	10,202,586	69,137,586
2024	55,845,000	7,619,280	63,464,280
2025	35,740,000	5,193,126	40,933,126
2026	23,305,000	3,889,465	27,194,465
2027	25,545,000	3,034,132	28,579,132
2028	28,005,000	2,097,722	30,102,722
2029	20,245,000	1,076,756	21,321,756
2030	20,165,000	459,913	20,624,913
	1,580,998,223	877,459,905	2,458,458,120
Accreted value of Bonds	38,510,450	(38,510,450)	---
	<u>\$ 1,619,508,673</u>	<u>\$ 838,949,455</u>	<u>\$ 2,458,458,120</u>

As of June 30, 2004 Shelby County has seven interest rate swap agreements, described as follows:

**Swap One, Executed with Morgan Guaranty Trust Company on 12/18/1998 in connection with the General Obligation Weekly Adjustable/Fixed Rate Refunding Bonds, 2000 Series A:**

Swap Objectives: Shelby County (the "County") received an upfront payment from the Counterparty for entering into a swaption. This swaption gave the Counterparty the option to cause the County to enter into a swap in which the County would pay a fixed rate and receive a floating rate. Upon exercise of the option, the County would currently refund a portion of its 1992 Series A Refunding Bonds with variable rate bonds and enter into a fixed payer swap.

**Swap Terms:**

Trade Date	Option Notification Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Underlying Index	Upfront Cash Payment
12/18/1998	11/30/1999	12/2/1999	3/1/2008	\$16,600,000	6.035%	BMA	\$ 1,275,000

On 12/18/1998, the County received \$1,275,000 for granting the Counterparty, Morgan Guaranty Trust Company ("Morgan"), the right to enter into a swap on a future date. In 1998, this payment represented the present value savings of the refunding as of 1999. Morgan had the right to exercise the option by notifying the County on 11/30/1999. The option was exercised and the swap began on 12/2/1999 with the County paying 6.035% and receiving the Bond Market Association Municipal Swap Index (BMA) until 3/1/2008, the maturity date of the bonds. The swap and refunding bonds had the same original notional amount of \$16,600,000 and have the same principal amortization.

*Fair Value of Swap Option:* As of 6/30/2004, there is no fair value for the option because it has been exercised. The swap, as of 6/30/2004, has a net value of (\$672,625). The total mark-to-market was (\$820,848) of which approximately \$148,223 is accrued interest from 3/3/2004 to the valuation date, 6/30/2004. This fair value was measured by a swap pricing system in which the future net settlement swap payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement date implied from the current yield curve.

*Associated Debt and Swap Payments:* This swap is in conjunction with the General Obligation Weekly Adjustable/Fixed Rate Refunding Bonds, 2000 Series A that refunded the 1992 Series A Bonds. Below are the principal and interest requirements of the debt and the net swap payments as of 6/30/04 (assuming BMA equals its current level of 1.05% for the term of the swap). The net swap payments will fluctuate as BMA changes.

Fiscal Year Ending June 30	Variable Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2005	\$ 2,100,000	\$ 94,908	\$ 453,635	\$ 2,648,543
2006	2,200,000	73,040	348,950	2,621,990
2007	2,300,000	50,130	239,280	2,589,410
2008	2,500,000	26,178	124,553	2,650,731
Total	\$ 9,100,000	\$ 244,256	\$ 1,166,418	\$ 10,510,674

*Credit Risk:* Because the swap has a negative value on 6/30/2004, the County does not have credit risk to Morgan. However, if swap rates increase and the fair value of the swap moves in favor of the County, credit risk would be present. The current ratings of Morgan are Aa2/AA by Moody's and Standard & Poor's, respectively.

*Termination Risk:* If the swap has an unanticipated termination and the swap has a negative fair value due to a decline in swap rates, the County may owe a termination payment to Morgan equal to the fair value of the swap at that time. Also, if the swap is terminated, the County will be exposed to interest rate risk because the variable rate bonds will no longer carry synthetic fixed rate.

*Interest Rate Risk:* Currently, the County does not have interest rate risk because it is paying a fixed rate on the swap. However, if for some unforeseen reason the swap is terminated prior to maturity, the County will have interest rate risk associated with the outstanding variable rate bonds until maturity in 2008.

*Basis Risk:* The swap exposes the County to basis risk if there is not a direct relationship between the floating rate received from the Counterparty and the rate at which the variable rate bonds remarket. Basis risk is present if the County's bonds remarket higher than BMA, which is the rate received from the Counterparty. Thus, the expected cost savings may not be realized.

**Swap Two, Executed with Morgan Guaranty Trust Company on 12/18/1998 in connection with the General Obligation Weekly Adjustable Fixed Rate Refunding Bonds, 2001 Series A:**

Swap Objective: The County received an upfront payment from the Counterparty for entering into a swaption. This swaption gave the Counterparty the option to cause the County to enter into a swap in which the County would pay a fixed rate and receive a floating rate. Upon the counterparty's exercise of the option, the County would currently refund a portion of its 1992 Series B and 1993 Series A G.O. Refunding Bonds with variable rate bonds and enter into a fixed payer swap.

*Swap Terms:*

Trade Date	Option Notification Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Underlying Index	Upfront Cash Payment
12/18/1998	11/29/2000	12/1/2000	3/1/2011	\$21,800,000	5.345%	BMA	\$ 1,025,000

On 12/18/1998, the swaption was executed and the County received \$1,025,000 for granting the Counterparty, Morgan Guaranty Trust Company, the right to enter into a swap on a future date. In 1998, this payment represented the present value savings of the refunding as of 12/1/2000. Morgan had the right to exercise the option by notifying the County on 11/29/2000. The option was exercised and the swap began on 12/1/2000 with the County paying 5.345% and receiving BMA until 3/1/2011, the maturity date of the bonds. The swap and refunding bonds had the same original notional amount of \$21,800,000 and have the same principal amortization.

*Fair Value of Swap and Option:* As of 6/30/2004, there is no fair value for the option because it has been exercised. The swap, as of 6/30/2004, has a net value of (\$1,648,520). The total mark-to-market was (\$1,911,860) of which approximately \$263,340 is accrued interest from 3/3/2004 to the valuation date, 6/30/2004. This fair value was measured by a swap pricing system in which the future net settlement swap payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dates implied from the current yield curve.

*Associated Debt and Swap Payments:* This swap is in conjunction with the General Obligation Weekly Adjustable/Fixed Rate Refunding Bonds, 2001 Series A which refunded a portion of the 1992 Series B Bonds and 1993 Series A Bonds. As of 6/30/2004, below are the principal and interest requirements of the debt and the net swap payments (assuming BMA equals its current level of 1.05% for the term of the swap). The net swap payments will fluctuate as BMA changes.

Fiscal Year Ending June 30	Variable Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2005	\$ 2,100,000	\$ 195,841	\$ 807,460	\$ 3,103,301
2006	2,300,000	173,972	717,265	3,191,237
2007	1,100,000	150,021	618,480	1,868,501
2008	1,100,000	138,565	570,852	1,809,417
2009	1,200,000	127,047	523,990	1,851,037
2010	1,200,000	114,551	472,450	1,787,001
2011	9,800,000	102,054	420,910	10,322,964
Total	<u>\$ 18,800,000</u>	<u>\$ 1,002,051</u>	<u>\$ 4,131,407</u>	<u>\$ 23,933,458</u>

*Credit Risk:* Because the swap has a negative value on 6/30/2004, the County does not have credit risk to Morgan. However, if swap rates increase and the fair value of the swap moves in favor of the County, credit risk would be present. The current ratings of Morgan are Aa2/AA by Moody's and Standard & Poor's, respectively.

*Termination Risk:* If the swap has an unanticipated termination and the swap has a negative fair value due to a decline in swap rates, the County may owe a termination payment to Morgan equal to the fair value of the swap at that time.

*Interest Rate Risk:* Currently, the County does not have interest rate risk because it is paying a fixed rate on the swap. However, if for some unforeseen reason the swap is terminated prior to maturity, the County will have interest rate risk associated with the variable rate bonds until maturity in March 2011.

*Basis Risk:* The swap exposes the County to basis risk if there is not a direct relationship between the floating rate received from the Counterparty and the rate at which the variable rate bonds remarket. Basis risk is present if the County's bonds remarket higher than BMA, which is the rate received from the Counterparty. Thus, the expected cost savings may not be realized.

***Swap Three, Executed with Morgan Guaranty on 12/18/1998 in connection with the Anticipated General Obligation Weekly Adjustable/Fixed Rate Refunding Bonds, 2005 Series A:***

Swap Objective: The County received an upfront payment from the Counterparty for entering into a swaption. This swaption gives the Counterparty the option to cause the County to enter into a swap in which the County would pay a fixed rate and receive a floating rate. If the option is exercised, the County would currently refund a portion of its 1995 Series A G.O. Refunding Bonds with variable rate bonds and enter into a fixed payer swap.

Trade Date	Option Notification Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Underlying Index	Upfront Cash Payment
12/18/1998	12/30/2004	1/1/2005	10/1/2015	\$35,800,000	5.416%	BMA	\$ 1,325,000

On 12/18/1998, the County received \$1,325,000 for granting the Counterparty, Morgan Guaranty Trust Company, the right to enter into a swap on a future date. In 1998, this payment represented the present value savings of the refunding as of 1/1/2005. Morgan has the right to exercise the option by notifying the County on 12/30/2004. If the option is exercised the swap will begin on 1/1/2005, the first call date of the 1995 Series A Bonds, with the County paying 5.416% and receiving BMA until 10/1/2015, the maturity date of the bonds. The swap and refunding bonds have the same original notional amount of \$35,800,000 and have the same principal amortization.

*Fair Value of Swap and Option:* As of 6/30/2004, the swap had a fair value of (\$3,874,500) against the County. This fair value was measured by a swap pricing system in which the future net settlement swap payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dated implied from the current yield curve.

*Associated Debt and Swap Payments:* If the Counterparty exercises the option, the swap will be associated with the anticipated General Obligation Weekly Adjustable/Fixed Rate Refunding Bonds, 2005 Series A which will refund a portion of the 1995 Series A Bonds.

*Credit Risk:* Currently the swaption itself does not expose the County to credit risk. However, should the option be exercised in the future, the underlying swap could expose the County to credit risk, depending on the fair market value of the swap at that time.

*Market Access Risk:* If the option is exercised by Morgan, the County may be exposed to market access risk if the County is not able to issue the variable rate refunding bonds in 2005. If the County is not able to issue the bonds because of some unforeseen event, it may not realize the expected cost savings. If the option is exercised and the variable rate refunding bonds are not issued, the County would still make the swap payments as required by the swap agreement.

*Termination Risk:* If either party's rating falls causing a termination and, at the time of termination, the mark-to-market is negative against the county, the County may owe a payment.

***Swap Four, Executed with Goldman Sachs Mitsui Marines Derivative Products on 1/15/1999 in connection with the 1999 Series A G.O. Variable Rate Demand Refunding Bonds:***

Swap Objective: In order to lower its borrowing cost, the County entered into a swap in connection with its 1999 Series A G.O. Variable Rate Demand Refunding Bonds. The variable rate bonds were issued to advance refund a portion of various outstanding G.O. bonds issues. At the time, the synthetic fixed rate swap was favorable when compared to savings that could be achieved with traditional fixed rate refunding bond issue. Additionally, the County entered into this tax language swap to effectively lower the fixed rate it would pay on the swap.

*Swap Terms:*

Trade Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Underlying Index
1/15/1999	1/28/1999	4/1/2020	\$ 96,150,000	4.115%	Actual Bond Rate or Alternative Index (1)

(1) under certain circumstances

On 1/28/1999, the swap became effective at the same time the 1999 Series A G.O. Variable Rate Demand Refunding Bonds were issued. Under the terms of the swap, the County pays 4.115% to the Counterparty, Goldman Sachs Mitsui Marines Derivative Products, LP, ("Goldman"), and in return receives the Actual Bond Rate or an Alternative Index. If certain events occur, Goldman has the option to cause the Floating Rate Index to be converted from the Actual Bond Rate to the Alternative Index, or vice versa. The Alternative Index is either the BMA index or 65% of 30-day commercial paper. The swap and refunding bonds had the same original notional amount of \$96,150,000 and have the same principal amortization and maturity.

*Fair Value of Swap:* As of 6/30/2004, the swap had a negative fair value of (\$2,160,050), assuming Goldman pays the County the Actual Bond Rate until maturity. This fair value was measured by a swap pricing system in which the future net settlement swap payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dates implied from the current yield curve.

*Associated Debt and Swap Payments:* This swap is in conjunction with the 1999 Series A G.O. Variable Rate Demand Refunding Bonds that advance refunded portions of several bonds issues. As of 6/30/2004, below are the

principal and interest requirements of the debt and the net swap payments. The cash flows below assume that BMA equals its current level of 1.05% for the term of the swap, and Goldman pays the Actual Bond Rate to the County of BMA plus 5 basis points. The net swap payments will fluctuate as BMA changes and the Actual Bond Rate change.

Fiscal Year Ending June 30	Variable Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2005	\$ 125,000	\$ 1,003,278	\$ 3,934,899	\$ 5,063,177
2006	125,000	1,001,969	3,929,755	5,056,724
2007	150,000	1,000,660	3,924,611	5,075,271
2008	16,225,000	999,089	3,918,439	21,142,528
2009	625,000	828,260	3,250,780	4,704,040
2010	675,000	821,716	3,225,061	4,721,777
2011	9,650,000	814,648	3,197,285	13,661,933
2012	13,325,000	713,600	2,800,188	16,838,788
2013	9,300,000	573,304	2,251,864	12,125,168
2014	14,625,000	475,922	1,869,169	16,970,091
2015	12,750,000	322,780	1,267,350	14,340,130
2016	4,100,000	189,272	742,688	5,031,960
2017	4,250,000	146,104	573,973	4,970,077
2018	4,500,000	101,601	399,085	5,000,686
2019	4,675,000	54,481	213,910	4,943,391
2020	525,000	5,528	21,534	552,062
Total	<u>\$ 95,625,000</u>	<u>\$ 9,052,212</u>	<u>\$ 35,520,591</u>	<u>\$ 140,197,803</u>

*Credit Risk:* Because the swap has a negative value on 6/30/2004, the county does not have credit risk to Goldman. However, if swap rates increase and the fair value of the swap moves in favor of the County, credit risk would be present. The current ratings of Goldman are Aaa/AAA by Moody's and Standard & Poor's, respectively.

*Termination Risk:* If the swap has an unanticipated termination or the county exercises its option to terminate, the County may owe a termination payment to Goldman equal to the fair value of the swap at that time, if swap rates have declined and the fair value is negative to the County. The County or Goldman may terminate the swap contract if either party fails to perform under the swap contract or if either party's credit rating falls below A3 from Moody's and/or A- from Standard & Poor's. The County also has the option to terminate the contract with at least 30 days notice to Goldman. The County will not exercise its termination option if a payment would be payable by the County unless the County provides evidence to Goldman that a termination payment will be made on the Early Termination Date.

*Interest Rate Risk:* Currently, the County does not have interest rate risk because it is paying a fixed rate on the swap. However, if for some unforeseen reason the swap is terminated prior to maturity, the County will have interest rate risk associated with the outstanding variable rate bonds until maturity in April, 2020.

*Basis Risk:* Currently, the county is receiving the Actual Bond Rate so no basis risk exists. However, should certain events occur and the swap is converted to the Alternative Index of 65% of 30-day commercial paper or the BMA Index, the County could be exposed to basis risk. The basis risk will arise from the difference between the

actual interest rate paid on the variable rate bonds and the receipt from Goldman of 65% of 30-day commercial paper or the BMA Index. This basis differential could cause the expected savings to not be achieved.

***Swap Five, Executed with Goldman Sachs Mitsui Marines Derivative Products on 9/17/2001 in connection with Several Bonds Issues:***

*Swap Objective:* In 2001, the County entered into a forward starting swap that will produce a synthetic variable rate. The swap had a forward starting nature in order to increase the fixed rate received by the County. Under the terms of the swap, the County will receive a fixed rate of 4.00% and pay the BMA index. The County entered into this fixed receiver swap in order to gain variable rate exposure, better match assets and liabilities, and receive upfront cash.

*Swap Terms:*

Trade Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Receiver Rate	Floating Rate Index	Upfront Payment for Termination Option
9/17/2001	9/15/2003	9/15/2011	\$ 100,000,000	4.000%	BMA	\$ 5,008,700

On 9/17/01, the County entered into a forward starting swap that became effective on 9/15/2003. Under the terms of the swap, the County pays the BMA index, which was 1.05% on 6/30/2004. In return, the County receives a fixed rate of 4.00% from the Counterparty, Goldman. In addition, on 9/17/2001, the county received \$5,008,700 from Goldman for granting Goldman the right to cancel the swap anytime, with 45 days notice to the County, from 9/15/2003 until the maturity of the swap, 9/15/2011.

*Fair Value of Swap Option:* As of 6/30/2004, the swap had a fair value in the County's favor of \$2,759,300. This fair value was measured by a swap pricing system in which the future net settlement swap payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dated implied from the current yield curve.

*Associated Debt and Swap Payments:* This swap is in conjunction with several issues: 1997 Series B G.O. Refunding Bonds, 1997 Series A G.O. Special Purpose Refunding Bonds, 1996 Series B G.O. Refunding Bonds, and 1996 Series A G.O. Economic Development Refunding Bonds.

*Credit Risk:* The County has credit exposure to Goldman equivalent to the fair market value of \$6,955,000. If Goldman fails to perform under the terms of the swap contract, the County could have a loss equal to \$6,955,000. As of 6/30/2004, the ratings of Goldman are Aaa/AAA by Moody's and Standard & Poor's, respectively.

*Termination Risk:* If the swap has an unanticipated termination (other than Goldman's exercise of its option to cancel the swap), the County may owe a termination payment to Goldman equal to the fair value of the swap at that time, if swap rates have risen and the fair value is negative to the County. An unscheduled end will also affect the County's asset/liability strategy because the fixed rate bonds will no longer carry a synthetic floating rate. If Goldman exercises its option to cancel the swap both parties are relieved of all further payment obligations except for unpaid accruals.

*Interest Rate Risk:* Because the County is paying a floating rate index under the swap, it is subject to interest rate risk. As BMA rises, the County's swap payments rise.

**Swap Six, Executed with Regions Bank on 5/23/2003 in connection with the Anticipated 2005 Series G.O. Refunding Bonds:**

Swap Objective: The County received an upfront payment of \$4,398,000 from the Counterparty for entering into a swaption. This swaption gave the Counterparty the option to cause the County to enter into a swap on April 1, 2005 or April 1, 2006. If the Counterparty exercises the option, the County will currently refund a portion of its 1995 Series A G.O. Refunding Bonds with variable rate bonds and enter into a fixed payer swap in which the County would pay a fixed rate and receive a floating rate. The County entered into this swaption to take advantage of 40 year lows in interest rates and to receive an upfront cash payment for budgetary needs.

*Swap Terms:*

Trade Date	Notification Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Floating Rate Index	Upfront Cash Payment
5/23/2003	3/30/2005 or 3/30/2006	4/1/2005 or 4/1/2006	04/01/2013	\$52,590,000	5.30%	70% of Libor	\$ 4,398,000

On 5/23/2003, the County entered into a swaption with Regions Bank (“Regions”), and the County was paid \$4,398,000 by Regions for this option. If the option is exercised, the County will issue variable rate refunding bonds and enter into a fixed payer swap in which the County will pay 5.30% and receive 70% of Libor. If the option is exercised, Regions will pay \$500,000 for cost of issuance. In addition to the cost of issuance, Regions will also pay an additional premium equal to 1% of the notional amount if the option is exercised on 3/30/2005. The potential swap will have the same amortization and maturity as the underlying bond issue. The fixed swap of 5.30% was set at a rate that, when added to the assumed ongoing expenses for the variable rate bonds, would equal the average coupon on the 1995 Series A G.O. Refunding Bonds.

*Fair Value of Swap and Option:* As of 6/30/2004, the swap had a negative fair value of (\$3,054,691). This fair value was measured by a swap pricing system in which the future net settlement swap payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dates implied from the current yield curve.

*Associated Debt and Swap Payments:* The swap is associated with a potential future refunding issue.

*Credit Risk:* Currently, the swaption itself does not expose the County to credit risk. However, should the option be exercised in the future, the underlying swap could expose the County to a credit risk, depending on the fair value of the swap at that time. To mitigate credit risk, if Standard & Poor’s and Moody’s rates the creditworthiness of Regions’ long-term unsecured and unsubordinated debt, deposit, or letter of credit obligations below a rating of A in the case of Standard & Poor’s and A2 in the case of Moody’s, treasuries or cash will be pledged.

*Termination Risk:* An out-of-the-ordinary event may occur that causes the swap contract to be terminated. At the time of termination, if the swap has a negative fair value, the County would be liable to Regions for a payment equal to the fair value. If either Standard & Poor’s or Moody’s rates the creditworthiness of either party’s long-term unsecured and unsubordinated debt, deposit, or letter of credit obligations below Baa3 by Moody’s or BBB- by Standard & Poor’s, an Additional Termination Event has occurred. As of 6/30/2004, the ratings of Regions are Aa3/A+ by Moody’s and Standard & Poor’s respectively.

*Basis Risk:* Currently, the County is not exposed to basis risk. If the option is exercised in the future, the potential savings could be affected depending on the relationship between the variable rate on the bonds and the floating receipt of 70% of Libor from Regions.

*Market Access Risk:* The County may be exposed to market access risk if the County is not able to issue the refunding bonds in the future because of some unforeseen event. If the option is exercised and the refunding bonds are not issued, the 1995 bonds would not be refunded and the County would make swap payments as required by the swap contract. Thus, the expected savings may not be realized.

***Swap Seven, Executed with Morgan Stanley Capital Services, Inc. on 3/18/2004 in connection with the 2004 Series B G.O. Variable Rate Public Improvement and School Bonds:***

Swap Objective: In order to have a fixed rate obligation for a period of 10 years, the County entered into a swap in connection with its 2004 G.O. Variable Rate Public Improvement and School Bonds. At the time of swap execution, the synthetic fixed rate swap was favorable when compared to the rates that could be achieved with a traditional fixed rate bond. The County entered into a forward starting swap with a forward period of 1 month in to remove the uncertainty of interest rate movement. Given the swap was executed approximately 1 month prior to the issuance of the Bonds, the County decided to use a swap notional of \$235,000,000 because final bond sizing had not been determined. Additionally, the County entered into a 70% of Libor fixed payer swap instead of a BMA fixed payer swap because the County felt the lower fixed payer rate associated with the % of Libor swap sufficiently rewarded the County for taking on both basis and tax risk.

*Swap Terms:*

Trade Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Underlying Index
03/18/2004	04/22/2004	04/1/2014	\$ 235,000,000	2.696%	70% of 1 Month Libor

On 4/22/2004, the swap became effective at the same time the 2004 G.O. Variable Rate Public Improvement and School Bonds were issued. Under the terms of the swap, the County pays 2.696% to the Counterparty, Morgan Stanley Capital Services, Inc. ("Morgan Stanley"), and in return receives 70% of 1 Month Libor. The original swap notional was \$235,000,000 while the bonds original notional was \$237,705,000. The Bonds and swap also have different principal amortization and maturity. The bonds mature April 1, 2030. The swap matures in 2014 because the County wanted a fixed component via the swap for 10 years and in 2014, the County wanted the flexibility to take on variable rate exposure, enter into another fixed payer swap, or issue fixed rate debt. The notional amount decreases from \$235,000,000 to \$135,000,000 effective April 1, 2009 through the termination date April 1, 2014.

*Fair Value of Swap and Option:* As of 6/30/2004, the swap had a positive fair value of \$9,878,666. This fair value was measured by a swap pricing system in which the future net swap settlement payments were calculated and discounted to the valuation date using future spot interest rates. The future spot rates are zero-coupon bonds due on the future settlement dates implied from the current yield curve.

*Associated Debt and Swap Payments:* This swap is in conjunction with the 2004 G.O. Variable Rate Public Improvement and School Bonds. As of 6/30/2004, below are the principal and interest requirements of the debt and the net swap payments. The cash flows below assume that BMA equals its current level of 1.05% for the term of the swap, and Morgan Stanley pays 70% of 1 Month Libor to the County which as of 6/30/2004 equals 0.9581% (1.36875% x 70%). The net swap payments will fluctuate as 70% of Libor changes.

Fiscal Year Ending June 30	Variable Rate Bonds		Swap Notional Amount	Net Swap Payments	Total
	Principal	Interest			
2005	\$ ---	\$ 2,527,058	\$ 235,000,000	\$ 4,052,734	\$ 6,579,792
2006	---	2,527,058	235,000,000	4,052,734	6,579,792
2007	---	2,527,058	235,000,000	4,052,734	6,579,792
2008	---	2,527,058	235,000,000	4,046,480	6,573,538
2009	---	2,527,058	235,000,000	4,052,734	6,579,792
2010	---	2,527,058	135,000,000	2,328,166	4,855,224
2011	---	2,527,058	135,000,000	2,328,166	4,855,224
2012	---	2,527,058	135,000,000	2,324,573	4,851,631
2013	---	2,527,058	135,000,000	2,328,166	4,855,224
2014	---	2,527,058	135,000,000	2,328,166	4,855,224
2015	8,290,000	2,527,058		---	10,817,058
2016	9,120,000	2,439,046		---	11,559,046
2017	10,030,000	2,341,690		---	12,371,690
2018	11,030,000	2,235,204		---	13,265,204
2019	12,140,000	2,118,103		---	14,258,103
2020	13,350,000	1,989,216		---	15,339,216
2021	14,685,000	1,846,705		---	16,531,705
2022	16,155,000	1,690,799		---	17,845,799
2023	17,770,000	1,519,287		---	19,289,287
2024	19,545,000	1,330,629		---	20,875,629
2025	21,500,000	1,121,986		---	22,621,986
2026	13,775,000	893,728		---	14,668,728
2027	15,150,000	747,483		---	15,897,483
2028	16,665,000	586,641		---	17,251,641
2029	18,335,000	408,742		---	18,743,742
2030	20,165,000	214,085		---	20,379,085
Total	<u>\$ 237,705,000</u>	<u>\$ 49,280,982</u>		<u>\$ 31,894,653</u>	<u>\$318,880,635</u>

*Credit Risk:* The County has credit exposure to Morgan Stanley equivalent to the fair value of \$9,878,666. If Morgan Stanley fails to perform under the terms of the swap contract, the County could have a loss equal to \$9,878,666. As of 6/30/2004, the ratings of Morgan Stanley are Aa3/A+ by Moody's and Standard & Poor's, respectively.

*Termination Risk:* If the swap has an unanticipated termination or the County exercises its option to terminate, the County may owe a termination payment to Morgan Stanley equal to the fair value of the swap at that time, if swap rates have declined and the fair value is negative to the County. The County or Morgan Stanley may terminate the swap contract if either party fails to perform under the swap contract or if either party's credit rating falls below Baa1 from Moody's and/or BBB+ from Standard & Poor's. As of 6/30/2004, the ratings of Morgan Stanley are Aa3/A+ by Moody's and Standard & Poor's, respectively.

*Interest Rate Risk:* Currently, the County does not have interest rate risk because it is paying a fixed rate on the swap. However, if for some unforeseen reason the swap is terminated prior to the swap maturity in 2014, the County will have interest rate risk associated with the outstanding variable rate bonds. Additionally, after the swap

matures in 2014, if the County decides not to enter into another fixed payer swap or traditionally fix the debt, the county will have interest rate risk until the bonds mature on April 1, 2030.

*Basis Risk:* The County is receiving 70% of 1Month Libor from Morgan Stanley so basis risk exists. The basis risk arises from the difference between the actual interest rate paid on the variable rate bonds (i.e., BMA +/- spread) and the receipt from Morgan Stanley of 70% of 1Month Libor. This basis differential could cause the expected interest cost to increase.

***Claims and judgments:***

The County has recognized long-term liabilities for claims and judgments of \$10,084,323 in accordance with its accounting policy explained in Note I(E). The liabilities are based on property damage and personal injury lawsuits arising in the course of operations.

**(I) Interfund Receivables, Payables, and Transfers**

Interfund receivables and payables consist of the following:

Due To/From Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Corrections Fund	\$ 7,770,417
	Capital Projects Fund	872
	Grants Fund	1,736,745
	Solid Waste Management Fund	3,255
Debt Service Fund	General Fund	1,300,853
	Hotel Motel Tax fund	1,060,266
	Capital Projects Fund	509,276
Hotel Motel Tax Fund	General Fund	2,222,464
Education Fund	General Fund	1,300,853
Car Rental Tax Fund	General Fund	332,372
Roads and Bridges	Capital Projects Fund	202,286
Total		\$ 16,439,659

Receivable Entity	Payable Entity	Amount
General Fund	Agricenter International Component Unit	\$ 290,075
Debt Service Fund	The Med Component Unit	4,350,984
Capital Projects Fund	Agricenter International Component Unit	42,534
	The Med Component Unit	3,685,674
Board of Education Component Unit	Capital Projects Fund	16,975,000
The Med Component Unit		3,000,000
Board of Education Component Unit	Education Fund	<u>2,025,046</u>
Total		<u>\$ 30,369,313</u>

These balances resulted from timing differences between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, and (2) payments between funds occur.

Transfers during the year were as follows:

Transfer Out:	Transfer In:	Amount
General Fund	Correction Center Fund	\$ 10,197,565
	Debt Service Fund	441,102
	Grants Fund	3,210,083
	Oakville Health Care Center	3,097,434
	Nonmajor Governmental Funds	292,264
	General Fund	172,268
	Internal Service Funds	2,000,000
Debt Service Fund	General Fund	314,915
Nonmajor Governmental Funds	Debt Service Fund	5,060,266
	General Fund	1,830,000
	Capital Projects Fund	2,750
	Grants Fund	33,808
Capital Projects Fund	Debt Service Fund	2,322,529
	Correction Center Fund	185,680
	Nonmajor Governmental Funds	345,487
	General Fund	1,379,205
Grants Fund	General Fund	5,033,456
	Grants Fund	401,791
	Correction Center Fund	<u>85,017</u>
Total Transfers Out by Governmental Fund Types		<u>36,405,620</u>
Correction Center Fund	Grants Fund	145,372
Fire Fund	General Fund	604,000
	Nonmajor Governmental Fund	1,000
Consolidated Codes Enforcement Fund	General Fund	954,000
Internal Service Funds	General Fund	<u>215,387</u>
Total Transfers Out by Proprietary Fund Types and Internal Service Funds		<u>1,919,759</u>
Total All Fund Types		<u>\$ 38,325,379</u>

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

**(J) Other Revenue**

The other revenue classification is used in the combined, combining, and individual fund financial statements and in the supplemental schedules and statistical section of the comprehensive annual financial report. This category is one of the revenue line items included in the legally adopted budget approved annually by the Board of Commissioners. Certain revenue accounts which are not accurately described by any of the other revenue classifications included in the budget (local taxes, local revenues, state revenue, federal revenue, patient service revenue, elected officials' fees and fines) are classified as other revenue. Other revenue for the year ended June 30, 2004 is detailed below:

	General Fund	Debt Service Funds	Capital Projects Fund	Grant Funds	Other Governmental Funds	Total Governmental Funds
Investment income	\$ 2,139,312	\$ 64,474	\$ 355,897	\$ 53,834	\$ 151,250	\$ 2,764,767
Miscellaneous income	304,532	---	5,694	266,235	---	576,461
Total other revenue	<u>\$ 2,443,844</u>	<u>\$ 64,474</u>	<u>\$ 361,591</u>	<u>\$ 320,069</u>	<u>\$ 151,250</u>	<u>\$ 3,341,228</u>

**(K) Risk Financing and Related Insurance Issues**

Shelby County maintains a self-insured Group Hospital Insurance Fund for its active and retired employees and their dependents, funded by participation of both the County and its employees. Incurred but not reported (IBNR) claims liabilities of the Group Hospital Insurance Fund were actuarially determined. This calculation was based on prior years' claims expense and the current year's actual claims incurred. The long term liabilities for IBNR claims are presented at present value.

The schedule below presents the changes in IBNR liabilities for the past two years for the Group Hospital Insurance Fund:

	<u>2004</u>	<u>2003</u>
Insurance claims liabilities at the beginning of the fiscal year	\$ 11,006,275	\$ 8,960,188
Incurred claims and claim adjustment expenses	45,836,999	67,145,071
Payment of claims and claim adjustment expenses	<u>(47,742,274)</u>	<u>(65,098,984)</u>
Claims liabilities at the end of the fiscal year	<u>\$ 9,101,000</u>	<u>\$ 11,006,275</u>

IBNR claims are included in Insurance Claims Payable.

The County maintains a self-insured Tort Liability Fund funded by premiums paid by departments using county vehicles and by an operating transfer from the General Fund. Claims liabilities of the Tort Liability Fund were

estimated based on prior years' claims expense, current year's actual claims, and a review of pending litigation through the County Attorney.

The schedule below presents the changes in claims liabilities for the past two years for the Tort Liability Fund:

	<u>2004</u>	<u>2003</u>
Tort claims liabilities at the beginning of the fiscal year	\$ 2,118,035	\$ 2,666,453
Incurred claims and claim adjustment expenses	1,758,419	21,341
Payment of claims and claim adjustment expenses	<u>(477,825)</u>	<u>(569,759)</u>
Claims liabilities at the end of the fiscal year	<u>\$ 3,398,629</u>	<u>\$ 2,118,035</u>

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

The schedule below presents the changes in claims liabilities for the past two years for the Employer Insurance Fund:

	<u>2004</u>	<u>2003</u>
Insurance claims liabilities at the beginning of the fiscal year	\$ 8,996,944	\$ 8,642,625
Incurred claims and claim adjustment expenses	2,271,935	3,333,704
Payment of claims and claim adjustment expenses	<u>(5,040,737)</u>	<u>(2,979,385)</u>
Claims liabilities at the end of the fiscal year	<u>\$ 6,228,142</u>	<u>\$ 8,996,944</u>

The County's other insurance fund is the Group Life Insurance Fund, which reported expenses of \$2,257,878 for claims incurred for the year ended June 30, 2004.

### **(L) Contingencies and Commitments**

The County has commitments at June 30, 2004 for outstanding purchase orders and outstanding contracts reported as reserves for encumbrances of the governmental funds. In addition, commitments for capital projects total \$43,368,308 as of June 30, 2004. Notes payable have been authorized and are available as needed to fund these capital projects.

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

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**(M) Joint Ventures, Jointly Governed Organizations, and Related Organizations*****Joint Ventures:******New Memphis Arena Public Building Authority of Memphis and Shelby County (New PBA)***

The New Memphis Arena Public Building Authority of Memphis and Shelby County was created in August 2001 by Shelby County and the City of Memphis. It is a nonprofit corporation established under statutes of the State of Tennessee. The New PBA is governed by a Board of Directors whose members are jointly appointed by the mayors of the City and the County and approved by the Memphis City Council and the Shelby County Commission.

In June 2001 the City of Memphis, Shelby County, and HOOPS, L.P. (the NBA franchise ownership entity) entered into the "Memphis Arena Project Agreement." Under this agreement a new arena would be constructed and leased to HOOPS, L.P. as part of the agreement to bring a professional basketball (NBA) team to Memphis. The primary purpose of the New PBA was to construct and hold title to this new multi-purpose sports and entertainment facility; this facility is now known as FedExForum. As of the date of this report construction of the facility is substantially complete.

Funding for construction of the facility is being provided primarily through the Memphis and Shelby County Sports Authority, Inc. Funding arrangements are explained further in the following section for this jointly governed organization.

Financial statements for the New PBA may be obtained from the New Memphis Arena PBA, 195 Linden Avenue, Memphis, Tennessee 38103.

***Memphis Cook Convention Center (the Convention Center)***

The Convention Center is managed by an eight-member board consisting of four members appointed by the Mayor of the City of Memphis (the City) and confirmed by City Council, and four members appointed by the County Mayor and confirmed by the Board of Commissioners. The board is responsible for reporting the results of operations of the Convention Center semi-annually to both the City and the County. On August 21, 2000, the City and County entered into a contract with a third party to promote, operate, and manage the Convention Center. The original term of the contract was a three year period, August 21, 2000 to August 20, 2003, with an optional extension through August 20, 2005, which has been exercised. That option was exercised and the contract was extended. The City and County share equally in the profits of the Convention Center and are responsible for funding any deficit from operations in the same proportion. This obligation is currently funded for both governments from the proceeds of the Hotel Motel Tax. The County does not hold an equity interest in this entity. (The Hotel Motel Tax Fund contributed \$1,768,345 to the operations of the Convention Center during the year ended June 30, 2004.) Financial statements for the Convention Center may be obtained from Memphis Cook Convention Center, 255 N. Main Street, Memphis, Tennessee, 38103.

***Mid-South Coliseum (the Coliseum)***

The Coliseum is a joint operation between the City and the County. The City and County share in profits or fund any deficits from operations in a ratio of 60% and 40%, respectively. As a result of the non-compete clause in the agreement with the National Basketball Association Franchise Owners, the future financial liability of this facility is questionable. The County does not hold an equity interest in this entity. Financial statements for the Coliseum may be obtained from the Mid-South Coliseum, The Fairgrounds, Memphis, Tennessee, 38104.

*Pyramid Arena*

In November 1987, the City of Memphis and the County entered into a joint-venture arrangement creating the Public Building Authority of Memphis and Shelby County (PBA). The PBA is a not-for-profit corporation created for the purpose of constructing the Pyramid, a multipurpose facility with the primary use as a basketball arena. The City and the County each separately issued bonds for their share of the construction cost of the Pyramid, with the debt remaining an obligation of the issuer. The PBA currently exists solely to hold title to the building and has no ongoing financial operations. The Pyramid was then leased back jointly to the City and the County for operation. The County does not hold an equity interest in the PBA.

On July 1, 1991, the City and County entered into a contract with a third party (SMG) to manage, operate, market and promote the Pyramid. The term of the contract was for the three year period, July 1, 1991 to June 30, 1994, with a renewal clause for up to three additional five year terms. The current renewal period expires June 30, 2009. The City and County will each appropriate one-half of the necessary funds to sustain operations based upon each government's approval of an operating budget. During the year ended June 30, 2004, the City and the County made contributions to the operating budget of the Pyramid of \$247,801 and \$197,801, respectively. Excess operating revenue net of management fees and operating expenses, as defined under the management agreement, will be paid to the City and the County upon demand. As provided for in the management agreement, cash in excess of \$500,000 will also be paid to the City and the County upon demand. No excess cash was returned in fiscal year 2004. As a result of the non-compete clause in the agreement with the National Basketball Association Franchise Owners, the future financial liability of this facility is questionable. Financial statements for the Pyramid Arena Operations may be obtained from the Pyramid Arena, One Auction Street, Memphis, Tennessee, 38105.

*Memphis and Shelby County Port Commission (the Port Commission)*

The Port Commission, a joint operation between the City and the County, is managed by a seven member board. Three of the board members are appointed by the City and two are appointed by the County. In addition, the Director of Engineering of the City and the Director of Public Works of the County serve as ex officio members of the board with the right to vote. Excess revenues of the Port Commission are distributed equally to the City and the County. The County's revenue share from the Port Commission for the year ended June 30, 2004 was \$349,644. Any deficits of the Port Commission are funded equally by the City and the County. The County does not hold an equity interest in this entity. Financial statements for the Port Commission may be obtained from the Memphis and Shelby County Port Commission, P.O. Box 13142, Memphis, Tennessee, 38113.

The following is a summary of the financial information of the joint ventures, as of, and for the year ended June 30, 2004 (not covered by the report of independent accountants):

	Memphis Cook Convention Center	Mid-South Coliseum	Pyramid Arena	Port Commission	New Memphis Areana PBA (a)
Assets	\$ 14,730,808	\$ 1,468,010	\$ 1,755,132	\$ 29,504,389	\$ 153,875,821
Liabilities	1,135,376	716,865	1,022,521	7,506,284	15,529,094
Net assets	13,595,432	751,153	732,611	22,001,105	138,346,727
Operating revenues	3,043,836	1,654,553	3,457,894	1,403,332	924,650
Operating expenses	5,115,314	2,175,291	3,814,075	2,214,260	883,710
Other income	1,769,546	24,675	450,925	81,709	99,754,616
Other expenses	1,582,937	---	---	425,587	---
Change in net assets	(1,884,869)	(496,063)	94,744	(1,154,806)	99,795,556

(a) Fiscal year-end December 31, 2003.

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***Jointly Governed Organizations:***

The County, in conjunction with the City created the following organizations that are not considered joint ventures as the County and the City do not retain an ongoing financial interest or responsibility.

***Airport Authority (the Authority)***

The Authority selects management staff, sets user charges, established budgets and controls all aspects of general aviation, airport management and development. Six of the seven board members are appointed by the City Mayor and one by the County Mayor, all for seven year terms.

***Memphis and Shelby County Center City Commission (the Commission)***

The Commission is an organization responsible for promotion and redevelopment of the Memphis Center City area. Board members (seven) are appointed by the City and the County Mayors, with approval by the City Council and the County Commission, for three year terms.

***Memphis Center City Revenue Finance Corporation (the Finance Corporation)***

The Finance Corporation is a nonprofit corporation established jointly by the City and the County under the laws of the State of Tennessee. The Finance Corporation provides various forms of financial assistance to development projects. The City and County Mayors appoint the Board members (nine), with approval of the City Council and the County Commission, for six year terms.

*The Depot Redevelopment Corporation of Memphis and Shelby County* was established by the City of Memphis and Shelby County to determine and to establish a reuse plan and management strategy for the Memphis Depot which was closed as a military base by the United States Government.

*Industrial Development Board of the City and County of Shelby, Tennessee* operates as a nonprofit corporation for the purpose of promoting industrial development in the City and County. Board members (nine) are appointed by the City and the County Mayors, with approval by the City Council and the County Commission, for six year terms.

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

The Memphis and Shelby County Sports Authority, Inc. is a jointly governed organization of the City of Memphis and Shelby County. The Authority was chartered in 1997 under a State statute that permits sports authorities to receive certain sales taxes generated by major league sports franchises. Board members are jointly appointed by the mayors of the City and the County and approved by the Memphis City Council and the Shelby County Commission.

The Authority has issued long-term debt totaling \$222,825,306 as of December 31, 2003 (the latest available audited financial report) in connection with the construction of a new sports and entertainment facility (now known as FedExForum). See information above relative to the New Memphis Arena Public Building Authority of Memphis and Shelby County, a joint venture. These revenue bonds are payable from seat rental fees, certain state sales taxes generated by the professional basketball team, car rental taxes, City and County-wide hotel/motel taxes, and in lieu of tax payments by the Memphis Light Gas and Water Division. Although the bond indentures state that the City and County are not legally liable for the indebtedness, under agreement the City and County have agreed to pay, in equal amounts, the debt if the Authority is unable to pay.

**Related Organizations:**

The County appoints a voting majority of the board, but is not financially accountable for the Health, Housing and Education Facilities Board or the Shelby County Housing Authority.

The Med has an investment in Memphis Managed Care (MMC), a TennCare MCO, that pays The Med a fixed per diem for inpatient services and pays for outpatient services on a fee for service basis. For the years ended June 30, 2004 and 2003, The Med recorded gross charges of approximately \$100.3 million and \$76.0 million, respectively, from MMC. At June 30, 2004 and 2003, The Med had receivables of approximately \$2.2 million and \$4.7 million, respectively from MMC.

**(N) Deferred Compensation Plan**

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all County employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The County does not hold the assets in a fiduciary capacity, therefore in accordance with GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", the plan is not included in the County's June 30, 2004 financial statements.

**(O) Other Post – Employment Benefits**

In addition to providing pension benefits, the County provides certain health care and life insurance benefits for retired employees in accordance with policy established by the County Board of Commissioners. Substantially all of the County's employees may become eligible for those benefits if they reach normal retirement age while working for the County. The cost of retiree health care and life insurance benefits is recognized as an expenditure as claims are paid. For 2004 the County provided these benefits to 1,894 retirees at a cost of \$10,392,783.

**(P) Pensions****Shelby County Retirement System**

The Shelby County Retirement System (the system) is a single employer defined benefit public employee retirement system (PERS) established by Shelby County, Tennessee. The system is administered by a board, the majority of whose members are nominated by the Shelby County Mayor, subject to approval by the Shelby County Board of Commissioners. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Shelby County Retirement System, Suite 950, 160 N. Main, Memphis, Tennessee 38103 or calling (901) 545-3370.

Substantially all full-time and permanent part-time employees of the County are required, as a condition of employment, to participate in the System. The System benefits and contribution provisions are established by the Shelby County Board of Commissioners. Once becoming a participant, a person will continue to participate as

long as he or she is an employee of the County. The System provides retirement, as well as survivor and disability defined benefits.

Prior to 1990 the System consisted of two plans (Plans A and B) which were accounted for as separate funds for financial reporting purposes. In 1990 these plans were legally merged into one reporting entity, whereby total combined assets of the merged plans are available for payment of benefits to participants of either of the two previously existing plans. While the plans were legally merged, the System has retained the membership criteria of the previous plans, which are as follows:

- Plan B, a contributory single employer defined benefit pension plan for employees hired prior to December 1, 1978, and
- Plan A, a non-contributory single employer defined benefit pension plan for employees hired on or after December 1, 1978, and those employees that elected to transfer to Plan A from Plan B before January 1, 1981.

Effective July 1, 2000, Plan A was amended to include a "25-years and out" plan for Public Safety Employees. After completion of 25 years of service in which 20 years, or at least the last 15 years, is in a public safety position, the participant can retire with 55% of Final Average Earnings regardless of age. The employee must contribute the actuarially determined amount to fund this benefit. In November 2004 the County Commission approved a new "Plan C" that will replace the "25 years and out" part of Plan A. Plan C will become effective on July 1, 2005. Plan C was designed to be cost-neutral to the County relative to current plans.

#### *Funding Policy*

The System's funding policy for employee contribution requirements is established by the Board of Administration of the Shelby County, Tennessee Retirement System (the Board). The System's funding policy for employer contribution requirements is established by the Shelby County Board of Commissioners. The County does not receive the actuarial report until several months into the fiscal year to which the report relates. Due to budgetary procedures the County makes contributions based on the latest actuarial report received at the date a new fiscal year's budget is being prepared. Contributions for fiscal year 2004 were based on the actuarial report as of July 1, 2002.

In accordance with the actuarial valuation as of July 1, 2002, the employer contribution rate required was 7.2% of covered payroll of participants under Plans A and B. Plan B participants contribute an additional 8.0% of the related payroll expenses, with some exceptions for employees of Plan B with more than 35 years of service. In addition, certain Plan A public safety employees contribute 2.65% of their compensation. This resulted in total contributions of \$20,001,194 (\$17,836,152 employer contributions and \$2,165,042 employee contributions).

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

## Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 1999	\$ 12,030,550	100%	\$ ---
June 30, 2000	14,611,646	100%	---
June 30, 2001	17,201,861	100%	---
June 30, 2002	12,313,480	100%	---
June 30, 2003	12,313,480	100%	---
June 30, 2004	17,836,152	100%	---

The annual required contribution for the current year was determined as part of an actuarial valuation at July 1, 2002 using a projected unit credit service pro-rate cost method for both Plan A and Plan B participants. Actuarial assumptions included (a) projected unit credit service pro-rate cost method; (b) ten year smoothed to market asset valuation method; (c) 8.25% rate of investment return; (d) 4.0% projected salary increases, 2.5% attributable to inflation and 1.5% attributable to merit and seniority increases; (e) 2.5% annual cost-of-living adjustments, compounded; and (f) twenty year amortization from July 1, 2001, of excess assets over 100% of actuarial accrued liability using the level dollar method. As of July 1, 2003, the projected salary increase was changed from 6.0% to 4.0%, the annual cost-of-living adjustment was from 3.25% to 2.5%, the years smoothed to market asset valuation was changed from five years to ten years, and the amortization of excess assets was changed from ten years to twenty years and from 103% to 100% of actuarial accrued liability.

## Schedule of funding progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
06/30/97	\$ 565,177,031	\$ 486,636,477	\$ (78,540,554)	116.1%	\$ 169,109,743	(46.4%)
06/30/98	674,159,712	529,838,594	(144,321,118)	127.2%	175,048,913	(82.4%)
06/30/99	715,457,284	577,497,386	(137,959,898)	123.9%	188,271,742	(73.3%)
06/30/00	740,062,567	613,838,116	(126,224,451)	120.6%	200,325,882	(63.9%)
06/30/01	753,767,893	679,275,060	(74,492,833)	111.0%	218,198,745	(34.1%)
06/30/02	797,091,379	720,839,196	(76,252,183)	110.6%	233,148,476	(32.7%)
06/30/03	794,201,990	769,753,615	(24,448,375)	103.2%	237,197,793	(10.3%)
06/30/04	841,335,004	737,329,388	(104,005,616)	114.1%	246,685,081	(42.2%)

**Pension plans of the component units:**

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

*Shelby County Board of Education (the Board of Education)***Plan Description – Teachers**

On behalf of its teachers, the Board of Education contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The plan provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with 5 years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increased less than 0.5%. The maximum annual COLA is capped at 3%.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0203 or can be accessed at [www.treasury.state.tn.us](http://www.treasury.state.tn.us).

Most teachers are required by state statute to contribute 5.0% of salary to the plan. The Board of Education is required to contribute at an actuarially determined rate. The rate for the fiscal year ending June 30, 2004 was 3.4% of annual covered payroll. The contribution requirements of the Board of Education are established and may be amended by the TCRS Board of Trustees. The Board's contribution to TCRS for the years ending June 30, 2004, 2003, and 2002 were \$5,198,109, \$4,919,894, and \$5,042,792, respectively, equal to the required contribution for each year.

**Plan Description – Non Teachers**

All non-teachers employed by the Board are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by TCRS. The plan provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at age 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the TCA. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Board participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their

plan. Benefit improvements are not applicable to political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at [www.treasury.state.tn.us](http://www.treasury.state.tn.us).

The Board requires employees to contribute 5.0% of earnable compensation. Contribution requirements for the Board are established and may be amended by the TCRS Board of Trustees.

The Board is required to contribute at an actuarially determined rate. The rate for the fiscal year ending June 30, 2004 was 6.59% of annual covered payroll. The contribution requirement of plan members is set by state statute.

For the year ending June 30, 2004 the Board's annual pension cost of \$2,540,622 to TCRS was equal to the Board's required and actual contributions.

The required contribution was determined as part of the July 1, 2003 actuarial valuation using the frozen initial liability actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 4.5% annual increase in the social security wage base, and (d) projected post retirement increases of 3.0% annually. The actuarial value of assets was determined using techniques that smooth the effect of short term volatility in the market value of total investments over a five year period. The Board's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2003 was 12 years.

#### Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2004	\$ 2,540,622	100%	\$ ---
June 30, 2003	2,428,647	100%	---
June 30, 2002	2,105,763	100%	---
June 30, 2001	1,973,411	100%	---

Schedule of Funding Progress for Shelby County Board of Education:  
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2003	\$ 80,542	\$ 91,264	\$ 10,722	88.25%	\$ 40,236	26.65%
July 1, 2001	70,544	79,619	9,075	88.60%	35,058	25.89%
July 1, 1999	59,958	67,158	7,200	89.28%	31,124	23.13%
June 30, 1997	49,267	52,080	2,813	94.60%	26,303	10.69%

*Shelby County Health Care Corporation (the Med)*

Effective July 1, 1985, the Med established the Regional Medical Center at Memphis Retirement Investment Plan, a defined contribution pension plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate in this plan once they have reached the age of twenty-one and have completed one year of participation service, as defined, and are not participating in any other pension program to which the Med makes contributions. The plan provides for employee contributions of 2% to 6% of their compensation and for equal matching contributions made by the Med. Participants are immediately vested in their contribution plus actual earnings thereon. Participants vest 75% in the employers matching contribution after four years service and 100% after five years. Forfeitures are returned to The Med to reduce future matching contributions. The payroll for employees covered by this plan was approximately \$56,491,451 in 2004. The Med and employees contributed approximately \$2,708,857 and \$2,758,741, respectively, to the Plan for the year ended June 30, 2004.

Financial statements of the Regional Medical Center at Memphis Retirement Investment Plan are available from Shelby County Health Care Corporation, 877 Jefferson Avenue, Memphis, Tennessee 38103.

**(Q) Subsequent Events**

In July, 2004, the Shelby County Board of Commissioners approved the \$94,900,000 2004 Series Tax Anticipation Note-Commercial Paper Program. While current intentions are that the Tax Anticipation Notes will be paid off on or before June 30, 2005, similar or other financing will be required each year for the foreseeable future.

At June 30, 2004, \$39,500,000 of the \$115,000,000 2004 A EMCP (Extendible Municipal Commercial Paper) notes had been issued. As of November 24, 2004, an additional \$5,000,000 has been issued for capital improvement projects.

In November, 2004, Goldman Sachs Mitsui Marines Derivative Products terminated its forward starting swap with Shelby County Government. The swap had an original notional amount of \$100,000,000.

The County entered into an additional bond swap agreement with RFPC, LLC on October 25, 2004 in connection with the 1999 Series B General Obligation Public Improvement and School Bonds:

*Swap Objective:* In order to potentially lower its borrowing costs and achieve potential savings on a portion of its outstanding fixed rate debt without an additional bond issue, the County entered into a basis swap in connection with its 1999 Series B General Obligation Public Improvement and School Bonds. The intent of this Basis Swap is to lower the County's net cost of borrowing with respect to the 1999 Series B Bonds being swapped while preserving the County's ability to advance refund the 1999 Series B Bonds on a tax-exempt basis on a later date.

*Swap Terms:*

Trade Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Payer Rate	Underlying Index
10/25/04	10/27/04	6/1/19	\$75,000,000	4.16%	4.95% – Adjustment Factor

Under the terms of the swap, the County pays 4.16% to the Counterparty, RFPC, LLC ("RFPC"), a subsidiary of Rice Financial Products Company, and in return receives 4.95% - Adjustment Factor. The adjustment factor is equal to  $(BMA / (1 - .65) - 6 \text{ Month LIBOR})$ . Essentially, the County will receive a fixed spread of 79 basis points, and this fixed spread will be adjusted every six months based on the actual performance and relationship between BMA and six-month LIBOR.

Overview of Risks:

*Credit Risk:* As of 6/30/2004, because the swap was not effective, the County does not have credit risk to RFPC. However, in the future, if the fair value of the swap moves in favor of the County, credit risk would be present. The obligations of RFPC and the County under the swap agreement are guaranteed by surety bonds that were issued by AAA rated Ambac Assurance Corporation ("Ambac").

*Termination Risk:* If the swap has an unanticipated termination, the County may owe a termination payment to RFPC equal to the fair value of the swap at that time. The County or RFPC may terminate the swap contract if either party fails to perform under the swap contract; provided, however, if the surety bonds issued by Ambac in connection with the swap are in full force and effect, and provided, further, that Ambac is rated at least A3 by Moody's and A- by Standard & Poors, such termination would be subject to the consent of Ambac. Also, with respect to both the County and RFPC, if Ambac's credit rating falls below A3 from Moody's and/or A- from Standard & Poor's, an Additional Termination Event occurs. With respect to the County, if the County has no bond issues of rated senior debt or it fails to have at least one bond issue with an unenhanced rating of at least Baa1 by Moody's or BBB+ by Standard & Poor's, then an Additional Termination Event will occur.

*Basis Risk:* Depending on the relationship between the BMA and 6 month Libor index, the County could be exposed to basis risk. If the  $BMA / LIBOR$  ratio is greater than  $(1 - \text{Marginal Tax Rate of } 35\%)$  then the fixed spread of 79 basis points that the County receives will be reduced. This basis differential could cause the expectation of lowering the net cost of borrowing to not be achieved.

*Tax Risk:* Changes or proposed changes to the tax laws relating to the tax-exempt status of municipal bonds may result in an increase to the cost of funds.

**(R) Sale of Oakville Health Care Center**

The Oakville Health Care Center has been reported as a major proprietary fund of the County. The assets and operations of this Center were sold at the close of business on June 30, 2004. The buyer was AmeriCare Corporation, a not-for-profit corporation. The sale included the real property located at 3391 Old Getwell Road in Memphis, related assets used in the operation of the facility, and the patient accounts receivable. Expenses reported for the year ended June 30, 2004 include certain losses related to the sale of the facility and actual and estimated expenses in connection with the termination of employment from the County of approximately 240 employees. Remaining assets and liabilities as of June 30, 2004, were reported in the General Fund inasmuch as there was no on-going proprietary fund activity.