

SHELBY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2009

MILLER, CARPENTER & EARNEST, CPA'S
ONE BELLEMEAD CENTRE
6425 YOUREE DRIVE, SUITE 480
SHREVEPORT, LOUISIANA 71105
(318)868.1680

SHELBY COUNTY, TEXAS
 Table of Contents
 Year Ended September 30, 2009

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-10
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Reconciliation of the Balance Sheet of Governmental Funds to Statement of Net Assets	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	18
Statement of Net Assets – Fiduciary Funds	19
Statement of Changes in Net Assets – Fiduciary Funds	20
Notes to Financial Statements	21-32
REQUIRED SUPPLEMENTARY INFORMATION	
Budget Information	
Schedule of Revenues, Expenditure, and Changes in Fund Balances – Budget (GAAP Basis) and Actual – General Fund	33
Schedule of Revenues, Expenditure, and Changes in Fund Balances – Budget (GAAP Basis) and Actual – Special Revenue Fund	34
Notes to Budget Information	35
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING	36-37

MILLER, CARPENTER & EARNEST

CERTIFIED PUBLIC ACCOUNTANTS

(A Professional Corporation)

BENJAMIN A. MILLER, CPA
DANIEL W. CARPENTER, CPA
ROBERT M. EARNEST, CPA*, CVA

PRINCIPAL

PETER M. BRATLIE, CPA

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS
SOCIETY OF LOUISIANA CERTIFIED
PUBLIC ACCOUNTANTS
*TEXAS SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

**The Honorable Commissioners'
Court of Shelby County
Center, Texas**

Commissioners:

We have audited the accompanying financial statements of the governmental activities, and the aggregate remaining fund information of Shelby County, Texas (the "County"), as of and for the year ended September 30, 2009, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We have 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2010, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance

with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3-10 and the budgetary comparison schedules for the General Fund and Special Revenue Fund on pages 34-36 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents under supplementary financial information are presented for the purposes of additional analysis and are not a required part of the basic financial statements.


Miller, Carpenter & Earnest, CPA's
December 17, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

SHELBY COUNTY, TEXAS

Management's Discussion and Analysis

September 30, 2009

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, 2009 ("FY 2009"). Readers are encouraged to consider the information presented herein in conjunction with the additional information furnished in our letter of transmittal.

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 exceeded liabilities by \$11,659,337 on a government-wide basis as of September 30, 2009.
- ◆ For FY 2009, taxes and other revenues, including program revenues, of the County's governmental activities amounted to \$15,014,128. Expenses, including program expenses, totaled \$15,208,132.

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 an increase in fund balance of \$651,271 for the fiscal year.
- ◆ The County's General Fund reported a fund balance of \$3,982,938, an increase of \$965,584 from September 30, 2008.

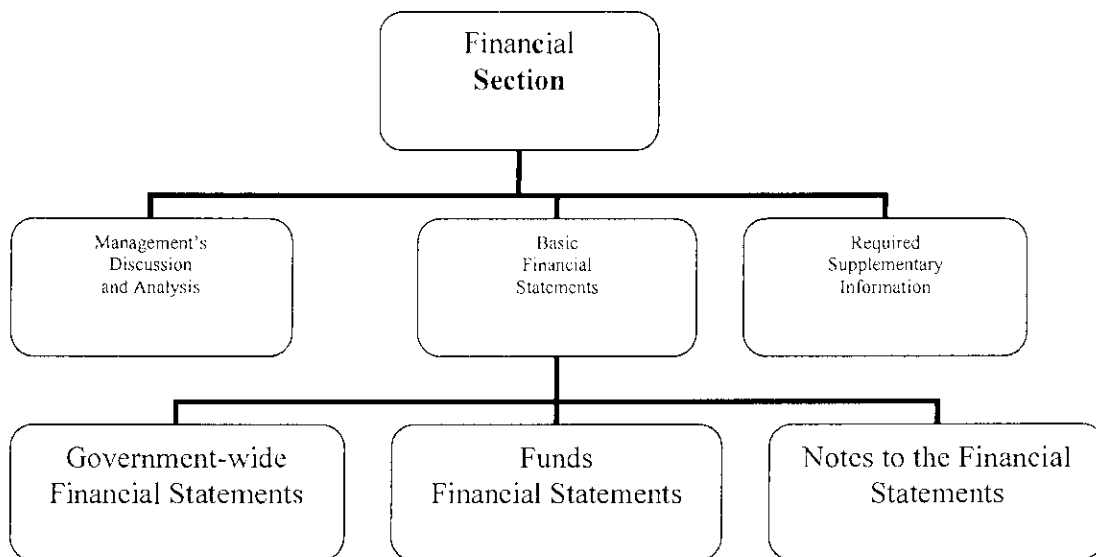
General Financial Highlights

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 were required for the first time this year under Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments. These 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,

SHELBY COUNTY, TEXAS

Management's Discussion and Analysis

September 30, 2009

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 trend data pertaining to the retirement programs 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 Assets is shown on a Assets less Liabilities equals Net Assets, instead of a more traditional Assets = Liabilities + Equity format.

The Statement of Net Assets presents information on all of the assets and liabilities of the County, with the difference reported as net assets. Over a period of several years, the change in net assets 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 assets of the County changed during the fiscal year. All current year revenues and expenses are accounted for in the statement of activities, regardless of when the cash was received or paid.

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

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

Proprietary funds are internal service funds used to account for the operations that are financed and operated in a manner similar to a business enterprise. Expenditures are recovered primarily through user charges or transfers of budgeted monies from other funds to facilitate payment. Proprietary fund financial statements, like government-wide statements, provide both long- and short-term financial information.

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.

SHELBY COUNTY, TEXAS
 Management's Discussion and Analysis
 September 30, 2009

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Statement of Net Assets

The following table presents a summary of the County's net assets as of September 30, 2009 and 2008:

	As of September 30,	
	<u>2009</u>	<u>2008</u>
Assets:		
Current and other assets	\$ 7,578,818	\$ 6,087,315
Capital assets (net)	5,359,167	7,231,363
Total assets	<u>12,937,985</u>	<u>13,318,678</u>
Liabilities:		
Current liabilities	900,810	858,219
Long-term liabilities	377,838	607,118
Total liabilities	<u>1,278,648</u>	<u>1,465,337</u>
Net Assets:		
Invested in capital assets, net of related debt	4,981,329	6,624,245
Restricted	2,762,662	2,707,808
Unrestricted	3,915,346	2,521,288
Total Net Assets	<u>\$ 11,659,337</u>	<u>\$ 11,853,341</u>

As noted earlier, net assets, over time, serve as a barometer of a government's financial position. For the County, assets exceeded liabilities by \$11,659,337 as September 30, 2009, the County's fiscal year-end. This amount represents a decrease of \$194,004 from the net assets at September 30, 2008.

SHELBY COUNTY, TEXAS
Management's Discussion and Analysis
September 30, 2009

As noted, a portion of the net assets 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.

Restricted net assets represent those assets restricted for use and include, but are not limited to, capital projects and school use.

Governmental Activities

Revenues for the governmental fund activities for the County totaled \$15,014,128 for the fiscal year 2009. This amount represents an increase of \$4,141,870 over fiscal year 2008.

Taxes constitute the largest source of County revenues, totaling \$9,446,881 for fiscal year 2009. The increase over FY 2008 totaled \$3,956,229.

The cost of the County's governmental fund activities FY 2009 totaled \$14,362,857. Major contributors to costs include:

- ◆ \$6,526,143 for highways and streets
- ◆ \$2,790,147 for law enforcement
- ◆ \$2,832,770 for general administration
- ◆ \$1,054,820 for judicial

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. This would include the use of these statements in long-term financing arrangements. Unreserved 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, 2009, the County's governmental funds had a combined fund balance totaling \$6,745,600. This balance was reflected an increase of \$651,271 from last fiscal year.

The General Fund is the primary operating fund of the County. Unreserved fund balance in the General Fund at September 30, 2009, totaled \$3,982,938. This represents approximately 74% of the total expenditures for FY 2009 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:

Tracey Strong
200 San Augustine Street
Center, Texas 75935

GOVERNMENT-WIDE FINANCIAL STATEMENTS

SHELBY COUNTY, TEXAS

Statement of Net Assets

September 30, 2009

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 6,732,896
Time deposits	57,429
Receivables (net of allowance for uncollectibles)	788,493
Capital assets, net of accumulated depreciation:	
Land	366,050
Property under capital leases	89,513
Vehicles and equipment	2,519,653
Infrastructure	603,560
Buildings and improvements	1,780,391
Total capital assets	<u>5,359,167</u>
Total assets	\$ <u>12,937,985</u>
LIABILITIES	
Accounts payable and other current liabilities	\$ 61,843
Accrued liabilities	67,592
Deferred revenue	771,375
Short-term portion of long-term debt	192,804
Non-current liabilities:	
Notes payable	-
Capital leases payable	185,034
Total liabilities	<u>1,278,648</u>
NET ASSETS	
Invested in capital assets, net of related debt	4,981,329
Restricted for:	
Capital projects	-
Other purposes	2,762,662
Unrestricted	3,915,346
Total net assets	<u>11,659,337</u>
Total net assets and liabilities	\$ <u>12,937,985</u>

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, 2009

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary Government:				
Governmental Activities:				
General Government	\$ 2,832,770	\$ 1,307,720	\$ 370,404	\$ (1,154,646)
Judicial	1,054,820	-	-	(1,054,820)
Law enforcement and safety	2,955,739	-	-	(2,955,739)
Highway and streets	6,526,143	-	-	(6,526,143)
Health	21,774	-	-	(21,774)
Financial administration	868,133	-	-	(868,133)
Public welfare	125,252	-	-	(125,252)
Depreciation and capital	823,501	-	-	(823,501)
Total primary government	\$ 15,208,132	\$ 1,307,720	\$ 370,404	(13,530,008)
General revenues:				
Tax revenues				9,446,881
Licenses and permits				730,396
Fines and forfeitures				1,439,766
Investment earnings				182,357
Miscellaneous				320,584
Intergovernmental				1,216,019
Total general revenues				13,336,004
Changes in net assets				(194,004)
Net assets – beginning				11,853,341
Net assets – ending				\$ 11,659,337

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

FUND FINANCIAL STATEMENTS

SHELBY COUNTY, TEXAS

Balance Sheet

Governmental Funds

September 30, 2009

	General	Special Revenue	Non- Major Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,965,855	\$ 2,767,041	\$ -	\$ 6,732,896
Time deposits	57,429	-	-	57,429
Property tax receivables (net of allowance for uncollectibles)	576,798	211,695	-	788,493
Due from other funds	-	-	-	-
Total assets	<u>\$ 4,600,082</u>	<u>\$ 2,978,736</u>	<u>\$ -</u>	<u>\$ 7,578,818</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 52,846	\$ 4,061	\$ -	\$ 56,907
Other current liabilities	-	4,936	-	4,936
Due to other funds	-	-	-	-
Deferred revenue	564,298	207,077	-	771,375
Total liabilities	617,144	216,074	-	833,218
Fund balances				
Unreserved reported in:				
General fund	3,982,938	-	-	3,982,938
Capital projects	-	-	-	-
Special revenue	-	2,762,662	-	2,762,662
Total fund balances	<u>3,982,938</u>	<u>2,762,662</u>	<u>-</u>	<u>6,745,600</u>
Total liabilities and fund balances	<u>\$ 4,600,082</u>	<u>\$ 2,978,736</u>	<u>\$ -</u>	<u>\$ 7,578,818</u>

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

SHELBY COUNTY, TEXAS
 Reconciliation of the Balance Sheet of the
 Governmental Funds to the Statement of Net Assets
 September 30, 2009

Total fund balances – governmental funds	\$	6,745,600
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not resources and therefore are not reported in the funds. These capital assets (net of accumulated depreciation) consist of:</p>		
Land	\$	366,050
Property under capital leases		89,513
Vehicles and equipment		2,519,653
Infrastructure		603,560
Buildings and improvements		1,780,391
Furniture and fixtures		-
Total capital assets		<u>5,359,167</u>
<p>Assets utilized by fiduciary fund groups</p>		
<p>Certain liabilities not due and payable in the current period and are therefore not reported in these funds</p>		
		<u>(445,430)</u>
Net assets of government-wide funds	\$	<u>11,659,337</u>

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

SHELBY COUNTY, TEXAS

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended September 30, 2009

	<u>General</u>	<u>Special Revenue</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 4,536,413	\$ 4,910,468	\$ -	\$ 9,446,881
Licenses and permits	-	730,396	-	730,396
Fines and forfeitures	600,767	838,999	-	1,439,766
Investments	121,162	61,195	-	182,357
Intergovernmental revenues	-	1,216,019	-	1,216,019
Charges for current services	978,324	329,396	-	1,307,720
Grant income	-	370,404	-	370,404
Miscellaneous	76,827	243,758	-	320,585
Total Revenues	<u>6,313,493</u>	<u>8,700,635</u>	<u>-</u>	<u>15,014,128</u>
EXPENDITURES				
Current:				
General administration	1,421,855	1,410,915	-	2,832,770
Judicial	728,449	326,371	-	1,054,820
Financial administration	868,133	-	-	868,133
Public facilities	-	33,590	-	33,590
Law enforcement	2,277,914	512,233	-	2,790,147
Highways and streets	-	6,526,143	-	6,526,143
Public safety	-	165,592	-	165,592
Conservation	51,558	15,603	-	67,161
Libraries	-	2,727	-	2,727
Health and welfare	-	21,774	-	21,774
Total expenditures	<u>5,347,909</u>	<u>9,014,948</u>	<u>-</u>	<u>14,362,857</u>
Excess (deficiency) of revenue over (under) expenditures	<u>965,584</u>	<u>(314,313)</u>	<u>-</u>	<u>651,271</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	965,584	(314,313)	-	651,271
Fund balances – beginning	3,017,354	3,076,975	-	6,094,329
Fund balances – ending	<u>\$ 3,982,938</u>	<u>\$ 2,762,662</u>	<u>\$ -</u>	<u>\$ 6,745,600</u>

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

SHELBY COUNTY, TEXAS

Reconciliation of the Statement of Revenues
Expenditures, and Changes in Fund Balances - Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2009

Net change in fund balances – governmental funds	\$	651,271
--	----	---------

Amounts reported for governmental activities in the statement of activities are different because:

Capital asset purchases are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated lives as depreciation expense. In the current period, these amounts are:

Capital assets additions	\$	399,306	
Dispositions of capital assets, net		(1,448,000)	
Depreciation expense for all capital assets		<u>(823,501)</u>	
Total change in capital assets activity			(1,872,195)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	1,026,920
---	-----------

Change in net assets of government-wide funds	\$	<u>(194,004)</u>
---	----	------------------

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

SHELBY COUNTY, TEXAS
Statement of Net Assets – Fiduciary Funds
September 30, 2009

	Nonexpendable Trust Funds	Expendable Trust Funds	Agency Funds
ASSETS:			
Cash and cash equivalents	\$ 2,067,968	\$ -	\$ 267,947
Deferred compensations	-	-	-
Total assets	<u>\$ 2,067,968</u>	<u>\$ -</u>	<u>\$ 267,947</u>
LIABILITIES:			
Other liabilities	\$ -	\$ -	\$ -
Deferred compensation benefit payable	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS HELD IN TRUST FOR:			
Specific programs	2,067,968	-	267,947
Retirement benefits	-	-	-
Total net assets	<u>\$ 2,067,968</u>	<u>\$ -</u>	<u>\$ 267,947</u>

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

SHELBY COUNTY, TEXAS

Statement of Changes in Net Assets – Fiduciary Funds

For the Year Ended September 30, 2009

ADDITIONS:	Nonexpendable Trust Funds	Expendable Trust Funds
Fines and forfeitures	\$ 1,067,515	\$ -
Tax revenue	17,018,901	-
Miscellaneous	2,594,865	-
Rents	20,264	-
Intergovernmental	38,038	-
Interest	16,346	-
Total additions	<u>20,755,929</u>	<u>-</u>
DEDUCTIONS:		
Taxes	20,182,524	-
Payments to school	239,326	-
Total deductions	<u>20,421,850</u>	<u>-</u>
Additions in excess of deductions	334,079	-
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>
Net change in fund assets	334,079	-
Net assets held in trust, beginning of year (Note XI)	<u>1,733,889</u>	<u>-</u>
NET ASSETS HELD IN TRUST, END OF YEAR	<u>\$ 2,067,968</u>	<u>\$ -</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, 2009

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 assets 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 the Special Revenue Fund meet criteria as major governmental funds. Each major fund is reported in separate columns in the fund financial statements.

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

General Fund

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

Special Revenue Funds

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

Fiduciary Funds - Trust and Agency Funds

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. These include agency funds and pension trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Pension trust funds account for pension funds established for classified employees of various departments and are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical.

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. Measurable 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, 2009, that became due October 1, 2008 have been assessed to finance the budget of the fiscal year beginning October 1, 2008 and, accordingly, have need reflected as deferred revenue and taxes receivable in the fund financial statements at September 30, 2009. 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. Governments also have the option of following subsequent private sector guidance for their business type activities subject to this same limitation. The County has elected not to follow subsequent private sector guidance.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits 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 2008. 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, 2009 and past due after January 31, 2010. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior year's levy are shown net of an allowance for uncollectible.

Lending or borrowing between funds is reflected as "due to or due from" (current portion) or "advances to/from other funds" (non-current). Advances between funds, as reported in the fund financial statements, are offset by a fund 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:

<u>Assets</u>	<u>Years</u>
Buildings	50
Furniture & Fixtures	7
General Equipment	5
Trucks	7
Cars	3
Computer Hardware	5

4. Compensated Absences

A liability for unused vacation and sick 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 assets.

6. Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Fund reservations include encumbrances, capital projects, debt service, inventories and prepaids.

II. RECONCILIATION OF GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes reconciliation between fund balance for total governmental funds and net assets as reported in the government-wide statement of

net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.” The details of this \$445,430 difference are as follows:

Notes payable	\$ 192,804
Compensated absences	67,592
Capital leases payable	<u>185,034</u>
Net adjustment to reduce fund balance – total government funds to arrive at net assets – governmental activities	<u>\$ 445,430</u>

III. DEPOSIT, INVESTMENTS AND INVESTMENT POLICIES

Deposits

At the year end, the carrying amount of the County’s deposits totaled \$9,126,240, 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. All deposits are held in the County’s main depository bank, except funds maintained by the District Attorney and Justice of the Peace #3 and 5.

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.

At year end, the County’s investment balances were as follows:

	Carrying Value	Market Value
Certificates of Deposit	\$ 57,429	\$ 57,429

IV. 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 deferred revenue and unearned revenue reported in the governmental funds were as follows:

Property taxes receivable:	
General fund	\$ 564,298
Special Revenue Fund	207,077
Capital Projects	-
Total deferred revenue	<u>\$ 771,375</u>

In the government-wide financial statements, deferred revenue of \$771,375 is comprised entirely of property taxes levied for FY2009. 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, as required by GASB Statement No. 34 are as follows:

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
Receivables:				
Taxes	\$ 676,380	\$ 248,235	\$ -	\$ 924,615
Less:				
allowances for				
uncollectibles	<u>99,582</u>	<u>36,540</u>	<u>-</u>	<u>136,122</u>
Net receivables	<u>\$ 576,798</u>	<u>\$ 211,695</u>	<u>\$ -</u>	<u>\$ 788,493</u>

V. CAPITAL ASSETS

Capital assets are recorded at cost or, if donated, at fair market value at the date of receipt. In accordance with GASB 34, 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:

	<u>Balance at 10/01/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 09/30/09</u>
Governmental				

Activities:				
Land	\$ 366,050	\$ -	\$ -	\$ 366,050
Infrastructure	13,537,218	-	-	13,537,218
Buildings	3,865,882	-	209,002	3,656,880
Machinery	6,344,268	180,032	1,602,954	4,921,344
Furniture	355,981	-	-	355,981
Property under lease	89,513	-	-	89,513
Total assets	\$ <u>24,588,912</u>	\$ <u>180,032</u>	\$ <u>1,631,926</u>	\$ <u>22,926,986</u>

In implementing GASB no. 34, the capital limit for property was raised from \$500 to \$5,000. Additionally, infrastructure has been added to the capital assets balance.

VI. LONG-TERM DEBT

Capital Leases

The County is obligated under various capital leases for road and bridge equipment vehicles.

The following is a summary of capital lease obligation transactions of the County for the year ended September 30, 2009:

	Principal	Interest	Total
Balance at October 1, 2008	\$ 201,782	\$ 25,000	\$ 226,782
Increases	-	-	-
Retirements	16,748	2,075	18,823
Balance at September 30, 2009	\$ <u>185,034</u>	\$ <u>22,925</u>	\$ <u>207,959</u>

The annual requirements to amortize capital lease obligations for the County for the year ended September 30, 2009 are as follows:

	Principal	Interest	Total
Year ending September 30, 2010 and thereafter	\$ 185,034	\$ 22,925	\$ 207,959
Total	\$ <u>185,034</u>	\$ <u>22,925</u>	\$ <u>207,959</u>

Notes Payable

The County is obligated under various notes for Road and Bridge vehicles and a Sheriff's Department vehicle.

The following is a summary of note payable obligation transactions of the County for the year ended September 30, 2009:

Note issued by Farmers State Bank for the purchase of a Volvo grader. The note is payable in one installment of \$83,240 on June 9, 2010. The obligation bears interest at a rate of 4.05% per year. The note is secured by the grader.	\$ 80,000
Note issued by Farmers State Bank for the purchase of a vibratory compactor. The note is payable in one installment of \$45,088 on August 18, 2010. The note bears interest at a rate of 4.05% per year. The note is secured by the compactor.	43,333
Note issued by Farmers State Bank for the purchase of a Caterpillar excavator. The note is payable in one installment totaling \$74,684 and is due May 7, 2010. The note bears interest at a rate of 4.05% annually. The note is secured by the excavator.	35,837
Note issued by Farmers State Bank for the purchase of a Caterpillar motor grader. The note is payable in one installment totaling \$34,996 and is due July 8, 2010. The note bears interest at a rate of 4.05% annually. The note is secured by the grader.	<u>33,634</u>
Total Notes Payable	192,804
Less: Current Portion	<u>(192,804)</u>
Total Long-Term Debt	\$ <u><u>-</u></u>

VII. INTERFUND RECEIVABLES, PAYABLE BALANCES AND TRANSFERS

The compositions of interfund balances as of September 30, 2009, are as follows:

Due to/from other funds:		
<u>Receivable Fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Road & Bridge 1	\$ 0
General Fund	Road & Bridge 2	0
General Fund	Road & Bridge 3	0
General Fund	Road & Bridge 4	0

The interfund balances represent collections of fees and taxes by the road and bridge district accounted for in the special revenue fund and are transferred to the general fund.

VIII. RETIREMENT PLAN

Plan Description

Shelby 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 535 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 80 or more. Members are vested after 8 years 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 the 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 constraint 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.

Funding Policy

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TDRS Act, the contribution rate of the employer is based on the covered payroll of employee members. Under the TCDRS Act, the contributions rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 6.73% for the months of the accounting year in 2007, and 6.79% for the months of the accounting year in 2008.

The contribution rate payable by the employee members for calendar year 2008 is the rate of 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Annual Pension Cost

For the employer's accounting year ending September 30, 2009 the annual pension cost for the TCDRS plan for its employee's totaled \$307,848 and the actual contributions totaled \$308,848.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as December 31, 2007 and December 31, 2008, the basis for determining the contribution rates for calendar years 2008 and 2009. The December 31, 2008 actuarial valuation is the most recent valuation.

ACTUARIAL VALUATION INFORMATION

Actuarial valuation date	12/31/06	12/31/07	12/31/08
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Amortization period	15 years	15 years	20 years
Asset valuation method	SAF: 10-yr smoothed value ESF: Fund value	SAF: 10-yr smoothed value ESF: Fund value	SAF: 10-yr smoothed value ESF: Fund value
Actuarial Assumptions:			
Investment return	8.00%	8.00%	8.00%
Projected salary Increases ¹	5.30%	5.30%	5.30%
Inflation	3.50%	3.50%	3.50%
Cost-of-living adjustment	0.00%	0.00%	0.00%

¹Includes inflation at the stated rate

Trend Information for the Retirement Plan
for the Employees of Shelby County

<u>Accounting</u> <u>Year Ending</u>	<u>Annual</u> <u>Pension Cost</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
September 30, 2009	\$307,848	100%	0

Schedule of Funding Progress for the Retirement Plan
for the Employees of Shelby County

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/01	\$3,445,715	\$4,116,244	\$670,529	83.71%	\$2,295,375	29.21%
12/31/02	\$3,593,145	\$4,354,383	\$761,238	82.52%	\$2,628,825	28.96%
12/31/03	\$3,992,163	\$4,746,443	\$754,280	84.11%	\$2,861,036	26.36%
12/31/04	\$4,306,549	\$4,925,745	\$619,196	87.43%	\$2,985,737	20.74%
12/31/05	\$4,124,171	\$4,648,366	\$524,195	88.72%	\$3,149,128	16.65%
12/31/06	\$4,524,401	\$4,872,091	\$347,690	92.86%	\$3,671,452	9.47%
12/31/07	\$5,181,285	\$5,610,812	\$429,527	92.34%	\$3,521,897	12.20%
12/31/08	\$5,282,239	\$6,161,354	\$879,115	85.73%	\$3,782,802	23.24%

IX. 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.

X. 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 law suits 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 condition of the County.

SHELBY COUNTY, TEXAS

Required Supplementary Information

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual

For the Year Ended September 30, 2009

	Budgeted Amounts			Variance with Final Budget – Positive (Negative)
	Original	Final	Actual Amount	
REVENUES				
Taxes	\$ 4,263,270	\$ 4,263,270	\$ 4,536,413	\$ 273,143
Fines and fees	1,787,753	1,787,753	1,579,091	(208,662)
Investments and other	149,648	149,648	197,989	48,341
Total Revenues	6,200,671	6,200,671	6,313,493	112,822
EXPENDITURES				
General administration	1,966,640	2,204,134	1,473,413	730,721
Judicial	772,365	774,338	728,449	45,889
Financial administration	933,923	952,628	868,133	84,495
Law enforcement and correction	2,366,641	2,337,621	2,277,914	59,707
Total expenditures	6,200,671	6,268,721	5,347,909	920,812
Excess of revenues over expenditures	-	(68,050)	965,584	1,033,634
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	(68,050)	965,584	1,033,634
Fund balances – beginning	1,500,000	1,500,000	3,017,354	1,517,354
Fund balances – ending	\$ 1,661,102	\$ 1,431,950	\$ 3,982,938	\$ 2,550,988

SHELBY COUNTY, TEXAS

Required Supplementary Information

Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual

For the Year Ended September 30, 2009

	Budgeted Amounts		Actual Amount	Variance with Final Budget – Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 5,957,123	\$ 5,957,123	\$ 4,910,468	\$ (1,046,655)
Licenses and permits	698,000	698,000	730,396	32,396
Investments	48,000	48,000	61,195	13,195
Fines and forfeitures	375,705	375,705	838,999	463,294
Intergovernmental revenues	1,035,370	1,035,370	1,216,019	180,649
Charges for current services	583,876	583,876	329,396	(254,480)
Grant income	-	424,344	370,404	(53,940)
Miscellaneous	-	-	243,757	243,757
Total Revenues	8,698,074	9,122,418	8,700,635	(421,784)
EXPENDITURES				
Highways and streets	7,638,930	7,906,925	6,526,143	1,380,782
General administration and other	986,905	2,159,174	2,488,805	(329,631)
Total expenditures	8,625,835	10,066,099	9,014,948	1,051,151
Excess (deficiency) of revenue over (under) expenditures	72,239	(943,681)	(314,313)	629,367
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	72,239	(943,681)	(314,313)	629,367
Fund balances – beginning	1,165,408	1,165,408	3,076,975	1,911,567
Fund balances – ending	\$ 1,237,647	221,727	2,762,662	2,540,935

SHELBY COUNTY, TEXAS

Notes to Schedules of Revenue, Expenditures and Change in Fund Balances
Budget and Actual

September 30, 2009

The County follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Prior to September 1, the County Judge submits to the Commissioners' Court a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) Public hearings are conducted to obtain taxpayer comment.
- 3) The budget is legally enacted through adoption by Commissioners' Court.
- 4) Budgets for the General, Special Revenue and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles.
- 5) Encumbrance accounting is not used.

The budgets as presented in the financial statements reflect all amendments approved by the Commissioners' Court for the year ended September 30, 2009.

MILLER, CARPENTER & EARNEST

CERTIFIED PUBLIC ACCOUNTANTS

(A Professional Corporation)

BENJAMIN A. MILLER, CPA
DANIEL W. CARPENTER, CPA
ROBERT M. EARNEST, CPA*, CVA

PRINCIPAL

PETER M. BRATLIE, CPA

MEMBERS

AMERICAN INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS
SOCIETY OF LOUISIANA CERTIFIED
PUBLIC ACCOUNTANTS
*TEXAS SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Commissioners'
Court of Shelby County
Center, Texas

Commissioners:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shelby County, Texas (the "County") as of and for the year ended September 30, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 17, 2010. 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.

Compliance

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

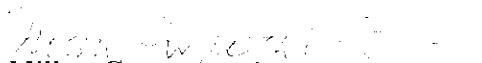
Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.


Miller, Carpenter & Earnest, CPA's
Certified Public Accountants
December 17, 2010