

Note	Page
I. Summary of Significant Accounting Policies	
A. Reporting Entity.....	56
B. Governmental Accounting Standards Board Statement No. 34.....	57
C. Government-wide and Fund Financial Statements.....	57
D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation.....	57
E. Assets, Liabilities, and Equity.....	59
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.....	61
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.....	62
III. Stewardship, Compliance, and Accountability	
A. Budgetary Information.....	63
B. Deficit Fund Equity.....	63
IV. Detailed Notes on All Funds	
A. Restatement of Fund Balances/Net Assets.....	64
B. Deposits and Investments.....	64
C. Property Taxes Receivable.....	66
D. Notes Receivable.....	67
E. Leases Receivable.....	67
F. Capital Assets.....	68
G. Lease Obligations.....	69
H. Deferred Revenue.....	70
I. Long-term Liabilities.....	71
J. Interfund Receivables, Payables, and Transfers.....	81
K. Other Revenue.....	83
L. Risk Financing and Related Insurance Issues.....	83
M. Contingencies and Commitments.....	85
N. Joint Ventures, Jointly Governed Organizations, and Related Organizations.....	86
O. Deferred Compensation Plan.....	88
P. Other Post-Employment Benefits.....	88
Q. Pensions.....	88
R. Subsequent Events.....	93

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, 6470 Haley Road, Memphis, Tennessee 38134, (901) 380-3911.

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

GASBS 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 changes 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 during the years ended June 30, 2002 and June 30, 2003 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 changes in net assets - 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 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 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 private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The County has elected not to follow subsequent private-sector guidance.

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, 2003 but were not available to finance expenditures for the year ended June 30, 2003. 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 \$3.72 million reported as postclosure care liability at June 30, 2003 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 FY03. 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 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 contracts. 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 \$1,409,338,956 are as follows:

Bonds payable	\$ 1,354,259,107
Net premium on bonds issued	6,825,013
Deferred interest rate swap proceeds	4,615,483
Accrued interest payable	14,936,513
Claims and judgements	7,150,000
Compensated absences	17,834,281
Landfill post-closure	<u>3,718,559</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at net assets – governmental activities	<u>\$ 1,409,338,956</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 \$23,144,403 difference are as follows:

Capital Outlay	\$ 25,184,016
Developer Contributions	7,703,724
Depreciation expense	<u>(9,743,337)</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>\$ 23,144,403</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 \$108,394,737 difference are as follows:

Debt issued or incurred:	
Issuance of general obligation bonds	\$ 146,575,000
Premium on debt issued, net of issuance costs and amortization	4,387,460
Accretion of zero coupon bonds	5,543,599
Change in accrued interest expense	1,538,678
Principal repayments:	
General obligation debt	<u>(49,650,000)</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>\$ 108,394,737</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 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 fund balance in the Capital Projects Fund of \$211,212,850 results from the use of short-term debt (notes payable of \$220,300,000 as of June 30, 2003) to fund capital projects pending the issuance of long-term debt.

The following Internal Service Funds have deficit net assets at June 30, 2003:

Group Hospital Insurance Fund	\$ (2,949,719)
Employer Insurance Fund	(6,369,650)

The deficit net assets of the Group Hospital Insurance Fund is ultimately the responsibility of the various funds (and their employees) participating in the employee group health plan. Premiums are increased annually in June and additional cost containment measures have been implemented. The deficit was reduced by \$544,904 during the past fiscal year.

The Employer Insurance 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 \$4,258,305 at June 30, 2003. Also, premiums were increased 75% effective July 1, 2003.

IV. DETAILED NOTES ON ALL FUNDS**(A) Restatement of Fund Balance/Net Assets**

Fire Services and the Correction Center were reported as part of the General Fund until July 1, 2001 when they were reclassified as Enterprise Funds. Subsequent to June 30, 2002, it was determined that additional capital assets reported in governmental activities should have been reclassified to these enterprise funds as of July 1, 2001. In addition, Fire Services' expenses exceeded revenue for the period July 1, 1996 through June 30, 2001 by \$3,221,147. State law requires this amount to be repaid to the General Fund and therefore should have been recorded as a liability as of July 1, 2001. Net assets as of July 1, 2002 have been restated as follows for these items.

	Governmental Activites	Business-type Activities	
Countywide:			
Net assets at June 30, 2002	\$ (1,236,981,122)	\$ 39,816,435	
Transfer of capital assets	(3,556,742)	3,556,742	
Advance from General Fund	3,221,147	(3,221,147)	
Net assets, July 1, 2002	<u>\$ (1,237,316,717)</u>	<u>\$ 40,152,030</u>	
			Corrections Center Fund
	General Fund	Fire Services Fund	
Governmental and Proprietary Funds:			
Fund balance/Net assets, June 30, 2002	\$ 43,012,980	\$ 1,766,300	\$ 20,801,032
Transfer of capital assets	-	479,227	3,077,515
Advance from General Fund	3,221,147	(3,221,147)	-
Fund balance/Net assets, July 1, 2002	<u>\$ 46,234,127</u>	<u>\$ (975,620)</u>	<u>\$ 23,878,547</u>

The Board of Education component unit net assets as of July 1, 2002 were restated to \$334,513,870, a reduction of \$94,778,203 for duplications and other errors in reported capital assets.

(B) 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, 2003 the carrying amount of the County's deposits with financial institutions required to be collateralized or insured by state law, was \$32,677,819 and the bank balance was \$33,208,584 all of which was insured by federal depository insurance 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 \$70,450,410 and a bank balance of \$70,826,990 are maintained by the Shelby County Retirement System Pension Trust Fund, included in the primary government Trust and Agency Funds. Of the bank balance, \$428,057 was collateralized by securities held by the County or the County's agent in the County's name (Category 1) and \$70,398,933 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, 2003 consisted of:

Governmental and business-type activities:	
County deposits	\$ 32,677,819
State Treasurer's Pool	56,074,878
Fiduciary activities:	
Pension Trust Fund	70,450,410
Constitutional Officers Agency Fund	58,144,767
Total Primary Government	<u>\$ 217,347,874</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, 2003 the County had no borrowings against this overdraft privilege.

At June 30, 2003 a major component unit (Shelby County Health Care Corporation) had deposits and investments that were uninsured and uncollateralized (Category 3) of \$3,366,278.

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 70% 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 the 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 limited partnerships.

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 year-end, the Primary Government's investments, all of which are in the Pension Trust Fund, were as follows:

<u>Investment Type</u>	<u>Category 1</u>	<u>Carrying Amount</u>
U.S. government securities	\$ 102,956,331	\$ 102,956,331
Corporate bonds	127,340,529	127,340,529
Common stocks	362,310,559	362,310,559
Preferred Stocks	594,870	594,870
Total	<u>\$ 593,202,289</u>	<u>593,202,289</u>
Investments not subject to categorization:		
Investment in Collective Trust		25,165,158
Limited partnership interest		<u>7,297,711</u>
Total investments - primary government		<u>\$ 625,665,158</u>

(C) 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 personal property	30%
Public utilities real/personal property	55%

The assessed value on which the fiscal 2003 tax bills were based was \$15,090,785,461. The estimated market value was \$50,922,059,005, making the overall assessed value 29.9% 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 93.63% 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	\$ 1.25
Debt Service Funds	.51
Boards of Education	<u>2.03</u>
	<u>\$ 3.79</u>

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	\$ 217,982,399	\$ 313,809,414	\$ 88,463,819	\$ 620,255,632
Less allowance for uncollectibles	<u>(6,741,000)</u>	<u>(10,947,000)</u>	<u>(2,750,000)</u>	<u>(20,438,000)</u>
	<u>\$ 211,241,399</u>	<u>\$ 302,862,414</u>	<u>\$ 85,713,819</u>	<u>\$ 599,817,632</u>

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

(D) 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>\$ 566,049</u>	Land & Building
<i>Grants Fund</i>		
Mortgage loans receivable due in various installments at 0% to 4.0% interest through 2018	<u>\$ 612,838</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	\$ 171,165	None
Depot Redevelopment note due in annual payments plus semi-annual interest payments through August 1, 2022	4,815,000	None
Peabody Place Parking Garage note due in annual payments plus semi-annual interest payments through June 30, 2024	9,064,316	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>\$ 14,050,481</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>\$ 11,792,926</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(H) includes detail of deferred revenue relating to notes receivable. The Debt Service Fund and the Capital Projects Fund have notes receivable from the Shelby County Health Care Corporation in the amounts of \$4,839,677 and \$4,000,000 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 \$331,437 and \$91,234 respectively from the Agricenter Component Unit, which are classified as Due from Component Units for financial statement purposes.

(E) Leases Receivable

The County (lessor) leases certain real property described as Shelby Place Restaurant (“Butcher Shop of Cordova and Executive Chef”) for the sum of \$150,000 annually, plus 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 second option term of five years is currently in effect and will expire in 2008. There are two additional option terms of five years each available. The rental income is recognized as revenue in the Debt Service Fund.

The County and the City of Memphis (lessors) jointly lease the real property known as the Memphis Marriott Downtown for an annual rent of \$10 per operating year. The rental income is recognized as revenue in the Debt Service Fund.

(F) Capital Assets

Capital asset activity for the year ended June 30, 2003 is detailed below. Beginning balances have been restated as described in Note IV(A).

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 9,704,829	\$ 999,698	\$ ---	\$ 10,704,527
Construction in progress	38,984,303	21,467,616	(30,216,263)	30,235,656
Total not being depreciated	<u>48,689,132</u>	<u>22,467,314</u>	<u>(30,216,263)</u>	<u>40,940,183</u>
Capital assets being depreciated:				
Land Improvements	1,052,376	98,307	---	1,150,683
Buildings	160,961,804	26,970,128	(200,980)	187,730,952
Equipment	54,040,298	6,094,981	(367,650)	59,767,629
Infrastructure	6,092,830	7,703,724	---	13,796,554
Total being depreciated	<u>222,147,308</u>	<u>40,867,140</u>	<u>(568,630)</u>	<u>262,445,818</u>
Less accumulated depreciation:				
Land improvements	356,434	80,215	---	436,649
Buildings	57,019,991	4,826,627	(158,255)	61,688,363
Equipment	45,516,929	4,049,024	(683,228)	48,882,725
Infrastructure	255,713	896,868	---	1,152,581
Total accumulated depreciation	<u>103,149,067</u>	<u>9,852,734</u>	<u>(841,483)</u>	<u>112,160,318</u>
Total capital assets being depreciated, net	<u>118,998,241</u>	<u>31,014,406</u>	<u>272,853</u>	<u>150,285,500</u>
Governmental activities capital assets, net	<u>\$ 167,687,373</u>	<u>\$ 53,481,720</u>	<u>\$ (29,943,410)</u>	<u>\$ 191,225,684</u>

Business type activities:

Capital assets:

Land	\$ 299,343	\$ ---	\$ ---	\$ 299,343
Buildings	52,707,684	---	---	52,707,684
Equipment	9,978,568	1,233,732	(219,505)	10,992,795
Total capital assets	<u>62,985,595</u>	<u>1,233,732</u>	<u>(219,505)</u>	<u>63,999,822</u>
Less accumulated depreciation:				
Buildings	19,336,232	1,254,805	---	20,591,037
Equipment	8,853,047	891,353	(219,505)	9,524,895
Total accumulated depreciation	<u>28,189,279</u>	<u>2,146,158</u>	<u>(219,505)</u>	<u>30,115,932</u>
Business-type activities capital assets, net	<u>\$ 34,796,315</u>	<u>\$ (912,426)</u>	<u>\$ ---</u>	<u>\$ 33,883,889</u>

Depreciable land improvements consist of parking lots attached to the Sheriff Department Training Center and the Juvenile Court building and various capital improvements at the Oakville Health Care Center.

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

	Capital Assets, Net	Depreciation Expense
Governmental activities:		
General Government	\$ 66,959,654	\$ 2,082,043
Planning & Development	2,304,709	34,998
Public Works	8,621,712	248,020
Health Services	19,566,421	392,213
Community Services	3,791,179	130,302
Law Enforcement	28,454,324	3,885,720
Judicial	27,159,094	2,722,428
Other Elected Officials	4,132,935	357,009
	<u>160,990,028</u>	<u>9,852,734</u>
Construction in progress	30,235,656	---
Total governmental activities	<u>\$ 191,225,684</u>	<u>\$ 9,852,734</u>

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

(G) Lease Obligations*Operating Leases*

The county leases office space and transportation equipment under operating leases expiring during the next eight 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, 2003:

<u>Fiscal Year</u>	<u>Primary Government</u>
2004	\$ 1,839,955
2005	1,461,812
2006	1,050,245
2007	634,172
2008	530,708
2009	434,153
2010	421,054
2011	297,219
	<u>\$ 6,669,318</u>

Rent expense for the year ended June 30, 2003 was \$1,322,332 for the primary government.

(H) Deferred Revenue

Deferred revenues consist of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Education Fund</u>	<u>Grants Fund</u>	<u>Capital Projects Fund</u>	<u>Totals</u>
Unearned:						
Property Taxes receivable	\$ 196,625,000	\$ 79,750,000	\$ 279,125,000	\$ ---	\$ ---	\$ 555,500,000
Grant revenue	---	---	---	4,154,977	---	4,154,977
Other	---	---	---	---	93,972	93,972
Not Available:						
Property Taxes receivable	12,383,543	5,052,814	20,111,258	---	---	37,547,615
Notes receivable	566,049	11,792,926	---	612,838	14,050,481	27,022,294
Due from Shelby County Health Care Corporation	---	4,839,677	---	---	4,000,000	8,839,677
Due from Agricenter	81,437	---	---	---	91,231	172,668
	<u>\$ 209,656,029</u>	<u>\$ 101,435,417</u>	<u>\$ 299,236,258</u>	<u>\$ 4,767,815</u>	<u>\$ 18,235,684</u>	<u>\$ 633,331,203</u>

Internal Service Funds have deferred revenue of \$3,382,305 for unearned premiums.

(I) Long-term Liabilities

Changes in long-term liabilities:

Changes in long-term liabilities during the year were:

	Balance June 30, 2002	Additions	Reductions	Balance June 30, 2003	Due Within One Year
Governmental activities:					
Bonds payable	\$ 1,251,790,508	\$ 152,118,599	\$ (49,650,000)	\$ 1,354,259,107	\$ 53,654,138
Net premium and issuance cost of bonds issued	2,437,553	5,327,491	(940,031)	6,825,013	874,635
Deferred swap proceeds	2,921,742	4,398,000	(2,704,259)	4,615,483	2,816,301
Claims and judgements	11,988,703	1,100,000	(1,680,398)	11,408,305	50,000
Landfill postclosure care costs	3,745,801	---	(27,242)	3,718,559	184,157
Sick and annual leave	16,751,903	6,713,951	(5,315,988)	18,149,866	12,054,934
Total governmental activities	<u>\$ 1,289,636,210</u>	<u>\$ 169,658,041</u>	<u>\$ (60,317,918)</u>	<u>\$ 1,398,976,333</u>	<u>\$ 69,634,165</u>
Business-type activities:					
Claims and judgements	\$ ---	\$ 700,000	\$ ---	\$ 700,000	\$ ---
Deposits held in trust	458,550	---	(458,550)	---	---
Capitalized lease obligations	608,328	---	(97,413)	510,915	52,703
Sick and annual leave	4,772,754	4,403,879	(4,465,968)	4,710,665	2,404,525
Total business-type activities	<u>\$ 5,839,632</u>	<u>\$ 5,103,879</u>	<u>\$ (5,021,931)</u>	<u>\$ 5,921,580</u>	<u>\$ 2,457,228</u>

Bonds payable additions include \$5,543,599 accretion of zero coupon bonds.

General Obligations Bonds:

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

General Government	\$ 627,359,732
Education	<u>689,737,629</u>
	1,317,097,361
Accreted value of bonds	<u>37,161,746</u>
	<u>\$ 1,354,259,107</u>

Interest expenditures in Debt Service Funds during the fiscal year ended June 30, 2003 were \$61,404,778. Interest expense at the government-wide level was \$71,847,109.

In addition to the General Obligation bonds reported in Long-term Debt there is \$220,300,000 reported in the Capital Projects Funds for the Extendible Municipal Commercial Paper Notes (EMCP) sold and outstanding as of June 30, 2003 (\$138,300,000 for the 2001A EMCP Program and \$82,000,000 for the 2003A EMCP Program).

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.

In June, 2003, \$146,575,000 in General Obligation Public Improvement and School Bonds, 2003 Series A were issued to refinance all or a portion of the costs of public works projects, including schools, previously financed with the County's Capital Outlay Extendible Municipal Commercial Paper (EMCP) Notes, 2000 Series A, which were retired with the proceeds of the Bonds. The Bonds bear interest at rates ranging from 4.0 percent to 5.0 percent.

In March 2003, the Shelby County Board of Commissioners authorized the issuance of up to \$134,000,000 in Capital Outlay Extendible Municipal Commercial Paper (EMCP) Notes, 2003 Series A Program. The aggregate outstanding principal amount may not exceed \$134,000,000 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 \$134,000,000 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, 2003, Shelby County has issued \$82,000,000 in EMCP Notes under this program.

Of the original principal, \$204,195,542 of outstanding bonds that were advance refunded prior to Fiscal Year 2003 are considered defeased at June 30, 2003. Specific defeased maturities are shown on the Supplemental Schedules of General Obligations Bonds.

The County is indebted for serial bonds and capital appreciation bonds and notes and variable bonds with interest rates varying from 3.15% to 6.75%. The County does not accrue interest on bonds payable, therefore unmatured interest is recognized as an expenditure when due in the funds but is recognized in the government-wide statements.

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 Refunding for the variable rate issues, are as follows:

Years Ending June 30	Principal	Interest	Total
2004	\$ 53,654,138	\$ 63,273,775	\$ 116,927,913
2005	56,725,007	64,466,455	121,191,462
2006	59,740,753	61,863,228	121,603,981
2007	56,548,182	64,938,416	121,486,598
2008	66,450,650	54,910,018	121,360,668
2009	69,953,150	51,476,426	121,429,576
2010	76,420,000	44,484,381	120,904,381
2011	81,465,000	40,753,191	122,218,191
2012	70,321,807	52,462,601	122,784,408
2013	67,334,649	54,976,455	122,311,104
2014	80,767,657	38,562,502	119,330,159
2015	76,382,794	35,049,060	111,431,854
2016	60,083,077	27,708,183	87,791,260
2017	56,750,497	29,414,893	86,165,390
2018	61,325,000	18,737,924	80,062,924
2019	63,215,000	15,724,436	78,939,436
2020	54,910,000	12,720,787	67,630,787
2021	49,295,000	10,053,563	59,348,563
2022	43,440,000	7,600,913	51,040,913
2023	39,595,000	5,436,488	45,031,488
2024	34,655,000	3,481,213	38,136,213
2025	12,515,000	1,742,863	14,257,863
2026	7,720,000	1,117,813	8,837,813
2027	8,490,000	780,063	9,270,063
2028	9,340,000	408,625	9,748,625
	1,317,097,361	762,144,267	2,079,241,628
Accreted value of Bonds	37,161,746	(37,161,746)	---
	\$ 1,354,259,107	\$ 724,982,521	\$ 2,079,241,628

As of June 30, 2003 Shelby County has six 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	12/02/1999	03/01/2008	\$ 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 6/30/2003, there is no fair value for the option because it has been exercised. The swap, as of 6/30/2003 has a net value of (\$1,235,115). The total mark-to-market was (\$1,410,980) of which approximately \$175,865 is accrued interest from 3/3/2003 to the valuation date, 6/30/2003. 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 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 6/30/2003 (assuming BMA equals its current level of 0.98% 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		
2004	\$ 2,000,000	\$ 108,128	\$ 560,807	\$ 2,668,935
2005	2,100,000	88,581	460,005	2,648,586
2006	2,200,000	68,170	353,850	2,622,020
2007	2,300,000	46,788	242,640	2,589,428
2008	2,500,000	24,433	126,308	2,650,741
Total	<u>\$11,100,000</u>	<u>\$ 336,100</u>	<u>\$1,743,610</u>	<u>\$13,179,710</u>

Credit Risk: Because the swap has a negative value on 6/30/2003, 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 a synthetic fixed rate.

Interest Rate Risk: Currently, the County does not have interest rate risk because it is paying a fixed rate on the swap. However, if 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 Objectives: 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	12/01/2000	03/01/2011	\$ 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 12/01/2000 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 6/30/2003, there is no fair value for the option because it has been exercised. The swap, as of 6/30/2003 has a net value of (\$2,711,850). The total mark-to-market was (\$2,978,430) of which approximately \$266,580 is accrued interest from 3/3/2003 to the valuation date, 6/30/2003. 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 6/30/2003, below are the principal and interest requirements of the debt and the net swap payments (assuming BMA equals its current level of 0.98% 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		
2004	\$ 800,000	\$ 190,603	\$ 855,014	\$ 1,845,617
2005	2,100,000	182,785	820,620	3,103,405
2006	2,300,000	162,374	728,955	3,191,329
2007	1,100,000	140,019	628,560	1,868,579
2008	1,100,000	129,328	580,188	1,809,516
2009	1,200,000	118,577	532,530	1,851,107
2010	1,200,000	106,914	480,150	1,787,064
2011	9,800,000	95,251	427,770	10,323,021
Total	\$ 19,600,000	\$ 1,125,851	\$ 5,053,787	\$ 25,779,638

Credit Risk: Because the swap has a negative value on 6/30/2003, 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.

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	12/30/2004	01/01/2005	10/01/2015	\$ 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 had 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 6/30/2003, the swap had a fair value of (\$5,059,230) 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 ratings fall 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. bond 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
01/15/1999	01/28/1999	04/01/2020	\$ 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 6/30/2003, the swap had a negative fair value of (\$7,020,100), 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 bond issues. As of 6/30/2003, 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 0.98% 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	Total
	Principal	Interest	Payments	
2004	\$ 125,000	\$ 937,621	\$ 3,002,491	\$ 4,065,113
2005	125,000	936,393	2,998,576	4,059,969
2006	125,000	935,171	2,994,654	4,054,825
2007	150,000	933,949	2,990,732	4,074,681
2008	16,225,000	932,483	2,986,025	20,143,509
2009	625,000	773,043	2,477,807	3,875,850
2010	675,000	766,935	2,458,197	3,900,131
2011	9,650,000	760,338	2,437,017	12,847,355
2012	13,325,000	666,027	2,134,231	16,125,258
2013	9,300,000	535,084	1,716,850	11,551,934
2014	14,625,000	444,194	1,425,045	16,494,239
2015	12,750,000	301,261	966,159	14,017,420
2016	4,100,000	176,654	566,104	4,842,758
2017	4,250,000	136,364	437,679	4,824,043
2018	4,500,000	94,828	304,327	4,899,155
2019	4,675,000	50,849	163,131	4,888,980
2020	525,000	5,159	16,445	546,604
Total	<u>\$ 95,750,000</u>	<u>\$ 9,386,353</u>	<u>\$ 30,075,470</u>	<u>\$ 135,211,824</u>

Credit Risk: Because the swap has a negative value on 6/30/2003, 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 rate exists. However, should certain events occur and the swap is converted to the Alternate 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 Bond 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:

Executed Date	Swap Effective Date	Swap Maturity Date	Original Notional Amount	Fixed Receiver Rate	Floating Rate Index	Upfront Payment for Termination Option
09/17/2001	09/15/2003	09/15/2011	\$ 100,000,000	4.00%	BMA	\$ 5,008,700

On 9/17/2001, the County entered into a forward starting swap that will become effective on 9/15/2003. Under the terms of the swap, the County pays the BMA index, which was 0.98% on 6/30/2003. 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 6/30/2003, the swap had a fair value in the County's favor of \$6,954,570. 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 6/30/2003, 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 January 1, 2005 or January 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 Payment
05/23/2003	03/30/2005 or 03/30/2006	04/01/2005 or 04/01/2006	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 issuance. In addition to the cost of issuance, Regions will also pay the an additional option premium equal to 1% of the notional amount if the option is exercised on 3/30/05. 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 6/30/2003, the swap had a negative fair value of (\$4,489,875). 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 cause 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 & Pooers’s, an Additional Termination Event has occurred. As of 6/30/2003, 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 cost savings may not be realized.

Claims and judgments, landfill postclosure care costs, and sick and annual leave:

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included in the totals for governmental activities. At year end \$315,585 of internal service funds sick and annual leave is included in the above amounts.

The County has recognized long-term liabilities for claims and judgments of \$12,108,305 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. Only \$50,000 of this amount is expected to become due within one year. Claims and judgements are usually paid from an internal service fund for tort liability. Certain business-type activities pay these costs related to their activity.

The liability for landfill postclosure care costs are explained in Note I(E). These costs are usually paid from the Solid Waste Management Fund, a special revenue fund.

Sick and annual leave liabilities are explained in note I(E). These liabilities have usually been paid from the fund where the regular salary of the employee is charged at the time the leave is used or paid.

(J) 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	\$ 8,473,401
	Grants Fund	2,067,924
	Oakville Health Care Center	482,351
	Capital Projects Fund	379,168
	Debt Service Fund	55,100
	General Fund	32,376
Debt Service Fund	General Fund	1,334,358
	Hotel Motel Tax Fund	929,156
	Capital Projects Fund	1,595
Hotel Motel Tax Fund	General Fund	1,986,315
Education Fund	General Fund	1,316,149
Car Rental Tax Fund	General Fund	309,568
Total		\$ 17,367,461

Due To/From Primary Government and Component units:

Receivable Entity	Payable Entity	Amount
General Fund	Agricenter International Component Unit	\$ 331,437
Debt Service Fund	The Med Component Unit	4,839,677
Capital Projects Fund	Agricenter International Component Unit	91,234
	The Med Component Unit	4,000,000
The Med Component Unit	General Fund	964,554
	Capital Projects Fund	2,500,000
Board of Education Component Unit	Education Fund	2,653,845
Total		<u>\$ 15,380,747</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	\$ 8,748,972
	Debt Service Fund	7,502,465
	Grants Fund	3,828,237
	Oakville Health Care Center	2,976,084
	Nonmajor Governmental Funds	301,964
	General Fund	154,597
Debt Service Fund	General Fund	8,703,100
Nonmajor Governmental Funds	Debt Service Fund	3,379,156
	General Fund	1,750,000
	Grants Fund	24,423
Capital Projects Fund	Debt Service Fund	2,501,076
	Correction Center Fund	519,868
	Nonmajor Governmental Funds	151,431
	General Fund	44,300
Grants Fund	General Fund	4,325,725
	Grants Fund	70,373
Total Transfers Out by Governmental Fund Types		<u>44,981,771</u>
Correction Center Fund	General Fund	4,445,000
	Grants Fund	113,255
Fire Services Fund	General Fund	673,357
	Nonmajor Governmental Fund	1,516
Consolidated Codes Enforcement Fund	General Fund	857,283
Internal Service Funds	General Fund	3,571,709
Total Proprietary Fund Types and Internal Service Funds		<u>9,662,120</u>
Total All Fund Types		<u>\$ 54,643,891</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.

(K) Other Revenue

The other revenue classification is used in the combined, combining, and individual fund financial statements and in the supplemental schedules and statistical section of the comprehensive annual financial report. This category is one of the revenue line items included in the legally adopted budget approved annually by the Board of Commissioners. Certain revenue accounts which are not accurately described by any of the other revenue classifications included in the budget (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, 2003 is detailed below:

	General Fund	Debt Service Funds	Capital Projects Fund	Grant Funds	Other Governmental Funds	Total Governmental Funds
Investment income	\$ 2,813,348	\$ 65,158	\$ 226,489	\$ 96,078	\$ 227,715	\$ 3,428,788
Interest rate swaps	---	4,398,000	---	---	---	4,398,000
Miscellaneous income	514,604	---	---	267,081	20	781,705
Total other revenue	<u>\$ 3,327,952</u>	<u>\$ 4,463,158</u>	<u>\$ 226,489</u>	<u>\$ 363,159</u>	<u>\$ 227,735</u>	<u>\$ 8,608,493</u>

(L) 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>2003</u>	<u>2002</u>
IBNR claims and claim adjustment liabilities at the beginning of the fiscal year	\$ 8,960,188	\$ 9,727,644
Incurred claims and claim adjustment expenses:		
Provision for the insured events of the current fiscal year	65,098,985	56,713,736
Increase (decrease) in provision for insured events of prior fiscal years	<u>2,046,086</u>	<u>(1,375,032)</u>
Total incurred claims and claim adjustment expenses	<u>67,145,071</u>	<u>55,338,704</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(65,249,413)	(56,138,210)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>150,429</u>	<u>32,050</u>
Total Payments	<u>(65,098,984)</u>	<u>(56,106,160)</u>
IBNR claims and claim adjustment liabilities at the end of the fiscal year	<u>\$ 11,006,275</u>	<u>\$ 8,960,188</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>2003</u>	<u>2002</u>
Claims and claim adjustment liabilities at the beginning of the fiscal year	\$ 2,666,453	\$ 1,300,000
Incurred claims and claim adjustment expenses:		
Provision for the insured events of the current fiscal year	569,759	1,361,248
Increase (decrease) in provision for insured events of prior fiscal years	<u>(548,418)</u>	<u>922,742</u>
Total incurred claims and claim adjustment expenses	<u>21,341</u>	<u>2,283,990</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(575,545)	(482,805)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>5,786</u>	<u>(434,732)</u>
Total Payments	<u>(569,759)</u>	<u>(917,537)</u>
Claims and claim adjustment liabilities at the end of the fiscal year	<u>\$ 2,118,035</u>	<u>\$ 2,666,453</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>2003</u>	<u>2002</u>
Claims and claim adjustment liabilities at the beginning of the fiscal year	\$ 8,642,625	\$ 7,008,543
Incurred claims and claim adjustment expenses:		
Provision for the insured events of the current fiscal year	3,251,884	1,671,737
Increase (decrease) in provision for insured events of prior fiscal years	<u>81,820</u>	<u>2,593,543</u>
Total incurred claims and claim adjustment expenses	<u>3,333,704</u>	<u>4,265,280</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(2,706,886)	(783,063)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(272,499)</u>	<u>(1,848,135)</u>
Total Payments	<u>(2,979,385)</u>	<u>(2,631,198)</u>
Claims and claim adjustment liabilities at the end of the fiscal year	<u>\$ 8,996,944</u>	<u>\$ 8,642,625</u>

The County's other insurance fund is the Group Life Insurance Fund, which reported expenses of \$2,286,749 for claims incurred for the year ended June 30, 2003.

(M) Contingencies and Commitments

The County has commitments at June 30, 2003, for outstanding purchase orders and outstanding contracts reported as reserves for encumbrances of the governmental funds. In addition, commitments for capital projects total \$46,497,860 as of June 30, 2003. Notes payable have been authorized and are available as needed to fund these capital projects.

In May 2002, the Memphis and Shelby County Sports Authority (the Sports Authority) issued \$202,290,000 of debt. This debt is to be repaid from several sources, including seat rental fees from ticket sales, sales tax rebate from "eligible sales" (as defined in the closing documents of the \$202,290,000 Memphis and Shelby County Sports Authority, Inc. Revenue Bonds Series A and B), City-wide Hotel/Motel Tax, County-wide Hotel/Motel Tax, and new taxes established for this purpose, including an in lieu of tax on the water facilities of Memphis Light Gas & Water and a car rental tax. A substantial portion of the revenue to repay the debt is not directly related to the existence or performance of the NBA team. A Debt Service Reserve Fund has been established and shall only be used for making payments into the Bond Fund when the monies in the Bond Fund are insufficient for debt service payments on the \$202,290,000 of debt. If a draw on the Debt Service Reserve Fund is made to make debt service payments on the bonds, then pursuant to an interlocal agreement, the County and the City of Memphis have agreed to replenish such money, equally, from legally available non-ad valorem revenues no later than October 31 of the fiscal year following the date of such deficit.

The Sports Authority is reported as a jointly governed organization consistent with the prior year. The Sports Authority has a December 31 year-end. As of December 31, 2002, no activity had occurred to change the County's reporting of the Sports Authority.

(N) Joint Ventures, Jointly Governed Organizations, and Related Organizations***Joint Ventures:******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 \$2,248,875 to the operations of the Convention Center during the year ended June 30, 2003.) 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. 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.

Public Building Authority of Memphis and Shelby County (the PBA)

In November 1987, the City and County entered into a joint-venture arrangement creating the PBA, a not-for-profit corporation, for the purpose of constructing the Pyramid. The Pyramid was opened in November, 1991. The PBA has no on-going financial operations and exists solely to hold title to the building. The County does not hold an equity interest in this entity.

On July 1, 1991, the City and County entered into a contract with a third party 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, 2004. In future years 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, 2003, neither the City nor the County made contributions to the operating budget of the Pyramid. 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 2003. Financial statements for the PBA 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 of Memphis 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 commissioner of public service of the City and the chairman of the board of the County commissioners 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. 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, 2003 (not covered by the report of independent accountants):

	Memphis Cook Convention Center	Mid-South Coliseum	Public Building Authority	Port Commission
Assets	\$ 15,737,029	\$ 1,855,723	\$ 4,070,996	\$ 31,197,701
Liabilities	791,703	608,507	3,433,132	8,041,790
Net assets	14,945,326	1,247,216	637,864	23,155,911
Operating revenues	2,203,153	1,987,259	3,636,633	1,464,540
Operating expenses	4,148,386	2,244,170	3,999,897	2,347,116
Other income	1,802,629	37	9,284	130,586
Other expenses	2,089,970	---	---	355,500
Change in net assets	(2,232,574)	(256,874)	(353,980)	(1,107,490)

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, establishes 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.

The Memphis and Shelby County Sports Authority was established to plan, promote, and expand professional and amateur sports in Shelby County. Tennessee law allows sports authorities to receive sales taxes generated by major league sports franchises in their home city.

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, 2003 and 2002, The Med recorded gross charges of approximately \$76.0 million and \$70.0 million, respectively, from MMC. At June 30, 2003 and 2002, The Med had receivables of approximately \$4.7 million and \$4.8 million, respectively from MMC.

(O) 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 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, 2002 financial statements.

(P) 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 2003 the County provided these benefits to 1,817 retirees at a cost of \$8,732,345.

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

The Shelby County Retirement System (the System), a single employer public employee retirement system (PERS) established by Shelby County, Tennessee, 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 supplemental 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.

The financial statements of the System are prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenue is recorded as earned and expenses are recorded as incurred. Plan liabilities for benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. All other liabilities are recognized on the accrual basis.

The System's investments in U.S. Government and government-backed obligations, corporate bonds, and common and preferred stock are stated at fair value. Investments that do not have an established market are reported at estimated fair value. There are no investments in any one organization that represent 5% or more of net assets available for plan benefits as of June 30, 2003. Purchases and sales of investments are recorded on a trade-date basis.

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

Substantially all full-time and permanent part-time employees of the County are required, as a condition of employment, to participate in the System.

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 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.

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.

Effective July 1, 2000, Plan A was amended to include a "25-year 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.

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. For fiscal year 2003, the contribution requirements were based on the actuarially determined contribution amount for the fiscal year ended June 30, 2003 as determined by the actuary as of July 1, 2002.

The County does not receive the actuarial report until several months into the fiscal year to which the report relates. The County contribution is based on the prior year actuarial report due to budget procedures and timing.

Employer contributions to the System are funded currently in an amount determined by the Plan actuary for participants under Plan A and Plan B. Plan B participants contribute an additional 8% of the related payroll expenses, except for employees of Plan B with more than 35 years of service who are only required to make an 8% contribution on the portion of their compensation which exceeds their annual compensation at the time they attained 35 years of service. In addition, certain Plan A public safety employees contribute 2.65% of their compensation each year beginning in the year ended June 30, 2002. This resulted in total contributions of \$14,588,264 (\$12,313,480 employer contributions and \$2,274,784 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, 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%	---

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. For fiscal year 2003, the County had an annual pension cost and contributions of \$11,952,551 under Plan A and \$360,929 under Plan B. Employees contributed \$1,701,285 under Plan A and \$573,500 under Plan B. The contributions as a percent of covered payroll were the same as those of the Retirement System.

Actuarial assumptions included (a) projected unit credit service pro-rate cost method; (b) five year smoothing asset valuation method; (c) 8.25% rate of investment return; (d) 6.0% projected salary increases, 3.25% attributable to inflation and 2.75% attributable to promotions; and (e) 3.25% annual cost-of-living adjustments, compounded.

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]
06/30/98	\$ 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%	237,197,193	(10.3%)

Pension plans of the major component units:

Shelby County Board of Education (the Board of Education)

The primary government (Shelby County) does not act in a trustee capacity for the assets of the pension plans of the Shelby County Board of Education.

Plan Description

For 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. Cost of

living adjustments (COLA) are provided to retirees 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 increases less than one-half percent. The annual COLA is capped at three percent.

For non teacher employees, the Board of Education contributes to the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan. Political subdivisions such as the Shelby County Board of Education 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 a political subdivision unless approved by the chief governing body.

Both plans are administered by the Tennessee Consolidated Retirement System (TCRS). TCRS 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 of 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 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 plan on or after July 1, 1979 are vested after five years of service. Members joining the plan prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes may be amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for both the SETHEEPP and the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.

Funding Policy

Most teachers are required by state statute to contribute 5.0% of salary to the plan and the Board of Education requires non teacher-employees to contribute 5.0% of compensation. The employer contribution rate for the Board of Education is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2003 was 3.4% of annual covered payroll for teachers and 6.59% for non teachers. The employer contribution requirement is established by and may be amended by the TCRS Board of Trustees. The employer's contribution to TCRS for teachers for the years ending June 30, 2003, 2002, and 2001 were \$4,919,894, \$5,042,792, and \$4,784,110, respectively, equal to the required contributions for each year.

Annual Pension Cost for Non Teachers

For the year ending June 30, 2003, Shelby County Board of Education's annual pension cost for non teachers of \$2,428,647 to TCRS was equal to Shelby County Board of Education's required and actual contributions. The required contribution was determined as part of the July 1, 1999 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 percent a year compounded annually, (b) projected salary increases of 5.5 percent annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 4.5 percent annual increase in the Social Security wage base, and (d) projected post-retirement increases of 3.0 percent 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. Shelby County Board of Education's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 1999 was 16 years.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2000	\$ 1,564,701	100%	\$ ---
June 30, 2001	1,973,411	100%	---
June 30, 2002	1,959,363	100%	---
June 30, 2003	2,428,647	100%	---

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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]
07/01/01	\$ 70,544	\$ 79,619	\$ 9,075	88.6%	\$ 35,058	25.9%
07/01/99	59,958	67,158	7,200	89.3%	31,124	23.1%
06/30/97	49,267	52,080	2,813	94.6%	26,303	10.7%

Changes in Actuarial Assumptions:

An actuarial valuation was performed as of July 1, 2001 which established contribution rates effective July 1, 2002. As a result of the June 30, 2000 experience study, changes were made to two of the significant actuarial assumptions as follows: 1) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), and 2) projected 3.5 percent annual increase in the Social Security wage base.

Shelby County Health Care Corporation (The Med)

Approximately one in six employees of The Med participates in the Shelby County Retirement System described above. The Med has no financial obligation to the Plan beyond the required current year's contributions. The Med contributed \$300,702 in 2003 and \$432,292 in 2002 to the Shelby County Retirement System.

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 \$51,191,329 in 2003. The Med and employees contributed approximately \$2,508,462 and \$2,508,462, respectively, to the Plan for the year ended June 30, 2003. The primary government (Shelby County) does not act in a trustee capacity for the assets of this pension plan.

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.

(R) Subsequent Events

In July 2003 the Shelby County Board of Commissioners approved the \$109,220,000 2003 Series A Tax Anticipation Note-Commercial Paper Program. While current intentions are that the Tax Anticipation Notes will be paid off on or before June 30, 2004 similar or other financing will be required each year for the foreseeable future.

At June 30, 2003 \$138,300,000 of the 2001A EMCP (Extendible Municipal Commercial Paper) notes had been issued. As of December 16, 2003 an additional \$10,700,000 has been issued. Also, at June 30, 2003 \$82,000,000 of the 2001A EMCP notes had been issued. As of December 16, 2003 an additional \$25,800,000 has been issued for capital improvement projects.

On November 12, 2003 \$32,110,000 was issued for the 2003 Series A Special General Obligation School Bonds. These bonds bear interest at rates ranging from 2.5% to 5.0%. The bonds were issued to finance the cost of constructing and equipping a public high school for the Shelby County Board of Education and to pay the costs of issuance on the bonds. Debt service on these bonds will be paid from a separate property tax to be assessed only on property outside the City of Memphis.