

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 (see notes below for descriptions) is reported in a separate column in government-wide financial statements to emphasize that they are legally separate from the government. Each discretely presented component unit has a June 30 year-end and their separate financial statements are available as indicated below. The significant accounting policies followed by component units are generally the same as those followed by the primary government.

Discretely Presented Component Units:

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

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

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

Emergency Communications District of Shelby County, Tennessee, d/b/a Shelby County 9-1-1 District (The District) – The District was established in 1984, pursuant to provisions of T.C.A. Title 7, Chapter 86 of the State of Tennessee. The District is responsible for establishing local emergency telephone service and a primary emergency telephone number for the residents of Shelby County. The District is governed by a nine-member board of directors, appointed by the County Mayor and approved by the County Board of

Commissioners. The District's board has the authority to levy an emergency telephone service charge to be used to fund the operation of the District. The District must obtain County Commission approval before the issuance of most debt and the County Commission has the ability to adjust the District's service charges. The District is reported as a proprietary component unit. Financial statements for the District can be obtained from Shelby County 9-1-1 District, 3150 Lenox Park #108, Memphis, Tennessee 38115, (901) 380-3911.

(B) Governmental Accounting Standards

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

(C) Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

The County reports the following major governmental funds:

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

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

The *Capital Projects Fund* accounts for the acquisition and construction of major capital facilities and equipment.

The *Education Fund* accounts for tax collections allocated for school operations. Taxes are collected and allocated to the Shelby County Board of Education as well as to the other six municipal school districts within the County. Taxes are allocated based on the average daily attendance.

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

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

- *Roads and Bridges Fund* accounts for the proceeds received from the County's share of State Gasoline taxes and State Gas Inspection taxes. These revenues are used for the maintenance of public roads and bridges in the unincorporated areas of the County.
- *Hotel Motel Taxes Fund* accounts for the proceeds received from the hotel/motel tax levied by the County on hotel/motel occupancy within the County. Hotel/Motel tax is used to first provide debt service requirements for the Sports Authority on the FedEx Forum and then funding for the Convention and Visitors Bureau as provided in State law.
- *Sheriff Forfeitures Fund* accounts for the proceeds from seizure and forfeiture of properties related to certain drug cases and property acquired and accumulated as a result of other criminal offenses. These funds are used to support law enforcement efforts, drug investigation enforcement, and certain non-recurring purposes.

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- Data Processing Fund accounts for a separate computerization fee charged by the Courts and the County Register restricted by State statute. The funds are to be used for the purchase of computer equipment, upgrades, imaging systems, and other related supplies and maintenance to support their data processing needs.
 - Car Rental Tax Fund accounts for the tax proceeds on car rentals levied by the County. The proceeds are used only to help retire debt on bonds issued by the Memphis and Shelby County Sports Authority, Inc. for construction of the FedEx Forum.
 - Health Services Restricted Fees Fund accounts for proceeds received from pollution control permits and fees for specific industries. There are also fees received for vector control services as a component of the fees collected through the City of Memphis' utility services. These proceeds are used, respectively, to control pollution and control rodents, mosquitoes and other pests throughout the County.
 - Storm Water Fees Fund accounts for fees collected from unincorporated portions of the County for storm water expenses as specified in the Shelby County Code of Ordinances.
 - Economic Development Fund accounts for resources received that can be used only for economic development activities supported by the County.
 - Restricted Court Fees Fund accounts for separate fees collected in DUI and drug related cases that are restricted by State statute for use in funding offender rehabilitation programs.

Additionally, the County reports the following fund types:

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

Major funds:

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

Nonmajor funds:

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

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* 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 non-operating revenues and expenses.

Fiduciary Funds include the Other Postemployment Benefits (OPEB) Trust and the Shelby County Retirement System. The OPEB Trust accounts for the fund used to accumulate and provide health and life insurance to retirees. The Shelby County Retirement System 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's charter officers and other elected officials in an agent capacity for governments, litigants, heirs and others. Agency funds are custodial in nature and do not involve measurement of results of operations.

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

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, savings accounts and short-term investments with maturities of three months or less at the time of purchase. The County pools substantially all of its cash and cash equivalents. Each fund participating owns a pro rata share in the pool. Investment earnings of the pool are allocated monthly to each fund based upon the average balance.

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

State statutes authorize the County to make direct investments in obligations of the U.S. Treasury, obligations issued or guaranteed by any U.S. Government agency, LGIP, bonds of any state or political subdivision, repurchase agreements, prime banker's acceptances and prime commercial paper. The maximum maturity is two years. By policy investments in commercial paper must be rated A1/P1 by at least two rating services.

Investments of the government as well as its component units are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See note IV(A) for disclosures and more information on the determination of fair values.

The OPEB Trust and the Shelby County Retirement System are authorized to invest in common and preferred stocks, corporate bonds rated B3 or better, commercial paper rated A2/P2 or better, real estate, venture capital investments, co-mingled investment funds, call option writing programs, certificates of deposit, bonds and treasury bills of the U.S. Government, and international equities. Investment parameters require that no more than 70% of total investments be in stock, no more than 5% in real estate, and no more than 30% in international equities. The Shelby County Retirement System is also authorized to invest in limited partnerships.

Receivables and Payables

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

Inventories and Prepaid Items

Inventories are valued at cost on a first-in/first-out (FIFO) method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and proprietary

fund financial statements. In governmental funds, prepaid items are accounted for using the purchases method. As of June 30, 2016, the County had net overpayments for the OPEB obligation. These overpayments are reported in the assets section.

Capital Assets

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

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

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

<u>Assets</u>	<u>Years</u>
Land Improvement	10-30
Buildings	30-40
Building improvements	10-30
Equipment	3-20
Infrastructure	10-50

Deferred Outflows of Resources

In addition to assets, the *Statement of Net Position* includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so is not recognized as an outflow of resources (expense/expenditure) until then.

Claims and Judgments

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

Landfill Postclosure Care Costs

State and federal laws and regulations require the County to perform certain maintenance and monitoring functions for thirty years after closure of its landfill sites. The amount reported as postclosure care liability at year-end represents the estimated postclosure care costs that have not been paid for the Walnut Grove and Shake Rag Road landfills. The estimate is based on what it would cost to perform all postclosure care as of the year-end. Actual future costs may differ due to inflation, changes in technology, or changes in regulations. The landfills have been closed and the County has no landfills currently in operation. No County assets are restricted for landfill

postclosure costs. However, the County has entered into a surety contract in lieu of a performance bond as a commitment to comply with the terms set forth in its 30 year postclosure maintenance plan for the Shake Rag Road landfill. This surety contract is with the State of Tennessee under the State's cooperative agreement with the Environmental Protection Agency (EPA). There is no surety contract pertaining to the Walnut Grove landfill.

Compensated Absences

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

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

Long-term Obligations

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

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

Deferred Inflows of Resources

In addition to liabilities, the *Statement of Net Position* and the *Governmental Funds Balance Sheet* report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an increase to net position or fund balance that applies to a future period and is not recognized as an inflow of resources (revenue) until that time.

Net Position and Fund Balance

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

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

- Nonspendable fund balance reflects amounts not in spendable form or amounts that legally or contractually must be maintained intact.
- Restricted fund balance reflects amounts subject to external enforceable legal restrictions that are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.

- Committed fund balance reflects amounts whose use is constrained by limitations that the County imposes upon itself by the Shelby County Commission through resolution and shall remain binding unless removed in the same manner. The County Commission is the County's highest level of decision-making authority.
- Assigned fund balance reflects the County's intended use of resources. It allows decision making authority to be delegated to some other body or official, such as division directors or department administrators. This authority is delegated by approved County Commission resolution. No formal action is required to remove this authority.
- Unassigned fund balance is the residual net resources. The General Fund is the only fund that can report positive unassigned fund balance. By their nature the fund balance of other funds is at least assigned to the purpose of that fund. Only negative unassigned fund balances can be reported in other funds.

Use of Net Position and Use of Fund Balance

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

Minimum Fund Balance Policy

The County Board of Commissioners, the County's legislative body, has by resolution adopted a formal fund balance policy. The policy specifies a minimum fund balance of between 20-30% of revenues for the General Fund and 20-30% of revenues for the Debt Service Fund. For all other funds, fund balances will be maintained at a level equal to 30 to 90 days of working capital, depending on the specific nature of the revenues and expenditures for that fund.

Interest Rate Swaps

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and net position or fund balances. Estimates also affect the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**(A) Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position**

The governmental fund Balance Sheet includes reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide Statement of Net Position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." Internal service funds include \$(4,328,093) of long-term liabilities and are not part of this reconciling amount.

The details of this \$(1,103,359,411) are as follows:

Bonds and loans payable	\$ (998,060,612)
Accreted value on bonds	(7,288,060)
Net premium on bonds issued	(68,146,518)
Compensated absences	(21,407,093)
Landfill postclosure	(2,358,733)
Claims and judgments	(335,955)
Capital lease obligation	<u>(5,762,440)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$ (1,103,359,411)</u>

Another element of that reconciliation states that "amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized as components of pension expense in future years." Internal service funds include \$15,284 of deferred outflows of resources and \$(303,846) of deferred inflows of resources and are not part of this reconciling amount. The details of this \$81,366,911 are as follows:

Deferred outflows of resources:	
Current year pension contributions	\$ 29,747,657
Changes in assumptions	38,986,603
Difference between projected and actual experience on investments of the plan	17,198,975
Deferred inflows of resources:	
Difference between expected and actual experience on investments of the plan	<u>(4,566,324)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$ 81,366,911</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 change in fund balance – total governmental funds* and *change in net position of governmental activities* as reported in the government-wide Statement of Activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense."

The details of this \$11,351,299 difference are as follows:

Capital outlay	\$ 37,739,266
Gain on asset disposals	2,388
Depreciation expense	<u>(26,390,355)</u>
Net adjustment to increase <i>net change in fund balance – total governmental funds to arrive at change in net position of governmental activities</i>	<u>\$ 11,351,299</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 the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.”

The details of this \$150,624,741 difference are as follows:

Debt issued or incurred:	
Issuance of refunding bonds	\$ (70,110,000)
Premium on bonds issued	(15,709,811)
Refunding of prior debt	118,885,000
Amortization of bond premiums	18,054,746
Accretion of zero coupon bonds	2,620,945
Principal repayments on debt	<u>96,883,861</u>
Net adjustment to increase <i>net change in fund balance – total governmental funds to arrive at change in net position of governmental activities</i>	<u>\$ 150,624,741</u>

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

The details of this \$(232,977) difference are as follows:

Landfill post closure costs	\$ 192,781
Claims and judgements	(44,968)
Sick and annual leave	<u>(380,790)</u>
Net adjustment to decrease <i>net change in fund balance – total governmental funds to arrive at change in net position of governmental activities</i>	<u>\$ (232,977)</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(A) Budgetary Information

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

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

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

(B) Excess Expenditures over Appropriations

A negative variance appears in the General Fund Budgetary Comparison Statement for the General Government due to salary restrictions. Salary restrictions are planned reductions to budgeted salaries that allow for the savings from vacancies and normal attrition expected to occur throughout the year. These restrictions are partially allocated by department based on historical trends, with the remainder allocated to Central Operations within the division of General Government. As a management tool, the salary restriction adjusts the budget to a more realistic expenditure level to prevent “over budgeting” of salaries and the budget surplus that would otherwise occur. Actual salaries are monitored on a monthly basis to ensure that the restriction is met. Total General Fund salaries were within the total salaries budget net of the salary restriction.

(C) Deficit Net Position

The deficits in enterprise funds are the result of the implementation of GASB 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Without the effect of GASB 68 the fund balances of the enterprise funds would be as follows:

	Non-major Enterprise Funds		
	Codes Enforcement	Fire Services	Corrections Center
	Fund	Fund	Fund
Total net position	\$ (2,083,810)	\$ (2,582,283)	\$ 6,740,476
Unfunded pension obligation	9,407,168	15,056,849	40,067,635
Pension related deferred inflows	129,689	207,576	552,378
Pension related deferred outflows	(2,497,799)	(3,942,392)	(10,465,355)
	<u>\$ 4,955,248</u>	<u>\$ 8,739,750</u>	<u>\$ 36,895,134</u>

IV. DETAILED NOTES ON ALL FUNDS**(A) Deposits and Investments***Shelby County Government, except for the Retirement System and OPEB Trust:*

The County, including agency funds but excluding the Retirement System and the OPEB Trust, had the following investments at June 30, 2016; of the total investments per financial reports, \$141,659,870 is reported on the Statement of Net Position and \$3,900,000 is reported on the Combined Schedule of Changes in Assets and Liabilities for the county charter officers' agency funds.

Not included in the investment amounts are the funds on deposit with the State Treasurer's Local Government Investment Pool (LGIP). The County's pro rata share of LGIP as of June 30, 2016 was \$60,368,749 which is included in the cash and cash equivalents on the Statement of Net Position. All other investments are stated at fair value as disclosed in Note I(E) above.

Fair value:

GASB established a hierarchy of inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The hierarchy has only three levels.

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities the County has the ability to access.
- Level 2 – Other than quoted prices included within level 1, inputs can be corroborated by observable market data, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets.
- Level 3 – Inputs are unobservable for the assets and liabilities and rely on management's assumptions that market participants would use in pricing the asset or liability.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. To determine fair value, the County utilizes valuation techniques that maximize the use of observable inputs and minimizes the use of unobservable inputs to the extent possible.

For the County, level 1 investments are valued using prices quoted in active markets for those investments. Level 2 investments are valued based on the investments relationship to benchmark quoted prices. Level 3 commercial paper is valued using either a discounted cash flow or market comparable techniques.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Further, while the County believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

At June 30, 2016, the County had the following fair value measurements:

	Level 1	Level 2	Level 3	Total
CDARS	\$ 24,743,834	\$ ---	\$ ---	\$ 24,743,834
CDs	26,097,024	---	---	26,097,024
Agencies	---	64,950,987	---	64,950,987
Commercial paper	---	---	17,891,992	17,891,992
Pass through securities	---	7,976,033	---	7,976,033
Total investments at fair value	<u>\$ 50,840,858</u>	<u>\$ 72,927,020</u>	<u>\$ 17,891,992</u>	<u>\$ 141,659,870</u>

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

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

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

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

Shelby County Retirement System (Fiduciary Fund):

At June 30, 2016 the Retirement System had deposits of \$52,925,839 in money-market mutual funds that were not insured and were uncollateralized. At June 30, 2016 the Retirement System reported the following investments with carrying amounts as shown:

Domestic equity	\$ 243,928,620
Fixed income	205,780,048
International equity	170,906,368
Hedge funds	130,569,474
Limited partnership interest	88,062,293
Private real estate and infrastructure	20,851,503
Global low-volatility equity	46,388,472
Master limited partnership	90,342,471
Total investments	<u>\$ 996,829,249</u>

The fair values of fixed income investments grouped by maturity at June 30, 2016 were as follows:

Current to one year	\$ 8,571,340
One to two years	10,367,146
Two to three years	14,871,704
Three to four years	4,552,753
Four to five years	7,699,898
Five years or more	159,717,207
Total	<u>\$ 205,780,048</u>

At June 30, 2016, the investments of the Retirement System within the fair value hierarchy were as follows:

	Level 1	Level 2	Level 3	Total
Equity securities				
Consumer discretionary	\$ 57,881,053	\$ 8,196	\$ ---	\$ 57,889,249
Consumer staples	30,155,099	---	---	30,155,099
Energy	99,538,433	4,688,864	---	104,227,297
Financials	22,417,722	---	---	22,417,722
Health care	29,190,752	---	---	29,190,752
Industrial	50,171,564	---	---	50,171,564
Information technology	37,894,046	---	---	37,894,046
Materials	10,734,183	---	562,557	11,296,740
Real estate	5,286,056	191,163	---	5,477,219
Telecommunication services	15,387,817	---	---	15,387,817
Utilities	6,568,005	---	---	6,568,005
Miscellaneous	---	180,210,987	119,705	180,330,692
Total equity securities	<u>365,224,730</u>	<u>185,099,210</u>	<u>682,262</u>	<u>551,006,202</u>
Fixed Income				
Commercial mortgage-backed securities	---	82,394	---	82,394
Corporate bonds	---	69,668,989	---	69,668,989
Funds - other fixed income	---	44,497,030	---	44,497,030
Government agencies	---	11,603,335	---	11,603,335
Government bonds	---	71,758,993	---	71,758,993
Government mortgage-backed securities	---	177,282	---	177,282
Municipal/provincial bonds	---	5,518,995	---	5,518,995
Non-government backed C.M.O.s	---	2,473,028	---	2,473,028
Total fixed income	<u>---</u>	<u>205,780,046</u>	<u>---</u>	<u>205,780,046</u>
Hedge funds	---	93,338,494	37,230,980	130,569,474
Real estate	---	559,729	8,527,577	9,087,306
Venture capital and partnerships	---	---	100,386,221	100,386,221
Total investments measured at fair value	<u>\$ 365,224,730</u>	<u>\$ 484,777,479</u>	<u>\$ 146,827,040</u>	<u>\$ 996,829,249</u>

At June 30, 2016 the Retirement System had \$119,788,798 of investments with exposure to foreign currency risk.

The above information was taken from the publicly available financial report of the Retirement System for the year ended June 30, 2016. The report includes more information on the credit quality of investments in fixed income debt securities and the investments with foreign currency risk. The report may be obtained from the Shelby County Retirement System, Suite 701, 160 N. Main Street, Memphis, Tennessee 38103.

Shelby County OPEB Trust (Fiduciary Fund):

At June 30, 2016 the OPEB Trust had no deposits that were not insured and were uncollateralized. At June 30, 2016 the OPEB Trust reported the following investments with carrying amounts as shown:

Domestic equity	\$ 66,501,744
Fixed income	38,501,357
International equity	28,158,382
Private real estate	4,990,782
Alternative investments	19,403,016
Global low-volatility equity	13,211,340
Master limited partnership	18,434,400
Total investments	<u>\$ 189,201,021</u>

At June 30, 2016, the investments of the OBEP Trust within the fair value hierarchy were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities				
Consumer discretionary	\$ 2,257,685	\$ ---	\$ ---	\$ 2,257,685
Consumer staples	5,637,718	18,941	---	5,656,659
Energy	18,998,128	---	---	18,998,128
Financials	2,444,424	---	---	2,444,424
Health care	3,352,185	---	---	3,352,185
Industrial	2,445,435	---	---	2,445,435
Information technology	684,979	---	---	684,979
Materials	843,354	---	105,331	948,685
Real estate	713,750	2,784	---	716,534
Telecommunication services	1,950,190	---	---	1,950,190
Utilities	2,081,964	---	---	2,081,964
Miscellaneous	---	66,334,598	---	66,334,598
Total equities	<u>41,409,812</u>	<u>66,356,323</u>	<u>105,331</u>	<u>107,871,466</u>
Fixed income				
Corporate bond	---	19,232,521	---	19,232,521
Government bond	---	10,356,773	---	10,356,773
Other fixed income funds	---	8,912,063	---	8,912,063
Total investment funds	<u>---</u>	<u>38,501,357</u>	<u>---</u>	<u>38,501,357</u>
Hedge fund	---	19,403,016	---	19,403,016
Real estate	49,618	4,941,164	---	4,990,782
Venture capital and partnerships	---	18,434,400	---	18,434,400
Total investments measured at fair value	<u>\$ 41,459,430</u>	<u>\$ 147,636,260</u>	<u>\$ 105,331</u>	<u>\$ 189,201,021</u>

(B) Property Taxes Receivable

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

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

The assessed value on which the fiscal 2016 tax bills were based was \$17,939,879,870. The estimated market value was \$59,897,289,027, making the overall assessed value 29.95% 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 96.12% of the original tax levy and 96.61% of the adjusted tax levy. The property tax levy has no legal limit. The rate, as permitted by Tennessee state law and County charter, is set annually on or after July 1 by the County Board of Commissioners and collected by the County Trustee.

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

General Fund	\$ 1.45
Debt Service Funds	.78
Education Fund	<u>2.14</u>
Countywide tax rate	<u>\$ 4.37</u>

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

	General Fund	Debt Service Fund	Education Fund	Total
Property taxes receivable	\$ 296,728,528	\$ 150,642,871	\$ 413,227,811	\$ 860,599,210
Less allowance for uncollectibles	<u>(17,548,929)</u>	<u>(9,150,363)</u>	<u>(25,071,612)</u>	<u>(51,770,904)</u>
	<u>\$ 279,179,599</u>	<u>\$ 141,492,508</u>	<u>\$ 388,156,199</u>	<u>\$ 808,828,306</u>

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

(C) Notes Receivable

Notes receivable consist of the following:

	<u>Amount</u>	<u>Collateral</u>
<i>General Fund</i>		
Property loans receivable due in various installments at 6.5% interest	<u>\$ 22,244</u>	Land & Building
<i>Debt Service Fund</i>		
Mortgage loans receivable due in various monthly installments at interest rates ranging from 3.125% to 8.125% through 2020	<u>\$ 1,912,731</u>	Land & Building
<i>Grants Fund</i>		
Mortgage loans receivable due in various installments at 0% to 5% interest through 2021	<u>\$ 3,140,870</u>	Land & Building

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

(D) Leases Receivable

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

The County leases certain real property described as 150 Washington Avenue to the Shelby County Federal Credit Union for the sum of \$30,000 annually over a period of five years. The term of the lease commenced on October 1, 2014 and will end September 30, 2019. There is one additional option term of five years. The rental income is recognized as revenue in the General Fund.

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

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

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

The following is a schedule by years of future minimum rentals required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2016:

Fiscal Year	Minimum Rental
2017	\$ 266,950
2018	230,125
2019	42,000
2020	28,500
2021	24,000
Total	<u>\$ 591,575</u>

(E) Capital Assets

Capital asset activity of the primary government for the year ended June 30, 2016 is detailed below.

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<i>Governmental activities:</i>					
Capital assets not being depreciated:					
Land	\$ 25,979,649	\$ 2,000	\$ ---	\$ ---	\$ 25,981,649
Construction in progress	35,121,043	21,145,285	---	(13,726,729)	42,539,599
Total not being depreciated	<u>61,100,692</u>	<u>21,147,285</u>	<u>---</u>	<u>(13,726,729)</u>	<u>68,521,248</u>
Capital assets being depreciated:					
Land improvements	21,285,681	1,664,888	---	2,109,226	25,059,795
Buildings	281,108,280	335,140	---	7,721,745	289,165,165
Equipment	109,971,147	5,990,671	---	2,471,584	118,433,402
Infrastructure	525,407,190	8,750,743	---	1,625,084	535,783,017
Total being depreciated	<u>937,772,298</u>	<u>16,741,442</u>	<u>---</u>	<u>13,927,639</u>	<u>968,441,379</u>
Less accumulated depreciation:					
Land improvements	7,865,491	600,305	---	---	8,465,796
Buildings	141,652,845	8,488,037	---	---	150,140,882
Equipment	71,093,523	6,255,593	---	212,474	77,561,590
Infrastructure	235,827,223	11,229,215	---	---	247,056,438
Total accumulated depreciation	<u>456,439,082</u>	<u>26,573,150</u>	<u>---</u>	<u>212,474</u>	<u>483,224,706</u>
Total capital assets being depreciated, net	<u>481,333,216</u>	<u>(9,831,708)</u>	<u>---</u>	<u>13,715,165</u>	<u>485,216,673</u>
Governmental activities capital assets, net	<u>\$ 542,433,908</u>	<u>\$ 11,315,577</u>	<u>\$ ---</u>	<u>\$ (11,564)</u>	<u>\$ 553,737,921</u>

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<i>Business-type activities:</i>					
Capital assets not being depreciated:					
Land	\$ ---	\$ 5,300	\$ ---	\$ ---	\$ 5,300
Total not being depreciated	---	5,300	---	---	5,300
Capital assets being depreciated:					
Land improvements	120,611	6,500	---	---	127,111
Buildings	49,840,262	300,022	---	---	50,140,284
Equipment	10,880,456	2,516,248	---	(200,910)	13,195,794
Total being depreciated	60,841,329	2,822,770	---	(200,910)	63,463,189
Less accumulated depreciation:					
Land improvements	22,354	11,322	---	---	33,676
Buildings	30,772,762	1,164,957	---	---	31,937,719
Equipment	6,393,959	437,108	---	(212,474)	6,618,593
Total accumulated depreciation	37,189,075	1,613,387	---	(212,474)	38,589,988
Total capital assets being depreciated, net	23,652,254	1,209,383	---	11,564	24,873,201
Business-type activities capital assets, net	\$ 23,652,254	\$ 1,214,683	\$ ---	\$ 11,564	\$ 24,878,501

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

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

	Capital Assets Net	Depreciation Expense
Depreciable assets:		
General Government	\$ 12,644,527	\$ 3,427,573
Planning and Development	65,397	25,017
Public Works	377,635,465	13,425,484
Corrections	1,496,815	109,757
Health Services	15,920,359	784,589
Community Services	159,794	223,130
Law Enforcement	61,240,966	5,422,653
Judicial	14,913,787	2,211,810
Other Elected Officials	1,139,563	943,137
Depreciable assets total	485,216,673	26,573,150
Non-depreciable assets:		
Land	25,981,649	---
Construction in progress	42,539,599	---
Non-depreciable assets total	68,521,248	---
Governmental activities total	\$ 553,737,921	\$ 26,573,150

(F) Lease Obligations

Operating Leases

The County leases office space and other equipment under operating leases expiring during the next five years. Rent expense for the year ended June 30, 2016 was \$2,550,761 for the primary government.

Capital Leases

The County has entered into a capital lease agreement with the State of Tennessee for a new Regional Forensic Center. The State issued bonds in March 2013 for the long term funding of construction costs. The lease agreement provides that the County's lease payments will be the amount required to fund debt service requirements for \$8 million of the bonds issued by the State. The remaining amount owed for this lease is included with long term debts. The estimated annual capital lease cost, including interest, will be approximately \$400,000 to \$515,000 per year. The remaining balance on this lease is \$5,762,440.

The following is a schedule by years of future minimum rental payments required under operating leases and capital leases that have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2016:

Fiscal Year	Operating Leases	Capital Leases
2017	\$ 551,209	\$ 487,581
2018	289,497	471,723
2019	197,284	455,868
2020	117,216	440,012
2021	---	424,155
2022-2026	---	1,987,583
2027-2031	---	1,793,741
2032-2037	---	653,278
Total minimum lease payments	1,155,206	6,713,941
Less: amount representing interest	---	(951,501)
Present value of minimum lease payments	<u>\$ 1,155,206</u>	<u>\$ 5,762,440</u>

(G) Deferred Inflows of Resources

Deferred inflows of resources shown on the Balance Sheet as unavailable revenue consist of the following:

	General Fund	Debt Service Fund	Education Fund	Grants Fund	Nonmajor Governmental Fund	Totals
Fiscal year 2017 property tax assessment	\$ 264,651,886	\$ 134,115,554	\$ 367,958,058	\$ ---	\$ ---	\$ 766,725,498
Current and prior years' property taxes receivable	13,756,816	6,956,478	19,065,072	---	---	39,778,366
Due from Federal Government	28,218	---	---	---	419,387	447,605
Due from State	1,416,442	---	---	---	---	1,416,442
Due from City of Memphis	465	---	---	---	---	465
Due from other local governments	45,680	---	---	---	31,293	76,973
Notes receivable	22,244	1,912,731	---	3,124,352	---	5,059,327
Other receivables	460,866	---	---	---	36,478	497,344
	<u>\$ 280,382,617</u>	<u>\$ 142,984,763</u>	<u>\$ 387,023,130</u>	<u>\$ 3,124,352</u>	<u>\$ 487,158</u>	<u>\$ 814,002,020</u>

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

(H) Debt and Long-term LiabilitiesBond anticipation notes:

In December 2014, the Shelby County Board of Commissioners authorized the issuance of up to \$120,000,000 in Capital Outlay Extendible Municipal Commercial Paper (EMCP) Notes, 2015 Series A Program. The aggregate outstanding principal amount may not exceed \$120,000,000 at any time. The notes were issued in anticipation of the County's issuance of certain general obligation bonds and general obligation school bonds in the aggregate principal amount not exceeding \$120,000,000 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. At June 30, 2016, \$50,000,000 of the \$120,000,000 2015A EMCP notes has been issued.

Changes in long-term liabilities:

Changes in long-term liabilities for the year were:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Governmental activities:					
Bonds and loans payable	\$ 1,153,259,057	\$ 70,110,000	\$ (218,020,385)	\$ 1,005,348,672	\$ 91,719,081
Capital lease obligations	6,131,862	---	(369,422)	5,762,440	364,972
Net premium of bonds issued	70,491,453	15,709,811	(18,054,746)	68,146,518	17,194,500
Bond anticipation notes	20,000,000	30,000,000	---	50,000,000	50,000,000
Claims and judgments	5,917,391	1,367,169	(2,620,512)	4,664,048	710,288
Landfill postclosure care costs	2,551,514	---	(192,781)	2,358,733	212,286
Sick and annual leave	21,108,389	5,200,349	(4,801,847)	21,506,891	14,631,140
Net unfunded pension obligation	217,376,646	139,239,371	(27,023,737)	329,592,280	---
Total governmental activities	<u>\$ 1,496,836,312</u>	<u>\$ 261,626,700</u>	<u>\$ (271,083,430)</u>	<u>\$ 1,487,379,582</u>	<u>\$ 174,832,267</u>
Business-type activities:					
Capitalized lease obligations	\$ 69,152	\$ ---	\$ (69,152)	\$ ---	\$ ---
Claims payable	425,000	---	(425,000)	---	---
Sick and annual leave	4,862,350	2,831,821	(2,880,827)	4,813,344	3,251,923
Net postemployment benefit obligations	158,959	---	(158,959)	---	---
Net unfunded pension obligation	43,655,905	26,378,223	(5,502,476)	64,531,652	---
Total business-type activities	<u>\$ 49,171,366</u>	<u>\$ 29,210,044</u>	<u>\$ (9,036,414)</u>	<u>\$ 69,344,996</u>	<u>\$ 3,251,923</u>

Bonds and loans payable reductions include \$2,620,945 accretion of zero bonds.

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, \$99,798 of sick and annual leave payable, and \$4,328,093 of claims and judgments payable, which includes the current portions of long term claims in the Tort Liability Fund and Employer Insurance Fund, from the internal service funds are included in the above amounts. All other long-term liabilities of governmental activities other than debt are liquidated by the general fund.

Bonds and other long-term debt:

In February 2016, \$70,110,000 in General Obligation Refunding Bonds, 2016 Series A were issued, together with other available funds from the County, to refund \$118,885,000 of the 2004 Series B General Obligation bonds previously issued by the County and to pay the costs of termination fees payable with respect to the termination of the interest rate swap related to the County's 2004 Series B General Obligation bonds. This refunding has reduced the required debt service payments by \$40,937,881 over the next 14 years and resulted in an economic gain of \$23,528,444.

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

Description	Date Issued	Interest Rates	Principal Balance	Last Maturity Date
1996B Refunding Issue (b)	11/01/1996	5.00 - 6.00	\$ 1,636,845	12/01/2016
1997B Refunding Issue (b)	11/01/1997	4.50 - 5.75	2,498,412	08/01/2016
2006B Public Imp/Schools (a), (b)	02/22/2006	Variable	159,590,000	03/01/2031
2009A Refunding Issue (b)	04/02/2009	2.75 - 5.0	82,270,000	04/01/2022
2009B Public Imp/Schools (b)	09/30/2009	2.25-5.0	37,765,000	04/01/2024
2009C Public Imp/Schools (b)	09/30/2009	5.625 - 5.75	60,000,000	04/01/2034
2009 Qualified School Construction Loans	12/01/2009	1.515	34,770,205	09/01/2026
2010 Qualified School Construction Loans	10/01/2010	1.515	46,625,149	09/15/2027
2011A Refunding Bonds (b)	03/30/2011	4.00-5.00	73,795,000	03/01/2025
2011 Port Commission Loan	09/07/2011	2.00-5.00	17,980,000	04/01/2036
2012A Refunding Bonds (b)	03/01/2012	3.00-5.00	235,785,000	03/01/2028
2012B GO Refunding (Rural Schools) (b)	03/01/2012	2.00-4.00	5,635,000	03/01/2019
2015A Refunding Bonds (b)	01/28/2015	2.00-5.00	169,600,000	04/01/2027
2016A Refunding Bonds (b)	02/26/2016	1.50-5.00	70,110,000	04/01/2027
			<u>998,060,611</u>	
	Accreted value of bonds		<u>7,288,061</u>	
	Total bonds and loans payable		<u>\$ 1,005,348,672</u>	

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

This debt represents borrowings for the following:

General government	\$ 173,825,727
Education	<u>824,234,884</u>
	998,060,611
Accreted value of bonds	<u>7,288,061</u>
	<u>\$ 1,005,348,672</u>

Interest expense in the governmental funds during the fiscal year ended June 30, 2016 was \$63,475,437 (current financial resources measurement focus and modified accrual basis of accounting). Entity wide interest was \$63,166,615 (economic resources measurement focus and accrual basis of accounting) which includes interest paid for the Debt Service Fund and interest paid on the loans.

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

All unmatured interest which is due in future years is disclosed in the table below. The County has no legal debt limit. Debt service requirements for principal and interest in future years, using the actual rate on fixed rate bonds and a rate of 4.43% for variable rate bonds, as explained in the swap agreement terms below, are as follows:

Years Ended June 30	Principal	Interest	Total
2017	\$ 91,719,078	\$ 55,038,486	\$ 146,757,564
2018	96,331,322	43,344,823	139,676,145
2019	92,601,321	39,179,584	131,780,905
2020	90,691,321	35,090,688	125,782,009
2021	88,523,821	31,061,183	119,585,004
2022-2026	387,021,605	102,062,057	489,083,662
2027-2031	124,482,143	25,716,174	150,198,317
2032-2036	26,690,000	3,303,038	29,993,038
	998,060,611	334,796,033	1,332,856,644
Accreted value of bonds	7,288,061	(7,288,061)	---
Total long-term debt	\$ 1,005,348,672	\$ 327,507,972	\$ 1,332,856,644

Interest rate swap agreements:

As of June 30, 2016 Shelby County has two (2) interest rate swap agreements shown below. Interest rate swap agreements are accounted for at fair value in accordance with GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*.

	Changes in Fair Value		Fair Value at June 30, 2016		Notional Amount
	Classification	Amount	Classification	Amount	
Governmental activities					
Cash flow hedges:					
Pay-fixed interest rate swap	Deferred outflow	\$(2,501,584)	Derivative instruments	\$(11,952,665)	\$ 40,000,000
Pay-fixed interest rate swap	Deferred outflow	(7,479,228)	Derivative instruments	(35,735,486)	119,590,000
		<u>\$(9,980,812)</u>		<u>\$(47,688,151)</u>	<u>\$ 159,590,000</u>

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

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

Swap Terms:

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

On 2/14/2006, the County entered into a fixed payer swap with an effective date of 2/22/2006. Under the terms of the swap, the County pays a fixed rate of 3.503% until 3/1/2016 and 4.43% thereafter to the counterparties, Goldman and MKFP. In return, the County receives the SIFMA index. Goldman's portion of the swap is

\$119,590,000 and MKFP's portion is \$40,000,000. As of 6/30/2016 the notional amounts of the 2006B Goldman swap and the 2006B MKFP swap are \$119,590,000 and \$40,000,000 respectively.

Fair Value of Swap: The swaps, as of 6/30/2016 have a net value of (\$45,398,924). The fair value was (\$47,688,151) of which approximately (\$2,289,227) is accrued interest from 6/01/2016 to the valuation date, 6/30/2016. This fair value was measured using an option pricing model technique under the income approach in which the future net settlement swap payments were calculated and discounted to the valuation date using future spot interest rates. The observability of inputs used to perform the measurement results in the swap fair values being categorized as level 2.

Associated Debt and Swap Payments: This swap is in conjunction with 2006 Series B General Obligation Variable Rate Demand Public Improvement and School Bonds. This analysis assumes both swaps stay in place until maturity in 2031. The cash flows below assume that for both swaps SIFMA equals its current level, as of 6/30/2016 of 0.41%. Interest and net swap payments will fluctuate as SIFMA changes.

Fiscal Year Ended June 30	Variable Rate Bonds		Net Swap	Total
	Principal	Interest	Payments	
2017	\$ 7,425,000	\$ 427,600	\$ 6,415,518	\$ 14,268,118
2018	2,020,000	407,717	6,117,033	8,544,750
2019	---	402,308	6,035,829	6,438,137
2020	2,705,000	402,308	6,034,142	9,141,450
2021	8,505,000	395,024	5,927,088	14,827,112
2022	9,575,000	372,250	5,585,187	15,532,437
2023	7,130,000	346,610	5,200,272	12,676,882
2024	7,450,000	327,517	4,912,273	12,689,790
2025	23,900,000	307,457	4,614,156	28,821,613
2026	26,130,000	243,457	3,653,376	30,026,833
2027	20,110,000	173,486	2,602,950	22,886,436
2028	6,625,000	119,635	1,794,027	8,538,662
2029	12,680,000	101,797	1,528,203	14,310,000
2030	6,055,000	67,842	1,018,467	7,141,309
2031	19,280,000	51,628	775,056	20,106,684
Total	\$ 159,590,000	\$ 4,146,636	\$ 62,213,577	\$ 225,950,213

Credit Risk: Because the swap has a negative value on 6/30/2016, the County does not have credit risk. However, if swap rates increase and the fair value of the swap moves in favor of the County, credit risk would be present.

Termination Risk: Goldman and MKFP did not exercise the optional termination rights on 3/1/2016 and the terms and condition of the trade confirmation remain in effect with the termination date of 3/1/2031.

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

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

Claims and Judgments

The County has recognized long-term liabilities for claims and judgments of \$4,664,048 in accordance with its accounting policy explained in Note I(E). The liabilities are based on property damage and personal injury lawsuits arising in the course of operations. The County believes this is a reasonable measure of the ultimate settlement of these matters.

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

(I) Fund Balances by Purpose

Following is more detailed information on the governmental fund balances:

	General Fund	Debt Service Fund	Capital Projects Fund	Grants Fund	Nonmajor Governmental Funds	Total
Fund balances:						
Restricted for:						
Road and construction projects	\$ ---	\$ ---	\$ ---	\$ 19,184	\$ 9,130,207	\$ 9,149,391
Economic and cultural projects	---	---	---	2,329,901	3,385,388	5,715,289
Law enforcement activities	---	---	---	---	1,818,929	1,818,929
Data and forms processing activities	30,702	---	---	---	1,051,789	1,082,491
Environmental and health activities	---	---	---	1,766,008	229,967	1,995,975
Rehabilitation and community service programs	---	---	---	1,328,574	1,302,924	2,631,498
Debt on school construction	---	5,998,600	---	---	---	5,998,600
Conservation projects	---	---	84,587	550,187	1,568,625	2,203,399
Other grants and sponsored projects	---	---	---	10,071,158	---	10,071,158
Committed to:						
Approved carryforward appropriation:	1,338,061	---	22,104,293	---	---	23,442,354
Subsequent year operations	7,800,000	---	---	---	---	7,800,000
Economic and cultural projects	---	---	---	---	4,301,568	4,301,568
Environmental activities	---	---	---	---	1,373,803	1,373,803
Debt on public improvement and educational projects	---	57,214,357	---	---	---	57,214,357
Assigned to:						
Purchase order encumbrances	634,321	---	---	---	---	634,321
Unassigned	105,793,431	---	---	---	---	105,793,431
Total fund balances	<u>\$115,596,515</u>	<u>\$ 63,212,957</u>	<u>\$ 22,188,880</u>	<u>\$ 16,065,012</u>	<u>\$ 24,163,200</u>	<u>\$ 241,226,564</u>

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

(J) Interfund Receivables, Payables and Transfers

Interfund receivables and payables consist of the following:

Receivable Fund	Payable Fund	Amount
Debt Service Fund	General Fund	\$ 1,836,081
Education Fund	General Fund	1,417,237
Nonmajor Governmental Funds	General Fund	1,849,653
Total		<u>\$ 5,102,971</u>

Due to/From Component Units consists of the following:

Receivable Entity	Payable Entity	Amount
Board of Education (component unit)	Education Fund	\$ 11,409,101
	Capital Projects Fund	8,245,005
	General Fund	27,328
Regional One Health (component unit)	General Fund	2,295,715
	Grants Fund	17,899
Total		<u>\$ 21,995,048</u>

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

The amount payable to the Board of Education (component unit) from the Education Fund represents property and wheel taxes accrued at year-end but not yet paid to the Shelby County Board of Education. The amount payable to Regional One Health (component unit) represents expenses accrued at year-end, but not yet disbursed by Shelby County Government.

The total due to component units disclosed here, \$21,995,048, is less than the amount disclosed on the Statement of Net Position due to \$14,988,960 of deferred inflows of resources in the funds that are earned but unavailable and are payable to the component unit when they become available.

Transfers during the year were as follows:

Transfers Out:	Transfers In:	Amounts
General Fund	Grants Fund	\$ 2,988,767
	Enterprise Funds	15,651,025
	Internal Service Funds	250,000
Debt Service Fund	Capital Projects Fund	6,680,000
Capital Projects Fund	Grants Fund	510,000
Grants Fund	General Fund	1,210,795
	Capital Projects Fund	22,456
Nonmajor Governmental Funds	Grants Fund	126,678
		<u>27,439,721</u>
Total transfers out of governmental fund types		
Enterprise Funds	Grants Fund	560,298
Internal Service Funds	General Fund	247,278
		<u>807,576</u>
Total transfers out of proprietary fund types		
		<u>\$ 28,247,297</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 (property taxes, other local taxes, state revenue, federal and local revenue, charges for services, fines, fees and permits, investment income) are classified as other revenue.

Other revenue for the year ended June 30, 2016 is detailed below:

	General Fund	Debt Service Fund	Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
Private donor grants	\$ 38,572	\$ ---	\$ 1,494,714	\$ ---	\$ 1,533,286
Miscellaneous income	1,543,861	---	76,353	16,503	1,636,717
Forfeitures and seizures	---	---	---	2,215,266	2,215,266
Housing principal & interest	---	641,241	170,831	---	812,072
Total other revenue	<u>\$ 1,582,433</u>	<u>\$ 641,241</u>	<u>\$ 1,741,898</u>	<u>\$ 2,231,769</u>	<u>\$ 6,197,341</u>

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

(L) Risk Financing and Related Insurance Issues

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

	2016	2015
Insurance claims liabilities at the beginning of the fiscal year	\$ 3,589,444	\$ 4,279,974
Incurred claims and claim adjustment expenses	42,511,470	45,298,775
Payment of claims and claim adjustment expenses	(42,132,880)	(45,989,305)
Claims and claim adjustment liabilities at the end of the fiscal year	<u>\$ 3,968,034</u>	<u>\$ 3,589,444</u>

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

	2016	2015
Claims and claim adjustment liabilities at the beginning of the fiscal year	\$ 1,147,112	\$ 1,815,797
Incurred claims and claim adjustment expenses	1,307,169	(82,262)
Payment of claims and claim adjustment expenses	(586,385)	(586,423)
Claims and claim adjustment liabilities at the end of the fiscal year	<u>\$ 1,867,896</u>	<u>\$ 1,147,112</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:

	2016	2015
Claims and claim adjustment liabilities at the beginning of the fiscal year	\$ 4,479,293	\$ 4,495,128
Incurred claims and claim adjustment expenses	2,043,047	1,932,452
Payment of claims and claim adjustment expenses	<u>(2,123,112)</u>	<u>(1,948,287)</u>
Claims and claim adjustment liabilities at the end of the fiscal year	<u>\$ 4,399,228</u>	<u>\$ 4,479,293</u>

The total of claims liability disclosed here, \$10,235,158, differs from the sum of claims reported on the Statement of Net Position and the long-term claims disclosed in Note IV(H) due to \$694,486 of claims that are solely short term in nature and a \$335,955 long term liability to be paid by the General Fund.

(M) Contingencies and Commitments

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

The amounts of these encumbrances are as follows:

General Fund	Capital Projects Fund	Grants Fund	Nonmajor Governmental Funds	Total
\$ 1,210,950	\$ 17,885,649	\$ 20,192,494	\$ 436,643	\$ 39,725,736

The Capital Projects Fund had additional commitments specific to capital projects of \$48,825,691 as of June 30, 2016.

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

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

Joint Ventures:

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

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

The Authority was chartered in 1997 under a State statute that permits sports authorities to receive certain sales taxes generated by major league sports franchises. In 2001 the City of Memphis and Shelby County entered into the “Memphis Arena Project Agreement” to bring an NBA professional team to Memphis. A major part of that agreement required the construction of a new multipurpose sports and entertainment facility. Financing for construction of this facility (now known as FedEx Forum) has been done through the Authority. The Authority has issued long-term debt with principal balance of \$189,306,441, net of discounted bond issuance, owed as of

December 31, 2015. Title to the facility is held by the New Memphis Arena Public Building Authority of Memphis and Shelby County, a joint venture; see below for more information on that entity. The Authority’s revenue bonds are payable from seat rental fees, certain state sales taxes generated by the professional basketball team, car rental taxes, City and County-wide hotel/motel taxes, and in lieu of tax payments by the Memphis Light Gas and Water Division.

The Authority is a joint venture between the City of Memphis and the County and has a board whose members are jointly appointed by the City and the County. Although the bond indentures state that the City and County are not legally liable for the indebtedness of the Authority, under agreement the City and County have agreed to pay, in equal amounts, the debt if the Authority is unable to pay. During the year ended June 30, 2016 the County transferred to the Sports Authority for debt service purposes the amount of \$2,194,280 from car rental taxes and \$10,146,807 from hotel/motel taxes. Financial statements for the Memphis and Shelby County Sports Authority, Inc. may be obtained from the Administrator of Finance, Shelby County Government, 160 N. Main Street, Suite 800, Memphis, Tennessee 38103.

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

	Memphis and Shelby County Sports Authority, Inc. <u>(December 31, 2015)</u>
Assets	\$ 60,962,869
Liabilities	195,954,213
Net position	(134,991,344)
Operating expenses	11,681,179
General revenues	21,501,263
Change in net position	9,820,084

New Memphis Arena Public Building Authority of Memphis and Shelby County (New PBA)

The New PBA was created in August 2001 by Shelby County and the City of Memphis. It is a nonprofit corporation established under statutes of the State of Tennessee. In June 2001 the City of Memphis, Shelby County, and HOOPS, L.P. (the NBA franchise ownership entity) entered into the “Memphis Arena Project Agreement.” Under this agreement a new arena would be constructed and leased to HOOPS, L.P. as part of the agreement to bring a professional basketball (NBA) team to Memphis. The primary purpose of the New PBA was to construct and hold title to this new multi-purpose sports and entertainment facility (now known as FedEx Forum). Construction of the facility is complete. In 2012, Memphis Basketball, LLC purchased the NBA franchise from HOOPS, L.P. and now leases and operates FedEx Forum.

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

The New PBA is a joint venture between the City of Memphis and the County. It is governed by a Board of Directors whose members are jointly appointed by the City of Memphis and Shelby County. The City and County maintain an ongoing financial responsibility for subsidies to finance the New PBA’s capital expenditures and operations. The County also paid \$142,695 for insurance on the facility. Since the PBA’s only assets are the ownership rights to the FedEx Forum Arena, and since there has been no financial activity for the fiscal year, the Tennessee Comptroller of the Treasury has granted approval for an exemption from the annual audit requirement.

As of December 31, 2007 - the most recent financial statements available - the PBA reported assets of \$209,123,653 and net assets of \$209,123,653.

Jointly Governed Organizations:

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

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

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

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

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

The *Memphis Center City Revenue Finance Corporation (Finance Corporation)* is a nonprofit corporation established jointly by the City and the County under the laws of the State of Tennessee. The Finance Corporation provides various forms of financial assistance to development projects. The City appoints four board members, the County appoints four members and one is jointly appointed by the City and County for six-year terms, with approval by the City Council and the County Commission.

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

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

Related Organizations:

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

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

(O) Other Postemployment Benefits

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

Annual OPEB Cost and Net OPEB Obligations

The County’s OPEB cost and net OPEB obligations to the Trust for the current year were as follows:

Annual Required Contribution (ARC)	\$	12,984,462
Interest on Net OPEB Obligation		(310,623)
Adjustment to ARC		436,855
Annual OPEB Cost		<u>13,110,694</u>
Contributions made		<u>(21,265,925)</u>
Decrease in net OPEB Obligation		(8,155,231)
Net OPEB Obligation beginning of year		<u>(5,916,620)</u>
Net OPEB Obligation end of year	\$	<u><u>(14,071,851)</u></u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Costs (AOC)</u>	<u>Actual Contributions</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation/(Asset)</u>
June 30, 2016	\$ 13,110,694	\$ 21,265,925	162.2%	\$ (14,071,851)
June 30, 2015	15,616,829	31,445,399	201.4%	(5,916,620)
June 30, 2014	28,942,589	36,731,249	126.9%	9,912,490
June 30, 2013	32,983,377	29,265,521	88.7%	17,667,548
June 30, 2012	26,928,000	31,914,109	118.5%	13,950,693
June 30, 2011	30,122,000	24,850,458	82.5%	18,936,802
June 30, 2010	29,007,000	20,611,575	71.1%	13,665,260
June 30, 2009	31,600,000	18,329,123	58.0%	5,269,835
June 30, 2008	34,227,000	42,228,042	123.4%	(8,001,042)

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

Funded Status and Funding Progress:

As of June 30, 2015, the most recent actuarial valuation date, the plan was 66.0% funded. The actuarial accrued liability for benefits was \$300 million, and the actuarial value of assets was \$198 million, resulting in an unfunded actuarial accrued liability; (UAAL) of \$102 million. The covered payroll (annual payroll of active employees covered by the plan) was \$243 million and the ratio of the UAAL to the covered payroll was 41.9%.

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

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

Actuarial Valuation, Method and Assumptions

Valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	22 years
Asset valuation method	Market value
Rate of inflation	2.75%
Rate of investment return	5.25%
Projected salary increases	2.75% - 5.75%

	<u>Pre Medicare</u>	<u>Medicare</u>
Healthcare cost trend rate	7.50%	5.50%
Ultimate trend rate	5.00%	5.00%
Year of Ultimate trend rate	2020	2017

(P) Pensions

Shelby County Retirement System

Plan Description

The Shelby County Retirement System (the System) is a single employer defined benefit public employee retirement system (PERS) established by Shelby County, Tennessee. The system is administered by a board, the majority of whose members are nominated by the Shelby County Mayor, subject to approval by the Shelby County Board of Commissioners. The system issues a publicly available financial report that includes financial statements and required supplemental information. Audited GAAP financial statements may be obtained by writing to the Shelby County Retirement System, Suite 701, 160 N. Main, Memphis, TN 38103 or calling (901) 222-1950.

Substantially all full-time and permanent part-time employees of the county are required, as a condition of employment, to participate in the System. Once becoming a participant, a person will continue to participate as long as he or she is an employee of the County.

Benefits Provided

The System consists of four plans (Plans A, B, C and D) which are legally one reporting entity. All System plans are contributory. All plans provide retirement as well as survivor and disability defined benefits.

Plan A is for employees hired between December 1, 1978 and February 28, 2005, and those employees that elected to transfer to Plan A from Plan B before January 1, 1981. Retirement benefits are calculated based upon number of years of credited service, age at the time pension payments begin, and final average earnings as defined in the plan as an average of the earnings in the 36 consecutive month period of employment in which the earnings were highest. Survivor benefits generally are payable to the employee's spouse in an amount equal to 75% of the calculated pension due the employee once the spouse attains age 65. Other options and restrictions apply to pensions and survivor benefits as detailed in the plan. Disability pension benefits are generally provided through a separate insurance contract maintained by the County. Plan A does not provide any disability benefits for participants who were active employees on January 1, 2002 except in certain circumstances as outlined in the plan.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance beginning the calendar year after a pensioned participant attains age 65. The adjustment is the lesser of the percentage increase in the federally-calculated Consumer Price Index – All Urban for the 12-month period ending on the previous September 30 or 4%.

Plan B is for employees hired prior to December 1, 1978. Retirement benefits are calculated based upon 2.7% of final average earnings multiplied by the lesser of years of credited service or 25 years, plus 1% of final average earnings multiplied by years of credited service in excess of 25 but no more than 35. Survivor benefits are generally payable to the employee's spouse or in the absence of a spouse, the employee's eligible children as defined in the plan, an amount equal to 100% of the benefits payable to the employee. Other options and restrictions apply to pensions and survivor benefits as detailed in the plan. Disability pension benefits are only available to those employees who incur line-of-duty disability.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance beginning the calendar year after a pensioned participant attains age 65. The adjustment is the lesser of the percentage increase in the federally-calculated Consumer Price Index – All Urban for the 12-month period ending on the previous September 30 or 1%.

Plan C became effective September 1, 2005 for all employees hired after February 28, 2005 but before July 1, 2011 and includes all full-time, part-time and elected employees, and employees of all joint City/County agencies administrated by Shelby County, and members of Plan A electing to transfer to Plan C. CETA employees, Board of Education employees, employees electing Social Security coverage, and Joint City/County agencies not administered by Shelby County cannot participate. Retirement benefits are calculated in one of two ways, whichever produces the highest benefit to the employee; (1) based upon number of years of credited service, final average earnings as defined in the plan as an average of the earnings in the 36 consecutive month period of employment in which the earnings were highest, and a percentage determined by options detailed in the plan – maximum of 2.35%, (2) the "Life Annuity Equivalent" based upon the employee's age when payments begin, using actuarial factors contained in the plan document, applied to the employee's benefit accrual account under the plan. Survivor benefits are generally payable as follows: (1) any dependent children as defined in the plan receive 50% of final average earnings to be divided equally for as long as they remain dependent, (2) a spouse, as defined in the plan, will receive the greater of 75% of the amount calculated based on credited years of service, average final earnings, and 2.35% or the "Life Annuity Equivalent" based upon the spouse's age and actuarial factors contained in the plan. Other options and restrictions apply to pensions and survivor benefits as detailed in the plan. Disability pension benefits are generally provided through a separate insurance contract maintained by the County. Plan C does not provide any disability benefits for participants except under a single exception applicable only to former employees who transferred to City of Memphis employment as outlined in the plan.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance beginning the calendar year after a pensioned participant attains age 65. The adjustment is the lesser of the percentage increase in the federally-calculated Consumer Price Index – All Urban for the 12-month period ending on the previous September 30 or 4%.

Plan D includes all employees hired on or after July 1, 2011. Retirement benefits are calculated using the average over the 5 highest consecutive years of earnings and are eligible for early retirement at age 62 (at age 50 with the last 20 years of credited service in a public safety classification) and normal retirement at age 67 (at age 55 with the last 7.5 years of credited service in a public safety classification). Survivor benefits for the eligible beneficiary will be based on years of credited service and determination of in line-of-duty or not in line-of-duty death. A surviving spouse, as defined in the plan, will receive 75% of the participant's pension at age 67, if participant dies after completion of 15 years of credited service. Disability pension benefits are generally provided through a separate insurance contract maintained by the County, except for transfers as outlined in the plan.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance beginning the calendar year after a pensioned participant attains age 67. The adjustment is the lesser of the percentage increase in the federally-calculated Consumer Price Index – All Urban for the 12-month period ending on the previous September 30 with a maximum of 2%.

Employees covered by benefit terms

The following table summarizes the membership of the System as of June 30, 2015, the valuation and measurement date:

	<u>Plan A</u>	<u>Plan B</u>	<u>Plan C</u>	<u>Plan D</u>	<u>Total</u>
Inactive employees and beneficiaries currently receiving benefits	1,857	1,021	720	---	3,598
Inactive employees and beneficiaries entitled to but not yet receiving benefits	188	---	74	---	262
Inactive participants entitled to a refund of contributions	22	---	59	81	162
County to City transfers	155	---	15	---	170
Active participants	<u>1,525</u>	<u>11</u>	<u>2,494</u>	<u>1,178</u>	<u>5,208</u>
Total	<u><u>3,747</u></u>	<u><u>1,032</u></u>	<u><u>3,362</u></u>	<u><u>1,259</u></u>	<u><u>9,400</u></u>

Contributions

Contributions for participants in the System are established by the Board of Administration of the Shelby County, Tennessee Retirement System (the Board) based on actuarial valuations. Contribution requirements for the employer are based on the same actuarial valuations used by the Board and are established by the Shelby County Board of Commissioners in the fiscal year budget appropriations which can be amended by resolution. The County does not receive the actuarial report until several months into the fiscal year to which the report relates. Due to budgetary procedures the County makes contributions based on the latest actuarial report received at the date a new fiscal year's budget is being prepared. Contributions for fiscal year 2016 were based on the actuarial report as of June 30, 2014.

In accordance with the actuarial valuation as of June 30, 2014, the System employer rate required was 13.35% of covered payroll participants. Plan B, Plan C, and Plan D participants contribute 8% of their earnings, with some exceptions of employees of Plan B with more than 35 years of service. Plan A participants contribute 2.0%. This resulted in total contributions of \$51,463,316 (\$35,864,249 employer contributions and \$15,599,067 of employee contributions).

The net pension liability for all plans was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of that date.

Actuarial assumptions

System:

Inflation	2.75	percent
Salary Increases	2.75 - 5.75	percent, including inflation
Investment rate of return	7.50	percent, net of pension plan investment expense, including inflation
Cost-of-Living Adjustment	1.00	percent per year, compounded for Plan B
	4.00	percent per year, compounded for Plan A and Plan C
	2.00	percent per year, compounded for Plan D

Mortality rates for the System were based on the RP-2000 Combined Mortality Table set forward three years for males and set forward one year for females and using a Scale AA projection to 2025 for the period after service retirement and for dependent beneficiaries as well as for deaths in active service. The RP-2000 Disability Mortality Table set forward six years for males and set forward nine years for females and using a Scale AA projection to 2015 is used for the period after disability retirement.

The System actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2007 – June 30, 2012.

The discount rate used to measure the total pension liability for the System at June 30, 2015 was the long term rate of return, 7.50 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that employer contributions will be made equal to the difference between the actuarially determined contribution and member contributions.

Based on those assumptions, the fiduciary net position for all plans was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

Asset Class	Target Allocation		Long-Term Expected Real Rate of Return	
Domestic Equity	14.1	%	6.3	%
International Equity	10.4		6.5	
Low Volatility Equity	8.2		6.5	
Private Equity	6.6		8.7	
Core Fixed Income	6.7		3.3	
High Yield	1.0		5.0	
EMD Hard Currency	6.4		5.5	
Global Fixed Income	5.2		2.4	
Credit Opportunities	6.4		6.2	
Absolute Return	16.0		5.9	
Private Real Estate	1.0		5.6	
Private Real Asset	8.0		6.8	
MLPs	10.0		9.0	
Cash	---		1.6	
Total	100.0	%		

The following presents net pension liability, calculated using the above stated discount rates, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	6.50%	7.50%	8.50%
Net pension liability (\$ thousands)	\$ 581,543	\$ 394,091	\$ 237,606

Changes in the Net Pension Liability

	(\$ in thousands)		
	Total Pension	Fiduciary Net	Net Pension
	Liability	Position	Liability
	(a)	(b)	(a) - (b)
Balances at June 30, 2014	\$ 1,398,658	\$ 1,137,626	\$ 261,032
Changes for the year:			
Service cost	25,533	---	25,533
Interest	108,830	---	108,830
Difference between expected and actual experience	(6,934)	---	(6,934)
Changes in assumptions	59,700	---	59,700
Contributions - employer	---	34,213	(34,213)
Contributions - employee	---	15,235	(15,235)
Net investment income	---	6,327	(6,327)
Benefits payments, including refunds of employee contributions	(76,562)	(76,562)	---
Administrative expense		(1,705)	1,705
Net change	<u>110,567</u>	<u>(22,492)</u>	<u>133,059</u>
Balances at June 30, 2015	<u>\$ 1,509,225</u>	<u>\$ 1,115,134</u>	<u>\$ 394,091</u>

For the year ended June 30, 2016, Shelby County Government recognized pension expense of \$43,696,000 from the System.

Pension Related Deferred Outflows and Inflows

The table below provides a summary of the pension related deferred outflows and inflows as of June 30, 2015:

	(\$ in thousands)	
	Deferred Outflows	Deferred Inflows
	of Resources	of Resources
Differences between expected and actual experience	\$ ---	\$ 5,433
Changes in assumptions	46,778	---
Net difference between projected and actual earnings on Plan investments	20,603	---
Employer contributions subsequent to the measurement date	35,718	---
Total	<u>\$ 103,099</u>	<u>\$ 5,433</u>

Amounts reported as deferred inflows of resources related to pension will be recognized as follows:

Year ended June 30,	<u>(\$ in thousands)</u>
2016	\$ 12,720
2017	12,720
2018	12,720
2019	23,788
Thereafter	---

Tennessee Consolidated Retirement System

Plan Description

Certain employees of Shelby County Government are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided

The TCRS includes only certain employees of Shelby County as permitted by state statutes. Members are eligible to retire at age 60 with 5 years of service credit or after 30 years of service credit. Benefits are determined by a formula using the member’s highest five consecutive year average compensation and the member’s years of service credit. Reduced benefits are available for early retirement at age 55 and vested. Members vest with five years of service credit. Service related and non-service related disability benefits are provided in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. Automatic cost of living adjustments are provided after retirement.

Shelby County membership in TCRS as of June 30, 2015, the valuation and measurement date, includes six inactive employees or beneficiaries currently receiving benefits, one inactive employee entitled to but not yet receiving benefits, and one currently active employee.

Contributions

Contributions under the TCRS plan are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of salary. Shelby County Government makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2016, employer contributions for Shelby County Government were \$10,467 based on 9.52% of covered payroll.

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of that date.

Actuarial assumptions

TCRS:		
Inflation	3.0	percent
Salary Increases	3.71 - 8.97	percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.50	percent, net of pension plan investment expense, including inflation
Cost-of-Living Adjustment	2.50	percent

Mortality rates for TCRS were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The TCRS actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2012. The TCRS discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that employer contributions will be made equal to the difference between the actuarially determined contribution and member contributions.

Based on those assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The TCRS long-term rate of return was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering several techniques for a blended capital market projection. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	33.0 %	6.5 %
Developed Market International Equity	17.0	6.3
Emerging Market International Equity	5.0	6.4
Private Equity and Strategic Lending	8.0	4.6
US Fixed Income	29.0	1.0
Real Estate	7.0	4.7
Short-term Securities	1.0	---
Total	100.0 %	

The following presents net pension liability, calculated using the above stated discount rates, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	6.50%	7.50%	8.50%
Net pension liability	\$ 106,969	\$ 32,932	\$ (31,675)

Changes to the Net Pension Liability

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	\$ 800,621	\$ 800,070	\$ 551
Changes for the year:			
Service cost	12,846	---	12,846
Interest	59,034	---	59,034
Difference between expected and actual experience	145	---	145
Changes in assumptions	---	---	---
Contributions - employer	---	10,225	(10,225)
Contributions - employee	---	5,399	(5,399)
Net investment income	---	24,071	(24,071)
Benefits payments, including refunds of employee contributions	(52,699)	(52,699)	---
Administrative expense	---	(51)	51
Net change	<u>19,326</u>	<u>(13,055)</u>	<u>32,381</u>
Balances at June 30, 2015	<u>\$ 819,947</u>	<u>\$ 787,015</u>	<u>\$ 32,932</u>

For the year ended June 30, 2016, Shelby County Government recognized pension expense of \$2,222 from TCRS.

Pension Related Deferred Outflows and Inflows

The table below provides a summary of the pension related deferred outflows and inflows as of June 30, 2015:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ ---	\$ ---
Changes in assumptions	---	---
Net difference between projected and actual earnings on Plan investments	27,634	38,251
Employer contributions subsequent to the measurement date	16,003	---
Total	\$ 43,637	\$ 38,251

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as follows:

Year ended June 30,	
2016	\$ (5,842)
2017	(5,842)
2018	(5,842)
2019	6,908
Thereafter	---

Pension plans of the component units:

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

Shelby County Board of Education (the Board of Education)

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

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

Shelby County Health Care Corporation (Regional One Health)

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

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