

SHELBY COUNTY, TEXAS  
Center, Texas

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2019

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INDEPENDENT AUDITORS' REPORT

The Honorable Commissioners'  
Court of Shelby County  
Center, Texas

We have audited the accompanying financial statements of the governmental activities, fiduciary 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, 2019, 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, 2019, 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 combining nonmajor fund financial statements 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 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 June 17, 2020, 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  
June 17, 2020

*Axley & Rode LLP*  
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, 2019 ("FY 2019").

### 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 \$14,301,361 on a government-wide basis as of September 30, 2019.
- For FY 2019, taxes and other revenues, including program revenues, of the County's governmental activities amounted to \$12,709,623. Expenses, including program expenses, totaled \$13,403,547.

#### 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 \$464,295 for the fiscal year.
- The County's General Fund reported a fund balance of \$5,148,109, a decrease of \$36,644 from September 30, 2018.

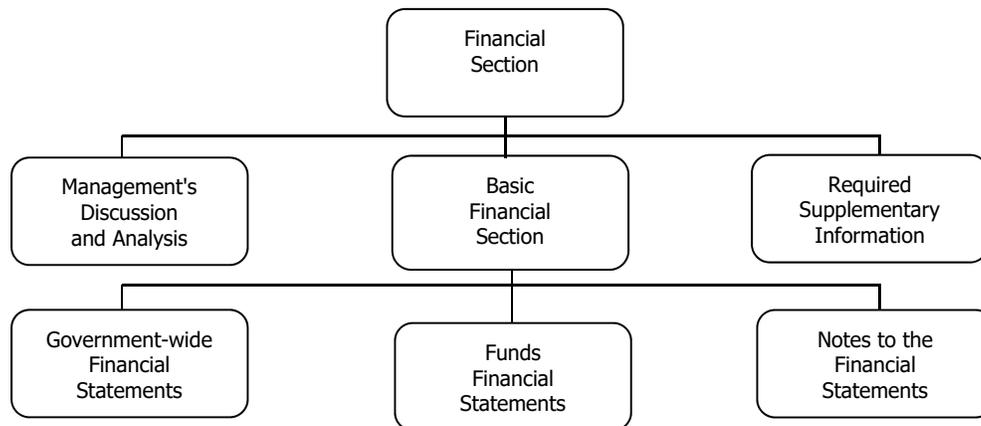
### GENERAL FINANCIAL HIGHLIGHTS

#### 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 Assets = Liabilities + 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 government 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, 2019 and 2018:  
As of September 30,

	2019	2018
Assets:		
Current and other assets	\$ 9 533 218	\$ 9 944 181
Capital assets (net)	6 268 149	5 946 174
Pension asset	-	15 687
TOTAL ASSETS	15 801 367	15 906 042
Deferred outflow	1 688 946	836 429
Liabilities:		
Current liabilities	705 719	435 209
Long-term liabilities	1 867 641	88 338
TOTAL LIABILITIES	2 573 360	523 547
Deferred inflows	615 642	878 547
Net Position:		
Net investment in capital assets	5 583 444	5 946 174
Restricted	2 277 321	2 704 972
Unrestricted	6 440 596	6 689 231
TOTAL NET POSITION	\$ 14 301 361	\$ 15 340 377

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 \$14,301,361 at September 30, 2019, the County's fiscal year-end. This amount represents a decrease of \$693,924 from the net position at September 30, 2018.

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 22. The County currently has \$684,705 in related long-term debt in the form of capital leases.

Governmental Activities

Revenues for the governmental activities for the County totaled \$12,709,623 for the fiscal year 2019.

Taxes constitute the largest source of County revenues, totaling \$9,614,993 for fiscal year 2019.

The cost of the County's governmental activities totaled \$13,391,032. Major contributors to costs include:

	2019	2018
Streets and bridges	\$ 5 264 496	\$ 5 160 497
Law enforcement	\$ 3 395 879	\$ 3 829 021
General administration	\$ 1 825 953	\$ 1 769 632
Judicial	\$ 1 220 505	\$ 1 207 656

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, 2019, the County's governmental funds had a combined fund balance totaling \$7,425,430.

The General Fund is the primary operating fund of the County. Unassigned fund balance in the General Fund at September 30, 2019, totaled \$5,148,109. This represents approximately 73.5% of the total expenditures for FY 2019 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, 2019

	GOVERNMENTAL ACTIVITIES
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 7 925 137
Receivables Net of Allowance for Uncollectibles:	
Taxes	1 608 081
<b>TOTAL CURRENT ASSETS</b>	<b>9 533 218</b>
Noncurrent Assets:	
Capital Assets:	
Land	392 436
Streets and infrastructure	16 384 539
Buildings and improvements	4 228 049
Furniture and equipment	8 824 150
Construction in progress	46 467
Less: Accumulated depreciation	(23 607 492)
<b>TOTAL CAPITAL ASSETS</b>	<b>6 268 149</b>
<b>TOTAL NONCURRENT ASSETS</b>	<b>6 268 149</b>
<b>TOTAL ASSETS</b>	<b>15 801 367</b>
<b>DEFERRED OUTFLOW</b>	
Contribution subsequent to measurement date	258 642
Pension deferred outflows	1 430 354
<b>TOTAL DEFERRED OUTFLOW</b>	<b>1 688 996</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 17 490 363</b>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	\$ 288 268
Accrued liabilities	211 439
Capital leases due in one year	206 012
<b>TOTAL CURRENT LIABILITIES</b>	<b>705 719</b>
Noncurrent Liabilities:	
Capital leases due in more than one year	478 693
Pension liability	1 297 472
Accrued compensation absence	91 476
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>1 867 641</b>
<b>TOTAL LIABILITIES</b>	<b>2 573 360</b>
<b>DEFERRED INFLOWS</b>	
Pension deferred inflows	615 642
<b>TOTAL DEFERRED INFLOWS</b>	<b>615 642</b>
<b>NET POSITION</b>	
Net investment in capital assets	5 583 444
Restricted	2 277 321
Unrestricted	6 440 596
<b>TOTAL NET POSITION</b>	<b>\$ 14 301 361</b>

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, 2019

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	\$ 1 825 953	\$ 971 614	\$ 34 942	\$ -	\$ (819 397)
Judicial	1 220 505	174 821	-	-	(1 045 684)
Law enforcement and corrections	3 395 879	124 178	174 249	-	(3 097 452)
Streets and bridges	5 264 496	715 028	-	296 248	(4 253 220)
Community service	296 406	-	-	-	(296 406)
Nondepartmental	1 400 308	-	-	-	(1 400 308)
TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>13 403 547</u>	\$ <u>1 985 641</u>	\$ <u>209 191</u>	\$ <u>296 248</u>	<u>(10 912 467)</u>
General Revenues:					
Taxes:					
Property taxes					8 409 813
Other tax revenue					1 205 180
Unrestricted investment earnings					175 227
Gain (loss) on sale of capital assets					103 510
Other unrestricted revenue					324 813
TOTAL GENERAL REVENUES					<u>10 218 543</u>
CHANGE IN NET POSITION					<u>(693 924)</u>
Net position, beginning					15 340 377
Prior period adjustment					(345 092)
NET POSITION, BEGINNING - RESTATED					<u>14 995 285</u>
NET POSITION, ENDING					\$ <u>14 301 361</u>

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

SHELBY COUNTY, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
September 30, 2019

	GENERAL	ROAD & BRIDGE #1	ROAD & BRIDGE #2
<b>ASSETS</b>			
Cash and investments	\$ 5 397 959	\$ 160 244	\$ 94 158
Property tax receivable (net)	809 150	169 083	169 083
<b>TOTAL ASSETS</b>	<b>\$ <u>6 207 109</u></b>	<b>\$ <u>329 327</u></b>	<b>\$ <u>263 241</u></b>
<b>LIABILITIES, FUND EQUITY</b>			
Liabilities:			
Accounts payable	\$ 96 056	\$ 42 289	\$ 3 479
Accrued liabilities	153 794	14 186	13 060
<b>TOTAL LIABILITIES</b>	<b><u>249 850</u></b>	<b><u>56 475</u></b>	<b><u>16 539</u></b>
Deferred Inflows:			
Deferred revenue	809 150	169 083	169 083
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS</b>	<b><u>809 150</u></b>	<b><u>169 083</u></b>	<b><u>169 083</u></b>
Fund Balances:			
Restricted fund balance	-	103 769	77 619
Unassigned Reported in:			
General fund	5 148 109	-	-
<b>TOTAL FUND BALANCES</b>	<b><u>5 148 109</u></b>	<b><u>103 769</u></b>	<b><u>77 619</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE</b>	<b>\$ <u>6 207 109</u></b>	<b>\$ <u>329 327</u></b>	<b>\$ <u>263 241</u></b>

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

	<u>ROAD &amp; BRIDGE #3</u>	<u>ROAD &amp; BRIDGE #4</u>	<u>NONMAJOR GOVERNMENTAL</u>	<u>TOTAL</u>
\$	118 653	\$ 73 396	\$ 2 080 727	\$ 7 925 137
	<u>169 083</u>	<u>169 083</u>	<u>122 599</u>	<u>1 608 081</u>
\$	<u><u>287 736</u></u>	\$ <u><u>242 479</u></u>	\$ <u><u>2 203 326</u></u>	\$ <u><u>9 533 218</u></u>

\$	60 677	\$ 18 329	\$ 67 438	\$ 288 268
	<u>14 474</u>	<u>13 710</u>	<u>2 215</u>	<u>211 439</u>
	<u>75 151</u>	<u>32 039</u>	<u>69 653</u>	<u>499 707</u>

	<u>169 083</u>	<u>169 083</u>	<u>122 599</u>	<u>1 608 081</u>
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	<u>169 083</u>	<u>169 083</u>	<u>122 599</u>	<u>1 608 081</u>
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	43 502	41 357	2 011 074	2 277 321
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	<u>-</u>	<u>-</u>	<u>-</u>	<u>5 148 109</u>
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	<u>43 502</u>	<u>41 357</u>	<u>2 011 074</u>	<u>7 425 430</u>
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\$	<u><u>287 736</u></u>	\$ <u><u>242 479</u></u>	\$ <u><u>2 203 326</u></u>	9 245 482
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Capital assets are not recorded in funds, but are included in Statement of Net Position	6 268 149
Long-term liabilities related to capital leases are not recorded in the funds, but are included in the Statement of Net Position	(684 705)
Pension liability and accrued compensated absences is not included in the funds, but are included in Statement of Net Position	(1 388 948)
Deferred outflows related to pensions are not included in funds, but are included in Statement of Net Position	1 688 996
Deferred inflows related to pensions are not included in funds, but in Statement of Net Position	(615 642)
Unavailable property taxes are included in funds, but are not recognized in the Statement of Net Position	<u>1 608 081</u>
TOTAL NET POSITION	\$ <u><u>14 301 361</u></u>

SHELBY COUNTY, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
For the Year Ended September 30, 2019

	<u>GENERAL</u>	<u>ROAD &amp; BRIDGE #1</u>	<u>ROAD &amp; BRIDGE #2</u>
Revenues:			
Property taxes	\$ 5 484 751	\$ 526 311	\$ 526 311
Other taxes	6 334	267 913	267 913
Fines and fees	538 052	178 757	178 757
Interest	175 160	-	-
Charges for services	463 520	-	-
Grant and donations	144 841	-	-
Miscellaneous	159 129	168 691	66 828
TOTAL REVENUES	<u>6 971 787</u>	<u>1 141 672</u>	<u>1 039 809</u>
Expenditures:			
General administration	1 511 025	-	-
Judicial	862 900	-	-
Law enforcement and corrections	3 162 396	-	-
Streets and bridges	-	1 665 105	1 224 906
Community service	-	-	-
Non-departmental	1 472 110	-	-
TOTAL EXPENDITURES	<u>7 008 431</u>	<u>1 665 105</u>	<u>1 224 906</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(36 644)</u>	<u>(523 433)</u>	<u>(185 097)</u>
Other Financing Sources (Uses):			
Proceeds from capital leases	-	200 250	-
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>200 250</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(36 644)	(323 183)	(185 097)
Fund balances, beginning	<u>5 184 753</u>	<u>426 952</u>	<u>262 716</u>
FUND BALANCES, ENDING	<u>\$ 5 148 109</u>	<u>\$ 103 769</u>	<u>\$ 77 619</u>

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

	<u>ROAD &amp; BRIDGE #3</u>	<u>ROAD &amp; BRIDGE #4</u>	<u>NON-MAJOR FUNDS</u>	<u>TOTAL</u>
\$	526 311	\$ 526 312	\$ 830 983	\$ 8 420 979
	267 913	267 913	127 194	1 205 180
	178 757	178 757	175 575	1 428 655
	-	-	67	175 227
	-	-	66 604	530 124
	-	-	209 969	354 810
	<u>66 828</u>	<u>66 828</u>	<u>82 010</u>	<u>610 314</u>
	<u>1 039 809</u>	<u>1 039 810</u>	<u>1 492 402</u>	<u>12 725 289</u>
	-	-	221 719	1 732 744
	-	-	266 166	1 129 066
	-	-	226 992	3 389 388
	1 395 604	1 190 114	28 679	5 504 408
	-	-	274 568	274 568
	-	-	-	1 472 110
	<u>1 395 604</u>	<u>1 190 114</u>	<u>1 018 124</u>	<u>13 502 284</u>
	<u>(355 795)</u>	<u>(150 304)</u>	<u>474 278</u>	<u>(776 995)</u>
	<u>56 225</u>	<u>56 225</u>	<u>-</u>	<u>312 700</u>
	<u>56 225</u>	<u>56 225</u>	<u>-</u>	<u>312 700</u>
	(299 570)	(94 079)	474 278	(464 295)
	<u>343 072</u>	<u>135 436</u>	<u>1 536 796</u>	<u>7 889 725</u>
\$	<u><u>43 502</u></u>	\$ <u><u>41 357</u></u>	\$ <u><u>2 011 074</u></u>	\$ <u><u>7 425 430</u></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, 2019

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

Net change in fund balances - Total governmental funds.	\$ (464 295)
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.	83 561
Governmental funds report principal payments on long-term debt as expenditures; however, in the government-wide financial statements, such payments are reflected as a reduction of the liabilities.	211 501
Governmental funds report proceeds from capital leases as an other financing source; however, these proceeds are reflected as a liability in the government-wide financial statements.	(312 700)
Governmental funds expense accrued compensated absence and pension liabilities as the payments are made, while government wide statements record the future liabilities.	(200 825)
Governmental funds defer property taxes until collection, while government wide funds statements recognize the revenue.	<u>(11 166)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u>(693 924)</u>

SHELBY COUNTY, TEXAS  
STATEMENT OF FIDUCIARY NET POSITION  
September 30, 2019

	<u>COMBINED FIDUCIARY FUNDS</u>
Assets:	
Cash and cash equivalent	\$ 3 161 138
TOTAL ASSETS	<u>\$ 3 161 138</u>
Liabilities:	
Due to others	\$ 3 161 138
TOTAL LIABILITIES	<u>\$ 3 161 138</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, 2019

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.

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.

SHELBY COUNTY, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
September 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

*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.

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 2019. 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.

SHELBY COUNTY, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
September 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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

ASSETS	YEARS
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.

SHELBY COUNTY, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
September 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.
- 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 \$11,086,275, 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.

SHELBY COUNTY, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
September 30, 2019

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.

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	\$ 809 150
Special revenue funds	798 931
TOTAL UNAVAILABLE REVENUE	<u>\$ 1 608 081</u>

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	\$ 951 941	\$ 939 918	\$ 1 891 859
Less: Allowances for uncollectible	(142 791)	(140 987)	(283 778)
NET RECEIVABLES	<u>\$ 809 150</u>	<u>\$ 798 931</u>	<u>\$ 1 608 081</u>

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, 2019, the County abated property taxes totaling \$8,145 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 2019 fiscal year is the fifth of ten years of the agreement. The abatement amounted to \$8,145 for the year ended September 30, 2019.

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.

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	\$ 392 436	\$ -	\$ -	\$ 392 436
Infrastructure	16 384 539	-	-	16 384 539
Buildings and improvements	4 160 390	67 659	-	4 228 049
Vehicles and equipment	8 240 413	850 179	(266 442)	8 824 150
Construction in progress	-	46 467	-	46 467
Accumulated depreciation	(22 993 190)	(876 244)	261 942	(23 607 492)
TOTAL ASSETS	<u>\$ 6 184 588</u>	<u>\$ 88 061</u>	<u>\$ (4 500)</u>	<u>\$ 6 268 149</u>

SHELBY COUNTY, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
September 30, 2019

V. CAPITAL ASSETS - CONTINUED

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

General administration	\$ 112 448
Judicial	73 272
Law enforcement and corrections	219 958
Streets and bridges	357 214
Community service	17 818
Non-departmental	95 534
	\$ 876 244

VI. LONG-TERM OBLIGATION ACTIVITY

Long-term obligation activities during the year were as follows:

GOVERNMENTAL ACTIVITIES	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Capital lease	\$ 583 506	\$ 312 950	\$ (211 751)	\$ 684 705	\$ 206 012
TOTAL GOVERNMENTAL ACTIVITIES	\$ 583 506	\$ 312 950	\$ (211 751)	\$ 684 705	\$ 206 012

Capital Leases

The County is obligated under certain leases accounted for as capital leases. The leases recorded here meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The following schedule lists personal property leased, which also serves as the collateral:

DESCRIPTION	INTEREST RATE	ORIGINAL PROPERTY VALUE
2016 Motor Grader	3.65%	\$ 295 325
2017 Motor Grader	2.85%	238 414
2015 Wheel Loader	3.65%	112 200
2019 Motor Grader	3.65%	279 952

The lease terms range from three to five years. The terms call for annual payments over the life of the lease.

Commitments under capitalized lease agreements equipment provide for minimum future lease payments as of year-end are as follows:

YEAR ENDING AUGUST 31,	TOTAL REQUIREMENTS
2020	\$ 227 911
2021	227 908
2022	224 426
2023	24 252
2024	26 251
TOTAL MINIMUM LEASE PAYMENT	730 748
Less: Amount representing interest	(46 043)
PRESENT VALUE OF NET MINIMUM LEASE PAYMENTS	\$ 684 705

The leases are all direct-borrowing arrangements, and the remaining balances become immediately due in the event of nonpayment.

SHELBY COUNTY, TEXAS  
 NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
 September 30, 2019

VII. 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.

**Actuarial Assumptions**

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

<b>Valuation Timing</b>	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.
<b>Actuarial Cost Method</b>	Entry Age Normal <sup>(1)</sup>
<b>Asset Valuation Method</b>	5 year smoothed market
<b>Inflation</b>	Same as funding valuation
<b>Salary Increases</b>	Same as funding valuation
<b>Investment Rate of Return</b>	8.10%
<b>Cost-of-Living Adjustments</b>	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.
<b>Retirement Age</b>	Same as funding valuation
<b>Turnover</b>	Same as funding valuation
<b>Mortality</b>	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, 2018 actuarial valuation analysis for Shelby County. This information may also be found in the Shelby County December 31, 2018 Summary Valuation Report.

Economic Assumptions:

TCDRS System-Wide Economic Assumptions:

Real rate of return	5.25%
Inflation	2.75%
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%

SHELBY COUNTY, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
September 30, 2019

VII. RETIREMENT PLAN - CONTINUED

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.

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, 2019

VII. 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	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Service retirees, beneficiaries and non-depositing members	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Disabled retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

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, 2019

VII. 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, 2019

VII. 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 2019 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 <sup>(1)</sup>	Geometric Real Rate of Return <sup>(2)</sup>
US Equities	Dow Jones U.S. Total Stock Market Index	10.50%	5.40%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index <sup>(3)</sup>	18.00%	8.40%
Global Equities	MSCI World (net) Index	2.50%	5.70%
International Equities - Developed Markets	MSCI World Ex USA (net) Index	10.00%	5.40%
International Equities - Emerging Markets	MSCI Emerging Markets (net) Index	7.00%	5.90%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	1.60%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	4.39%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.95%
Distressed Debt	Cambridge Associates Distressed Securities Index <sup>(4)</sup>	2.00%	7.20%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	4.15%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.35%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index <sup>(5)</sup>	6.00%	6.30%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	13.00%	3.90%

(1) Target asset allocation adopted at the April 2019 TCDRS Board meeting.

(2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.70%, per Cliffwater's 2019 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.

SHELBY COUNTY, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
September 30, 2019

VII. 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.

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	\$ 17 389 764	\$ 15 497 219	\$ 13 903 461
Fiduciary net position	\$ 14 199 747	\$ 14 199 747	\$ 14 199 747
Net pension liability/(asset)	\$ 3 190 017	\$ 1 297 472	\$ (296 286)

SHELBY COUNTY, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
September 30, 2019

VII. RETIREMENT PLAN - CONTINUED

**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, 2017	\$ 14 648 972	\$ 14 664 659	\$ (15 687)
Changes for the Year:			
Service cost	582 300	-	582 300
Interest on total pension liability <sup>(1)</sup>	1 198 990	-	1 198 990
Effect of plan changes <sup>(2)</sup>	-	-	-
Effect of economic/demographic gains or losses	(58 148)	-	(58 148)
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(73 526)	(73 526)	-
Benefit payments	(801 369)	(801 369)	-
Administrative expenses	-	(11 405)	11 405
Member contributions	-	331 521	(331 521)
Net investment income	-	(275 150)	275 150
Employer contributions	-	368 461	(368 461)
Other <sup>(3)</sup>	-	(3 444)	3 444
Balances as of December 31, 2018	<u>\$ 15 497 219</u>	<u>\$ 14 199 747</u>	<u>\$ 1 297 472</u>

(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, 2018 to December 31, 2018
Service cost	\$ 582 300
Interest on total pension liability <sup>(1)</sup>	1 198 990
Effect of plan changes	-
Administrative expenses	11 405
Member contributions	(331 521)
Expected investment return net of investment expenses	(1 180 302)
Recognition of Deferred Inflows/Outflows of Resources:	
Recognition of economic/demographic gains or losses	(151 664)
Recognition of assumption changes or inputs	50 799
Recognition of investment gains or losses	370 181
Other <sup>(2)</sup>	3 444
PENSION EXPENSE/(INCOME)	<u>\$ 553 632</u>

(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.

**Pension Expense and Deferred Inflows/Outflows**

As of December 31, 2018, 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	\$ 107 473	\$ -
Change of assumptions	-	32 576
Net difference between projected and actual earnings	508 169	1 397 778
Contributions made subsequent to measurement date	-	258 642
	<u>\$ 615 642</u>	<u>\$ 1 688 946</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,	
2020	\$ 283 752
2021	\$ 132 706
2022	\$ 107 164
2023	\$ 291 090
2024	\$ -
Thereafter	\$ -

SHELBY COUNTY, TEXAS  
 NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
 September 30, 2019

VII. RETIREMENT PLAN - CONTINUED

**Membership Information**

Membership Class	
Inactive employees entitled to but not yet receiving benefits	94
Active employees	134
Currently receiving benefits	89

VIII. 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.

IX. 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.

X. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 17, 2020, the date the financial statements were available to be issued.

Subsequent to year-end, the COVID-19 crisis disrupted the world economy. At this time, the effect on the County due to this event cannot be determined.

XI. PRIOR PERIOD ADJUSTMENT

The government-wide financial statements reflect a prior period adjustment to reflect the beginning balances of assets acquired through capital leases in a prior period and the related lease liabilities. These adjustments result in a net reduction to beginning net position totaling \$345,092.

XII. COMPLIANCE

The County's expenditures exceeded budgeted amounts at the department level for several departments. See the budgetary comparison reports included with the required supplementary information for details.

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, 2019

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
<b>Revenues:</b>				
Property taxes	\$ 5 507 579	\$ 5 507 579	\$ 5 484 751	\$ (22 828)
Other taxes	5 000	5 000	6 334	1 334
Fines	267 000	267 000	255 062	(11 938)
Fees of office	230 000	230 000	282 990	52 990
Interest	40 000	40 000	175 160	135 160
Grants	25 000	25 000	144 841	119 841
Commissions	400 000	400 000	463 520	63 520
Miscellaneous	179 900	179 900	159 129	(20 771)
<b>TOTAL REVENUES</b>	<b>6 654 479</b>	<b>6 654 479</b>	<b>6 971 787</b>	<b>317 308</b>
<b>Expenditures:</b>				
<b>General Administration Expenditures:</b>				
<b>County Agents:</b>				
Payroll expense	75 184	62 811	62 378	433
Operating expense	29 060	26 390	26 398	(8)
<b>TOTAL COUNTY AGENTS</b>	<b>104 244</b>	<b>89 201</b>	<b>88 776</b>	<b>425</b>
<b>County Auditor:</b>				
Payroll expense	134 539	132 862	133 341	(479)
Operating expense	14 600	4 371	4 371	-
<b>TOTAL COUNTY AUDITOR</b>	<b>149 139</b>	<b>137 233</b>	<b>137 712</b>	<b>(479)</b>
<b>County Clerk:</b>				
Payroll expense	189 415	176 292	177 991	(1 699)
Operating expense	72 000	73 351	73 351	-
<b>TOTAL COUNTY CLERK</b>	<b>261 415</b>	<b>249 643</b>	<b>251 342</b>	<b>(1 699)</b>
<b>County Clerk Election Deputy:</b>				
Payroll expense	38 328	38 776	38 776	-
Operating expense	37 577	28 115	28 116	(1)
<b>TOTAL COUNTY CLERK ELECTION DEPUTY</b>	<b>75 905</b>	<b>66 891</b>	<b>66 892</b>	<b>(1)</b>
<b>County Judge:</b>				
Payroll expense	106 344	100 959	101 231	(272)
Operating expense	17 950	16 531	16 531	-
<b>TOTAL COUNTY JUDGE</b>	<b>124 294</b>	<b>117 490</b>	<b>117 762</b>	<b>(272)</b>
<b>District Clerk:</b>				
Payroll expense	250 197	225 582	226 032	(450)
Operating expense	104 700	75 789	75 790	(1)
<b>TOTAL DISTRICT CLERK</b>	<b>354 897</b>	<b>301 371</b>	<b>301 822</b>	<b>(451)</b>
<b>Courthouse Manager:</b>				
Operating expense	36 100	35 402	35 402	-
<b>TOTAL COURTHOUSE MANAGER</b>	<b>36 100</b>	<b>35 402</b>	<b>35 402</b>	<b>-</b>
<b>Tax Assessor Collector:</b>				
Payroll expense	289 339	265 996	266 388	(392)
Operating expense	68 300	56 977	56 977	-
<b>TOTAL TAX ASSESSOR COLLECTOR</b>	<b>357 639</b>	<b>322 973</b>	<b>323 365</b>	<b>(392)</b>
<b>County Treasurer:</b>				
Payroll expense	103 670	103 097	103 454	(357)
Operating expense	8 950	7 723	7 724	(1)
<b>TOTAL COUNTY TREASURER</b>	<b>112 620</b>	<b>110 820</b>	<b>111 178</b>	<b>(358)</b>
<b>Commissioner Secretary:</b>				
Payroll expense	36 478	36 131	36 247	(116)
Operating expense	3 500	2 604	2 604	-
<b>TOTAL COMMISSIONER SECRETARY</b>	<b>39 978</b>	<b>38 735</b>	<b>38 851</b>	<b>(116)</b>

SHELBY COUNTY, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - CONTINUED  
BUDGET AND ACTUAL - GENERAL FUND  
For the Year Ended September 30, 2019

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Veterans Officer:				
Payroll expense	29 827	29 483	29 605	(122)
Operating expense	4 750	3 101	3 100	1
TOTAL VETERANS OFFICER	<u>34 577</u>	<u>32 584</u>	<u>32 705</u>	<u>(121)</u>
Emergency Management Coordinator:				
Payroll expense	14 197	5 037	5 023	14
Operating expense	5 500	195	195	-
TOTAL EMERGENCY MANAGEMENT COORDINATOR	<u>19 697</u>	<u>5 232</u>	<u>5 218</u>	<u>14</u>
TOTAL GENERAL ADMINISTRATION	<u>1 670 505</u>	<u>1 507 575</u>	<u>1 511 025</u>	<u>(3 450)</u>
Judicial Expenditures:				
County Attorney:				
Payroll expense	242 622	247 243	254 682	(7 439)
Operating expense	16 750	6 144	6 144	-
TOTAL COUNTY ATTORNEY	<u>259 372</u>	<u>253 387</u>	<u>260 826</u>	<u>(7 439)</u>
District Attorney:				
Payroll expense	188 425	185 787	186 269	(482)
Operating expense	24 800	24 442	24 442	-
TOTAL DISTRICT ATTORNEY	<u>213 225</u>	<u>210 229</u>	<u>210 711</u>	<u>(482)</u>
District Judges:				
Payroll expense	58 128	83 470	85 121	(1 651)
Operating expense	35 000	9 112	9 112	-
TOTAL DISTRICT JUDGES	<u>93 128</u>	<u>92 582</u>	<u>94 233</u>	<u>(1 651)</u>
Justice of the Peace #1:				
Payroll expense	91 385	88 760	89 091	(331)
Operating expense	11 050	12 055	12 055	-
TOTAL JUSTICE OF THE PEACE #1	<u>102 435</u>	<u>100 815</u>	<u>101 146</u>	<u>(331)</u>
Justice of the Peace #2:				
Payroll expense	40 375	39 516	39 647	(131)
Operating expense	9 910	10 268	10 268	-
TOTAL JUSTICE OF THE PEACE #2	<u>50 285</u>	<u>49 784</u>	<u>49 915</u>	<u>(131)</u>
Justice of the Peace #3:				
Payroll expense	35 116	34 923	35 065	(142)
Operating expense	7 000	7 764	7 764	-
TOTAL JUSTICE OF THE PEACE #3	<u>42 116</u>	<u>42 687</u>	<u>42 829</u>	<u>(142)</u>
Justice of the Peace #4:				
Payroll expense	41 162	35 555	34 748	807
Operating expense	6 610	13 487	13 488	(1)
TOTAL JUSTICE OF THE PEACE #4	<u>47 772</u>	<u>42 687</u>	<u>48 236</u>	<u>806</u>
Justice of the Peace #5:				
Payroll expense	43 000	42 797	42 940	(143)
Operating expense	6 710	12 064	12 064	-
TOTAL JUSTICE OF THE PEACE #5	<u>49 710</u>	<u>54 861</u>	<u>55 004</u>	<u>(143)</u>
TOTAL JUDICIAL EXPENDITURES	<u>858 043</u>	<u>853 387</u>	<u>862 900</u>	<u>(9 513)</u>
Law Enforcement and Corrections Expenditures:				
Constable Pct #1:				
Payroll expense	61 247	60 367	60 580	(213)
Operating expense	7 850	6 541	6 541	-
TOTAL CONSTABLE PCT #1	<u>69 097</u>	<u>66 908</u>	<u>67 121</u>	<u>(213)</u>
Constable Pct #2:				
Payroll expense	61 247	61 039	61 251	(212)
Operating expense	7 800	2 436	2 435	1
TOTAL CONSTABLE PCT #2	<u>69 047</u>	<u>63 475</u>	<u>63 686</u>	<u>(211)</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, 2019

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Constable Pct #3:				
Payroll expense	61 247	61 039	61 251	(212)
Operating expense	10 100	11 680	11 679	1
TOTAL CONSTABLE PCT #3	<u>71 347</u>	<u>72 719</u>	<u>72 930</u>	<u>(211)</u>
Constable Pct #4:				
Payroll expense	61 247	61 099	61 311	(212)
Operating expense	7 800	5 982	5 982	-
TOTAL CONSTABLE PCT #4	<u>69 047</u>	<u>67 081</u>	<u>67 293</u>	<u>(212)</u>
Constable Pct #5:				
Payroll expense	61 247	61 027	61 240	(213)
Operating expense	7 700	6 254	6 254	-
TOTAL CONSTABLE PCT #5	<u>68 947</u>	<u>67 281</u>	<u>67 494</u>	<u>(213)</u>
DPS Secretary:				
Payroll expense	55 157	51 560	51 936	(376)
Operating expense	4 000	2 932	2 932	-
TOTAL DPS SECRETARY	<u>59 157</u>	<u>54 492</u>	<u>54 868</u>	<u>(376)</u>
County Sheriff:				
Payroll expense	2 101 570	2 056 851	2 062 404	(5 553)
Operating expense	601 865	659 589	659 590	(1)
TOTAL COUNTY SHERIFF	<u>2 703 435</u>	<u>2 716 440</u>	<u>2 721 994</u>	<u>(5 554)</u>
Adult Probation:				
Operating expense	27 900	23 413	23 413	-
TOTAL ADULT PROBATION	<u>27 900</u>	<u>23 413</u>	<u>23 413</u>	<u>-</u>
Juvenile Probation:				
Payroll expense	-	-	741	(741)
Operating expense	39 515	22 569	22 856	(287)
TOTAL JUVENILE PROBATION	<u>39 515</u>	<u>22 569</u>	<u>23 597</u>	<u>(1 028)</u>
TOTAL LAW ENFORCEMENT AND CORRECTIONS EXPENDITURES	<u>3 177 492</u>	<u>3 154 378</u>	<u>3 162 396</u>	<u>(8 018)</u>
Non-departmental expenditures	1 333 291	1 523 991	1 472 110	51 881
TOTAL EXPENDITURES	<u>7 039 331</u>	<u>7 039 331</u>	<u>7 008 431</u>	<u>30 900</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(384 852)</u>	<u>(384 852)</u>	<u>(36 644)</u>	<u>348 208</u>
Other Financing Sources (Uses):				
Transfers in (out)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(384 852)	(384 852)	(36 644)	348 208
Fund balances, beginning	5 184 753	5 184 753	5 184 753	-
FUND BALANCES, ENDING	<u>\$ 4 799 901</u>	<u>\$ 4 799 901</u>	<u>\$ 5 148 109</u>	<u>\$ 348 208</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, 2019

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
<b>Revenues:</b>				
Property taxes	\$ 511 712	\$ 511 712	\$ 526 311	\$ 14 599
Other taxes	259 112	259 112	267 913	8 801
Fines and fees	184 500	184 500	178 757	(5 743)
Miscellaneous	40 000	40 000	168 691	128 691
<b>TOTAL REVENUES</b>	<u>995 324</u>	<u>995 324</u>	<u>1 141 672</u>	<u>146 348</u>
<b>Expenditures:</b>				
Payroll expense	410 016	409 325	412 392	(3 067)
Operating expense	816 808	1 011 487	1 234 664	(223 177)
Debt service	18 500	18 048	18 049	(1)
<b>TOTAL EXPENDITURES</b>	<u>1 245 324</u>	<u>1 438 860</u>	<u>1 665 105</u>	<u>(226 245)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(250 000)</u>	<u>(443 536)</u>	<u>(523 433)</u>	<u>(79 897)</u>
<b>Other Financing Sources (Uses):</b>				
Proceeds from capital leases	-	-	200 250	200 250
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>200 250</u>	<u>200 250</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(250 000)</u>	<u>(443 536)</u>	<u>(323 183)</u>	<u>120 353</u>
Fund balances, beginning	<u>426 952</u>	<u>426 952</u>	<u>426 952</u>	<u>-</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 176 952</u>	<u>\$ (16 584)</u>	<u>\$ 103 769</u>	<u>\$ 120 353</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, 2019

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Property taxes	\$ 511 712	\$ 511 712	\$ 526 311	\$ 14 599
Other taxes	259 112	259 112	267 913	8 801
Fines and fees	184 500	184 500	178 757	(5 743)
Miscellaneous	40 000	40 000	66 828	26 828
TOTAL REVENUES	<u>995 324</u>	<u>995 324</u>	<u>1 039 809</u>	<u>44 485</u>
Expenditures:				
Payroll expense	433 739	384 529	388 604	(4 075)
Operating expense	746 585	822 963	836 302	(13 339)
Debt service	15 000	65 000	65 000	-
TOTAL EXPENDITURES	<u>1 195 324</u>	<u>1 272 492</u>	<u>1 289 906</u>	<u>(17 414)</u>
NET CHANGE IN FUND BALANCES	(200 000)	(277 168)	(250 097)	27 071
Fund balances, beginning	<u>262 716</u>	<u>262 716</u>	<u>262 716</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 62 716</u>	<u>\$ (14 452)</u>	<u>\$ 12 619</u>	<u>\$ 27 071</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, 2019

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
<b>Revenues:</b>				
Property taxes	\$ 511 712	\$ 511 712	\$ 526 311	\$ 14 599
Other taxes	259 112	259 112	267 913	8 801
Fines and fees	184 500	184 500	178 757	(5 743)
Miscellaneous	40 000	40 000	66 828	26 828
TOTAL REVENUES	<u>995 324</u>	<u>995 324</u>	<u>1 039 809</u>	<u>44 485</u>
<b>Expenditures:</b>				
Payroll expense	445 283	434 568	435 827	(1 259)
Operating expense	711 271	878 272	921 007	(42 735)
Debt service	38 770	38 770	38 770	-
TOTAL EXPENDITURES	<u>1 195 324</u>	<u>1 351 610</u>	<u>1 395 604</u>	<u>(43 994)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(200 000)</u>	<u>(356 286)</u>	<u>(355 795)</u>	<u>491</u>
<b>Other Financing Sources (Uses):</b>				
Proceeds from capital leases	-	-	56 225	56 225
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>56 225</u>	<u>56 225</u>
NET CHANGE IN FUND BALANCES	(200 000)	(356 286)	(299 570)	56 716
Fund balances, beginning	<u>343 072</u>	<u>343 072</u>	<u>343 072</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 143 072</u>	<u>\$ (13 214)</u>	<u>\$ 43 502</u>	<u>\$ 56 716</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, 2019

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Property taxes	\$ 511 712	\$ 511 712	\$ 526 312	\$ 14 600
Other taxes	259 112	259 112	267 913	8 801
Fines and fees	184 500	184 500	178 757	(5 743)
Miscellaneous	40 000	40 000	66 828	26 828
TOTAL REVENUES	<u>995 324</u>	<u>995 324</u>	<u>1 039 810</u>	<u>44 486</u>
Expenditures:				
Payroll expense	439 097	420 420	421 785	(1 365)
Operating expense	556 227	722 683	768 329	(45 646)
TOTAL EXPENDITURES	<u>995 324</u>	<u>1 143 103</u>	<u>1 190 114</u>	<u>(47 011)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(147 779)</u>	<u>(150 304)</u>	<u>(2 525)</u>
Other Financing Sources (Uses):				
Proceeds from capital leases	-	-	56 225	56 225
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>56 225</u>	<u>56 225</u>
NET CHANGE IN FUND BALANCES	-	(147 779)	(94 079)	53 700
Fund balances, beginning	<u>135 436</u>	<u>135 436</u>	<u>135 436</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 135 436</u>	<u>\$ (12 343)</u>	<u>\$ 41 357</u>	<u>\$ 53 700</u>

See independent auditors' report.

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

	2018	2017	2016	2015	2014
Total Pension Liability:					
Service cost	\$ 582 300	\$ 560 000	\$ 576 630	\$ 487 702	\$ 463 927
Interest (on the total pension liability)	1 198 900	1 127 656	1 058 536	1 020 941	960 407
Changes of benefit terms	-	-	-	(88 405)	-
Change of assumptions	-	65 151	-	(321 991)	-
Demographic/economic (gains)/losses	(58 148)	(28 935)	(197 579)	138 045	19 055
Benefit payments, including refunds of employee contributions	(874 895)	(856 476)	(866 430)	(719 291)	(744 305)
NET CHANGE IN TOTAL PENSION LIABILITY	848 247	867 396	571 157	517 001	699 084
Total pension liability - Beginning	14 648 972	13 781 576	13 210 418	12 693 417	11 994 333
TOTAL PENSION LIABILITY - ENDING	<u>15 497 219</u>	<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	368 461	354 054	365 822	367 665	338 996
Contributions - Employee	331 521	324 821	304 489	308 006	266 626
Net investment income	(275 150)	1 889 569	904 301	9 855	802 479
Benefit payments, including refunds of employee contributions	(875 895)	(856 476)	(866 430)	(719 291)	(744 306)
Administrative	(11 405)	(9 752)	(9 883)	(8 908)	(9 351)
Other	(3 443)	(2 473)	(32 134)	(135 211)	20 185
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(464 912)	1 699 743	666 165	(177 884)	674 629
Plan fiduciary net position - Beginning	14 664 659	12 964 916	12 298 750	12 476 633	11 802 004
PLAN FIDUCIARY NET POSITION - ENDING	<u>14 199 747</u>	<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>\$ 1 297 472</u>	<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	91.63%	100.11%	94.07%	93.10%	98.29%
Covered employee payroll	\$ 4 763 009	\$ 4 640 294	\$ 4 349 850	\$ 4 285 142	\$ 3 808 942
Net pension liability as a percentage of covered employee payroll	27.40%	(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%
2019	\$ 367 756	\$ 367 756	-	\$ 4 736 009	7.8%

Additional years will be provided as they become available.

SHELBY COUNTY, TEXAS  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended September 30, 2019

**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, 2019.

**Pension Plan**

See Note VII for details on retirement plan provisions and changes to the plan during the year ended September 30, 2019.

## COMBINING SCHEDULES

SHELBY COUNTY, TEXAS  
 COMBINING BALANCE SHEET -  
 SPECIAL REVENUE FUNDS  
 September 30, 2019

	COUNTY CLERK VITAL ARCHIVES FEE FUND	GENERAL RECORDS MANAGEMENT	SHERIFF OFFICE EDUCATION FUND	VEHICLE INVENTORY TAX FUND
<b>ASSETS</b>				
Cash and investments	\$ 34 443	\$ 15 985	\$ 4 013	\$ 89 439
Property tax receivable (net)	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 34 443</b>	<b>15 985</b>	<b>\$ 4 013</b>	<b>\$ 89 439</b>
 <b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued expense	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred Inflows:</b>				
Unavailable revenue	-	-	-	-
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>				
Restricted fund balance	34 443	15 985	4 013	89 439
<b>TOTAL FUND BALANCES</b>	<b>34 443</b>	<b>15 985</b>	<b>4 013</b>	<b>89 439</b>
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>	 <b>\$ 34 443</b>	 <b>\$ 15 985</b>	 <b>\$ 4 013</b>	 <b>\$ 89 439</b>

See independent auditors' report.

<u>HISTORIC COURTHOUSE FUND</u>	<u>GARZA COUNTY FUND</u>	<u>SHERIFF COMMISSARY FUND</u>	<u>DISTRICT ATTORNEY TRUSTEE</u>	<u>COUNTY ATTORNEY FUND</u>	<u>ROAD GRANT</u>
\$ 3 489	\$ 12 526	\$ 77 866	\$ 10 095	\$ 31 992	\$ 257
-	-	-	-	-	-
<u>\$ 3 489</u>	<u>\$ 12 526</u>	<u>\$ 77 866</u>	<u>\$ 10 095</u>	<u>\$ 31 992</u>	<u>\$ 257</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>
3 489	12 526	77 866	10 095	31 992	257
<u>3 489</u>	<u>12 526</u>	<u>77 866</u>	<u>10 095</u>	<u>31 992</u>	<u>257</u>
<u>\$ 3 489</u>	<u>\$ 12 526</u>	<u>\$ 77 866</u>	<u>\$ 10 095</u>	<u>\$ 31 992</u>	<u>\$ 257</u>

SHELBY COUNTY, TEXAS  
 COMBINING BALANCE SHEET -  
 SPECIAL REVENUE FUNDS - CONTINUED  
 September 30, 2019

	<u>JUSTICE COURT TECH FUND</u>	<u>LEOSE CONSTABLES FUND</u>	<u>CHAPTER 19 VOTER REGISTRATION</u>
<b>ASSETS</b>			
Cash and investments	\$ 26 394	\$ 15 217	\$ 466
Property tax receivable (net)	4 386	-	-
<b>TOTAL ASSETS</b>	<u>\$ 30 780</u>	<u>\$ 15 217</u>	<u>\$ 466</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Accrued expense	-	-	-
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows:			
Unavailable revenue	4 386	-	-
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS</b>	<u>4 386</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Restricted fund balance	26 394	15 217	466
<b>TOTAL FUND BALANCES</b>	<u>26 394</u>	<u>15 217</u>	<u>466</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>	<u>\$ 30 780</u>	<u>\$ 15 217</u>	<u>\$ 466</u>

See independent auditors' report.

<u>LAW LIBRARY FUND</u>	<u>DISTRICT CLERK RECORD MGMT FUND</u>	<u>COUNTY CLERK RECORD MGMT FUND</u>	<u>COURT- HOUSE SECURITY FUND</u>	<u>JURY FUND</u>	<u>RIGHT OF WAY FUND</u>	<u>INDIGENT HEALTH CARE FUND</u>
\$ 104 682	\$ 6 119	\$ 148 281	\$ 4 420	\$ 25 804	\$ 55 198	\$ 735 866
-	-	-	8 771	13 556	-	95 886
<u>\$ 104 682</u>	<u>\$ 6 119</u>	<u>\$ 148 281</u>	<u>\$ 13 191</u>	<u>\$ 39 360</u>	<u>\$ 55 198</u>	<u>\$ 831 752</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31 470
-	-	503	60	-	-	1 574
<u>-</u>	<u>-</u>	<u>503</u>	<u>60</u>	<u>-</u>	<u>-</u>	<u>33 044</u>
-	-	-	8 771	13 556	-	95 886
<u>-</u>	<u>-</u>	<u>-</u>	<u>8 771</u>	<u>13 556</u>	<u>-</u>	<u>95 886</u>
104 682	6 119	147 778	4 360	25 804	55 198	702 822
<u>104 682</u>	<u>6 119</u>	<u>147 778</u>	<u>4 360</u>	<u>25 804</u>	<u>55 198</u>	<u>702 822</u>
<u>\$ 104 682</u>	<u>\$ 6 119</u>	<u>\$ 148 281</u>	<u>\$ 13 191</u>	<u>\$ 39 360</u>	<u>\$ 55 198</u>	<u>\$ 831 752</u>

SHELBY COUNTY, TEXAS  
 COMBINING BALANCE SHEET -  
 SPECIAL REVENUE FUNDS - CONTINUED  
 September 30, 2019

	<u>COURT REPORTER SERVICE FUND</u>	<u>JUVENILE PROBATION FUND</u>	<u>SHERIFF FEDERAL SEIZURE</u>	<u>GRANT FUND</u>
<b>ASSETS</b>				
Cash and investments	\$ 1 270	\$ 74 282	\$ -	\$ -
Property tax receivable (net)	-	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 1 270</u>	<u>\$ 74 282</u>	<u>\$ -</u>	<u>\$ -</u>
 <b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ -	\$ 35 968	\$ -	\$ -
Accrued expense	-	78	-	-
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>36 046</u>	<u>-</u>	<u>-</u>
Deferred Inflows:				
Unavailable revenue	-	-	-	-
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted fund balance	1 270	38 236	-	-
<b>TOTAL FUND BALANCES</b>	<u>1 270</u>	<u>38 236</u>	<u>-</u>	<u>-</u>
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>	 <u>\$ 1 270</u>	 <u>\$ 74 282</u>	 <u>\$ -</u>	 <u>\$ -</u>

See independent auditors' report.

<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>	<u>APPELLATE JUDICIAL FEE DISTRICT CLERK</u>	<u>RECORDS ARCHIVE FEE COUNTY CLERK</u>
\$ 8 698	\$ 40 873	\$ 1 687	\$ 155	\$ 415	\$ 281 825
-	-	-	-	-	-
<u>\$ 8 698</u>	<u>\$ 40 873</u>	<u>\$ 1 687</u>	<u>\$ 155</u>	<u>\$ 415</u>	<u>\$ 281 825</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>
8 698	40 873	1 687	155	415	281 825
<u>8 698</u>	<u>40 873</u>	<u>1 687</u>	<u>155</u>	<u>415</u>	<u>281 825</u>
<u>\$ 8 698</u>	<u>\$ 40 873</u>	<u>\$ 1 687</u>	<u>\$ 155</u>	<u>\$ 415</u>	<u>\$ 281 825</u>

SHELBY COUNTY, TEXAS  
 COMBINING BALANCE SHEET -  
 SPECIAL REVENUE FUNDS - CONTINUED  
 September 30, 2019

	<u>RECORDS ARCHIVE FEE DISTRICT CLERK</u>	<u>JP COURT SECURITY FUND</u>	<u>GUARDIAN- SHIP FUND</u>	<u>DISTRICT ATTORNEY SEIZURE FUND NON-TRAFFIC</u>
<b>ASSETS</b>				
Cash and investments	\$ 32 006	\$ 24 424	\$ 1 544	\$ 140 833
Property tax receivable (net)	-	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 32 006</u>	<u>\$ 24 424</u>	<u>\$ 1 544</u>	<u>\$ 140 833</u>
 <b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued expense	-	-	-	-
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 <b>Deferred Inflows:</b>				
Unavailable revenue	-	-	-	-
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 <b>Fund Balances:</b>				
Restricted fund balance	<u>32 006</u>	<u>24 424</u>	<u>1 544</u>	<u>140 833</u>
<b>TOTAL FUND BALANCES</b>	<u>32 006</u>	<u>24 424</u>	<u>1 544</u>	<u>140 833</u>
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>	 <u>\$ 32 006</u>	 <u>\$ 24 424</u>	 <u>\$ 1 544</u>	 <u>\$ 140 833</u>

See independent auditors' report.

DISTRICT ATTORNEY FORFEITURE FUND <u>TRAFFIC</u>	DISTRICT ATTORNEY FORFEITURE FUNDS	PRETRIAL INTERVENTION PROGRAM FUND	DRUG COURT FUND	TOTAL SPECIAL REVENUE FUNDS
\$ 3 438	\$ 199	\$ 15 260	\$ 51 266	\$ 2 080 727
-	-	-	-	122 599
<u>\$ 3 438</u>	<u>\$ 199</u>	<u>\$ 15 260</u>	<u>\$ 51 266</u>	<u>\$ 2 203 326</u>
\$ -	\$ -	\$ -	\$ -	\$ 67 438
-	-	-	-	2 215
<u style="text-align: center;">-</u>	<u style="text-align: center;">-</u>	<u style="text-align: center;">-</u>	<u style="text-align: center;">-</u>	<u style="text-align: center;">69 653</u>
-	-	-	-	122 599
-	-	-	-	122 599
3 438	199	15 260	51 266	2 011 074
<u style="text-align: center;">3 438</u>	<u style="text-align: center;">199</u>	<u style="text-align: center;">15 260</u>	<u style="text-align: center;">51 266</u>	<u style="text-align: center;">2 011 074</u>
<u>\$ 3 438</u>	<u>\$ 199</u>	<u>\$ 15 260</u>	<u>\$ 51 266</u>	<u>\$ 2 203 326</u>

SHELBY COUNTY, TEXAS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE - SPECIAL REVENUE FUNDS  
 For the Year Ended September 30, 2019

	COUNTY CLERK VITAL ARCHIVES FEE FUND	GENERAL RECORDS MANAGEMENT	SHERIFF OFFICE EDUCATION FUND	VEHICLE INVENTORY TAX FUND
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	127 194
Fines and fees	1 958	6 137	-	-
Charges for services	-	-	-	-
Grants and contributions	-	-	-	-
Interest	-	-	-	56
Miscellaneous income	-	-	3 579	-
TOTAL REVENUES	<u>1 958</u>	<u>6 137</u>	<u>3 579</u>	<u>127 250</u>
Expenditures:				
Payroll expense	-	-	-	-
Operating expense	-	9 169	2 117	115 784
TOTAL EXPENDITURES	<u>-</u>	<u>9 169</u>	<u>2 117</u>	<u>115 784</u>
NET CHANGE IN FUND BALANCES	1 958	(3 032)	1 462	11 466
Fund balances, beginning	<u>32 485</u>	<u>19 017</u>	<u>2 551</u>	<u>77 973</u>
FUND BALANCES ENDING	<u>\$ 34 443</u>	<u>\$ 15 985</u>	<u>\$ 4 013</u>	<u>\$ 89 439</u>

See independent auditors' report.

<u>HISTORIC COURTHOUSE FUND</u>	<u>GARZA COUNTY FUND</u>	<u>SHERIFF COMMISSARY FUND</u>	<u>DISTRICT ATTORNEY TRUSTEE</u>	<u>COUNTY ATTORNEY FUND</u>	<u>ROAD GRANT</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	66 604	-	-	-
1 479	-	-	-	-	257
-	-	-	-	7	-
-	12 000	-	28 182	31 765	-
<u>1 479</u>	<u>12 000</u>	<u>66 604</u>	<u>28 182</u>	<u>31 772</u>	<u>257</u>
-	-	-	22 347	7 075	-
2 000	12 000	60 179	5 779	-	-
<u>2 000</u>	<u>12 000</u>	<u>60 179</u>	<u>28 126</u>	<u>7 075</u>	<u>-</u>
(521)	-	6 425	56	24 697	257
<u>4 010</u>	<u>12 526</u>	<u>71 441</u>	<u>10 039</u>	<u>7 295</u>	<u>-</u>
\$ <u>3 489</u>	\$ <u>12 526</u>	\$ <u>77 866</u>	\$ <u>10 095</u>	\$ <u>31 992</u>	\$ <u>257</u>

SHELBY COUNTY, TEXAS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE - SPECIAL REVENUE FUNDS - CONTINUED  
 For the Year Ended September 30, 2019

	JUSTICE COURT TECH FUND	LEOSE CONSTABLES FUND	CHAPTER 19 VOTER REGISTRATION
	<u>          </u>	<u>          </u>	<u>          </u>
Revenues:			
Property taxes	\$ 29 726	\$ -	\$ -
Other taxes	-	-	-
Fines and fees	5 855	-	-
Charges for services	-	-	-
Grants and contributions	-	-	466
Interest	-	-	-
Miscellaneous income	-	3 399	-
TOTAL REVENUES	<u>35 581</u>	<u>3 399</u>	<u>466</u>
Expenditures:			
Payroll expense	-	-	-
Operating expense	21 890	2 404	-
TOTAL EXPENDITURES	<u>21 890</u>	<u>2 404</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	13 691	995	466
Fund balances, beginning	<u>12 703</u>	<u>14 222</u>	<u>-</u>
FUND BALANCES ENDING	<u>\$ 26 394</u>	<u>\$ 15 217</u>	<u>\$ 466</u>

See independent auditors' report.

<u>LAW LIBRARY FUND</u>	<u>DISTRICT CLERK RECORD MGMT FUND</u>	<u>COUNTY CLERK RECORD MGMT FUND</u>	<u>COURT- HOUSE SECURITY FUND</u>	<u>JURY FUND</u>	<u>RIGHT OF WAY FUND</u>	<u>INDIGENT HEALTH CARE FUND</u>
\$ -	\$ -	\$ -	\$ 59 453	\$ 91 873	\$ -	\$ 649 931
-	-	-	-	-	-	-
11 761	2 150	46 010	11 057	-	-	-
-	-	-	-	-	-	-
-	-	-	-	4 839	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>11 761</u>	<u>2 150</u>	<u>46 010</u>	<u>70 510</u>	<u>96 712</u>	<u>-</u>	<u>649 931</u>
-	-	25 881	71 538	84 111	-	40 055
8 908	541	18 556	4 217	8 603	-	232 513
<u>8 908</u>	<u>541</u>	<u>44 437</u>	<u>75 755</u>	<u>92 714</u>	<u>-</u>	<u>272 568</u>
2 853	1 609	1 573	(5 245)	3 998	-	377 363
<u>101 829</u>	<u>4 510</u>	<u>146 205</u>	<u>9 605</u>	<u>21 806</u>	<u>55 198</u>	<u>325 459</u>
\$ <u>104 682</u>	\$ <u>6 119</u>	\$ <u>147 778</u>	\$ <u>4 360</u>	\$ <u>25 804</u>	\$ <u>55 198</u>	\$ <u>702 822</u>

SHELBY COUNTY, TEXAS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE - SPECIAL REVENUE FUNDS - CONTINUED  
 For the Year Ended September 30, 2019

	COURT REPORTER SERVICE FUND	JUVENILE PROBATION FUND	SHERIFF FEDERAL SEIZURE	GRANT FUND
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Fines and fees	4 560	-	-	-
Charges for services	-	-	-	-
Grants and contributions	-	174 249	-	28 679
Interest	-	-	-	-
Miscellaneous income	-	-	-	-
TOTAL REVENUES	<u>4 560</u>	<u>174 249</u>	<u>-</u>	<u>28 679</u>
Expenditures:				
Payroll expense	-	118 457	-	-
Operating expense	4 096	34 854	3 460	28 679
TOTAL EXPENDITURES	<u>4 096</u>	<u>153 311</u>	<u>3 460</u>	<u>28 679</u>
NET CHANGE IN FUND BALANCES	464	20 938	(3 460)	-
Fund balances, beginning	<u>806</u>	<u>17 298</u>	<u>3 460</u>	<u>-</u>
FUND BALANCES ENDING	<u>\$ 1 270</u>	<u>\$ 38 236</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditors' report.

<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>	<u>APPELLATE JUDICIAL FEE DISTRICT CLERK</u>	<u>RECORDS ARCHIVE FEE COUNTY CLERK</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	4 418	501	560	1 490	45 675
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
3 085	-	-	-	-	-
<u>3 085</u>	<u>4 418</u>	<u>501</u>	<u>560</u>	<u>1 490</u>	<u>45 675</u>
-	-	-	-	-	-
840	-	3 933	530	1 445	4 803
<u>840</u>	<u>-</u>	<u>3 933</u>	<u>530</u>	<u>1 445</u>	<u>4 803</u>
2 245	4 418	(3 432)	30	45	40 872
<u>6 453</u>	<u>36 455</u>	<u>5 119</u>	<u>125</u>	<u>370</u>	<u>240 953</u>
\$ <u>8 698</u>	\$ <u>40 873</u>	\$ <u>1 687</u>	\$ <u>155</u>	\$ <u>415</u>	\$ <u>281 825</u>

SHELBY COUNTY, TEXAS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE - SPECIAL REVENUE FUNDS - CONTINUED  
 For the Year Ended September 30, 2019

	RECORDS ARCHIVE FEE DISTRICT CLERK	JP COURT SECURITY FUND	GUARDIAN- SHIP FUND	DISTRICT ATTORNEY SEIZURE FUND NON-TRAFFIC
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Fines and fees	3 982	1 369	1 320	14 393
Charges for services	-	-	-	-
Grants and contributions	-	-	-	-
Interest	-	-	-	-
Miscellaneous income	-	-	-	-
TOTAL REVENUES	<u>3 982</u>	<u>1 369</u>	<u>1 320</u>	<u>14 393</u>
Expenditures:				
Payroll expense	-	-	-	-
Operating expense	34 985	80	14 822	6 792
TOTAL EXPENDITURES	<u>34 985</u>	<u>80</u>	<u>14 822</u>	<u>6 792</u>
NET CHANGE IN FUND BALANCES	(31 003)	1 289	(13 502)	7 601
Fund balances, beginning	<u>63 009</u>	<u>23 135</u>	<u>15 046</u>	<u>133 232</u>
FUND BALANCES ENDING	<u>\$ 32 006</u>	<u>\$ 24 424</u>	<u>\$ 1 544</u>	<u>\$ 140 833</u>

See independent auditors' report.

DISTRICT ATTORNEY FORFEITURE FUND <u>TRAFFIC</u>	DISTRICT ATTORNEY FORFEITURE FUNDS	PRETRIAL INTERVENTION PROGRAM FUND	DRUG COURT FUND	TOTAL SPECIAL REVENUE FUNDS
\$ -	\$ -	\$ -	\$ -	\$ 830 983
-	-	-	-	127 194
-	-	10 366	2 013	175 575
-	-	-	-	66 604
-	-	-	-	209 969
3	1	-	-	67
-	-	-	-	82 010
<u>3</u>	<u>1</u>	<u>10 366</u>	<u>2 013</u>	<u>1 492 402</u>
-	-	-	-	369 464
-	844	900	2 937	648 660
-	<u>844</u>	<u>900</u>	<u>2 937</u>	<u>1 018 124</u>
3	(843)	9 466	(924)	474 278
<u>3 435</u>	<u>1 042</u>	<u>5 794</u>	<u>52 190</u>	<u>1 536 796</u>
\$ <u>3 438</u>	\$ <u>199</u>	\$ <u>15 260</u>	\$ <u>51 266</u>	\$ <u>2 011 074</u>

SHELBY COUNTY, TEXAS  
 COMBINING SCHEDULE OF FIDUCIARY NET POSITION  
 September 30, 2019

	ARENA BLEACHER FUND	COUNTY CLERK	DISTRICT CLERK TRUST	DISTRICT CLERK	MOTOR VEHICLE TAX	PROPERTY TAXES
<b>ASSETS</b>						
Cash and cash equivalents	\$ 37 401	\$ 99 462	\$ 1 717 336	\$ 669 047	\$ 344 335	\$ 118 942
<b>TOTAL ASSETS</b>	<b><u>\$ 37 401</u></b>	<b><u>\$ 99 462</u></b>	<b><u>\$ 1 717 336</u></b>	<b><u>\$ 669 047</u></b>	<b><u>\$ 344 335</u></b>	<b><u>\$ 118 942</u></b>
<b>LIABILITIES</b>						
Due to others	\$ 37 401	\$ 99 462	\$ 1 717 336	\$ 669 047	\$ 344 335	\$ 118 942
<b>TOTAL LIABILITIES</b>	<b><u>\$ 37 401</u></b>	<b><u>\$ 99 462</u></b>	<b><u>\$ 1 717 336</u></b>	<b><u>\$ 669 047</u></b>	<b><u>\$ 344 335</u></b>	<b><u>\$ 118 942</u></b>

See independent auditors' report.

<u>COUNTY ATTORNEY RESTITUTION</u>	<u>INMATE ACCOUNT</u>	<u>DISTRICT ATTORNEY FORFEITURE</u>	<u>AGENCY FUND</u>	<u>CHILD ABUSE PREVENTION FEE FUND</u>	<u>FAMILY PROTECTION FEE FUND</u>	<u>COMBINED FIDUCIARY FUNDS</u>
\$ <u>29 002</u>	\$ <u>47 485</u>	\$ <u>10 474</u>	\$ <u>83 263</u>	\$ <u>2 111</u>	\$ <u>2 280</u>	\$ <u>3 161 138</u>
\$ <u>29 002</u>	\$ <u>47 485</u>	\$ <u>10 474</u>	\$ <u>83 263</u>	\$ <u>2 111</u>	\$ <u>2 280</u>	\$ <u>3 161 138</u>
\$ <u>29 002</u>	\$ <u>47 485</u>	\$ <u>10 474</u>	\$ <u>83 263</u>	\$ <u>2 111</u>	\$ <u>2 280</u>	\$ <u>3 161 138</u>
\$ <u>29 002</u>	\$ <u>47 485</u>	\$ <u>10 474</u>	\$ <u>83 263</u>	\$ <u>2 111</u>	\$ <u>2 280</u>	\$ <u>3 161 138</u>

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, 2019, and the related notes to the financial statements, which collectively comprise Shelby County, Texas' basic financial statements, and have issued our report thereon dated June 17, 2020.

**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 2019-01.

**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 Findings 2019-2 and 2019-3 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  
June 17, 2020

  
CERTIFIED PUBLIC ACCOUNTANTS

SHELBY COUNTY, TEXAS  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended September 30, 2019

A. Summary of the Auditor's Results:

1. Financial Statements

Type of report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	___ Yes <u>X</u> No
Significant deficiency(s) not considered material weaknesses?	<u>X</u> Yes    ___ None reported

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

*Finding 2019-1:*

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.

C. Compliance Findings

*Finding 2019-2:*

Condition - The County did not follow applicable bid requirements of the Local Government Code.

Criteria - Expenditures were incurred during the year that were subject to the bid requirements of the Texas Local Government Code; however, bids were not solicited for all such instances.

Effect - The County is out of compliance with applicable procurement regulations.

Questioned Cost - None

Recommendation - We recommend that the County evaluate significant expenditures against the Local Government Code for applicability of bid requirements.

Client Response – Shelby County will review and ensure that Local Government Code 262, in regards to Purchasing and Contracting Authority to Counties, is adhered and fully documents in regards to bid notice publications, bid receipt compliance, bid confidentiality, and retention of bid documents.

*Finding 2019-3:*

Condition - Certain year-end accruals and recognition of capital lease proceeds and related capital outlay expenditures are recorded for financial reporting purposes only and are not reflected in budgeted expenditures.

Criteria - Budgetary controls at the County are established at the functional and department level for each fund. Expenditures over budgeted amounts require board approved budget amendments.

Effect - Actual expenditures exceeded budget for several functions/departments in major funds.

Questioned Cost - None

Recommendation - We recommend that the County evaluate expenditures at the functional budgetary level periodically to ensure adequate budget amendments are approved, as needed.

Client Response – Shelby County will utilize Commissioners' Court approved Budget Line Item Transfers periodically for applicable budget amendments. Furthermore, Shelby County understands that year-end audit adjusting entries may impact the reporting of these budget variances. Shelby County will ensure, at a minimum, that Budget Line Item Transfers are presented and approved at fiscal year-end.

SHELBY COUNTY, TEXAS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended September 30, 2019

Prior Audit Finding / Recommendation / Current Status

Finding 2019-01:

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