

SHELBY COUNTY, TEXAS
Center, Texas

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2018

TABLE OF CONTENTS

Independent Auditors' Report..... 3

Managements' Discussion and Analysis 5

Basic Financial Statements:

 Government-Wide Financial Statements:

 Statement of Net Position 10

 Statement of Activities..... 11

 Fund Financial Statements:

 Balance Sheet - Governmental Funds 12

 Statement of Revenues, Expenditures and Changes in Fund
 Balances - Governmental Funds 14

 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balances of Governmental Funds to the Statement of Activities..... 16

 Statement of Fiduciary Net Position 17

 Notes to the Basic Financial Statements 18

Required Supplemental Information:

 Schedule of Revenues, Expenditures and Changes in
 Fund Balance - Budget and Actual - General Fund 35

 Schedule of Revenues, Expenditures and Changes in
 Fund Balance - Budget and Actual - Road and Bridge #1 38

 Schedule of Revenues, Expenditures and Changes in
 Fund Balance - Budget and Actual - Road and Bridge #2 39

 Schedule of Revenues, Expenditures and Changes in
 Fund Balance - Budget and Actual - Road and Bridge #3 40

 Schedule of Revenues, Expenditures and Changes in
 Fund Balance - Budget and Actual - Road and Bridge #4 41

 Schedule of Changes in Net Pension Liability and Related Ratios..... 42

 Schedule of Employer Contributions 43

 Notes to Required Supplementary Information 44

Combining Schedules:

 Combining Balance Sheet - Special Revenue Funds 46

 Combining Schedule of Revenues, Expenditures and
 Changes in Fund Balance - Special Revenue Funds 55

 Combining Schedule of Fiduciary Net Position 64

Compliance Section:

 Independent Auditors' Report on Internal Control Over Financial Reporting and on
 Compliance and Other Matters Based on an Audit of Financial Statements Performed
 in Accordance with *Government Auditing Standards*..... 68

 Independent Auditors' Report on Compliance for Each Major Program and
 on Internal Control Over Compliance Required by Uniform Guidance 70

 Schedule of Expenditures of Federal Awards 72

 Notes to Schedule of Expenditures of Federal Awards..... 73

 Schedule of Findings and Questioned Costs..... 74

 Summary Schedule of Prior Audit Findings 75

INDEPENDENT AUDITORS' REPORT

The Honorable Commissioners'
Court of Shelby County
Center, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shelby County, Texas (the "County"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Shelby County, Texas, as of September 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shelby County, Texas' basic financial statements. The combining nonmajor fund financial statements and compliance section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial Statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2019, on our consideration of Shelby County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Shelby County's internal control over financial reporting and compliance.

Lufkin, Texas
May 13, 2019


CERTIFIED PUBLIC ACCOUNTANTS

Managements' Discussion and Analysis

This section of the Shelby County, Texas (the "County") financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended September 30, 2018 ("FY 2018").

FINANCIAL HIGHLIGHTS

Government-wide Financial Statements - Highlights

The government-wide financial statements report information about the County as a whole using the accrual basis of accounting and the economic resources measurement focus.

- The County's assets and deferred outflows exceeded liabilities and deferred inflows by \$15,340,377 on a government-wide basis as of September 30, 2018.
- For FY 2018, taxes and other revenues, including program revenues, of the County's governmental activities amounted to \$13,149,292. Expenses, including program expenses, totaled \$13,761,202.

Fund Financial Statements - Highlights

The fund financial statements provide detailed information about the County's most significant funds. Fund financial statements use the modified accrual basis of accounting and the current financial resources measurement focus.

- The County's governmental funds reported a decrease in fund balance of \$492,762 for the fiscal year.
- The County's General Fund reported a fund balance of \$5,184,753, an increase of \$16,993 from September 30, 2017.

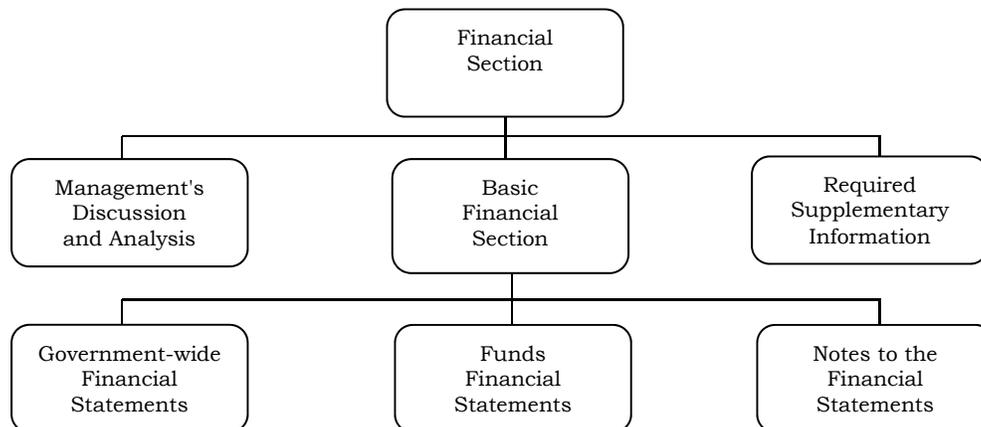
GENERAL FINANCIAL HIGHLIGHTS

Overview of the Financial Statements

The financial section of the financial report includes three parts:

1. Management's Discussion and Analysis
2. Basic Financial Statements
3. Required Supplementary Information

COMPONENTS OF THE FINANCIAL SECTION



The basic financial statements are presented in two different formats, each using the required basis and appropriate measurement focus. Each format is its own unique way of looking at County finances. The government-wide statements provide both long- and short-term financial information regarding the County's finances.

In contrast, the fund financial statements focus on major aspects of the County's current operations. These statements, reported on the modified-accrual basis of accounting, provide more detail about operations than the government-wide statements. Additionally, the basic financial statements include notes to further explain information in the financial statements and provide additional details about specific data.

Following the basic financial statements and notes is the required supplementary information that contains the budgetary comparison schedule for the County General Fund, as well as other budgeted funds of the County.

Government-wide Financial Statements

The government-wide financial statements report information about the County as a whole using the accrual basis of accounting, a method similar to that used by large private-sector businesses. The format is different from that used by businesses, in that the Statement of Net Position presents Assets and Deferred Outflows, less Liabilities and Deferred Inflows, equals Net Position, instead of a more traditional $\text{Assets} = \text{Liabilities} + \text{Equity}$ format.

The Statement of Net Position presents information on all of the assets, deferred outflows, deferred inflows and liabilities of the County, with the difference reported as net position. Over a period of several years, the change in net position will provide a barometer of how well the County is doing financially. A trend up would be an indicator of overall good financial health and management; a trend down would be an indicator of deteriorating financial condition and cause for additional management focus on the result. Of course, financial health is not just a numbers game; the reader must carefully consider all the reasons for change, including such causes as a change in the County's property tax base or the condition of facilities or roads, in order to assess overall financial condition.

The Statement of Activities presents information showing how the net position of the County changed during the fiscal year. All current year revenues and expenses are accounted for in the statement of activities, regardless of when the cash was received or paid.

Although the government-wide financial statements may contain three categories, the County has only one - governmental activities. Governmental activities make up the primary government of the County. The County does not have an enterprise fund (used primarily for utilities) nor does it have discretely presented component units (used primarily for public schools). Within the governmental activities, the County includes its basic services, such as public safety; public works; judicial administration; health and welfare services; and general administration. These types of activities are financed primarily by property and other local taxes, as well as state and federal grants.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant (i.e., major) funds of the County. Funds are the primary accounting structure used to track specific sources of revenue and spending for particular or specified purposes. To record the monies received and expenditures made, the County uses fund accounting to ensure compliance with finance-related legal requirements. There are three basic types of funds:

Governmental Funds

Governmental funds contain financial information related to the most basic of services, focusing on (1) how cash and other financial assets that may be readily converted into cash flow in and out of the books of record, and (2) the balances remaining at year-end that are available for spending. The financial statement of governmental funds provide a current year snapshot intended to show the reader whether there are more or less financial resources that can be spent in the near future to finance the daily activities and programs of the County. These statements do not include a long-term view of governmental activities as provided in the government-wide financial statements. A reconciliation statement provides an explanation of the relationship between the two different financial statements. The reconciliation permits the reader to better understand the short-term versus long-term view afforded by the two different types.

Proprietary Funds

Proprietary funds are internal service funds used to account for the operations that are financed and operated in a manner similar to a business enterprise. Expenditures are recovered primarily through user charges or transfers of budgeted monies from other funds to facilitate payment. Proprietary fund financial statements, like government-wide statements, provide both long- and short-term financial information. The County does not currently have any funds of this type.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of third parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements, since the resources of those funds are not available to support the County's programs or activities. Fiduciary funds in the County consist of agency funds used to account for monies received, held and disbursed on behalf of the state or other local governments.

Financial Analysis of the County as a Whole

Statement of Net Position

The following table presents a summary of the County's net position as of September 30, 2018 and 2017:

	As of September 30,	
	2018	2017
Assets:		
Current and other assets	\$ 9 944 181	\$ 10 325 135
Capital assets (net)	5 946 174	6 203 414
Pension asset	15 687	-
TOTAL ASSETS	<u>15 906 042</u>	<u>16 528 549</u>
Deferred outflow	<u>836 429</u>	<u>1 058 968</u>
Liabilities:		
Current liabilities	435 209	402 638
Long-term liabilities	88 338	923 413
TOTAL LIABILITIES	<u>523 536</u>	<u>1 326 051</u>
Deferred inflows	<u>878 547</u>	<u>309 179</u>
Net Position:		
Net investment in capital assets	5 946 174	6 203 414
Restricted	2 704 972	3 214 727
Unrestricted	6 689 231	6 534 146
TOTAL NET POSITION	<u>\$ 15 340 377</u>	<u>\$ 15 952 287</u>

As noted earlier, net position, over time, serves as a barometer of a government's financial position. For the County, assets and deferred outflows exceeded liabilities and deferred inflows by \$15,340,377 as September 30, 2018, the County's fiscal year-end. This amount represents a decrease of \$611,910 from the net position at September 30, 2017.

As noted, a portion of the net position represents our investment in capital assets (e.g., roads, land, buildings, equipment, vehicles, etc., net of depreciation), less the outstanding debt used to acquire those assets.

Unrestricted net assets represent the remaining amount of assets that are neither related to the purchases of capital assets nor restricted for specific uses.

Capital Assets and Long Term Debt

Details of the capital assets are on page 24. The County does not currently have any related long-term debt.

Governmental Activities

Revenues for the governmental activities for the County totaled \$13,149,292 for the fiscal year 2018.

Taxes constitute the largest source of County revenues, totaling \$9,065,030 for fiscal year 2018.

The cost of the County's governmental activities totaled \$13,761,202. Major contributors to costs include:

	2018	2017
Streets and bridges	\$ 5 160 497	\$ 4 930 017
Law enforcement	\$ 3 829 021	\$ 3 652 238
General administration	\$ 1 769 632	\$ 1 574 082
Judicial	\$ 1 207 656	\$ 1 091 777

Financial Analysis of the County's Funds

As noted earlier, the County uses fund accounting to record and provide compliance with government finance-related accounting and legal requirements. The focus of governmental funds is to provide data and information on near-term inflows and outflows of spendable resources, as well as the balances remaining of those resources. This information is used to provide operating and management reports and to meet the reporting requirements of other parties. Unassigned fund balance is an appropriate and useful measure in determining the County's net resources available for spending at the end of a fiscal year.

As of September 30, 2018, the County's governmental funds had a combined fund balance totaling \$7,889,725.

The General Fund is the primary operating fund of the County. Unassigned fund balance in the General Fund at September 30, 2018, totaled \$5,184,753. This represents approximately 79.6% of the total expenditures for FY 2018 from the General Fund.

Contacting the County's Financial Management

This financial report is designed to provide a general overview of Shelby County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the County Auditor:

200 San Augustine Street
Center, Texas 75935

GOVERNMENT-WIDE FINANCIAL STATEMENTS

SHELBY COUNTY, TEXAS
STATEMENT OF NET POSITION
September 30, 2018

	GOVERNMENTAL ACTIVITIES
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 8 324 934
Receivables Net of Allowance for Uncollectibles:	
Taxes	1 619 247
TOTAL CURRENT ASSETS	9 944 181
Noncurrent Assets:	
Capital Assets:	
Land	392 436
Streets and infrastructure	16 384 539
Buildings and improvements	4 160 390
Furniture and equipment	8 001 999
Less: Accumulated depreciation	(22 993 190)
TOTAL CAPITAL ASSETS	5 946 174
Pension asset	15 687
TOTAL NONCURRENT ASSETS	5 961 861
TOTAL ASSETS	15 906 042
DEFERRED OUTFLOW	
Contribution subsequent to measurement date	271 157
Pension deferred outflows	565 272
TOTAL DEFERRED OUTFLOW	836 429
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 16 742 471
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 254 267
Accrued liabilities	180 942
TOTAL CURRENT LIABILITIES	435 209
Noncurrent Liabilities:	
Accrued compensation absence	88 338
TOTAL NONCURRENT LIABILITIES	88 338
TOTAL LIABILITIES	523 536
DEFERRED INFLOWS	
Pension deferred inflows	878 547
TOTAL DEFERRED INFLOWS	878 547
NET POSITION	
Net investment in capital assets	5 946 174
Restricted	2 704 972
Unrestricted	6 689 231
TOTAL NET POSITION	\$ 15 340 377

The notes to the financial statements are an integral part of this statement.

SHELBY COUNTY, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			CHANGES IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT
					GOVERNMENTAL ACTIVITIES
Primary Government:					
Governmental Activities:					
General administration	\$ 1 769 632	\$ 1 148 027	\$ 47 911	\$ -	\$ (573 694)
Judicial	1 207 656	153 655	-	-	(1 054 001)
Law enforcement and corrections	3 829 021	177 053	268 124	-	(3 383 844)
Streets and bridges	5 160 497	704 217	-	969 139	(3 487 141)
Community service	707 483	-	-	-	(707 483)
Nondepartmental	1 086 913	-	-	-	(1 086 913)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 13 761 202	\$ 2 182 952	\$ 316 035	\$ 969 139	(10 293 076)
General Revenues:					
Taxes:					
Property taxes					7 890 466
Other tax revenue					1 174 564
Unrestricted investment earnings					28 683
Gain (loss) on sale of capital assets					24 849
Other unrestricted revenue					562 604
TOTAL GENERAL REVENUES					9 681 166
CHANGE IN NET POSITION					(611 910)
Net position, beginning					15 952 287
NET POSITION, ENDING					\$ 15 340 377

The notes to the financial statements are an integral part of this statement.

SHELBY COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2018

	<u>GENERAL</u>	<u>ROAD & BRIDGE #1</u>	<u>ROAD & BRIDGE #2</u>
ASSETS			
Cash and investments	\$ 5 392 168	\$ 457 439	\$ 292 009
Property tax receivable (net)	830 243	176 252	176 252
TOTAL ASSETS	\$ <u>6 222 411</u>	\$ <u>633 691</u>	\$ <u>468 261</u>
LIABILITIES, FUND EQUITY			
Liabilities:			
Accounts payable	\$ 73 305	\$ 19 362	\$ 20 301
Accrued liabilities	134 110	11 125	8 992
TOTAL LIABILITIES	<u>207 415</u>	<u>30 487</u>	<u>29 293</u>
Deferred Inflows:			
Deferred revenue	830 243	176 252	176 252
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>1 037 658</u>	<u>206 739</u>	<u>205 545</u>
Fund Balances:			
Restricted fund balance	-	426 952	262 716
Unassigned Reported in:			
General fund	5 184 753	-	-
TOTAL FUND BALANCES	<u>5 184 753</u>	<u>426 952</u>	<u>262 716</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE	\$ <u>6 222 411</u>	\$ <u>633 691</u>	\$ <u>468 261</u>

The notes to the financial statements are an integral part of this statement.

	ROAD & BRIDGE #3		ROAD & BRIDGE #4		NONMAJOR GOVERNMENTAL		TOTAL
\$	392 672	\$	154 721	\$	1 635 925	\$	8 324 934
	176 252		176 252		83 996		1 619 247
\$	<u>568 924</u>	\$	<u>330 973</u>	\$	<u>1 719 921</u>	\$	<u>9 944 181</u>

\$	36 386	\$	6 941	\$	97 972	\$	254 267
	13 214		12 344		1 157		180 942
	<u>49 600</u>		<u>19 285</u>		<u>99 129</u>		<u>435 209</u>

	<u>176 252</u>		<u>176 252</u>		<u>83 996</u>		<u>1 619 247</u>
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	<u>225 852</u>		<u>195 537</u>		<u>183 114</u>		<u>2 054 445</u>
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	343 072		135 436		1 536 796		2 704 972
--	---------	--	---------	--	-----------	--	-----------

	-		-		-		5 184 753
	<u>343 072</u>		<u>135 436</u>		<u>1 536 796</u>		<u>7 889 725</u>

\$	<u>568 924</u>	\$	<u>330 973</u>	\$	<u>1 719 921</u>
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Capital assets are not recorded in funds, but are included in Statement of Net Position	5 946 174
Pension liability and accrued compensated absences is not included in the funds, but are included in Statement of Net Position	(72 651)
Deferred outflows related to pensions are not included in funds, but are included in Statement of Net Position	836 429
Deferred inflows related to pensions are not included in funds, but in Statement of Net Position	(878 547)
Unavailable property taxes are included in funds, but are not recognized in the Statement of Net Position	<u>1 619 247</u>
TOTAL NET POSITION	\$ <u>15 340 377</u>

SHELBY COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2018

	GENERAL	ROAD & BRIDGE #1	ROAD & BRIDGE #2
Revenues:			
Property taxes	\$ 5 161 188	\$ 528 792	\$ 528 792
Other taxes	5 872	262 978	262 978
Fines and fees	545 399	176 054	176 054
Interest	28 618	-	-
Charges for services	422 519	-	-
Grant and donations	139 736	-	-
Miscellaneous	293 949	86 071	77 314
TOTAL REVENUES	6 597 281	1 053 895	1 045 138
Expenditures:			
General administration	1 522 046	-	-
Judicial	811 160	-	-
Law enforcement and corrections	3 052 381	-	-
Streets and bridges	-	1 092 913	1 041 928
Community service	-	-	-
Non-departmental	1 128 592	-	-
TOTAL EXPENDITURES	6 514 179	1 092 913	1 041 928
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	83 102	(39 018)	3 210
Other Financing Sources (Uses):			
Proceeds from sale of capital assets	2 265	-	-
Transfers in (out)	(68 374)	-	-
TOTAL OTHER FINANCING SOURCES	(66 109)	-	-
NET CHANGE IN FUND BALANCES	16 993	(39 018)	3 210
Fund balances, beginning	5 167 760	465 970	259 506
FUND BALANCES, ENDING	\$ 5 184 753	\$ 426 952	\$ 262 716

The notes to the financial statements are an integral part of this statement.

<u>ROAD & BRIDGE #3</u>	<u>ROAD & BRIDGE #4</u>	<u>NON-MAJOR FUNDS</u>	<u>TOTAL</u>
\$ 528 792	\$ 528 792	\$ 534 873	\$ 7 811 229
262 979	262 978	116 779	1 174 564
176 055	176 054	393 985	1 643 601
-	-	59	28 677
-	-	79 487	502 006
-	-	1 081 035	1 220 771
99 235	76 109	67 355	700 033
<u>1 067 061</u>	<u>1 043 933</u>	<u>2 273 573</u>	<u>13 080 881</u>
-	-	139 282	1 661 328
-	-	322 187	1 133 347
-	-	608 158	3 660 539
997 593	1 412 661	680 299	5 225 394
-	-	766 708	766 708
-	-	-	1 128 592
<u>997 593</u>	<u>1 412 661</u>	<u>2 516 634</u>	<u>13 575 908</u>
<u>69 468</u>	<u>(368 728)</u>	<u>(243 061)</u>	<u>(495 027)</u>
-	-	-	2 265
-	-	68 374	-
-	-	68 374	2 265
69 468	(368 728)	(174 687)	(492 762)
<u>273 604</u>	<u>504 164</u>	<u>1 711 483</u>	<u>8 382 487</u>
<u>\$ 343 072</u>	<u>\$ 135 436</u>	<u>\$ 1 536 796</u>	<u>\$ 7 889 725</u>

SHELBY COUNTY, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 For the Year Ended September 30, 2018

Amounts Reported for Governmental Activities in the Statement of
 Activities are Different Because:

Net change in fund balances - Total governmental funds.	\$ (492 762)
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. This is the amount capital outlay exceeded depreciation expenditures expense.	(257 240)
Governmental funds expense accrued compensated absence and pension liabilities as the payments are made, while government wide statements record the future liabilities.	58 855
Governmental funds defer property taxes until collection, while government wide funds statements recognize the revenue.	<u>79 237</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u>(611 910)</u>

The notes to financial statements are an integral part of this statement.

SHELBY COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
September 30, 2018

	<u>COMBINED FIDUCIARY FUNDS</u>
Assets:	
Cash and cash equivalent	\$ 3 882 089
TOTAL ASSETS	<u>\$ 3 882 089</u>
Liabilities:	
Due to others	\$ 3 882 089
TOTAL LIABILITIES	<u>\$ 3 882 089</u>

The notes to the financial statements are an integral part of this statement.

SHELBY COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
September 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Shelby County, Texas (the "County") reflected in the accompanying financial statements conform to the accounting principles generally accepted in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments are those promulgated by the Governmental Accounting Standards Board ("GASB") in *Governmental Accounting and Financial Reporting Standards*. The GASB has issued a codification of governmental accounting and financial reporting standards. This codification and subsequent GASB pronouncements are recognized as generally accepted accounting principles for state and local government. The financial reporting practices of the County comply with the financial reporting standards established by the GASB.

A. Reporting Entity

The County is a public corporation and political subdivision of the State of Texas. The Commissioners Court, which is made up of four commissioners and the county judge, is the general governing body of the County in accordance with Article 5, Paragraph 18 of the Texas Constitution. The County provides the following services as authorized by the statutes of the State of Texas: general government (e.g., tax collection), judicial (e.g., courts, juries, district attorney, etc.), public safety (e.g., sheriff, jail), highways and streets, health, education, and public welfare (e.g., juvenile services and assistance to indigents).

The accompanying basic financial statements present the government activities according to criteria in GASB Statement No. 14, *The Financial Reporting Entity*. Under provisions of this Statement, the County is considered a primary government, since it is a special purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments.

B. Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. Government-wide statements report, except for County fiduciary activity, information on all of the activities of the County. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and intergovernmental revenues.

The statement of activities reflects the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 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 in program revenues are reported as general revenues.

Fund Financial Statements

Separate fund financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. The General Fund and Road & Bridge Funds meet criteria as major governmental funds.

SHELBY COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
September 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Governmental activities presented as governmental funds in the fund financial statements:

General Fund

This fund is the general operating fund of the County. It is used to account for all financial resources of the County except for those required to be accounted for in another fund.

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources (other than capital projects) that are legally restricted to expenditures for specified purposes.

Fiduciary Funds - Trust

These funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. 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. 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. Major revenue types, which have been accrued, are district clerk and County clerk fees, justice of the peace fees, revenue from investments, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Governmental fund level financial statements are reported using the current 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 available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measureable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue. Property taxes levied prior to September 30 that became due October 1 have been assessed to finance the budget of the fiscal year beginning October 1 and, accordingly, have need reflected as deferred revenue and taxes receivable in the fund financial statements at September 30. Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

SHELBY COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
September 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Assets, Liabilities and Net Position or Equity

1. Cash and Investments

The County's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments. The Commissioners' Court of the County adopted a written investment policy regarding the investment of its funds as defined in *Public Funds Investment Act* (Chapter 2256, Texas Local Government). Such investments include obligations of the United States or its agencies and instrumentalities, certificates of deposits, fully collateralized repurchase agreements, a banker's acceptance, commercial paper, mutual funds and money market mutual funds. The investments of the County are in compliance with its investment policies.

The County invested only in certificates of deposit for the fiscal year 2018. The County records investments at fair market value in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. All investment income is recognized as revenue in the appropriate fund's statement of activity or statement of revenues, expenditures and changes in fund balance.

2. Receivables and Payables

Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1 and past due after January 31. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior year's levy are shown net of an allowance for uncollectible.

Lending or borrowing between funds is reflected as "due to or due from" (current portion) or "advances to/from other funds" (non-current). Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund balances are eliminated in the government-wide statements.

3. Capital Assets

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets (roads and bridges), are reported in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$5,000 or more. Infrastructure assets include County-owned roads and bridges. 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 cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

SHELBY COUNTY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 September 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Furniture and fixtures	7
General equipment	5
Trucks	7
Cars	3
Computer hardware	5

4. Compensated Absences

A liability for unused vacation and compensatory time for all full-time employees is calculated and reported in the government-wide statements. For financial reporting, the following criteria must be met to be considered as compensated absences:

- leave or compensation is attributable to services already rendered
- leave or compensation is not contingent on a specific event (such as illness).

Per GASB Interpretation No. 6, liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e., are due for payment). Compensated absences are accrued in the government-wide statements.

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under the governmental activities statement of net position.

6. Use of Estimates

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

7. Fund Equity

"Fund Balance Reporting and Governmental Fund Type Definitions" provide clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable Fund Balance - Amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted Fund Balance - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance - Amounts constrained to specific purposes by the County itself, using its highest level of decision-making authority (i.e., Commission). To be reported as committed, amounts cannot be used for any other purpose unless the County takes the same highest level action to remove or change the constraint.

SHELBY COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
September 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- Assigned Fund Balance - Amounts the County intends to use for a specific purpose. Intent can be expressed by the Commission or by an official or body to which the Commission delegates the authority.
- Unassigned Fund Balance - Amounts that are available for any purpose.

The Commission establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Commission through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

8. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflows of resources (revenue) until that time.

II. DEPOSIT, INVESTMENTS AND INVESTMENT POLICIES

Deposits

At September 30, the carrying amount of the County's deposits and cash on hand totaled \$12,207,023, inclusive of fiduciary funds. All bank balances at year end were entirely covered by federal depository insurance or by collateral held by the depository bank in the County's name.

Investments

The County's investment policies are in accordance with the laws of the State of Texas. The policies identify authorized investments and investment terms, collateral requirements and safekeeping requirements for collateral. The County's investments are categorized as either (1) insured and registered for which the securities are held by the County's agent in the name of the County, (2) uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the name of the County, or (3) uninsured and unregistered for which the securities are held by the Counter-party or by its trust department or agent but not in the name of the County. The investments of the County fall under category 1.

III. PROPERTY TAXES AND OTHER RECEIVABLES

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied prior to September 30, become due on October 1 and are delinquent after January 31. The County bills and collects its own property taxes.

SHELBY COUNTY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 September 30, 2018

III. PROPERTY TAXES AND OTHER RECEIVABLES - CONTINUED

At the end of the current fiscal year, the various components of unavailable revenue reported in the governmental funds were as follows:

Property Taxes Receivable:	
General fund	\$ 830 243
Special revenue funds	789 004
TOTAL UNAVAILABLE REVENUE	\$ 1 619 247

The County is authorized by the tax laws of the State of Texas to levy taxes up to \$.80 per \$100 of assessed valuation for general governmental services and the payment of principal and interest on certain permanent improvement long-term debt. Taxes may be levied in unlimited amounts for the payment of principal and interest on road bond long-term debt issued under Article 3, Section 52 of the Texas constitution.

Receivables as of year-end for the governmental activities including the applicable allowances for uncollectible accounts are as follows:

	GENERAL	SPECIAL REVENUE	TOTAL
Receivables:			
Taxes	\$ 976 757	\$ 928 238	\$ 1 904 995
Less: Allowances for uncollectible	(146 514)	(139 234)	(285 748)
NET RECEIVABLES	\$ 830 243	\$ 789 004	\$ 1 619 247

IV. TAX ABATEMENTS

The County individually negotiates property tax abatement agreements with local businesses under the authority of Chapter 312 of the Texas Tax Code and the County's local guidelines and criteria for tax abatement for reinvestment zones.

For the fiscal year ended September 30, 2018, the County abated property taxes totaling \$18,612 under this program, including the following tax abatement agreements:

- A 100 percent tax abatement to a hospital for developing improvements to its property to be used for emergency healthcare facilities, expanding employment and retaining these additional employees. The 2018 fiscal year is the second of ten years of the agreement. The abatement amounted to \$1,434 for the year ended September 30, 2018.
- A 74 percent abatement to a hotel chain for developing improvements to its property to be used for hotel/hospitality services, expanding employment and retaining these additional employees. The 2018 fiscal year is the fourth of 10 years of the agreement. The abatement amounted to \$7,240 for the year ended September 30, 2018.
- A 40 percent abatement to a hotel chain for developing improvements to its property, expanding employment and retaining these additional employees. The 2018 fiscal year is the sixth of ten years of the agreement. The abatement amounted to \$9,938 for the year ended September 30, 2018.

A provision exists within each of these agreements that, should the recipient entities violate the conditions of the agreements or become delinquent in the payment of their property taxes, the County is entitled to recapture any property tax that has been abated as a result of the agreements within 30 days of the agreement's termination.

SHELBY COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
September 30, 2018

V. CAPITAL ASSETS

Capital assets are recorded at cost or, if donated, at fair market value at the date of receipt. Depreciation policies were adopted to include the useful lives and classification by asset type. Infrastructure assets are valued in two ways: either actual historical cost where the amount can be determined from existing records or using current cost deflated to the year of construction. Once historical cost is determined, regardless of how it is determined, the asset is depreciated over its useful life.

A summary of changes in capital assets follows:

	BALANCE 10/01	ADDITIONS	DELETIONS	BALANCE 09/30
Governmental Activities:				
Land	\$ 384 866	\$ 7 570	\$ -	\$ 392 436
Infrastructure	16 298 039	86 500	-	16 384 539
Buildings and improvements	4 018 702	141 688	-	4 160 390
Vehicles and equipment	7 937 456	449 450	(384 907)	8 001 999
Accumulated depreciation	<u>(22 435 649)</u>	<u>(921 787)</u>	<u>364 246</u>	<u>(22 993 190)</u>
TOTAL ASSETS	<u>\$ 6 203 414</u>	<u>\$ (236 579)</u>	<u>\$ (20 661)</u>	<u>\$ 5 946 174</u>

Depreciation is expensed by function within the Statement of Activities as follows:

General administration	\$ 112 801
Judicial	76 953
Law enforcement and corrections	248 546
Streets and bridges	354 798
Community service	52 059
Non-departmental	76 630
	<u>\$ 921 787</u>

VI. RETIREMENT PLAN

Plan Description

The County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 641 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

SHELBY COUNTY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 September 30, 2018

VI. RETIREMENT PLAN - CONTINUED

Actuarial Assumptions

Following are the key assumptions and methods used in this GASB analysis.

Valuation Timing	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age Normal ⁽¹⁾
Asset Valuation Method	5 year smoothed market
Inflation	Same as funding valuation
Salary Increases	Same as funding valuation
Investment Rate of Return	8.10%
Cost-of-Living Adjustments	Cost-of-Living Adjustments for the County are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Same as funding valuation
Turnover	Same as funding valuation
Mortality	Same as funding valuation

(1) Individual entry age normal cost method, as required by GASB 68, used for GASB calculations. Note that a slightly different version of the entry age normal cost method is used for the funding actuarial valuation.

Actuarial Methods and Assumptions Used for Funding Valuation:

Following is a description of the assumptions used in the December 31, 2017 actuarial valuation analysis for Shelby County. This information may also be found in the Shelby County December 31, 2017 Summary Valuation Report.

Economic Assumptions:

TCDRS System-Wide Economic Assumptions:

Real rate of return	5.0%
Inflation	3.0%
Long-term investment return	8.0%

The long-term investment return of 8% is net of investment expenses and is expected to enable the system to credit interest at the nominal annual rates shown below to the following major funds:

Subdivision Accumulation Fund	9%
Employees Saving Fund	7%
Current Service Annuity Reserve Fund	7%

Assuming interest will be credited at these nominal annual rates to the various funds, we have then assumed the following:

- An annual rate of 9% for calculating the actuarial accrued liability and normal cost contributions rate for the retirement plan of each participating employer.
- An annual rate of 7% required under the TCDRS Act for: (1) accumulating current service credit and multiple matching credit after the valuation date; (2) accumulating prior service credit after the valuation date; (3) determining the amount of the monthly benefit at future dates of retirement or disability; and (4) calculating the actuarial accrued liability of the system-wide Current Service Annuity Reserve Fund.

SHELBY COUNTY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 September 30, 2018

VI. RETIREMENT PLAN - CONTINUED

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.25% (made up of 2.75% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.6% per year for a career employee. (See Table 1 for Merit Salary Increases.)

Employer-Specific Economic Assumptions:

Growth in membership	0.00%
Payroll growth	3.25%

The payroll growth assumption is for the aggregate covered payroll of an employer.

Table 1
Merit Salary Increases*

Years of Service	Entry Age			
	Before 30	Ages 30-39	Ages 40-49	50 and Later
0	5.00%	4.50%	4.00%	3.50%
1	4.25%	3.75%	3.25%	2.75%
2	3.85%	3.35%	2.85%	2.35%
3	3.50%	3.00%	2.50%	2.00%
4	3.15%	2.65%	2.25%	1.85%
5	2.90%	2.55%	2.15%	1.70%
6	2.65%	2.30%	1.95%	1.55%
7	2.45%	2.10%	1.75%	1.40%
8	2.30%	1.95%	1.60%	1.25%
9	2.15%	1.80%	1.45%	1.10%
10	2.00%	1.70%	1.40%	1.05%
11	1.90%	1.60%	1.25%	1.00%
12	1.80%	1.50%	1.15%	0.95%
13	1.70%	1.40%	1.05%	0.90%
14	1.60%	1.30%	0.95%	0.85%
15	1.50%	1.23%	0.90%	0.80%
16	1.40%	1.15%	0.85%	0.75%
17	1.30%	1.05%	0.80%	0.70%
18	1.23%	0.97%	0.75%	0.65%
19	1.15%	0.90%	0.70%	0.60%
20	1.10%	0.85%	0.65%	0.55%
21	1.05%	0.80%	0.60%	0.50%
22	1.00%	0.75%	0.55%	0.50%
23	0.95%	0.70%	0.50%	0.50%
24	0.90%	0.65%	0.50%	0.50%
25	0.85%	0.60%	0.50%	0.50%
26	0.80%	0.60%	0.50%	0.50%
27	0.75%	0.60%	0.50%	0.50%
28	0.70%	0.60%	0.50%	0.50%
29	0.65%	0.60%	0.50%	0.50%
30 & Up	0.60%	0.60%	0.50%	0.50%

* These rates do not include the wage inflation rate of 3.25% per year. For example, a member who entered the system at age 20 and is in the first year of service is assumed to receive an 8.41% total annual increase in his salary. The 8.41% is a combination of the 5.00% merit increase and the 3.25% wage inflation. Note that the two components are compounded, so it is a slightly different result than just adding the two percentages.

SHELBY COUNTY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 September 30, 2018

VI. RETIREMENT PLAN - CONTINUED

Demographic Assumptions

TCDRS System-Wide Demographic Assumptions:

Replacement of Terminated Members - New employees are assumed to replace any terminated members and have similar entry ages.

Disability - The rates of disability used in this valuation are illustrated in Table 2. Members who become disabled are eligible to commence benefit payments regardless of age. Rates of disability are in a custom table based on TCDRS experience.

Table 2
Annual Rates of Disability*

Age	Work Related Male and Female	All Other Causes Male and Female	Age	Work Related Male and Female	All Other Causes Male and Female
less than 25	0.000%	0.000%	43	0.004%	0.058%
25	0.000%	0.000%	44	0.004%	0.063%
26	0.000%	0.000%	45	0.004%	0.069%
27	0.000%	0.000%	46	0.005%	0.076%
28	0.000%	0.008%	47	0.006%	0.084%
29	0.000%	0.008%	48	0.007%	0.095%
30	0.000%	0.009%	49	0.009%	0.109%
31	0.000%	0.010%	50	0.010%	0.125%
32	0.000%	0.010%	51	0.012%	0.142%
33	0.000%	0.011%	52	0.013%	0.162%
34	0.000%	0.014%	53	0.015%	0.183%
35	0.001%	0.018%	54	0.018%	0.203%
36	0.001%	0.022%	55	0.018%	0.222%
37	0.002%	0.028%	56	0.018%	0.238%
38	0.002%	0.033%	57	0.018%	0.250%
39	0.002%	0.038%	58	0.018%	0.259%
40	0.002%	0.042%	59	0.018%	0.270%
41	0.003%	0.047%	60 & Above	0.018%	0.000%
42	0.003%	0.053%			

* The probability of disablement from all other causes is applicable for members who are vested but not eligible for service retirement. Before a member is vested, only the work related disability provisions are applicable.

Mortality

Depositing members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.
Service retirees, beneficiaries and non-depositing members	The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females.
Disabled retirees	RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.

Family Composition - For current retirees, beneficiary information is supplied by TCDRS. For purposes of calculating the Survivor Benefit for current depositing and non-depositing members, male members are assumed to have a female beneficiary who is three years younger. Female members are assumed to have a male beneficiary who is three years older.

Service Retirement - Members eligible for service retirement are assumed to retire at the rates shown in Table 3.

SHELBY COUNTY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 September 30, 2018

VI. RETIREMENT PLAN - CONTINUED

Table 3
Annual Rates of Service Retirement*

Age	Male	Female	Age	Male	Female
40-44	4.5%	4.5%	62	20.0%	20.0%
45-40	9.0%	9.0%	63	15.0%	15.0%
50	10.0%	10.0%	64	15.0%	15.0%
51	9.0%	9.0%	65	25.0%	25.0%
52	9.0%	9.0%	66	25.0%	25.0%
53	9.0%	9.0%	67	22.0%	22.0%
54	10.0%	10.0%	68	20.0%	20.0%
55	10.0%	10.0%	69	20.0%	20.0%
56	10.0%	10.0%	70	22.0%	22.0%
57	10.0%	10.0%	71	22.0%	22.0%
58	12.0%	12.0%	72	22.0%	22.0%
59	12.0%	12.0%	73	22.0%	22.0%
60	12.0%	12.0%	74**	22.0%	22.0%
61	12.0%	12.0%			

* Deferred members are assumed to retire (100% probability) at the later of:

- a) age 60
- b) earliest retirement eligibility.

** For all eligible members ages 75 and later, retirement is assumed to occur immediately.

Other Terminations of Employment - The rate of assumed future termination from active participation in the plan for reasons other than death, disability or retirement are illustrated in Table 4. The rates vary by length of service, entry-age group (age at hire) and gender. No termination after eligibility for retirement is assumed.

Table 4
Annual Rates of Termination

Years of Service	Entry Age 20		Entry Age 30		Entry Age 40		Entry Age 50	
	Male	Female	Male	Female	Male	Female	Male	Female
0	36.7%	39.8%	30.6%	33.2%	26.1%	28.2%	24.5%	26.5%
1	25.1%	27.3%	21.1%	22.9%	17.9%	19.5%	16.9%	18.3%
2	18.7%	20.2%	15.8%	17.2%	13.4%	14.6%	12.7%	13.8%
3	14.9%	16.1%	12.7%	13.8%	10.8%	11.7%	10.1%	11.0%
4	12.2%	13.3%	10.6%	11.4%	9.0%	9.7%	8.5%	9.1%
5	10.9%	11.9%	9.5%	10.3%	8.0%	8.8%	7.6%	8.3%
6	9.7%	10.5%	8.5%	9.1%	7.2%	7.8%	6.7%	7.4%
7	8.6%	9.4%	7.6%	8.3%	6.5%	7.0%	6.1%	6.6%
8	7.2%	7.7%	6.4%	6.8%	5.4%	5.8%	5.1%	5.5%
9	6.8%	7.4%	6.2%	6.6%	5.2%	5.6%	5.0%	5.3%
10	6.1%	6.5%	5.5%	5.9%	4.6%	5.1%	4.4%	4.7%
11	5.3%	5.7%	4.8%	5.3%	4.2%	4.5%	3.9%	4.2%
12	4.8%	5.2%	4.4%	4.8%	3.7%	4.1%	3.5%	3.9%
13	4.3%	4.6%	4.0%	4.4%	3.4%	3.7%	3.2%	3.5%
14	3.9%	4.1%	3.6%	3.9%	3.1%	3.3%	2.9%	3.1%
15	3.3%	3.6%	3.2%	3.4%	2.6%	3.0%	2.5%	2.8%
16	2.9%	3.1%	2.8%	3.0%	2.3%	2.5%	2.2%	2.4%
17	2.5%	2.8%	2.4%	2.6%	2.1%	2.2%	2.0%	2.1%
18	2.2%	2.3%	2.1%	2.3%	1.8%	2.0%	1.7%	1.9%
19	1.9%	2.1%	1.9%	2.1%	1.7%	1.8%	1.5%	1.7%
20	1.7%	2.0%	1.7%	2.0%	1.5%	1.6%	1.4%	1.5%
21	1.6%	1.8%	1.6%	1.8%	1.4%	1.5%	1.3%	1.4%
22	1.4%	1.7%	1.4%	1.7%	1.2%	1.3%	1.2%	1.3%
23	1.4%	1.5%	1.4%	1.5%	1.1%	1.3%	1.1%	1.2%
24	1.3%	1.4%	1.3%	1.4%	1.1%	1.2%	1.1%	1.1%
25	1.2%	1.3%	1.2%	1.3%	1.0%	1.1%	1.0%	1.1%
26	1.2%	1.2%	1.2%	1.2%	1.0%	1.1%	1.0%	1.0%
27	1.1%	1.1%	1.1%	1.1%	0.9%	1.0%	0.9%	0.9%
28	1.0%	1.0%	1.0%	1.0%	0.8%	0.9%	0.8%	0.8%
29	1.0%	0.9%	1.0%	0.9%	0.8%	0.9%	0.8%	0.7%
30 & Later	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

SHELBY COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
September 30, 2018

VI. RETIREMENT PLAN - CONTINUED

Withdrawals - Members who terminate may either elect to leave their account with TCDRS or withdraw their funds. The probability that a member elects a withdrawal varies by length of service and vesting schedule. Rates applied to the plan are shown in Table 5. For non-depositing members who are not vested, 100% are assumed to elect a withdrawal.

**Table 5
Probability of Withdrawal**

Years of Service	Probability	Years of Service	Probability
0	100%	15	40%
1	100%	16	38%
2	100%	17	36%
3	100%	18	33%
4	100%	19	30%
5	100%	20	28%
6	100%	21	26%
7	100%	22	24%
8	47%	23	22%
9	46%	24	20%
10	45%	25	18%
11	44%	26	16%
12	43%	27	14%
13	42%	28	12%
14	41%	29*	10%

* Members with more than 29 years of service are not assumed to refund.

Long-Term Expected Rate of Return

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2018 information for a 10-year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2017. See Milliman's TCDRS Investigation of Experience report for the period January 1, 2013 - December 31, 2016 for more details.

Asset Class	Benchmark	Target Allocation ⁽¹⁾	Geometric Real Rate of Return (Expected minus Inflation) ⁽²⁾
US Equities	Dow Jones U.S. Total Stock Market Index	11.50%	4.55%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	16.00%	7.55%
Global Equities	MSCI World (net) Index	1.50%	4.85%
International Equities - Developed Markets	MSCI World Ex USA (net) Index	11.00%	4.55%
International Equities - Emerging Markets	MSCI Emerging Markets (net) Index	8.00%	5.55%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	0.75%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	8.00%	4.12%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.06%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽⁴⁾	2.00%	6.30%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global Real Estate Index	2.00%	4.05%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	6.00%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁵⁾	6.00%	6.25%
Hedge Funds	Hedge Fund Research, Inc. (HFR) Fund of Funds Composite Index	18.00%	4.10%

(1) Target asset allocation adopted at the April 2018 TCDRS Board meeting.

(2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.95%, per Cliffwater's 2018 capital market assumptions.

(3) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

(4) Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

(5) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

VI. RETIREMENT PLAN - CONTINUED

Depletion of Plan Assets / GASB Discount Rate

The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investments.
2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years.

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plans fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of the sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, alternative methods to determine sufficiency may be applied.

In order to determine the discount rate to be used by the employer we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. Our alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

1. TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
2. Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.
3. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
4. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

SHELBY COUNTY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 September 30, 2018

VI. RETIREMENT PLAN - CONTINUED

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, we have used a discount rate of 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

Sensitivity Analysis

The following presents the net pension liability of the county/district, calculated using the discount rate of 8.10%, as well as what the Shelby County net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	\$ 16 422 503	\$ 14 648 972	\$ 13 149 132
Fiduciary net position	\$ 14 664 659	\$ 14 664 659	\$ 14 664 659
Net pension liability/(asset)	\$ 1 757 844	\$ (15 687)	\$ (1 515 527)

Changes in Net Pension Liability

Changes in Net Pension Liability / (Asset)	Total Pension Liability (a)	Increase (Decrease) Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) - (b)
Balances as of December 31, 2016	\$ 13 781 576	\$ 12 964 916	\$ 816 660
Changes for the Year:			
Service cost	560 000	-	560 000
Interest on total pension liability ⁽¹⁾	1 127 656	-	1 127 656
Effect of plan changes ⁽²⁾	-	-	-
Effect of economic/demographic gains or losses	(28 935)	-	(28 935)
Effect of assumptions changes or inputs	65 151	-	65 151
Refund of contributions	(91 033)	(91 033)	-
Benefit payments	(765 443)	(765 443)	-
Administrative expenses	-	(9 752)	9 752
Member contributions	-	324 821	(324 821)
Net investment income	-	1 889 569	(1 889 569)
Employer contributions	-	354 054	(354 054)
Other ⁽³⁾	-	(2 473)	2 473
Balances as of December 31, 2017	\$ 14 648 972	\$ 14 664 659	\$ (15 687)

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) No plan changes valued.

(3) Relates to allocation of system-wide items.

Pension Expense/(Income)

Pension Expense/(Income)	January 1, 2017 to December 31, 2017
Service cost	\$ 560 000
Interest on total pension liability ⁽¹⁾	1 127 656
Effect of plan changes	-
Administrative expenses	9 752
Member contributions	(324 821)
Expected investment return net of investment expenses	(1 042 620)
Recognition of Deferred Inflows/Outflows of Resources:	
Recognition of economic/demographic gains or losses	(132 362)
Recognition of assumption changes or inputs	50 799
Recognition of investment gains or losses	79 091
Other ⁽²⁾	2 473
PENSION EXPENSE/(INCOME)	\$ 329 968

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) Relates to allocation of system-wide items.

SHELBY COUNTY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 September 30, 2018

VI. RETIREMENT PLAN - CONTINUED

Pension Expense and Deferred Inflows/Outflows

As of December 31, 2017, the deferred inflows and outflows of resources are as follows:

Deferred Inflows/ Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 200 988	\$ -
Change of assumptions	-	83 375
Net difference between projected and actual earnings	677 559	481 897
Contributions made subsequent to measurement date	-	271 157
	<u>\$ 878 547</u>	<u>\$ 836 429</u>

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year Ended December 31,	
2018	\$ (7 236)
2019	\$ 7 199
2020	\$ (143 848)
2021	\$ (169 390)
2022	\$ -
Thereafter	\$ -

Membership Information

Membership Class	
Inactive employees entitled to but not yet receiving benefits	71
Active employees	144
Currently receiving benefits	85

VII. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County maintains a limited amount of commercial insurance coverage for these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the County. Settled claims did not exceed this commercial insurance coverage during the current fiscal year.

VIII. CONTINGENT LIABILITIES

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

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the County's counsel that resolution of these matters will not have a material adverse effect on the financial position of the County.

SHELBY COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
September 30, 2018

IX. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 13, 2019, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

SHELBY COUNTY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended September 30, 2018

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Property taxes	\$ 5 185 806	\$ 5 185 806	\$ 5 161 188	\$ (24 618)
Other taxes	6 000	6 000	5 872	(128)
Fines	267 000	267 000	259 427	(7 573)
Fees of office	230 000	230 000	285 972	55 972
Interest	15 000	15 000	28 618	13 618
Grants	25 000	25 000	139 736	114 736
Commissions	400 000	400 000	422 519	22 519
Miscellaneous	179 900	179 900	293 949	114 049
TOTAL REVENUES	6 308 706	6 308 706	6 597 281	288 575
Expenditures:				
General Administration Expenditures:				
County Agents:				
Payroll expense	73 568	73 136	73 181	(45)
Operating expense	29 060	29 710	29 710	-
TOTAL COUNTY AGENTS	102 628	102 846	102 891	(45)
County Auditor:				
Payroll expense	131 607	131 607	130 585	1 022
Operating expense	14 600	14 600	7 505	7 095
TOTAL COUNTY AUDITOR	146 207	146 207	138 090	8 117
County Clerk:				
Payroll expense	185 187	189 580	188 729	851
Operating expense	72 000	69 032	69 032	-
TOTAL COUNTY CLERK	257 187	258 612	257 761	851
County Clerk Election Deputy:				
Payroll expense	37 423	38 393	38 291	102
Operating expense	37 577	35 182	33 835	1 347
TOTAL COUNTY CLERK ELECTION DEPUTY	75 000	73 575	72 126	1 449
County Judge:				
Payroll expense	104 787	104 164	104 621	(457)
Operating expense	14 950	15 573	10 772	4 801
TOTAL COUNTY JUDGE	119 737	119 737	115 393	4 344
District Clerk:				
Payroll expense	244 369	244 369	232 723	11 646
Operating expense	57 200	57 200	52 089	5 111
TOTAL DISTRICT CLERK	301 569	301 569	284 812	16 757
Courthouse Manager:				
Operating expense	36 100	36 100	30 323	5 777
TOTAL COURTHOUSE MANAGER	36 100	36 100	30 323	5 777
Tax Assessor Collector:				
Payroll expense	293 126	293 126	282 853	10 273
Operating expense	68 300	68 300	50 526	17 774
TOTAL TAX ASSESSOR COLLECTOR	361 426	361 426	333 379	28 047
County Treasurer:				
Payroll expense	101 328	101 328	101 179	149
Operating expense	8 950	8 950	8 657	293
TOTAL COUNTY TREASURER	110 278	110 278	109 836	442
Commissioner Secretary:				
Payroll expense	35 612	35 612	35 501	111
Operating expense	3 500	3 500	2 469	1 031
TOTAL COMMISSIONER SECRETARY	39 112	39 112	37 970	1 142

SHELBY COUNTY, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - CONTINUED
 BUDGET AND ACTUAL - GENERAL FUND
 For the Year Ended September 30, 2018

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Veterans Officer:				
Payroll expense	29 247	29 247	29 137	110
Operating expense	4 750	4 750	1 114	3 636
TOTAL VETERANS OFFICER	<u>33 997</u>	<u>33 997</u>	<u>30 251</u>	<u>3 746</u>
Emergency Management Coordinator:				
Payroll expense	14 197	14 197	5 611	8 586
Operating expense	5 500	5 500	3 603	1 897
TOTAL EMERGENCY MANAGEMENT COORDINATOR	<u>19 697</u>	<u>19 697</u>	<u>9 214</u>	<u>10 483</u>
TOTAL GENERAL ADMINISTRATION	<u>1 602 938</u>	<u>1 603 156</u>	<u>1 522 046</u>	<u>81 110</u>
Judicial Expenditures:				
County Attorney:				
Payroll expense	243 582	243 582	243 244	338
Operating expense	16 750	16 750	16 022	728
TOTAL COUNTY ATTORNEY	<u>260 332</u>	<u>260 332</u>	<u>259 266</u>	<u>1 066</u>
District Attorney:				
Payroll expense	185 652	185 652	175 058	9 087
Operating expense	24 800	24 800	26 307	-
TOTAL DISTRICT ATTORNEY	<u>210 452</u>	<u>210 452</u>	<u>201 365</u>	<u>9 087</u>
District Judges:				
Payroll expense	53 365	53 365	53 249	117
Operating expense	10 000	10 000	9 575	424
TOTAL DISTRICT JUDGES	<u>63 365</u>	<u>63 365</u>	<u>62 824</u>	<u>541</u>
Justice of the Peace #1:				
Payroll expense	96 552	96 552	82 882	11 449
Operating expense	11 050	11 050	12 884	387
TOTAL JUSTICE OF THE PEACE #1	<u>107 602</u>	<u>107 602</u>	<u>95 766</u>	<u>11 836</u>
Justice of the Peace #2:				
Payroll expense	39 426	39 426	38 692	734
Operating expense	9 910	9 910	8 295	1 615
TOTAL JUSTICE OF THE PEACE #2	<u>49 336</u>	<u>49 336</u>	<u>46 987</u>	<u>2 349</u>
Justice of the Peace #3:				
Payroll expense	34 427	34 427	34 332	95
Operating expense	7 000	7 000	6 636	364
TOTAL JUSTICE OF THE PEACE #3	<u>41 427</u>	<u>41 427</u>	<u>40 968</u>	<u>459</u>
Justice of the Peace #4:				
Payroll expense	40 199	45 715	46 677	(962)
Operating expense	6 610	8 160	8 161	(1)
TOTAL JUSTICE OF THE PEACE #4	<u>46 809</u>	<u>53 875</u>	<u>54 838</u>	<u>(963)</u>
Justice of the Peace #5:				
Payroll expense	41 999	41 881	41 904	(23)
Operating expense	6 710	7 242	7 242	-
TOTAL JUSTICE OF THE PEACE #5	<u>48 709</u>	<u>49 123</u>	<u>49 146</u>	<u>(23)</u>
TOTAL JUDICIAL EXPENDITURES	<u>828 032</u>	<u>835 512</u>	<u>811 160</u>	<u>24 352</u>
Law Enforcement and Corrections Expenditures:				
Constable Pct #1:				
Payroll expense	59 888	59 888	59 187	701
Operating expense	7 850	7 850	6 794	1 056
TOTAL CONSTABLE PCT #1	<u>67 738</u>	<u>67 738</u>	<u>65 981</u>	<u>1 757</u>
Constable Pct #2:				
Payroll expense	59 888	59 888	59 833	55
Operating expense	7 800	7 800	6 415	1 385
TOTAL CONSTABLE PCT #2	<u>67 688</u>	<u>67 688</u>	<u>66 248</u>	<u>1 440</u>

SHELBY COUNTY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - CONTINUED
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended September 30, 2018

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Constable Pct #3:				
Payroll expense	59 888	59 800	59 833	(33)
Operating expense	42 700	46 767	46 503	264
TOTAL CONSTABLE PCT #3	<u>102 588</u>	<u>106 567</u>	<u>106 336</u>	<u>231</u>
Constable Pct #4:				
Payroll expense	59 888	59 800	59 833	(33)
Operating expense	7 800	9 260	9 035	225
TOTAL CONSTABLE PCT #4	<u>67 688</u>	<u>69 060</u>	<u>68 868</u>	<u>192</u>
Constable Pct #5:				
Payroll expense	59 888	59 888	59 821	67
Operating expense	7 700	7 700	5 795	1 905
TOTAL CONSTABLE PCT #5	<u>67 588</u>	<u>67 588</u>	<u>65 616</u>	<u>1 972</u>
DPS Secretary:				
Payroll expense	51 482	51 616	50 802	814
Operating expense	4 000	3 866	3 866	-
TOTAL DPS SECRETARY	<u>55 482</u>	<u>55 482</u>	<u>54 668</u>	<u>814</u>
County Sheriff:				
Payroll expense	2 105 170	2 063 554	1 992 047	71 507
Operating expense	523 362	564 978	560 470	4 508
TOTAL COUNTY SHERIFF	<u>2 628 532</u>	<u>2 628 532</u>	<u>2 552 517</u>	<u>76 015</u>
Adult Probation:				
Payroll expense	-	621	621	-
Operating expense	24 900	24 284	24 284	-
TOTAL ADULT PROBATION	<u>24 900</u>	<u>24 905</u>	<u>24 905</u>	<u>-</u>
Juvenile Probation:				
Payroll expense	-	-	91	(91)
Operating expense	39 515	47 151	47 151	-
TOTAL JUVENILE PROBATION	<u>39 515</u>	<u>47 151</u>	<u>47 242</u>	<u>(91)</u>
TOTAL LAW ENFORCEMENT AND CORRECTIONS EXPENDITURES	<u>3 121 719</u>	<u>3 134 711</u>	<u>3 052 381</u>	<u>82 330</u>
Non-departmental expenditures	<u>1 585 665</u>	<u>1 564 975</u>	<u>1 128 592</u>	<u>436 383</u>
TOTAL EXPENDITURES	<u>7 138 354</u>	<u>7 138 354</u>	<u>6 514 179</u>	<u>624 175</u>
EXCESS (DEFICIENCY) OF REVENUES OVER	<u>(829 648)</u>	<u>(829 648)</u>	<u>83 102</u>	<u>912 750</u>
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	-	-	2 265	2 265
Transfers in (out)	-	-	(68 374)	(68 374)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(66 109)</u>	<u>(66 109)</u>
NET CHANGE IN FUND BALANCES	<u>(829 648)</u>	<u>(829 648)</u>	<u>16 993</u>	<u>846 641</u>
Fund balances, beginning	<u>5 167 760</u>	<u>5 167 760</u>	<u>5 167 760</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 4 338 112</u>	<u>\$ 4 338 112</u>	<u>\$ 5 184 753</u>	<u>\$ 846 641</u>

See independent auditors' report.

SHELBY COUNTY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - ROAD AND BRIDGE #1
For the Year Ended September 30, 2018

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Property taxes	\$ 513 524	\$ 513 524	\$ 528 792	\$ 15 268
Other taxes	254 426	254 426	262 978	8 552
Fines and fees	184 500	184 500	176 054	(8 446)
Miscellaneous	40 000	40 000	86 071	46 071
TOTAL REVENUES	<u>992 450</u>	<u>992 450</u>	<u>1 053 895</u>	<u>61 445</u>
Expenditures:				
Payroll expense	378 627	392 997	393 414	(417)
Operating expense	595 323	1 009 953	699 499	310 454
Debt service	18 500	18 500	-	18 500
TOTAL EXPENDITURES	<u>992 450</u>	<u>1 421 450</u>	<u>1 092 913</u>	<u>328 537</u>
NET CHANGE IN FUND BALANCES	-	(429 000)	(39 018)	389 982
Fund balances, beginning	<u>465 970</u>	<u>465 970</u>	<u>465 970</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 465 970</u>	<u>\$ 36 970</u>	<u>\$ 426 952</u>	<u>\$ 389 982</u>

See independent auditors' report.

SHELBY COUNTY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - ROAD AND BRIDGE #2
For the Year Ended September 30, 2018

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Property taxes	\$ 513 524	\$ 513 524	\$ 528 792	\$ 15 268
Other taxes	254 426	254 426	262 978	8 552
Fines and fees	184 500	184 500	176 054	(8 446)
Miscellaneous	40 000	40 000	77 314	37 314
TOTAL REVENUES	<u>992 450</u>	<u>992 450</u>	<u>1 045 138</u>	<u>52 688</u>
Expenditures:				
Payroll expense	373 369	391 062	386 715	4 347
Operating expense	604 081	786 388	655 213	131 175
Debt service	15 000	15 000	-	15 000
TOTAL EXPENDITURES	<u>992 450</u>	<u>1 192 450</u>	<u>1 041 928</u>	<u>150 522</u>
NET CHANGE IN FUND BALANCES	-	(200 000)	3 210	203 210
Fund balances, beginning	<u>256 506</u>	<u>259 506</u>	<u>259 506</u>	-
FUND BALANCES, ENDING	<u>\$ 259 506</u>	<u>\$ 59 506</u>	<u>\$ 262 716</u>	<u>\$ 203 210</u>

See independent auditors' report.

SHELBY COUNTY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - ROAD AND BRIDGE #3
For the Year Ended September 30, 2018

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Property taxes	\$ 513 524	\$ 513 524	\$ 528 792	\$ 15 268
Other taxes	254 426	254 426	262 979	8 553
Fines and fees	184 500	184 500	176 055	(8 445)
Miscellaneous	40 000	40 000	99 235	59 235
TOTAL REVENUES	<u>992 450</u>	<u>992 450</u>	<u>1 067 061</u>	<u>74 611</u>
Expenditures:				
Payroll expense	435 127	435 127	410 060	25 067
Operating expense	557 323	757 323	587 533	169 790
TOTAL EXPENDITURES	<u>992 450</u>	<u>1 192 450</u>	<u>997 593</u>	<u>194 857</u>
NET CHANGE IN FUND BALANCES	-	(200 000)	69 468	269 468
Fund balances, beginning	<u>273 604</u>	<u>273 604</u>	<u>273 604</u>	-
FUND BALANCES, ENDING	<u>\$ 273 604</u>	<u>\$ 73 604</u>	<u>\$ 343 072</u>	<u>\$ 269 468</u>

See independent auditors' report.

SHELBY COUNTY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - ROAD AND BRIDGE #4
For the Year Ended September 30, 2018

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Property taxes	\$ 513 524	\$ 513 524	\$ 528 792	\$ 15 268
Other taxes	254 426	254 426	262 978	8 552
Fines and fees	184 500	184 500	176 054	(8 446)
Miscellaneous	40 000	40 000	76 109	36 109
TOTAL REVENUES	<u>992 450</u>	<u>992 450</u>	<u>1 043 933</u>	<u>51 483</u>
Expenditures:				
Payroll expense	384 055	411 833	411 246	587
Operating expense	608 395	1 040 617	1 001 415	39 202
TOTAL EXPENDITURES	<u>992 450</u>	<u>1 452 450</u>	<u>1 412 661</u>	<u>39 789</u>
NET CHANGE IN FUND BALANCES	-	(460 000)	(368 728)	91 272
Fund balances, beginning	<u>504 164</u>	<u>504 164</u>	<u>504 164</u>	-
FUND BALANCES, ENDING	<u>\$ 504 164</u>	<u>\$ 44 164</u>	<u>\$ 135 436</u>	<u>\$ 91 272</u>

See independent auditors' report.

SHELBY COUNTY, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability:				
Service cost	\$ 560 000	\$ 576 630	\$ 487 702	\$ 463 927
Interest (on the total pension liability)	1 127 656	1 058 536	1 020 941	960 407
Changes of benefit terms	-	-	(88 405)	-
Difference between expected and actual experience	65 151	-	(321 991)	-
Change of assumptions	(28 935)	(197 579)	138 045	19 055
Benefit payments, including refunds of employee contributions	(856 476)	(866 430)	(719 291)	(744 305)
NET CHANGE IN TOTAL PENSION LIABILITY	867 396	571 157	517 001	699 084
Total pension liability - Beginning	<u>13 781 576</u>	<u>13 210 418</u>	<u>12 693 417</u>	<u>11 994 333</u>
TOTAL PENSION LIABILITY - ENDING	<u>14 648 972</u>	<u>13 781 575</u>	<u>13 210 418</u>	<u>12 693 417</u>
Plan Fiduciary Net Position:				
Contributions - Employer	354 054	365 822	367 665	338 996
Contributions - Employee	324 821	304 489	308 006	266 626
Net investment income	1 889 569	904 301	9 855	802 479
Benefit payments, including refunds of employee contributions	(856 476)	(866 430)	(719 291)	(744 306)
Administrative	(9 752)	(9 883)	(8 908)	(9 351)
Other	(2 473)	(32 134)	(135 211)	20 185
NET CHANGE IN PLAN FIDUCIARY NET POSITION	1 699 743	666 165	(177 884)	674 629
Plan fiduciary net position - Beginning	<u>12 964 916</u>	<u>12 298 750</u>	<u>12 476 633</u>	<u>11 802 004</u>
PLAN FIDUCIARY NET POSITION - ENDING	<u>14 664 659</u>	<u>12 964 915</u>	<u>12 298 749</u>	<u>12 476 633</u>
NET PENSION LIABILITY - ENDING	<u>\$ (15 687)</u>	<u>\$ 816 660</u>	<u>\$ 911 669</u>	<u>\$ 216 784</u>
Plan fiduciary net position as a percentage of total pension liability	100.11%	94.07%	93.10%	98.29%
Covered employee payroll	\$ 4 640 294	\$ 4 349 850	\$ 4 285 142	\$ 3 808 942
Net pension liability as a percentage of covered employee payroll	(0.34)%	18.77%	21.28%	5.69%

Additional years will be provided as they become available.

See independent auditors' report.

SHELBY COUNTY, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS

YEAR ENDING DECEMBER 31,	ACTUARIALLY DETERMINED CONTRIBUTION	ACTUAL EMPLOYER CONTRIBUTION	CONTRIBUTION DEFICIENCY (EXCESS)	PENSIONABLE COVERED PAYROLL	ACTUAL CONTRIBUTION AS A % OF COVERED PAYROLL
2015	\$ 350 419	\$ 350 419	\$ -	\$ 4 049 430	8.7%
2016	\$ 367 451	\$ 367 451	\$ -	\$ 4 435 668	8.5%
2017	\$ 353 237	\$ 353 237	\$ -	\$ 4 509 968	7.8%
2018	\$ 370 407	\$ 370 407	\$ -	\$ 4 786 077	7.7%

Additional years will be provided as they become available.

See independent auditors' report.

SHELBY COUNTY, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended September 30, 2018

Budgetary Procedures

Annual budgets are adopted for the general fund and the four road and bridge funds on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at year end. During the fiscal year, the County Judge prepares a budget to cover all proposed expenditures of the County government for the succeeding fiscal year. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year. In preparing the budget, the Judge may require any County officer to furnish information necessary to properly prepare the budget.

The Commissioners' Court shall hold a public hearing on the proposed budget. At the conclusion of the public hearing, the Commissioners' Court shall take action on the proposed budget.

After final approval of the budget, the Commissioners' Court may spend County funds only in strict compliance with the budget, except in an emergency. The Commissioners' Court may authorize an emergency expenditure as an amendment to the original budget only in a case of grave public necessity to meet an unusual and unforeseen condition that could not have been included in the original budget through the use of reasonably diligent thought and attention. If the Court amends the original budget to meet an emergency, the Court shall file a copy of its order amending the budget with the County Clerk, and the Clerk shall attach the copy to the original budget. Management may not amend the budget without approval from the Commissioners' Court.

Expenditures may not legally exceed budgeted appropriations at the activity or department level. The budget is amended only by approval of the Commissioners' Court. Proposed amendments are presented to the Commissioners' Court in a public meeting, and each amendment must have Commissioners' Court approval. As required by law, such amendments are made before the fact, and are reflected in the minutes of the Commissioners' Court meetings. During the year, the budget was amended as necessary, with the Commissioners' Court approving all payments issued.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are canceled, consequently there are none as of September 30, 2018.

COMBINING SCHEDULES

SHELBY COUNTY, TEXAS
 COMBINING BALANCE SHEET -
 SPECIAL REVENUE FUNDS
 September 30, 2018

	HISTORIC COURTHOUSE FUND	COUNTY CLERK VITAL ARCHIVES FEE FUND	GENERAL RECORDS MANAGEMENT	SHERIFF OFFICE EDUCATION FUND
ASSETS				
Cash and investments	\$ -	\$ 32 485	\$ 19 017	\$ 2 551
Property tax receivable (net)	-	-	-	-
TOTAL ASSETS	\$ -	\$ 32 485	\$ 19 017	\$ 2 551
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued expense	-	-	-	-
TOTAL LIABILITIES	-	-	-	-
Deferred Inflows:				
Unavailable revenue	-	-	-	-
TOTAL LIABILITIES AND DEFERRED INFLOWS	-	-	-	-
Fund Balances:				
Restricted fund balance	-	32 485	19 017	2 551
TOTAL FUND BALANCES	-	32 485	19 017	2 551
 TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	\$ -	\$ 32 485	\$ 19 017	\$ 2 551

See independent auditors' report.

VEHICLE INVENTORY TAX FUND	HISTORIC COURTHOUSE FUND	GARZA COUNTY FUND	SHERIFF COMMISSARY FUND	DISTRICT ATTORNEY TRUSTEE	COUNTY ATTORNEY FUND
\$ 77 973	\$ 4 010	\$ 12 526	\$ 71 441	\$ 10 039	\$ 7 295
-	-	-	-	-	-
<u>\$ 77 973</u>	<u>\$ 4 010</u>	<u>\$ 12 526</u>	<u>\$ 71 441</u>	<u>\$ 10 039</u>	<u>\$ 7 295</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>77 973</u>	<u>4 010</u>	<u>12 526</u>	<u>71 441</u>	<u>10 039</u>	<u>7 295</u>
<u>77 973</u>	<u>4 010</u>	<u>12 526</u>	<u>71 441</u>	<u>10 039</u>	<u>7 295</u>
<u>\$ 77 973</u>	<u>\$ 4 010</u>	<u>\$ 12 526</u>	<u>\$ 71 441</u>	<u>\$ 10 039</u>	<u>\$ 7 295</u>

SHELBY COUNTY, TEXAS
 COMBINING BALANCE SHEET -
 SPECIAL REVENUE FUNDS - CONTINUED
 September 30, 2018

	ROAD GRANT	JUVENILE COURT TECH FUND	LEOSE CONSTABLES FUND
ASSETS			
Cash and investments	\$ -	\$ 12 703	\$ 14 436
Property tax receivable (net)	-	-	-
TOTAL ASSETS	\$ -	\$ 12 703	\$ 14 436
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ 214
Accrued expense	-	-	-
TOTAL LIABILITIES	-	-	214
Deferred Inflows:			
Unavailable revenue	-	-	-
TOTAL LIABILITIES AND DEFERRED INFLOWS	-	-	-
Fund Balances:			
Restricted fund balance	-	12 703	14 222
TOTAL FUND BALANCES	-	12 703	14 222
 TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	\$ -	\$ 12 703	\$ 14 436

See independent auditors' report.

CHAPTER 19 VOTER REGISTRATION	LAW LIBRARY FUND	DISTRICT CLERK RECORD MGMT FUND	COUNTY CLERK RECORD MGMT FUND	COURT- HOUSE SECURITY FUND	JURY FUND
\$ -	\$ 101 829	\$ 4 510	\$ 146 205	\$ 9 665	\$ 21 806
-	-	-	-	-	14 038
<u>\$ -</u>	<u>\$ 101 829</u>	<u>\$ 4 510</u>	<u>\$ 146 205</u>	<u>\$ 9 665</u>	<u>\$ 35 844</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	60	-
-	-	-	-	60	-
-	-	-	-	-	14 038
-	-	-	-	-	14 038
-	101 829	4 510	146 205	9 605	21 806
-	101 829	4 510	146 205	9 605	21 806
<u>\$ -</u>	<u>\$ 101 829</u>	<u>\$ 4 510</u>	<u>\$ 146 205</u>	<u>\$ 9 665</u>	<u>\$ 35 844</u>

SHELBY COUNTY, TEXAS
 COMBINING BALANCE SHEET -
 SPECIAL REVENUE FUNDS - CONTINUED
 September 30, 2018

	RIGHT OF WAY FUND	INDIGENT HEALTH CARE FUND	COURT REPORTER SERVICE FUND	JUVENILE PROBATION FUND
ASSETS				
Cash and investments	\$ 55 198	\$ 348 293	\$ 806	\$ 17 369
Property tax receivable (net)	-	69 958	-	-
TOTAL ASSETS	\$ 55 198	\$ 418 251	\$ 806	\$ 17 369
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 21 737	\$ -	\$ 71
Accrued expense	-	1 097	-	-
TOTAL LIABILITIES	-	22 834	-	71
Deferred Inflows:				
Unavailable revenue	-	69 958	-	-
TOTAL LIABILITIES AND DEFERRED INFLOWS	-	69 958	-	-
Fund Balances:				
Restricted fund balance	55 198	325 459	806	17 298
TOTAL FUND BALANCES	55 198	325 459	806	17 298
 TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	\$ 55 198	\$ 418 251	\$ 806	\$ 17 369

See independent auditors' report.

<u>SHERIFF FEDERAL SEIZURE</u>	<u>GRANT FUND</u>	<u>SHERIFF LOCAL FORFEITURE</u>	<u>COUNTY COURT RECORDS TECH FUND</u>	<u>DISTRICT COURT RECORDS TECH FUND</u>	<u>APPELLATE JUDICIAL FEE COUNTY CLERK</u>
\$ 3 460	\$ -	\$ 6 453	\$ 36 455	\$ 5 119	\$ 125
-	-	-	-	-	-
<u>\$ 3 460</u>	<u>\$ -</u>	<u>\$ 6 453</u>	<u>\$ 36 455</u>	<u>\$ 5 119</u>	<u>\$ 125</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3 460	-	6 453	36 455	5 119	125
<u>3 460</u>	<u>-</u>	<u>6 453</u>	<u>36 455</u>	<u>5 119</u>	<u>125</u>
<u>\$ 3 460</u>	<u>\$ -</u>	<u>\$ 6 453</u>	<u>\$ 36 455</u>	<u>\$ 5 119</u>	<u>\$ 125</u>

SHELBY COUNTY, TEXAS
 COMBINING BALANCE SHEET -
 SPECIAL REVENUE FUNDS - CONTINUED
 September 30, 2018

	<u>APPELLATE JUDICIAL FEE DISTRICT CLERK</u>	<u>RECORDS ARCHIVE FEE COUNTY CLERK</u>	<u>RECORDS ARCHIVE FEE DISTRICT CLERK</u>	<u>JP COURT SECURITY FUND</u>
ASSETS				
Cash and investments	\$ 370	\$ 240 953	\$ 63 009	\$ 23 135
Property tax receivable (net)	-	-	-	-
TOTAL ASSETS	<u>\$ 370</u>	<u>\$ 240 953</u>	<u>\$ 63 009</u>	<u>\$ 23 135</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued expense	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows:				
Unavailable revenue	-	-	-	-
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted fund balance	<u>370</u>	<u>240 953</u>	<u>63 009</u>	<u>23 135</u>
TOTAL FUND BALANCES	<u>370</u>	<u>240 953</u>	<u>63 009</u>	<u>23 135</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	 <u>\$ 370</u>	 <u>\$ 240 953</u>	 <u>\$ 63 009</u>	 <u>\$ 23 135</u>

See independent auditors' report.

GUARDIAN- SHIP FUND	DISTRICT ATTORNEY SEIZURE FUND NON-TRAFFIC	DISTRICT ATTORNEY FORFEITURE FUND TRAFFIC	DISTRICT ATTORNEY FORFEITURE FUNDS	CSCD BASIC SUPERVISION FUND	CSCD COMMUNITY CORRECTIONS FUND
\$ 15 046	\$ 133 232	\$ 3 435	\$ 1 042	\$ 72 840	\$ 3 110
-	-	-	-	-	-
<u>\$ 15 046</u>	<u>\$ 133 232</u>	<u>\$ 3 435</u>	<u>\$ 1 042</u>	<u>\$ 72 840</u>	<u>\$ 3 110</u>
\$ -	\$ -	\$ -	\$ -	\$ 72 840	\$ 3 110
-	-	-	-	-	-
-	-	-	-	<u>72 840</u>	<u>3 110</u>
-	-	-	-	-	-
-	-	-	-	-	-
<u>15 046</u>	<u>133 232</u>	<u>3 435</u>	<u>1 042</u>	<u>-</u>	<u>-</u>
<u>15 046</u>	<u>133 232</u>	<u>3 435</u>	<u>1 042</u>	<u>-</u>	<u>-</u>
<u>\$ 15 046</u>	<u>\$ 133 232</u>	<u>\$ 3 435</u>	<u>\$ 1 042</u>	<u>\$ 72 840</u>	<u>\$ 3 110</u>

SHELBY COUNTY, TEXAS
 COMBINING BALANCE SHEET -
 SPECIAL REVENUE FUNDS - CONTINUED
 September 30, 2018

	PRETRIAL INTERVENTION PROGRAM FUND	DRUG COURT FUND	TOTAL SPECIAL REVENUE FUNDS
ASSETS			
Cash and investments	\$ 5 794	\$ 52 190	\$ 1 635 925
Property tax receivable (net)	-	-	83 996
TOTAL ASSETS	\$ 5 794	\$ 52 190	\$ 1 719 921
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ 97 972
Accrued expense	-	-	1 157
TOTAL LIABILITIES	-	-	99 129
Deferred Inflows:			
Unavailable revenue	-	-	83 996
TOTAL LIABILITIES AND DEFERRED INFLOWS	-	-	83 996
Fund Balances:			
Restricted fund balance	5 794	52 190	1 536 796
TOTAL FUND BALANCES	5 794	52 190	1 536 796
 TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	\$ 5 794	\$ 52 190	\$ 1 719 921

See independent auditors' report.

SHELBY COUNTY, TEXAS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - SPECIAL REVENUE FUNDS
 For the Year Ended September 30, 2018

	<u>HISTORIC COURTHOUSE FUND</u>	<u>COUNTY CLERK VITAL ARCHIVES FEE FUND</u>	<u>GENERAL RECORDS MANAGEMENT</u>	<u>SHERIFF OFFICE EDUCATION FUND</u>
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Fines and fees	-	1 689	6 543	-
Charges for services	-	-	-	-
Grants and contributions	6	-	-	-
Interest	-	-	-	-
Miscellaneous income	6	-	-	3 111
TOTAL REVENUES	<u>12</u>	<u>1 689</u>	<u>6 543</u>	<u>3 111</u>
Expenditures:				
Payroll expense	-	-	-	-
Operating expense	-	-	3 210	4 573
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>3 210</u>	<u>4 573</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 <u>12</u>	 <u>1 689</u>	 <u>3 333</u>	 <u>(1 462)</u>
Other Financing Sources (Uses):				
Transfers out	(23 364)	-	-	-
Transfers in	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(23 364)</u>	<u>-</u>	<u>-</u>	<u>-</u>
 NET CHANGE IN FUND BALANCES	 <u>(23 352)</u>	 <u>1 689</u>	 <u>3 333</u>	 <u>(1 462)</u>
Fund balances, beginning	<u>23 352</u>	<u>30 796</u>	<u>15 684</u>	<u>4 013</u>
 FUND BALANCES ENDING	 <u>\$ -</u>	 <u>\$ 32 485</u>	 <u>\$ 19 017</u>	 <u>\$ 2 551</u>

See independent auditors' report.

VEHICLE INVENTORY TAX FUND	HISTORIC COURTHOUSE FUND	GARZA COUNTY FUND	SHERIFF COMMISSARY FUND	DISTRICT ATTORNEY TRUSTEE	COUNTY ATTORNEY FUND
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
116 779	-	-	-	-	-
-	-	-	-	-	-
-	-	-	79 487	-	-
-	122 646	-	-	-	-
50	-	-	-	-	5
-	-	12 526	-	37 345	10 618
<u>116 829</u>	<u>122 646</u>	<u>12 526</u>	<u>79 487</u>	<u>37 345</u>	<u>10 623</u>
-	-	-	-	22 163	7 018
<u>98 455</u>	<u>142 000</u>	<u>-</u>	<u>53 213</u>	<u>6 407</u>	<u>-</u>
<u>98 455</u>	<u>142 000</u>	<u>-</u>	<u>53 213</u>	<u>28 570</u>	<u>7 018</u>
<u>18 374</u>	<u>(19 354)</u>	<u>12 526</u>	<u>26 274</u>	<u>8 775</u>	<u>3 605</u>
-	-	-	-	-	-
<u>-</u>	<u>23 364</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>23 364</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
18 374	4 010	12 526	26 274	8 775	3 605
<u>59 599</u>	<u>-</u>	<u>-</u>	<u>45 167</u>	<u>1 264</u>	<u>3 690</u>
<u>\$ 77 973</u>	<u>\$ 4 010</u>	<u>\$ 12 526</u>	<u>\$ 71 441</u>	<u>\$ 10 039</u>	<u>\$ 7 295</u>

SHELBY COUNTY, TEXAS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - SPECIAL REVENUE FUNDS - CONTINUED
 For the Year Ended September 30, 2018

	ROAD GRANT	JUVENILE COURT TECH FUND	LEOSE CONSTABLES FUND
Revenues:			
Property taxes	\$ -	\$ -	\$ -
Other taxes	-	-	-
Fines and fees	-	5 431	-
Charges for services	-	-	-
Grants and contributions	680 299	-	-
Interest	-	-	-
Miscellaneous income	-	-	3 375
TOTAL REVENUES	680 299	5 431	3 375
Expenditures:			
Payroll expense	-	-	-
Operating expense	680 299	11 897	1 400
TOTAL EXPENDITURES	680 299	11 897	1 400
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(6 466)	1 975
Other Financing Sources (Uses):			
Transfers out	-	-	-
Transfers in	-	11 755	-
TOTAL OTHER FINANCING SOURCES (USES)	-	11 755	-
NET CHANGE IN FUND BALANCES	-	5 289	1 975
Fund balances, beginning	-	7 414	12 247
FUND BALANCES ENDING	\$ -	\$ 12 703	\$ 14 222

See independent auditors' report.

CHAPTER 19 VOTER REGISTRATION	LAW LIBRARY FUND	DISTRICT CLERK RECORD MGMT FUND	COUNTY CLERK RECORD MGMT FUND	COURT- HOUSE SECURITY FUND	JURY FUND
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 89 777
-	-	-	-	-	-
-	12 330	2 283	48 220	10 977	4 564
-	-	-	-	-	-
4 710	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	350
<u>4 710</u>	<u>12 330</u>	<u>2 283</u>	<u>48 220</u>	<u>10 977</u>	<u>94 691</u>
-	-	-	30 519	64 909	82 881
<u>6 079</u>	<u>7 863</u>	<u>567</u>	<u>452</u>	<u>2 024</u>	<u>13 797</u>
<u>6 079</u>	<u>7 863</u>	<u>567</u>	<u>30 971</u>	<u>66 933</u>	<u>96 678</u>
<u>(1 369)</u>	<u>4 467</u>	<u>1 716</u>	<u>17 249</u>	<u>(55 956)</u>	<u>(1 987)</u>
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56 619</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56 619</u>	<u>-</u>
(1 369)	4 467	1 716	17 249	663	(1 987)
<u>1 369</u>	<u>97 362</u>	<u>2 794</u>	<u>128 956</u>	<u>8 942</u>	<u>23 793</u>
<u>\$ -</u>	<u>\$ 101 829</u>	<u>\$ 4 510</u>	<u>\$ 146 205</u>	<u>\$ 9 605</u>	<u>\$ 21 806</u>

SHELBY COUNTY, TEXAS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - SPECIAL REVENUE FUNDS - CONTINUED
 For the Year Ended September 30, 2018

	RIGHT OF WAY FUND	INDIGENT HEALTH CARE FUND	COURT REPORTER SERVICE FUND	JUVENILE PROBATION FUND
Revenues:				
Property taxes	\$ -	\$ 445 096	\$ -	\$ -
Other taxes	-	-	-	-
Fines and fees	-	-	4 890	-
Charges for services	-	-	-	-
Grants and contributions	-	-	-	161 010
Interest	-	-	-	-
Miscellaneous income	-	-	-	-
TOTAL REVENUES	<u>-</u>	<u>445 096</u>	<u>4 890</u>	<u>161 010</u>
Expenditures:				
Payroll expense	-	40 951	-	105 503
Operating expense	-	583 757	8 129	46 120
TOTAL EXPENDITURES	<u>-</u>	<u>624 708</u>	<u>8 129</u>	<u>151 623</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>(179 612)</u>	<u>(3 239)</u>	<u>9 387</u>
Other Financing Sources (Uses):				
Transfers out	-	-	-	-
Transfers in	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	(179 612)	(3 239)	9 387
Fund balances, beginning	<u>55 198</u>	<u>505 071</u>	<u>4 045</u>	<u>7 911</u>
FUND BALANCES ENDING	<u>\$ 55 198</u>	<u>\$ 325 459</u>	<u>\$ 806</u>	<u>\$ 17 298</u>

See independent auditors' report.

SHERIFF FEDERAL SEIZURE	GRANT FUND	SHERIFF LOCAL FORFEITURE	COUNTY COURT RECORDS TECH FUND	DISTRICT COURT RECORDS TECH FUND	APPELLATE JUDICIAL FEE COUNTY CLERK
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	4 386	512	460
-	-	-	-	-	-
-	5 250	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>5 250</u>	<u>-</u>	<u>4 386</u>	<u>512</u>	<u>460</u>
-	-	-	-	-	-
-	-	500	-	-	460
-	-	<u>500</u>	-	-	<u>460</u>
-	5 250	(500)	4 386	512	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	5 250	(500)	4 386	512	-
<u>3 460</u>	<u>(5 250)</u>	<u>6 953</u>	<u>32 069</u>	<u>4 607</u>	<u>125</u>
\$ <u>3 460</u>	\$ <u>-</u>	\$ <u>6 453</u>	\$ <u>36 455</u>	\$ <u>5 119</u>	\$ <u>125</u>

SHELBY COUNTY, TEXAS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - SPECIAL REVENUE FUNDS - CONTINUED
 For the Year Ended September 30, 2018

	APPELLATE JUDICIAL FEE DISTRICT CLERK	RECORDS ARCHIVE FEE COUNTY CLERK	RECORDS ARCHIVE FEE DISTRICT CLERK	JP COURT SECURITY FUND
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Fines and fees	1 625	47 554	4 340	1 209
Charges for services	-	-	-	-
Grants and contributions	-	-	-	-
Interest	-	-	-	-
Miscellaneous income	-	-	-	-
TOTAL REVENUES	1 625	47 554	4 340	1 209
Expenditures:				
Payroll expense	-	-	-	-
Operating expense	1 675	-	-	707
TOTAL EXPENDITURES	1 675	-	-	707
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(50)	47 554	4 340	502
Other Financing Sources (Uses):				
Transfers out	-	-	-	-
Transfers in	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
NET CHANGE IN FUND BALANCES	(50)	47 554	4 340	502
Fund balances, beginning	420	193 399	58 669	22 633
FUND BALANCES ENDING	\$ 370	\$ 240 953	\$ 63 009	\$ 23 135

See independent auditors' report.

GUARDIAN- SHIP FUND	DISTRICT ATTORNEY SEIZURE FUND NON-TRAFFIC	DISTRICT ATTORNEY FORFEITURE FUND TRAFFIC	DISTRICT ATTORNEY FORFEITURE FUNDS	CSCD BASIC SUPERVISION FUND	CSCD COMMUNITY CORRECTIONS FUND
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
1 480	61 776	-	-	117 672	-
-	-	-	-	-	-
-	-	-	-	74 752	32 362
-	-	2	2	-	-
-	-	-	-	24	-
<u>1 480</u>	<u>61 776</u>	<u>2</u>	<u>2</u>	<u>192 448</u>	<u>32 362</u>
-	-	-	-	167 741	38 306
-	92 257	-	48 619	124 242	17 896
-	92 257	-	48 619	291 983	56 202
<u>1 480</u>	<u>(30 481)</u>	<u>2</u>	<u>(48 617)</u>	<u>(99 535)</u>	<u>(23 840)</u>
-	(49 637)	-	-	-	-
-	-	-	49 637	-	-
-	(49 637)	-	49 637	-	-
1 480	(80 118)	2	1 020	(99 535)	(23 840)
<u>13 566</u>	<u>213 350</u>	<u>3 433</u>	<u>22</u>	<u>99 535</u>	<u>23 840</u>
<u>\$ 15 046</u>	<u>\$ 133 232</u>	<u>\$ 3 435</u>	<u>\$ 1 042</u>	<u>\$ -</u>	<u>\$ -</u>

SHELBY COUNTY, TEXAS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - SPECIAL REVENUE FUNDS - CONTINUED
 For the Year Ended September 30, 2018

	<u>PRETRIAL INTERVENTION PROGRAM FUND</u>	<u>DRUG COURT FUND</u>	<u>TOTAL SPECIAL REVENUE FUNDS</u>
Revenues:			
Property taxes	\$ -	\$ -	\$ 534 873
Other taxes	-	-	116 779
Fines and fees	3 809	52 235	393 985
Charges for services	-	-	79 487
Grants and contributions	-	-	1 081 035
Interest	-	-	59
Miscellaneous income	-	-	67 355
TOTAL REVENUES	<u>3 809</u>	<u>52 235</u>	<u>2 273 573</u>
Expenditures:			
Payroll expense	-	-	559 991
Operating expense	-	45	1 956 643
TOTAL EXPENDITURES	<u>-</u>	<u>45</u>	<u>2 516 634</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>3 809</u>	<u>52 190</u>	<u>(243 061)</u>
Other Financing Sources (Uses):			
Transfers out	-	-	(73 001)
Transfers in	-	-	141 375
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>68 374</u>
NET CHANGE IN FUND BALANCES	3 809	52 190	(174 687)
Fund balances, beginning	<u>1 985</u>	<u>-</u>	<u>1 711 483</u>
FUND BALANCES ENDING	<u>\$ 5 794</u>	<u>\$ 52 190</u>	<u>\$ 1 536 796</u>

See independent auditors' report.

SHELBY COUNTY, TEXAS
 COMBINING SCHEDULE OF FIDUCIARY NET POSITION
 September 30, 2018

	ARENA BLEACHER FUND	COUNTY CLERK	DISTRICT CLERK TRUST	DISTRICT CLERK	MOTOR VEHICLE TAX	PROPERTY TAXES
ASSETS						
Cash and cash equivalents	\$ 37 341	\$ 107 960	\$ 1 806 406	\$ 1 233 207	\$ 327 538	\$ 164 934
TOTAL ASSETS	\$ 37 341	\$ 107 960	\$ 1 806 406	\$ 1 233 207	\$ 327 538	\$ 164 934
LIABILITIES						
Due to others	\$ 37 341	\$ 107 960	\$ 1 806 406	\$ 1 233 207	\$ 327 538	\$ 164 934
TOTAL LIABILITIES	\$ 37 341	\$ 107 960	\$ 1 806 406	\$ 1 233 207	\$ 327 538	\$ 164 934

See independent auditors' report.

COUNTY ATTORNEY RESTITUTION	COUNTY ATTORNEY TRUST	INMATE ACCOUNT	DISTRICT ATTORNEY FORFEITURE	AGENCY FUND	GARZA COUNTY FUND	CHILD ABUSE PREVENTION FEE FUND
\$ 60 524	\$ 20 651	\$ 26 436	\$ 10 463	\$ 81 500	\$ -	\$ 1 963
<u>\$ 60 524</u>	<u>\$ 20 651</u>	<u>\$ 26 436</u>	<u>\$ 10 463</u>	<u>\$ 81 500</u>	<u>\$ -</u>	<u>\$ 1 963</u>
\$ 60 524	\$ 20 651	\$ 26 436	\$ 10 463	\$ 81 500	\$ -	\$ 1 963
<u>\$ 60 524</u>	<u>\$ 20 651</u>	<u>\$ 26 436</u>	<u>\$ 10 463</u>	<u>\$ 81 500</u>	<u>\$ -</u>	<u>\$ 1 963</u>

SHELBY COUNTY, TEXAS
 COMBINING SCHEDULE OF FIDUCIARY NET POSITION - CONTINUED
 September 30, 2018

	FAMILY PROTECTION FEE FUND	CHILD SAFETY FEE FUND	COMBINED FIDUCIARY FUNDS
ASSETS			
Cash and cash equivalents	\$ 720	\$ 2 446	\$ 3 882 089
TOTAL ASSETS	\$ 720	\$ 2 446	\$ 3 882 089
LIABILITIES			
Due to others	\$ 720	\$ 2 446	\$ 3 882 089
TOTAL LIABILITIES	\$ 720	\$ 2 446	\$ 3 882 089

See independent auditors' report.

COMPLIANCE SECTION

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

Honorable Commissioners'
Court of Shelby County
Center, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shelby County, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise Shelby County, Texas' basic financial statements, and have issued our report thereon dated May 13, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the Schedule of Findings and Questioned Costs that we consider to be significant deficiencies. See Findings 2018-01.

Compliance and Other Matters

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

Shelby County's Response to Findings

Shelby County's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Shelby County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Lufkin, Texas
May 13, 2019


CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

Honorable Judge and Commissioners
Shelby County, Texas
Center, Texas

Compliance

We have audited the compliance of Shelby County, Texas with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018. Shelby County, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, terms and conditions of its federal awards applicable to each of its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on Shelby County, Texas' compliance with major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Shelby County, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Shelby County, Texas' compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Shelby County, Texas, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

Internal Control Over Compliance

The management of Shelby County, Texas, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Shelby County, Texas' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Shelby County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal controls over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
May 13, 2019

SHELBY COUNTY, TEXAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended September 30, 2018

<u>GRANT/CONTRACT</u>	<u>FEDERAL CFDA NUMBER</u>	<u>CONTRACT NUMBER/ PASS - THROUGH GRANTOR'S NUMBER</u>	<u>TOTAL EXPENDITURES</u>
U. S. Department of the Interior:			
Payments in Lieu of Taxes	15.226	N/A	\$ 141 813
National Forest Acquired Lands	15.438	N/A	<u>288 840</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE			<u>430 653</u>
U. S. Department of Homeland Security:			
Disaster Grant	97.036	N/A	<u>680 299</u>
TOTAL U. S. DEPARTMENT OF HOMELAND SECURITY			<u>680 299</u>
 TOTAL FEDERAL AWARDS			 \$ <u><u>1 110 952</u></u>

See independent auditors' report and notes to schedule of expenditures of federal awards.

SHELBY COUNTY, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2018

Basis of Presentation

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of Shelby County. The information in the SEFA is presented in accordance with the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in the general purpose financial statements.

Summary of Significant Accounting Policies

Expenditures reported on the SEFA are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the SEFA, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Indirect Cost Rate

The County has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance

SHELBY COUNTY, TEXAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended September 30, 2018

A. Summary of the Auditor's Results:

1. Financial Statements

Type of report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(s) that are not considered to be material weaknesses? Yes None reported

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
97.036	Public Assistance (Presidentially Declared Disasters)

Dollar threshold to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

B. Findings Relating to the Financial Statements Which are Required to be Reported in Accordance with Generally Accepted Governmental Auditing Standards:

Finding 2018-1:

Condition - The County does not have adequate separation of duties in the Justice of Peace offices to assure that all transactions are properly accounted for during the year.

Criteria - The receipt, disbursement, and reconciliation process is performed by personnel within the same department and in some cases the same personnel.

Effect - There is a risk due to a lack of preventative controls of material misstatement in the financial records due to the lack of adequate segregation of controls related to these financial transactions. The County relies on detective controls to detect and correct errors after the fact with review processes in the County Auditor's office.

Questioned Cost - None

Recommendation - We recommend that the function identified be separated within the Justice of Peace offices. Centralizing the collection process outside of the various Justice of the Peace offices would allow for standardization of the process and would largely segregate case judgement and fine collection.

Client Response - The County administration is aware of the problem and is currently assessing the possibility of segregating the functions, specifically in the collection process, in the Justice of Peace office to assure proper controls.

SHELBY COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2018

Prior Audit Finding / Recommendation / Current Status

Finding 2017-01:

Condition - The County does not have adequate separation of duties in the Justice of Peace offices to assure that all transactions are properly accounted for during the year.

Client Response - The County administration is aware of the problem and is currently assessing the possibility of segregating the functions in the Justice of Peace office to assure proper controls.

Current Status - Ongoing